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April 11, 2013

Comments Submitted by the Association of Bermuda Insurers and Reinsurers
To
The International Tax Reform Working Group,
House Committee on House Ways and Means
On
Tax Issues Relating to Reinsurance Transactions Between Affiliated Entities

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The membership of the Association of Bermuda Insurers and Reinsurers ("ABIR") consists of 21 global insurers and reinsurers that have insurance underwriting legal entities domiciled in Bermuda. ABIR appreciates the opportunity to submit comments for the consideration of the International Tax Reform Working Group of the House Committee on Ways and Means, in support of maintaining the current law treatment of deductions for reinsurance premiums paid by U.S. companies to foreign affiliates.

The Obama Administration's FY2014 Budget proposes to disallow *all* deductions for property and casualty (P&C) reinsurance premiums paid to foreign affiliates that are not subject to U.S. tax. The Administration offers the same "reasons for change" that were stated when this proposed tax increase was included in the FY2013 Budget: "Reinsurance transactions with affiliates that are not subject to U.S. federal income tax on insurance income can result in substantial U.S. tax advantages over similar transactions with entities that are subject to tax in the United States.….These tax advantages create an inappropriate incentive for foreign-owned domestic insurance companies to reinsure U.S. risks with foreign affiliates.[1]" ABIR respectfully submits that the Administration has failed to offer credible evidence in support of these assertions; in contrast, ABIR offers this statement to provide information, facts, and data that flatly contradict the notion that U.S. subsidiaries of foreign reinsurers enjoy differential treatment. We hope that the International Tax Reform Working Group will take the information set forth below into account if it considers any proposal to limit the deductibility of P&C reinsurance premiums paid to foreign affiliates.

A small group of large and profitable U.S. insurance companies have waged a decade-long campaign to obtain a competitive advantage by pushing for the enactment of the type of discriminatory treatment exemplified by the Administration's proposal.[2] In recent years,

[1] *General Explanations of the Administration's Fiscal Year 2014 Revenue Proposals*, Department of the Treasury (April 2013) page 52.
[2] This contingent of U.S. P&C companies call themselves "The Coalition for a Domestic Insurance Industry," but does not speak for the majority of the U.S. P&C industry: The major insurance trade associations are neutral on the proposal and the market share of the companies included in this group (based on statutory data) accounts for only approximately 22%of U.S. industry net premiums written and about 20% of industry direct premiums written. The 13 members of the coalition are: W.R. Berkley Corporation, The Chubb Corporation, AMBAC Financial Group (in

however, this effort has been widely opposed by consumer advocates and other stakeholders.[3] Indeed, there is no apparent basis for singling out the global reinsurance industry by enactment of tax legislation that would penalize the U.S. operations of foreign insurance and reinsurance companies, including those based in Bermuda. Particularly in view of continuing weakness in the global capital markets, it seems counter-intuitive to consider any legislative proposal that would limit the availability of foreign sources of insurance capital, as would occur under any proposal to disallow deductions for affiliate reinsurance premiums in whole or in part. Any effort to increase the taxes on international insurance carriers will be counterproductive because it will result in increased costs for U.S. consumers.

Briefly, to summarize the information set forth below, there is considerable evidence that foreign affiliate reinsurance serves important non-tax business purposes. The U.S. subsidiaries of foreign reinsurers do not receive preferential treatment; they are subject to the same federal income regime as their U.S.-based competitors. Moreover, these companies are already subject to a 1% federal excise tax ("FET") on the gross premiums on foreign reinsurance policies, and a proposal to deny deductions for those premiums could be viewed as circumventing the international trade agreement that prohibits an actual increase in the FET. Overseas reinsurance companies are the largest providers of U.S. property catastrophe reinsurance, and proposals to deny some or all of the deductions they pay for affiliate reinsurance is bound to have an adverse effect on both pricing and capacity in the American insurance market.

1. <u>Although the Administration characterizes current law as providing an inappropriate incentive for foreign-owned domestic insurance companies to reinsure U.S. risks with foreign affiliates, there is no evidence that foreign use of affiliate reinsurance exceeds that of domestic use</u>.

In practice, the proposal advanced by the Administration would arbitrarily rule out most cross-border affiliate reinsurance for foreign-owned U.S. insurers simply because the foreign affiliate is not subject to U.S. tax on the reinsurance premiums. This is clearly inappropriate because *affiliate reinsurance is extensively used within both domestic and foreign insurance groups* for legitimate non-tax business purposes. Affiliate reinsurance involves the real economic transfer of risk between two separately incorporated entities, pursuant to legally binding contracts. In addition to the requirements of the U.S. tax law, arm's length pricing is mandated and enforced by the review and regulatory approval required of all affiliate reinsurance transactions under state insurance holding company laws (*e.g.,* in New York each such transaction has to be approved by regulators). Moreover, ample evidence from publicly available data demonstrates that affiliate reinsurance has resulted at times in the ceding of hugely unprofitable business to non-U.S. reinsurers – it is impossible for P&C insurers to know what their losses will be at the time policies are written.

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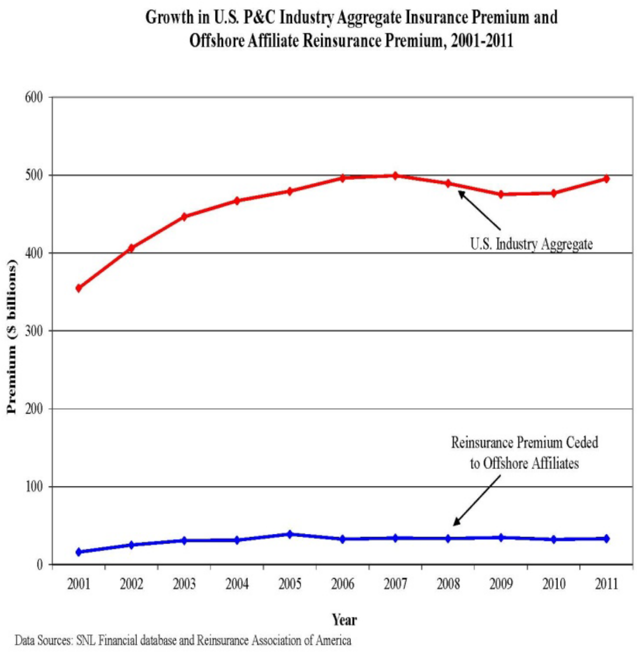
receivership) Inc); American Financial Group; Berkshire Hathaway Inc.; EMC Insurance Companies; The Hartford Financial Services Group, Inc.; Liberty Mutual Group, Inc.); Markel Corporation (recently purchased Bermuda's Alterra Capital); MBIA Inc. (in reorganization); Scottsdale Insurance Company; The Travelers Companies, Inc.; and Zenith Insurance Company (now owned by Canada's Fairfax Financial).]

[3] For example, Public opposition to an earlier variation on the Administration's proposal was evidenced by letters from the insurance commissioners for the following coastal states: South Carolina, Mississippi, Florida, Georgia, Louisiana, and North Carolina, copies of which are included as attachments to this submission.

2. <u>The data simply does not support the view that the U.S. P&C industry suffers from unfair foreign competition.</u>

Reports of the demise of the U.S. reinsurance industry have been greatly exaggerated. Indeed, the growth of the *on*shore U.S. P&C insurance industry has dwarfed the growth of offshore affiliate reinsurance. A fundamental problem with a comparison of growth rates is that the comparison of two quantities is misleading when the two quantities start from vastly different levels. For example, an increase from $1 to $2 represents a 100 percent rate of growth, but in most instances that 100% increase would be considered much less significant than a 50% increase from $100 to $150. Similarly, as shown by the chart below, premium ceded to offshore affiliates and U.S. industry aggregate premium are substantially different in scale.



While premiums ceded to offshore affiliates grew by $17.2 billion from 2001 to 2011, industry aggregate premiums grew by $140.4 billion. The *percentag*e rate of growth for premiums ceded to offshore affiliates was higher largely because they started from a very small base! Moreover, nearly all the growth in premiums ceded to offshore affiliates occurred during the two-year period from 2001 to 2003, when premiums increased by $14.8 billion (while U.S. industry aggregate insurance premiums increased by almost $100 billion). The increases in premiums during this two-year period occurred against the backdrop of capacity shortages within the U.S. P&C insurance market, and consequent high insurance prices, caused by losses from the 9/11 terrorist attack and adverse loss development in liability business. Increasing affiliate reinsurance allowed foreign-based insurance groups to quickly deploy insurance writing capacity into the U.S. market in response to these market conditions. Without this ability, these insurance enterprises might have had to cancel substantial amounts of U.S. insurance business**.** Over the subsequent eight-year period from 2003 to 2011 premiums ceded to offshore affiliates increased by a total of only $2.4 billion (while U.S industry aggregate insurance premiums increased by

$48.8 billion). The time pattern of growth in premiums over this period is not consistent with the story that the U.S industry is moving offshore due to a tax advantage – or indeed that it is moving offshore at all.

Finally, if Bermuda-based insurance groups had a large tax advantage over U.S.-based groups, one would expect the Bermuda groups to steadily increase their U.S. market share. The following chart presents the market share of Bermuda-owned U.S. insurance groups among the largest 50 U.S. insurance groups (as measured by premiums received from third-party customers). You will note that between 2004 and 2011 the market share of Bermuda-owned groups within the top 50 did not increase.[4]

Top 50 US Property-Casualty Insurance Groups
Market Share of Bermuda-Owned US Insurance Groups Has Not Grown
($ billions)

	2004	2011
Total Premiums of Top 50 Groups	401.5	411.6
Bermuda-Owned	9.5	9.5
Bermuda-Owned as % of Total	***2.4%***	***2.3%***

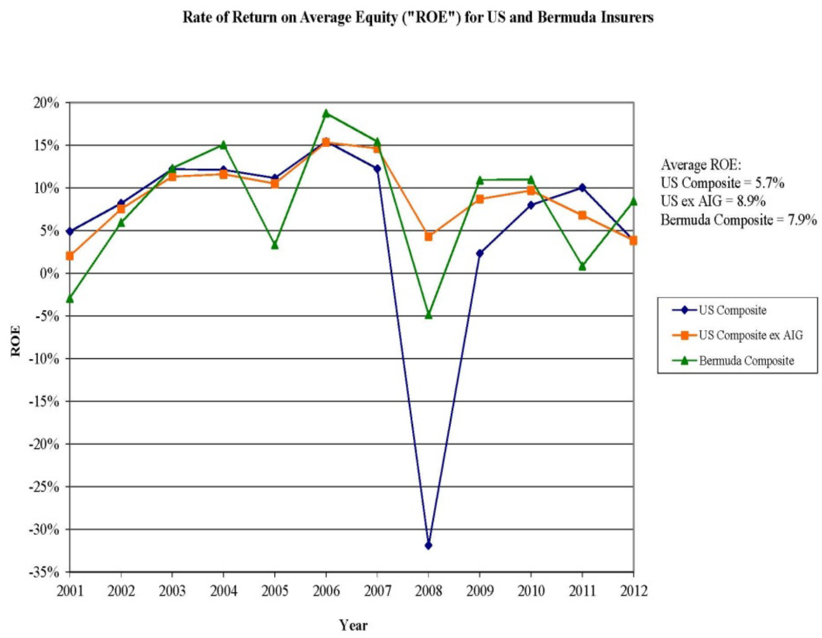
Note: Premiums equal direct premiums plus reinsurance premiums assumed from unaffiliated insurers. Insurance groups are ranked by this measure of premiums to determine the top 50 groups in each year.

Data source: SNL Financial database

3. <u>Based on a comparison of the return on average equity ("ROE") of U.S. P&C insurance companies to that of a composite of Bermuda insurance companies, Bermuda-based companies have no after-tax profitability advantage over U.S. companies</u>.

It should first be noted that *Bermuda-based groups write more catastrophe exposed business than the typical U.S.-based insurance group*. The greater catastrophe exposure can be expected to generate more volatile results: Large losses from catastrophes in some years are expected to be offset by high returns in other years.

[4] While these figures are limited to the largest 50 U.S. insurance groups, data from other sources confirm that in the aggregate U.S. subsidiaries of Bermuda insurance groups have experienced little premium growth over the past five years.



The chart above presents an ROE comparison in which consistent data sources and methodology were used in the calculations for the Bermuda-based and U.S.-based insurers[5] and more than a decade of data was used. The Bermuda composite is an aggregate of Bermuda-based insurance groups with U.S. subsidiaries,[6] while the U.S. composite is an aggregate of the one dozen largest publicly traded U.S.-based P&C insurance writers.[7] The chart presents results for the U.S. composite including and excluding AIG. The results excluding AIG provide a more reliable basis for comparison given the unique circumstances surrounding AIG in 2008 and 2009.[8] These results indicate that there is no evidence of an after-tax profitability advantage for Bermuda-based insurance groups over their U.S. competitors. In fact, when AIG is excluded from the analysis,[9] overall the U.S.-based groups earned a higher average ROE than the Bermuda groups. In addition, the above chart demonstrates the greater volatility of the results for the Bermuda groups, and how excluding catastrophic losses (*e.g.*, the large losses in 2001, 2005, and 2011) would distort the comparison.

[5]Nearly all the data was drawn from the Thomson Financial Worldscope database. In a few cases, the Thomson data was supplemented with data from Standard & Poor's Compustat Global database. The ROE is measured as net income as a percent of the average of beginning and end of year shareholder's equity.

[6] The Bermuda composite includes ABIR members having U.S. subsidiaries that wrote more than a *de minimis* amount of premiums plus White Mountains Insurance Group Ltd. and Everest Re Group Ltd.

[7] The U.S. composite consists of the following corporate groups: AIG, Allstate, American Financial Group, Assurant, Berkshire Hathaway, Chubb, Cincinnati Financial, CNA, Hartford, Progressive, Travelers, and W.R. Berkley

[8] AIG booked approximately $100 billion of net losses in 2008, which would have bankrupted the company but for federal government intervention. Those massive losses were largely attributable to AIG's credit default swap business and not to its traditional insurance businesses.

[9] Or if 2008 is excluded from the analysis.

4. Proposals to disallow or limit deductions for reinsurance premiums paid to foreign affiliates would have the effect of a (prohibited) increase in the 1% FET applicable to affiliate reinsurance transactions; it seems clear that an actual increase in the FET would breach international trade agreements.

In 1994, Treasury's Assistant Secretary for tax policy (Leslie B. Samuels) wrote a letter to the Reinsurance Association of America, which letter explains that there was a "reservation from the national treatment obligation" [of the United States] that permitted the FET to continue at its current rate [of 1%]; however, the letter noted that "future increases would be subject to trade discipline." Similarly, the Background Memorandum released by Chairman Max Baucus on December 10, 2008 in connection with the Senate Finance Committee Staff Discussion Draft of a proposal similar to the Administration's proposal acknowledges that an actual increase in the current FET would breach international trade agreements. To the best of ABIR's knowledge, this conclusion is still accurate. Note that the FET can be waived by treaty, but Bermuda-based reinsurers do not benefit from such a waiver.

The Administration would impose a gross-basis premium tax, because no deduction would be permitted for losses. It is thus essentially equivalent to the FET, except that its effective rate on reinsurance premiums would be substantially higher than 1%.

5. Foreign P&C companies sustained substantial losses arising from the terrorist attacks on September 11 and are likely to do the same with respect to Super Storm Sandy.

The attacks on September 11 produced the largest insured loss known at the time, and it fell across all lines of commercial business: property, workers compensation, business interruption, commercial auto, general liability, aviation. 60% of this loss was paid by foreign insurers and reinsurers, including ABIR members that paid $2 billion of the loss from the September 11 attacks. ABIR is not aware of any foreign reinsurers who failed to pay reinsurance claims.

Similarly, nearly 48% of Hurricane Sandy losses will be paid by Non-U.S. insurance companies. Current reported losses for Hurricane Sandy are over $18.7 billion, with U.S. companies reporting an estimated $9.7 billion in loss and non-U.S. companies reporting an estimated $9 billion. Storm-related loss estimates may eventually reach over $25 billion, and if that happens then the non-U.S. share of Super Storm Sandy may reach an estimated $12 billion.

6. The tax increase under the Administration's proposal would adversely affect pricing in the American insurance market.

The preeminent academic authority on the global insurance industry, Professor David Cummins of the University of Pennsylvania's Wharton School, co-authored an economic analysis of an earlier variation of the Administration's proposal that would have disallowed premiums paid with respect to excess affiliate reinsurance (referred to as the "Brattle Study").[10]

[10] The Brattle Study was authored by Dr. J. David Cummins, the Joseph E. Boettner Professor of Risk Management, Insurance and Financial Institutions at the Fox School of Business at Temple University and the Harry J. Loman Professor Emeritus of Insurance and Risk Management at the Wharton School at the University of Pennsylvania; Dr.

This is the only economic analysis of this issue that is grounded in the academic and practitioner literature.

The Brattle Study estimated that the proposal there considered would cause American consumers to pay $11 to $13 billion more for their current insurance coverage. That is why the stakeholders who are most concerned about pricing (such as the Risk and Insurance Management Society, the Consumer Federation of the Southeast, the Florida (CFO's) Office of Insurance Consumer Advocate, and insurance regulators from Florida, Georgia, Louisiana, North Carolina, South Carolina and Mississippi) have all strongly and publicly opposed this type of legislation.

The tax imposed by the Administration's proposal would be confiscatory under quite typical conditions. The Brattle Study consequently estimated that the earlier version of the Administration's proposal would lead foreign-based insurance groups to virtually eliminate the reinsurance they provide to their U.S. affiliates, a development that would impose substantial economic costs on consumers because it would lead to the withdrawal of a substantial amount of insurance capacity that is made possible by the support of that affiliate reinsurance.

7. <u>Additionally, the Administration's proposal would "*adversely affect the provision of crop insurance products that protect America's farmers*."</u>

As pointed out by a crop insurance company (Agro National), in a February 26, 2009 letter submitted to Chairman Baucus of the Senate Finance Committee, although the Federal government provides some support for the crop insurance program, crop insurance companies still remain exposed to substantial risks. As a result, all Standard Reinsurance Agreement (SRA) holders cede a portion of their risk to commercial reinsurers. Agro National's submission concluded that "*[i]ncreasing costs [resulting from an earlier variation of the Administration's proposal] would likely increase the general upward pressure on reinsurance rate.,*" Moreover, precisely because the Federal government sets crop insurance rates, SRA holders would not be able to distribute the increased cost of crop reinsurance to policy holders. Thus, as stated by Agro National, the proposal provides "*incentives to exit the market*" and may "*reduce the number of insurance companies providing crop insurance.*" To put things in perspective, in the early 1990s, over 60 companies participated in the Federal crop insurance program.[11] In 2013, there are only 17 – nine of which are ultimately foreign owned.

Michael Cragg, a Principal, and Dr. Bin Zhou, a Senior Consultant of The Brattle Group. The original Brattle study was released in 2009 (http://www.brattle.com/Publications/ReportsPresentations.asp?PublicationID=1038) and updated in 2010 (http://www.brattle.com/Publications/ReportsPresentations.asp?PublicationID=1179).

[11] *Financial Status of the Crop Insurance Industry Hearing Before the Subcomm. on Gen. Farm Commodities & Risk Mgmt. of the H. Comm. on Agric.,* 108th Cong. 34 (2003) (statement of Ron Brichler).

ATTACHMENTS

South Carolina Department of Insurance

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Columbia, South Carolina 29202-3105
Telephone: 803-737-6160

MARK SANFORD
Governor

SCOTT H. RICHARDSON
Director of Insurance

February 26, 2009

The Honorable Max Baucus
United States Senate
340 Russell Senate Office Building
Washington, DC 20510

Dear Senator Baucus:

As you are aware, the South Carolina Department of Insurance has commented before on the change in the tax treatment of reinsurance agreements between related parties. Although there seems to be inequities between "onshore" and "offshore" reinsurance tax consequence, this issue should be looked at in light of all taxes paid by these insurers. In addition, the IRS has specific authority to address tax avoidance issues.

More importantly, we are concerned about market interruptions which might be caused by significant changes in the current tax system. Coastal states rely heavily on the offshore reinsurance markets to provide capacity for catastrophe prone areas. As of 2007, approximately 66% of reinsurance on homes subject to hurricane and earthquake exposure comes from non-U.S. reinsurance companies. Bermuda based companies provide approximately 40% of the U.S. reinsurance for hurricane prone areas.

Anything that would make coastal areas less attractive to reinsurers would create serious consequences for millions of homeowners in a short period of time. We would request that Congress be mindful of the fragile nature of this market and be very careful in considering any changes to our tax system.

Thank you for considering our input on this matter.

Sincerely,

Scott Richardson

Scott H. Richardson, CPCU
Director

MISSISSIPPI INSURANCE DEPARTMENT

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FAX: (601) 359-2474
WATS: 1-800-562-2957 (Incoming - USA)

February 27, 2009

The Honorable Max Baucus
United States Senate
340 Russell Senate Office Building
Washington, DC 20510

Dear Senator Baucus:

Ref: Tax treatment of reinsurance agreements

After Katrina struck the Mississippi Gulf Coast in 2005, reinsurance provided insurance underwriters the ability to pay claims for many of our residents. We coastal states rely heavily on the offshore reinsurance markets to provide coverage capacity for our catastrophe prone areas, just as your state does for other perils such as earthquakes.

Reinsurance on over sixty-five percent of homes subject to hurricane and earthquake exposure comes from non-U.S. reinsurance groups including London, Swiss and Bermuda- based companies.

Today, reinsurance agreements between private companies and publicly operated underwriting companies provide the vital element for continued recovery from the devastation of Katrina and related storms. Part of this support is a lower premium for hurricane and earthquake insurance coverage.

Any change in the tax treatment of reinsurance related parties will result in an increase in premiums to homeowners in Mississippi and the Gulf Coast area and even your state. There appears to be inequities between "onshore" and "offshore" reinsurance tax consequence, which is not actual. All taxes paid by these insurers must be considered. As you may know, the IRS has specific authority to address tax avoidance issues if they exist.

As Commissioner, I must be able to provide a stable and predictable wind rate for my constituents, without market interruptions. Anything that would make coastal areas less attractive to reinsurers would create serious consequences for millions of coastal homeowners in a short period of time and hurricane season begins June 1st.

Thank you for your service to our country and for your consideration of my points of view on this matter.

Best regards,

Mike Chaney
Commissioner of Insurance

Copies to: Senator Cochran, MS
Senator Wicker, MS

OFFICE OF INSURANCE REGULATION

COMMISSION

CHARLIE CRIST
GOVERNOR

ALEX SINK
CHIEF FINANCIAL OFFICER

BILL McCOLLUM
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF
AGRICULTURE

KEVIN M. MCCARTY
COMMISSIONER

July 29, 2010

The Honorable Gus Bilirakis
United States House of Representatives
1124 Longworth HOB
Washington, DC 20515

Dear Congressman Bilirakis:

As we are in the midst of another hurricane season, I wanted to share my serious concerns regarding pending legislation in Congress, which if enacted, has the potential to adversely impact the amount of property insurance available in Florida, and thus further slow the recovery of our economy. H.R. 3424, introduced by Representative Richard Neal (D-MA), would dramatically change the taxation of affiliated reinsurance for foreign (re)insurance companies. Foreign-based reinsurers provide a majority of our state's reinsurance capacity. In addition, an important segment of the companies that provide direct commercial insurance coverage in Florida reinsure these policies through European parent companies. The European parent companies have indicated to me that they will reduce their writings in Florida if this proposal becomes law because the tax will substantially reduce the profit associated with these transactions as currently structured. The bill will tax transactions between affiliates that are not currently subject to United States income tax, although in most cases they are ultimately taxed in their home jurisdictions. I realize this is a complex, multi-faceted issue, but as Florida's insurance commissioner, the lens through which I view this bill is not good for the Florida economy.

Florida, more than any other state, relies on the international insurance markets to manage its property catastrophe risk. The ability to diversify catastrophic risk across the globe allows international insurers and reinsurers to provide more capacity at a lower price than otherwise would be possible. H.R. 3424 would increase taxes on the U.S. tax-paying subsidiaries of all foreign reinsurers that provide vital insurance and reinsurance coverage to America's commercial insurers, with a disproportionate share of that tax revenue coming out of the pockets of Floridians.

KEVIN M. McCARTY • COMMISSIONER
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0305 • (850) 413-5914 • FAX (850) 488-3334
WEBSITE: WWW.FLOIR.COM • EMAIL: KEVIN.MCCARTY@FLOIR.COM

The Honorable Gus Bilirakis
July 29, 2010
Page Two

As you continue to search for new revenue sources and ways to strengthen our nation's economy, I hope that you will carefully weigh the costs and benefits of this bill, with the recognition that the costs will be largely borne by Floridians. I join a large group of public officials, economic and risk experts, consumer groups and others who have urged members of Congress to critically examine these new tax proposals. Please let me know if you would like to discuss these proposals and their potential impact.

Sincerely,

Kevin M. McCarty
Commissioner

OFFICE OF
INSURANCE AND SAFETY FIRE COMMISSIONER

RALPH T. HUDGENS
COMMISSIONER OF INSURANCE
SAFETY FIRE COMMISSIONER
INDUSTRIAL LOAN COMMISSIONER
COMPTROLLER GENERAL

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(404) 656-2056
www.oci.ga.gov

March 29, 2013

The Honorable Tom Price
United States House of Representatives
100 Cannon House Office Building
Washington, DC 20515

Dear ~~Representative Price~~: Tom

I am writing to express my opposition to the proposed discriminatory property and casualty reinsurance tax that has been included in President Barack Obama's budget in each of the last three years and which is expected to be a part of the President's next budget proposal as well. This legislation could result in a 20% decline in the supply of reinsurance available to the United States and increase insurance prices in Georgia by an estimated $174 million annually, according to a respected economic analysis.

The economic analysis by Dr. David Cummins of Wharton University and the Brattle Group documents that the impact of the tax which is targeted at international reinsurers which have capitalized United States insurance subsidiaries would be to decrease the supply of reinsurance, limit the ability of insurance groups to spread catastrophic risk globally, lead to a reduction in consumer purchase of insurance, and cause consumer insurance costs to increase. Reducing the availability and increasing the cost of reinsurance will hurt Georgia's already-struggling homeowners insurance market and would increase costs for other types of insurance which are relied upon by Georgia's business community.

Please let me know if I can address any questions you may have.

Sincerely,

Ralph T. Hudgens
Commissioner of Insurance

LOUISIANA DEPARTMENT OF INSURANCE
JAMES J. DONELON
COMMISSIONER

February 6, 2009

The Honorable Max Baucus
Member
United States Senate
511 Hart Senate Office Building
Washington, DC 20510

Re: Offshore Reinsurance Taxation Discussion Draft

Dear Senator Baucus:

I oppose any legislation similar to the above referenced discussion draft of the bill regarding reinsurance premiums paid to affiliates pending before the Finance Committee. It is unnecessary and detrimental to the ability of insurers to reinsure risks underwritten in Louisiana. The Internal Revenue Code gives the IRS sufficient, specific authority to correct tax avoidance or evasion in matters of related-party reinsurance. There is no need to further complicate the law in an effort to tax offshore companies providing a valuable service to US policyholders.

Louisiana and other coastal states confront a serious insurance availability problem. As of 2007, about 66% of the reinsurance that protects homes against hurricanes and earthquakes comes from non-US reinsurance companies. Bermuda based companies alone provide 40% of the US reinsurance of risks for hurricanes, and, following hurricanes Katrina, Rita and Wilma in 2005, those reinsurers contributed $17 billion in claims payments to US consumers. In Louisiana those companies paid an estimated $9 billion for residential and commercial property claims from hurricanes Katrina and Rita.

Louisiana benefits from its geography and natural resources, but those benefits expose Louisiana to substantial risks that require free and fair access to international markets for those seeking and selling insurance and reinsurance. The reinsurance market is global, and protectionist government actions impair its proper functioning. This tax increase, if enacted, could increase the cost and/or decrease the availability of insurance in markets where conditions are tight—like Louisiana's market for property insurance.

P. O. Box 94214 • Baton Rouge, Louisiana 70804-9214
Phone (225) 342-5900 • Fax (225) 342-3078
http://www.ldi.state.la.us

The Honorable Max Baucus
February 6, 2009
Page 2

With best wishes and kindest personal regards, I remain

Very truly yours,

James J. Donelon
Commissioner of Insurance

JJD/TDT:dtd

cc: The Honorable Charles Grassley

JJDFEB2009.2573

OFFICE OF
INSURANCE AND SAFETY FIRE COMMISSIONER

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www.oci.ga.gov

March 29, 2013

The Honorable Johnny Isakson
United States Senate
131 Russell Senate Office Building
Washington, DC 20510

Dear Senator ~~Isakson~~ Johnny:

I am writing to express my opposition to the proposed discriminatory property and casualty reinsurance tax that has been included in President Barack Obama's budget in each of the last three years and which is expected to be a part of the President's next budget proposal as well. This legislation could result in a 20% decline in the supply of reinsurance available to the United States and increase insurance prices in Georgia by an estimated $174 million annually, according to a respected economic analysis.

The economic analysis by Dr. David Cummins of Wharton University and the Brattle Group documents that the impact of the tax which is targeted at international reinsurers which have capitalized United States insurance subsidiaries would be to decrease the supply of reinsurance, limit the ability of insurance groups to spread catastrophic risk globally, lead to a reduction in consumer purchase of insurance, and cause consumer insurance costs to increase. Reducing the availability and increasing the cost of reinsurance will hurt Georgia's already-struggling homeowners insurance market and would increase costs for other types of insurance which are relied upon by Georgia's business community.

Please let me know if I can address any questions you may have.

Sincerely,

Ralph T. Hudgens
Commissioner of Insurance

OFFICE OF
INSURANCE AND SAFETY FIRE COMMISSIONER

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March 29, 2013

The Honorable John Lewis
United States House of Representatives
343 Cannon House Office Building
Washington, DC 20515

John

Dear ~~Representative Lewis~~:

I am writing to express my opposition to the proposed discriminatory property and casualty reinsurance tax that has been included in President Barack Obama's budget in each of the last three years and which is expected to be a part of the President's next budget proposal as well. This legislation could result in a 20% decline in the supply of reinsurance available to the United States and increase insurance prices in Georgia by an estimated $174 million annually, according to a respected economic analysis.

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Please let me know if I can address any questions you may have.

Sincerely,

Ralph T. Hudgens
Commissioner of Insurance

North Carolina
DEPARTMENT OF INSURANCE

Wayne Goodwin | Commissioner of Insurance

July 29, 2010

The Honorable Richard E. Neal
United States House of Representatives
2208 Rayburn House Office Building
Washington, DC 20515

Dear Representative Neal:

As the 2010 hurricane season kicks off, I, along with other Insurance Commissioners from across the country, wanted to make you aware of our concern and opposition to pending legislation in Congress, which could significantly impact the amount of reinsurance capacity made available in our states. H.R. 3424 would dramatically change the taxation of affiliated reinsurance for foreign (re)insurance companies. The proposed tax is designed to prevent the use of affiliated reinsurance, something we as insurance regulators know to be counterproductive. Foreign-based reinsurers provide a significant percentage of our nation's reinsurance capacity. With regard to reinsurance for hurricanes and earthquakes, it is estimated that two-thirds of this capacity comes from international reinsurers. This has traditionally been the case due to the basic needs of reinsurance - to diversify and spread risk as broadly as possible. As Insurance Commissioners from states that have more than their fair share of natural disasters, we strongly urge you to reconsider this legislation because it threatens our nation's ability to respond to catastrophes.

The US has more catastrophic exposure than any industrialized nation. Even if it were theoretically possible for US insurers to retain nearly all this risk, it would be unwise for them to do so because it would threaten their solvency. Given this need for diversification, most insurers transfer at least a portion of the risk to international reinsurers. This ability to diversify catastrophic risk across the globe allows international reinsurers to provide more capacity at a cheaper price than otherwise would be possible. The benefit of this diversification accrues largely to US consumers.

A recent study by Dr. David Cummins of Wharton and the Brattle Group, (an economic consulting firm based in Cambridge, Massachusetts) found that the proposed legislation, if enacted, would cost consumers more than $12 billion per year and would reduce US reinsurance capacity by 20 percent. Such severely reduced reinsurance capacity is a significant cause for alarm. These negative effects would be felt most significantly by consumers in disaster-prone states, such as those threatened by hurricanes on the Gulf and Atlantic Coasts and those subject to earthquakes. Furthermore, in some instances, state residual markets have tripled in size due to coverage reductions by some over-exposed coastal insurers placing an increased burden on state programs. Maintaining ample reinsurance capacity will keep the private market in place and prevent state pools from having to take on unnecessary risk.

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We believe the proponents of HR 3424 have failed to make their case that the tax can be imposed without harming US consumers. We have seen no research from them to make that point. As the July 12 US House Ways and Means Subcommittee record shows, the handful of US insurers supporting the tax would prefer to address their tax equity issue with a reduction in the overall US corporate tax rate. We are concerned that this tax would be imposed quickly as a revenue raising measure without adequate public policy debate. Meanwhile, the illogic of the tax coupled with our regulatory experience tells us to speak against HR 3424.

I respectfully ask for you and for members of Congress to reconsider this legislation.

Very truly yours,

Wayne Goodwin

Wayne Goodwin
Commissioner of Insurance

WG:tb