April 15, 2013

ATTN: International Tax Reform Working Group

RE: Obama Administration's Proposed 2014 Budget – Negative Effects on the Availability and Cost of Property and Casualty Coverage

On behalf of The Risk and Insurance Management Society, Inc. (RIMS), an organization that represents 10,000 members worldwide including 80% of Fortune 500 companies, I am writing to express disagreement with the Administration's Proposed 2014 Budget's effort to eliminate the tax deduction for reinsurance premiums ceded by domestic insurers to their foreign affiliates. RIMS is the world's largest professional organization dedicated to advancing the practice of risk management representing more than 3,500 industrial, service, nonprofit, charitable, and government entities.

<u>Background</u>

The United States tax code permits domestic insurers to manage their risk by ceding reinsurance to foreign affiliates. The current system fosters a healthy and competitive market for reinsurance while, at the same time, assuring more available and affordable property and casualty insurance. This practice is widely used by the industry generally and the property and casualty industry specifically, and considered an efficient mechanism to pool risks, diversify exposures, reduce the volatility of losses, and as a result, enhance availability of coverage and reduce prices for consumers.

Foreign reinsurers with domestic subsidiaries are critical to the continued health and vitality of the United States and global insurance markets. Throughout the recent series of natural catastrophic events, and the terrorist attack on 9/11, foreign reinsurers have filled gaps in coverage where domestic insurers either discontinued or severely curtailed coverage or significantly increased rates. Foreign reinsurers are able to diversify their risks globally and thereby reduce the volatility of their exposures. As a result of this efficiency, roughly two-thirds of the reinsurance on homes subject to hurricanes and earthquakes is reinsured with foreign reinsurers.

<u>The Proposal</u>

The Administration's Proposed 2014 Budget seeks to penalize domestic insurers with foreign affiliates by eliminating the corporate tax deduction they currently receive for reinsurance premiums ceded to their foreign affiliates. In previous congresses, Rep. Richard Neal (D-MA) has spearheaded an identical legislative initiative on behalf of a few domestic insurance companies. RIMS has opposed these initiatives in the past and continues to oppose them now.

Harm to Consumers from Decreased Availability and Increased Pricing

RIMS is a member of the Coalition for Competitive Insurance Rates (CCIR), which sponsored an economic impact study by *The Brattle Group,* published in 2009 and updated in 2010, entitled "The Impact on the U.S. Insurance Market of a Tax on Offshore Affiliate Reinsurance: An Economic Analysis." The Brattle Group's economic team includes Dr. David Cummins of the Wharton School and Temple University. According to the study, eliminating the tax deduction for reinsurance premiums ceded by domestic insurers to foreign affiliates would lead to a 20% reduction in the overall supply of reinsurance (affiliated and unaffiliated) available to the US market, which would in turn lead to *consumer price increases of between $11 and $13 billion annually* for the same coverage currently being purchased. Moreover, the bulk of the increased cost will be imposed on the coastal states that are stripped of the benefits from foreign reinsurance's impact on the availability of affordable coverage. The impact of these price increases will fall disproportionately on states with cities subject to terrorism risks and those most exposed to large catastrophic risks.

As the voice for risk managers and commercial insurance consumers, RIMS opposes the Administration's proposal because of the demonstrable negative implications for the global reinsurance market and the United States businesses that rely on this market. The current system allows companies to freely cede reinsurance, freeing capital to provide more insurance to domestic consumers and thus maintain reasonable premiums.

Violation of International Commitments

The Administration's Proposal would treat foreign reinsurers differently than U.S. reinsurers, which violates long-standing principles of the World Trade Organization (WTO) that prohibit one country from discriminating against companies of another country. Moreover, the United Kingdom, Switzerland and Germany have suggested that this modified tax scheme would violate WTO principles and tax treaties.

Many Others Oppose the Proposal

Consumer advocates, several state insurance regulators, risk specialists, insurance industry experts, international trade negotiators, and others have opposed the proposed elimination of the tax deduction for domestic insurer's reinsurance premium to affiliated foreign insurers.

Conclusion

The Administration's Proposed 2014 Budget's effort to eliminate the tax deduction for reinsurance premiums ceded by domestic insurers to foreign affiliates would have a chilling effect on the use of foreign reinsurance. As a result, the availability of coverage would be reduced and costs for consumers would increase significantly, particularly in urban areas subject to terrorism risk and areas prone to natural disasters.

The Administration's proposal should be disregarded because it creates demonstrable consumer harm and results in a severe economic imbalance: it would cause consumer prices for insurance to increase between $11 and $13 billion each year while producing only $6.2 billion in new tax revenues over 10 years.

Sincerely,

John Phelps
RIMS President

1065 Avenue of the Americas, 13th Floor, New York, NY 10018
t 212.286.9292 ■ f 212.655.5931 ■ www.RIMS.org