

COALITION FOR COMPETITIVE INSURANCE RATES

June 25, 2009

The Honorable Richard Neal
Chairman
Select Revenue Measures Subcommittee
House Ways and Means Committee
1136 Longworth House Office Building
Washington DC 20515

Dear Chairman Neal:

We are writing on behalf of The Coalition for Competitive Insurance Rates, an *ad hoc* group that includes major U.S. business and consumer organizations, among them, the Risk and Insurance Management Society, the Florida Consumer Action Network, and the National Risk Retention Association. Before you re-introduce any legislation to tax certain affiliate reinsurance transactions, we respectfully urge you to consider the *quality and quantity* of opposing comments that have been submitted by consumers as well as insurers, public officials, and European governments.

Specifically, our concern that U.S. consumers would suffer if your legislative proposal were enacted is examined in the economic analysis recently completed by the Brattle Group and the preeminent academic authority on the global insurance industry, Professor David Cummins of the University of Pennsylvania's Wharton School (the "Brattle Report"). Professor Cummins estimated that the 2008 version of your proposal would cause consumers to pay \$10–\$12 billion more per year to obtain the same coverage. This explains why the stakeholders who are most concerned about pricing (such as the Consumer Federation of the Southeast and insurance regulators from Louisiana, South Carolina, and Mississippi) have all strongly opposed the legislation.

In contrast to the solid research underlying the Brattle Report, the polemical (and unattributed) "white paper" recently transmitted to you by a small group of U.S.-based insurance companies contains unsubstantiated assertions, a number of which are flatly contradicted by the facts. First, these companies assert that "this legislation will not harm insurance capacity," but they provide no underlying analysis to compare to that in the Brattle Report. Based on analysis of financial data collected by the National Association of Insurance Commissioners on more than 700 large U.S. P&C firms over a ten-year period, the Brattle Report concludes that the proposal would reduce the supply of reinsurance in the United States by \$19–\$22 billion! Similarly, the "white paper" suggests that the legislation would simply require foreign-owned companies to "compete on a level playing field," but the economists who prepared the Brattle Report confirmed that the legislation would impose a confiscatory tax on premiums that is 8 to 10 times the average tax that U.S.-based companies pay.

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The current law treatment of foreign-owned U.S. insurance subsidiaries cannot fairly be described as a “loophole,” despite the repeated references to this term in the “white paper,” because U.S. subsidiaries of foreign-based insurers are subject to the same income tax laws as their U.S.-based competitors. Moreover, putting aside the current turmoil in the financial markets that has affected domestic and foreign companies, U.S.-based P&C insurers have earned record profits in recent years and their capital base and premium revenue have grown dramatically, which belies the claim that current law “provides foreign-owned groups a significant and unfair tax advantage over domestic groups.” Finally, we are compelled to point out that both U.S.-based P&C companies and foreign-owned U.S. insurers use affiliate reinsurance for the *same* valid business purposes (*i.e.*, risk distribution, risk diversification, capital management), and it is simply a misrepresentation to suggest otherwise.

We are in the process of carefully analyzing the entire ‘white paper,’ but in the meantime wanted to be sure that you were aware of our concerns and informed of the reasons for exercising caution in relying on the unsubstantiated comments of those lobbying in support of increasing taxes on certain affiliate reinsurance transactions.. In closing, we hope that you will take into account and give due consideration to the many and diverse parties who have provided thoughtful comments in opposition to legislation in this area.

Sincerely,
Coalition for Competitive Insurance Rates

ACE
Allianz of America
American Consumer Institute
Americans for Tax Reform
Arch Capital Group, Limited
Association of Bermuda Insurers and
Reinsurers (ABIR)
Captive Insurance Companies Association
(CICA)
Captive Insurance Council of the District of
Columbia, Inc. (CIC-DC)
Competitive Enterprise Institute (CEI)
Consumer Federation of the Southeast

Dublin (Ireland) International Insurance &
Management Association Limited (DIMA)
Florida Consumer Action Network (FCAN)
Freedom Works
National Risk Retention Association
(NRRA)
Organization for International Investment
(OFII)
Risk and Insurance Management Society,
Inc. (RIMS)
XL America
Zurich