

COALITION FOR COMPETITIVE INSURANCE RATES

For Immediate Release

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Consumers to Pay Billions in Higher Insurance Costs Under Tax Increase Proposal, Brattle Group Report Finds

Tax Would Put Disaster-Prone Areas Including Florida, California and the Gulf Coast at Risk

Washington, DC (May 1, 2009) -- The nation's consumers would have to pay billions of dollars in higher insurance premiums if Congress passes legislation that imposes a higher tax on certain insurance companies, according to a new study by the highly-respected Brattle Group, a Cambridge, Massachusetts-based economic consulting firm.

The study, sponsored by the Coalition for Competitive Insurance Rates (CCIR), analyzes the economic impact of imposing higher taxes on foreign-owned insurance and reinsurance providers, as proposed in legislation by Rep. Richard Neal (D-MA). This punitive tax proposal was considered during the last Congress, and Rep. Neal is expected to introduce similar legislation in the coming month.

According to the study 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, and The Brattle Group's Dr. Michael Cragg and Dr. Bin Zhou, Rep. Neal's proposed bill would cost consumers an additional \$10 - \$12 billion per year to maintain their current insurance coverage. Additionally, the legislation would significantly weaken competition and reinsurance capacity in the United States by 20 percent. Past evidence in insurance markets indicates that when reinsurance capacity is reduced, consumers will find it difficult to obtain insurance in certain classes of business.

According to the study, the proposed tax—a punitive tax that would apply to almost all of the offshore affiliate reinsurance that US subsidiaries currently buy—would:

- Reduce the supply of reinsurance in the United States by \$19–\$22 billion, which represents 20 percent of *all* reinsurance and 40 percent of all *foreign* reinsurance (non-affiliated as well as affiliated);
- Reduce the supply of primary insurance in the US by 1.8–2.1 percent;
- Increase the price of primary insurance by 1.8–2.1 percent, overall, and by more than 16 percent in some lines of business; and
- As a result of higher prices, require US consumers to pay \$10–\$12 billion more per year for the same insurance coverage.

The Brattle Group study also found that the burden of reduced supply and higher prices would fall disproportionately on those states most vulnerable to catastrophic losses, such as California, Florida, New York and Texas.

Earlier this year, the Senate Finance Committee reviewed a staff discussion draft of the tax proposal. Numerous organizations and individuals, including state insurance regulators, state legislators, trade policy experts and business owners, foreign governments, and consumer advocacy organizations expressed their opposition with letters to the Committee (see attached sampling of comments).

Among those who criticize the proposal is consumer advocate Bill Newton, Executive Director of Florida Consumer Action Network, who said, "We believe this tax increase proposal would in all likelihood have adverse consequences for Florida's consumers – an additional \$300 million a year in higher property insurance costs. The likely, even if unintended, consequences would be to increase the cost of or reduce access to insurance. Given today's deteriorating financial and economic conditions, especially in Florida, now is certainly not the time to make access to insurance more costly."

"This study confirms the fears of the nearly 40 independent experts, state government officials, business owners, and associations who publicly filed opposition letters to legislation pending in Congress," said Bradley Kading, President and Executive Director of the Association of Bermuda Insurers and Reinsurers (ABIR). "This legislation imposes an unnecessary and costly tariff on companies that help spread insurance risks for consumers and businesses in areas subject to hurricanes, earthquakes, crop failures and other forms of natural disasters. When insurance is needed to cover billions of dollars in consumer property damage – as occurred following hurricanes Katrina and Rita – international reinsurance companies are there."

The Coalition for Competitive Insurance Rates has submitted three letters to Congress in recent years in opposition to such discriminatory reinsurance tax proposals. The Coalition is made up of business organizations, consumer advocacy groups, insurers and their associations. The most recent letter signed by various coalition members is attached. The Association of Bermuda Insurers and Reinsurers and several leading European insurance and reinsurance companies supported the research project.

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