

COALITION FOR COMPETITIVE INSURANCE RATES

Preserve Equitable Tax Treatment for All Segments of the U.S. Property & Casualty Insurance Industry

US Consumers benefit from competition. *If enacted, the punitive tax proposed for foreign insurers would increase US consumers' insurance costs by \$10 to \$12 billion annually, according to an economic analysis by the Brattle Group.*

No new tax legislation is needed. A contingent of U.S.-based property and casualty (P&C) insurers claims that the U.S. is in danger of losing its P&C insurance industry because of unfair competition from foreign insurers. *This claim is flatly contradicted by the facts: In recent years U.S.-based P&C insurers have earned record profits and their capital base has grown.*

Essentially, the U.S.-based coalition of P&C insurers seeks "protection" from competition. It is simply misleading to assert, as this coalition does, that U.S. tax law permits foreign-based groups to engage in arms length affiliate reinsurance transactions that "strip" underwriting income and investment income, and thereby avoid U.S. tax that would have to be paid by a U.S.-based group writing the same business at the same price. *When the U.S. subsidiary of a foreign-based group cedes premium and risk to a foreign affiliate, it receives a ceding commission that includes compensation for all components of income from the ceded insurance, and that ceding commission is subject to U.S. corporate tax at the 35% statutory rate, in addition to the 1% excise tax on gross premiums (unless waived via treaty) that is imposed without regard to whether transactions result in profit or loss.*

There is no evidence that current law has a revenue cost. The U.S.-based coalition's assertion that Treasury is losing billions of dollars in tax revenue is unsubstantiated and questionable. *Indeed, publicly available data show that affiliate reinsurance frequently results in the realization of large losses offshore (so no one gets the benefit of a U.S. tax deduction for those losses).*

Why is it fair to discriminate against foreign-based groups? *Even as the U.S.-based coalition rails against the use of foreign insurance capital obtained through transactions with affiliates, it advocates a proposal that would preserve the ability to utilize foreign sources of insurance capital to fund the domestic insurance needs of U.S.-based companies. U.S.-based groups also enter into reinsurance arrangements with foreign affiliates, despite the application of the anti-deferral rules of Subpart F – a practice that underscores the underlying business reasons for affiliate reinsurance.*

International P&C Insurers and Reinsurers Contribute to the U.S. Economy. International insurance companies--

- Employ more than 150,000 people in the United States with Bermuda companies alone employing more than 10,000.
- Provide 64% of the private reinsurance for U.S. crops; covering all types of U.S. agricultural commodities for farmers across the country; international insurers provide from 43% to 90% of the private reinsurance purchased by crop insurers in individual states.
- Are the largest providers of U.S. property catastrophe reinsurance protection: international carriers provide 93% of the private reinsurance to Florida's domestic home insurers; international carriers provide 89% of the Texas Windstorm Insurance Association's reinsurance protection; and international reinsurers provide 94% of the California Earthquake Authority's reinsurance protection.