

## **Isolationist US Insurance Tax Bill (HR 6969) Would Increase Insurance Prices for US Consumers; Imposes Straightjacket on Insurers Needing Capital**

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Just introduced US House tax legislation – if enacted -- will reduce critical US insurance capacity and drive up prices for US consumers, as previously noted by the Coalition for Competitive Insurance Rates which wrote in opposition to this concept in letters to US Senate Finance Committee members last fall. This bill, HR 6969 introduced September 18 by US Rep. Richard Neal, will affect all foreign insurers that have US subsidiaries and that also provide insurance and reinsurance coverage to the US.

“With the current US financial market turmoil -- including the US government takeover of the country’s largest insurer -- this is a dangerous proposal that fundamentally limits capital available to US insurance companies and their consumers, and puts a straightjacket on continued foreign insurer assistance to the US market,” according to Nancy McLernon, President and CEO of the Organization for International Investment (OFII), an association of U.S. subsidiaries of companies headquartered abroad. “In addition, this bill would affect workers employed at American operations of non US-based insurance companies – over 100,000 Americans work at these firms, which support an annual payroll of over \$9 billion,” McLernon stated today.

“Without a competitive global reinsurance market, it would be even more difficult and expensive for South Carolina and other coastal state home and business owners to obtain insurance to protect them from hurricanes,” said today South Carolina Insurance Director Scott Richardson, in reference to HR 6969. Richardson and several other insurance commissioners had written in opposition to similar proposals last fall.

“Twice before, US policyholder groups have urged opposition to such proposals because of their effect on the availability and affordability of insurance. We say it again now – these proposals are protectionist measures aimed at benefiting some competitors in the market at the expense of others. Ultimately, the US consumers will suffer if this proposal is approved,” so stated the Coalition for Competitive Insurance Rates in its letter to Sen. Max Baucus, Chair of the Senate Finance Committee, last fall. The signers of that letter included major US business and consumer organizations including the Risk and Insurance Management Society, the Florida Consumer Action Network, the National Risk Retention Association, the Organization for International Investment, the CEA –the European Insurance and Reinsurance Federation and the Association of Bermuda Insurers and Reinsurers.

“This bill is an isolationist effort by a handful of very large, very profitable US insurance corporations who intend to create a new barrier for their competitors so that they will benefit from a protected market. This proposal could not come at a worse time for the US economy. Higher prices for consumers are the likely outcome,” said Bradley L. Kading, President of Association of Bermuda Insurers and Reinsurers (ABIR).

The US insurance market is dependent on domestic and foreign participants which collectively have enough capital to meet the US insurance market’s aggregate capacity needs.

US consumers benefit from this global market which assures more affordable and available insurance coverage than otherwise would be the case.

“It would be more difficult for doctors and nurses to obtain liability insurance. It would be more difficult for farmers to choose among competing crop insurers. It would be more difficult for local governments to issue bond financing. It would be more difficult for the US government to find capital to support troubled US insurance companies. The likely outcome of this discriminatory tax legislation would be to make it more expensive and difficult for US consumers to get insurance protection. This is not what American consumers need when they are also dealing with housing market chaos, financial instability and record high gas prices,” Kading noted. “It would create a triple economic whammy.”

“Hurricane Ike last week has triggered a \$1.5 billion reinsurance payout to the Texas Windstorm Insurance Association, \$1 billion of that will be paid by Bermuda reinsurers – instead of by Texas taxpayers,” Kading noted. “Bermuda and European reinsurers write the overwhelming majority of reinsurance that protects US consumers from hurricanes and earthquakes.”

“Bermuda’s reinsurers were the largest non US payers of claims from hurricanes Katrina, Rita and Wilma. We paid about 30% of the total claims costs from those three terrible storms. Our payments were enough to rebuild 45,000 homes in Louisiana and 24,000 homes in Mississippi, damaged by Hurricane Katrina. In the last seven years, Bermuda’s insurers and reinsurers have paid more than \$25 billion to US consumers from catastrophic loss claims alone. That amount may reach \$30 billion by the end of the US hurricane season. The proposed legislation will either discourage these reinsurers from committing capacity to the US market or increase prices for US consumers,” Kading noted.

No tax legislation is needed as US subsidiary corporations are already subject to the US income tax and the IRS already has significant enforcement powers to review affiliated reinsurance transactions.

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