

Statement of Sean M. Shaw
Insurance Consumer Advocate for the State of Florida
Select Revenue Measures Subcommittee Hearing on Reinsurance
July 14, 2010

Mr. Chairman and distinguished Members of the Subcommittee, my name is Sean Shaw. I am the Insurance Consumer Advocate for the State of Florida, a position that was codified by the Florida legislature in 1992. My role is to represent the interests of the 18.5 million citizens of Florida on insurance issues – doing research, seeking public input, analyzing legislative proposals, and assisting consumers. I report directly to the Chief Financial Officer of Florida.

Thank you for the invitation to appear before you this morning to offer remarks in opposition to H.R. 3424 and a similar provision contained in the Obama Administration's fiscal year 2011 budget. As I have stated, my job is to advocate for Florida insurance consumers. That is why I'm here today opposing the imposition of any extra tax on international reinsurers.

There is a famous proverb that says, "When elephants fight, the grass gets trampled." This issue has been presented as a battle between some U.S. insurance companies, on one side, and the international reinsurers, on the other side.

Frankly, I don't care about the elephants, on either side. I'm concerned about American consumers. Consumers can expect to pay an additional \$11 billion to \$13 billion every year because of this tax increase. That would be a bad idea, even in the best of times. And that is a terrible idea now, in the midst of a serious recession and a disastrous oil spill.

Especially in hard times, international insurers and reinsurers are indispensable for high-risk states such as Florida and for a heavily populated, highly industrialized, and increasingly vulnerable nation, such as the United States.

To put it plainly, reinsurance is backup insurance. Through a worldwide network of foreign and domestic reinsurers, Florida and the entire U.S. spread our risks around the widest possible area. This pools the hazards of hurricanes in Florida with the risks of earthquakes in San Francisco, terror attacks in New York City and windstorms in Europe.

The U.S. accounted for 76 percent of worldwide insured catastrophic losses in 2008. To cover these losses, U.S. companies purchase approximately half of all their \$100 billion in reinsurance from foreign reinsurers.

Overseas insurers' US affiliates write 14 percent of the home and property insurance in the Gulf and Atlantic States. These insurers provide 11 percent of home insurance and 40 percent of business property insurance in Florida.

International insurers and reinsurers are particularly important in the difficult times that follow natural and man-made disasters. According to available public data, there were only six domestic insurance companies among the 29 insurers who have reported losses from the oil rig explosion in the Gulf of Mexico. With Hurricanes Katrina, Wilma and Rita in 2005, more than 60 percent of the \$59 billion in payments came from foreign insurers and reinsurers.

Quite simply, if you choose to impose a punitive tax on insurance, consumers will have less insurance. And they'll pay more for it.

The Boston-based economics consulting firm, the Brattle Group, and Dr. David Cummins of the Wharton School of Business have forecasted what this tax increase would mean for consumers. The total supply of reinsurance would decline by about 20 percent. Floridians would pay in excess of \$800 million per year in additional insurance costs – including \$266 million per year more to insure their homes and \$264 million per year more to insure their commercial properties, including condominiums.

In Florida, more business would flow into our already-troubled Citizens Property Insurance Corporation. More demands would be placed on the taxpayer-subsidized Florida Hurricane Catastrophe Fund. Other states would suffer similar challenges.

That is why more than 120 opponents of HR 3424 and similar measures have written to Congress emphatically expressing their disagreement. These opponents – many of whom agree on little else -- include state legislators and other public officials from both parties, consumer advocates, leaders from the insurance industry, and the business community.

The insurance commissioners in Louisiana, Mississippi, North Carolina and South Carolina all oppose this tax increase. These insurance regulators protect the public. Because they are responsible for approving affiliated reinsurance transactions, they understand that the purpose of these transactions is insurance risk management. They know that, on average, domestic reinsurers use affiliated reinsurance to the same degree or more than foreign insurers.

Leading consumer organizations, including the Florida Consumer Action Network, the Consumer Federation of the Southeast, and the Risk Insurance Management Society – RIMS – also oppose this tax increase. So does a leading member of RIMS -- the Miami-Dade County School District, serving almost 400,000 students.

Nor do domestic insurance companies march in lockstep behind the handful of companies that support Chairman Neal's bill. The Florida Insurance Council – which represents 200 insurers and insurance groups – states, and I quote: "Our member companies as well as insurers throughout the country depend upon reinsurance programs that are reasonably priced to help make insurance affordable ... These tax proposals would increase costs that must ultimately be passed on to Florida families."

These companies, consumers, and public officials are the real stakeholders in this issue. It is my understanding that Mr. Berkley's company has no direct written premiums in Florida for home multi-peril insurance and only \$842,000 for commercial multi-peril. That is less than one tenth of one percent of the total premiums in my state.

On behalf of consumers in Florida and all across America, I ask you to reject this tax by recognizing that it will do nothing more than increase the pricing power of a handful of large and already hugely profitable insurers who want to put a crimp on their competitors.

Consumers need more competition, not higher rates. At a time when unemployment is near 10 percent throughout the nation – and near 12 percent in Florida – let's not impose another burden on working families and small businesses.

If we're going to protect anyone, let's protect American consumers. The elephants can take care of themselves. Thank you for the opportunity to speak on behalf of those who are at risk of being trampled.

Mr. Chairman, I would like to submit my testimony for the record and include a number of supporting documents to my testimony as appendices for the record, including:

- The report "The Impact on the US Insurance Market of H.R. 3424 on Offshore Affiliate Reinsurance: An Updated Economic Analysis," by Michael Cragg and Bin Zhou, The Brattle Group and J. David Cummins, Fox School of Business, Temple University, and The Wharton School, University of Pennsylvania;
- A listing of groups and individuals who have written in opposition to H.R. 3424;
- Letters in opposition to H.R. 3424 from the state insurance commissioners from Louisiana, Mississippi, North Carolina and South Carolina;
- Letters in opposition to H.R. 3424 from the Florida Consumer Action Network (F-CAN) and the Consumer Federation of the Southeast, and the Florida Insurance Council;
- An op ed "The More Insurers, the Cheaper the Rates," from the May 26, 2010, *Miami Herald*, by Scott Clark of the Miami-Dade County School Board;
- An op ed "Florida Can't Afford Insurance Tax Plan," from the March 21, 2010, *South Florida Sun-Sentinel*, by Sean Shaw and Eli Lehrer;
- The pie chart "Florida Insurers: 91% Private Reinsurance is Non-US," from Dowling & Partners Securities, L.L.C. , April 23, 2010;
- The article "Storms to Test Florida's Insurers," from the July 10, 2010 *Wall Street Journal* by Leslie Scism

