



Ag Risk Management Technologies

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The Honorable Max Baucus
U.S. Senate
Chairman - Finance Committee
511 Hart Senate Office Building
Washington, D.C. 20510-2602

The Honorable Charles Grassley
U.S. Senate
Ranking Member – Finance Committee
135 Hart Senate Office Building
Washington, D.C. 20510-1501

Re: ARMtech Insurance Services, Inc. (“ARMtech”) Comment on the Senate Finance Committee (the “Committee”) Staff Discussion Draft Proposal to Modify the Tax Treatment Relating to Affiliate Reinsurance

Dear Sirs:

ARMtech, the fifth largest underwriter of U.S. federally sponsored crop insurance, responds to Senator Baucus’s December 10, 2008 request for comment on, among other things, the possible impact of the Committee’s Staff Discussion Draft (the “Committee Draft”) on the crop insurance market.

ARMtech and its affiliates oppose any legislation that would modify the tax treatment relating to the use of affiliate reinsurance by foreign-owned insurance companies operating in the U.S. In light of the current economic crisis, ARMtech urges the U.S. Senate to consider the negative economic impact that the Committee Draft will have on Americans, in particular: (i) a potential decrease in the availability of crop insurance protection for U.S. farmers and a potential concurrent increase in the cost to U.S. farmers of obtaining certain non-federally sponsored crop insurance protection; and (ii) a potential reduction in U.S. insurance industry-related jobs.

I. Limited Availability of Insurance at an Increased Cost

ARMtech, founded in 1996 and headquartered in Lubbock, Texas, has established itself as one of the preeminent participants in the U.S. crop insurance market and one of the revolutionary drivers behind the development of crop insurance industry software. ARMtech currently writes U.S. crop insurance through an affiliated insurance company, American Agri-Business Insurance Company (“American Agri-Business”), which is domiciled in Texas and licensed to underwrite crop insurance in 39 U.S. states. American Agri-Business also provides crop reinsurance (*i.e.*, assumed reinsurance) to

U.S. crop insurers. Like several other insurers operating in the U.S., American Agri-Business' ultimate controlling parent company is domiciled outside of the U.S.

In 2008, American Agri-Business wrote approximately US\$690 million in crop insurance premium (*i.e.*, approximately US\$639 million in direct premium on crop insurance, and approximately US\$51 million premium on assumed reinsurance). American Agri-Business' crop insurance business is first reinsured with the Federal Crop Insurance Corporation, with the remaining insurance and reinsurance business being ceded to one of American Agri-Business' U.S.-based affiliated reinsurers who, for risk control and capital management purposes, subsequently cedes that business to both non-affiliated and affiliated reinsurers, which may be based in the U.S. or abroad. The ability of American Agri-Business to cede this insurance and reinsurance business to its affiliated reinsurers allows it to obtain reinsurance protection on terms and pricing that are more favorable than if reinsurance were obtained solely from third-party reinsurers. All reinsurance subsequently ceded by American Agri-Business' U.S. affiliates to their non-U.S. affiliates conforms with applicable risk transfer pricing standards and is subject to a U.S. Federal Excise Tax.

ARMtech and similarly situated crop insurers provide U.S. farmers with crop insurance coverage under terms that might not otherwise be available if the Committee Draft were enacted into law. U.S.-owned crop insurers would have a competitive economic advantage over foreign-owned crop insurers operating in the U.S., by being able to structure their reinsurance programs to ensure effective risk control without the effect of both the U.S. Federal Excise Tax and the proposed penal additional taxation on affiliated reinsurance. As a result of this competitive advantage, American Agri-Business and other foreign-owned insurers operating in the U.S. would be required to obtain crop reinsurance from third parties on terms and pricing that are likely to be less favorable than if obtained through an affiliated reinsurer, which may imperil the ability of ARMtech and its foreign-owned peers to compete effectively in the crop insurance market. In turn, U.S. farmers would experience a decrease in available crop insurance at competitive rates, which would only serve to benefit the U.S.-owned crop insurers.

II. A Reduction in U.S. Insurance Industry-Related Jobs

If the Committee Draft were enacted into law, ARMtech and other similarly situated providers of crop insurance would face a competitive economic disadvantage. The effect of this competitive disadvantage could endanger the continued viability of ARMtech's business, which in turn could lead to a direct and indirect loss of several hundred, if not thousands, of insurance-related jobs in the U.S., as discussed below.

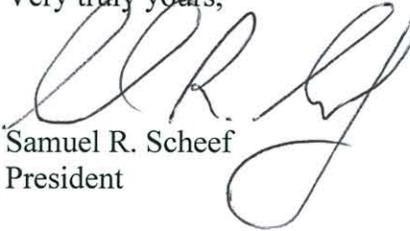
ARMtech and its affiliates directly employ more than 245 people in the U.S. who provide crop insurance services to the U.S. agriculture industry. In addition to its own employees, ARMtech's business indirectly supports jobs in the network of independent agents who place crop insurance and reinsurance and the independent claims adjusters who, for a fee, process crop insurance and reinsurance claims on ARMtech's behalf. By

proposing to disadvantage ARMtech relative to its competitors, the Committee Draft potentially handicaps a well-functioning industry at a time in our nation's history when we can ill afford to do so.

We thank you for your time and would welcome the opportunity to elaborate on these and the several other reasons for ARMtech's opposition to the Committee Draft.

Please do not hesitate to contact me by telephone at (806) 473-0335 should you have any questions or require any additional information.

Very truly yours,



Samuel R. Scheef
President

cc: The Honorable Charles B. Rangel,
Chair of the House Ways and Means Committee
VIA FACSIMILE: (202) 225-0816

The Honorable Richard E. Neal,
Chair of the House Ways and Means Select Revenue Measures Subcommittee
VIA FACSIMILE: (202) 225-8112

The Honorable Dave Camp,
Ranking Member, House Ways and Means Committee
VIA FACSIMILE: (202) 225-9679