

805 Executive Center Dr. W.
Suite 300
St. Petersburg, FL 33702

Phone: (727) 821-8765
Fax: (727) 374-0466



April 8, 2009

Senator Max Baucus
Chair, Senate Finance Committee
United States Senate
511 Hart Senate Office Building
Washington, DC 20510-2602

Dear Chairman Baucus:

I am the CEO of a Florida based property insurance company. We insure residential property in the coastal states of Florida, Texas and Louisiana. The issue addressed below is of critical importance to my company, other companies that write residential property in hurricane exposed states and most importantly to the property owners in those states.

We are writing to respectfully express our concern about the Senate Finance Committee Staff Discussion Draft proposal to increase taxes on certain affiliated reinsurance transactions. We are concerned that the proposal would increase the cost and reduce the availability of insurance, particularly in catastrophe-exposed regions such as Florida. Given the current financial crisis confronting our State and the country, this is exactly the wrong time to impose any new restriction on our ability to access global capital and support jobs and growth at home.

Hurricanes are a significant challenge to Florida and the other coastal states where we operate. As a result, our homeowners' insurance market faces special challenges. Florida's families and businesses depend on insurance for their financial protection. Private sector reinsurance, in turn, is a critical element in our state's insurance system, diversifying our uniquely large hurricane risk, bolstering the solvency of our companies and attracting additional capital to our market.

The natural disaster reinsurance which is so important to Florida is characterized by infrequent, but at times extremely large, claims, like those we experienced with Hurricane Andrew in 1992 and the large storms of 2004 and 2005. This type of volatility makes catastrophe reinsurance a highly specialized area, requiring sophisticated data analysis and modeling. The leading providers of catastrophe reinsurance are based in Bermuda and Europe. In fact, Bermuda reinsurers alone provide 67% of the private reinsurance to Florida based insurers and 40% of the US property catastrophe reinsurance coverage overall. Bermudian and European companies provide 93% of the reinsurance for this market and thus provide critical support to Florida's economy.

The proposals contained in the Senate Finance Committee Staff Discussion Draft would disallow a deduction for certain reinsurance premiums paid by a U.S. insurer to an international affiliate, thereby imposing additional taxes on international insurers and reinsurers at a time of dislocation

in the financial sector. Increasing taxes on international insurers and reinsurers will not only increase the cost of providing insurance to Florida's consumers and businesses, but also it could lead to a drastic reduction in the number of companies providing reinsurance in our state, at a time when this issue is paramount in Florida. The United States overall, and Florida specifically, require a large amount of catastrophe reinsurance capacity, a substantial part of which is supplied by non-U.S. reinsurance companies. Driving out competition would increase the upward pressure on insurance rates in Florida and throughout the U.S. – at exactly the wrong time. Thus, any effort to increase the taxes on international insurers and reinsurers will be counterproductive because it will result in higher costs for U.S. consumers and businesses. Moreover, this burden will be disproportionately carried by Americans in our most vulnerable regions, like our State.

Sincerely,

John F. Auer
President and CEO