

CHUBB GROUP OF INSURANCE COMPANIES

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The Honorable Charles Grassley
United States Senate
135 Hart Senate Office Building
Washington, DC 20510

Dear Senator Grassley,

I am writing to voice Chubb's strong support for the legislative language "Discussion Draft" released by the Senate Finance Committee on December 10, 2008 that would amend the tax code to prevent foreign-controlled insurance companies from avoiding taxation on their U.S. underwriting and investment profits. By reinsuring their U.S.-generated business with a related party in a low-tax or no-tax jurisdiction, these companies enjoy a significant and unfair competitive tax advantage over U.S.-based companies like Chubb. A bill similar to the Discussion Draft, which we also strongly support, was introduced last year by Representative Richard Neal (H.R. 6969, 110th Congress).

As a proud, 127-year-old U.S.-based property & casualty insurer with close to 10,000 employees in 65 offices throughout the country, we are extremely concerned about the inequity, and believe legislation is needed to eliminate such an untenable situation. Simply put, the United States tax code should not favor foreign-owned insurance companies over domestic insurers selling P&C insurance in the United States.

The office I manage located in West Des Moines, Iowa generates \$95 Million in revenue and employs 25 people at our location.

This uneven playing field has already caused a significant migration of insurance capital abroad and erosion of the U.S. tax base – something the U.S. cannot afford in these difficult and challenging economic times. For example:

- Numerous U.S. property-casualty companies have expatriated to low-tax or no-tax countries to take advantage of this loophole. (Arch U.S. and Everest Re Group are among the most notable.);
- The loophole provides an incentive for P&C insurers to form new holding companies in no-tax and low-tax jurisdictions;

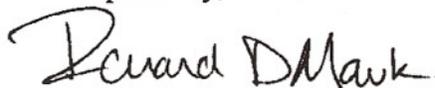
- Foreign-based insurers have used, and will continue to use, this competitive advantage to acquire U.S. companies or U.S. lines of business (acquisitions of U.S. insurers and reinsurers are numerous including: Platinum Underwriters acquisition of St. Paul Re and Partner Re's acquisition of Winterthur Re);
- Transactions such as these have already resulted in **billions of dollars of lost tax revenues to the Federal Government**. Since 1997, the amount of related-party reinsurance written to foreign affiliates has grown eight-fold, from \$4.2 billion to \$33.8 billion. Most of this activity is centered in low-tax or no-tax jurisdictions, demonstrating that the increase in activity is largely tax-motivated. If the loophole is left unchecked, significantly more of the U.S. insurance capital base is likely to migrate abroad to tax-havens. Ultimately, this could threaten the future of our domestic insurance industry.

We believe the approach taken in both the Discussion Draft and H.R. 6969 is an appropriate and effective remedy to the problems caused by offshore related-party reinsurance. Similar to the earnings stripping rules under section 163(j) of the tax code, the legislative proposals strike a balance and only target "excessive" related-party reinsurance transactions that are being used to strip income from the U.S. tax base.

I commend you and your staff for your leadership in addressing this unfair competitive advantage, and urge quick adoption of this legislation. Passage of this bill will help restore the competitive balance of the insurance marketplace and prevent the costly erosion of the domestic P&C insurance industry. Even more important, particularly in today's troubling economic times, closing the loophole will add significant capital to the U.S. GDP and help restore the health of our economy.

Thank you for the opportunity to voice Chubb's support for the legislation. Please let us know if we can provide any additional detail about the impact of this unfair loophole.

Respectfully,



Richard D. Mauk
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