

The Honorable Max Baucus
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Charles Grassley
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Bill Nelson
Senator, State of Florida
The Honorable Mel Martinez
Senator, State of Florida

The Honorable Debbie Wasserman Schultz
Congresswoman, State of Florida
118 Cannon House Office Building
Washington, DC 20515
Fax: 202-226-2052

The Honorable Kendrick Meek
Congressman, State of Florida
1039 Longworth House Office Building
Washington, DC 20515
Fax: 202-226-0777

The Honorable Ginny Brown-Waite
Congresswoman, State of Florida
414 Cannon House Office Building
Washington, DC 20515
Fax: 202-226-6559

March 3, 2009

Dear Chairman Baucus and Ranking Member Grassley:

We're Floridians writing to express our opinion about proposals under consideration that would impose additional taxes on some types of premium payments from U.S. insurers to their own international reinsurance parental affiliates. We believe that such taxes will decrease the availability of insurance in areas where it is already in short supply, particularly in the vulnerable Florida coastal market, having a dire impact on all areas of economic activity in the state.

The Proposed Taxes Would Decrease the Availability of Insurance in Areas Where it is Already in Short Supply

When it transfers risk away from primary insurers, reinsurance makes it possible for these insurers to underwrite risks they would not be able to underwrite otherwise. Imposing additional taxes on international reinsurance transactions will necessarily make those transactions more costly and thus limit their financial utility to primary insurers. This, in turn, will lead to higher premiums, at best, and, at worst, total elimination of some types of reinsurance.

Since the proposals would impose taxes on a wide variety of transactions, it is likely that they will have similar impacts on all market participants that purchase international affiliated reinsurance. Since there will be no competitive advantage in absorbing the costs, most insurers, if not all, will pass higher reinsurance costs onto their consumers through higher premiums.

We are these consumers and their representatives. We will pay more for insurance if the taxes go into effect.

The Proposed Taxes Will Be Particularly Harmful to Florida's Insurance Market

Because over 70 percent of Florida property is exposed to coastal hurricane risk, the role of insurance in creating a sound state economy is more crucial than in almost every other state. With high rates, few and diminishing choices for consumers, and government intervention, the insurance situation in Florida represents a severe risk to the state's taxpayers, homeowners, and business owners. The proposed tax on reinsurance companies will certainly make matters worse.

Take, for example, reinsurance that supports the independent Florida home insurance companies. 93% of their private reinsurance comes from international reinsurers—67% coming from Bermuda based reinsurers alone. In the last 8 years reinsurance companies in Bermuda alone have paid out \$30 billion in U.S. property claims due to catastrophic events. Without the international reinsurance industry supporting U.S. economic activity, American insurance companies would have a difficult time offering insurance at current rates. Particularly in coastal Florida, many might withdraw from the market altogether.

The effect of the proposed reinsurance tax will be that these international reinsurance companies will raise prices or leave the state altogether; both actions could have catastrophic consequences on the state economy and citizens' ability to acquire and afford insurance.

Imposing such a tax at this time would impose a significant risk for Floridians and insurance companies.

Concluding Thoughts

Additional taxes on reinsurance transactions would wreak havoc with a smoothly functioning private market. The US benefits more from global reinsurance markets than anyone else. Reinsurance has proven successful largely because governments have allowed the free market to work. Any additional taxes on international reinsurance should be approached with great skepticism.

Yours truly,

Eli Lehrer, Senior Fellow, the Competitive Enterprise Institute

Christian Camara, Director of FL Offices, the Competitive Enterprise Institute

David Letson, Professor of Marine Affairs & Economics, the University of Miami

John Hallman, President, CEO, Director of Government Affairs, FL Taxpayers Union