FLORIDA
Consumer Action
NETWORK

Consumer Federation of the Southeast

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

RE: Comments on a proposal to permanently disallow deductions for certain reinsurance premiums with respect to U.S. property and casualty ("P&C") risks paid to affiliates.

The Florida Consumer Action Network (FCAN) has long represented the interests of Florida consumers. In a state accustomed to damage caused by powerful tropical storms and hurricanes, we are very concerned about the availability of affordable property and casualty insurance. Given the size of the state and the potential for large insurance claims, access to the international insurance market is an essential component of our state's ability to provide protection to homeowners and businesses. For example, in 2007 (the latest year for which we have data), excluding the Florida Hurricane Catastrophe Fund (FHCF), private international reinsurance provided 93% of $2.2 billion in coverage for Florida's homeowners and property owners. Bermuda based reinsurers are the biggest source of this important protection.

FCAN is concerned about proposed legislation contained in the Staff Discussion Draft released last December that would increase taxes on overseas based reinsurance companies. We believe this tax increase proposal would in all likelihood have adverse consequences for Florida's consumers. The likely, even if unintended, consequences would be to increase the cost of or reduce access to insurance. Given today's deteriorating financial and economic conditions, especially in Florida, now is certainly not the time to make access to insurance more costly.

Especially now, at a time of tight credit, it is vital to maintain a market open to companies that have the resources to cover the risks associated with hurricanes and other disasters. While the proposal is designed to raise tax revenues, it will have serious adverse consequences for the competitiveness of the overall insurance market. Clearly, without a competitive reinsurance market, it would make it more difficult and costly for Florida homeowners to purchase insurance coverage to protect their property from loss.

Reinsurers based overseas are already subject to a U.S. insurance excise tax (unless waived in a tax treaty; Bermuda reinsurers pay the excise tax) – a tax which is paid regardless of whether the reinsurance results in a profit or a loss. Additionally, all U.S.

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subsidiaries of these companies pay income taxes on their US business income. Any increase in taxes on these companies will hurt Florida and all other consumers and businesses by raising the cost of their insurance premiums and limiting the availability of the important protection services provided by reinsurers.

While placing an additional tax burden on non-US companies might raise some federal revenue, the real impact will be to reduce competition and increase insurance prices for consumers.

By increasing taxes on foreign-based reinsurers, consumers would face lower insurance capacity, diminished competition in the insurance market and, most importantly, higher prices. These measures are counterproductive to the job of revitalizing and strengthening the American economy. Ultimately, the cost of increased taxes will not fall on the foreign based reinsurers, but instead on consumers and businesses in Florida and other states.

Sincerely,

Bill Newton
Executive Director
Florida Consumer Action Network

AND

Walt Dartland
Executive Director
Consumer Federation of the Southeast

cc   Senator Bill Nelson
      Senator Mel Martinez
      Rep. Kendrick Meek,
      Rep. Debbie Wasserman Schultz

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