

***Via FedEx Overnight Delivery &
email to reinsurance@finance-dem.senate.gov***

February 26, 2009

Mr. Russ Sullivan
Democratic Staff Director
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Sullivan:

Key Risk Insurance Company is a United States property and casualty ("P&C") insurance company incorporated in the State of North Carolina. Our company has three office locations in North Carolina with additional offices in Maryland, Virginia, South Carolina, Georgia, Tennessee, and Florida. We employ more than 350 associates in the United States, and write approximately \$135 million in workers compensation insurance premium.

We wish to express our support for the discussion draft released by the Senate Finance Committee staff on December 10, 2008 (the "Discussion Draft") and similar legislation introduced in the House last year by Congressman Neal (H.R. 6969).

This legislation is needed to eliminate a flawed situation where the tax code actually favors foreign-owned insurance companies over domestic insurers in selling P&C insurance in the United States. The problem arises because foreign-controlled companies can avoid tax on much of their US underwriting and investment profits merely by reinsuring this business with a foreign related party located in a low-tax or no-tax jurisdiction.

This unfair competitive tax advantage has already caused a significant migration of insurance capital abroad and erosion of the US tax base. A number of US property and casualty companies have expatriated to low-tax or no-tax countries to take advantage of this loophole.

Such transactions 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 unfair advantage is left unchecked, significantly more of the US insurance capital base is likely to migrate abroad to tax havens. Ultimately, this could threaten the future of our domestic insurance industry and tax revenue.

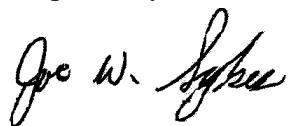
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We believe the approach taken in the Senate Finance Committee staff discussion draft and H.R. 6969 is an appropriate and effective remedy to the problems caused by offshore-related party reinsurance. Similar to the earnings stripping rules under section 163(j), the bill strikes a balance and only targets “excessive” related party reinsurance transactions that are being used to strip income out of the US tax base and avoid US tax.

We commend you and your staff for your efforts to address this unfair competitive advantage and urge quick adoption of this legislation. Passage of this bill will help restore competitive balance to the marketplace and prevent the costly erosion of the domestic P&C insurance industry, as well as the attendant US tax base.

We very much appreciate the opportunity to comment on the legislation. We invite you to contact us to further discuss this issue and the proposed legislation.

Respectfully,



Joe W. Sykes, CPCU, ARM
Chairman & Chief Executive Officer



Rob Standen, AIC, ARM, ALCM
President