Risk and Insurance Management Society, Inc.®

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February 24, 2009

Via Fax: (202) 224-9412
The Honorable Max Baucus
United States Senate
Chairman
Finance Committee
511 Hart Senate Office Building
Washington, DC 20510-1501

Via Fax: (202) 224-6020
The Honorable Charles Grassley
United States Senate
Ranking Member, Finance Committee
135 Hart Senate Office Building
Washington, DC 20510-1501

Dear Chairman Baucus and Ranking Member Grassley:

On behalf of the Risk and Insurance Management Society (RIMS), I want to express our concern about a Staff Discussion Draft of proposed legislation that was released on December 10, 2008, which would permanently disallow deductions for certain reinsurance premiums with respect to U.S. property and casualty risk paid to foreign affiliates. (This proposal is similar to HR 6969.) RIMS is a not-for-profit organization dedicated to advancing the practice of risk management. Founded in 1950, RIMS represents more than 4,000 industrial, service, nonprofit, charitable, and governmental entities. The Society serves more than 10,500 risk management professionals around the world. RIMS' individual members are the buyers of commercial insurance for their employers.

For RIMS members, it is absolutely essential that there be a competitive and innovative global insurance and reinsurance marketplace to meet the risk management needs of their companies. Reinsurance is an important resource used by business and insurance underwriters to control and finance risk. The staff's proposal would significantly limit access to reinsurance, thus reducing capacity and driving up costs, which would be extremely harmful to American businesses, particularly given the current economic conditions. Many RIMS members rely upon non-U.S. reinsurers and the robustness of this segment of the insurance market. Non-U.S. reinsurers provide coverages, particularly for national disasters and catastrophes, that often are not available from domestic carriers. Maintaining a strong reinsurance market is essential to protect capacity and efficiency, and RIMS has long fought any measures that would result in reduced capacity or competitiveness in the insurance industry.

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The Staff Draft is contrary to reasonable tax policy by disallowing a deduction for certain U.S. companies that happen to reinsure policies with a foreign affiliate. There is no evidence of any "earnings strippings," or avoidance of risk shifting to the foreign affiliate, upon which to base this proposed change in tax policy. There is also no evidence of transfer pricing abuses, in that the U.S. company is properly compensated for the ceded risk. In fact, this proposal can be viewed as a protectionist piece of legislation that will end up harming U.S. companies like RIMS' members.

In conclusion, legislation that encumbers free market movement and the transfer of risk that are vital to a sound global insurance and reinsurance community will adversely affect America's commercial insurance purchasers. It is RIMS' belief that a free and fair marketplace enables the insured and insurers to seek innovative and affordable alternatives to manage risk. The Staff Draft would drive up the cost of insurance for America's commercial insurance consumers by reducing competition. RIMS strongly opposes any legislation that would have negative implications for the global reinsurance marketplace, and, more importantly, those U.S. businesses and public entities that rely on this market to manage their risk exposures.

Thank you for the opportunity to provide comments on this issue. Should you have any questions or wish to discuss this issue in greater detail, please contact RIMS Government Affairs Director Kathy Doddridge at kdoddridge@rims.org.

Sincerely,

Joe Restoule

Joseph Restoule
President