



South Carolina Department of Insurance

Capitol Center
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

MARK SANFORD
Governor

SCOTT H. RICHARDSON
Director of Insurance

Post Office Box 100105
Columbia, South Carolina 29202-3105
Telephone: 803-737-6160

February 26, 2009

The Honorable Max Baucus
United States Senate
340 Russell Senate Office Building
Washington, DC 20510

Dear Senator Baucus:

As you are aware, the South Carolina Department of Insurance has commented before on the change in the tax treatment of reinsurance agreements between related parties. Although there seems to be inequities between "onshore" and "offshore" reinsurance tax consequence, this issue should be looked at in light of all taxes paid by these insurers. In addition, the IRS has specific authority to address tax avoidance issues.

More importantly, we are concerned about market interruptions which might be caused by significant changes in the current tax system. Coastal states rely heavily on the offshore reinsurance markets to provide capacity for catastrophe prone areas. As of 2007, approximately 66% of reinsurance on homes subject to hurricane and earthquake exposure comes from non-U.S. reinsurance companies. Bermuda based companies provide approximately 40% of the U.S. reinsurance for hurricane prone areas.

Anything that would make coastal areas less attractive to reinsurers would create serious consequences for millions of homeowners in a short period of time. We would request that Congress be mindful of the fragile nature of this market and be very careful in considering any changes to our tax system.

Thank you for considering our input on this matter.

Sincerely,

A handwritten signature in blue ink that reads "Scott Richardson".

Scott H. Richardson, CPCU
Director