

COALITION FOR COMPETITIVE INSURANCE RATES

For Immediate Release

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Anti-Competitive and Anti-Consumer Insurance Tax Bill Introduced *Broad Coalition of Companies and Consumers Stand Opposed to Legislation*

Washington, DC (July 30, 2009) – Stating that Rep. Richard Neal's (D-MA) bill to raise taxes on foreign-based insurance companies operating within the United States was anti-consumer and anti-competitive, the Coalition for Competitive Insurance Rates (CCIR) today voiced its strong opposition to the bill. CCIR, a broad-based alliance dedicated to assuring competitive insurance costs and insurance availability for American consumers, contends that the bill would drive up consumer insurance rates by reducing competition and critical US insurance capacity. When Neal introduced similar legislation in the 110th Congress, consumer organizations and businesses that rely on affordable insurance coverage joined in opposing passage.

"We urge members of Congress to reject this legislation, as they have twice before," said Bradley Kading, president of the Association of Bermuda Insurers and Reinsurers, a CCIR member. "Only a handful of very large, very profitable US insurance companies would benefit from this bill. In contrast, the economic data make clear that American consumers and businesses would pay a steep price if Representative Neal's proposal becomes law. This legislation represents a punitive and unnecessary tax aimed at benefiting some competitors at the expense of others."

A recent study by the Brattle Group, an economic consulting firm based in Cambridge, Mass., found that the proposed legislation would cost consumers more than \$10 billion per year and would reduce US reinsurance capacity by 20 percent. These negative effects would be felt most significantly in disaster-prone states like Florida, Louisiana and California. Insurers and consumers in these areas say that the Neal bill puts their states at risk. The Brattle Group study was co-authored by Temple University and Wharton School's Dr. David Cummins, who has been rated the #1 researcher in the world on risk and insurance.

Rep. Neal's bill would significantly increase taxes on all foreign insurers who have US subsidiaries and who provide vital insurance and reinsurance coverage to Americans. Because insurance is indisputably a global marketplace, the US insurance market depends heavily on a worldwide network of foreign and domestic reinsurance companies in order to meet the country's insurance capital needs. This is best illustrated by the fact that approximately two-thirds of all reinsurance required to protect US consumers and businesses against natural disasters is provided for by non-U.S. reinsurance companies.

"Consumers benefit from a competitive insurance marketplace. Coastal areas such as South Carolina's are dependent on a maximum capacity of reinsurance. We believe this bill will restrict the market and ultimately raise prices for South Carolina citizens. Recent studies have shown that the results of this legislation could cost South Carolina residents more than \$40 million a year. In addition, it would dislocate the market and create distinct advantages for some carriers over others, and that is not in the best interest of consumers,"

said South Carolina Director of Insurance Scott Richardson who has previously written in opposition to the legislative proposal.

"The United States overall, and Florida specifically, requires a large amount of catastrophe reinsurance capacity, a substantial part of which is supplied by non-US reinsurance companies," said Dale Hammond, president and CEO of Homewise Insurance in Tampa, Florida. "Driving out competition would increase the upward pressure on insurance rates in Florida and throughout the US – at exactly the wrong time."

Earlier this year, the Senate Finance Committee received nearly 40 individual opposition letters in response to a staff draft of legislation similar to the Neal bill. Numerous organizations and individuals, including state insurance regulators, consumer groups, state legislators, trade policy experts, European governments and business owners expressed their strong opposition to the proposal.

"The international insurance market is an essential component of our ability to provide protection to homeowners and businesses," said Bill Newton, executive director of the Florida Consumer Action Network. "We believe this tax increase proposal would in all likelihood have adverse consequences for consumers. Given today's financial and economic conditions now is certainly not the time to make access to insurance more costly."

"Legislation that encumbers the 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," said Joseph Restoule, president of the Risk & Insurance Management Society (RIMS). RIMS is an association representing local government and business officials responsible for buying insurance for their organizations. "A free and fair marketplace enables the insured and insurers to seek innovative and affordable alternatives to manage risk. This legislation would drive up the cost of insurance for America's commercial insurance consumers by reducing competition."

Opponents of the bill say that this legislation is especially unnecessary because foreign-based insurers are already subject to a US insurance excise tax and their US subsidiaries pay US income taxes.

"Rep. Neal's bill is a protectionist measure that will hurt American consumers. It's likely to send insurance rates soaring for the very consumers who can least afford big rate increases right now," said Eli Lehrer, a senior fellow with the Competitive Enterprise Institute.

The Coalition for Competitive Insurance Rates has submitted three letters to Congress in recent years in opposition to such discriminatory reinsurance tax proposals. The Coalition is made up of business organizations, consumer advocacy groups, insurers and their associations.

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