Coalition for Competitive Insurance Rates

President-Elect Donald Trump
Presidential Transition Team
1800 F Street, NW
Washington, DC 20405

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Dear President-Elect Trump:

A robust insurance market open to as many competitors as possible is essential to consumers, homeowners and small businesses. And global reinsurers must be financially strong and have substantial capacity to support US insurance companies. A strong international insurance and reinsurance network has greatly benefitted the United States during its most trying times. For example, in the wake of the devastation caused by Hurricane Sandy, international insurance companies covered close to 50 percent of the accumulated $19 billion in losses, and in the aftermath of the 2001 terrorist attacks on New York, international insurance and reinsurance firms paid 64 percent of the estimated $27 billion in US payouts for the claims. A sturdy and resilient insurance market is fundamental to preparing Americans against the worst.

It is for this reason that the Coalition for Competitive Insurance Rates and others are writing to express our concern about legislation (H.R. 6270 and S. 3424) continuously pushed by Democrats and the Democratic establishment – it was pushed by President Obama in his six previous budget proposals and four times in successive Congresses by senior Democrats in the Senate and the House. The most recent iteration of this proposal was introduced by Rep. Richard Neal (D-MA) and Sen. Mark Warner (D-VA) this past September. These proposals seek to deny a tax deduction for certain reinsurance premiums paid to foreign-based affiliates by domestic insurers. Domestic insurers such as these are examples of the foreign direct investment that our government's economic policies encourage, yet ironically are being singled out for a punitive tax.

This bill, now submitted four times by Rep. Neal, would only serve to limit US insurance capacity and drive up the cost of insurance, compelling homeowners and small businesses, particularly those in disaster-prone states, to shoulder the burden of this anti-competitive tax.

For this reason, a growing, bipartisan chorus of state and federal officials has consistently and vocally opposed any discriminatory measures found in this legislation. In recent years insurance commissioners representing Florida, Nevada, Pennsylvania, Georgia, Louisiana, Mississippi, North Carolina, South Carolina and Utah have all publicly rejected the proposal, as have agriculture commissioners from Florida, North Carolina and Tennessee, and Gov. Rick Scott of Florida.

Speaking on this proposal, famed economist Art Laffer has noted that "these reinsurance tax schemes are writ large attempts at special interest protectionism," that would result overall in "reduced GDP, jobs, wages and income." And a study published last year by the Tax Foundation confirmed this alarming prospect: enactment of this proposal would decrease overall GDP by $1.35 billion. As savers allocate more capital to pay this tax, the lowered total of business capital results in a lower GDP. And it would do all of this by picking and choosing winners and losers in the marketplace – something antithetical to the idea of free enterprise and free markets. Americans for Tax Reform has noted that this proposal would reduce consumer choice, increase reinsurance prices, and hurt economic growth – all while only raising a miniscule amount of revenue.

In an economic impact study of previously introduced related legislation by Rep. Neal, the Brattle Group, a leading economic consulting firm, found such legislation would have reduced the net supply of reinsurance in the US by 20 percent, forcing American consumers to have paid a total of $11 to $13 billion a year more for their same coverage. The same study found that homeowners and small business owners in certain states, particularly Florida, would face steep increases in the cost of their insurance premiums. Florida's small business owners would see a 12.6 percent increase in the cost of commercial multiperil insurance premiums; homeowners would see a 4.2 percent increase. It comes as no surprise that, in light of this data, the Florida Consumer Action Network (FCAN), Florida Tax Watch and the Florida Chamber of Commerce, among others, have all voiced their opposition to legislation that would reduce the supply of reinsurance.

It is inconceivable to propose a tax on foreign affiliate reinsurance which would only serve to limit US insurance capacity and drive up the cost of insurance, a major threat to homeowners and businesses. The only potential winners are the select few firms that stand to profit from decreased market competition.

This proposal would effectively postpone a deduction for certain reinsurance premiums paid by a US insurer to an international affiliate until payment of the associated losses. In effect, this is designed to punish international insurers by imposing additional taxes on their US operations. It essentially imposes an isolationist tariff on international insurance companies conducting business in the US, ultimately denying them a key risk management tool everyone else uses. They would have to either replace affiliate reinsurance with non-affiliate reinsurance or raise more capital. One final alternative would be for individual insurers to reduce the size and scope of their US offerings to fit with their existing subsidiary capital bases. Above all, any of the options would increase the cost of reinsurance, making the underlying insurance coverage more expensive for the companies and consumers that depend on it the most.

We ask you to weigh the unintended consequences of a tax on foreign reinsurers. These proposals are isolationist measures aimed at benefiting some competitors in the market at the expense of American consumers and business owners.

Sincerely,

Tom Feeney
Former Member of Congress
President of Associated Industries of Florida