Background And Summary – Global Affiliated Reinsurance

- U.S. businesses obtain insurance from U.S. insurers to protect against potentially very severe losses from weather and earthquake events and their commercial activities.

- Presently, U.S. insurers rely on reinsurance with other insurers (basically, insurance for insurers) to transfer potential losses too big for them to absorb.*

- Some U.S. insurers are owned by global insurers and reinsure with their foreign affiliates to rely on much larger capital bases deployed to support very severe, but unrelated, global insurance risks.

- Affiliated and non-affiliated reinsurance are virtually identical, subject to strict U.S. state insurance regulatory review and accepted as a tool to spread U.S. insurance risk to global markets. Reinsurance is also subject to IRS transfer pricing regulations.

- Recent legislative proposals would change the long-standing equal tax treatment of affiliated and non-affiliated foreign reinsurance and raise consumer costs by $11 billion* and reduce GDP by $1.35 billion annually if enacted.**

- Under the House tax reform Blueprint if the 20% Border Adjustment Tax is extended to all foreign reinsurance U.S. consumers would incur increased costs for the same insurance coverage ranging from $8.4 billion to $37.4 billion.*

- Maintaining the current tax treatment of affiliated reinsurance is essential for sharing U.S. insurance risks efficiently to the global insurance market and providing U.S. businesses and their customers insurance at lower prices.

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Source: *The Brattle Group, "The Impact On The U.S. Insurance Market Of A Tax On Offshore Affiliate Reinsurance: An Economic Analysis," January 23, 2017
**Laffer Center, Do We Want Special Interest Trade Protectionism In The Tax Code?

A Global Reinsurance Pool Can Ease The Financial Burden During Catastrophic Events

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Reinsurance Helps Insurers To Better Price Difficult Risks And Maintain Capacity Post-Crisis

Advantage	Details
Insure Difficult Risks	• Global reinsurance markets may not offer sufficient unaffiliated reinsurance capacity to support all U.S. demand for reinsurance, especially for highly specialized or potentially very costly risks (such as acts of terrorism).*
More Effectively Transfer Risks	• The types and amounts of risk underwritten by the U.S. affiliate must be consistent with the risk that the global affiliate is willing to assume. As a result, the U.S. affiliate may not face contractual limitations on coverages as would exist in non-affiliated reinsurance.
Permits A Longer View of Risks	• Unaffiliated reinsurance is subject to opportunistic pricing (especially after major risk events). Affiliated reinsurance pricing is less volatile because the reinsurer may permit the affiliate insurer a steady supply of reinsurance and therefore a longer opportunity to better manage the insurance risks.
Ready Redeployment Of Capital	• After a capital depleting event (such as a major earthquake, hurricane, or terrorism event), the global affiliate can respond quickly with replacement reinsurance capacity at a time of peak demand.
Better Credit Risk Management	• Credit risk management requires spreading reinsurance across multiple high-quality reinsurers. Affiliated global reinsurance can avoid credit risks inherent in third-party reinsurance, and offer many options for insurance purchasers and lower pricing.

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Source: *The Brattle Group, "The Impact On The U.S. Insurance Market Of A Tax On Offshore Affiliate Reinsurance: An Economic Analysis," January 23, 2017

Does the Proposal Curb Any Abuse And What Other Impacts May Arise?

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- **Current Tax Law:** Already provides significant penalties for improperly priced reinsurance (Section 482) or improper use of reinsurance (Section 845)
- **U.S. Insurers Like Zurich:** Are already subject to regular IRS review of affiliated reinsurance transactions and can demonstrate that such transactions are for legitimate business transactions
- **If Abuses Do Exist:** Mandate IRS to pursue any taxpayers not following tax rules.
- **But Arbitrarily Restricting Global Access To Reinsurance Could Cause Significant Harm As It Could:**
    1. Reduce the availability of property and casualty insurance;
    2. Increase costs for U.S. property owners and businesses that are the most difficult to insure (e.g., hurricane prone coastal areas and earthquake zones);
    3. Violate international tax and trade agreements that may lead to retaliation against U.S.-owned businesses;
    4. Increase system-wide risk in the U.S.; and
    5. Destabilize global transfer and diversification of U.S. insurance risks

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US Tax Reform

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House Blueprint: Congress is currently considering tax reform, including House leadership's Blueprint released in June 2016, which includes a border adjustment tax (BAT)

- **In general:** Exports would be tax exempt and imports would non-deductible at a 20% tax rate
  - Presently unclear if cross-border re/insurance and other financial services would be subject to BAT
  - BAT appears similar to value-added tax and if so, would reinsurance be exempt under BAT as it is generally under VAT rules around the world?
- **If all foreign reinsurance is subject to BAT, the estimated economic impact would range**:
  - **From the low end**, a $15.6 billion drop in the supply of U.S. insurance with additional cost of $8.4 billion to U.S. consumers
  - **To a high end**, a $69.3 billion drop in the supply of U.S. insurance with additional cost of $37.4 billion to U.S. consumers*

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Source: *The Brattle Group, "The Impact On The U.S. Insurance Market Of A Tax On Offshore Affiliate Reinsurance: An Economic Analysis," January 23, 2017

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