Maintaining Robust Access To Global Affiliated Reinsurance

Benefits To U.S. Businesses And Consumers

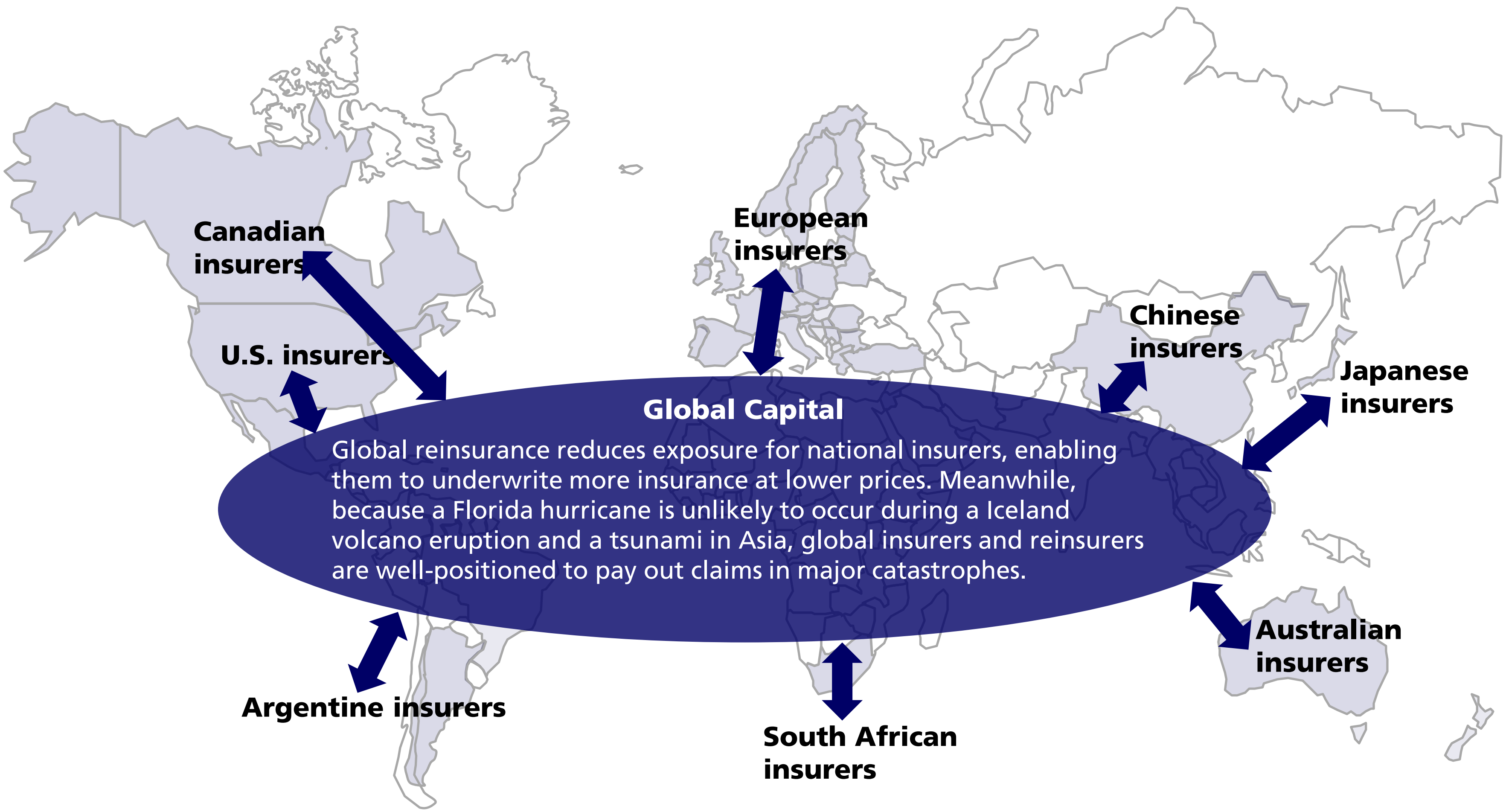
U.S. Subsidiaries Of Foreign Affiliates Quickly Respond At The Time Of A Disaster

Background And Summary

- 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.

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?

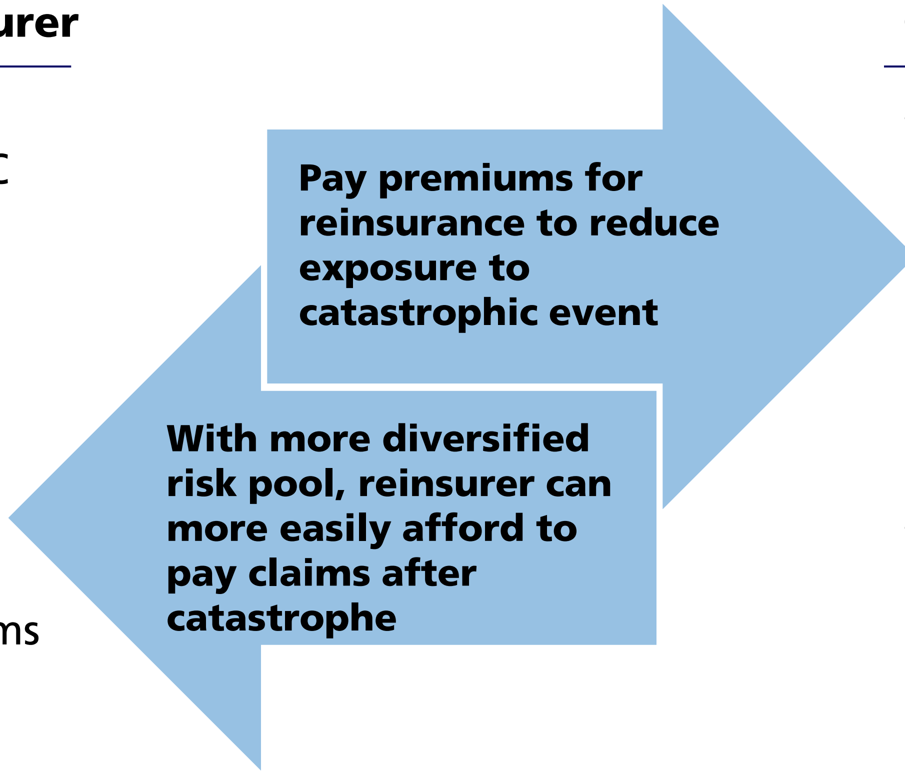
A Global Reinsurance Pool Can Ease The Financial Burden During Catastrophic Events



Global Reinsurance Can Lower Costs For U.S. Businesses And Consumers

Florida-Based Insurer

- **Risks exposure:** Florida-based P&C insurer provides customers with insurance against losses due to hurricanes
- **Challenge:** One hurricane can trigger many claims so risks are more correlated



Global Reinsurer

- **Risks exposure:** Global reinsurer pools risks from across the globe to maintain an uncorrelated portfolio
- **Challenge:** The need to find insurers who want to reduce their exposure for a premium

Risk sharing, diversification, and capital pooling can all help reduce the costs associated with risk, and enable insurance companies to sell more coverage at lower prices.

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

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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.

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

Global Insurers And Reinsurers Paid 57 Percent Of Claims For Katrina, Sandy, And 9/11 On Average

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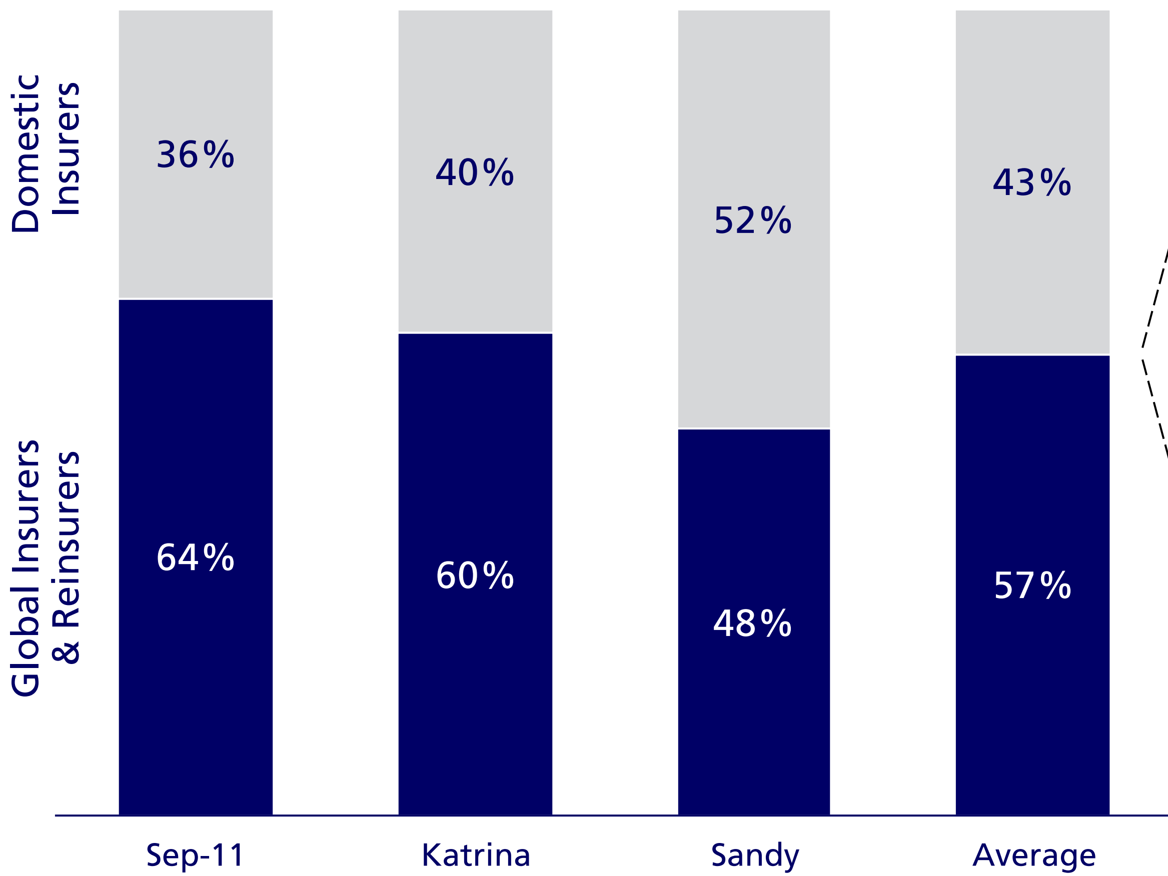
Claims Paid By Domestic And Foreign Insurers*



Global insurers and reinsurers are critical for dealing with catastrophic and tragic events. With larger, globally diversified balance sheets, Zurich has:

- 11.75% CA earthquake market share (#1)**
- 5.39% FL commercial property market share (#3)**
- 4.81% LA property market share (#3)**

Source: *Coalition For Competitive Insurance Rates, **2016 NAIC data with market share analysis as developed by SNL

Global Insurers Provide Outsized Support For High-Risk Markets Like Florida, Louisiana, And Texas

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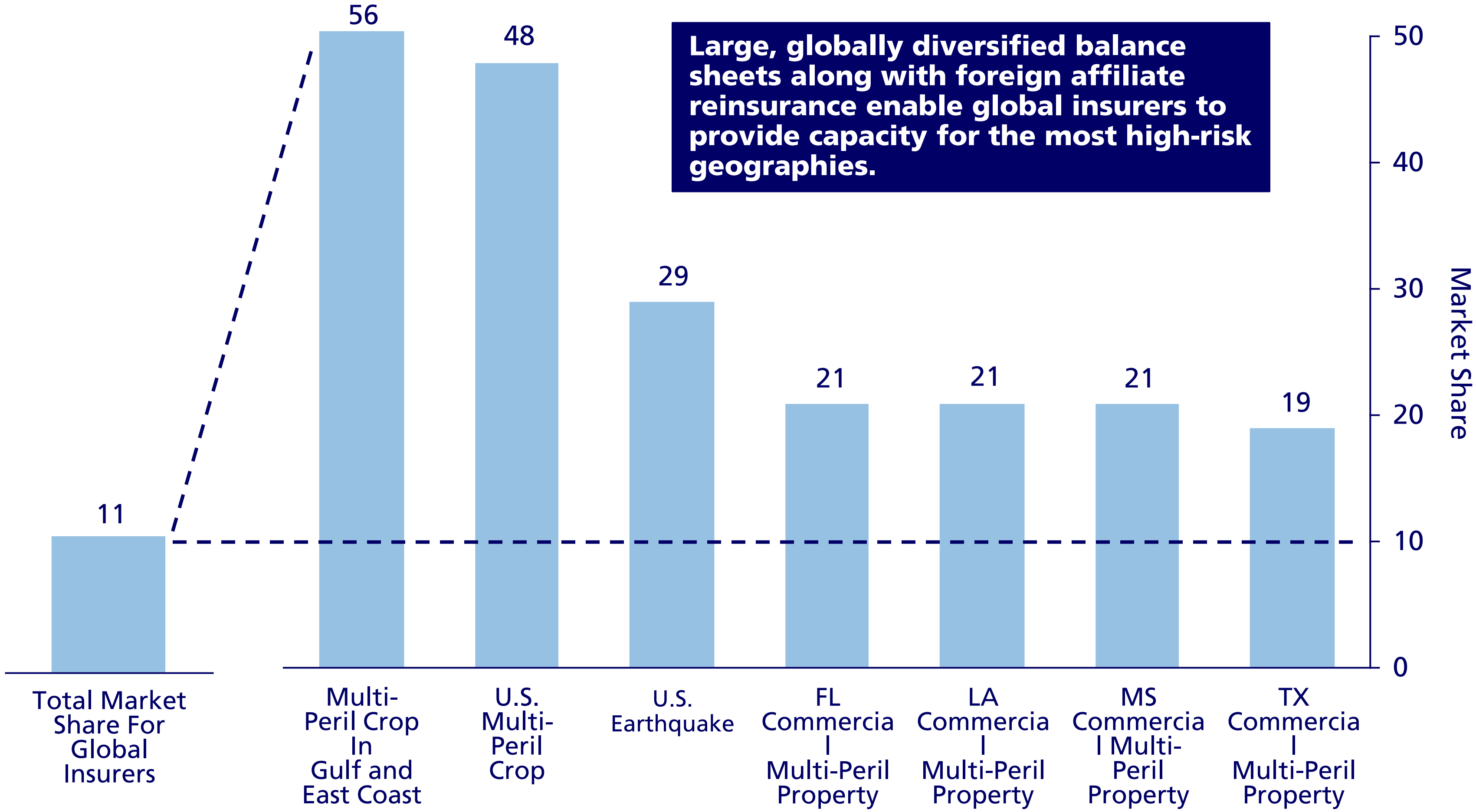
Market Share Of Global Insurers*



Large, globally diversified balance sheets along with foreign affiliate reinsurance enable global insurers to provide capacity for the most high-risk geographies.

Source: *2016 NAIC data with market share analysis as developed by SNL

State Insurance Commissioners And Other Experts Agree: Foreign Reinsurance Is Critical To Economies

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"Foreign-based reinsurers provide a majority of our state's reinsurance capacity, particularly for hurricane risk. A meaningful number of Florida residential insurers use affiliate reinsurance with Australian, Bermudian and European affiliates, and an important segment of the companies that provide direct commercial insurance coverage in Florida reinsure these policies through European parent companies."

– Kevin McCarty, FL Commissioner

"Because of the increased risk or hazard of damage here and throughout the Southeastern United States, we depend quite heavily on foreign and domestic reinsurers from around the world to provide backup insurance coverage."

– Wayne Goodwin, North Carolina Commissioner Of Insurance

Supporters Of Current Policy*

- The Insurance Commissioners of FL, GA, LA, MS, NV, NC, PA, SC, and UT
- The Florida Insurance Consumer Advocate in testimony before the U.S. House Ways and Means Subcommittee on Select Revenue Measures
- The Risk and Insurance Management Society, representing more than 3,500 industrial, service, nonprofit, charitable, and government entities throughout the world
- California Consumers United, Consumer Federation of the Southeast, and Florida Consumer Action Network
- The State Legislatures of FL, TX, and LA in resolutions urging the U.S. Congress to reject the proposed tax
- Seven FL members of the U.S. House of Representatives: Reps. Dennis Ross, Bill Posey, Jeff Miller, Mario Diaz-Balart, Gus Bilirakis, Ander Crenshaw, and Ileana Ros-Lehtinen
- CA Farm Bureau Foundation, Los Angeles Area Chamber of Commerce, Texas Grain and Feed Association, Texas Soybean Association, Louisiana Oil and Gas Association, Louisiana Home Builders Association, and the Florida Chamber of Commerce

Source: *Laffer Center, Do We Want Special Interest Trade Protectionism In The Tax Code?, **Coalition For Competitive Insurance Rates, "Neal-Warner Bills: Bad For Consumers. Based On Myths."

Affiliate Reinsurance – Current Rules and Recent Legislative Proposals

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- **Current Tax Law**: U.S. tax law generally permits U.S. insurers to deduct reinsurance premiums paid for both affiliate and non-affiliate reinsurance.
- **Proposed Legislation:** The Obama Administration's 2017 Budget proposal and H.R. 6270/S.3424 were introduced by Congressman Neal (D-MA) and Senator Mark Warner (D-VA) during the 114th Congress would severely penalize use of global affiliated reinsurance as follows:
- **Under The Proposals:**
  - Tax deductions for reinsurance premiums paid to a non-U.S. taxed affiliated reinsurer for property and casualty business are deferred until and to the extent that losses are paid by the affiliated reinsurer.
  - However, this impact is slightly mitigated as the ceding U.S. insurer may exclude from taxable income (in the same proportion as disallowed premium) ceding commissions, reinsurance recovered, and return premiums.
- **Current Status:** No proposed legislation introduced in Congress.
- **Budget Score:** The Administration 2017 Budget proposal would raise $7.69 billion according to the Joint Committee on Taxation (JCT). No score has been made public for H.R. 6270/S.3424.

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

Proposals May Reduce Availability Of P&C Insurance, Raise Costs, And Increase System-Wide Risk

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Arbitrarily restricting global access to reinsurance may cause significant harm as it could:

- Reduce the availability of property and casualty insurance
- Increase costs for U.S. property owners and businesses in high-risk weather areas
- Increase system-wide risk in the U.S.
- Destabilize global transfer and diversification of U.S. insurance risks

Impact By The Numbers

$5B in annual higher consumer costs*

-$1.35B in lost GDP**

13% decrease in supply of reinsurance*

24.5% tax hike on risk spreading to offshore affiliates**

Source: *The Brattle Group, "The Impact On The U.S. Insurance Market Of A Tax On Offshore Affiliate Reinsurance 2017" **Tax Foundation, Incorrectly Defining Business Income: The Proposal to Eliminate the Deductibility of Foreign Reinsurance Premiums"

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*

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

Proposed Taxation Of Foreign Affiliated Reinsurance Is Misaligned With Growth Goals Of Tax Reform

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The Growth Goals of Tax Reform:

- **Boost Economic Growth**: "America needs a new 21st Century tax code that is built for growth – the growth of families' paychecks, the growth of local businesses, and the growth of our economy."* - Rep. Kevin Brady (TX-08)

- **Increase Business Investment**: "The traditional growth argument for business tax reform is that it has the potential to lower the cost of capital, thus increasing investment and boosting output."*
  - Jason Furman, Chair of Council of Economic Advisors

- **Improve Competiveness**: "Both Democrats and Republicans agree that the ultimate goal of reform should be to increase America's competitiveness."*
  - Jack Lew, U.S. Treasury Secretary

What Could Occur?

- **Lower Economic Growth**: Eliminating the tax deduction on foreign affiliate reinsurance would result in an estimated loss of $1.35 billion in GDP, and private sector losses will exceed additional tax revenues collected.****

- **Reduced Business Investment**: The proposal would raise the cost of capital for small businesses, which cannot grow or even enter a market, without essential, affordable, insurance coverage. It would also impair their ability to stay afloat following a catastrophic event.

- **Trade Protectionism**: Denying the deduction only to foreign companies is using the tax code to protect domestic insurers and reinsurers from foreign competition.

Source: *Rep. Kevin Brady, Fox News, **Jason Furman, Business Tax Reform And Economic Growth, ***Sec. Jack Lew, Remarks Of Secretary Lew At The Urban Institute, ****Tax Foundation, Incorrectly Defining Business Income: The Proposal to Eliminate the Deductibility of Foreign Reinsurance Premiums"

We Believe This New Tax Would Undercut Trade Deals And Risk Retaliation Against The U.S.

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WTO Violation

The proposed would violate the General Agreement On Trade In Services (GATS) of the World Trade Organization (WTO). This proposal:

- **Violates Article XVII,** which is a "straightforward nondiscrimination requirement," according to the Laffer Center.
- **Is objected to by the European Commission,** which detailed its concerns including a letter to former Treasury Secretary Tim Geithner.
- **Abandons free trade principles** as the United States is not just a signatory of these agreements, but a driver, especially on the issue of non-discrimination.

Retaliatory Legislation

By implementing the proposed protectionist tax standards, the U.S. risks retaliation against U.S. insurers.

- **Case study:** A 2012 Peterson Institute For International Economics report detailed that Brazil introduced resolutions favoring domestic firms over U.S. competition. In this instance, our objections were strengthened by our commitment to non-discrimination.**
- **Protectionism around the globe will threaten global capital.** Global insurance capital is needed to bring lower prices and better coverage to high risk areas.

Source: *Laffer Center, Do We Want Special Interest Trade Protectionism In The Tax Code?, **Peterson Institute, Using The Tax Law To Penalize Foreign Insurance Companies

Common Critiques Simply Miss The Mark

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Charge	Fact
Tax Is Needed To Close Loopholes.	• U.S. subsidiaries of foreign-owned companies are subject to same tax laws as U.S. based companies. • If a foreign-owned U.S. subsidiary obtains reinsurance from its foreign affiliates, the same tax laws will apply as if the reinsurance was obtained from unaffiliated U.S. based reinsurers. There is no differential or preferential treatment. • U.S. subsidiaries of foreign companies are also already subject to a one percent federal excise tax on the gross premiums on the policies for which they obtain reinsurance, unless waived by U.S. bilateral treaties.
Tax Will Not Change Insurance Pricing.	• Per the Brattle Group, it is estimated that the tax will make consumers pay $5 billion more for annually for their insurance.* • According to the Brattle Group, high-risk states like Florida will face $649 million reduction in the supply of insurance and an additional $350 ,million in annual costs.*
Reinsurers Have "A Tax Advantage."	• Between 2001 and 2013, the U.S. property and casualty insurance companies' surplus (an insurance industry financial measure approximately equivalent to equity capital) grew by $366 billion – a 122 percent increase. With this kind of growth, U.S. companies do not need additional protectionism through preferential tax laws.**

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
**Coalition For Competitive Insurance Rates, "Neal-Warner Bills: Bad For Consumers. Based On Myths"

Zurich Cares About Its Customers And Remains Committed To Community Development

$4.2 million in corporate and employee giving including grants, employee matching, fundraising events, and employee volunteer time.

By The Numbers*:

- 27,430 Hours Of Community Service
- 371 Nonprofits Helped
- 3668 Employees
- 37% Participation
- $633 k Value Of Volunteer Hours

Community Engagement:

- A Time For Giving – Annual Workplace Giving campaign benefitting our six core charities
- Skills Based Volunteering - Utilizing employee skill sets to assist non profits in developing capacity in their organizations
- Variety of volunteer activities, walks, fundraisers and in-kind drives

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COMMUNITY INVESTMENT

*As of 12/31/15

About Zurich

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Zurich Insurance Group is a leading multi-line insurance provider with a global network of insurance subsidiaries and offices. Founded in 1872, Zurich is headquartered in Zurich, Switzerland with approximately 54,000 people serving customers in more than 210 countries and territories. In 1912, Zurich entered the U.S. (via Chicago) and quickly became a leading commercial property and casualty insurance carrier.

We are very proud of our more than 100 years of doing business in the United States, and currently employ approximately 9,500 people in North America. Zurich's U.S. insurance group is the fifth largest commercial property and casualty insurer in the United States by gross written premium providing a wide array of insurance products to small and mid-sized businesses, local governments and Fortune 500 companies.

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