COALITION FOR AMERICAN INSURANCE

MYTHS v FACTS
CLOSING THE INSURANCE TAX HAVEN LOOPHOLE

MYTH – *The Insurance Tax Haven Loophole is a minor policy issue that doesn't need to be addressed.*
FACT - The loophole was an unintentional consequence of previous changes to the tax code and must be closed once and for all. It is exploited by foreign-based insurance companies that move profits from their U.S.-based business to affiliated companies overseas to avoid paying U.S. taxes. Closing the loophole will level the playing field by creating equal tax treatment for U.S.-based or foreign-based insurers. It will also ensure a stable insurance market here at home.

MYTH – *The Insurance Tax Haven Loophole doesn't give certain companies any competitive advantages.*
FACT - Foreign-based insurers enjoy a competitive advantage over U.S.-based insurers because of this loophole. This unequal tax treatment makes it more expensive for U.S. insurers to operate and harder for them to raise capital.

MYTH – *All kinds of "reinsurance" are the same.*
FALSE – Wrong. In arguing against closing the loophole, foreign-based insurers purposely conflate two different kinds of reinsurance. While reinsurance generally is an important tool for primary insurers to manage large amounts of risk, foreign-based insurers are using reinsurance to strip U.S. profits of their U.S. based subsidiaries and shift these earnings to low-tax jurisdictions. This technique, called "affiliate reinsurance" allows them to move profits from their U.S.-based business to separate companies they own overseas to avoid paying U.S. taxes. These transactions are not aimed at risk management – they are a tax avoidance scheme. In contrast, third party reinsurance, involves arm's length arrangements between unaffiliated companies in order to shift risks and add capacity to the insurance market. Third party reinsurance is not affected by eliminating the Tax Haven Loophole.

MYTH - *Closing the Insurance Tax Haven loophole via tax reform would increase rates and reduce availability of insurance, especially in states where catastrophic coverage is needed.*
FACT – This is false. Closing the Insurance Tax Haven loophole will only affect affiliate reinsurance. Affiliate reinsurance does nothing to mitigate or manage risk. It only serves to maximize profits for foreign-based insurers. What's more, a recent report from Dowling & Partners, the respected insurance journal, (June 15, 2017), examined how changes in tax policy would impact the catastrophe market, much of which is based in Bermuda. The study concluded that any changes would not affect market capacity.

MYTH – *Closing the Insurance Tax Haven loophole would drive insurers out of the U.S. market.*
FACT - The U.S. is the largest reinsurance market in the world and companies want to do business here. The recent report from Dowling & Partners (June 15, 2017) confirmed this. Dowling noted that the Bermuda share of the Florida market has been declining in recent years. What's more, third party reinsurance, not affiliate reinsurance, provides more coverage in the state. According to Dowling, "During 2016, of the now $9.2 billion in direct homeowners' premium (in Florida), approximately $4.7 billion ended up on the books of reinsurers (including the state's catastrophe fund) with $3.3 billion going to true '3rd party' reinsurers." Dowling has also stated that the direct homeowners' insurance business in Florida is dominated by domestically-controlled businesses (24 out of 25 are U.S. based).