

First Extraordinary Session, 2005

HOUSE CONCURRENT RESOLUTION NO. 43

BY REPRESENTATIVE BOWLER

INSURANCE/PROPERTY: Memorializes congress to enact comprehensive natural disaster insurance legislation that will encourage insurance company reserving for future catastrophes by making such reserves deductible for federal income tax purposes

1 A CONCURRENT RESOLUTION

2 To memorialize the United States Congress to enact comprehensive natural disaster
3 insurance legislation affecting financial capacity and loss prevention that will
4 address, encourage, and support insurance company reserving for future catastrophes
5 by making such reserves deductible for federal income tax purposes.

6 WHEREAS, the loss of life and property from severe natural disasters, as evidenced
7 by recent Hurricanes Katrina, Rita, and Wilma, represents a major national problem; and

8 WHEREAS, severe natural disasters, including but not limited to damages caused
9 by windstorm and earthquake, can strike any state or several states at any time, with the
10 potential of threatening large segments of the population of the United States; and

11 WHEREAS, severe natural disasters can cause losses in the tens of billions of dollars
12 or more, threatening the solvency of insurers and the viability of insurance markets on a
13 local, regional, and national level; and

WHEREAS, individual state responses are appropriate but limited in protecting
against disasters, as state and private insurers lack the resources to cover catastrophic
disasters; and

17 WHEREAS, the existing federal disaster programs rely a great degree on the
18 congressional appropriation of disaster relief dollars on an ad hoc basis and at great and
19 unnecessary cost to taxpayers; and

1 WHEREAS, it will be necessary for the federal government to intervene in the event
2 of a catastrophic disaster costing in the scores of billions of dollars, because the alternative
3 would be widespread insolvency in the insurance industry, which would also cause financial
4 difficulties in banking, manufacturing, homebuilding, and other industries; and

5 WHEREAS, states have documented that problems in the current insurance market
6 are rooted in and exacerbated by federal tax policy which discourages reserving for future
7 catastrophes; and

8 WHEREAS, federal tax laws and accounting principles do not permit deduction of
9 reserves for future natural disaster losses and discourages insurers from accumulating assets
10 to pay for future catastrophic losses; and

11 WHEREAS, some non-United States insurers are able to deduct reserves for future
12 catastrophe losses free of tax, giving those insurers a competitive advantage over United
13 States insurers by enabling them to attract insurance and reinsurance business that would
14 otherwise be written by United States insurers; and

15 WHEREAS, the 1997 Coopers & Lybrand report entitled *Analysis of Pre-Event Tax-*
16 *Deductible Catastrophe Reserves* underscored the following projections if congress were to
17 enact legislation to encourage the use of pre-event tax deductible catastrophe reserves: that
18 the property and casualty industry would build substantial catastrophe reserve funds; that
19 overall industry assets would increase substantially; that the number of insolvencies taking
20 place after a catastrophic disaster would significantly decrease, and that the magnitude of
21 insolvencies taking place after a catastrophic disaster would significantly decrease; and

22 WHEREAS, the same Coopers & Lybrand report also underscored the further
23 projections if congress were to enact legislation to encourage the use of pre-event tax
24 deductible catastrophe reserves: that United States reinsurers would become more
25 competitive in the global reinsurance marketplace; that United States insurers would likely
26 cede monies to United States reinsurers rather than to foreign reinsurers; that federal tax
27 receipts could dramatically increase due to increased tax revenue from underwriting profits
28 associated with retained United States premium, investment income earned on that same
29 premium, and profits from additional foreign premiums that would come onshore as United

1 States reinsurers seek to diversify their catastrophic losses; and that the number of
2 policyholders who lose insurance after a major event could decrease.

3 THEREFORE, BE IT RESOLVED that the Legislature of Louisiana does hereby
4 memorialize the United States Congress to enact comprehensive natural disaster insurance
5 legislation affecting financial capacity and loss prevention that will address, encourage, and
6 support insurance company reserving for future catastrophes by making such reserves
7 deductible for federal income tax purposes.

8 BE IT FURTHER RESOLVED that a copy of this Resolution be transmitted to the
9 presiding officers of the Senate and the House of Representatives of the Congress of the
10 United States of America and to each member of the Louisiana congressional delegation.

DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part
of the legislative instrument.

Bowler

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Memorializes the U.S. Congress to enact comprehensive natural disaster insurance
legislation that will address, encourage, and support insurance company reserving for future
catastrophes by making such reserves deductible for federal income tax purposes.