



REINSURANCE
ASSOCIATION
OF AMERICA

STATEMENT

TESTIMONY OF

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**FOR THE
REINSURANCE ASSOCIATION OF AMERICA**

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING, COMMUNITY
DEVELOPMENT AND INSURANCE AND THE
SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT AND
MONETARY POLICY**

HEARING ON

**PROTECTING AMERICA: THE
REAUTHORIZATION OF THE TERRORISM
RISK INSURANCE PROGRAM**

OCTOBER 16, 2019

Good Afternoon Chairmen Clay and Cleaver, Ranking Member Stivers, and Members of the Subcommittees. Thank you for inviting me to testify. My name is Dawn Dinkins. I am the Chief Operating Officer at AXA XL Re and am testifying today on behalf of the Reinsurance Association of America, of which AXA XL is a member. I have 30 years of experience working in claims, with 23 of those years focused on reinsurance claims. AXA XL is the property, casualty and specialty commercial risk division of global insurer and reinsurer, AXA. From 27 offices in the US, our more than 2,200 employees help provide insurance, reinsurance and other risk management services to all size businesses – from large, multinationals to small business -- and public entities across the United States.

The RAA is the leading trade association of property and casualty reinsurers doing business in the United States. Its membership includes reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA represents its members before state, federal, and international bodies.

Thank you for holding this important hearing to formally start the discussion on reauthorizing the Terrorism Risk Insurance Program (TRIP) well in advance of December 31, 2020, when the program is scheduled to expire. And thank you for your commitment to reauthorize TRIP. TRIP is an essential risk-sharing plan to help pay insured claims in the event of a terrorist attack. It was created by Congress in the aftermath of the attacks of September 11 and remains essential today. TRIP has been a stabilizing force for the insurance market and allows a market for terrorism insurance so that primary insurers can provide coverage and reinsurers can reinsure terrorism risk. The program is working, as intended, and should be reauthorized without a lapse to continue to provide needed stability and a safety net to our economy, employers, and workers. For these reasons, the RAA supports the “Terrorism Risk Insurance Program Reauthorization Act of 2019”

(H.R. 4634) which would reauthorize TRIP for 10 years with no changes. In particular, we urge Congress to reauthorize TRIP before the end of the year, to avoid uncertainty with respect to insurance and reinsurance contracts that will begin to renew starting on January 1, 2020.

Commercial insurance and reinsurance availability are key underpinnings of the U.S. economy. Reinsurers like AXA-XL support insurance business and policyholders in every U.S. state and across all lines of business, both commercial and personal. Although by no means exclusively focused on catastrophic risks, reinsurers have provided critical aid in the economic recovery of almost every significant natural disaster in recent memory. The tornado that devastated Joplin, Missouri in 2011 resulted in \$2.16 billion in insurance claims pay outs to Missouri policyholders, and approximately 40% of those claims were ultimately paid by reinsurers. Similarly, reinsurance ultimately paid more than one-third of the more than \$40 billion in insurance claims arising out of Hurricane Katrina.¹ As another example, insured losses for September 11, in today's dollars, amounted to over \$46 billion, almost two-thirds of which were absorbed by the reinsurance industry.

The threat of terrorism, like catastrophic natural disasters, is unfortunately continuous and nationwide. Moreover, terrorism risk poses great challenges as an insurable risk because its frequency, severity, and correlation characteristics make it unlike any other insured risk or peril. The reinsurance industry partners with our ceding insurers and, because of the critical backstop provided by the Terrorism Risk Insurance Program, can be part of the financial recovery plan in the event of a catastrophic terrorist attack. TRIP creates the framework that allows the insurance industry to offer and provide the protections afforded by terrorism risk insurance across the United

¹ Insurance Information Institute; Holborn.

States. We hope that TRIP is never called into action, but it is critical that Congress keep the TRIP plan in place.

The RAA supports a clean, long-term reauthorization of the program with no changes. TRIA has fulfilled, and continues to fulfill, its purpose. Under TRIA and its extensions, the availability of terrorism risk insurance has increased. The overall U.S. terrorism insurance take-up rate is around 60%. There are clearly limits, however, as to the amount of private capacity due to the nature of the risk, particularly with respect to Nuclear, Biological, Chemical, and Radiological (also known as NBCR) risks and other non-conventional exposures.

Even with no changes to TRIP, the financial responsibility of the private sector, which includes insurers and policyholders, will continue to increase while the federal government's share will continue to decrease based on a provision in current law. Historically this shift has occurred through a fixed dollar amount in the statute called the insurance marketplace aggregate retention amount (IMARA). Beginning in 2020, however, the IMARA will change from a fixed dollar amount per year to an indexed amount based on a three-year lagging average of commercial insurers' direct written premiums. The RAA predicts that the effect of this change will both accelerate and continuously increase the mandatory share of any cost of insured terrorism loss paid by the private sector each year for as long as TRIP is authorized. (For an illustration, please see attached chart). Because TRIP already contains this dynamic feature under current law, a clean, long-term reauthorization of TRIP means that terrorism insurance risk will continue to shift away from the federal government and taxpayers to the insurance industry and policyholders.

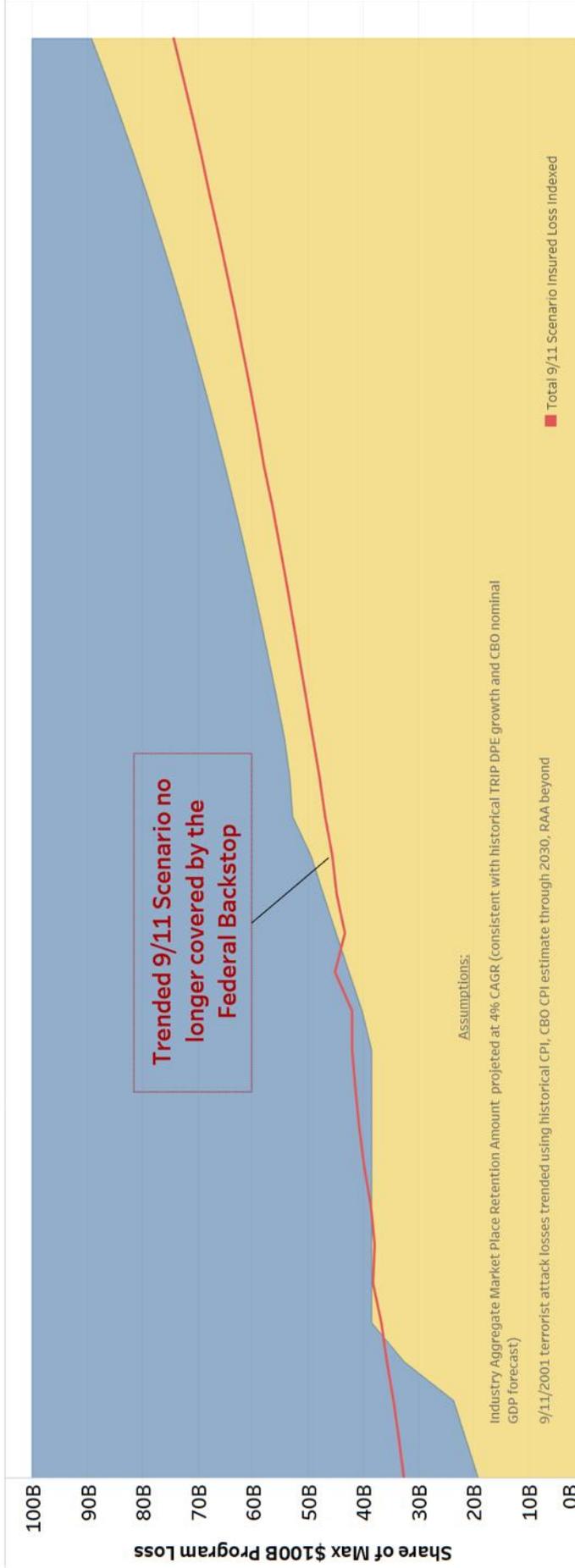
Even though we support long-term reauthorization with no changes, the RAA also supports ongoing oversight of TRIP by Congress. Potential terrorists adapt to a changing environment and

continually develop new methods and modes of inflicting terrorism. In addition, the market for terrorism risks, particularly non-conventional exposures such as NBCR and cyber, continues to evolve. However, these issues should neither interfere with nor delay reauthorization of this critical program or cause a lapse in coverage.

The RAA looks forward to working with you as you, your House Financial Services Committee colleagues, and other colleagues in Congress work to reauthorize the Terrorism Risk Insurance Program. Thank you, again, for the invitation to participate in today's hearing.

Terrorism Risk Insurance Program Projected Under Clean Reauthorization of Current Law

Market Segment
■ Federal Backstop
■ Industry Share (IMARA)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	
Industry Share (IMARA)	19%	21%	24%	33%	38%	38%	38%	38%	38%	38%	38%	38%	38%	40%	42%	45%	47%	49%	53%	54%	56%	57%	58%	60%	62%	63%	65%	67%	69%	71%	73%	75%	77%	79%	82%	84%	87%	89%	
Federal Backstop	81%	79%	77%	68%	62%	62%	62%	62%	62%	62%	62%	62%	62%	60%	58%	55%	53%	51%	47%	47%	46%	44%	43%	42%	40%	38%	37%	35%	33%	31%	29%	27%	25%	23%	21%	18%	16%	13%	11%