



Circular

MAY 29, 2008

ANNOUNCEMENT

AK-2008-08

Alaska—Item 04-AK-2008—Catastrophe Provisions Miscellaneous Values, Rules and Statistical Codes

ACTION NEEDED

Please review the changes outlined in the attachments to this circular for impact on your company's systems and procedures. Also review the *Status of Item Filings* circular for state approval of this item.

Caution: At the time of distribution of this circular, this item has been filed with the regulator but is **not yet approved**. This information is provided for your convenience and analysis. Please do not use the information until the regulators have approved the filing.

BACKGROUND

NCCI has submitted Item 04-AK-2008—Catastrophe Provisions Miscellaneous Values, Rules and Statistical Codes to the Department of Commerce, Community and Economic Development in Alaska. Item 04-AK-2008 proposes to eliminate the distinction between foreign and domestic terrorism nationally by:

- Producing separate miscellaneous values for the voluntary and assigned risk market to address losses resulting from “Terrorism” based on an updated terrorism model
- Withdrawing Alaska state rule exception Rule 3-A-24-c—Terrorism and replacing it with national Rule 3-A-24-c of NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance*
- Withdrawing state special Statistical Code 9752 and replacing it with national Statistical Code 9740

Additionally, this item will replace references of “Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents (DTEC)” with the term “Catastrophe (other than Certified Acts of Terrorism).”

IMPACT

The estimated impact in Alaska is shown in Exhibit 5.

NCCI ACTION

NCCI will release updated pages of NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance*, *URE Workers Compensation Statistical Plan*, and *Statistical Plan for Workers Compensation and Employers Liability Insurance* upon approval.

PERSON TO CONTACT

If you have any questions, please contact:
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FILING MEMORANDUM

ITEM 04-AK-2008—CATASTROPHE PROVISIONS MISCELLANEOUS VALUES, RULES AND STATISTICAL CODES

(To be effective 12:01 a.m. on September 1, 2008, applicable to new and renewal voluntary and assigned risk policies.)

PURPOSE

As a result of the recent passage of the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") by the United States Congress (Congress), this item eliminates the distinction between foreign and domestic terrorism nationally by:

- Producing separate miscellaneous values for the voluntary and assigned risk market to address losses resulting from "Terrorism" based on an updated terrorism model
- Withdrawing Alaska state rule exception, Rule 3-A-24-c—Terrorism, and replacing it with national Rule 3-A-24-c of NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance*
- Discontinuing state special Statistical Code 9752 and replacing it with national Statistical Code 9740

Additionally, this item will replace references of "Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents (DTEC)" with the term "Catastrophe (other than Certified Acts of Terrorism)."

BACKGROUND

Congress enacted the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") on December 26, 2007, which amends the definition of "act of terrorism" to include domestic terrorism. Due to the short time frame for compliance, NCCI filed Items 02-AK-2007 and 03-AK-2007 in response to TRIPRA to update the rule reference, disclosure requirements in the TRIA Disclosure Endorsement and the Terrorism Premium Endorsement, and statistical code labeling.

This filing now proposes that the terrorism miscellaneous value be revised based on a recent actuarial remodeling. Additionally, the Alaska state-specific disclosure endorsement along with the Alaska Terrorism Premium Endorsement are no longer needed and will be withdrawn and replaced with the single national endorsement containing the same information. Alaska state rule exceptions will be eliminated, and state special Statistical Code 9752 will also be withdrawn and replaced with national Statistical Code 9740.

Alaska did not adopt catastrophe provision Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents (DTEC) in 2004, and no new modeling of DTEC has occurred since that time. However, since NCCI is proposing a name change to the current catastrophe provision that will replace the catastrophe provision DTEC with "Catastrophe (other than Certified Acts of Terrorism)," this item proposes to change the term DTEC to Catastrophe (other than Certified Acts of Terrorism) as needed to reference that this catastrophe provision is not applicable in Alaska.

Catastrophe Modeling

Since there is a lack of historical data to support catastrophic loss estimates, NCCI has relied on catastrophe modeling for evaluating and estimating the risk associated with these exposures. In order to complete the modeling, NCCI contracted with EQECAT. Serving the global property and casualty industry, EQECAT is

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known as a technical leader and innovator in the development of analysis tools and methodologies to quantify insured exposure to natural and man-made catastrophic risk.

For this filing, EQECAT developed a revised model for NCCI. This model addresses the potential exposure to workers compensation for terrorism. The model is described in detail in the Appendix.

Terrorism

Exhibit 2 shows the selected terrorism loss costs excluding LAE for states modeled by EQECAT. The modeling exercise produces a range of loss costs per employee for the modeled states shown in Columns (2) and (3). The loss costs exclude loss adjustment expense. The indicated loss costs per employee for modeled states are based on the modeling approach described in the Appendix assuming a frequency of one terrorist event per year as the default. The results are scalable based on a different frequency assumption. A range of .25 to 3 terrorism events per year countrywide was used, based on input from EQECAT.

Two adjustments are necessary to convert this information to a loss cost per \$100 of payroll. First, an adjustment is made to recognize the impact of TRIPRA. This adjustment recognizes that individual company exposure to a certified event is limited. Depending on the state, NCCI's analysis has led to an indicated adjustment factor of 45% to 95% for this component. This adjustment factor is shown in Column (4). The analysis is based on the provisions of the Act, which allow for a recovery of 85% of the insurer's losses above an individual company retention of 20% of the prior year's direct earned premium for that company. The program trigger is \$100 million, and there is an annual program cap of \$100 billion in combined federal and industry-shared insured losses. For modeled states, NCCI looked at individual state loss distributions for terrorism and assessed the impact of the Act on a variety of attachment point and aggregate loss combinations. States whose aggregate expected losses are higher will expect a larger reduction in gross loss due to the Act. The second adjustment uses the state average weekly wage (Column (5)) to adjust the loss costs from a per-employee basis to a per-\$100 of payroll basis. The range of indicated loss costs are shown in Columns (6) and (7). Column (8) shows the selected loss costs for the modeled states.

Exhibit 3 shows the selected terrorism loss costs including LAE by state. NCCI uses a proxy state approach to apply the terrorism provisions to the remaining nonmodeled NCCI states.

The table of proxy states is shown below:

Modeled States	Proxy States
Arizona	Colorado, Idaho, Louisiana, Montana, Nevada, Oregon, Rhode Island, Utah
Illinois	Maryland, Virginia

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Iowa	Alabama, Alaska, Arkansas, Connecticut, Hawaii, Kansas, Kentucky, Maine, Mississippi, Missouri, Nebraska, New Hampshire, New Mexico, Oklahoma, South Carolina, South Dakota, Tennessee, Vermont, West Virginia
District of Columbia, Florida, Georgia, Indiana	None

Loss-based expenses by state are shown in Column (4). The final terrorism loss costs including LAE by state are shown in Column (5).

Exhibit 4 shows the final voluntary and assigned risk rates by state. Where applicable, the terrorism loss costs excluding loss adjustment expense by state have been divided by the permissible loss ratio (PLR) in order to reflect expenses, including loss adjustment expense.

Exhibit 5 shows the estimated impact of the proposed changes in terrorism provisions by state on both a percentage and a dollar amount basis.

PROPOSAL

It is proposed that:

- The updated miscellaneous values for terrorism in the voluntary and assigned risk markets be adopted
- The references of “Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents (DTEC)” be changed to “Catastrophe (other than Certified Acts of Terrorism)” in Alaska state rule exception, Rule 3-A-24-b, located in NCCI’s *Basic Manual*
- Alaska state rule exception, Rule 3-A-24-c—Terrorism be eliminated and replaced with national Rule 3-A-24-c, located in NCCI’s *Basic Manual*
- State special Statistical Code 9752 be discontinued and replaced with national Statistical Code 9740

Additionally, this item is being filed in conjunction with Item 03-AK-2008—Terrorism Forms, which proposes that, effective September 1, 2008, Alaska forms WC 54 01 01 and WC 54 04 05 be withdrawn and replaced with single national form WC 00 04 22 A. This item and Item 03-AK-2008 should be adopted concurrently.

IMPACT

The estimated impact in Alaska is shown in Exhibit 5.

IMPLEMENTATION

The attached table of contents outlines the exhibits that reflect the necessary changes.

Additionally, Alaska has not yet approved Item U-1397—Statistical Plan for Workers Compensation and Employers Liability Insurance. Therefore, Exhibits 8-A, 8-B, and 9 provide the changes needed for the **URE**

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Statistical Plan, while the recently filed NCCI *Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)* (Item U-1397) is pending approval. Upon approval of this item and Item U-1397, the modifications to Statistical Codes 9740 and 9752 will be implemented in NCCI's *Statistical Plan*.

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ITEM 04-AK-2008—CATASTROPHE PROVISIONS MISCELLANEOUS VALUES, RULES AND STATISTICAL CODES

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**APPENDIX
DESCRIPTION OF EQECAT CATASTROPHE MODELS****Introduction**

An updated EQECAT model was developed to provide estimates of the risks to workers compensation insurers due to terrorism events. This model is described below.

TERRORISM**1. Exposure**

The location, number, and types of employees are needed to characterize the risk exposures to terrorism events. Business information and Bureau of Labor Statistics databases were used to obtain the addresses of businesses and the estimated number of employees assigned to each location. With more than 100 million workers nationwide at over 10 million businesses, it was necessary to aggregate the exposure. For this model, the exposure was aggregated to the census block level (typically a city block). This aggregation level was suitable for the terrorist events that span hundreds of meters.

The number of workers in each block was prorated to approximately account for part-time workers, workers absent for various reasons, and the self-employed. The workers in each census block were grouped into five NCCI industry groupings: Goods & Services, Office & Clerical, Manufacturing, Construction, and All Others. Certain government classifications not covered by workers compensation were excluded.

2. Weapons Selection

Specific weapons were selected from the range of known or hypothesized terrorist weapons. The selection process considered weapons that have been previously employed, weapons that could cause large numbers of casualties, or weapons that would be more readily available. In some cases a "likely" or "practical" weapons size (or quantity of agent) was selected; in other cases, a range of weapons sizes was selected, in part, to reflect standard quantities that might be available. The selected weapons and their sizes are described below.

Blast/Explosion

- Conventional explosives—400 lb / 4,000 lb / 12,000 lb TNT
- Nuclear bomb—1 kiloton and 10 kiloton
- Aircraft impact—large passenger airline

Chemical

- Chlorine—15-ton truck, 90-ton railcar
- Anhydrous ammonia—15-ton truck, 90-ton railcar
- Hydrogen cyanide—50 gallons
- Sarin—1 gallon
- Mustard gas—50 gallons

Biological

- Anthrax—1 oz inside building, 1 oz outside building, 10 oz mobile dispersion
- Botulism Toxin—1 oz inside building

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Radiological

- Nuclear power plant radioactive release due to sabotage—10% of core radioactivity
- Dirty bomb—10,000 curies

The effects of each type of weapon will vary with the size of the weapon, with atmospheric conditions, and in some cases with local terrain. If detailed knowledge is available, a correspondingly detailed simulation of the effects is possible but would be time consuming to perform. In a large-scale nationwide analysis with millions of simulated events, where local atmospheric and terrain are only generally known, a simpler more generalized simulation is necessary. The simplifications necessary to efficiently model footprints of weapons effects are described below.

For conventional blast loading, blast simulation software is used to estimate casualties in various urban settings where the geometry and height of the buildings is varied. The results of these detailed simulations are used to develop simplified blast attenuation functions that vary with distance and with the general terrain. For conventional blast loading, the footprint is defined as a decreasing function of distance from the source of the blast.

The casualties for nuclear blast can be estimated on the basis of empirical data resulting from wartime and nuclear test experience. Casualties are assumed to be a function of distance from ground zero with the source located either at ground level or at a relatively low altitude. A simplified, conservative casualty footprint was created to encompass the range of conditions that could exist. Long-term radiation effects are not considered.

The casualty effects for aircraft impact are very much dependent upon the details of the event, so much so that only a simple, conservative footprint can be employed. A simplifying assumption is made that the extent of the footprint is a function of the height of the building.

For chemical, biological, and radiological agent releases, a plume is formed that is influenced by atmospheric conditions and by the terrain. The footprint of the cumulative dose that is deposited by a plume over time was calculated using the simulation software, MIDAS-AT (Meteorological Information and Dispersion Assessment System—Anti-Terrorism™). Terrain conditions were assumed to be “rough” to conservatively approximate a general urban terrain, and the wind direction was assumed to be unchanging. The plume footprint was calculated for low, medium, and high wind speeds and for three different atmospheric turbulence conditions. Any of the footprints could then be oriented in each of eight compass directions. Most of the footprints were truncated after an elapsed time of about two hours to account for successful evacuation.

3. Targets

A target is the location of a terrorist attack and, in the model, represents the locus of a casualty footprint. An inventory of targets is created by selecting locations with the following characteristics:

- Tall buildings—10 stories and higher
- Government buildings—with large number of employees or of a critical or sensitive nature (e.g., FBI office)
- Airports—major
- Ports—major
- Military bases—US armed forces
- Prominent locations—capitol buildings, major amusement parks, etc.
- Nuclear power plants—operational
- Railroads, railroad yards and stations—freight lines for railroad cars carrying chemicals
- Chemical facilities—emphasizes those with chlorine and ammonia on site

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Nuclear power plants and chemical facilities receive only specific casualty footprints. Other locations are assigned more than one type of terrorist weapon.

Some footprints have no specific target but are distributed at regular intervals throughout the urban area. This spreads out the effect to a larger population in the urban area.

Mobile release anthrax is not located at any target but located in the general downtown area in major metropolitan areas.

4. Frequency of Attack

The relative likelihood of a type of attack occurring at a target location is represented by an assigned (annual) frequency. The significance of an attack's frequency is in its relationship to other attacks. Attack frequency is based on the following considerations:

- Availability of weapon
- Attractiveness of target
- Relative attractiveness of the region to other regions based on various theories

For footprints that are atmospheric releases of chemical, biological, and radiological agents, wind direction affects the assigned frequency. The frequency for each wind direction is weighted by the likelihood of the wind blowing in that direction based on historical wind speed and direction measurements for the region.

Nationwide results assume that there is, on average, one terrorist event per year. If a higher or lower degree of threat is perceived, results can be scaled assuming that all areas scale proportionately with the change in frequency.

5. Analysis Methodology

The analysis methodology applies a casualty footprint to an assigned target and then calculates the extent of casualties to the covered workers within the footprint. For chemical, biological, and radiological footprints, the dose to each employee is calculated and a conversion is made to the degree or category of injury. Degree of injury is then converted to loss based upon the average costs by injury category provided by NCCI. The average costs provided vary by state.

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**EXHIBIT 1-A
BASIC MANUAL
MISCELLANEOUS VALUES PAGES
APPLICABLE TO VOLUNTARY POLICIES**

Terrorism See below:

State	Current Loss Cost	Proposed Loss Cost	Current Rate	Proposed Rate
Alaska	0.02	0.01	N/A	N/A

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**EXHIBIT 1-B
BASIC MANUAL
MISCELLANEOUS VALUES PAGES
APPLICABLE TO ASSIGNED RISK POLICIES**

Terrorism See below:

State	Current Assigned Risk Rate	Proposed Assigned Risk Rate
Alaska	0.03	0.02

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**EXHIBIT 2
TERRORISM LOSS COSTS FOR STATES MODELED BY EQECAT**

State (1)	Loss Cost per Employee (exc. LAE) Lower Range* (2)	Loss Cost per Employee (exc. LAE) Upper Range* (3)	Estimated Impact of TRIPRA** (4)	State Average Weekly Wage*** (5)	Loss Cost per \$100 of payroll (exc. LAE) Lower Range (6) ¹	Loss Cost per \$100 of payroll (exc. LAE) Upper Range (7) ²	Selected Loss Cost (exc. LAE) (8)
Arizona	1.19	14.30	55%	731.68	0.002	0.021	0.01
DC	45.80	549.57	60%	951.91	0.056	0.666	0.04
Florida	0.59	7.12	85%	723.52	0.001	0.016	0.01
Georgia	0.79	9.50	80%	750.27	0.002	0.019	0.01
Illinois	4.29	51.46	45%	772.23	0.005	0.058	0.03
Indiana	0.31	3.75	95%	707.18	0.001	0.010	0.01
Iowa	0.63	7.57	90%	667.50	0.002	0.020	0.01

* Source: Loss cost information developed by EQECAT for terrorism events

** This adjustment reflects the impact of TRIPRA relative to terrorism events

*** 2007 US Bureau of Labor Statistics, Current Population Survey

¹ Column (6) = (2) x (4) / ((5) x 52 / 100)

² Column (7) = (3) x (4) / ((5) x 52 / 100)

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**EXHIBIT 3
TERRORISM LOSS COSTS INCLUDING LAE BY STATE**

State	Proxy State	Selected Terrorism Loss Cost (exc. LAE)	Loss-Based Expense Factor	Terrorism Loss Cost (inc. LAE)
(1)	(2)	(3)	(4)	(5) = (3) x (4)
Alaska	Iowa	0.01	1.186	0.01

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**EXHIBIT 4
TERRORISM VOLUNTARY AND ASSIGNED RISK RATES BY STATE**

State	Selected Terrorism Voluntary Loss Cost (exc. LAE)	Voluntary PLR	Selected Terrorism Voluntary Rate	Assigned Risk PLR	Selected Terrorism Assigned Risk Rate
(1)	(2)	(3)	(4) = (2) / (3)	(5)	(6) = (2) / (5)
Alaska	0.01	N/A	N/A	0.6007	0.02

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**EXHIBIT 5
ESTIMATED IMPACT OF CHANGES IN TERRORISM PROVISIONS BY STATE**

State	Current Terrorism Loss Cost (exc. LAE)	Proposed Terrorism Loss Cost (exc. LAE)	Proposed Change in Terrorism Loss Cost (exc. LAE)	Avg. Non- Terrorism Loss Cost (exc. LAE)	Percentage Impact of Terrorism Loss Cost	CY 2006 WC Written Premium (\$ 000)	Estimated Premium Impact (\$ 000)
(1)	(2)	(3)	(4)	(5)	(6) = (4) / (5)	(7)	(8) = (6) x (7)
Alaska	0.02	0.01	-0.01	2.76	-0.4%	345,202	(1,251)

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**EXHIBIT 6
BASIC MANUAL—2001 EDITION
RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS
A. EXPLANATION AND APPLICATION**

24. Catastrophe Provisions

c. Terrorism

Premium for Terrorism is calculated on the basis of total payroll according to Rule 2. A risk's total payroll in each state is divided by units of \$100 and multiplied by the appropriate value found in the state pages. The calculation is expressed as $(\text{Payroll}/100 \times \text{Terrorism Value} = \text{Premium})$. This premium is applied after standard premium and is not subject to any other modifications including, but not limited to, premium discount, experience rating, schedule rating, or retrospective rating.

Unless an "If Any" policy develops premium during the policy term or at audit, policies issued on an "If Any" basis will not be charged this premium.

Per capita charges are not subject to premium under this Act.

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EXHIBIT 7
BASIC MANUAL—2001 EDITION
ALASKA STATE RULE EXCEPTIONS
RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS
A. EXPLANATION AND APPLICATION

24. Catastrophe Provisions

b. Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents (DTEC) **Catastrophe (other than Certified Acts of Terrorism)**

Rule 3-A-24-b does not apply in Alaska.

c. Terrorism

~~Change Rule 3 A 24 c as follows:-~~

~~Premium for Terrorism is calculated on the basis of total payroll according to Rule 2. A risk's total payroll in each state is divided by units of \$100 and multiplied by the appropriate value found in the state pages. The calculation is expressed as (Payroll/100 x Terrorism Value = Premium). This premium is applied after standard premium and is not subject to any other modifications including, but not limited to, premium discount, experience rating, schedule rating, or retrospective rating.~~

~~Unless an "If Any" policy develops premium during the policy term or at audit, policies issued on an "If Any" basis will not be charged this premium.~~

~~Per capita charges are not subject to premium under this Act.~~

~~Expense constants are not subject to premium under this Act.~~

~~Premium developed under this act is not included in standard premium.~~

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**EXHIBIT 8-A
URE WORKERS COMPENSATION STATISTICAL PLAN
PART 7—CODING SPECIFICATIONS**

9. STATISTICAL CODES—PREMIUM AMOUNT NOT SUBJECT TO EXPERIENCE MODIFICATION FACTOR

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States	Effective Date	Discontinuation Date
Terrorism—Not Subject to Experience Rating	9752	+	FL, HI, MO, NM	01/01/08	08/31/08
			AK	01/07/08	08/31/08

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**EXHIBIT 8-B
URE WORKERS COMPENSATION STATISTICAL PLAN
PART 7—CODING SPECIFICATIONS**

9. STATISTICAL CODES—PREMIUM AMOUNT NOT SUBJECT TO EXPERIENCE MODIFICATION FACTOR

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States	Effective Date	Discontinuation Date
Catastrophe Provisions for Terrorism—Not Part of Standard Premium	9740	+	All States	09/01/08	

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**EXHIBIT 9
URE WORKERS COMPENSATION STATISTICAL PLAN
PART 3—EXPOSURE INFORMATION****14. STATISTICAL CODES—PREMIUM AMOUNT NOT SUBJECT TO EXPERIENCE MODIFICATION FACTOR**

Report the premium credit or debit amount not subject to experience modifications. These premiums should be reported separately from class code exposures and premiums under the designated class code or statistical code. These premiums are generated from the following premium programs or coverages:

- Catastrophe Provisions for ~~Domestic Terrorism, Earthquakes, and Industrial Accidents~~ Catastrophe (other than Certified Acts of Terrorism)
- Catastrophe Provisions for ~~Foreign~~ Terrorism

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EXHIBIT 10-A
STATISTICAL PLAN—2008 EDITION
PART 6—CODING VALUES
H. STATISTICAL CODES
 Pending Approval of Item U-1397 in Alaska

3. PREMIUM AMOUNT NOT PART OF STANDARD PREMIUM

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States	Effective Date	Discontinuation Date
Terrorism—Not Subject to Experience Rating	9752	+	FL, HI, MO, NM	01/01/08	08/31/08
			AK	01/07/08	08/31/08

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**EXHIBIT 10-B
 STATISTICAL PLAN—2008 EDITION
 PART 6—CODING VALUES
 H. STATISTICAL CODES
 Pending Approval of Item U-1397 in Alaska**

3. PREMIUM AMOUNT NOT PART OF STANDARD PREMIUM

Description	Stat Code	Premium Credit (-) or Debit (+)	Applicable States	Effective Date	Discontinuation Date
Catastrophe Provisions for Terrorism—Not Part of Standard Premium	9740	+	All States	09/01/08	