



# Circular

DECEMBER 28, 2007

ANNOUNCEMENT

VA-2007-11

## Virginia—Item 05-VA-2007—Terrorism Risk Insurance Program Reauthorization Act of 2007

### ACTION NEEDED

Please review the changes outlined in the attachments for their 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 regulator has approved the filing.

### BACKGROUND

The Terrorism Risk Insurance Act of 2002 ("TRIA" or the "Act") was implemented as a result of the Congress recognizing that terrorism is a catastrophe exposure that is real and significant for insurers of workers compensation and other lines of insurance. Items B-1383, B-1398, and P-1392 were subsequently filed to implement the Terrorism Risk Insurance Act of 2002, and to provide miscellaneous values for foreign terrorism.

TRIA was scheduled to expire on December 31, 2005. Prior to the expiration of that Act, Congress passed the Terrorism Risk Insurance Extension Act of 2005 ("TRIEA"), which is scheduled to expire on December 31, 2007. Item 04-VA-2005 was subsequently filed to implement the disclosure requirements of the Terrorism Risk Insurance Extension Act of 2005.

Recognizing that terrorism is a catastrophe exposure that continues to be significant for insurers of workers compensation and other lines of insurance, Congress has now enacted TRIPRA, which makes several amendments to the Act including:

- Amending the definition of "act of terrorism" to remove "acting on behalf of any foreign person or foreign interest"
- Extending the Act to December 31, 2014

### IMPACT

There is no change in premium as a result of this item.

### NCCI ACTION

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

### PERSON TO CONTACT

If you have any questions, please contact:  
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## FILING MEMORANDUM

### ITEM 05-VA-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

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(To become effective for policies effective on and after 12:01 a.m. on January 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 makes the following changes:

- Removes the December 31, 2005 expiration date from Virginia State Rule Exception 3-A-24-a of NCCI's **Basic Manual for Workers Compensation and Employers Liability Insurance**
- Establishes a statistical code for reporting premium collected under the terrorism catastrophe provision in Virginia

#### BACKGROUND

The Terrorism Risk Insurance Act of 2002 ("TRIA" or the "Act") was implemented as a result of the Congress recognizing that terrorism is a catastrophe exposure that is real and significant for insurers of workers compensation and other lines of insurance. Items B-1383, B-1398, and P-1392 were subsequently filed to implement the Terrorism Risk Insurance Act of 2002, and to provide miscellaneous values for foreign terrorism.

TRIA was scheduled to expire on December 31, 2005. Prior to the expiration of that Act, Congress passed the Terrorism Risk Insurance Extension Act of 2005 ("TRIEA"), which is scheduled to expire on December 31, 2007. Item 04-VA-2005 was subsequently filed to implement the disclosure requirements of the Terrorism Risk Insurance Extension Act of 2005.

Recognizing that terrorism is a catastrophe exposure that continues to be significant for insurers of workers compensation and other lines of insurance, Congress has now enacted TRIPRA, which makes several amendments to the Act including:

- Amending the definition of "act of terrorism" to remove "acting on behalf of any foreign person or foreign interest"
- Extending the Act to December 31, 2014

#### PROPOSAL

This item updates the following to reflect the new requirements of TRIPRA:

- Virginia State Rule Exception 3-A-24 located in NCCI's **Basic Manual**
- Virginia Workers Compensation Premium Algorithms located on the Virginia Miscellaneous Rules and Virginia Miscellaneous Rules—Applicable to Assigned Risk Policies Only pages of NCCI's **Basic Manual**
- Miscellaneous Values Pages located in NCCI's **Basic Manual**
- Virginia State Exception Part One-II-E located in NCCI's **Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance**

This item also establishes a statistical code in Virginia to be used for reporting the premium for the terrorism catastrophe provision, which will be located in NCCI's **Virginia Workers Compensation Statistical Plan**.

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## FILING MEMORANDUM

### ITEM 05-VA-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

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Additionally, this item is being filed in conjunction with Item 06-VA-2007—Revision to the Virginia Terrorism Risk Insurance Extension Act Endorsement, which proposes that effective January 1, 2008, the Virginia Terrorism Risk Insurance Extension Act Endorsement (WC 45 04 01) be revised to address the new provisions in TRIPRA. This item and 06-VA-2007 should be adopted concurrently.

#### IMPACT

There is no change in premium as a result of this item.

#### IMPLEMENTATION

The attached exhibits outline the changes necessary:

- **Exhibits 1–5** show the changes required in NCCI's *Basic Manual*
- **Exhibit 6** shows the changes required in NCCI's *Retrospective Rating Plan Manual*
- **Exhibit 7** shows the changes required in NCCI's *Virginia Workers Compensation Statistical Plan*

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**EXHIBIT 1**  
**BASIC MANUAL—2001 EDITION**  
**RULE 3—RATING DEFINITIONS AND APPLICATION OF PREMIUM ELEMENTS**  
**A. EXPLANATION AND APPLICATION**

**24. Terrorism Risk Insurance Act of 2002 as amended and extended by the Terrorism Risk Insurance Extension Act of 2005 and any amendments thereto enacted by Congress**

Premium for the Terrorism Risk Insurance Act of 2002 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 Terrorism Rate found in the state pages. The calculation is expressed as (Payroll/100 x Terrorism Rate = 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 and "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.

a. Terrorism Risk Insurance Act (TRIA) of 2002

This provision ~~expires effective December 31, 2005~~ expires upon the expiration of TRIA or any amendments thereto enacted by Congress.

Rule 3-A-24-a does not apply in Virginia, but is replaced by Rule 3-A-24 as shown in these Virginia state exception pages of the **Basic Manual for Workers Compensation and Employers Liability Insurance**.

b. Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents (DTEC)

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

c. Foreign Terrorism

Rule 3-A-24-c does not apply in Virginia.

ITEM 05-VA-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

**EXHIBIT 2  
BASIC MANUAL—2001 EDITION  
MISCELLANEOUS RULES**

**VIRGINIA WORKERS COMPENSATION PREMIUM ALGORITHM**

The following algorithm provides the framework for premium charges and credits. Where not specified, the premium base would be the result from the prior line.\*

	<b>PREMIUM ELEMENTS</b>	<b>EXPLANATORY NOTES</b>
	<b>MANUAL PREMIUM</b>	[(PAYROLL / 100) * RATE]
+	Supplementary Disease (foundry, abrasive, sandblasting)	[(SUBJECT PAYROLL / 100) * DISEASE RATE]
+	USL&H Exposure for non-F classification codes	[(SUBJECT PAYROLL / 100) * (RATE * USL&H FACTOR)]
	<b>TOTAL MANUAL PREMIUM</b>	
+	Waiver of Subrogation factor**	[% applied to the portion of Total Manual Premium where waiver is applicable]
+	Employers Liability (E/L) increased limits factor	[% applied to Total Manual Premium]
+	Employers Liability increased limits charge	[Balance to E/L increased limits minimum premium]
+	Employers Liability increased limits factor (Admiralty, FELA)	[Factor applied to the portion of Manual Premium where Admiralty/FELA coverage is applicable]
+	Employers Liability/Voluntary Compensation flat charge	[Coverage in Monopolistic State Funds]
-	Small Deductible credit	[% applied to Total Manual Premium]
+	Aircraft Seat Surcharge	
	<b>TOTAL SUBJECT PREMIUM</b>	
x	Experience Modification (Exp Mod)	
	<b>TOTAL MODIFIED PREMIUM</b>	
x	Schedule Rating Factor	[(1 - SR Credit %) or (1 + SR debit %)]
x	Contracting Class Prem Adj Program Factor	[1 - CCPAP credit %]
+	Supplemental Disease Exposure (Asbestos, NOC) <sup>†</sup>	
+	Atomic Energy Radiation Exposure NOC <sup>†</sup>	
+	Charge for nonratable catastrophe loading <sup>†</sup>	
+	Balance to Minimum Premium (State Act)	[Balance to minimum premium at Standard Limits]
+	Balance to Minimum Premium (Admiralty, FELA)	
	<b>TOTAL STANDARD PREMIUM <sup>‡</sup></b>	
-	Premium Discount <sup>§</sup>	[% applied to Standard Premium]
+	Coal Mine Disease Charge	[Underground, surface, surface auger]
+	Expense Constant	

\* The above rating method would be used in absence of independent carrier filings.

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EXHIBIT 2 (CONT'D)  
 BASIC MANUAL—2001 EDITION  
 MISCELLANEOUS RULES

	PREMIUM ELEMENTS	EXPLANATORY NOTES
+	TRIA of 2002—Certified Losses <del>as amended and extended by the Terrorism Risk Insurance Extension Act of 2005</del> and any amendments thereto enacted by Congress	[(PAYROLL / 100) * TERRORISM RATE]
	<b>ESTIMATED ANNUAL PREMIUM</b>	

\*\* Premium charges established for Waiver of Subrogation are not filed by NCCI for the voluntary market.

† Nonratable Element Premiums generated by nonratable portion of manual rate are subject to all applicable premium elements applied to the policy, however, not subject to experience rating or retrospective rating.

‡ Statistical calls for ratemaking data contain a different definition of "Standard Premium." Refer to *Reporting Guidebook for the Annual Calls for Experience*.

§ For policies subject to premium adjustments under a retrospective rating plan, premium discount does not apply.

NOC =Not Otherwise Classified.

**Note:** For short rate cancellations, short rate percentage/short rate penalty premium factor is subject to experience rating, included in Total Subject Premium, and applied prior to Experience Modification.

**ITEM 05-VA-2007—TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007**

**EXHIBIT 3  
BASIC MANUAL—2001 EDITION  
MISCELLANEOUS RULES—APPLICABLE TO ASSIGNED RISK POLICIES ONLY**

**VIRGINIA ASSIGNED RISK WORKERS COMPENSATION PREMIUM ALGORITHM**

The following algorithm provides the framework for premium charges and credits. Where not specified, the premium base would be the result from the prior line.

	<b>PREMIUM ELEMENTS</b>	<b>EXPLANATORY NOTES</b>
	<b>MANUAL PREMIUM</b>	[(PAYROLL / 100) * RATE]
+	Supplementary Disease (foundry, abrasive, sandblasting)	[(SUBJECT PAYROLL / 100) * DISEASE RATE]
+	USL&H Exposure for non-F classification codes	[(SUBJECT PAYROLL / 100) * (RATE * USL&H FACTOR)]
	<b>TOTAL MANUAL PREMIUM</b>	
+	Waiver of Subrogation factor	[% applied to the portion of Total Manual Premium where waiver is applicable, subject to minimum charge]
+	Employers Liability (E/L) increased limits factor	[% applied to Total Manual Premium]
+	Employers Liability increased limits charge	[Balance to E/L increased limits minimum premium]
+	Employers Liability increased limits factor (Admiralty, FELA)	[Factor applied to the portion of Manual Premium where Admiralty/FELA coverage is applicable]
+	Employers Liability/Voluntary Compensation flat charge	[Coverage in Monopolistic State Funds]
+	Aircraft Seat Surcharge	
	<b>TOTAL SUBJECT PREMIUM</b>	
X	Drug-Free Workplace Factor (1 – DFW credit)	
X	Experience Modification (Exp Mod)	
	<b>TOTAL MODIFIED PREMIUM</b>	
X	Assigned Risk Adjustment Program (ARAP) Surcharge	
X	Virginia Contracting Classification Premium Adjustment Program factor (1 – CCPAP credit %)	
+	Supplemental Disease Exposure (Asbestos, NOC) <sup>†</sup>	
+	Atomic Energy Radiation Exposure NOC <sup>†</sup>	
+	Charge for nonratable catastrophe loading <sup>†</sup>	
+	Balance to Minimum Premium (State Act)	[Balance to minimum premium at Standard Limits]
+	Balance to Minimum Premium (Admiralty, FELA)	
	<b>TOTAL STANDARD PREMIUM</b> ‡	
+	Coal Mine Disease Charge	[Underground, surface, surface auger]
+	Expense Constant	
+	TRIA of 2002—Certified Losses <del>as amended and extended by the Terrorism Risk Insurance Extension Act of 2005</del> and any amendments thereto enacted by Congress	[(PAYROLL / 100) * TERRORISM RATE]

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EXHIBIT 3 (CONT'D)  
BASIC MANUAL—2001 EDITION  
MISCELLANEOUS RULES—APPLICABLE TO ASSIGNED RISK POLICIES ONLY

	PREMIUM ELEMENTS	EXPLANATORY NOTES
	<i>ESTIMATED ANNUAL PREMIUM</i>	

† Nonratable Element Premiums generated by nonratable portion of manual rate are subject to all applicable premium elements applied to the policy, however, not subject to experience rating or retrospective rating.

‡ Statistical calls for ratemaking data contain a different definition of "Standard Premium." Refer to *Reporting Guidebook for the Annual Calls for Experience*.

NOC = Not Otherwise Classified.

**Note:** For short rate cancellations, short rate percentage/short rate penalty premium factor is subject to experience rating, included in Total Subject Premium, and applied prior to Experience Modification.



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EXHIBIT 4  
BASIC MANUAL  
VIRGINIA  
MISCELLANEOUS VALUES PAGES  
ADVISORY LOSS COST PAGES

~~9740~~ ~~9752~~ Terrorism Risk Insurance Act-Certified Losses (The Statistical Code ~~9740~~ ~~9752~~ has been established for the reporting of premium associated with this terrorism loss cost).

**Terrorism Risk Insurance Act** -Certified Losses (Advisory Loss Cost).....0.03  
(The Statistical Code ~~9740~~ ~~9752~~ has been established for the reporting of premium associated with this terrorism loss cost.)

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EXHIBIT 5  
BASIC MANUAL  
VIRGINIA  
MISCELLANEOUS VALUES PAGES  
ASSIGNED RISK RATE PAGES

9740 9752 Terrorism Risk Insurance Act-Certified Losses (The Statistical Code 9740 9752 has been established for the reporting of premium associated with this terrorism rate).

**Terrorism Risk Insurance Act** -Certified Losses (Assigned Risk)..... 0.04  
(The Statistical Code 9740 9752 has been established for the reporting of premium associated with this terrorism rate.)

**EXHIBIT 6**  
**RETROSPECTIVE RATING PLAN MANUAL**  
**VIRGINIA STATE RULE EXCEPTIONS**  
**PART ONE—DESCRIPTION OF THE PLAN**  
**II. DEFINITIONS**

**E. Standard Premium**

Change Part One-II-E-6 as follows:

6. Premium Developed By The Terrorism Risk Insurance Act of 2002—~~as amended and extended by the Terrorism Risk Insurance Extension Act of 2005~~ and any amendments thereto enacted by Congress

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**EXHIBIT 7  
VIRGINIA WORKERS COMPENSATION STATISTICAL PLAN**

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

<b>Description</b>	<b>Stat Code</b>	<b>Premium Credit (-) or Debit (+)</b>	<b>Applicable States</b>	<b>Effective Date</b>	<b>Discontinuation Date</b>
Virginia Terrorism Risk Insurance Extension Act of 2005	9740	+	VA	Voluntary 12/20/02 Assigned Risk 1/1/03	12/31/07
Terrorism—Not Subject to Experience Rating	9752	+	VA	1/1/08	