

## FAQs Related to Item B-1407 and Item P-1406—June 2008

1. What is the premium base for the terrorism charge? Also, is it a flat charge for all carriers or does it fluctuate? It seems that different carriers charge different rates for the exposure.

**Response:** The premium base for the terrorism charge is per \$100 of payroll. The charge could vary by state and by carrier. NCCI files advisory miscellaneous values for terrorism. However, carriers may file to make their own adjustment to the charges filed by NCCI and should check state regulatory requirements before making such a filing.

2. Is there a listing of the states where it is mandatory to have the terrorism charge on the policy?

**Response:** No. By statute, terrorism coverage can't be excluded from workers compensation insurance policies. However, NCCI's loss costs and manual rates do not contemplate catastrophic terrorism losses. As a result, NCCI filed with state regulators the separate charges (i.e., miscellaneous values) provided in B-1407 and P-1406 for such terrorism exposure to, among other things, meet the federal requirements for premium disclosure.

NCCI submits its filings to state regulators on behalf of all of its affiliated carriers in a given state, and carriers choose whether to adopt the NCCI filing. If a carrier does not adopt the NCCI filing, then the terrorism charge provided in B-1407 and P-1406 is not mandatory. Alternatively, if a carrier adopts the NCCI filing, then the carrier may be required to implement the approved terrorism charges on the filings' effective date.

Note: A carrier's decision not to adopt the NCCI filing and/or to impose a terrorism charge does not impact its disclosure requirements under the Act.

3. What is the purpose of changing Statistical Code 9752 to 9740?

**Response:** Item B-1407 eliminates the distinction between foreign and domestic terrorism in NCCI's rules, miscellaneous values, and statistical codes. All terrorism premium collected (both foreign and domestic) will be reported to Code 9740. As a result, Code 9752 (applicable in only six states) will no longer be needed because the premium associated with Code 9752 can now be reported to Code 9740.

4. Form WC 00 04 21 C defines a catastrophic industrial accident as a chemical release, large explosion, or small blast that is localized in nature and affects workers in a small perimeter the size of a building. I don't understand what is being said by "in a small perimeter the size of a building." Please explain.

**Response:** In order to develop the miscellaneous values for the catastrophe provisions, NCCI relied on a study completed by EQECAT, a catastrophe modeling company.

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EQECAT developed a model to quantify the potential workers compensation exposure to catastrophic industrial accidents. The types of facilities considered in this modeling included refineries, chemical plants, water utilities, power utilities, and other manufacturing plants.

Three accident types were considered in the Industrial Accidents modeling: chemical releases, large explosions, and all other accidents. While all types of facilities previously described could experience any of the accident types, the “all other accidents” category encompassed industrial accidents such as fires, explosions, confined space accidents, and other types of random accidents that are localized in nature and affect workers in a small perimeter, the size of a building. Generally, the impact of these smaller types of accidents would not extend beyond the plant or building boundaries, while the impact of chemical releases and large explosions could reach well beyond the plant or building boundaries.

5. The Definition of “Catastrophic Industrial Accident” (CIA) appears to be more restrictive than the original definition. Originally, the definition was broad, being described as “any single event other than an act of terrorism or an earthquake resulting in workers compensation losses in excess of \$50 million.” Now, it is restricted to “[a] chemical release, large explosion, or small blast that is localized in nature and affects workers in a small perimeter the size of a building.” What was the reason for restricting CIA?

**Response:** The definition was changed to better reflect the Industrial Accident model developed by EQECAT, on which the rates were based. Notwithstanding, other types of catastrophes will continue to be covered under the workers compensation policy.

6. Why wasn't long-term exposure to radiation considered in the catastrophe provisions?

**Response:** Estimating the effects and the cost of long-term exposure to radiation is beyond the scope of the EQECAT model. Currently, there are not enough documented studies on the topic to build a credible model to determine rates. However, claims of this nature would not be excluded from coverage.

7. Is the calculated terrorism charge impacted by large deductible rating plans?

**Response:** Yes, large deductible filings are individual carrier filings and are subject to the rating plan filed by the carrier with the individual state regulators. However, it should be noted that the premium algorithm indicates that the terrorism charge is  $\text{Payroll} / \$100 \times \text{Terrorism Rate}$ . Therefore, if carriers are using the NCCI-filed premium algorithm as the basis for their large deductible filings, the large deductible credit would have no bearing on the calculation of the terrorism charge because the terrorism charge is a function of policy payroll and not net premium.

8. Does a carrier need to remit the amount of terrorism charge collected to any federal agency?

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**Response:** No. A carrier doesn't need to remit the amount of terrorism premium collected to a federal agency.

9. Did the premiums used in the calculation of the catastrophe provisions' miscellaneous values consist of workers compensation only or all commercial lines?

**Response:** Premium was not used in the derivation of either the Terrorism or Catastrophe (other than Certified Acts of Terrorism) provisions. Both provisions were based on the average cost per \$100 of payroll. The only place that premium was used in Item B-1407 was to estimate the overall impact on workers compensation premium by state (Exhibits 6 and 11). In these exhibits, the latest available Calendar Year Workers Compensation Direct Written Premium by state was used from the Annual Statement.

10. How do the changes filed in Items B-1407 and P-1406 affect insureds in the middle of a policy term?

**Response:** The changes are effective September 1, 2008 for new and renewal policies. An in-force policy will not be impacted until the policy renewal date subsequent to September 1, 2008. (Please note that the filed and approved anniversary rating date (ARD) rules apply. In the vast majority of cases, the policy effective date is the same as the anniversary rating date.)

11. Is there information about the application of NCCI's terrorism charges on excess workers compensation policies?

**Response:** The charges that NCCI has filed for terrorism coverage do not apply to excess workers compensation policies. If a company wants to charge for this exposure on an excess workers compensation policy, then that company must submit a regulatory filing.