



Pennsylvania Compensation Rating Bureau

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BUREAU CIRCULAR NO. 1501

To All Members of the Bureau:

Re: **SUBMISSION OF FILING FOR DOMESTIC TERRORISM, EARTHQUAKE AND CATASTROPHIC INDUSTRIAL ACCIDENTS AND MISCELLANEOUS VALUES FOR FOREIGN TERRORISM**

Please be informed that the Bureau has submitted a filing of Pennsylvania Manual rules, forms, rating values and Statistical Plan revisions addressing the captioned perils with a **proposed effective date of January 1, 2006**. That filing is Proposal C-349.

Domestic Terrorism, Earthquake and Catastrophic Industrial Accidents

The filing would establish a procedure whereby losses attributable to the causes of domestic terrorism, earthquake and catastrophic industrial accidents would be omitted from experience data included in normal ratemaking analysis. Losses qualified for this omission would be attributable to the named causes and would produce losses for any given event equaling or exceeding a threshold amount of \$50 million. In exchange for this prospective treatment, and recognizing that obligations for these causes would be payable under the standard workers compensation policy, a nominal rating value based on publicly-available results of broad catastrophe modeling work is proposed.

This proposal is based on the National Council on Compensation Insurance, Inc. (NCCI) Item Filing No. B-1393, Miscellaneous Values for Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents, with pertinent components Pennsylvania-specific as described below:

Domestic Terrorism

The PCRB has a rating value in place for Code 9740, Certified Terrorism. (That current loss cost is \$0.03 per \$100 of payroll.) Since NCCI's research indicated that domestic causes were expected to account for approximately ten percent of total terrorism losses, foreign terrorism would, by inference, account for 90 percent. An appropriate domestic terrorism provision would represent approximately 11 percent of a concurrent provision for foreign terrorism or an estimated \$0.0033 per \$100 of payroll.

Earthquake

Since the NCCI modeling for this exposure has thus far been limited to selected specific geographic fault lines, none of which is contiguous with Pennsylvania, there is no basis for a specific charge for earthquake exposures in the Commonwealth, which is the same position shared for some 25 other NCCI jurisdictions.

Catastrophic Industrial Accidents

The NCCI item filing presents a uniform loss cost (excluding LAE) pertaining to catastrophic industrial accidents for all 34 of its jurisdictions. That loss cost is \$0.005 per \$100 of payroll. The PCRB has no basis for modifying this value for use in Pennsylvania.

Pennsylvania Rating Value for Domestic Terrorism, Earthquake and Catastrophic Industrial Accidents

Combining results from the above sections, the Bureau derived the following proposed rating values to be effective January 1, 2006:

Loss Cost

- \$0.0033 (including LAE and loss-based assessments) for domestic terrorism, computed as 11 percent of current loss costs for certified terrorism losses under TRIA
- \$0.0000 earthquake
- \$0.0050 for catastrophic industrial accidents

Combined loss cost = \$0.0033 + \$0.0000 + \$0.0050 = \$0.0083 or \$0.01 rounded

Consistent with countrywide practices, the PCRB proposes to adopt Statistical Code 9741 for use in applying rating values and recording losses applicable and/or attributable to domestic terrorism, earthquake and catastrophic industrial accidents. Manual language, an endorsement form and revisions to the approved Statistical Plan necessary to respond to the implementation of the statistical code and the rating value outlined above were also filed.

Miscellaneous Values for Foreign Terrorism

Absent further congressional action, the Terrorism Risk Insurance Act of 2002 (TRIA) is scheduled to expire effective December 31, 2005. Various references to TRIA appear in current versions of both the Basic Manual and Statistical Plan and will become archaic upon this expiration. To provide a more generic and lasting vernacular, NCCI has prepared Item Filing No. B-1398, Miscellaneous Values for Foreign Terrorism, which substitutes that wording for TRIA. The PCRB has filed appropriate changes in approved endorsement forms, Manual language and the Statistical Plan consistent with this item filing, also proposed to be effective January 1, 2006.

Timothy L. Wisecarver
President

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