

WCIRB Wire

California Terrorism Risk Assessment Study Released

The WCIRB has released the Workers' Compensation California Terrorism Risk Assessment study that was developed in partnership with Risk Management Solutions, Inc. (RMS), a leading provider of catastrophe modeling analytics.

The study is intended to estimate potential California workers' compensation losses arising from certified terrorist acts that would be retained by insurers under the U.S. Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) for calendar year 2019. RMS quantified total workers' compensation losses using an analysis of exposure data from member insurers of the WCIRB. The study is based on data provided by the WCIRB and compiled using RMS terrorism exposure assessment models. The WCIRB portfolio contains the policy and exposure data for \$544 billion of business payroll insured by members of the WCIRB.

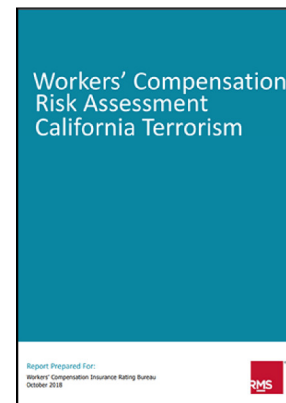
Highlights of the analysis include:

- Based on the RMS attack catalog drawing from approximately 60,000 potential terrorism events, the study suggests a 9.5 percent probability of triggering TRIPRA given that a terrorism event occurs.
- Without TRIPRA, the estimated average annual loss is \$27.9 million. With TRIPRA, the estimated average annual loss retained by WCIRB member insurers is \$21 million, which corresponds to an average loss rate per full time equivalent employee of \$1.85 and an average loss rate per \$100 of payroll of \$0.0039.
- Due to the high density of exposure and potential terrorist targets in the city, San Francisco generates the highest estimated average annual losses in California with an excess of \$12 million in estimated average annual losses retained by insurers under the 2019 TRIPRA.

The study is available in the Research section of wcirb.com and at the link below:

Workers' Compensation California Terrorism Risk Assessment

Study itself: https://www.wcirb.com/sites/default/files/documents/2018_wcirb_terrorism_risk_assessment.pdf
(retrieved 18 June 2019)



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The terrorism landscape has changed significantly since 9/11. There is a visible shift from large-scale attacks to a growing number of lone wolf attacks. Many believe there has not been a major terrorist event in the United States post 9/11, but one should not overlook the near-misses in the recent past which could have caused massive losses such as the 2016 New York-New Jersey bombings.

The unpredictable and catastrophic nature of terrorism led to the emergence and continued reauthorization of the U.S. Terrorism Risk Insurance Program or TRIPRA, a federal backstop for defined acts of terrorism, which facilitated insurers to continue to provide terrorism coverage after 9/11.

Assessing Workers' Compensation Risk from Terror Attacks in California

Reflecting this changing landscape, RMS conducted a [terrorism risk study \(https://www.wcirb.com/news/california-terrorism-risk-assessment-study-released-0\)](https://www.wcirb.com/news/california-terrorism-risk-assessment-study-released-0) for the [Workers' Compensation Insurance Rating Bureau of California \(WCIRB\) \(https://www.wcirb.com/\)](https://www.wcirb.com/). The WCIRB is an unincorporated, private, non-profit association comprised of all companies licensed to transact workers' compensation insurance in California and has over 400 member companies.

This study has received considerable market recognition, following our previous successful engagement to provide [California earthquake risk assessment \(https://www.wcirb.com/news/wcirb-report-california-earthquake-risk-assessment\)](https://www.wcirb.com/news/wcirb-report-california-earthquake-risk-assessment).

The objective of our study was to estimate California's workers' compensation losses to be retained by insurers due to terrorist acts, under TRIPRA for calendar year 2019. Please find a link to the study [here \(https://www.wcirb.com/sites/default/files/documents/2018_wcirb_terrorism_risk_assessment.pdf\)](https://www.wcirb.com/sites/default/files/documents/2018_wcirb_terrorism_risk_assessment.pdf)

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Unlike most U.S. property and casualty insurance, whose take-up rates range from ten percent (California residential earthquake) to greater than 90 percent (for fire insurance), workers' compensation insurance is required by law. In California, nearly all of the 18.5 million employees across the state are covered by workers' compensation, whether through an employer's policy or self-insurance. This enormous exposure generates more than US\$18 billion in premium annually, and because California is an "exclusive remedy" state, injuries arising out of and in the course of employment resulting from an earthquake are not excluded. But how can the cost of this obligatory, high risk exposure be measured?

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Terrorism Risk for California Workers' Compensation

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RMS utilized the latest RMS® Probabilistic Terrorism Model (PTM) v4.2, released in 2018, which captures the most recent terrorism trends worldwide. This includes a shift in targeting strategies and weapons selection, such as the relative increase in the likelihood of small-scale attacks using armed attack modes rather than large-scale attacks using conventional bombs. This release also updates the target set – adding new targets due to the construction of new, high-profile, urban properties, and the removal of targets that no longer meet the criteria for target selection.

RMS' analysis of the WCIRB portfolio suggests that there is a 0.01 percent probability (corresponding to a 10,000-year return period) that one or more attacks occurring at peak time (11 a.m.) of exposure, may exceed US\$5 billion in net-loss to insurers, while the government retains about US\$13 billion of the overall workers' compensation losses. Similarly, a 1-in-5,000-year return period could result in about US\$4 billion net loss to insurers with government retaining more than double the losses.

The methodology used to generate the exceedance probability curve focuses on large-scale attacks which are less likely to occur but can have significant losses.

While one finds some respite under TRIPRA, with the government retaining a large share of the losses caused by massive attacks (in the long return periods); on an average annual basis, insurers retain the bulk of the losses, since events that cause losses to exceed the deductible have very low likelihood of occurrence (less than 0.26 percent), thanks to pervasive countersecurity measures.

Multiple small conventional attacks are more likely to occur over a period of a year, contributing a major chunk in the average annual losses. But individually, these attacks are not large enough to trigger TRIPRA or exceed the deductible.

Terrorism is a mandatory coverage for workers' compensation insurers, hence it is essential to invest in statistically valid estimates of the probability of large-scale attacks and associated losses. This will help them to evaluate the impact, funding, and appropriate risk allocation, and we believe this study will assist California insurers to assess the continued risk of terrorism under TRIPRA.

If you are interested in discussing the study or have questions, please feel free to reach out to us at support@rms.com (<mailto:support@rms.com>).

Shruti Deshmukh (<https://www.rms.com/blog/author/shruti/>)



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Shruti works on Specialty lines within Model Product Management, and is responsible for Global Terrorism and Casualty models. She has led high-profile consulting engagements including projects with the WCIRB.

Prior to working within the Model Product Management team, Shruti worked in the Global Analytical Services team, based at the RMS offices in Hoboken.

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