

WORKERS' COMPENSATION INSURANCE RATING BUREAU

of California

525 MARKET STREET, SUITE 800 • SAN FRANCISCO, CA 94105-2716

Telephone (415) 777-0777

https://wcirbonline.org/wcib/wcib_wire/pdf/2003/04_bulletin_2003_03.pdf
(retrieved 10 April 2016)

January 21, 2003

WCIRB BULLETIN NO. 2003-03

RE: TERRORISM RISK INSURANCE ACT OF 2002 – COST INFORMATION

TO ALL WCIRB MEMBERS:

Responding to the heightened awareness of the potential for insured losses arising from terrorist acts in the aftermath of the events of September 11, 2001 and its impact on the US Economy, the Federal Government adopted the Terrorism Risk Insurance Act (the “Act”) effective November 26, 2002. The Act establishes a three-year program of federal contributions for coverage of insured property and casualty losses that result from certain acts of foreign terrorism. The Act also provides special procedures regarding insurer filings for premium charges to reflect the costs resulting from terrorist acts that will not be reimbursed by the Federal Government (i.e., losses below the Federal Program deductible).

Subsequent to the events of September 11, 2001, the National Council on Compensation Insurance, Inc. (NCCI) engaged the services of EQECAT, a nationally recognized natural catastrophe modeling firm, to develop methods for measuring the exposure of the workers' compensation industry to the risk of acts of terrorism. Based on a model developed by EQECAT, loss cost indications for 12 jurisdictions were recently published and proposed terrorism premium charges (in the form of loss costs, loss costs including loss adjustment expense or rates) filed in 35 states and the District of Columbia by the NCCI.

With respect to California, the WCIRB is contracting with EQECAT to use the terrorism model they developed on behalf of the NCCI to provide an estimate of potential California terrorism losses based on the most current available California data and current (Assembly Bill 749) benefit levels. It is anticipated that the results of this effort will be available by the end of February and published shortly thereafter. The results may also form the basis of a WCIRB advisory or pure premium rate filing. (The WCIRB Governing Committee is scheduled to consider this matter at its February 26, 2003 meeting.)

Pending completion of this work, WCIRB staff has reviewed and analyzed publicly available loss cost information that could be used to assist members as they evaluate and consider rates for terrorism exposure in California. In this regard, WCIRB staff has prepared the following table based on loss cost information developed and published by the NCCI.¹ In addition to tabulating loss cost information for each of the 12 jurisdictions, the arithmetic average loss cost ratios have also been tabulated for (a) all 12 jurisdictions, (b) all 12 jurisdictions except the District of Columbia, (c) all 12 jurisdictions except the District of Columbia and New York, and (d) the 7 large industrial states for which individual loss cost information is available.

¹ The NCCI filing memorandum from which the loss cost information for the 12 other jurisdictions was obtained is available in the public information section of the NCCI website www.ncci.com at the following link address (http://www.ncci.com/media/pdf/ItemB-1383_FULL.pdf)

TABLE OF ESTIMATED LOSS COSTS²

(1)	(2)	(3)	(4)	(5)
Jurisdiction	Estimated Loss Cost per \$100 of Payroll Lower Range	Estimated Loss Cost per \$100 of Payroll Upper Range	Lower Range Estimate as % of CA Loss Cost	Upper Range Estimate as % of CA Loss Cost
Michigan	0.003	0.013	0.1%	0.3%
Indiana	0.003	0.015	0.1%	0.4%
New Jersey	0.004	0.019	0.1%	0.5%
Arizona	0.005	0.025	0.1%	0.7%
Iowa	0.005	0.025	0.1%	0.7%
Florida	0.005	0.027	0.1%	0.7%
Georgia	0.005	0.027	0.1%	0.7%
Illinois	0.011	0.057	0.3%	1.5%
Pennsylvania	0.012	0.061	0.3%	1.6%
Texas	0.014	0.068	0.4%	1.8%
New York	0.036	0.181	0.9%	4.7%
DC	0.224	1.119	5.8%	29.1%
(a) Average of all 12 Jurisdictions	\$0.027	\$0.136	0.7%	3.6%
(b) Average of all 12 Jurisdictions- Ex. DC	\$0.009	\$0.047	0.2%	1.2%
(c) Average of all 12 Jurisdictions Ex. DC & NY	\$0.007	\$0.034	0.2%	0.9%
(d) Average of the 7 Large Industrial States ³	\$0.012	\$0.061	0.3%	1.6%

Individual jurisdictions shown in column (1) are listed in ascending order based on the estimated loss cost per \$100 of payroll.

Individual jurisdiction estimates shown in Columns (2) and (3) are from Exhibit 1 of NCCI's December 20, 2002 Filing Memorandum B-1383 and exclude LAE.

Column (4) = Column (2)/ \$3.84 per \$100 (the average approved California 2003 pure premium rate, excluding LAE).

Column (5) = Column (3)/ \$3.84 per \$100 (the average approved California 2003 pure premium rate, excluding LAE).

ROBERT G. MIKE
President

² Includes copyrighted material of the National Council on Compensation Insurance, Inc. All Rights Reserved. Reprinted with permission.

³ The tabulation shown for the seven large industrial states (Florida, Illinois, Michigan, New Jersey, New York, Pennsylvania and Texas) is generally consistent with preliminary California estimates derived using the EQECAT model.