

December 16, 2002

NCCI Filings to Implement the Terrorism Risk Insurance Act of 2002

The following is an overview of the filing actions NCCI will take beginning the week of December 16, 2002:

- NCCI will file rates/loss costs in all NCCI states for both voluntary and residual markets for terrorism exposure as defined in the Terrorism Risk Insurance Act of 2002 during the week of December 16, 2002.
- The effective date will be the filing date for the voluntary market. For the residual market, the effective date will be January 1, 2003. Filings will apply to new and renewal policies only.
- NCCI will be filing one rate/loss cost for terrorism exposure in each state.
- NCCI will be filing differing rates/loss costs by state, incorporating information developed from the 14 jurisdictions we have modeled with EQECAT. These 14 jurisdictions represent more than 75% of the employee population. Many states will likely have the same rate/loss cost.
- The loading will be for foreign terrorism only (federal definition of certified losses) net of anticipated federal recoveries.
- NCCI has established a new statistical class code (9740) for premium charges for certified losses. The new code will facilitate the tracking of premiums charged for terrorism exposure as defined in the federal Act.
- Rates/loss costs will be filed for this statistical class code on the *Miscellaneous Values Page* of NCCI's ***Basic Manual***. It will be a rate/loss cost per \$100 of TOTAL payroll for each state.
- The new statistical class code will not be subject to experience rating, schedule rating, retrospective rating, deductible credits, premium discount, or any other individual risk rating/credit plan in effect. During the week of December 16, 2002, NCCI will file a change to the premium algorithm to accommodate the new code.
- During the week of December 16, 2002, NCCI will also file a Terrorism Risk Insurance Act Endorsement for carriers to use to satisfy their policyholder disclosure obligations under the Act.

NCCI Responses to Anticipated Questions on NCCI Filings

Question 1 Why is NCCI making filings for terrorism charges since the federal Act greatly reduces the carriers' exposure to terrorism claims?

Answer Terrorism is an emerging catastrophic exposure in the workers compensation line of insurance, as evidenced by the events of September 11, 2001. There is no allowance in NCCI's loss costs or rates for catastrophes of this type. The federal Act provides relief against the cost of terrorism above the defined carrier retentions that increase over the term of the backstop. It is the carrier retentions that NCCI's filings will seek to fund.

Question 2 How will NCCI's rate/loss cost filings impact previously approved loss cost multipliers?

Answer NCCI has no role in the filing of carrier loss cost multipliers. The purpose of NCCI's terrorism charge is to establish a benchmark for insurer pricing decisions.

Question 3 What is NCCI's plan for addressing domestic terrorism and natural catastrophes?

Answer We will revisit the domestic terrorism and the natural catastrophe issues at a later date.

Question 4 Why are we filing point estimates rather than ranges?

Answer NCCI has concluded that the filing of ranges could complicate the filing process at this time. Additional research to explore ranges will be undertaken. This would include refinement of criteria for selection of specific points within the range, much like the way schedule rating plans operate.

Question 5 Why is NCCI filing a change to the premium algorithm?

Answer The current premium algorithm does not have a line item defined in it that meets all of the non-ratable characteristics for the new code. Since carriers will have to report this amount on their policies, it is important that the actual amount charged be contained in this statistical code. In order to accomplish that, a change to the algorithm was necessary.

Question 6 How will carriers be instructed to use NCCI's filing?

Answer Carriers will be instructed to follow the normal procedures for using NCCI's filings. In most states, carriers do not need to take any additional action to adopt NCCI's filings. In some states, carriers would have to file affirmatively to adopt the filings made by NCCI.

Question 7 In states where a carrier is required by state law to specifically adopt NCCI's filing, how would a carrier go about doing so?

Answer State regulators have issued specific Terrorism Act bulletins that may provide further guidance as to procedures for carriers to use when filing their adoption of NCCI's filing. NCCI's Web site has links to these bulletins. In those states where no bulletin has been issued, carriers may want to consider the guidelines included in the NAIC's Model Bulletin, which says that carriers would have to make a filing within 30 days of when they begin applying the new premium charge.

Question 8 Will NCCI use Expedited Filing Forms?

Answer Yes, in states where these forms have been recommended for use.

Question 9 The Act requires that policies issued more than 90 days after the Act is enacted provide notice to the policyholder of the premium charge on a "separate line item in the policy." Has NCCI done anything to satisfy this requirement?

Answer Yes. Carriers' use of NCCI's new Terrorism Risk Insurance Act Endorsement and Policy Information Page will meet this disclosure requirement.

Question 10 To the extent that NCCI's 2001 filings for 4% terrorism loadings may be technically pending in a state, what does NCCI plan to do?

Answer In such instances, NCCI's new filing will request the withdrawal of the pending filing along with the submission of the new filing.