



## Pennsylvania Compensation Rating Bureau

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September 19, 2005

### **VIA OVERNIGHT DELIVERY**

The Honorable M. Diane Koken  
Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
1311 Strawberry Square  
Harrisburg, PA 17120

Attention: Chuck Romberger

RE: Bureau Filing C-349  
Domestic Terrorism, Earthquake and Catastrophic Industrial Accidents  
Miscellaneous Values for Foreign Terrorism  
**Proposed Effective January 1, 2006**

Dear Commissioner Koken:

On behalf of the members of the Pennsylvania Compensation Rating Bureau (PCRB), I am filing the accompanying Manual rules, forms, rating values and Statistical Plan revisions addressing the captioned perils. These additions and revisions are proposed to be effective on a new and renewal basis as of 12:01 a.m., **January 1, 2006**.

### **Domestic Terrorism, Earthquake and Catastrophic Industrial Accidents**

This 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.

The basis for this proposal is the National Council on Compensation Insurance, Inc.'s (NCCI) Item Filing No. B-1393. A copy of that filing, excluding state-specific premium algorithms and provisions limited to Indiana and North Carolina, is provided with this filing for reference purposes. The primary and pertinent components of the Pennsylvania counterpart to that filing arise as described following:

### Domestic Terrorism

The PCRB has a rating value in place for Code 9740, Certified Terrorism. The current loss cost is \$0.03 per \$100 of payroll.

Research conducted by or on behalf of NCCI in support of Item Filing No. B-1393 found that domestic causes were expected to account for approximately ten percent of total terrorism losses. By inference then, foreign terrorism accounts for 90 percent of such losses, and an appropriate domestic terrorism provision would represent approximately 11 percent of a concurrent provision for foreign terrorism ( $0.10 / 0.90 = 0.11$ ).

According to these constructs, a Pennsylvania loss cost applicable to domestic terrorism would be estimated as \$0.0033 per \$100 of payroll.

### Earthquake

NCCI's modeling for this exposure has thus far been limited to selected specific geographic fault lines and has produced rating value components in only nine states – Alaska, Arkansas, Hawaii, Missouri, Nevada, Oregon, South Carolina, Tennessee and Utah. None of these states is contiguous with Pennsylvania, and, thus, there is no basis for a specific charge for earthquake exposures in Pennsylvania that can be identified by analogy to the NCCI's item filing. This would leave Pennsylvania in the same position as some 25 other NCCI jurisdictions in such regard.

### Catastrophic Industrial Accidents

NCCI's item filing presents a uniform loss cost (excluding LAE) pertaining to catastrophic industrial accidents for all 34 jurisdictions included in Item Filing No. B-1393. 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 of this letter, the Bureau has derived the following proposed rating values effective January 1, 2006:

#### Loss Cost

- \$0.0033 (including LAE and loss-based assessments) for domestic terrorism, computed as 11 percent of current loss cost 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 accompany this letter.

### **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 the currently-approved Basic Manual and Statistical Plan. While appropriate and even necessary in the context of the legislation initially requiring and/or authorizing various forms and/or rating values, such references will become archaic upon the expiration of the original TRIA. To provide for a more generic and lasting vernacular, NCCI has prepared Item Filing No. B-1398, which proposes substitution of the term "foreign terrorism" for "TRIA. A copy of that NCCI item filing, excluding state-specific pages (generally premium algorithms) is provided herein for reference purposes. Appropriate changes in approved endorsement forms, Manual language and the Statistical Plan for Pennsylvania, consistent with the NCCI filing, are included with this filing and are proposed to be effective January 1, 2006.

### **CONCLUSION**

The Bureau would be pleased to assist your offices in any way possible during your review of this filing. In order that appropriate notice be given to all parties in the marketplace, the Bureau would respectfully ask that the Insurance Department's review of this filing be conducted and approval be given as expeditiously as possible.

Sincerely,

A handwritten signature in black ink that reads "Timothy L. Wisecarver". The signature is written in a cursive, flowing style.

Timothy L. Wisecarver  
President

TLW/kg  
Enclosures