



June 5, 2017

Advisory Committee on Risk-Sharing Mechanisms  
Attn: Wendy Peters, Chair  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Room 1140 MT  
Washington, DC 20220

Dear Chairwoman Peters and Members of the Committee:

On behalf of the National Council on Compensation Insurance (NCCI) we wanted to provide the Advisory Committee on Risk-Sharing Mechanisms (ACRSM) with additional information on workers compensation terrorism loss cost rating methodologies. During the Committee's March 31, 2017 meeting, there was a robust discussion of terrorism rates for workers compensation and we wanted to ensure you had the benefit of the most recent developments.

Since TRIA inception, NCCI has contracted on three occasions with a leading catastrophe modeling firms. These firms adapted existing modeling techniques to assess the impact of terrorism threats to workers compensation insurance.

The models developed for NCCI provide an estimate of the risk to workers compensation insurers due to potential terrorist events. The types of terrorist events selected were those that could cause large numbers of injuries and casualties, and therefore, catastrophic loss to insurers. Data was assembled on the insurers' exposure and subjected that exposure to a large number of simulated terrorist events. The frequency of a terrorist event was also estimated. The resulting casualties and consequent losses were combined to estimate the total risk to the insurers. Finally, the impact of the terrorism "backstop" was estimated to calculate a final loss cost by state.

Terrorism provisions were first approved in December of 2002. In most states, the terrorism loss cost was 0.02. This amount was applied per \$100 of payroll in order to derive terrorism premium. The terrorism premium was reported to NCCI under an approved statistical code. Over the years, the terrorism model has been updated and the impact of the "backstop" has been revised. As these factors have changed, NCCI has continued to revise the terrorism provisions in each state.

In 2008, the terrorism loss cost in most states was decreased from 0.02 to 0.01. The current approved terrorism loss costs range from 0.01 to 0.05. Carriers then apply a loss cost multiplier to these loss costs, so rates can vary further.

NCCI recently retained a national catastrophe modeling firm to perform an updated modeling exercise. The resulting terrorism lost costs for NCCI states will be included in each respective states' next scheduled rate filing. Once filed, NCCI will provide the Committee with those updated state-specific terrorism loss costs. It should also be noted that the independent state rating bureaus for twelve additional states (12) utilize the same rating approach as NCCI.

NCCI appreciates the Committee's awareness of the unique impact the terrorism peril has on the workers compensation line and we welcome the opportunity to work with the Committee going forward. Please do not hesitate to contact either of us if you have any questions.

Sincerely,

Handwritten signature of Tim Tucker in black ink.

Tim Tucker  
Washington Affairs Executive

Handwritten signature of Jeff Eddinger in black ink.

Jeff Eddinger  
Senior Division Executive