



5920 CASTLEWAY WEST DRIVE, SUITE 121 • INDIANAPOLIS, IN 46250  
p: 317.842.2800 f: 317.842.3717 w: ICRB.NET

August 12, 2021

**Circular 2021-10**

**To: ICRB Members**

**ITEM P-1418 —REVISIONS TO CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PREMIUM ENDORSEMENT (WC 00 04 21 E)**

The ICRB has submitted an item filing, P-1418 which revises the Catastrophe Premium Endorsement. This was approved by the Indiana Department of Insurance on 8/12/2021.

This item revises the Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 E) in NCCI's *Forms Manual of Workers Compensation and Employers Liability Insurance (Forms Manual)* to define "Catastrophe (Other Than Certified Acts of Terrorism)" as "A single event or peril resulting in a group of claims with aggregate workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril."

No statewide premium impact will result from the changes in this item.

For further details please see the Circular below.

Sincerely,

Karen H. Byrd  
President & CEO

## FILING MEMORANDUM

### ITEM P-1418—REVISIONS TO CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PREMIUM ENDORSEMENT (WC 00 04 21 E)

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#### PURPOSE

This item revises the Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 E) in NCCI's *Forms Manual of Workers Compensation and Employers Liability Insurance (Forms Manual)* to define "Catastrophe (Other Than Certified Acts of Terrorism)" as "A single event or peril resulting in a group of claims with aggregate workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril."

#### BACKGROUND

NCCI recently reviewed its actuarial catastrophe methodology as a result of the COVID-19 pandemic. NCCI's catastrophe methodology excludes actual catastrophe-related losses from the calculation of loss costs/rates because these events are not considered to be predictive of future experience, and also contemplates future catastrophic exposure through a catastrophe provision. Currently, the definition of "Catastrophe (Other Than Certified Acts of Terrorism)" accounts for single-event losses resulting only from earthquakes, noncertified acts of terrorism, or catastrophic industrial accidents that exceed \$50 million in aggregate workers compensation losses. However, the COVID-19 pandemic has shown that there are other perils that can result in catastrophic losses.

Both the definition of "catastrophe" and the treatment of catastrophe losses in property and casualty ratemaking are addressed in the Actuarial Standards of Practice (ASOP). As defined in ASOP 39, Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking, a catastrophe is "a relatively infrequent event or phenomenon that produces unusually large aggregate losses." ASOP 39 also states that "consideration should be given to the impact of catastrophes and that procedures should be developed to include an allowance for catastrophe exposure in the rate."

In this item, NCCI is proposing a revision to the definition of "Catastrophe (Other Than Certified Acts of Terrorism)" as "A single event or peril resulting in a group of claims with aggregate workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril." NCCI is proposing no change to the currently approved Miscellaneous Value. Under the revised catastrophe provision definition, the COVID-19 pandemic would be treated as a catastrophic event in the calculation of loss costs/rates and, therefore, the reported COVID-19 pandemic claims would be excluded. NCCI uses ratemaking data that excludes the impact of catastrophes because the full unadjusted impact of the catastrophe experience is not considered predictive on a prospective basis.

The COVID-19 pandemic has shown that there are other perils that can result in catastrophic losses, and that regardless of the specific peril, any event exceeding \$50 million in aggregate workers compensation losses should be removed from the data used in ratemaking. Due to the uncertainty surrounding quantifying the impact that future pandemics could have on the workers compensation system, it is appropriate to contemplate all catastrophic perils, including pandemics, within the Catastrophe (Other Than Certified Acts of Terrorism) definition without a change in the Miscellaneous Value. This handling recognizes that there are additional catastrophic exposures on workers compensation system costs that should be considered in the calculation of loss costs/rates in adherence with the Actuarial Standards of Practice (ASOPs).

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#### Determining the Impact of Pandemics on Ratemaking

Pandemics have been identified as an additional peril that has the potential to result in aggregate workers compensation losses in excess of \$50 million per occurrence. To understand the risk that pandemics could have on workers compensation system costs beyond COVID-19, NCCI recently engaged with AIR Worldwide (AIR), an expert catastrophe loss modeling firm. After an extended joint project with AIR, NCCI has concluded that:

- Pandemics may have a significant impact on the workers compensation system.
- The expected average annual pandemic loss is not directly quantifiable for workers compensation insurance exposure.
- It is appropriate to revise the definition of "Catastrophe (Other Than Certified Acts of Terrorism)" as "A single event or peril resulting in a group of claims with aggregate workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril."
- The revision to the definition of the Catastrophe (Other Than Certified Acts of Terrorism) does not warrant a change in the Miscellaneous Value at this time.

AIR utilizes a global catastrophe pandemic model to assess the potential impact of pandemics. This model considers a collection of risk parameters including, but not limited to, pathogen type; start location; transmission rate; virulence; local, national, and international response mechanisms; time of year; and travel patterns. The included pathogens are influenza, coronaviruses, filoviruses, cholera, Rift Valley fever, Crimean-Congo hemorrhagic fever, plague, Lassa fever, and meningitis. Using employees as the unit of exposure, the model estimates the probability of a physician visit, hospitalization, or death, along with the associated costs.

In accordance with ASOP 38, Using Models Outside the Actuary's Area of Expertise (Property and Casualty), NCCI reviewed the appropriateness of the pandemic model for its intended use. AIR's model produced estimates of the average medical losses per worker resulting from pandemics, regardless of whether the claim originated from the workplace or was otherwise compensable. To focus AIR's model framework on workers compensation, NCCI applied several adjustments to the AIR-provided values: (1) converted the estimates to account for lifetime medical costs, (2) added expected indemnity losses, (3) applied a factor for compensability, and (4) limited all events to \$100 billion to account for insurer insolvency and to recognize preventative measures that could be taken at more severe event levels.

NCCI discovered a number of challenges in quantifying the impact of pandemics on workers compensation system costs:

- Uncertainty in quantifying the share of pandemic illnesses that were transmitted at work or are otherwise compensable
- Uncertainty in how occupation exposure risk could vary depending on the severity of the pandemic
- Possible inverse correlation of pandemic losses with nonpandemic losses

Due to the uncertainty in quantifying the impact of pandemics, it is appropriate to revise the definition of Catastrophe (Other Than Certified Acts of Terrorism) without a change in the Miscellaneous Value. This

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FILING MEMORANDUM

ITEM P-1418—REVISIONS TO CATASTROPHE (OTHER THAN CERTIFIED ACTS OF  
 TERRORISM) PREMIUM ENDORSEMENT (WC 00 04 21 E)

handling recognizes the future pandemic exposure on workers compensation system costs in adherence with the ASOPs.

PROPOSAL

This item proposes to revise the definition of "Catastrophe (Other Than Certified Acts of Terrorism)" in the Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 E) in NCCI's *Forms Manual* to: "A single event or peril resulting in a group of claims with aggregate workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril."

IMPACT

No statewide premium impact will result from the changes proposed in this item.

EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY

Exhibit	Exhibit Comments	Implementation Summary
1	Details the revisions to the Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 E) in NCCI's <i>Forms Manual</i> .	<ul style="list-style-type: none"> <li>• In all states except Hawaii, this item is to become effective for new and renewal policies with effective dates on and after 12:01 a.m. on August 1, 2022*</li> <li>• In Hawaii, the effective date is determined upon regulatory approval of the individual carrier's election to adopt this change</li> </ul>

\*This lead time will provide insurance companies ample time to incorporate the new endorsement into their processes.

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**ITEM P-1418—REVISIONS TO CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PREMIUM ENDORSEMENT (WC 00 04 21 E)**

**EXHIBIT 1  
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE  
CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PREMIUM  
ENDORSEMENT (WC 00 04 21 E)**

**(Applies in: AK, AL, AR, AZ, CO, CT, DC, GA, HI, IA, ID, IL, KS, KY, LA, MD, ME, MS, MT, NE, NH, NV, OK, OR, RI, SC, SD, TN, UT, VT, WV)**

**Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 E F)**

This endorsement is notification that ~~your insurance carrier is~~ we are charging premium to cover the losses that may occur in the event of a Catastrophe (Other Than Certified Acts of Terrorism) as that term is defined below. Your policy provides coverage for workers compensation losses caused by a Catastrophe (Other Than Certified Acts of Terrorism). Coverage for such losses is subject to all terms, definitions, exclusions, and conditions in your policy, and any applicable federal and/or state laws, rules, or regulations. This premium charge does not provide funding for Certified Acts of Terrorism contemplated under the Terrorism Risk Insurance Program Reauthorization Act Disclosure Endorsement ~~(WC 00 04 22 G)~~, attached to this policy.

For purposes of this endorsement, the following definitions apply:

- Catastrophe (Other Than Certified Acts of Terrorism)- is defined as: A single event or peril resulting in a group of claims with aggregate workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril. Any single event, resulting from an Earthquake, Noncertified Act of Terrorism, or Catastrophic Industrial Accident, which results in aggregate workers compensation losses in excess of \$50 million.
- Earthquake: The shaking and vibration at the surface of the earth resulting from underground movement along a fault plane or from volcanic activity.
- Noncertified Act of Terrorism: An event that is not certified as an Act of Terrorism by the Secretary of the Treasury pursuant to the Terrorism Risk Insurance Act of 2002 (as amended) but that meets all of the following criteria:
  - a. It is an act that is violent or dangerous to human life, property, or infrastructure;
  - b. The act results in damage within the United States, or outside of the United States in the case of the premises of United States missions or air carriers or vessels as those terms are defined in the Terrorism Risk Insurance Act of 2002 (as amended); and
  - c. It is an act that has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.
- Catastrophic Industrial Accident: A chemical release, large explosion, or small blast that is localized in nature and affects workers in a small perimeter the size of a building.

The premium charge for the coverage your policy provides for workers compensation losses caused by a Catastrophe (Other Than Certified Acts of Terrorism) is shown in Item 4 of the Information Page or in the Schedule below.

**Schedule**

State	Rate	Premium
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