



TO: Actuarial Committee
Classification & Rating Committee

FROM: Timothy L. Wisecarver
Michael J. Doyle

DATE: July 20, 2005

RE: Domestic Terrorism, Earthquake & Catastrophic Industrial Accidents

Bureau staff proposes to include a provision for the captioned exposures in the December 1, 2005 Residual Market Rate and Voluntary Market Loss Cost Filing.

The basis for such a proposal would be the National Council on Compensation Insurance, Inc.'s Item Filing No. B-1393. The primary and pertinent components of the Delaware counterpart to that filing would arise as described following:

Domestic Terrorism

The DCRB has rating values in place for Code 9740, Certified Terrorism, in both the voluntary and residual markets. The current residual market rate is \$0.03 per \$100 of payroll, and the current voluntary market loss cost is \$0.02 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, Delaware rating values applicable to domestic terrorism would be estimated as \$0.0022 per \$100 of payroll as a voluntary market loss cost and \$0.0033 per \$100 of payroll as a residual market rate.

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 Delaware, and, thus, there is no basis for a specific charge in Delaware for earthquake exposures that can be identified by analogy to the NCCI's item filing. This would leave Delaware 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 or payroll. The DCRB would have no basis for positing a different value from this broad national benchmark for specific use in Delaware.

Delaware Rating Values for Domestic Terrorism, Earthquake and Catastrophic Industrial Accidents

Combining results from the above sections of this memorandum, the Bureau has derived the following proposed rating values effective December 1, 2005:

Loss Cost

\$0.0022 (including LAE and loss-based assessments) for domestic terrorism, computed as 11 percent of current loss cost for certified terrorism losses under TRIA

\$0.000 for earthquake

\$0.0058 for catastrophic industrial accidents; computed by multiplying the \$0.005 loss cost from Item Filing No. B-1393 times the ratio of LAE and loss-based assessments to loss in Delaware, or $\$0.005 \times 1.1569 = \0.0058

Combined loss cost = $\$0.0022 + \$0.0000 + \$0.0058 = \0.0080 or \$0.01 rounded.

Residual Market Rate

Computed by dividing the combined loss cost before rounding by the permissible loss, loss adjustment and loss-based assessment ratio from the December 1, 2005 filing, or $\$0.0080 / 0.7479 = \0.0107 or \$0.01 rounded.

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