



August 17, 2021

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Workers Compensation Insurance

NCCI Item P-1418 - Revisions to Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 E)

The North Carolina Rate Bureau has filed and the North Carolina Commissioner of Insurance has approved revisions to the North Carolina Basic Manual for Workers Compensation and Employers Liability (NC Basic Manual). The approved revisions are related to NCCI Item P-1418 – *Revisions to Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 E)*. The approved changes will be applicable to all new and renewal policies with an effective date on or after August 1, 2022.

NCCI Item P-1418 – *Revisions to Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 E)* revises the definition of Catastrophe (Other Than Certified Acts of Terrorism) to include a single event or peril that exceed \$50 million in aggregate workers compensation losses, such as the COVID-19 pandemic.

A copy of NCCI's Item Filing P-1418 as applicable to North Carolina and exhibits are included for your review.

If you have any questions, contact the NCRB Information Center at 919-582-1056 or via email at support@ncrb.org.

Sincerely,

Joanna Biliouris

Chief Operating Officer

JB:ko
Attachments
C-21-13

**North Carolina Rate Bureau
Filing Memorandum**

**NCCI Item P-1418 – Revisions to Catastrophe (Other Than Certified Acts of Terrorism)
Premium Endorsement (WC 00 04 21 E)**

PURPOSE

This item revises:

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

Exhibits showing changes to the North Carolina Workers Compensation Endorsement following this memorandum (see NCRB Exhibit 1)

BACKGROUND

NCCI has an ongoing process in which they review and propose modifications as needed. NCCI's analysis is national in scope. However, it also recognizes the occasional need for state-specific treatments to reflect geographical differences. NCCI's analysis includes assessing the continuing viability of more than 800 national and state special classification codes in addition to endorsements. With some exceptions for state-specific classifications, North Carolina adheres to the NCCI national classification system.

NCCI Item P-1418 is a product of NCCI's ongoing endorsement review process. NCCI recently reviewed its actuarial catastrophe methodology as a result of the COVID-19 pandemic and the current 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. The current definition of "Catastrophe (Other Than Certified Acts of Terrorism)" accounts for single-event losses resulting from earthquakes, noncertified acts of terrorism, or catastrophic industrial accidents that exceed \$50 million in aggregate workers compensation losses. The COVID-19 pandemic has shown that there are other perils that can result in catastrophic losses.

NCCI proposes revising 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." There is no proposed change to the currently approved Miscellaneous Value. The revised catastrophe provision definition would treat the COVID-19 pandemic as a catastrophic event in the calculation of loss costs/rates so the reported COVID-19 pandemic claims would be excluded. NCCI utilizes ratemaking data that excludes the impact of catastrophes because the full unadjusted impact of catastrophe experience is not considered predictive on prospective basis.

North Carolina Rate Bureau (Bureau) staff has reviewed NCCI Item P-1418 and considered the revisions of national endorsements as proposed by the NCCI. Based on their review and research, staff recommends that the Bureau seek approval for all NCCI proposed revisions to national endorsements be applicable to North Carolina.

**North Carolina Rate Bureau
Filing Memorandum**

**NCCI Item P-1418 – Revisions to Catastrophe (Other Than Certified Acts of Terrorism)
Premium Endorsement (WC 00 04 21 E)**

The NCCI Item P-1418 includes exhibits that identify changes to national endorsements.

PROPOSAL

The Bureau proposes the adoption of changes by way of NCCI P-1418.

IMPACT

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

IMPLEMENTATION

These endorsement revisions proposed by way of NCCI Item P-1418 are effective for new and renewal policies with effective dates on or after August 1, 2022.

FILING MEMORANDUM

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

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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FILING MEMORANDUM

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

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">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*In Hawaii, the effective date is determined upon regulatory approval of the individual carrier's election to adopt this change

*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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CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PREMIUM ENDORSEMENT

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 C~~), 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 caused 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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This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)

Endorsement Effective
Insured

Policy No.

Endorsement No.
Premium:

Insurance Company

Countersigned by _____

