

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

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Administrative Letter 2015-03

To: All Property and Casualty Insurers and Rate Service Organizations Licensed in Virginia

Re: Filing Procedures for Compliance with the Provisions of the Terrorism Risk Insurance Program Reauthorization Act of 2015

Withdrawal of Administrative Letters 2002-15, 2004-06, 2006-03, and 2008-01

The purpose of Administrative Letter 2015-03 is to advise insurers of certain provisions of the Terrorism Risk Insurance Program Reauthorization Act of 2015 amending and extending the Terrorism Risk Insurance Act of 2002 (the Act) by reauthorization (the Act), which may require insurers to submit a filing of policy language and applicable rates as a result of the Act. For further details related to the Act, please consult the Act itself.

Further, Administrative Letter 2015-03 brings forward relevant provisions of previously issued administrative letters to address filing-related requirements pertaining to coverage for terrorism risk in property and casualty insurance contracts. The previously issued administrative letters listed above are hereby withdrawn.

Background

Uncertainty in the markets for commercial lines property and casualty insurance coverage arose following the substantial loss of lives and property experienced on September 11, 2001. Soon after these tragic events, many reinsurers announced that they would no longer provide coverage for acts of terrorism in future reinsurance contracts. This led to a concerted effort on behalf of all interested parties to seek a federal backstop to facilitate the ability of the insurance industry to continue to provide coverage for these unpredictable and potentially catastrophic events. As a result, Congress enacted and the president signed into law in November 2002, the Terrorism Risk Insurance Act of 2002 (the Act). This Federal law provided a federal backstop for defined acts of terrorism and imposed certain obligations on insurers. The Act was extended for a two-year period covering Program Years 2006 and 2007, and for an additional seven years through December 31, 2014, with the enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007. The Act has now been extended again with the enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2015.

All insurers, as defined in the Act, are required by the Act to participate in the Terrorism Insurance Program and to make available coverage for **insured losses**, as defined in the Act, resulting from an **act of terrorism**, as defined in the Act, in all of their property and casualty insurance policies, as defined in the Act. The Act further requires insurers to make available, in all **property and casualty insurance** policies, coverage for insured losses that does not differ materially from the terms, amounts, and other coverage limitations applicable to losses arising from events other than acts of terrorism.

Definition of Insured Loss(es)

The Act defines “insured loss” as any loss resulting from an act of terrorism (including an act of war in the case of workers’ compensation) that is covered by primary or excess property and casualty insurance issued by an insurer if such loss—(A) occurs within the United States; or (B) occurs to an air carrier (as defined in section 40102 of title 49, United States Code), to a United States flag vessel (or a vessel based principally in the United States, on which United States income tax is paid and whose insurance coverage is subject to regulation in the United States), regardless of where the loss occurs, or at the premises of any United States mission.

Definition of Act of Terrorism

Section 102(1) defines an *act of terrorism* for purposes of the Act. Please note that the unmodified reference to “the Secretary” refers to the Secretary of the Treasury. The revised Section 102(1)(A) states, “The term ‘act of terrorism’ means any act that is certified by the Secretary, in consultation with the Secretary of Homeland Security, and the Attorney General of the United States—(i) to be an act of terrorism; (ii) to be a violent act or an act that is dangerous to—(I) human life; (II) property; or (III) infrastructure; (iii) to have resulted in damage within the United States, or outside the United States in the case of—(I) an air carrier or vessel described in paragraph (5)(B); or (II) the premises of a United States mission; and (iv) to have 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.” Section 102(1)(B) states, “No act shall be certified by the Secretary as an act of terrorism if—(i) the act is committed as part of the course of a war declared by the Congress, except that this clause shall not apply with respect to any coverage for workers’ compensation; or (ii) property and casualty insurance losses resulting from the act, in the aggregate, do not exceed \$5,000,000.” Section 102(1)(C) and (E) specify that the determinations are final and not subject to judicial review and that the Secretary of the Treasury cannot delegate the determination to anyone.

The policy form must include a definition of *act(s) of terrorism*. Section 102(1) defines an *act of terrorism* for purposes of the Act. In order to satisfy this filing requirement, insurers may reference the definition of “acts of terrorism” in the Act or restate the definition in the policy form. If the term “acts(s) of terrorism” is defined in the policy form, it is not necessary for the insurer to repeat the definition in endorsements used with the policy form.

Definition of Property and Casualty Insurance

For details regarding the lines of insurance to which the Act applies, please consult the Act and the Interim Guidance provided by the Department of the Treasury.

Certified and Non-Certified Acts of Terrorism

As a result of the definitions of “act of terrorism” and “insured loss” contained in the Act, there are essentially two distinct types of losses that a policyholder might face that result from terrorism. One type of loss is the insured loss that is defined within and covered by the provisions of the Act. For convenience, the term “certified loss” will be used to refer to losses resulting from certified acts of terrorism. The second type of loss is one that does not fit within the definition of insured loss as described in the Act. For convenience, the term “non-certified loss” will be used to refer to those losses resulting from acts of terrorism that are not certified.

Non-Certified Acts of Terrorism

If insurers elect to exclude non-certified acts of terrorism, the coverage form must define a non-certified act, which includes an act of terrorism that fails to be certified solely because it falls below the \$5,000,000 in Section 102(1) (B).

The Bureau will continue to approve certain limitations to coverage for *non-certified* acts of terrorism. For policies providing property insurance coverage, the following limitation applies with regard to exclusions of *non-certified losses*:

- Industry-wide insured losses must exceed \$25,000,000 for related incidents that occur within a 72 hour period;
- Exclusions applicable to non-certified acts of terrorism are **not** subject to this limitation if:
 1. The act involves the use, release or escape of nuclear materials, or directly or indirectly results in nuclear reaction or radiation or radioactive contamination;
 2. The act is carried out by means of the dispersal or application of pathogenic or poisonous biological or chemical materials; or
 3. Pathogenic or poisonous biological or chemical materials are released, and it appears that one purpose of the terrorism was to release such material.

Note: The exemption in § 38.2-2102 B of the Code of Virginia does not apply to non-certified acts; therefore, the provisions of § 38.2-2105 of the Code of Virginia apply to ensuing fire losses for non-certified acts of terrorism.

For policies providing liability insurance coverage, the following limitations apply with regard to exclusions of *non-certified losses*:

- Industry-wide insured losses must exceed \$25,000,000 for related incidents that occur within a 72-hour period; or
- Fifty or more persons must sustain death or serious injury for related incidents that occur within a 72-hour period. For the purposes of such provisions, serious injury means:
 1. Physical injury that involves a substantial risk of death;
 2. Protracted and obvious physical disfigurement; or
 3. Protracted loss of or impairment of the function of a bodily member or organ.
- Exclusions applicable to non-certified acts of terrorism are not subject to the above limitations if:
 1. The act involves the use, release, or escape of nuclear materials, or directly or indirectly results in nuclear reaction or radiation or radioactive contamination;
 2. The act is carried out by means of the dispersal or application of pathogenic or poisonous biological or chemical materials; or
 3. Pathogenic or poisonous biological or chemical materials are released, and it appears one purpose of terrorism was to release such materials.

Submission of Rates, Loss Cost Multipliers, and Policy Forms or Endorsements

Expedited Review Process – Forms, Endorsements

Since the provisions of the Terrorism Risk Insurance Program Reauthorization Act of 2015 are already in effect, the Bureau is expediting the reviews of form filings submitted in response to the Act. Filers should use the SERFF system for submitting such filings. Filers should use the term “TRIA2015” in the product name field in SERFF to indicate a filing related to terrorism made in connection with the Terrorism Risk Insurance Program Reauthorization Act of 2015. An Expedited Filing Transmittal document is not required.

The 2015 Act is effective until December 31, 2020, unless extended by Congress. The expedited filing procedures described in this administrative letter shall take immediate effect and shall expire on April 13, 2015.

Coverage Forms, Endorsements

Except to the extent an insurer has authorized a rate service organization (RSO) to file forms on its behalf, insurers must file any policy forms or endorsements that they intend to use to cover or exclude *certified losses* on or before the date the forms or endorsements are effective. However, it is important to note that for lines or sub-classifications of insurance exempted from form filing requirements by Virginia statutes or administrative orders, the forms or endorsements related to terrorism coverage for those lines or sub-classifications of insurance are also exempt from filing requirements. The requirements of the Act, however, are not affected by such exemptions and continue to apply.

Conditional Terrorism Exclusions

As a result of uncertainty associated with reauthorizations of the Act, insurers filed conditional terrorism exclusions that would be activated in the event the Act was not renewed or renewed on a basis that substantially affected the risk of the loss assumed by the insurer during the period that the policy was in effect. In response to those concerns, the Bureau approved conditional terrorism exclusions. These endorsements were required to provide the same limitations to coverage for *non-certified* acts of terrorism, which are described below, for any terrorism loss that occurred after the termination of the Act. Conditional terrorism exclusions applicable to claims made coverage required that claims made policies provide extended reporting provisions for the certified terrorism coverage that would be excluded if the Act was not re-enacted as provided by the Virginia claims made regulation. The conditional endorsements were required to clearly state that the terrorism exclusion would apply only if Congress failed to enact an extension of the Act or enacted changes to the Act that substantially affected the risk of loss that an insurer had assumed. Approved conditional endorsements may remain on file to ensure that they are available for any subsequent uncertainty related to the expiration of the Act. However, insurers and rate service organizations should review these endorsements to determine their continued appropriateness.

Exclusions Not Allowed in Virginia Coverage Forms

- Virginia laws and regulations prohibit the use of terrorism exclusions in personal and commercial automobile insurance and insurance covering owner-occupied dwellings.
- Workers' compensation coverage forms are subject to regulation by the Virginia Workers' Compensation Commission (WCC). Terrorism exclusions have not been approved by the WCC. Any questions pertaining to workers' compensation insurance coverage forms should be directed to the WCC.
- For property insurance policies that are subject to the provisions of Virginia's standard fire policy, as set forth in § 38.2-2105 of the Code of Virginia, coverage for ensuing fire losses is required. If, however, the insured does not purchase fire coverage for certified acts of terrorism, the provisions of § 38.2-2102B of the Code of Virginia apply, and the insurer would be allowed to exclude the ensuing fire loss from certified acts of terrorism.

Rates, Loss Cost Multipliers – Other than Workers' Compensation

Rate and loss cost multiplier filings will be accepted on a file-and-use basis, in accordance with § 38.2-1906 of the Code of Virginia. If an insurer relies on an RSO for advisory loss costs and to file supplementary rate information on its behalf, no filing is required unless an insurer plans to use a different loss cost multiplier than is currently on file for coverage for *certified losses*. It is important to note that for lines or sub-classifications of insurance exempted from rate filing requirements by Virginia statutes or administrative orders, the rates related to terrorism coverage for those lines or sub-classifications of insurance are also exempt from filing requirements. The requirements of the Act are not affected by such exemptions and continue to apply.

Rates, Loss Cost Multipliers – Workers' Compensation

If an insurer relies on an RSO to file workers' compensation loss costs and related rating systems on its behalf, no filing is required unless the insurer plans to use a different loss cost multiplier than is currently on file. Refer to Administrative Letter 2010-05 for additional details regarding filing loss cost multipliers. Insurers electing to file independent workers' compensation rates for terrorism exposures that do not rely upon the approved loss costs filed on their behalf by the National Council on Compensation Insurance are subject to the 60-day prior filing requirements of § 38.2-1912 of the Code of Virginia and must include full actuarial support for their proposed rates.

Disclosure Notices – Filing Not Required

Insurers should **not** submit the federally required disclosure notices to the Bureau for review or approval. The federally required disclosure notices do not contain terms or conditions of coverage and are, therefore, not subject to form filing requirements.

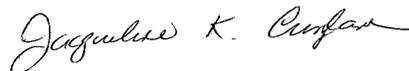
Please feel free to contact the Property and Casualty Division of the Bureau of Insurance with your questions about Administrative Letter 2015-03.

Betty Branum, Principal Insurance Market Examiner
Betty.Branum@scc.virginia.gov
(804) 371-9242

Melinda Willis, Principal Insurance Market Examiner
Melinda.Willis@scc.virginia.gov
(804) 371-9667

Rebecca Nichols, Assistant Deputy Commissioner
Rebecca.Nichols@scc.virginia.gov
(804) 371-9331

Sincerely,



Jacqueline K. Cunningham
Commissioner of Insurance