

ISO OVERVIEW and STATES NOT USING ISO

In Arkansas, the State Insurance Department (SID) reviews rates to ensure compliance with state law. The Property and Casualty Division of the SID is responsible for monitoring and regulating rate and form filing activities. The division evaluates how a rate is distributed among policy holders but may only disapprove a rate if it is actuarially excessive, inadequate, or unfairly discriminatory. Arkansas is considered a “competitive rating state” for most lines of insurance so a rate change becomes effective twenty (20) days after filing the rate.

Under § 23-88-104, an insurer is required to prepare an impact statement that describes a rate’s effect on fire protection in the geographic area with any filing it submits *unless* the insurer utilizes a public protection classification (PPC) system maintained by a licensed advisory organization to attain the rate. ISO is an advisory organization with the SID.

Overview of Insurance Services Office, Inc. (ISO)

The ISO is a private for-profit company that provides fire loss risk evaluations based on its Fire Suppression Rating Schedule (FSRS) to determine the capabilities of a fire department or agency to respond to fires. ISO helps insurers calculate local property and casualty insurance rates, operates as a statistical agent, and provides underwriting services, risk management development services, and other similar services.

The ISO PPC system assigns a numeric value to reflect a community’s local fire protection that is used for property insurance rating schedules. The fire protection level of a community is typically graded using ISO’s FSRS to measure a community’s water distribution system, fire department equipment, and fire alarm facilities. A detailed FSRS Chart is attached.

A community’s PPC is calculated by comparing the actual conditions in a graded area with the standards of the FSRS. Points are awarded and the total is used to develop the local community’s assigned classification: 1 (best) to 10 (worst). The formula was originally compiled by the National Board of Fire Underwriters to provide uniform standards to measure a community’s fire protection and defense. The PPC of a community determines the base rating which is an integral part of the individual rate calculation for property insurance. A PPC Class chart is attached.

Although participation in the evaluation of a community’s fire protection is on a voluntary basis, the areas that do not participate are labeled “unprotected” Class 10 areas.

How difficult would it be to blend the plans of the four states previously identified, i.e. Hawaii, Louisiana, Mississippi, and Oregon, to find the common ground included in all their requirements and the individually unique points they offer that none of the other states offer?

I researched Hawaii, Louisiana, Mississippi, Oregon, and Washington as the states that were previously mentioned as operating independent rating organizations. However, the ISO system is used in Oregon but it appears Idaho operates an independent rating system. A short compilation of common and unique characteristics of the five (5) states that are considered independent rating organizations is below along with details for each state.

Common among non-ISO states

Governance - Board of Directors or Executive Committee

Membership - Private insurance companies

Unique characteristics between non-ISO states

Membership – voluntary / mandatory

Election of Board of Directors - elected by members / only members are eligible

Funding – member assessments / state funds

Services provided on behalf of members - rate filings / statistical information

Forms and filings – pre-programmed as state specific

HAWAII

<http://www.hibinc.com/aboutUs.aspx?AspxAutoDetectCookieSupport=1>

The Hawaii Insurance Bureau (HIB) is an independent, non-profit corporation that operates as an advisory organization. It is governed by a board of directors that is elected by the property and casualty insurance company members. HIB prepares and files rules, forms, and loss costs for its members with the State of Hawaii Insurance Division. Many of the forms are pre-programmed and tailored to Hawaii's state requirements. The HIB publishes a "Public Protection Classification Manual" that provides public protection gradings for local communities in Hawaii.

Member assessments are based on the proportion of written premiums for the preceding year in Hawaii as documented on the Annual Statement to the State of Hawaii Insurance Commissioner.

The HIB grades a community's public protection classification on a scale of 1 to 10 based on their fire suppression capabilities.

IDAHO

<http://www.isrb.com/>

The Idaho Surveying and Ratings Bureau, Inc. (ISRB) is a non-profit cooperative association and is regulated as an independent rate-making organization. ISRB provides member insurance companies with fire insurance examinations and ratings. It is governed by a board of directors who are elected by its members. Members are limited to property insurance companies that have a certificate of authority issued by the Idaho Department of Insurance. The ISRB prepares filings on behalf of its members.

Although considered independent, the ISRB utilizes the property insurance statistics compiled by ISO. The ISRB may modify ISO's data taking into consideration local and state economic conditions, market availability, amount of premium volume per type of coverage loss, and the local impact of past rate changes. Final advisory loss costs are determined in compliance with Section 41-1405(1), Idaho Code.

LOUISIANA

<http://pial.org/>

The Property Insurance Association of Louisiana (PIAL) is a private, non-profit association whose members are state-licensed property insurance companies. On behalf of its members, PIAL grades municipal areas in terms of fire protection capabilities to enable fair insurance

rating of the graded areas. On request, PIAL inspects any commercial building in the state for the purpose of fair pricing of individual risks. PIAL also files advisory rates for its members for review by the Louisiana Department of Insurance. PIAL has statutory authority under Louisiana R.S. 22:1460. Expenses of the association are paid by member assessments levied in proportion to services rendered by PIAL to the member based on the direct premiums, less returned premiums, written on properties located in Louisiana by the insurer in the year before the preceding year. A fire chief has the right to request a review of the public fire protection grading for his or her area if the fire chief or his or her designee has attended the Professional Grading Assistance Program class or similar approved fire suppression grading class.

PIAL is considered independent but utilizes ISO's Fire Suppression Rating Schedule (FSRS) and assigns communities a PPC at least every five (5) years. PIAL employs Municipal Field Representatives who visit each community to gather the information needed to determine the applicable PPC through its Rate Application Property Inspection Database (RAPID) software (GIS locator).

In addition to the PPC, other factors used to develop fire insurance rates for the community include a fire communications system, the location of fire department stations, the quality and quantity of fire equipment, number of and the specific equipment on each fire engine, annual inspection records, fire prevention activities, and a review of the water supply (water source, the number of pumps, daily consumption).

MISSISSIPPI

<http://www.msratingbureau.com/>

The Mississippi Ratings Bureau (MSRB) is a non-profit corporation comprised of several departments including the Rating Department, Public Protection Department, and Audit and Accounting Department. The MSRB is governed by a board of directors (or an executive committee). Every insurance company licensed by the Mississippi Insurance Department (MID) to write Fire and Allied Lines Insurance in Mississippi is required to be a member of the MSRB (approximately 639 members). Members are assessed an annual fee based on the premiums written in Mississippi. Since 1988, auditing of insurance policies is performed on an optional basis.

The Rating Department provides data concerning property insurance advisory loss costs through review of fire protection plans, actuarial audits, and interviews with the community.

The Public Protection Department conducts on-site surveys of municipalities and local fire districts to establish or improve classifications as a basis for determining fire insurance rates. It also makes recommendations to improve the efficiency of fire loss prevention and to educate the public about fire protection, including auditing of local water distribution systems. The Public Protection Department handles the Building Code Effectiveness Grading Schedule for local governments in Mississippi.

The Audit and Accounting Department audits property insurance policies to evaluate the accuracy of the specifics used to calculate the premiums. Using a Statement of Values, the Auditing Department calculates the Blanket Average Rates / Loss Costs and Public and Institutional Property (PIP) Average Rates / Loss Costs.

The MSRB prepares and files rating plans and related changes for Fire and Allied Lines Insurance Coverage with the MID on behalf of its members. The MSRB notifies members of changes in PPC grades and changes to local fire districts and local government that impacts property insurance and provides members with various Fire and Allied Lines Insurance rates / loss costs, forms and manuals.

The MSRB maintains it is a neutral party in the property insurance premium process and its services are available to the public.

OREGON

http://www.oregon.gov/osp/SFM/pages/data_standardsofcover.aspx

Oregon State Police – Oregon Office of State Fire Marshal
Uses ISO PPC rating information.

WASHINGTON

<http://www.wsrb.com/WSRBWeb/Default.aspx>

The Washington Surveying Rate Bureau (WSRB) is a non-profit, public-service institution that provides property underwriting and rating information to all state-licensed insurers in Washington. The WSRB is funded by an annual assessment of subscribers based on premiums written in Washington.

The Washington State Office of the Insurance Commissioner approves the schedule used by WSRB to evaluate local communities for their fire protection and fire suppression capabilities. A mayor or fire district commission may request an evaluation.

WSRB assigns each community a Protection Class of 1 through 10 after surveying four (4) major areas including: (1) Fire department data (engine companies, ladder companies, distribution of fire stations and fire companies); (2) Water supply [conducting flow tests to measure water pressures (psi) and volume (gpm), hydrant size, type, and installation, inspection frequency]; (3) Emergency communications systems (community's 911 system, dispatch personnel and training); and (4) Fire safety control (fire prevention activities, fire code enforcement, public education, building code enforcement).

WSRB inspections are used as a basis for establishing rating and loss cost values for insurance companies and for risk management purposes. In addition to inspecting for rating and loss cost purposes, WSRB provides more detailed reports for insurance underwriting needs including a commercial property report, general casualty report, and a custom report.

Are there federal requirements that a state must comply with if they are not going to use ISO or is each state at liberty to develop their own?

The ability to establish an in-state independent rating organization is not limited by federal law.