

ORDER R97-02

RATING OF HOMEOWNERS INSURANCE AND PROPERTY INSURANCE USING A PUBLIC FIRE PROTECTION CLASSIFICATION SYSTEM

The Director of the Division of Insurance does hereby find as follows:

Background:

1. The intent of this order is to clarify and define what is expected of companies using Public Protection Classification systems to write homeowners insurance and property insurance in Alaska.
2. Most insurers writing property insurance (e.g., commercial property, homeowners, commercial multi peril, etc.) coverages in Alaska use criteria reflecting the level of public fire protection when underwriting and rating these coverages. The system most frequently used is the Public Protection Classifications derived from Insurance Services Office, Inc.'s (ISO) Fire Suppression Rating Schedule. This system measures the level of fire protection available in an area and correlates experience based on these classifications.
3. ISO is a licensed rating organization in the State of Alaska (per AS 21.39.060) authorized to make filings on behalf of its members and subscriber insurers.
4. The Division of Insurance has received allegations that some insurers who have authorized ISO to file property insurance rules, including the Public Protection Classifications, on their behalf in Alaska, are not using that system, and have not filed any deviations from ISO nor independently derived Public Protection Classifications.
5. In response to these allegations, the Division of Insurance conducted research to determine
 - a. the ISO requirements for use of the Public Protection Classifications of company filings to determine how many insurers utilize ISO's Public Protection Classifications, and
 - b. how many insurers file for deviations, modifications and exceptions to the classifications.
6. According to ISO, insurers participating in ISO for state service rules for any property line of insurance are eligible to use ISO's Public Protection Classifications for all property lines of business that the company may write. However, only a company that is eligible and has either granted ISO the

authority to file rules, which include protection classifications, on their behalf for a specific line of property insurance, or has filed by reference within their independent rule filing to use the ISO Public Protection Classifications, has their use of ISO's Public Protection Classifications approved by the division pursuant to AS 21.39.040.

7. Although most insurers utilize the standard ISO classifications, some insurers have not granted ISO the authority to file rules, including protection classifications, on their behalf for specific lines of property insurance or filed by reference the ISO Public Protection Classifications, and some have filed for exceptions, modifications, and deviations from the ISO Public Protection Classifications. An insurer that has neither adopted ISO's Public Protection Classifications nor filed its own may be in violation of AS 21.39.040.

THE DIRECTOR HEREBY ORDERS:

A. The Division of Insurance considers that each insurer who has authorized ISO to file personal and/or commercial property rules on its behalf is utilizing the ISO Public Protection Classifications and the established effective dates for the classifications unless a deviation or an independent filing is made under AS 21.39.040.

B. In accordance with AS 21.39.040, an insurer writing a property coverage that considers public fire protection in its rate structure must:

i) grant ISO the authority to file rules, including Public Protection Classifications, on its behalf for a specific line of property insurance,

ii) be a participating ISO insurer and file by reference within their independent rule filing to use ISO's Public Protection Classifications for a specific line of property insurance, or

iii) file detailed support with the Division of Insurance to utilize another Protection Classification System.

C. If an insurer has granted ISO the authority to file on its behalf in accordance with provision B.(i) above, or filed by reference within their independent filing in accordance with provision B.(ii) above, then the insurer must:

i) utilize ISO's Public Protection Classifications and the established effective date, or

ii) file and receive approval for any change to the effective date established by ISO; and

iii) file detailed support and receive approval from the Division of Insurance to provide exceptions, modifications or deviations from ISO's Public Protection Classifications. This detailed support should include an explanation of why the insurer believes ISO's Public Protection Classifications are inappropriate for use in the particular situation.

D. An insurer writing property insurance that is not eligible to use ISO's Public Protection Classifications must file and receive approval for the use of any other Public Protection Classification rating system it elects to use.

E. If an insurer is currently using the ISO Public Protection Classifications with any exceptions, modifications, or deviations, or any other Public Protection Classification system, the insurer must provide the Division of Insurance with a copy of the approved filing exceptions, modifications, deviations, or other classification system no later than June 1, 1997.

F. Pursuant to AS 21.39.170(a), insurers or rating organizations affected by this order will have a right to request a hearing within 30 days after notice of the order.

This order takes effect June 1, 1997.

Date: February 27, 1997, at Juneau, Alaska.

Marianne K. Burke
Director of Insurance