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Department of Insurance
State of Idaho

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BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

IDAHO SURVEYING & RATING
BUREAU, INC.

License No. 2028

Docket No. 18-3598-18

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2016**

The State of Idaho, Department of Insurance ("Department"), having conducted an examination of the affairs, transactions, accounts, records, and assets of the Idaho Surveying & Rating Bureau, Inc. ("Bureau"), pursuant to Idaho Code §§ 41-1427 and 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code §§ 41-1427(4) and 41-227(5)(a), adopting the Report of Examination of the Idaho Surveying and Rating Bureau, Inc., as of December 31, 2016 ("Report"), as filed.

FINDINGS OF FACT

1. The Bureau is an independent rating organization licensed to operate in the state of

Idaho as a rate making organization as defined in Idaho Code § 41-1436(1). The Bureau operates under License No. 2028 issued by the Director of the Department (“Director”), pursuant to Idaho Code § 41-1415.

2. The Department completed an examination of the Bureau pursuant to Idaho Code § 41-1427 and 41-219(1) on November 13, 2018. The Department’s findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department’s examiner-in-charge, was filed with the Department on November 13, 2018, and a copy of such verified Report was transmitted to the Bureau on the same date. A copy of the verified Report is attached hereto as Exhibit A.

4. Pursuant to Idaho Code § 41-227(4), the Bureau had thirty (30) days from November 13, 2018, to make a written submission or rebuttal with respect to any matters contained in the Report. No such written submission or rebuttal was received by the Department from the Bureau.

CONCLUSIONS OF LAW

5. Idaho Code § 41-227(5)(a) provides that “[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner’s work papers” and shall enter an order adopting the report of examination as filed or with modifications or corrections.

6. Having fully considered the Report, the Director concludes that the Bureau appears to be in compliance with the applicable provisions of chapter 14 of the Idaho Insurance Code, and other applicable provisions of title 41, Idaho Code.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of the Idaho Surveying and Rating Bureau, Inc., as of December 31, 2016, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

IT IS SO ORDERED.

DATED this 31 day of December, 2018.

DIC

STATE OF IDAHO
DEPARTMENT OF INSURANCE



DEAN L. CAMERON
Director

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 2nd day of January, 2019, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2016 to be served upon the following by the designated means:

Idaho Surveying & Rating Bureau, Inc.
Joseph C. Harbacheck, Secretary – General Manager
1871 South Cobalt Point Way
Meridian, ID 83642
jharbacheck@isrb.com

☐ first class mail
☒ certified mail
☐ hand delivery
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Pamela Murray

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

IDAHO SURVEYING AND RATING BUREAU, INC.
(Rating Organization)

As of

December 31, 2016



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Meridian, Idaho
November 13, 2018

The Honorable Dean L. Cameron
Director of Insurance
State of Idaho
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code § 41-1427(1), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a compliance examination as of December 31, 2016, of:

Idaho Surveying and Rating Bureau, Inc.
1871 South Cobalt Point Way
Meridian, Idaho 83642- 4465

hereinafter referred to as the "Bureau", at its offices in Meridian, Idaho. The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed our compliance examination of Idaho Surveying and Rating Bureau, Inc. The last exam was completed as of December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2016.

Examination Procedures Employed

Our examination was conducted in accordance with Idaho Code § 41-1427, subject to Idaho Code §§ 41-223, 41-227, 41-228, 41-229, and 41-230.

The Bureau is an independent not-for-profit rating organization licensed by the Department under Idaho Code § 41-1415. The Bureau retained the services of Harris & Co. PLLC to audit its financial records for the year ending 2016. The firm provided the examiner access to requested work papers prepared in connection with its audit. The external audit work was relied upon where deemed appropriate. The examination also includes assessing the principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation on an accrual basis.

All accounts and activities of the Bureau were considered during the examination process. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Bureau's financial statements.

The examination determined the risks associated with the Bureau's operations and how it may affect the insurance companies relying on their services. Interviews were held with the senior management of the Bureau to gain an understanding of the entity's operating profile and control environment.

This examination report includes findings of fact, as mentioned in Idaho Code § 41-227(2) and general information about the Bureau and its role as a rating organization for its members and subscribers. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to the Bureau.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

Status of Prior Examination Findings

There were no exceptions commented in the prior report of examination as of December 31, 2011.

SUMMARY OF SIGNIFICANT FINDINGS

Our examination did not disclose any material adverse findings or any adjustments that impacted the Bureau's financial condition or overall compliance to applicable laws.

SUBSEQUENT EVENTS

We noted no significant subsequent events as of the date of this report.

BUREAU HISTORY

General

The Bureau was organized in 1923 to establish an independent Board of Fire Underwriters and became incorporated as a not-for-profit cooperative association on November 28, 1947. The Bureau received its first license on January 2, 1948, pursuant to Chapter 246 of the 1947 Sessions Law. On January 1, 1962, the Bureau received its first license under the provisions of Chapter 14, Title 41, of the Idaho Code. The Bureau is regulated as an independent rating organization authorized for property business in the State of Idaho. The Bureau was organized to provide member and subscriber insurance companies with fire insurance examinations and ratings under the Idaho Code.

The incorporators of the Bureau set forth in the Articles of Incorporation are as follows:

Fireman's Fund Insurance Company, San Francisco, California
Great American Insurance Company, New York, New York
Manhattan Fire & Marine Insurance Company, New York, New York
Springfield Fire & Marine Insurance Company, Springfield, Massachusetts
Glens Falls Insurance Company, Glens Falls, New York

Mergers and Acquisitions

The Bureau has not been involved in any merger and/or acquisitions.

Surplus Debentures

The Bureau has not been involved in any surplus debentures.

CORPORATE RECORDS

The meetings of the Board of Directors were conducted at least once every three months in accordance with Article VI(3) of the Bureau's bylaws for all years under examination with one exception. In 2014, the Bureau held a meeting on August 4th and the next meeting held was on December 5th. Meetings were conducted via telephone conference and in person. As per the Bureau's bylaws, the annual Board of Directors meeting was held in Idaho for all periods under examination. The annual meeting of the membership was held at the same time as the annual Board of Directors meeting. Roll call was taken during the membership meetings and a quorum was present either in person or via proxies.

Agenda items discussed at board meetings include the Policy Statement on Antitrust Matters, business plans, standard operating procedure changes, status of members and subscribers, status of contracts and agreements, changes in Board of Directors and audit reports. Beginning in 2013, the external auditor began presenting the audit report to the Board of Directors. Additionally, at the August 2013 meeting, the Board approved the Bureau's Code of Ethics.

The Prior Examination Report as of December 31, 2011, was distributed to the Board on October 4, 2013, and reviewed at the Board of Directors meeting on October 4, 2013, in accordance with Idaho Code § 41-227(6)(a).

MANAGEMENT AND CORPORATE GOVERNANCE

The bylaws of the Bureau indicated the number of directors may be nine (9), including the President and Vice President.

The following persons served as directors of the Bureau as of December 31, 2016:

<u>Name</u>	<u>Principal Occupation</u>
Paul B. Roberts Pocatello, Idaho	Chief Executive Officer Farm Bureau Insurance Company
Josh K. Evangelho Meridian, Idaho	Territory Manager Commercial Insurance Liberty Mutual Insurance Company
Debbie Etcheson-Frisby Meridian, Idaho	Vice President of Marketing United Heritage Property & Casualty Co.
Tony J. Fenton Des Moines, Iowa	Vice President – Middle Market Underwriting Nationwide Insurance Company

Kevin J. Gilronan Lake Oswego, Oregon	NW Region Agribusiness Regional Vice President Travelers Insurance Company
Jeffery A. Maple San Francisco, California	Mid Corporate Underwriting Manager Package & Small Business – Western Zone Allianz Global Allianz Global Corporate & Specialty Insurance Company
Cori N. Medrano Enumclaw, Washington	Vice President of Commercial & Farm Underwriting Enumclaw Insurance Group
Marilyn R. Ternes Bismarck, North Dakota	Resident Vice President EMC Insurance Companies
Rob E. Thomas Bellevue, Washington	Vice President & Chief Actuarial Officer Berkley North Pacific Insurance Company

There was one change to the list of directors subsequent to the examination period. Effective June 30, 2018, Director Kevin J. Gilronan was replaced by Mary K. Townsend, Regional Director at Travelers Insurance Company in Seattle, Washington.

The Bureau's bylaws authorize the President of the Board of Directors to establish a nominating committee no later than thirty days prior to the annual meeting. The committee consists of a chair and two directors. No later than fifteen days following their nominations, the committee must submit to the Secretary in writing the name of a qualified candidate for President, Vice President and Directors who are to be elected at the next annual election. At least one week prior to the annual meeting, the Secretary notifies the other Directors of the committee's nominations. Additional nominations may be made at the annual meeting. As of December 31, 2016, the Bureau's Board of Directors had established the following nomination committee:

Nominating Committee:

Cori N. Medrano	Chair
Kevin J. Gilronan	Director
Josh K. Evangelho	Director

The Bureau's bylaws provide for principal officers to consist of a President, Vice President, Treasurer and Secretary – General Manager. The President and Vice President serve one year terms and must be the principal representative of a member with the Bureau. Principal Representatives have the full power and authority to act for the members that they represent. The

position of the Treasurer may be held by the Secretary – General Manager. The Secretary – General Manager is appointed by the Board and can only be removed by a unanimous vote of the Board of Directors. As of December 31, 2016, the following persons were serving as officers of the Bureau:

<u>Name</u>	<u>Office</u>
Paul B. Roberts*	President
Josh K. Evangelho**	Vice President
Joseph Harbacheck	Secretary – General Manager & Treasurer

*Josh K. Evangelho became President in 2017.

**Tony Fenton became Vice President in 2017.

Contracts and Agreements

The Bureau had the following agreements and/or arrangements in effect at December 31, 2016:

Membership & Subscribership Agreements

Affiliation with the Bureau is open to all insurers conducting property insurance business in Idaho. Two types of affiliations exist. Membership to the Bureau is limited to licensed property insurance companies qualified to engage in the insurance business in the State of Idaho. Members are given a vote during membership meetings and can have a representative on the Board of Directors. Subscribers are not afforded these permissions. Subscribership to the Bureau is open to all insurers doing property insurance business in Idaho.

Under these agreements, members and subscribers agree to pay all assessments levied against it by the Bureau and to pay for special services offered by the Bureau. Through affiliation, members and subscribers have access to the following services: loss cost quotes, public protection classes, building code effectiveness classes, copies of surveys and reports, tentative loss costs, plan reviews, field rating representative visits as well as fee based optional services.

The agreements authorize the Bureau to make filings on behalf of members and subscribers as may be required by law. Pursuant to Idaho Code § 41-1420, the Bureau notified the Department of new members and subscribers via submission of such agreements to the Department.

Service Purchase Agreement

Under this agreement, the Bureau granted permissions for the use of its materials and information to service purchasers. These third party vendors are not charged a fee, but are restricted by the agreement to only provide services to those insurance companies licensed in Idaho and are members or subscribers, in good standing, of the Bureau. As of December 31, 2016, there were seventeen service purchase agreements in force. The agreements were executed on various dates and are continuous.

SERFF Third Party Filer License Agreement

Under this agreement, the National Association of Commissioners (NAIC) provides the Bureau with a license to access and use the NAIC's electronic rate and form filing product, System for Electronic Rate and Form Filing (SERFF). The Bureau utilizes this license to provide rate and form filing services to their members and/or subscribers. The agreement was effective on August 28, 2007, and remained in force during the examination period.

Building Matrix Inc. (BMI) Webhosting Agreement

On November 1, 2009, the Bureau entered into a webhosting agreement with BMI, a for-profit company of the Washington Surveying & Rating Bureau, which remained in force throughout the examination period. The agreement is renewed every twelve months. Under this agreement, BMI provides webhosting services to users of the Bureau's Protection Class Calculator (PCC). The Bureau pays BMI \$599 a month for this service and agrees to reimburse BMI for all geocoding or other transaction charges it incurs on the Bureau's behalf at a rate of \$.12 per transaction.

Infogroup License Agreement

The Bureau entered into an agreement with Infogroup on September 10, 2012. The agreement is renewed annually with the most recent effective date of renewal being 9/10/2017 - 9/9/2018. Under the agreement, Infogroup supplies the Bureau with an electronic subscription to ReferenceUSA - US Businesses, ReferenceUSA - Data Visualization, and Reference USA - US Jobs products. On their website, the Bureau makes this electronic subscription available to its members and subscribers to aid them in developing insurance quotes.

Insurance Services Office (ISO) Contracts & Agreements:

ISO Commercial Risk Services Inc. (CRS) Optional Services Agreement

This agreement permits the Bureau to provide ISO optional services to its affiliated (members/subscribers) and non-affiliated insurers solely for locations in the state of Idaho. It also permits the Bureau to use ISO survey reports including both personal and commercial lines in Idaho.

Currently, under this agreement, the Bureau receives 100% of the contracted fee that was negotiated with the Bureau's non-affiliated insurer when the optional service is complete and emailed to ISO prior or on the due date. If the optional service is emailed to ISO after the due date, the Bureau will receive 75% of the contracted fee negotiated with the Bureau's non-affiliated insurer. For affiliated insurers, the Bureau receives 75% of the fee assessed for the optional service while CRS receives the remainder.

This agreement was entered into in 1992, amended once in 1994 to extend the effective and renewal dates, once in 2012 to modify the amount of the fees and charges and again in 2014. The 2014 amendment allowed for the Bureau to offer optional services to non-affiliated insurers. The agreement automatically renews every twelve months unless either party gives the other written notice of nonrenewal at least sixty days prior to the expiration of the agreement.

ISO Commercial Risk Services Building Code Effectiveness Grading Schedule (BCEGS) Agreement

This agreement was entered into on January 2, 1996, and provides the Bureau a license to use the BCEGS for the sole purpose of developing, publishing and distributing building code effectiveness classifications for communities in Idaho. The agreement was in force during the examination period and can be terminated by either party provided that ninety days written notice is given to the other party.

ISO Agreement for Electronic Distribution through Inclusion in Geographic Underwriting System (GUS)

On September 15, 1993, the Bureau entered into an agreement with ISO which allows ISO to electronically distribute the Bureau's geographically defined information over ISO's GUS. ISO will only distribute this information to property/casualty insurers who are members and/or subscribers in good standing with the Bureau. Neither party is obligated to pay the other any consideration for the services rendered. Instead, each party is responsible for any charges they make to their respective members and subscribers. This agreement does not include the distribution of Public Protection Information. The agreement can be terminated by either party with 120 days prior written notice.

ISO Non-Exclusive License Agreement for Electronic Distribution of Bureau Information

On January 23, 1995, the Bureau entered into an agreement with ISO to allow for the electronic distribution of the Bureau's public protection based information over ISO's Geographic Underwriting System (GUS). ISO will only distribute this information to property/casualty insurers who are members and/or subscribers in good standing with the Bureau. Neither party is obligated to pay the other any consideration for the services rendered. Instead, each party is responsible for any charges they make to their respective members and subscribers. ISO agrees to let the Bureau have access to Idaho public protection information electronically at the price of \$1.35 per transaction plus any applicable fees. The agreement can be terminated by either party with 120 days prior written notice.

Insurance Services Office (ISO) IntegRater Agreement

The Bureau entered into an agreement with ISO on March 9, 2001, to allow for the electronic delivery of commercial lines advisory loss cost and rating factors. ISO will only distribute this information to property/casualty insurers who are members and/or subscribers in good standing with the Bureau. The agreement was in force during the examination period.

ISONet Delivery System License Agreement

This license agreement executed on October 22, 2003, with ISO allows the Bureau to access the ISONet delivery system for manuals, forms, GUS, and specific property information. The agreement remains in force until terminated, with 30 days prior written notice. Access to ISONet is at no charge, unless additional user IDs are requested.

ISO Telecommunications Inc. (ISOTEL) Advisory Rate Information Agreement

Effective June 1, 1987, the Bureau entered into an agreement with ISOTEL allowing ISOTEL to distribute, electronically via the ISOTEL network, advisory rates developed by the Bureau for commercial fire. ISOTEL agrees to only distribute the advisory rate information to insurers

properly affiliated with the Bureau. Under the agreement, there are no charges to either party and each is responsible for charges made to their respective users. The agreement was in force during the examination period.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2016, the Bureau had crime and fidelity bond coverage subject to a loss limit of \$500,000. Insurance coverages for the protection of the Bureau were maintained for the period under examination. Coverages included: general liability for business, commercial auto, commercial property, commercial umbrella, employment practice liability, fiduciary liability, Director's & Officers liability, miscellaneous professional liability and premises liability, workers compensation, fidelity bond for the pension and 401(k) savings plans as required by the Employee Retirement Income Security Act (ERISA) and cyber liability coverage.

The insurance companies providing coverage to the Bureau were licensed or other otherwise authorized in the state of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Full-time staff members are offered a number of benefits including: personal time off, medical insurance, dental insurance, term life insurance, accidental death and dismemberment, long-term disability insurance, 401(k) savings plan, flexible spending account, Medicare Supplement Plan and a retirement plan.

Effective June 6, 2014, full-time retired staff members are eligible for the Medicare Supplement Plan if the following are met: (1) hired prior to March 6, 2015, (2) eligible for Medicare and have enrolled in Medicare Part A and Part B, (3) at least 55 years of age on date of retirement, (4) completed ten years of service with the Bureau, and (5) been in the Bureau's medical plan for five years. For staff members meeting these requirements, the Bureau will contribute a maximum of \$225 per month towards the monthly Medicare Supplement Plan premium.

On January 1, 2013, the Bureau switched from a defined benefit retirement plan to a cash balance retirement plan. To participate in the cash balance plan, employees must have 1,000 hours of service during a twelve month period. The Bureau makes contributions and pay credits to the plan annually. Pay credits are based on years of service and salary. Employees who were enrolled in the defined benefit plan are still entitled to those benefits as well.

During the prior examination, the cash basis accounting method was utilized which did not give effect to the liabilities that existed for the Medicare Supplement Plan and the defined benefit retirement plan. On January 1, 2016, the Bureau switched from cash basis accounting to accrual basis accounting. This was done, largely, to account for the previously mentioned liabilities.

In December 2013, the Board approved management's plan to fund the defined benefit plan liability. Based on actuarial reports, as of December 31, 2016, the fair value of the plan assets was \$2,391,287 while the projected benefit obligation of the plan was \$2,266,451. This was reflected on the 2016 financial statements as a Net Pension Asset – Retirement of \$124,836. At the December 2016 Board meeting, the Board approved management's recommendation to fund the plan in 2017 based on the actuarial provided worst case plan performance scenario report.

In August of 2014, the Board approved management's plan to begin funding the Medicare Supplement Plan Liability in 2015. As of December 31, 2016, the Bureau's funding of this plan totaled \$357,563. This was reflected on the 2016 financial statements as an Unrestricted – Board Designated Net Asset. Based on actuarial reports, as of December 31, 2016, the Medicare Supplement Plan Liability was \$245,173. This was reflected on the 2016 financial statements as a Post-Retirement Liability – Medical, net of current portion in the amount of \$237,661.

The Board of Directors voted in December of 2016 to discontinue funding the Medicare Supplement Plan Liability, as a surplus existed.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Bureau was licensed as a not-for-profit organization in the State of Idaho. The Bureau operates, and is licensed in Idaho, as an independent rating organization authorized for property business as discussed in the Bureau's Articles of Incorporations and Bylaws. The Bureau has maintained its office in Meridian, Idaho since 2006, where Bureau operations are conducted.

The Bureau provides property insurance services to their affiliates; members and subscribers. Those services include: public protection classes, building code effectiveness classes, advisory loss costs, tentative loss costs, plan reviews to determine building construction changes that could affect advisory loss costs, as well as optional services provided in conjunction with ISO. The Bureau's website is used to disseminate services to affiliates. Field rating representatives are also available for meetings upon request.

Rate Making Operations

Pursuant to Idaho Code § 41-1402, the purpose of Title 41, Chapter 14, is to promote the public welfare by regulating insurance rates and to authorize and regulate cooperative action among insurers in rate making and in other matters within the scope of the chapter. As an independent rating organization, the Bureau utilized property insurance statistical data compiled by ISO. ISO develops and maintains statistical coding plans to collect premium and loss information by line of business. The Bureau reviews all ISO proposed rate changes and may modify ISO's indicated changes by taking into consideration local and state economic conditions, market availability through moderate but adequate rates, premium volume in Idaho for types of coverage losses

occurring outside the period used by ISO, and the effects of past rate changes. Final advisory loss costs were determined in compliance with Idaho Code § 41-1405(1).

Beginning in 1993, the Bureau began filing advisory loss costs, rather than rates, with the Idaho Department of Insurance. Under the loss cost system, only the costs of losses and loss adjustment expenses are considered. It is the responsibility of the company utilizing those loss costs to determine final rates.

The Bureau maintained advisory loss cost systems for dwelling, farm and commercial property. Changes made to advisory loss costs were based on periodic experience reviews of the adequacy of premium developed to pay claims and loss adjustment expenses. The following loss experience adjustments were made during the examination period:

Dwelling Policy Program

As a result of experience reviews, five changes were made to the dwelling policy program loss costs during the examination period (2012 – 2016). The most recent change, made effective September 1, 2017, used statistical data for the period ending September 30, 2015. The overall positive change consisted of a 6.5 percent increase for fire, a 14.4 percent increase for extended coverage and an 11.5 percent increase for fire and extended coverage combined. The change was filed on January 19, 2017.

Dwelling Fire Earthquake Policy Program

An experience review for dwelling fire earthquake in Idaho resulted in one change during the examination period. The change was effective on January 1, 2014, and used statistical data provided by ISO homeowners loss costs filed in 2012. The overall change was a negative 3.6 percent.

Monoline Farm Program

Three changes occurred during the examination period (2012 -2016) to the monoline farm policy program as a result of experience reviews. The most recent change was made effective on September 1, 2017, and used statistical data for the period ending June 30, 2015. The loss cost level review changes consisted of a negative 6.6 percent change to overall farm property, a negative 6.5 percent to dwelling & HPP, a negative 14.8 percent to outbuildings, a positive .2 percent farm personal property and a negative 7.0 percent to overall joint farm.

Monoline Commercial Property Fire & Allied Lines Program

During the examination period (2012 – 2016), experience reviews of the monoline commercial property fire & allied lines policy program resulted in nine changes. In 2017, there were three changes with the most recent change filed with the Department on October 8, 2017, with an effective date of March 1, 2018. That change used statistical data for the period ending March 31, 2016. The implemented changes included a negative 1 percent in basic group I, a positive 4.5 percent in basic group II, a negative .4 percent in special causes of loss and an overall change of zero percent.

Commercial Property – Flood Program

The private flood insurance market for commercial insurance is recognized as an emerging market by ISO due to the availability of analytical tools, reinsurance capital and limited capacity of the National Flood Insurance Program. As such, on May 11, 2018, the Bureau filed with the

Department base loss costs by coverage, flood zone and construction. The effective date is for policies written on or after January 1, 2019.

Commercial Property Earthquake Policy Program

There was one change to the commercial property earthquake policy program during the examination period, which was filed on August 26, 2013, and made effective on January 1, 2014. The last change filed with the Department was on December 1, 2009. This filing contained prospective loss cost review for earthquakes based on the AIR-Worldwide Corporations earthquake computer model for Idaho. The model estimated the potential losses from earthquake in a geographic area and developed loss costs by zip codes. The filing made during the examination period introduced revised earthquake rating territories, based on zip codes, and provided the methodology utilized to derive those territories.

Rating Rules and Policy Forms

As an independent rating organization, the Bureau has the ability to file forms, policies, contracts, riders, rules and/or endorsements resulting in changes, modifications and/or renewals issued on risks in Idaho on behalf of their affiliates. Pursuant to Idaho Code § 41-1420, the Bureau submitted a listing of affiliates that authorized the Bureau to file on their behalf. The majority of the forms and rules were filed in conjunction with ISO.

Rating Schedules and Plans

To develop advisory loss costs, the Bureau utilizes two pricing systems: class rating and schedule rating. Loss costs represent the component of the rate that is used to cover the expected losses and loss adjustment expenses. The various program's pricing systems are summarized below:

Dwelling Policy Program

A class rating pricing system is used in the dwelling policy program. The pricing points are: (1) the coverage form to be purchased, (2) the construction of the insured building, (3) the insured value, and (4) the Public Protection Classification of the risk.

Monoline Farm Program

The pricing system used in Division Four-Farms of the Commercial Lines Manual is a class rating system. For dwelling structures on a farm, the pricing system primarily used is the same as the one used in the Dwelling Policy Program. Multi-line coverages primarily use the same system as the one used in the homeowners' manual. Outbuildings, barns, stables, cellars, etc. use pricing points that cover the major construction features of the buildings as well as the Public Protection Classification.

Monoline Commercial Property Fire & Allied Lines Program

A combination of class rating and schedule rating systems are used for commercial fire and allied lines. The main elements used to determine which system is applicable include: size, construction, occupancy, and Public Protection Class. If a building is eligible for class rating, then the class rating system must be utilized regardless of whether or not a schedule rate or loss cost exists. Three

pricing points are used in the class rating system: (1) occupancy code of the building, (2) construction of the building, and (3) Public Protection Class. In 2014, the Bureau began offering class and schedule loss costs based on limit of insurance relativity factors and non-limit of insurance relativity factors.

The schedule rating system utilizes ISO's *Specific Commercial Property Evaluation Schedule* (SCOPEs) Manual. Idaho has maintained one exception to the current edition of the SCOPEs Manual for the 1982 edition, covering separate evaluation of buildings with unacceptable passageways. The Bureau also utilizes the *Schedule for Rating Electric Generating Systems* for property used in electrical energy generation and distribution. The schedule rating system and the class rating system, use a detail evaluation of the building features internally and externally to develop advisory loss costs.

A random sample of Commercial Property Evaluation Surveys/Specific Loss Costs was reviewed to determine the accuracy of the advisory loss costs developed by the Bureau. No exceptions were noted in this review.

Commercial Property – Flood Program

A class rating system for the flood program is utilized. The system uses three pricing points: (1) coverage, (2) construction of building, and (3) flood zone. This system is effective for policies written on or after January 1, 2019.

Commercial Property Earthquake Policy Program

A class rating system is utilized in the commercial property earthquake program. The system utilizes territories defined in terms of zip codes. Two territories are defined in Idaho.

Building Code Effectiveness Grading Schedule (BCEG)

The Bureau has been providing BCEG information to its affiliated companies since 1997. The BCEG contains information regarding the enforcement of building codes for municipalities. The Bureau updates BCEGs approximately every eight years. The program is voluntary and if a municipality doesn't participate, the Bureau assigns it a classification of ten. A sample of BCEGs was reviewed to determine the accuracy of BCEG classifications prepared by the Bureau. No material exceptions were noted in this review.

Public Protection Classification Grading (PPC)

The Bureau also performs PPC gradings and makes those available to their affiliates. These gradings involve a review of a fire district's receiving and handling of fire alarms, the fire department and water supply to determine the appropriate classification. In the review process, the Bureau utilizes specific criteria from the ISO publication, *Fire Suppression Rating Schedule* (FSRS), and the Bureau's *Minimum and Supplemental Criteria*. The FSRS developed a PPC on a relative scale between 1 and 10, with 10 representing less than minimum criteria. When the grading is complete, the Bureau provides a summary of the results to the representative(s) of the jurisdiction evaluated.

A sample of PPC gradings was reviewed to determine the accuracy of the review process. No exceptions were noted in this review.

Protection Class Calculator

This web-based, password protected geographical information system calculator was developed by the Bureau to provide affiliated parties information to help establish fair premiums for fire insurance. The calculator provides risk classifications for specified Idaho addresses. The calculator is hosted by the Washington Surveying & Rating Bureau under the terms of a web-hosting agreement. The Bureau maintains accurate up-to-date information to ensure the calculator's integrity.

Enhanced (Optional) Services

The Bureau also provides enhanced or optional services to its affiliates. In the course of their field work, representatives of the Bureau collect additional information specifically for an individual insurer over a wide range of lines of business. These services are offered on a fee basis.

ACCOUNTS AND RECORDS

General Accounting

The Bureau utilized QuickBooks for all accounting functions during the examination period. Beginning January 1, 2016, the Bureau switched from a cash basis accounting method to an accrual basis accounting method in accordance with the Generally Accepted Accounting Principles (GAAP). Based on a review of the Bureau's record maintenance, the Bureau was in compliance with Idaho Code § 41-1439.

Independent Audits

During the examination period, the annual independent audits of the Bureau were performed by the following Certified Public Accountants (CPA):

<u>Year</u>	<u>CPA Firm</u>
2012	Harding & Company P.A.
2013	Harding & Company P.A.
2014	Severn Winkle L.L.P.
2015	Severn Winkle L.L.P.
2016	Harris & Co. PLLC

As previously mentioned, the financial statements in 2016 were prepared on the accrual basis. Prior to 2016, the financial statements were prepared on the cash basis. There was some reliance on the 2016 audit report and work papers in this examination of the Bureau.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Financial Position – Accrual Basis as of December 31, 2016

Statement of Activities – Accrual Basis as of December 31, 2016

Statement of Cash Flows – Accrual Basis as of December 31, 2016

STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents \$813,108

Accounts receivable 8,954

Total Current Assets 822,062

EQUIPMENT, net 83,356

NET PENSION ASSET-RETIREMENT 124,836

Total Assets \$1,030,254

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued and withheld payroll costs \$41,966

Current portion of post-retirement benefit liability 7,512

Total Current Liabilities 49,478

POST-RETIREMENT LIABILITY - MEDICAL, net of current portion 237,661

Total Liabilities 287,139

NET ASSETS

Unrestricted 385,552

Unrestricted - board designated 357,563

Total Net Assets 743,155

Total Liabilities and Net Assets \$1,030,254

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

REVENUE AND OTHER SUPPORT

Assessments	\$1,535,492
Optional service income	77,698
Change in pension and post-retirement liabilities	100,757
Other income	<u>16,030</u>

Total Revenue and Other Support 1,729,977

EXPENSES

Payroll - salaries	469,662
Payroll - taxes	35,499
Benefits - insurance	107,043
Benefits - savings	23,209
Facilities - professional fees	17,408
Facilities - office supplies	51,654
Facilities - insurance	26,042
Facilities - rents	82,360
Operations	71,127
Operations - ISO assessments	222,692
Operations - travel	64,755
Operations - optional service expense	111,589
Depreciation expense	<u>21,225</u>

Total Expenses 1,304,265

Increase in Net Assets 425,712

NET ASSETS, Beginning of Year (Restated) 317,403

NET ASSETS, End of Year \$743,115

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	\$425,712
Increase in net assets	
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	21,225
Gain on disposal of equipment	(14,111)
Changes in operating assets and liabilities:	
Accounts receivable	(1,006)
Accounts payable	(7,296)
Accrued and withheld payroll costs	7,324
Net pension asset	(134,204)
Post-retirement benefits liability	<u>(94,607)</u>
Net Cash Provided by Operating Activities	203,037
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment and vehicles	<u>(57,346)</u>
Net Increase in Cash and Cash Equivalents	145,691
 CASH AND CASH EQUIVALENTS, Beginning of Year	<u>667,417</u>
 CASH AND CASH EQUIVALENTS, End of Year	<u><u>\$813,108</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Idaho Surveying and Rating Bureau Inc. have been prepared on the accrual basis of accounting.

Basis of Presentation

The Bureau reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Pensions and Post-retirement Benefits

The Bureau participates in a defined pension plan that covers all employees who have completed 1,000 hours of service measured in a twelve-month period from the date of hire to the first anniversary of the date of hire. The Bureau also provides certain life and health insurance benefits to retired employees and their spouses. Retirees meeting the following requirements are eligible to enter the retiree medical plan: retirement after age 55 with 10 years of service and participation in active employee medical insurance plan for 5 years. The post retirement benefit plan is only available to staff hired prior to March 6, 2015.

NOTE B – CHANGE IN BASIS OF ACCOUNTING

In previous years, the Bureau prepared its financial statements using the cash basis of accounting. This year, however, management has opted to prepare the financial statements using generally accepted accounting principles. Management believes that the accrual basis of accounting will provide more accurate information needed by primary users of the financial statements. Accordingly, the accompanying 2016 financial statements are prepared on the accrual basis of accounting. The 2015 balances have been restated resulting in a reduction of \$350,014 in beginning unrestricted net assets.

SUMMARY OF RECOMMENDATIONS

The examination resulted in no material or significant findings.

ACKNOWLEDGEMENT

The undersigned performed the examination under the supervision of the Deputy Chief Examiner of Idaho Department of Insurance.

Respectfully submitted,



Jessie L. Adamson
Examiner-in-Charge
Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Jessie L. Adamson, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and compliance condition of the Idaho Surveying and Rating Bureau, Inc. for the period from January 1, 2012 through December 31, 2016, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

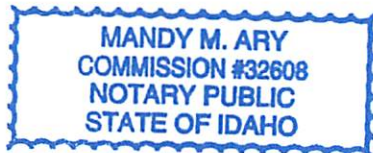


Jessie L. Adamson
Examiner-in-Charge
Idaho Department of Insurance

Subscribe and sworn to before me the 13th day of Nov., 2018, at Boise, Idaho



Notary Public



My Commission Expires: 7/24/24