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Department of Insurance  
State of Idaho

*Attorneys for Department of Insurance*

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE  
OF THE STATE OF IDAHO**

In the Matter of:

IDAHO SURVEYING & RATING  
BUREAU, INC.

License No. 2028

Docket No. 18-2894-13

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2011**

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, 2011 (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 September 13, 2013. The Department's findings are set forth in the Report. The Report covered the time period between January 1, 2007 and December 31, 2011.

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 September 13, 2013, and a copy of such verified Report was transmitted to the Bureau on September 13, 2013. Thereafter, a second copy of the Report, modified to correct a typographical error, was transmitted to the Bureau on September 16, 2013. A copy of the Report is attached hereto as Exhibit A.

4. On September 17, 2013, the Department received via email from the Bureau a written submission dated September 17, 2013, in response to the Report, pursuant to Idaho Code § 41-227(4), the original of which was received by the Department on September 18, 2013. A copy of such written submission is attached hereto as Exhibit B.

5. On October 4, 2013, the Department received via email from the Bureau a written submission dated October 4, 2013, in response to the Report, pursuant to Idaho Code § 41-227(4), the original of which was received by the Department on October 7, 2013. A copy of such written submission is attached hereto as Exhibit C.

6. On October 8, 2013, the Department received a Waiver executed by Joseph C. Harbacheck, Secretary - General Manager of the Bureau. By execution of such Waiver, a copy of which is attached hereto as Exhibit D, the Bureau consented to the immediate entry of a final order by the Director adopting the Report without any modifications and waived its right to

request a hearing and to seek reconsideration or appeal from the Director's final order. Further, notwithstanding the written submissions by the Bureau, as described herein and attached hereto as Exhibits B and C, such Waiver included the waiver of the Bureau's right to make a written submission or rebuttal to the Report.

### CONCLUSIONS OF LAW

7. 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.

8. Having fully considered the Report, the Director concludes that the Bureau is 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, 2011, 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 3, title 9, Idaho Code.

**IT IS SO ORDERED.**

DATED this 28<sup>th</sup> day of October, 2013.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE

  
\_\_\_\_\_  
WILLIAM W. DEAL  
Director

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that, on this 28<sup>th</sup> day of October, 2013, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2011 to be served upon the following by the designated means:

Idaho Surveying & Rating Bureau, Inc.  
Attn: Joseph C. Harbacheck, Secretary – General Manager  
1871 South Cobalt Point Way  
Meridian, ID 83642  
[jharbacheck@isrb.com](mailto:jharbacheck@isrb.com)

- first class mail
- certified mail
- hand delivery
- email

Georgia Siehl, CPA, CFE  
Bureau Chief/Chief Examiner  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
Boise, ID 83720-0043  
[georgia.siehl@doi.idaho.gov](mailto:georgia.siehl@doi.idaho.gov)

- first class mail
- certified mail
- hand delivery
- email

  
\_\_\_\_\_  
Teresa Jones  
Assistant to the Director

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

IDAHO SURVEYING AND RATING BUREAU, INC.  
(a non-profit cooperative association)

as of

December 31, 2011

EXHIBIT

A

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*State of Idaho*  
**DEPARTMENT OF INSURANCE**

**C. L. "BUTCH" OTTER**  
Governor

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

**WILLIAM W. DEAL**  
Director

Meridian, Idaho  
September 13, 2013

The Honorable William W. Deal  
Director of Insurance  
State of Idaho  
700 West State Street  
Boise, Idaho 83720

Dear Sir:

Pursuant to your instructions, in compliance with Section 41-1427(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2011, of the financial condition and corporate affairs of:

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

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

## SCOPE OF EXAMINATION

This examination covered the period January 1, 2007, through December 31, 2011, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Section 1427(1), Idaho Code.

We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Financial Condition Examiners Handbook*. Verification and valuation of assets, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

There was some reliance on the 2011 and 2012 independent Certified Public Accountant's statutory audit report and workpapers in this examination.

A letter of representation attesting to the Bureau's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

In addition to the Report of Examination, a Management Letter was issued to the Bureau by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, or accounting and management best practices.

## PRIOR EXAMINATION

The prior examination was conducted by the Idaho Department of Insurance, and covered the period of January 1, 2002 through December 31, 2006.

A review was made to ascertain what action was taken by the Bureau with regard to comments and recommendations made by the Department in the prior exam report. Unless otherwise mentioned in the COMMENTS AND RECOMMENDATIONS section of this report, the prior report exceptions were adequately addressed by the Bureau.

## HISTORY AND DESCRIPTION

The Bureau was organized in 1923 to establish an independent Board of Fire Underwriters and became incorporated as a non-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 Title 41, Chapter 14, 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

MANAGEMENT AND CONTROL

Article VI of the Bylaws provided that the business, property and affairs of the Bureau shall be directed and controlled by a Board of Directors consisting of nine persons. The Articles of Incorporation required that each Director must be either (a) a corporate officer, (b) a manager or assistant manager reporting directly to the head office or to the United States Manager or (c) a general agent reporting directly to the head office or to the United States Manager of an insurance company that is a member of the Bureau. Each Director shall hold office for a term of three years or until their successors are elected and qualified.

The Annual Meeting of the Members shall be held in the State of Idaho sometime between June 1 and October 31 in each calendar year, the time and place of such meeting to be fixed by the Board of Directors. At such meeting, there shall be an election of officers for the ensuing year. The Secretary-General Manager was appointed by the Board of Directors and was responsible for the administration of the business affairs and services of the Bureau.

Special Meetings of the members may be called by the Board of Directors or on written request of any ten members.

Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2011:

<u>Name</u>	<u>Principal Occupation</u>
Jeffery A. Maple	Commercial Field Underwriting Director Fireman's Fund Insurance Company
Eric P. Nelson*	Vice President – Underwriting Mutual of Enumclaw
Kevin J. Gilronan	Agribusiness Regional Vice President Travelers Insurance Companies
Brian E. Henman*	President & Chief Executive Officer United Heritage Property & Casualty Insurance Company
Phillip R. Joslin*	Executive Vice President & Chief Executive Officer Farm Bureau Mutual Insurance Company of Idaho

Marilyn R. Ternes	Branch Manager EMC Insurance Companies
David W. Reese	Middle Market Manager The Hartford
Darrell S. Rasor	Office Operations Manager & Territory Manager Liberty Northwest Insurance Corporation
Deirdre A. Ashlock	Vice President of Underwriting Berkley North Pacific Group LLC

\*Replaced by Directors Debra Etcheson-Frisby, Paul Roberts, and Cori Medrano in 2012 and 2013.

### Officers

The following persons were serving as officers of the Bureau at December 31, 2011:

David W. Reese**	President, Director
Darrell S. Rasor**	Vice-President, Director
Alfred C. Frieze***	Secretary – General Manager

\*\*Darrell S. Rasor became President and Director and Deirdre A. Ashlock became Vice President and Director in 2012.

\*\*\*Retired effective December 31, 2012 and was replaced by Joe Harbacheck.

### Committees

Pursuant to Article VII of the Bylaws, the Bureau's President is authorized to appoint three members of the Board of Directors to serve as a Nominating Committee. Candidates for president, vice president, and members of the Board of Directors who are to be elected at the next Annual Members' Meeting are nominated by the Committee. After the Nominating Committee has reported its actions to the Annual Meeting, additional nominations may be made from the floor.

The following Board members were serving on the Nominating Committee as of December 31, 2011:

Eric Nelson, Chair	Phillip R. Joslin	Brian E. Henman
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### Conflict of Interest

The Company established conflict of interest procedures. These procedures required each of the directors and officers to complete a disclosure statement of any conflicts or possible conflicts with the performance of their duties and responsibilities on an annual basis. Disclosure statements completed by directors and officers during this examination period were reviewed and indicated no conflicts.

## Contracts and Agreements

The Bureau had the following agreements and/or arrangements in effect at December 31, 2011:

### Agreement for Provision of Commercial Fire Advisory Rate Information

An agreement was made with ISO Telecommunications, Inc. (ISOTEL) whereby the Bureau delivers all advisory rates it has developed for commercial fire by electronic transmission to ISOTEL. Under this agreement, the Bureau agrees that ISOTEL may distribute the advisory rate information to insurers properly affiliated with the Bureau. The agreement was effective June 1, 1987 and is currently in force. Under the agreement, there are no charges to either party; however, each party is responsible for charges made to their respective users.

### Licensing Agreement: Optional Services

The Bureau executed a license agreement with ISO Commercial Risk Services, Inc. in 1992 whereby certain optional services, such as underwriting survey reports were provided. Under this agreement, the Bureau received 75 percent of fees set forth in the agreement for providing such optional survey reports. The Bureau also pays a fee for receiving replacement cost valuations. The term of the agreement is three years and is automatically renewed for successive additional three year terms unless written notice is provided ninety days prior to expiration. The agreement may be terminated by either party for reasons specified in the agreement.

### Agreement for Electronic Distribution

An agreement was made on July 13, 1992 with Insurance Services Organization, Inc. (ISO) and ISO Telecommunications, Inc. Under the agreement, the Bureau agrees to allow ISO to distribute machine readable copy of all Bureau information currently being distributed by ISO in paper form in an electronic form over the ISOTEL network and via tape. The agreement was effective July 1, 1992 and can be terminated with 90 days prior written notice. There are no charges to either party; however, each party is responsible for charges made to their respective users.

### Agreement for Electronic Distribution Through Inclusion in Geographic Underwriting System (GUS)

The Board of Directors approved an agreement with ISO in which it may distribute certain of the Bureau's geographic based information through ISO's Geographic Underwriting System (GUS). The Bureau is responsible for any charges made under the agreement to its members and subscribers. GUS allows an insurer to enter an address and have returned to them a series of underwriting information about that address. The agreement was effective September 15, 1993 and may be terminated by either party with 120 days prior written notice.

This agreement does not include the distribution of Public Protection information. In Idaho, the Bureau is the entity that develops such information, which is considered proprietary. Distribution of Public Protection information is covered in the Non-Exclusive License Agreement For Electronic Distribution of Bureau Information discussed below.

### Non-Exclusive License Agreement For Electronic Distribution of Bureau Information(GUS)

ISO included Idaho's Public Protection information developed by the Bureau in the GUS system. To provide for this, a non-exclusive license agreement was executed with ISO allowing ISO to electronically distribute the Bureau's Public Protection based information over ISO's GUS system. No charges are made by the Bureau to ISO or by ISO to the Bureau for services rendered in incorporating Idaho's Public Protection information into ISO's GUS system. However, the Bureau has access to the Idaho Public Protection information electronically from ISO for \$1.35 per transaction, plus applicable

line charges. The agreement was effective January 23, 1995 and may be terminated by either party with 120 days prior written notice.

#### Licensing Agreement: Building Code Effectiveness Grading Schedule

The Board of Directors approved a contract with ISO Commercial Risk Services Inc. which licensed the Bureau to develop, publish and distribute building code effectiveness classifications for communities in the State of Idaho. The agreement was made on January 2, 1996 and remains in force until terminated. The annual fee set forth in the agreement is \$1,500, subject to amendment.

#### ISONet 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.

#### Web Hosting Agreement

The Bureau entered into a web hosting agreement with Building Metrix, Inc. (BMI), Seattle, Washington effective on November 1, 2009 for a 12 month period. In this agreement, BMI agreed to act as the webhost for the Bureau on the protection class calculator. In return, the Bureau agreed to pay BMI \$599 per month plus \$0.012 per transaction. This agreement automatically renews for additional 12 month periods unless terminated by either party with 45 days advance notice. The agreement remained in-force during the examination period.

#### Office Lease

In December, 2010, the Bureau extended its office lease agreement into a new five-year term that commenced on September 1, 2011 and will expire on August 31, 2016. The new lease calls for monthly payments of \$5,405 for the first year, \$5,567 for the second year, \$5,734 for the third year, \$5,906 for the fourth year, and \$6,083 for the fifth year. For the year ended December 31, 2011, total expenses related to the office lease were \$70,838. The Board of Directors authorized the Bureau to execute the lease at a board meeting held on December 3, 2010.

#### Service Purchase Agreements

The Bureau granted permission for the use of its materials and information to service purchasers through service purchase agreements. These third party vendors are not assessed a fee, but are restricted by the terms of the agreements to provide services only to those insurance companies which are licensed in Idaho and who are members or subscribers to the Bureau. As of December 31, 2011, there were nineteen service purchase agreements in force. The agreements are continuous and have various execution dates.

#### Membership and Subscriber Agreements

Membership in the Bureau is limited to those companies with a certificate of authority issued by the Idaho Department of Insurance and doing property insurance business. The member companies elect the Board of Directors and only employees of the member companies can be elected as directors. The Board of Directors approves all new members of the Bureau.

Subscribership in the Bureau is open to all companies doing property insurance business in Idaho. Subscribing companies do not have a voice in the management of the Bureau.

The agreements authorize the Bureau to make filings on behalf of the members and subscribers, as may be required by law. The Bureau notified the Department of Insurance of new members and subscribers pursuant to Section 41-1420 by submission of such agreements to the Department.

#### SERFF Agreement with NAIC (Third Party Filer License Agreement)

Subsequent to the examination date, the Bureau executed a third party filer license agreement with the NAIC on September 5, 2007. The agreement is a license to access and use the NAIC's electronic rate and form filing product, System for Electronic Rate and Form Filing (SERFF). The agreement is in force until cancelled or terminated without cause upon thirty days written notice. Fees are specified in the contract.

### CORPORATE RECORDS

#### Articles of Incorporation and Bylaws

The Bureau's records indicated that the Articles of Incorporation was amended once during the period under examination. This change of Article III on the Articles of Incorporation was approved during the August 8, 2011 Annual Meeting and was reported to the Idaho Department of Insurance on August 12, 2011 in compliance with Idaho Code Section 41-1420. This amendment reflected the change of the Bureau's office address from Boise to Ada County. The Bureau did not amend its Bylaws during the period under examination.

#### Operating Rules of the Idaho Surveying and Rating Bureau, Inc.

The Bureau amended its Operating Rules once during the period under examination. This amendment increased the quarterly basic fee (minimum assessment) to \$500 and was approved by the board during the December 3, 2010 meeting. It was also reported to the Idaho Department of Insurance in compliance with Idaho Code Sections 41-1420.

#### Minutes of Meetings

A review of the minutes of the meetings of the member companies and the Board of Directors for the examination period and subsequent thereto, indicated compliance with the Articles of Incorporation and Bylaws with respect to annual meeting dates, election and/or appointment of directors and officers, and the transaction of corporate business. Specifically, the Board approved new member companies, quarterly assessments, annual business plans and budgets, among other things. This review of the minutes also indicated that a quorum was present at the annual membership meetings and all Board of Directors' meetings.

The minutes of the Board of Directors' meeting held March 4, 2008 indicated that the Examination Report as of December 31, 2006 had been accepted by the Directors.

### FIDELITY BOND AND OTHER INSURANCE

Insurance coverages for the protection of the Bureau have been maintained through the period under examination. Coverages included the following: general liability for business, commercial automobile, commercial umbrella, workers' compensation, director and officer liability, network security and privacy liability and a fidelity blanket bond for the pension and 401(k) savings plans as required by the

Employee Retirement Income Security Act (ERISA). The Bureau also obtained errors and omissions coverages effective June 10, 2013.

The Bureau maintained employee dishonesty coverage in an amount that met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

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

#### PENSION AND INSURANCE PLANS

Employees of the Bureau were provided a number of group insurance and retirement plans. The major programs which were available included medical care, dental care, life insurance, disability insurance, a defined benefit retirement plan, a 401(k) plan and a flexible spending account plan. In addition, the Bureau's employees were eligible for other standard benefits, including paid time off. The Bureau also had a Medicare supplemental insurance plan for retirees. The actual premium contribution(s) by the Bureau for this plan are based on the retired staff member's year of service. Effective January 1, 2013, current and future employees are required to participate in a cash balance pension plan. Under this plan, a cash balance account is established for each employee. Amounts contributed by the Bureau shall be credited to each employee's cash balance account after January 1, 2013. These amounts, or pay credits, for a particular plan year shall be equal to a percentage (3.5% to 7%) of the employee's compensation and will be paid by the Bureau for the Plan year based on the number of years of credited service. The purpose of this plan is to reduce the unfunded pension liability created by the Bureau's defined benefit pension plan. Please see the "NOTES TO THE FINANCIAL STATEMENTS" section of this report for additional financial information regarding the unfunded pension liability for the defined benefit plan and this liability's effect on the financial statements.

#### TERRITORY AND PLAN OF OPERATION

The Bureau was licensed to operate as a not for profit organization in the State of Idaho only. Generally, the Bureau's function was to do all things necessary to operate as an independent rating organization authorized for property business as discussed under its Articles of Incorporation and Bylaws. The Bureau has maintained its office in Meridian, Idaho since 2006. All operations of the Bureau are performed at this location.

#### GROWTH OF THE BUREAU

The Bureau's growth for the years indicated, as taken from the prior examination report and its independent audit reports, is shown in the following schedule:

<u>Year</u>	<u>Assets</u>	<u>Liabilities **</u>	<u>Fund Balance</u>	<u>Excess (Deficiency) of Receipts over Disbursements</u>
2006*	\$189,637	\$0	\$189,639	\$ (103,944)
2007	268,570	0	268,570	78,933
2008	281,368	0	281,368	12,798
2009	249,426	0	249,426	(31,942)
2010	226,776	0	226,776	27,350
2011*	237,469	0	237,469	(39,307)

\* As determined by Examination.

\*\* The Bureau maintained its financial records on a cash basis. As a result, it did not report any liabilities.

The Bureau established an annual budget with the goal of matching the coming's year income, mainly from the assessments collected from its members, with the coming year's expenses. When the actual income collected was less than the expenses paid for the year, it resulted in a loss or a deficiency for that year.

### RATE MAKING

Pursuant to Section 41-1402, Idaho Code, 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. As an independent rating organization, the Bureau utilized property insurance statistical data compiled by the ISO. ISO developed and maintained statistical coding plans to collect premium and loss information by line of business. After review, the Bureau may modify ISO's indicated changes taking into consideration local and state economic conditions, market availability through moderate but adequate rates, premium volume in Idaho for type 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 Section 41-1405(1), Idaho Code.

In 1993, the Bureau and ISO 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 each individual company using those loss costs to determine final rates by using a multiplier and filing such rates with the Department.

The Bureau maintained advisory loss cost systems for dwelling, farm, and commercial property. Changes to the advisory loss costs were based on periodic experience reviews of the adequacy of premium developed to pay claims and loss adjustment expenses. The statistical data reviewed five and ten years for fire losses and extended coverage, respectively. The statistical data made no distinction based on type of insurer. 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 (2007-2011). The change made effective September 1, 2011 used statistical data for the period ending December 31, 2009. The overall negative 3.8 percent change consisted of a 7.2 percent decrease in fire coverage and 0.9 percent decrease in extended coverage. The change was filed with the Department of Insurance on August 2, 2011.

#### Monoline Farm Program

Experience reviews of the monoline farm policy program resulted in three changes during the examination period. The most recent change during the examination period effective June 1, 2011 used statistical data for the period ending December 31, 2009. The overall negative change of 1.9 percent included changes in the inland marine and liability sections, which are the jurisdiction of the ISO. The Bureau filed changes of a 1.2 percent decrease for dwelling and household personal property, a 1.3 percent increase for outbuildings, and 7.7 percent increase for farm personal property. The change was filed with the Department on January 17, 2011.

#### Monoline Commercial Fire and Allied Lines Program

Experience reviews of the monoline commercial fire and allied lines policy program resulted in five changes during the examination period. The most recent change effective January 1, 2012 used

statistical data for the period ending December 31, 2010. The overall positive change of 1.3 percent included a 6.8 percent decrease in Group II, and a 9.1 percent increase in special causes of loss. The filing was submitted to the Department on November 30, 2011.

#### Commercial Property Earthquake Policy Program

There were no overall changes to the commercial property earthquake policy program during the examination period. The Bureau received the results of the 2009 prospective loss cost review for earthquake based on the AIR-Worldwide Corporation's earthquake computer model for Idaho. This model estimates the potential losses from earthquake in a geographic area and develops loss costs by zip code for the area under review. Based on the Bureau's evaluation of this review, it plans to implement several changes in earthquake loss costs for commercial property effective January 1, 2010.. These changes were filed with the Department on December 1, 2009

The filings noted above were submitted to the Department in compliance with Bulletin No. 91-1, issued January 2, 1991. The Bulletin requires that licensed rating organizations file all rates and supplementary rate information and all changes and amendments thereto for use in Idaho within thirty days after the effective date.

### RATING RULES AND POLICY FORMS

Another function of the Bureau's independent rating program is the filing of forms, policies or contracts, riders, rules, and endorsements resulting in changes, modifications or renewals issued on risks in Idaho. The Bureau submitted filings to the Idaho Department of Insurance on behalf of both the member and subscriber companies of the ISRB that have authorized the Bureau to do so. As previously reported, this listing of affiliated companies was submitted to the Department annually in compliance with Section 41-1420, Idaho Code. The majority of the forms and rules were filed in conjunction with ISO.

### RATING SCHEDULES AND PLANS

#### Pricing Systems

The Bureau utilized two pricing systems to develop advisory loss costs: class rating and schedule rating. As previously stated, loss costs are the component of the rate that are used to cover the expected losses and loss adjustment expenses. Pricing systems for the various programs are summarized below:

##### Dwelling Policy Program

The pricing system used in the dwelling policy program is a class rating system. 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 at the risk.

##### Monoline Farm Program

The pricing system used in Division Four-Farms of the Commercial Lines Manual is a class rating system. For the dwelling structures on a farm, the monoline coverages predominately track the system used in the Dwelling Policy Program, while the multi-line coverages predominately track the system used in the homeowners manual. The outbuildings, barns, stables, cellars, packing sheds, and so forth use pricing points that cover the construction of the building by major features of that construction, as well as the Public Protection Classification.

### Monoline Commercial Fire and Allied Lines Program

The pricing system used for commercial fire is a combination of class rating and schedule rating. The main elements used to determine which system is applicable are size, construction, occupancy, and protection.

The class rating system utilizes three primary pricing points. These include the occupancy code of the building, the construction of the building, and the Public Protection Classification. If a building is eligible for this rating system, class rating is applicable even if a scheduled rate or loss cost is published.

The schedule rating system utilizes the ISO's *Specific Commercial Property Evaluation Schedule*. This schedule is used country-wide; however, Idaho has maintained one major exception to the current edition of the schedule for the 1982 edition, covering separate evaluation of buildings with unacceptable passageways. In addition, the Bureau utilizes the *Schedule for Rating Electric Generating Stations*. This schedule applies to property used in the generation and distribution of electrical energy.

Both the class and schedule rating systems use a detail evaluation of the building features including the construction, occupancy, internal as well as external protection, and the external exposures to develop an advisory loss cost.

A random sample of Commercial Property Evaluation surveys was reviewed to determine the accuracy and propriety of the advisory loss costs developed by the Bureau. No exceptions were noted in this review.

### Commercial Property Earthquake Policy Program

In 1998, RMS' earthquake models were adopted and the territory assignments were changed to correspond with zip codes published by the United States Postal Service.

### Building Code Effectiveness Grading Schedule

In 1997, the Bureau began providing information to affiliated companies on the enforcement of building codes. The tool used to develop this information is the *Building Code Effectiveness Grading Schedule*. This schedule is used to review available public building code enforcement agencies and provide a Building Code Effectiveness Classification for insurance underwriting information and rating purposes. In this connection, surveys for the various jurisdictions participating in the program are prepared approximately every five years. If an agency did not participate in this voluntary program, it received a classification of ten. A judgmental sample of gradings prepared by the Bureau during the examination was reviewed, with nothing exceptional noted.

### Public Protection Grading

One of the Bureau's important services is to evaluate the fire suppression delivery systems of jurisdictions in Idaho. The result of these reviews is a classification number that is distributed to insurers. When the grading is completed, the Bureau provides a summary of the protection grading results and other appropriate information to representatives of the jurisdiction evaluated.

From its program on public protection grading, the Bureau used a numerical class of rating utilizing specific criteria from the ISO publication, *Fire Suppression Rating Schedule* (FSRS), and the Bureau's *Minimum and Supplemental Criteria*. Additionally, these publications may refer to standards of the National Fire Protection Association (NFPA). The grading process involved an evaluation of three areas: receiving and handling of fire alarms, the fire department, and the water system. The fire

suppression rating schedule developed a Public Protection Classification on a relative scale between 1 and 10, with 10 representing less than minimum criteria.

A judgmental sample of public protection gradings was reviewed without exception. Based on the public protection grading review, the Bureau's procedures were consistent with Sections 41-1415 and 41-1436, Idaho Code.

#### ISRB Protection Class Calculator Web Services

Affiliated parties use the Public Protection Classification information to help establish fair premiums for fire insurance.

To assist companies in understanding and applying the rules used by the Bureau as they are applicable to a specific property, the ISRB Protection Class Calculator Web Services was developed. This is an on-line, password-protected geographical information system that permits the Bureau's members and subscribers to obtain risk classifications for specified Idaho addresses and parcels. Farm Bureau Mutual Insurance Company of Idaho, a member company, developed the databases which serve as data components underlying the ISRB Protection Class Calculator Web Services. As previously reported, Washington Surveying and Rating Bureau provides hosting services for the Bureau's Protection Class Calculator under the terms of a web hosting agreement.

#### Enhanced Services

The Bureau also provides enhanced services to its affiliated companies. In the course of their field work, representatives of the Bureau collect such 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 prepared and maintained its accounting records on a cash basis. This method of accounting recognizes revenues when received and expenses when paid. Accounts receivable and accrued liabilities at year-end are not recognized under this method of accounting. Accordingly, the financial statements presented were not in accordance with Generally Accepted Accounting Principles (GAAP); nor is the cash basis of accounting in accordance with statutory insurance accounting principles (SAP).

The Bureau's computer network consists of a domain server to control user access to files stored on the machine as well as the normal server function, and a server that is used for testing the Geographic Information System application for the Protection Class Calculator. The domain server has twelve workstations that are used by staff, seven of which are laptops and the remaining are desk tops.

Quickbooks is used for all accounting functions such as accounts payable, payroll disbursement and for the cash balance tracking. All software utilized by the Bureau is purchased, except for the ISRB Protection Class Calculator Web Services, which is custom software.

Based on the review of such record maintenance, the Bureau was in compliance with Section 41-1439, Idaho Code.

The Bureau maintains a Disaster Recovery Plan. The plan was developed at the direction of the Board of Directors in 1985 and was revised in 2006. The Plan outlines the steps in case of disaster to allow the Bureau to continue to provide services to affiliated companies. The original plan was developed with the assistance of the Idaho Department of Emergency Planning and the North Pacific and Safeco Insurance companies. The 2006 revisions maintain the same basic format and directions with an emphasis on updating equipment needs, names and contact information, and corporate structure.

#### Independent Accountants

The annual independent audits of the Bureau for the years 2007 through 2011 were performed by Harding & Co., P.A. Certified Public Accountants, Meridian, Idaho. The financial statements in each report were prepared on the cash basis of accounting which, as mentioned earlier, is not in accordance with GAAP or SAP. There was some reliance on the audit reports and the 2011 workpapers in this examination of the Bureau.

### FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Assets and Fund Balance – Cash Basis as of December 31, 2011

Comparative Statements of Cash Receipts, Disbursements and Changes in Fund Balance –  
Cash Basis, 2007 through 2011

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Statement of Assets and Fund Balance – Cash Basis  
As of December 31, 2011

ASSETS

	<u>Per Bureau</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
<u>Assets</u>			
Cash in checking	\$ 52,281	\$ 0	\$ 52,281
Cash in savings	185,188	0	185,188
Total	<u>\$237,469</u>	<u>\$ 0</u>	<u>\$237,469</u>
<u>Liabilities (See Note 1)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Fund Balance – unrestricted</u>	<u>\$237,469</u>	<u>\$ 0</u>	<u>\$237,469</u>

**Comparative Statements of Cash Receipts, Disbursements and  
Changes in Fund Balance-Cash Basis, 2007 through 2011**

	Per Bureau and Examination				
	2007	2008	2009	2010	2011
<b>Revenues:</b>					
Assessments	\$1,070,904	\$ 989,458	\$1,031,820	\$ 1,174,646	\$1,277,081
Optional service income	77,827	79,626	47,611	40,128	72,797
Interest	4,089	2,645	1,276	1,019	873
Minor Bureau service	285	0	0	0	0
<b>Total</b>	<b>\$1,153,105</b>	<b>\$1,071,729</b>	<b>\$1,080,707</b>	<b>\$1,215,793</b>	<b>\$1,350,751</b>
<b>Disbursements:</b>					
Salaries and payroll taxes	\$ 448,965	\$ 439,534	\$ 470,687	\$ 493,944	\$ 518,779
ISO assessments	169,349	178,353	175,224	190,972	197,642
Rent, utilities and maintenance	74,517	79,231	82,922	86,668	81,191
Employee benefits-insurance	60,718	63,204	82,215	85,107	84,324
Optional service expense	34,198	63,096	51,661	39,555	87,714
Employee benefits-pension and savings (Note 1)	102,430	58,599	59,405	131,528	175,412
Travel and travel expense items	48,917	55,512	47,693	49,021	53,500
Automobile purchases	30,247	26,765	18,060	19,175	28,243
Automobile operations and maintenance	13,582	14,159	13,241	11,357	15,302
Insurance	18,357	12,765	12,465	12,580	13,742
Equipment	5,422	10,652	9,907	4,213	21,821
GIS project	21,614	10,121	38,674	21,428	30,691
Dues and subscriptions	9,737	9,322	10,344	9,825	10,323
Office expense, printing and microfilming	10,883	8,247	12,484	6,766	7,725
Staff relations	5,034	7,296	8,436	5,543	6,380
Equipment rental and maintenance	3,273	6,946	4,806	5,002	15,179
Professional services	6,700	6,700	6,500	6,799	7,303
Telephone	5,315	3,811	3,407	2,918	2,904
Temp services	0	0	0	2,363	21,703
Postage	2,951	2,630	2,343	1,940	2,503
Property taxes	1,281	1,116	1,133	978	962
Bank charges	682	565	1,042	1,269	1,209
Marketing	0	307	0	0	0
Other	0	0	0	(508)	5,506
<b>Total</b>	<b>\$1,074,172</b>	<b>\$1,058,931</b>	<b>\$1,112,649</b>	<b>\$1,188,443</b>	<b>\$1,390,058</b>
<b>Excess (Deficiency) of Receipts over Disbursements</b>	<b>\$ 78,933</b>	<b>\$ 12,798</b>	<b>\$ (31,942)</b>	<b>\$ 27,350</b>	<b>\$ (39,307)</b>
Fund balance, beginning of year	\$ 189,637	\$ 268,570	\$ 281,368	\$ 249,426	\$ 276,776
Fund balance, end of year	\$ 268,570	\$ 281,368	\$ 249,426	\$ 276,776	\$ 237,469

## NOTES TO THE FINANCIAL STATEMENTS

### Note (1) – Employee Benefits – Pensions

The unfunded pension liabilities for the defined benefit plan, as calculated by the Bureau's pension actuary (Towers-Watson), at December 31, 2011 and December 31, 2012 respectively were \$747,966 and \$623,445.

The Bureau chose not to give-effect to these liabilities on their audited financial statements. These liabilities, however, are material to the financial statements, and both *Generally Accepted Accounting Principles* (GAAP) and statutory accounting principles (SAP) prescribe the following:<sup>1</sup>

If the projected benefit obligation (considering both vested and nonvested participants) exceeds the fair value of plan assets, the employer shall recognize in its statement of financial position a liability that equals the unfunded projected benefit obligation.

The Bureau also chose not to give effect to post-retirement medical benefits as calculated by the Bureau's benefits actuary (Milliman) in its audited financial statement. The unfunded status of these liabilities at December 31, 2011 and December 31, 2012 respectively were \$237,539 and \$265,613. The accrual of this liability is prescribed as follows by statutory accounting principles:<sup>2</sup>

An employer that sponsors one or more single-employer defined benefit postretirement plans other than pensions shall recognize in its statement of financial position the funded statuses of those plans. The status for each plan shall be measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation (considering both vested and nonvested employees) as it is defined in this statement.

The following table demonstrates the effect of unfunded pension liabilities and medical benefit liabilities on the Bureau's 2011 and 2012 financial statements. As the table reflects, the unfunded status of the plan's pension and medical benefits impairs the Bureau's Fund Balance by creating a deficit, where liabilities exceed assets.

#### Effect on Fund Balance of Unfunded Pension and Post-Retirement Benefits:

	12/31/2011	12/31/2012
Net Assets / Fund Balance	\$237,469	\$288,016
Less: Unfunded Pension Cost	747,966	623,445
Less: Accrued Medical Benefit	237,539	265,613
Net Assets / Fund Balance (Deficit)	\$(748,036)	\$(601,042)

The Bureau adopted a cash-balance pension plan to replace the defined benefit pension plan effective January 1, 2013, with the stated objective of reducing the unfunded pension liability(ies). Employees

<sup>1</sup> See 2013 NAIC Accounting Practices & Procedures Manual, SSAP No.102, page 102-7, para 25. Also see FASB ASC Topic 715 (30)(25-1) [codification]

<sup>2</sup> See 2013 NAIC Accounting Practices & Procedures Manual, SSAP No.92, page 92-9, para 32.

who joined the Bureau prior to December 31, 2012 will still be beneficiaries/members of the defined benefit pension plan. On January 1, 2013, all current and future employees are required to participate in the cash-balance pension plan.

#### SUMMARY

The results of this examination disclosed that as of December 31, 2011, the Bureau, on a cash-basis of accounting, had total assets of \$237,469 and the fund balance was \$237,469. There are no minimum fund balance (or surplus) requirements for surveying and rating organizations regulated under Title 41, Chapter 14, Idaho Code.

The examination did not make any adjustments to the balance sheet accounts. Therefore, the cash-basis fund balance reported by the Bureau was not changed by the examination

#### CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Bureau's Secretary-General Manager and staff in conducting the examination.

Respectfully submitted,



Kelvin Ko, CFE  
Senior Insurance Examiner  
State of Idaho  
Department of Insurance

AFFIDAVIT OF EXAMINER

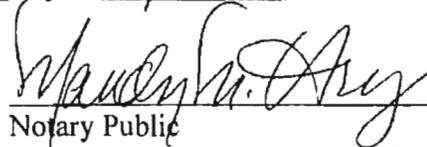
State of Idaho  
County of Ada

Kelvin Ko, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of the Idaho Surveying and Rating Bureau for the period from January 1, 2007 through December 31, 2011, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

  
\_\_\_\_\_  
Kelvin Ko, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me the 13<sup>th</sup> day of September, 2013 at Boise, Idaho



  
\_\_\_\_\_  
Notary Public  
My commission Expires: 7/24/2018



# Idaho Surveying & Rating Bureau, Inc.

1871 South Cobalt Point Way  
Meridian, Idaho 83642

Tel: (208) 343-5483  
FAX: (208) 895-8059

www.isrb.com  
e-mail info@isrb.com

Joseph C. Harbacheck, CIC  
Secretary - General Manager

September 17, 2013

Mr. William R. Michels, MBA, CPA, CFE  
Deputy Chief Examiner  
Idaho Department of Insurance  
P.O. Box 83720-0043  
Boise, ID 83720-0043

RECEIVED  
2013 SEP 18 AM 9:19

Re: Idaho Code Section 41-227(5) Written Submission to the Examination Report

Dear Mr. Michels:

The Idaho Surveying and Rating Bureau, Inc. (ISRB) requests this letter be added as an exhibit to the December 31, 2011, Report of Examination of the Idaho Surveying and Rating Bureau, Inc., pursuant to Idaho Code Section 41-227(5).

The ISRB requests that the last paragraph shown at the bottom of page on 16 be amended to be read as follows:

“The Bureau adopted a cash-balance pension plan to replace the defined benefit pension plan effective January 1, 2013, with the stated objective of reducing the undefined pension liability(ies). Employees who joined the Bureau prior to December 31, 2012, will still be beneficiaries/members of the defined benefit pension plan. On January 1, 2013, all current and future employees are required to participate in the cash-balance pension plan. On January 1, 2013, the Bureau began paying an additional monthly payment of \$4,147 toward reducing the pension plan liabilities.”

Sincerely,

Joseph C. Harbacheck  
Secretary - General Manager

JCH/eyg  
Enclosures





# Idaho Surveying & Rating Bureau, Inc.

1871 South Cobalt Point Way  
Meridian, Idaho 83642

Tel: (208) 343-5483  
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Joseph C. Harbacheck, CIC  
Secretary - General Manager

October 4, 2013

Mr. William R. Michels, MBA, CPA, CFE  
Deputy Chief Examiner  
Idaho Department of Insurance  
P.O. Box 83720-0043  
Boise, ID 83720-0043

RECEIVED  
2013 OCT -7 AM 10:47  
STATE OF IDAHO  
DEPT OF INSURANCE

Re: Idaho Code Section 41-227(5) Written Submission to the Examination Report

Dear Mr. Michels:

The Idaho Surveying and Rating Bureau, Inc. (ISRB) requests this letter be added as an exhibit to the December 31, 2011, Report of Examination of the Idaho Surveying and Rating Bureau, Inc., pursuant to Idaho Code Section 41-227(5).

ISRB requests the addition of the following paragraph as the second paragraph to Note (1) Employee Benefits-Pension at the top of page 16 following the sentence regarding the Towers-Watson reference:

“The Idaho Surveying and Rating Bureau, Inc. have reported its financial position on a cash-basis since its incorporation. The annual audited financial statements included disclosures regarding pension liabilities and post-retirement benefit liabilities.”

Sincerely,

Joseph C. Harbacheck  
Secretary - General Manager

JCH/eyg

EXHIBIT  
C

State of Idaho  
**DEPARTMENT OF INSURANCE**

C.L. "BUTCH" OTTER  
Governor

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

WILLIAM W. DEAL  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2011, of:

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

By executing this Waiver, the Bureau hereby acknowledges receipt of the above-described examination report, verified as of the 13th day of September 2013, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 8th day of October, 2013

Joseph C. Harbarchock

Name (print)



Name (signature)

Secretary General Manager

Title