



Insurance Programs  
and Analytical Services

## Bringing Emerging Issues to Market – ISO’s Commercial Lines Program Initiatives

CAS RPM Seminar

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## Emerging Issues

- What is an emerging issue:
  - New phenomenon: nature and effects are relatively unknown
    - E.g., nanotechnology
  - New risk: nature and effects are relatively known but involve unique characteristics
    - E.g., hydraulic fracturing
- Potential Impact:
  - May go beyond existing underwriting and risk management best practices
  - May go beyond existing actuarial calculations

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## Emerging Issues

- Planning for and assessing emerging issues
  - Information from many sources
    - Staff
    - Litigation
    - Scientific studies
    - Futurists
    - Customers
    - Technical journals
  - Look at issues from various perspectives
    - Underwriting
    - Claims
    - Loss control
    - Risk management
    - New coverages
    - New classifications
    - Pricing implications

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## Agenda

- Cyber Liability
- Medical Data Privacy
- Business Income From Mobile Equipment
- Car Sharing Services
- Commercial Property Rating
  - Enhanced Wind Rating
  - Fire Suppression Rating Schedule
  - Limit of Insurance Rating

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## Cyber Liability (E-Commerce)

Insurance Programs and Coverage Overview

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## Potential Gaps In Traditional Coverage\*\*

**Subject to policy provisions and exclusions	General Liability (until 5/2014)	General Liability (after 5/2014)	Commercial Property	E&O	Crime	Cyber
Data Security Breach	Possible	Coverage Generally Unlikely	Possible	Possible	Coverage Generally Unlikely	Coverage Generally Likely
Virus/Hack	Possible	Coverage Generally Unlikely	Possible	Possible	Possible	Coverage Generally Likely
Denial Of Service Attack	Coverage Generally Unlikely	Coverage Generally Unlikely	Possible	Coverage Generally Unlikely	Possible	Coverage Generally Likely
Extortion Threat	Coverage Generally Unlikely	Coverage Generally Unlikely	Coverage Generally Unlikely	Coverage Generally Unlikely	Possible	Coverage Generally Likely
Regulatory Defense	Coverage Generally Unlikely	Coverage Generally Unlikely	Coverage Generally Unlikely	Possible	Coverage Generally Unlikely	Coverage Generally Likely
Business Interruption	Coverage Generally Unlikely	Coverage Generally Unlikely	Possible	Possible	Coverage Generally Unlikely	Coverage Generally Likely
Breach Notification	Coverage Generally Unlikely	Coverage Generally Unlikely	Coverage Generally Unlikely	Possible	Coverage Generally Unlikely	Coverage Generally Likely

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## ISO Cyber Liability Program

- Insurance programs designed to cover Internet liability and network perils — from viruses to cyber extortion to liability arising from security breaches — for companies and not-for-profit organizations with a web presence
  - Information Security Protection Policy (for all commercial and government entities)
  - Financial Institutions Information Security Protection Policy (for all financial institutions)
  - Media And Information Security Protection Policy



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## ISO Cyber Liability Program

- Eight insuring agreements:
  - Web Site Publishing Liability
    - Addresses errors, misstatements, or misleading statements posted on website that
      - Infringe on another's copyright, trademark, trade dress or service mark
      - Defame a person or organization
      - Violate a person's right to privacy
  - Security Breach Liability
    - Addresses company's liability following security breach
  - Programming Errors and Omissions Liability
    - Addresses company's liability when programming error or omission results in disclosure of client's confidential information

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## ISO Cyber Liability Program

- Replacement or Restoration of Electronic Data
  - Cost to replace or restore electronic data or computer programs damaged or destroyed by virus, malicious code or denial-of-service attack
- Extortion Threats
  - Introduce a virus, malicious code or denial-of-service attack into insured's computer system
  - Divulge named insured's proprietary information
  - Inflict ransomware or publish confidential personal info of clients
- Business Income and Extra Expense
  - Addresses actual loss of business income and/or extra expense incurred by the insured as a direct result of an e-commerce incident or extortion threat
- Public Relations Expense

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**ISO Cyber Liability Program**

- o Security Breach Expense
  - Cost of notifying affected parties
  - Overtime salaries paid to employees assigned to handle inquiries regarding security breach
  - Fees and costs of company hired to handle call center
  - Post-event credit monitoring services for up to one year
  - Any other reasonable expenses with written consent of insurer



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**ISO Cyber Liability Program**

- Financial Institutions Information Security and Protection Policy
  - o Offers similar coverage as Information Security and Protection Policy
  - o Terms and conditions designed to address unique exposures of financial institutions
- Media and Information Security and Protection Policy
  - o Includes Media Liability insuring agreement instead of Website Publishing Liability insuring agreement
    - Media liability coverage can be occurrence or claims-made
  - o Other insuring agreements similar as Information Security and Protection Policy

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**ISO Cyber Liability Program - Rating**

**Liability Coverages** – Web Site Publishing; Security Breach; Programming Errors & Omissions

**Premium = Rate \* Class Factor \* (ILF-Deduct. Factor) \* Hazard Group Mult. \* Claims-Made Mult. \* Rating Modifiers**

- Rates vary based on the **total revenue** of the insured.
- **Hazard Groups** depend on the content published on an insured's website, how customers interact with an insured's website, and whether customer information is collected through the website.
- **Rating Modifiers** reflect the particular characteristics of an **individual risk**, such as use of encryption or BYOD policies.

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## ISO Cyber Liability Program - Rating

**First-Party Coverages**

- Replacement Or Restoration Of Electronic Data;
- Extortion Threats;
- Business Income And Extra Expense;
- Public Relations Expense;
- Security Breach Expense

**Premium = Rate \* Limit (in 000's) \* Class Factor \* Revenue Factor \* Deductible Factor \* Hazard Group Mult. \* Rating Modifiers**

- Rates are per \$1,000s of Coverage

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# Medical Data Privacy



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## Medical Data Privacy Laws

- Health Insurance Portability and Accountability Act (HIPAA)
  - Establishes safeguards to protect against unauthorized disclosure or use of health information
  - Health care providers subject to penalties with respect to wrongful disclosure of individually identifiable health information
- Health Information Technology for Economic and Clinical Health Act (HITECH)
  - Addresses notification requirements within 60 days of discovery of breach of unsecured protected health information
  - Provides that US Department of Health and Human Services be notified immediately of breach affecting 500 or more persons
  - Extends HIPAA to business associates of HIPAA covered entities

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**Potential Exposures**

- Bring your own device (BYOD)?
- Electronic medical records?
- Cloud computing?
- Hacking?
- Malware?
- Copy machines?

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**ISO MPL Data Security Coverage**

- Coverages
  - Data security liability
  - Data security regulatory proceeding
  - Data security breach expense
  - Public relations expense
- Liability coverages provided on claims-made basis
- Separate limits available for each coverage
  - Regulatory proceeding sublimit within data security liability coverage
- Plan to file coverage endorsement and related pricing information summer 2014

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**Business Income From Mobile Equipment**

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**What Is A Mobile Business**

- Off-premises business operations
- Reliance on vehicles/mobile equipment
- Equipment is often customized and may be difficult to replace
- Loss of vehicles/mobile equipment could negatively impact the business

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**Mobile Business Examples**

- Construction equipment
- Mobile pet groomer/veterinarian
- Mobile MRI unit
- Mobile document shredding
- Food trucks/Ice cream trucks



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**Exposure – Property Damage**

- **Event:** damage to mobile property
- **Exposure:** costs to repair or replace property
- **Solution:** physical damage coverage available under:
  - ISO Commercial Auto (vehicles and mobile equipment); or
  - ISO Commercial Inland Marine (mobile equipment)

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ISO

## Exposure – Business Interruption

- **Event:** damage to mobile property on-premises
- **Exposure:** loss of business income and extra expenses incurred (BI&EE)
- **Solution:** BI&EE **on-premises** coverage provided under:
  - ISO Commercial Property;
  - ISO Businessowners; or
  - ISO Commercial Inland Marine
- Off-premises exposures generally not covered

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## New Mobile Equipment Business Interruption Coverage Options

- Introduce coverage options under several ISO lines
  - Commercial Property
  - Businessowners
  - Commercial Auto
  - Capital Assets/Agricultural Capital Assets
  - Commercial Inland Marine

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## Why multiple options?

Why ISO CP/BOP?	Why ISO Comm Auto?	Why ISO Inland Marine?
All BI/EE under one coverage form	Can apply to autos and mobile equipment	For businesses reliant on mobile equipment
Leverage BI/EE knowledge	Works whether or not premises exposure	Generally non-filed
Must have premises exposure	Examples: • Food trucks • Mobile document shredders • Mobile pet grooming operations • Carpet cleaning	Highly customized and valuable equipment
Examples: • Bakery – refrigerated truck • Restaurant – mobile BBQ smoker • Appliance store – installation services		Examples: • Construction equipment • Geophysical exploration equipment • Mobile MRI unit

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**ISO**

## Overview of Rating

- Introduced advisory loss costs and rules for each line --- using similar rating procedures
- Loss Costs per \$100 of insurance
- Separate for Collision and Other Than Collision Perils
- Frequency based on Commercial Auto
- Severity based on Commercial Prop Time Element – with adjustments
- Other adjustments for special situations

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**ISO**

## Filing Details

- Filings submitted for CA, CP, BP, OP/AG
  - Form, rule and loss cost filing for each
  - 2/1/2014 effective date
- ISO Commercial Inland Marine
  - ISO did not file
  - Inland Marine Handbook updated

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## Car Sharing Services

**ISO**

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## Car Sharing

- Emergence of sharing services
  - Car
  - House,
  - Driveway
- Car owners enroll own cars in return for “fee for use” by other users
- Exposure not contemplated under current ISO personal auto programs
- ISO introduced endorsement which excludes others using a car as part of vehicle sharing program
- Exclusions available for use in about 47 jurisdictions

Vehicle Insurance Guidelines | ISO AIR Worldwide Xactware

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## Ride Sharing

- Peer-to-peer taxi services gaining popularity across the country
  - Companies connect drivers and fee paying riders via smartphone app
- Peer-to-peer taxi services disclosed that they generally keep a “donation”
- Debate over when ride share shifts from personal to commercial exposure
  - Once driver opens app to get a hail
  - Once driver accepts hail
- ISO PAP “public or livery conveyance” exclusion

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## Commercial Property Rating



Insurance Programs  
and Services Division

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## Agenda

- Enhanced Wind Rating
- Fire Suppression Rating Schedule (FSRS)
- Limit of Insurance (LOI) Relativities

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## Enhanced Wind Rating Program



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## Program Overview

- Background
  - Growing importance of wind rating
- Features and benefits of the program
  - Enhanced basic group II loss costs
  - Detailed building underwriting reports for wind
  - Database of detailed information for modeling

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**Background**

- Exposure to wind losses has grown significantly in the U.S.
  - Exposures along the coast have increased
  - "Tornado Alley" presents additional exposure
- Traditionally, wind rating was based on fire construction codes, with modifications

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**Exposure in Coastal Areas Contributes Significantly to Hurricane Risk in the U.S.**

County Type	Percentage
Coastal Counties	38%
Interior Counties	62%

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**Exposure in Coastal Areas Contributes Significantly to Hurricane Risk**

New York

County Type	Percentage
Coastal Counties	62%
Interior Counties	38%

Florida

County Type	Percentage
Coastal Counties	79%
Interior Counties	21%

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### Top Catastrophe Events: PCS Top 20

- 2005 - Katrina
- 2001 - 9/11
- 2012 - Sandy
- 1992 - Andrew
- 1994 - Northridge EQ
- 2008 - Ike
- 2005 - Wilma
- 2004 - Charley
- 2011 - Midwest Tornadoes
- 2004 - Ivan
- 2011 - Midwest Tornadoes
- 2005 - Rita
- 2004 - Frances
- 2011 - Irene
- 1989 - Hugo
- 2004 - Jeanne
- 2003 - Midwest Tornadoes
- 1998 - Georges
- 2010 - AZ Wind & Hall
- 2001 - Allison

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### Top Catastrophe Events: PCS Top 20

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### Fire Class Code Data Is Not Sufficient for Catastrophe Risk Management

SPI Construction Class 6

- 111 - Masonry
- 114 - Unreinforced Masonry - Bearing Wall
- 115 - Unreinforced Masonry - Bearing Frame
- 116 - Reinforced Masonry
- 117 - Reinforced Masonry Shear Wall (with MRF)
- 118 - Reinforced Masonry Shear Wall (without MRF)
- 131 - Reinforced Concrete
- 132 - Reinforced Concrete Shear Wall (with MRF)
- 133 - Reinforced Concrete Shear Wall (without MRF)
- 134 - Reinforced Concrete MRF - Ductile
- 135 - Reinforced Concrete MRF - Non Ductile
- 151 - Steel
- 152 - Light Metal
- 154 - Steel MRF - Perimeter
- 155 - Steel MRF - Distributed

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**ISO**

## Features of the Program

- ISO is conducting on-site building surveys
  - Compiling information on approximately 40 characteristics
  - Supplementing with aerial imagery
  - As collected, information is available in Enhanced Building Underwriting Reports
- Enhanced BG II loss costs developed
  - Starts with Existing BG II loss cost
  - Applies debits/credits based on individual building characteristics
  - Enhanced loss cost available in SPI/ProMetrix

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**ISO**

## Field Surveys/Roof Observations

Trained field staff are currently surveying wind-specific eligible risks in ProMetrix, since April 2011. Database resurvey projects are also underway.



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**ISO**

## Field Surveys/Roof Observations

Information recorded about:

- Environmental conditions
- Roof envelope
- Wall envelope
- Structural frame



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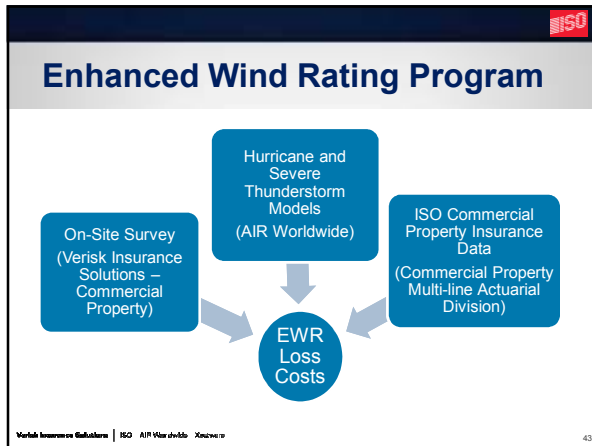
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### Eligibility for EWR Program

- oBG II Specific Rated Properties
- oGeographic Risk Factor and Building Size Criteria

Geographic Risk Factor	Building Size (1000 ft <sup>2</sup> )		
	10 - 25	>25 - 50	>50
Low			
Medium			X
High		X	X
Severe	X	X	X

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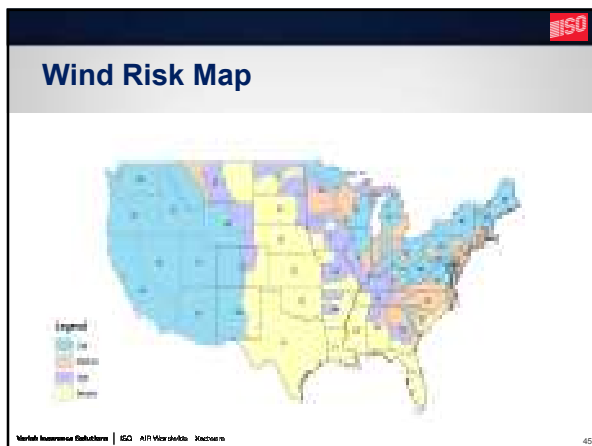
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### Phase I Factors

- Distance to Coast (DTC)
  - Reflects Terrain characteristics
  - Applicable only to coastal states
- Year Built
- Building Height
- Building Construction
- Superior Roof
- BCEGS Grade



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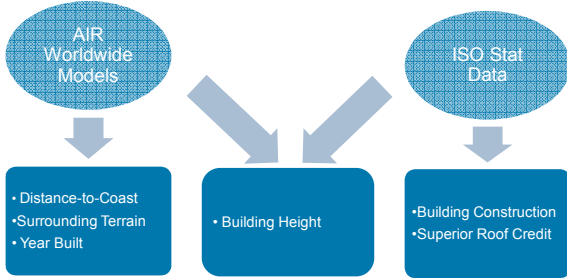
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### Data Used to Derive Factors



• Distance-to-Coast  
• Surrounding Terrain  
• Year Built

• Building Height

• Building Construction  
• Superior Roof Credit

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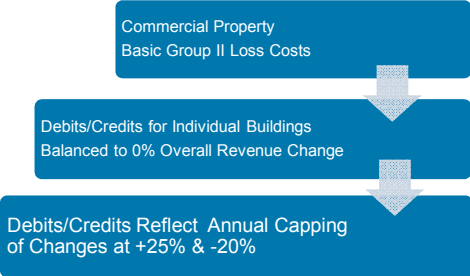
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### Implementation of EWR Program



Commercial Property  
Basic Group II Loss Costs

Debits/Credits for Individual Buildings  
Balanced to 0% Overall Revenue Change

Debits/Credits Reflect Annual Capping  
of Changes at +25% & -20%

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## Filing Status

- 36 states are eligible for the EWR program
- 34 states have been approved (incl. FL & TX)
- Florida and Texas comprise over 50% of all eligible risks
- Indicated debits/credits available in addition to capped debits/credits

Market Assessment Dashboard | ISO AIR View Only | Xactview

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## Fire Suppression Rating Schedule



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## HISTORY AND OVERVIEW

- Fire losses — leading cause of insured property loss
- According to the NFPA in 2010:
  - A structure fire occurs every 65 seconds
  - A residential fire occurs every 82 seconds
  - A vehicle fire occurs every 146 seconds

Market Assessment Dashboard | ISO AIR View Only | Xactview

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**ISO FSR/PPC Program**

- Accepted measurement of community mitigation
  - In Use for Over 30 Years
- Points-based classification program
- Points measured by Fire Suppression Rating Schedule (FSRS)
- National schedule
- Site-verified

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**Determining PPC with the Fire Suppression Rating Schedule**

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**Hoboken, NJ**

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## Las Vegas, NV



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## El Paso, TX



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### Cost of Fire Claims per \$1,000 of Insured Property



Public Protection Classification	Firework Areas (Annual Cost)	Commercial Property (Annual Cost)
2	0.45	0.35
3	0.50	0.38
4	0.55	0.40
5	0.60	0.42
6	0.65	0.45
7	0.70	0.48
8	0.80	0.55
9	0.90	0.65
10	1.10	0.85

\*Because there are only about 50 Class 1 fire districts in the U.S., the data sample for Class 1 is not statistically credible.

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## FSRS Changes



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Wisconsin Insurance Services Organization

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### FSRS Update: Major Focus

- Technological advances
- Performance based
- Consensus standards
- Community solutions

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### FSRS Update: Basics

- Base grading sections and weights remain:
  - Emergency communications (10%)
  - Water supply (40%)
  - Fire department (50%)
- Community risk reduction section added
- Maintained existing 1 thru 10 Classes

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**FIRS Update**  
*Extra credit for community risk reduction*

- Fire prevention
- Public fire safety education
- Fire investigation
- Up to 5.5 additional points may be earned

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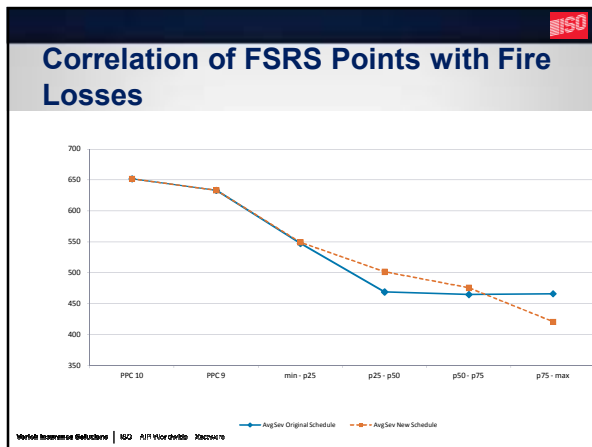
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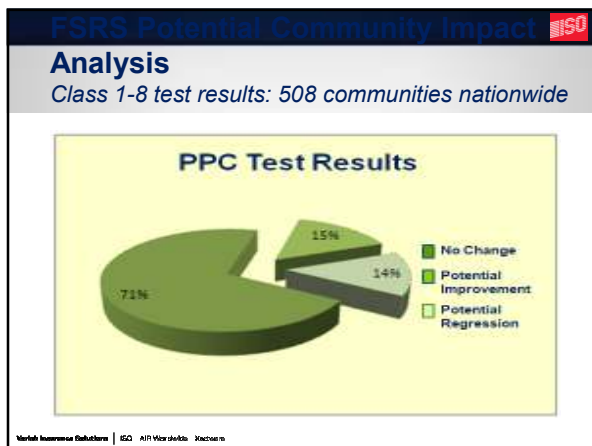
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# Split Classifications



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## FRRS Update

### Change in Split Class Communities: Class 9

- Example: Split 6/9 community:
  - Properties <1000 feet from water: 6
  - Properties >1000 feet from water: 9
  - Properties > 5 miles from station: 10



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## FRRS

### New Water 10 Rules

- Current “Split” Class 9 areas associated with a protected community will be separately classified...and will receive a discount
- Current Class 10 areas with water supply between 5 and 7 miles will be eligible for the new Class 10w...and will receive a discount



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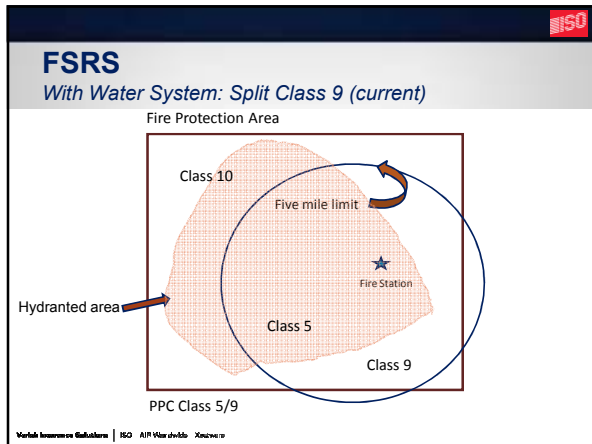
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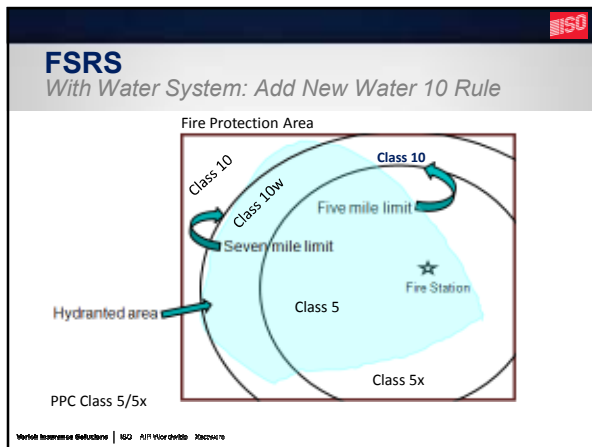
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### Filing Details

- New FSRS became effective 7/1/2013
  - Now effective in all states except Texas
- New Public Protection Class (PPC) rating will go into effect on 7/1/2014

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# Limit of Insurance Rating



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## Limit of Insurance (LOI) Revision

- Traditional rating uses a “linear” rate
  - Rate is the same regardless of limit of insurance selected
- LOI rating reflects the need to vary the rate depending on limit selected
- Currently used for ISO programs for Homeowners and Businessowners



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## Limit of Insurance Revision

- Generalized linear model
  - Determine which variables
    - Are important
    - Affect shape of curve
- Develop limit of insurance curves
  - By coverage, construction, territory...
- Coordinate with other factors



Market Insurance Solutions | ISO All Risk 2012-13 | 2012/13

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**ISO**

## Limit of Insurance Revision

- Establishes a base limit
  - Buildings: \$250,000
  - Contents: \$50,000
- Introduced on a revenue neutral basis
  - Off-balance factor applied

Market Insurance Guidelines | ISO All Risk 2013-2014 | Xactware

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**ISO**

## Limit of Insurance Revision

- Basic Group I (Fire)
  - Curves vary by construction
- Basic Group II (Wind)
  - Curves vary by Southeast / Non-Southeast

Market Insurance Guidelines | ISO All Risk 2013-2014 | Xactware

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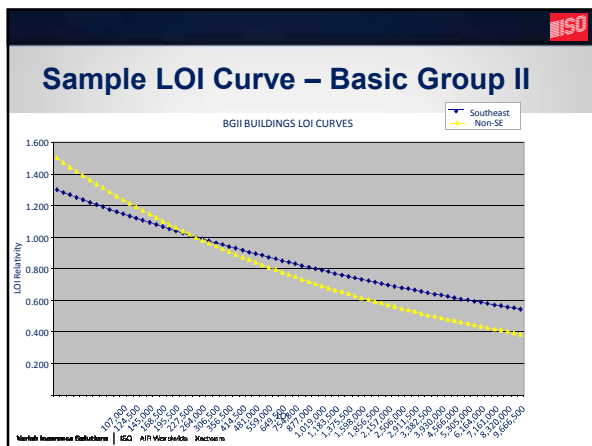
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## Limit of Insurance Revision

- Became effective in 40 states on January 1, 2011
- Three additional states during 2011
- Effective in 2012 – DC and Texas
- Pursuing remaining state – Florida
- Independent bureaus – In process of adopting revision

Market Insurance of Oklahoma | ISO AIR Visions Xactview

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# Monitoring Emerging Issues

  
Insurance Programs and Coverage Services

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## Monitoring Emerging Issues

- Emerging Issues Panel
  - Consists of over 60 participating insurers and growing
  - Teleconference every other month
  - Separate panels for domestic and international insurers
- Insurers are forming their own internal Emerging Issues teams
  - Often as part of larger effort to address Enterprise Risk Management
- Emerging issues portal
  - Provides timely information to insurers on emerging issues, including a "Today's Hot News" link
  - Can be accessed at:  
<https://www5.iso.com/eip/app/EmergingHomePage.action>

Market Insurance of Oklahoma | ISO AIR Visions Xactview

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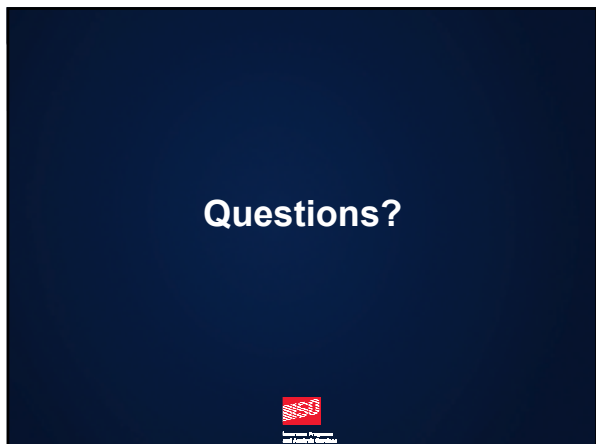
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