

Insurance Times: State Farm drops ISO homeowners rating to use own data Insurer says it can save money and gain flexibility by using its own claims database instead of ISO's Public Protection Classification Program
August 21, 2001, Vol. XX No. 17

by Mark Hollmer
InsuranceTimes

State Farm is using its own sub-zoning rating system to set homeowners insurance premiums in much of the country -- replacing the Insurance Services Office (ISO) program favored by the majority of the industry. The company has already launched the new system in 35 states including Connecticut, Massachusetts, New York, New Hampshire, Vermont and Rhode Island. Homeowners insurers traditionally rely on the ISO's fire protect system, known formally as the Public Protection Classification Program, to help calculate rates. The system uses information including regional fire claims and local fire department training and equipment data.

Money Savings

Kip Diggs, a State Farm spokesman, said his company's saves money and expand service by using its own data-gathering system.

"Instead of going to a separate vendor to get this information and get this rating, we can simply go to our own tables and go to our own information," he said.

"And that savings is something we can factor into pricing our customers are paying for homeowners insurance."

Dave Dasgupta, spokesman for ISO, said "we respect State Farm's decision but we are also very confident that a vast majority of insurers (will) continue to rely on" ISO's system for rating and underwriting.

Dasgupta added that a recent survey showed "more than 90 percent of fire chiefs in more than 45,000 jurisdictions (nationally) continue to rely on the ISO system.

"We continue to believe," he said, "that the (Public Protection Classification Program) is the most reliable and accurate way to help insurers evaluate fire risk."

He said State Farm's decision shouldn't affect ISO's data gathering because the company is the only one to abandon it. Every state will see the State Farm change except Louisiana and North Carolina because of regulatory restrictions. Canadian policyholders also won't be affected.

For homeowners insurance, State Farm is number 1 in New Jersey, number 2 in New York and New Hampshire and not in the top 20 in Massachusetts.

Diggs said the company believes it can draw solid data from its own customer base because it has a "pretty good pool of claims experience from which to draw."

But in lower customer areas, Diggs said, State Farm will take data from those regions and align it with similar regions, or sub-zones "to come up with a common rating or common claims experience."

Diggs said the company would now be able to "respond to actual claim cost trends as opposed to waiting for an outside rating agency (ISO) to come in and look at changes made" in communities regarding fire prevention.

Agents now will be able to give customers quotes by just looking up a zip code in a given region, Diggs said. In the past, agents would have to look up a community's ISO fire zone rating before giving a quote.

Within a few years, Diggs said, customers will be able to get a homeowners insurance quote over the Internet, thanks to the company's new rating system.