



REPORT ON THE EFFECTIVENESS OF THE HAWAII INSURANCE BUREAU'S FIRE RATING PROGRAM

Pursuant to H.C.R. No. 113 (2005)
REQUESTING REPORTS ON THE EFFECTIVENESS OF THE
HAWAII INSURANCE BUREAU'S FIRE RATING PROGRAM

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H.C.R. No. 113 (2005), requested the Insurance Commissioner, Hawaii Insurers Council, and Hawaii Insurance Bureau ("Bureau") to submit reports to the Legislature relating to the effectiveness of the Bureau's fire rating program no later than 20 days prior to the convening of the Regular Session of 2006.

The Concurrent Resolution requested that the reports include responses to the following:

1. How soon after a change in the fire protection status does the Bureau revise its classification;
2. Why are insurers not required to use the Bureau's fire classifications in establishing rates; and
3. What impact has the Bureau's fire classification procedures had on homeowner's insurance?

As the Hawaii Insurers Council and the Bureau will be responding to questions 1 and 3, this report will only address the second question posed in the Concurrent Resolution.

The Bureau is an independent, nonprofit insurance advisory organization licensed as a rating organization pursuant to Hawaii Revised Statutes ("HRS") §431:14-107. Under its fire rating program, the Bureau establishes statewide fire classifications, which are disseminated to property and casualty insurers for use in establishing rates for their policies.

Under current law, property and casualty insurers are not required to use the Bureau's fire classifications in establishing rates. The Insurance Code prohibits insurers from mandating adherence to the use of the Bureau's fire classifications in establishing rates. HRS §431:14-107.2(b) states:

(b) Except as permitted in this article, no insurer shall agree with any other insurer or with a rating organization or with an advisory organization to mandate adherence to or to mandate use of any rate, rating plan, rating schedule, rating rule, policy or bond form, rate classification, rate territory, underwriting rule, survey, inspection, or similar material, except as needed to develop statistical plans permitted by section 431:14-107.1. The fact that two or more insurers, whether or not members or subscribers of a rating organization or advisory organization, use consistently or intermittently the same rates, rating

plans, rating schedules, rating rules, policy or bond forms, rate classifications, rate territories, underwriting rules, surveys or inspections, or similar materials is not sufficient in itself to support a finding that an agreement exists. Two or more insurers having a common ownership or operating in this State under common management or control may act in concert between or among themselves with respect to any matters pertaining to those activities authorized in this article as if they constituted a single insurer.

In conclusion, while the Bureau should be commended for the services it provides, particularly through its Public Protection Classification (PPC) Program, property and casualty insurance companies should not be mandated to use PPC information in developing policy rates. If property and casualty insurance companies doing business in Hawaii find that the Bureau's information is credible, it is highly likely that they will adopt those standards. However, mandating the use of the Bureau's standards may have an adverse effect on the insurance market and ultimately harm Hawaii's consumers.