



Is ISO even relevant?

By: Ken Prillaman, Fire Chief (Ret.), Principal – Five Trumpet Advisors

I have heard many Fire Chiefs espouse the belief that ISO is no longer relevant. Some say they have asked a local agent who tells them that the ISO rating isn't used any longer in the insurance companies' rate calculations. With all due respect, that is like asking the clerk at 7-11 what are the ingredients of Coca-Cola®.

So, let's follow the money and the logic behind ISO's Public Protection Classification Rating system.

Who is ISO?

ISO is a division of Verisk, Inc who is a publicly traded (NASDAQ: VRSK), for-profit corporation based in New Jersey. According to their published financial disclosures their insurance related revenues for the *first quarter of 2023* was \$651 million dollars, of which \$460 million dollars in revenues is generated by products they sell in underwriting and rating information. This also means that the insurance companies are spending \$460 million dollars (per quarter) on Verisk's underwriting and rating products, including the PPC ratings. As a division of Verisk, ISO has infrastructure and personnel in all fifty United States, spending millions of dollars per year collecting ISO data.

This begs two questions, "Why would ISO invest millions of dollars to collect data if it wasn't still being sold into the insurance industry and why would the insurance industry continue to buy data that they don't use. The answer to both is "They wouldn't!" Both Verisk and the insurance industry exist *for-profit*, and are accountable to stockholders. If the insurance industry wasn't using it, it wouldn't buy it and if the insurance industry had stopped buying it, ISO wouldn't continue to spend millions of dollars to collect it.

So, how is it used?

Each insurance company chooses how to use the data and to what extent it values the data. The insurance industry is regulated by the states, and therefore methods change from one state to another. Insurance companies can also determine how to apply the ISO data and to what extent it impacts homeowners vs commercial property insurance rates. Given the competitiveness of the insurance industry, their use of ISO data, like other factors used to set their rates, is generally considered highly proprietary and confidential.

How does the rating impact my insurance rates?

We have seen impacts that range from virtually no impact to homeowners between two adjacent rating classifications but have also seen significant impacts to commercial property owners for a single class movement, particularly in commercial buildings that lack a sprinkler system.

When I served as the Fire Chief in Brooklyn Park, Minnesota we had a PPC rating of Class 3. I compared our average priced 1,500 square foot home to another city in Minnesota who had a PPC Class 7 and the homeowners insurance premium difference was more than \$350 dollars per year.

In what other ways is the PPC rating relevant?

In a recent conversation with our local Chamber of Commerce President, he shared that a community's ISO rating is one of the top five-or-six areas of focus that a relocating business will evaluate in their decision making. It follows strong logic, that if you are going to move your business to a new location, moving to a community that has a strong capability of saving it in a fire is important.

Additionally, since ISO uses national standards (for the fire department, dispatch center and water distribution portions of the evaluation), your rating becomes a direct reflection of how well you perform to those standards.

Why use Five Trumpet Advisors' PPC Estimate service?

Having an estimate of your ISO PPC rating eight-to-ten months before your next formal evaluation allows jurisdictions time to understand where their current operation is below industry standards or best practices and provides you with specific actionable areas of improvement if you desire to maximize your score. This is helpful whether you are trying to improve your rating or defend the one you have! In this way, you can prepare for your next evaluation instead of having your next evaluation done to you.

Call or email today for more information. Pricing starts at just \$4,850 for a department with up to five stations and/or 100 career, combination or volunteer firefighters. Your estimate comes in a written report and includes your score, the complete excel workbook results for all areas of the Fire Suppression Rating Schedule and specific areas for improvement.

There is a better way. Let Five Trumpet Advisors show you today.