

# ISRB CIRCULAR

## IDAHO COMMERCIAL FIRE & ALLIED LINES - FINALIZED MULTISTATE LOSS COST CHANGES.

Loss Costs

June 19, 2017

2017-CF-4

SERFF# ISRB-131051732

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### ADVANCE PLANNING BACKGROUND

This information is intended exclusively for Idaho Surveying and Rating Bureau, Inc. affiliated companies.

Bureau staff has received and reviewed the Multistate Commercial Property Loss Costs. Based on staff's evaluation of this review, the Bureau will implement the following changes to Commercial Fire and Allied Lines in Idaho effective November 1, 2017.  
The Idaho Department of Insurance has accepted this filing.

### CHANGES

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#### CF-2016-RLC16

This filing revises one Multistate Rule.

Rule 29. Unmanned Aircraft

### EFFECTIVE DATE

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**The effective date for these changes will be November 1, 2017.**

### COMPANY ACTION

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All correspondence with the Idaho Department of Insurance should refer to  
**CF-2016-RLC16.**

If you have authorized us to file on your behalf and decide:

☐ To use our revision and effective date, you are not required to file anything with the Idaho Department of Insurance.

☐ To use our revision with a different effective date, to use our revision with modifications or to not use our revision, then you must make an appropriate submission with the Idaho Department of Insurance.

### PERSON TO CONTACT

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# Commercial Property: Unmanned Aircraft Loss Costs

## About This Filing

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This filing introduces loss costs for rating unmanned aircraft written under the ISO Commercial Property policy.

## New Loss Costs

We are introducing loss costs under:

- ◆ Rule 29., Unmanned Aircraft

## Related Filing(s)

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The following companion filings will be implemented with a concurrent effective date:

- ◆ CF-2016-RRU16 (Rules)
- ◆ CF-2016-OFR16 (Forms)

**NOTE:** The Forms filing referenced above is a concurrent filing but does not relate to the loss costs in this filing. The Forms filing (and initial Rules filing) for unmanned aircraft were submitted in the Spring of 2016 and were implemented on December 1, 2016 in most states. The Rules filing referenced above modifies the initial Rule by adding rating information. (The initial unmanned aircraft filings are CL-2016-ODNPF and CL-2016-ODNPR.)

## Introduction

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Unmanned Aircraft coverage was recently introduced under the Commercial Property Program as a new, optional coverage. This document details the development of the pricing for coverage provided under the optional endorsement. Since no direct historical experience data is available for Drones, our proposed loss costs are based on loss costs for similar classes provided under Commercial Property for Basic Group I, Basic Group II, and Special Causes of Loss, plus a provision for collision.

## Actuarial Support

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Following is an explanation of the development process to support our pricing methodology.

### **Loss Costs Development for Ordinary Risk Drones Classes**

The loss cost for ordinary drones was selected as 1.625.

First, we calculated multistate exposure weighted average loss costs for Commercial Property classes that were best suited for rating Drones. For BG I we used class 0570 (Mercantile -Sole Occupancy Only - Not Otherwise Classified - High Susceptibility), because that is the class code for electronic devices for sale. For BG II we used special class 1190 (Aircraft Stored in the Open). This selection considered a balance: that the risk would be higher than open storage when in use, but lower when in indoor storage. For Special Causes of Loss we used category 14 (Contractors), considering that the nature and use of drones is more similar to the use of contractors' equipment than to property in the other categories.

The following loss costs by sub-line were selected based on the averages:

Basic Group I:	0.150
Basic Group II:	0.900
Special Causes of Loss:	0.275

### **Development of Collision Loss Cost:**

Coverage for collision is provided under the newly introduced Unmanned Aircraft endorsements, but collision is not contemplated in the pricing for BG I, BG II, or Special Causes of Loss. As such we needed to develop an additional collision loss cost component. We calculated the proposed loss cost by multiplying a selected expected frequency by a selected expected severity. The expected frequency and severity values were estimated as follows:

For expected frequency we selected 2%. This is the same selection that was used in developing the current Collision loss costs for Off-Premises Interruption of Business - Vehicles and Mobile Equipment under the ISO Commercial Property program.

To estimate expected claim severity, we began by looking at historical ISO Commercial Property Contents data. The multistate average loss as a percentage of the limit of insurance is 15%.

The selected expected frequency of 2% and an expected severity of 15% produce a Collision loss cost of \$0.30 per \$100 of insurance.

So, the overall loss cost for Ordinary Risk drones is 1.625 (.150 + .900 + .275 + .300).

### **Loss Costs Development for High Risk Drones Classes**

We recently introduced multiple classes related to drones in our Commercial Property statistical plan. Of these, classes 9102 (Search and Rescue Drones), 9103 (Firefighting Drones), and 9107 (Weather and Environmental Data Collection Drones) are logically high risk drone operations, and we expect these classes to be more susceptible to loss. In order to reflect the increased vulnerability to the various perils, we adjusted the loss costs for each sub-line.

Without any additional data available, we selected BG I and Collision loss costs for these classes twice as high as for ordinary Drones. This selection balances the likely increase in frequency and severity for these classes (including strong likelihood of a total loss given an occurrence while airborne), while assuming that drones used in a disposable manner, due to the lack of fortuity, are not considered in pricing this coverage. Therefore, the selected High Risk loss cost for BG I is 0.300; the selected High Risk loss cost for Collision is .600.

To estimate the additional BG II risk for High Risk drones, we did not want to make a selection that is twice as high as ordinary drones, due to the loss cost already being a higher absolute dollar amount and because some of the effects of adverse airborne conditions are similar to ground-based conditions contemplated by the special class 1190 (Aircraft Stored in the Open) BG II loss cost.

We therefore selected a BG II ratio of high risk to ordinary risk loss costs of 1.5, which we used to calculate the BG II High Risk loss cost as follows:

BG II High Risk Loss Cost =  $0.900 * 1.5 = 1.350$ .

As the Special Causes of Loss category is predominantly reflective of theft, we did not believe any increase to be appropriate for High Risk drones, so the Ordinary Risk drones loss cost component of 0.275 was preserved.

So, the overall loss cost for High Risk drones is 2.525 (.300 + 1.350 + .275 + .600).

## **Impact**

This filing introduces loss costs for a recently-introduced coverage option.

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## Company Decision

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We encourage each insurer to decide independently whether the judgments made and the procedures or data used by ISO in developing the enclosed loss costs are appropriate for its use. Some calculations included in this filing involve areas of ISO staff judgment. Each insurer should carefully review and evaluate its own experience in order to determine whether the ISO advisory loss costs are appropriate for its use.

The material has been developed exclusively by the staff of Insurance Services Office, Inc.



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**29. UNMANNED AIRCRAFT**

**E. Premium Determination**

**1. Property Damage**

**a. Unmanned Aircraft Loss Costs**

<b><u>Ordinary Risk Classes</u></b>	<b><u>\$ 1.625</u></b>
<b><u>High Risk Classes</u></b>	<b><u>\$ 2.525</u></b>
<b><u>High Risk Classes:</u></b> Search & Rescue Firefighting Weather & Environmental Data Collection (including storm monitoring)	
<b><u>Ordinary Risk Classes:</u></b> All Other	

**Table 29.E.1.a. Unmanned Aircraft Loss Costs**