



BULLETIN NO. 08-03

December 3, 2008

TO: ALL AUTHORIZED PROPERTY AND CASUALTY INSURERS
WRITING FIRE INSURANCE IN LOUISIANA, INCLUDING MULTI-
PERIL PROGRAMS THAT INSURE THE FIRE PERIL

RE: USE OF LOSS EXPERIENCE TO DEVIATE FROM THE FIRE RATE
CLASSIFICATION PLANS, SCHEDULES, AND FIRE RATES
PROMULGATED BY THE PROPERTY INSURANCE
ASSOCIATION OF LOUISIANA (PIAL)

STATUTE REFERENCES: LSA-R.S. 22:1402.1, 22:1402.2., 22:1404(F), 22:1405(A),
22:1405(I)(1)(a), and 22:1410.

It has come to my attention that insurers have questioned whether or not insurers may use loss experience to rate insured properties in lieu of the rates promulgated by the Property Insurance Association of Louisiana (PIAL). This relates to the application of LSA-R.S. 22:1405 and LSA-R.S. 22:1410.

Adherence to PIAL's rate classifications

But for the exception noted below in LSA-R.S. 22:1410, all insurers authorized to write fire insurance in Louisiana are required to adhere to the rates promulgated by the PIAL and approved by the Louisiana Commissioner of Insurance (Commissioner) pursuant to LSA-R.S. 22:1405. Without the previously referenced exception, all insurers must assign the fire protection grade of the fire servicing area where the property of the insured is located in accordance with LSA-R.S. 22:1404.F when setting fire insurance rates.

Premium adjustments under the PIAL's promulgated rates are generally correlated with an improvement or a detrimental change in a fire protection area. LSA-R.S. 22:1405.I.(1)(a) requires that an insurer reduce an insured's premium whenever a public protection classification is changed by the PIAL to reflect an improvement in the fire

protection grade for a fire district. However, when a fire protection district improves from a fire protection grade two to a fire protection grade one, the percentage of the amount of the premium reduction shall be uniform for all property in the area, regardless of whether the property is classified as commercial or residential. An insurer may adjust its premium to reflect a detrimental change in a fire protection area; however, such an adjustment is not required.

While adherence to the PIAL's rate classification plans in LSA-R.S. 22:1405 provides uniformity in the rate making process, the use of loss experience rating in LSA-R.S. 22:1410 is specifically authorized to provide the flexibility needed for insurers to provide more accurate rate making. Moreover, loss experience inherently includes the effectiveness of the local fire protection district.

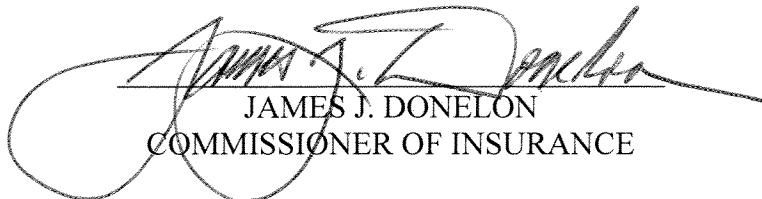
Deviation from PIAL's rate classification of fire protection grades

Please be advised that insurers may deviate from the fire classification plans (including schedules and final rates) promulgated by the PIAL by making written application to the Commissioner in accordance with LSA-R.S. 22:1410. Thus, pursuant to the authority of LSA-R.S. 22:1405 and LSA-R.S. 22:1410, an insurer may use loss experience to specifically modify, or even exclude, reference to the fire protection grades in rate classification plans filed by the PIAL.

Rate classification plans, schedules, and final rates that deviate from PIAL's rate classification of fire protection grades shall be filed with and approved by the Louisiana Department of Insurance and shall be actuarially sound in accordance with LSA-R.S. 22:1401, et seq. The insurer shall set forth the basis for the requested deviation in the rate classification filing. The insurer shall provide an actuarially sound analysis in support of the requested deviation in accordance with LSA-R.S. 22:1402.1, LSA-R.S. 22:1402.2 and LSA-R.S. 22:1410. As it relates to the property subject to the rate classification plan, statistical coding of the fire protection district as a taxing authority and statistical coding of the fire protection grade, as assigned by the PIAL, are still required.

Please direct any questions regarding Bulletin No. 08-03 to the Louisiana Department of Insurance, Office of Property and Casualty, at (225) 342-1258 or the Louisiana Department of Insurance website at www.ldi.state.la.us.

Baton Rouge, Louisiana, this 3rd day of December, 2008.


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COMMISSIONER OF INSURANCE