



**ARKANSAS INSURANCE DEPARTMENT
LEGAL DIVISION**

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December 15, 1997

DIRECTIVE NO. 1-97

TO: ALL LICENSED PROPERTY AND CASUALTY INSURERS

FROM: ARKANSAS INSURANCE DEPARTMENT

SUBJECT: REPORT OF PREMIUMS BY CITIES AND TOWNS FOR FIREMEN'S RELIEF AND PENSION FUND TAX TURNBACK FUNDS

Insurers are required by state law to report annually, by named municipality or rural fire protection district, insurance premiums covering real and personal property insured against the perils of fire and extended coverage, tornado, windstorm, cyclone and hail (except crop hail).

In reviewing these reports, it is obvious there are inconsistencies in the reporting of this data. In many instances it appears most or all of the premium is being credited to the nearest municipal or rural fire department, while the fire protection district primarily responsible for providing fire protection receives no credit for premiums written in the area it services. The Department believes some of this inaccuracy is created by the improper use of suburban rating plans and the means used to indicate the lower protection class so that the policy will be issued reflecting the proper premium. Some insurers experience reporting errors because they rely solely upon Zip Code sorting to prepare these reports.

Proper allocation of these premiums at the municipality and rural fire protection district level is crucial to the accuracy and financial stability of the firemen's pension funds. In addition, and of greater importance to you as an insurer, incorrect allocation of these premiums is a violation of the Arkansas Insurance Code.

Each insurer receiving this Directive is hereby instructed to review with its underwriting, data processing and accounting departments the methodology used to collect and compile the information for premium allocation by location. If your company is making the allocation relying solely upon Zip Code information, there is a strong likelihood your allocation is inaccurate.

As a part of this review, notice should be taken of Act 1077 of 1997, effective August 1, 1997, which allows aggrieved fire departments and fire districts to petition the Commissioner for hearings and orders to correct these tax turnback reporting problems.

After you have completed this review, the manager of your Underwriting Department, or other person with responsibility for the accurate reporting of this information, is directed to contact this Department, in writing, outlining the steps your company is taking to ensure the accuracy of the data you report. The Department will monitor these reports and insurers whose data continues to be inaccurate may be subject to appropriate Department sanctions. Your written report shall be provided to this Department no later than January 30, 1998, and should be directed to Mrs. Lenita Blasingame, Director of the Property and Casualty Division. Questions concerning this Directive should be addressed to Mrs. Lenita Blasingame or Mrs. Becky Harrington at 501-371-2800.

It is not the intent of this Directive to discourage the use of suburban rating rules. Indeed, suburban rating rules, when used properly and in compliance with the law, are beneficial to many consumers. This Department supports the proper, legal use of these rules. The sole intent of this Directive is to help ensure the proper, legal use of suburban rating rules so as to maximize the benefits to consumers and maintain the financial integrity of the firemen's pension funds.

Even if your company does not use suburban rating rules, the potential for inaccurate reporting still exists. Therefore, it is imperative you conduct the aforementioned review within the specified time period.

Attached is a copy of Directive 2-97. Please distribute to all agents doing business with your company.

Mike Pickens
Insurance Commissioner