



ISO's PPC™ Program

Helping to Build Effective
Fire-Protection Services



ISO is the premier source of information, products, and services related to property and liability risk. For a broad spectrum of commercial and personal lines of insurance, ISO provides statistical, actuarial, underwriting, and claims information and analyses; consulting and technical services; policy language; and information about specific locations. In the United States and around the world, ISO serves insurers, reinsurers, agents, brokers, self-insureds, risk managers, insurance regulators, fire departments, and other government agencies.

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Fire

It's the largest single cause of property loss in the United States. In the last decade, fires have caused direct losses of more than \$120 billion and countless billions more in related costs.

But that's not all. Every year, fires injure more than 20,000 people. And every year, more than 3,000 Americans die in building fires.

A community committed to saving lives and property needs trained firefighters, proper equipment, and adequate supplies of water. Insurance companies consider it good public policy — and good business — to promote and encourage the efforts of individual communities to improve their fire-protection services. That's why, for almost a century, U.S. property insurance companies have funded key initiatives aimed at fire prevention and fire mitigation.

In the battle against fire losses, one of the insurance industry's most important weapons is the Public Protection Classification (PPC™) program from ISO.

The PPC program provides important, up-to-date information about municipal fire-protection services throughout the country. A community's investment in fire mitigation is a proven and reliable predictor of future fire losses. So insurance companies use PPC information to help establish fair premiums for fire insurance — generally offering lower premiums in communities with better protection.



“The Public Protection Classification information we obtain from ISO allows California Casualty to properly categorize and rate property insurance risks based on an objective measure of the quality of fire protection at each risk location. Most small to medium-sized insurers have no way of independently amassing enough loss data and fire-district information to create their own fire-protection classification system. Affiliating with ISO for that information allows us to leverage ISO’s extensive field-research operation and expertise. From the standpoint of improving public safety, fire-district leaders are well aware of ISO’s PPC classification system, and any efforts they undertake to improve their assigned protection class undoubtedly enhances the level of fire protection enjoyed by their communities.”

CHUCK MUENZEN, CPCU, ARP
ASSISTANT VICE PRESIDENT
CALIFORNIA CASUALTY MANAGEMENT CO.



Every year, ISO employees visit thousands of fire districts to review firefighting capabilities and evaluate the adequacy of water systems. Because insurance companies pay all the PPC program’s administrative costs, ISO provides the service free of charge to the communities.

By offering economic benefits for communities that invest in their firefighting services, the PPC program provides a real *incentive* for improving and maintaining public fire protection. And that incentive produces results.

The program also provides *help* for fire departments and other public officials as they plan for, budget, and justify improvements.

But the most significant benefit of the PPC program is its effect on losses. Statistical data on insurance losses bears out the relationship between excellent fire protection — as measured by the PPC program — and low fire losses.

And in a recent survey of fire chiefs, 97% of the respondents said that the PPC program is important in helping the community save lives and property.

ISO’s PPC program accurately measures the quality of public fire protection in 45,000 fire districts across the country.

ISO is an independent organization that serves insurance companies, fire departments, insurance regulators, and others by providing information about risk. ISO’s expert staff collects information about municipal fire-protection efforts in communities throughout the United States. In each of those communities, ISO analyzes the relevant data and assigns a Public Protection Classification — a number from 1 to 10. Class 1 represents exemplary fire protection, and Class 10 indicates that the area’s fire-suppression program does not meet ISO’s minimum criteria.

Virtually all U.S. insurers of homes and business property use ISO’s Public Protection Classification in calculating premiums. In general, the price of fire insurance in a community with a good PPC is

substantially lower than in a community with a poor PPC, assuming all other factors are equal.

A COMMUNITY'S PPC DEPENDS ON:

- » **fire alarm and communications systems**, including telephone systems, telephone lines, staffing, and dispatching systems
- » **the fire department**, including equipment, staffing, training, and geographic distribution of fire companies
- » **the water supply system**, including condition and maintenance of hydrants, and a careful evaluation of the amount of available water compared with the amount needed to suppress fires



Good communications, well-trained and equipped firefighters, and an adequate water supply can help reduce fire loss.

ISO's PPC program evaluates communities according to a uniform set of criteria, incorporating nationally recognized standards developed by the National Fire Protection Association and the American Water Works Association. So, the PPC program provides a useful benchmark that helps fire departments and other public officials measure the effectiveness of their efforts — and plan for improvements.

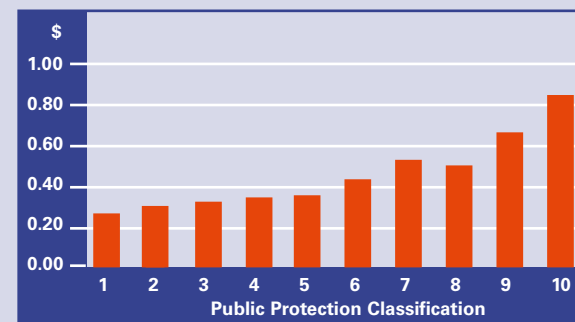
Better fire protection — as measured by the PPC program — leads to lower losses.

On average, communities with superior fire-protection services — and therefore good Public Protection Classifications — have lower fire losses than communities whose fire-protection services are not as comprehensive.

ISO reviewed the cost of fire claims per thousand dollars worth of insured property by PPC for communities around the country. The two graphs —

COST OF FIRE CLAIMS PER \$1,000 OF INSURED PROPERTY — COMMERCIAL PROPERTY

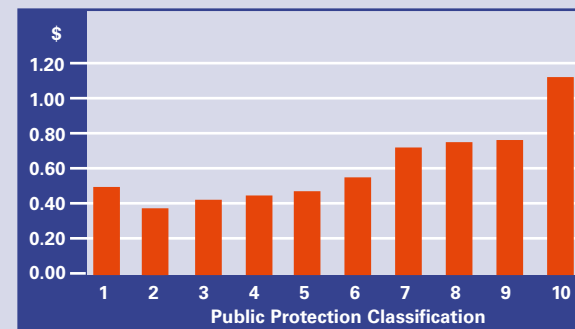
On average, per \$1,000 of insured property, communities in the worst classification had commercial-property fire losses more than three times as high as communities in the best classification.



Based on premium and loss information that insurers reported to ISO. Excludes data from statistically rated cities. Out of more than 45,000 fire districts in the United States, only 42 have achieved a PPC of 1. Therefore, the data sample for Class 1 is not statistically credible.

COST OF FIRE CLAIMS PER \$1,000 OF INSURED PROPERTY — HOMEOWNERS

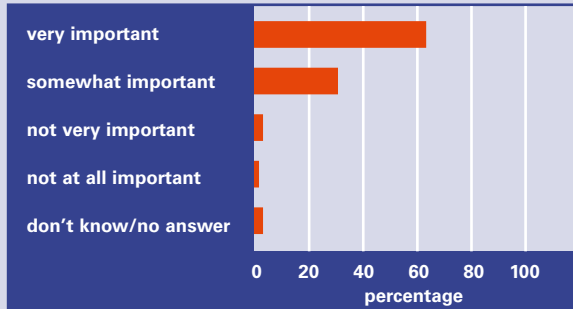
On average, per \$1,000 of insured property, communities in the worst classification had homeowners fire losses more than twice as high as communities in the best classification.



Based on premium and loss information that insurers reported to ISO. Excludes data from statistically rated cities. Out of more than 45,000 fire districts in the United States, only 42 have achieved a PPC of 1. Therefore, the data sample for Class 1 is not statistically credible.

HOW THE PPC PROGRAM AFFECTS COMMUNITIES' DECISIONS ON FIRE PROTECTION

In planning for, budgeting, or justifying improvements or changes in your community's public fire protection, how important is the effect such a change might have on your community's PPC?



Source: a survey conducted by the opinion research firm ORC International, based on telephone interviews with 501 fire chiefs and other fire department officials

based on five years of data for homeowners and commercial property insurance — show that the communities with better classifications experienced noticeably lower fire losses than the communities with poorer classifications.

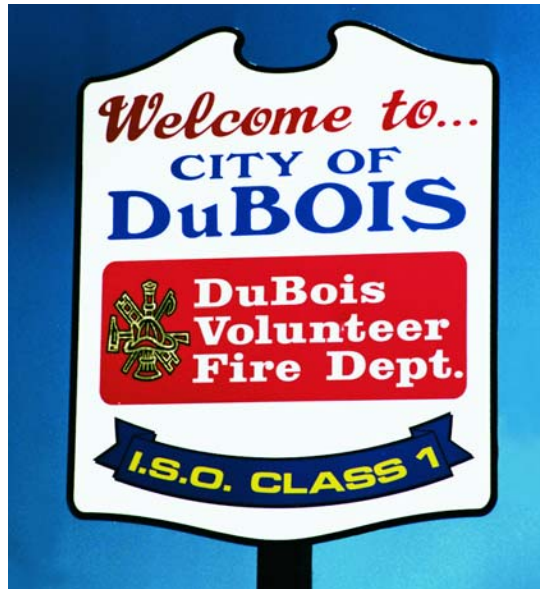
The dollar value of a better PPC varies by state. But on average across the country, the cost of fire losses for homeowners policies in communities graded

Class 9 is 65 percent higher than in communities graded Class 5.* If a community improved from Class 9 to Class 5, homeowners could expect their premiums for fire insurance to drop substantially.

The PPC program provides an incentive for communities to improve the quality of their fire protection — and communities respond to that incentive.

A survey of fire chiefs conducted for ISO by the independent opinion research firm ORC International shows how much community fire officials rely on the PPC program.

The survey, based on telephone interviews with a sample of 501 fire chiefs and other fire department officials from across the country, reveals that the PPC program plays an important part in most communities' decisions on their fire-protection services.



Many fire departments work hard to improve their PPC gradings and take justifiable pride in their achievement. The city of Dubois, Pennsylvania, announces its Class 1 grading on its fire engines and on street signs at the city's borders.

* According to loss data collected by ISO from insurance companies for accident years 1994 to 1998.



The Las Vegas Fire Department celebrated its 50th anniversary — and its PPC Class 1 rating — with a glittering display at the Las Vegas Convention Center.

Ninety-two percent of the fire chiefs and other officials interviewed said that, in planning for, budgeting, or justifying improvements or changes in their communities' public fire protection, the effect of such changes on the PPC is very or somewhat important.

Fifty-nine percent of the fire chiefs and other officials reported that, in the last five years, they have used ISO's PPC program in planning for, budgeting, or justifying improvements or changes in their communities' public fire protection. And 69 percent said they plan to use the PPC program that way in the next three years.

THE FIRE CHIEFS AND OFFICIALS SAID THEY HAD USED THE PPC PROGRAM:

- >> for planning or other economic purposes
- >> as a guide for making improvements in their community fire services
- >> for justifying expenditures and improvements
- >> in building a new fire station or to help determine the location of a new station
- >> in buying or upgrading equipment
- >> in increasing staff or training of staff

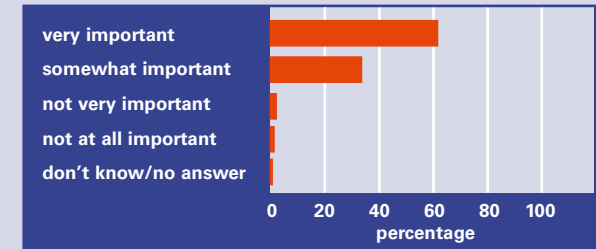
When a fire district improves its PPC, the entire community can benefit economically.

If a fire district improves its PPC, homeowners and businesses in the community often save money on their insurance premiums. If property owners spend their savings in the community, the extra cash can help improve the local economy. And a community with improved fire protection may find it easier to attract new business, increasing jobs and boosting the economy even more.

WHAT FIRE CHIEFS SAID ABOUT THE IMPORTANCE OF THE PPC PROGRAM

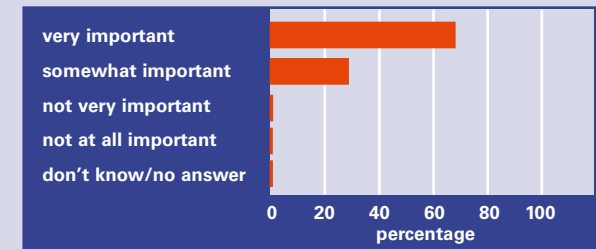
Planning for, budgeting, or justifying changes in public fire protection

Ninety-four percent of the fire chiefs and other officials said that planning for, budgeting, or justifying improvements or changes in public fire protection is an important use of the PPC program.



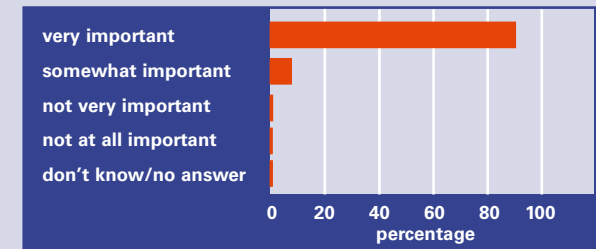
Helping the community save money on fire insurance

Ninety-six percent of the sample said that helping the community save money on fire insurance is important.



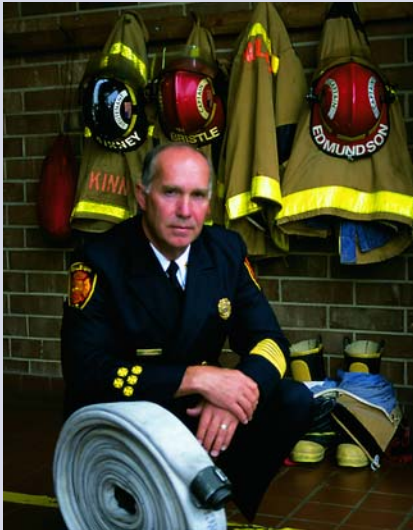
Helping the community save lives and property

And fully 97 percent said that helping the community save lives and property is an important use of the PPC program.



“Raleigh is a growing community, and the demand for fire and other emergency services is increasing. To respond to emergencies and perform adequately, we need more equipment and personnel. As we make our budget preparations, it helps if we have standard measurements to rely on — a nationally recognized benchmark for service. ISO’s PPC program provides that benchmark.

“And in many cases, it’s not just a cost issue. It’s a service issue. If we want to provide a consistent, high level of service for everyone in the community, the PPC program lets us know what we need for our fire department, our water department, and our emergency communications division.”



EARL F. FOWLER
FIRE CHIEF
RALEIGH, NORTH CAROLINA

In 2000, the Rural Fire Protection Work Group, a committee appointed by Arkansas Governor Mike Huckabee, quantified the economic benefits of improved fire protection for that state. The work group considered a series of measures designed to improve the Public Protection Classifications of rural Arkansas communities. In its final report, submitted to Governor Huckabee in August 2000, the work group estimated the statewide cost of those projects at about \$150 million — or \$15 million a year for 10 years.

Next, the work group projected the reduction in property insurance premiums when each of 839 rural fire departments has improved its PPC to Class 7. According to that analysis, the statewide savings would total more than \$100 million per year. More than 425,000 homeowners would share the benefits, with an average annual savings of \$235 per household.

The Arkansas work group projected increased economic activity at more than \$2 billion over a

period of 13 years. According to the work group’s analysis, that economic activity would generate additional state and local sales-tax revenue more than offsetting the cost of the improvements.

ISO’s outreach efforts help communities quickly realize the economic benefits of improved public protection.

You might think that insurance companies could use loss statistics from a particular community to determine the effectiveness of the community’s public fire protection. But past statistics don’t reflect recent improvements. If a community upgrades its fire protection today, the loss statistics insurers use in determining premiums will not reflect the full value of the improvement for many years. That’s why insurers rely on ISO to provide an objective evaluation of the *current* capabilities of communities all over the country.*

* A number of very large jurisdictions have common fire-protection services and sufficient fire losses to be a reliable predictor of future losses. In those defined municipal areas, insurers rely on loss statistics compiled by ISO to determine premiums, rather than using ISO’s examination of public protection capabilities.

And that's why ISO has an aggressive outreach program to identify changes that may affect a community's PPC or the insurance premiums of individual homeowners and businesses. ISO works with fire departments, state agencies, state and local fire associations, and insurers to gather information about such changes.

Under ISO's program, more than 16,000 fire districts have provided up-to-date information about changes in fire-district boundaries, automatic-aid agreements,

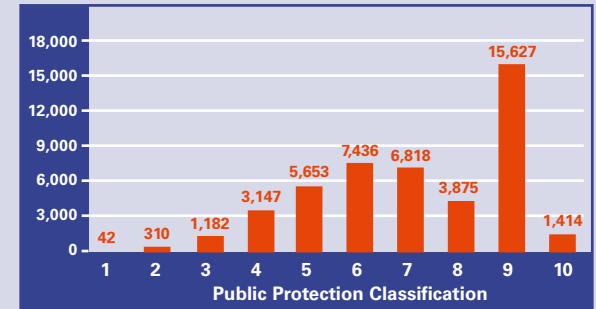
fire station locations, and access to water. ISO uses that information in scheduling visits to communities to reevaluate their firefighting capabilities.

More than half the communities ISO reevaluates in any year receive better Public Protection Classifications. Only about 2% receive worse classifications. So it pays for a community to let ISO know about any change that may affect the PPC. As an added service, ISO staff members routinely review with local fire officials the factors that went into a PPC grading. ISO provides that service at no charge to the community, and ISO staff can also advise community officials about how particular investments or other efforts may improve the grade.

For more information on the PPC program — and on ISO's community outreach efforts — fire officials and others can visit ISO's special public protection website, ISO Mitigation Online, at www.isomitigation.com.

ISO reaches out to fire chiefs and other public officials who want to learn about the PPC program — and how to get the benefits for their communities. For more information, visit ISO's website at www.iso.com. Or go directly to ISO Mitigation Online at www.isomitigation.com.

DISTRIBUTION OF COMMUNITIES BY PPC



Number of fire districts in each PPC as of December 31, 2000. Where a fire district has more than one PPC, the graph reflects the better PPC.

Many communities have made great improvements in their fire protection, and ISO recognizes those improvements with better Public Protection Classifications. But still, more than one-third of the fire districts in the United States have a Class 9 rating, which indicates the minimum recognized standard of fire protection. And more than 62% of the fire districts have gradings of Class 7 to 10. The value of homes in areas graded Class 7 to 10 is rising faster than in areas with better classifications. From 1994 to 1998, the average amount of insurance purchased by homeowners in communities graded Class 7 to 10 grew nearly 14 times faster than in communities graded Class 1 to 6, where the rate of growth was only 0.3 percent.*

* Based on data reported to ISO.

WHEN A COMMUNITY IMPROVES ITS FIRE PROTECTION, EVERYONE BENEFITS.

Fire is still the leading cause of loss for personal and commercial property insurance policies. But there's a definite correlation between improved fire protection — as measured by the PPC program — and reduced losses. Insurers have recognized that correlation for almost a hundred years.

By offering substantial economic benefits to communities that earn better Public Protection Classifications, the program encourages improvements and helps fire departments plan for, budget, and justify expenditures that reduce property damage from fires.

And by helping communities prepare to fight fires effectively, ISO's PPC program saves lives.





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