



# REDUCE COSTS & STAY CURRENT WITH ISO

A Guide to Modernizing Rating, & Benefiting from ISO  
Electronic Rating Content (ERC)

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A Guide To Modernizing Rating, & Benefiting From ISO  
Electronic Rating Content (ERC)

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# Introduction

**If You Are Responsible For Utilizing And Keeping Up-to-date With ISO Advisory Loss Cost, Rules And Forms, You May Find Yourself Under Increasing Pressure For Efficiently Managing The Rating Operations, While Ensuring Regulatory Compliance.**

Over the last few years, in response to customers' challenges, ISO has launched ISO Electronic Rating Content (ERC) that can speed up the process of implementing and taking on ISO changes. Inside this guide, you will learn:

Why you need to change the way you manage your ISO-related rating operations and adopt ISO Electronic Rating Content

- **What benefits have been reported by users of electronic means**
- **What strategy options are available to you to adopt ISO Electronic Rating Content**
- **What key factors you should consider in deploying a solution that leverages ISO Electronic Rating Content**

# The Driver For Change

## Why manual processes fall short

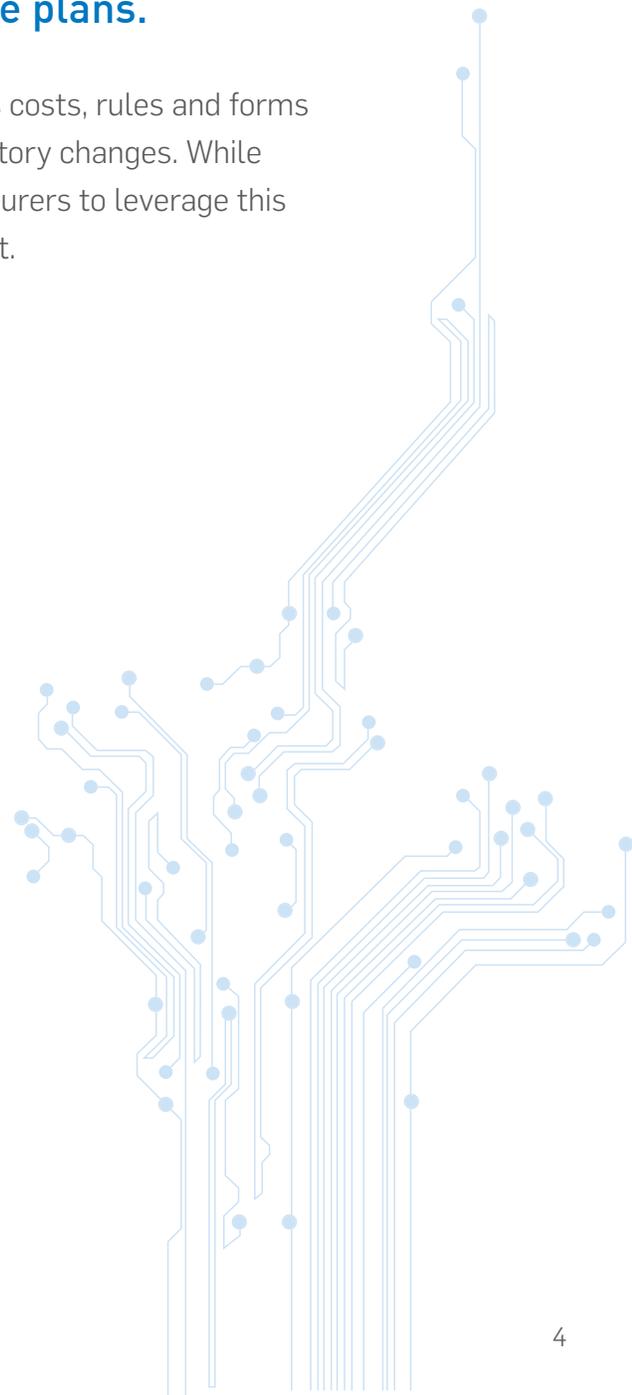
**In 2015, the US property/casualty Industry will continue addressing four key challenges - profitable growth, regulatory compliance, timely business deliverables and operational efficiency. Many of these challenges entail correctly pricing policies, lowering operational expenses associated with rating and compliance and speed-to-market with rate plans.**

Many property/casualty insurance carriers use ISO advisory loss costs, rules and forms to stay on top of loss cost trends, new product forms, and regulatory changes. While this ISO content is invaluable, the processes utilized by some insurers to leverage this information and keep it up-to-date is often manual, and inefficient.

### **Time Consuming**

The process can be time-consuming, involving senior level carrier resources from multiple departments. Manual processes involve analyzing, interpreting, modifying, specifying and making system changes and training / communicating the updates.

Novarica recently published a Novarica Research Partners Program Report, titled "ISO Support: A Comparison of Manual Processes and Electronic Practices", underwritten by ISO. This report cites that the average work time needed to process an ISO Circular is over 560 hours, with the bulk of time spent on getting the ISO changes into the carrier's systems. Significant time is spent also on interpreting the change.



# Why Manual Processes Fall Short



## High Costs

Consequently, manual processes also tend to drive costs of keeping up-to-date with ISO higher. The same Novarica research report cites that handling an ISO circular costs more than \$45,000 when handled manually, with complex circulars costing over \$80,000 to process.

(In fact: one carrier in that report showed costs for complex circulars of over \$200,000!!)

## Challenges with Effective Dates

Because ISO updates can be time-consuming, frequent and costly, carriers are challenged to respond to ISO circulars by their effective dates.

The Novarica report also found that most carriers using ISO manually were at least two years behind ISO's most recent release. As a result, these carriers were also at risk for premium leakage and for non-compliance with regulatory guidelines.

You can download the Novarica report to gain more detailed insights:

[Novarica Research Partners Program Report, titled "ISO Support: A Comparison of Manual Processes and Electronic Practices", underwritten by ISO](#)

# Benefits of Adopting ISO Electronic Rating Content

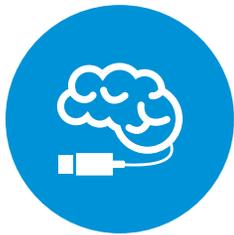
ISO issues a significant number of circulars each year that are required to be kept track of and up-to-date with regulatory/judicial changes and loss cost reviews. All that circular activity presents challenges to carriers if they are attempting to stay up-to-date with ISO. In response, ISO developed and launched ISO Electronic Rating Content (ERC).

In the aforementioned study, Novarica did a comparison on the time and cost differences between supporting ISO in a manual environment, which is to say, taking that manual

and ongoing circulars, and interpreting and building these in software systems, versus using an electronic means. This paper focuses on how a carrier can benefit from adopting ISO Electronic Rating Content.

The results of the survey as they studied carriers using both methods clearly identifies the significant benefits of using ISO Electronic Rating Content over manual processes.

## Key benefits from ISO ERC



**59%**

Reduction in costs to load ISO changes



**58%**

Decrease in work time for IT modification



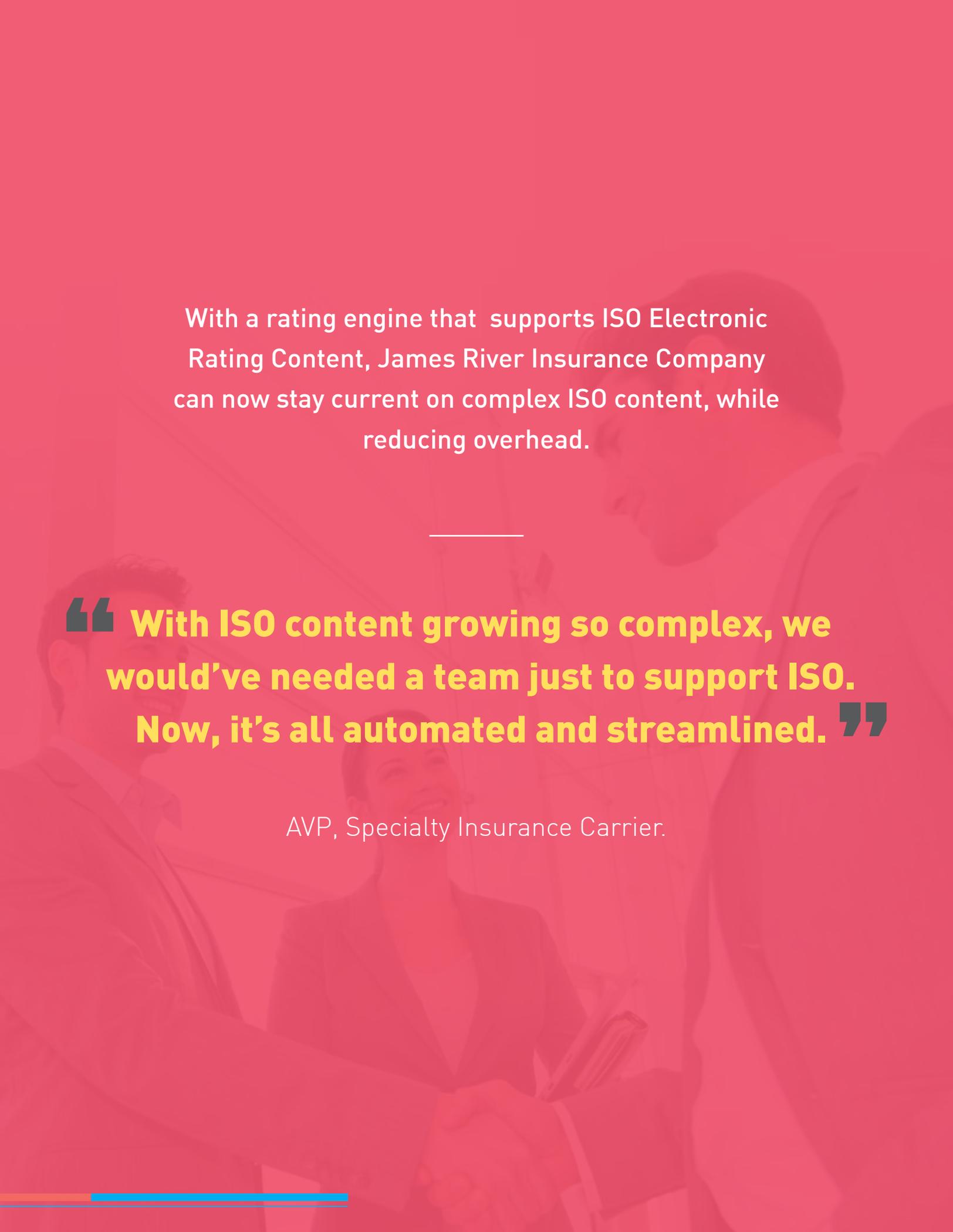
**38%**

Decrease in overall cost



**7 months**

Improvement in being current with ISO



With a rating engine that supports ISO Electronic Rating Content, James River Insurance Company can now stay current on complex ISO content, while reducing overhead.

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**“ With ISO content growing so complex, we would’ve needed a team just to support ISO. Now, it’s all automated and streamlined. ”**

AVP, Specialty Insurance Carrier.

# Major Deliverables of ISO Electronic Rating Content

"The real value is ISO defined and interpreted content from ISO"



## Formatted File (MS-Excel & XML)

- Required tables and their relationships, such as:
  - Parent-child relationships
  - Fields and field sizes
  - Keys
- Valid data entry fields, such as:
  - Limits
  - Deductibles
- Valid system tables and their entries, such as:
  - Advisory Loss Costs
  - Increased Limits Factors
  - Classification Codes/Descriptions



## Technical Specifications (MS-Excel and XML)

- Premium Calculation Logic
- Form Attachment Logic
- Premium Statistical Code Assignment Logic (ISO Full Stat Plan)
- Business Edits

Plus, a Sample Test Case for each LOB/state

# Your Strategy Options for Benefiting from ISO ERC

Insurers have two broad options to set up operations to benefit from ISO Electronic Rating Content:

- Develop a custom rating system and corresponding quoting system that can leverage ISO Electronic Rating Content
- Procure a commercial off-the-shelf rating system from a vendor that is a member of the ISO Electronic Rating Content Associate Program

Whichever option you choose, you want to ensure that you can support present and future needs.

While ISO Electronic Rating Content may alleviate many challenges related to cost, time and keeping up-to-date with ISO, it is very sophisticated and involves complex design and engineering to reap all its benefits.

For instance, while the rates, rules and logic may easily be loaded onto a rating engine, the user interface for quoting also needs to be adaptive for new ISO releases.

The next few sections lay out important factors for your consideration in guiding your course of action.



# Key Considerations for Leveraging Vended ISO ERC Solutions

## Breadth and depth of Lines of Business supported

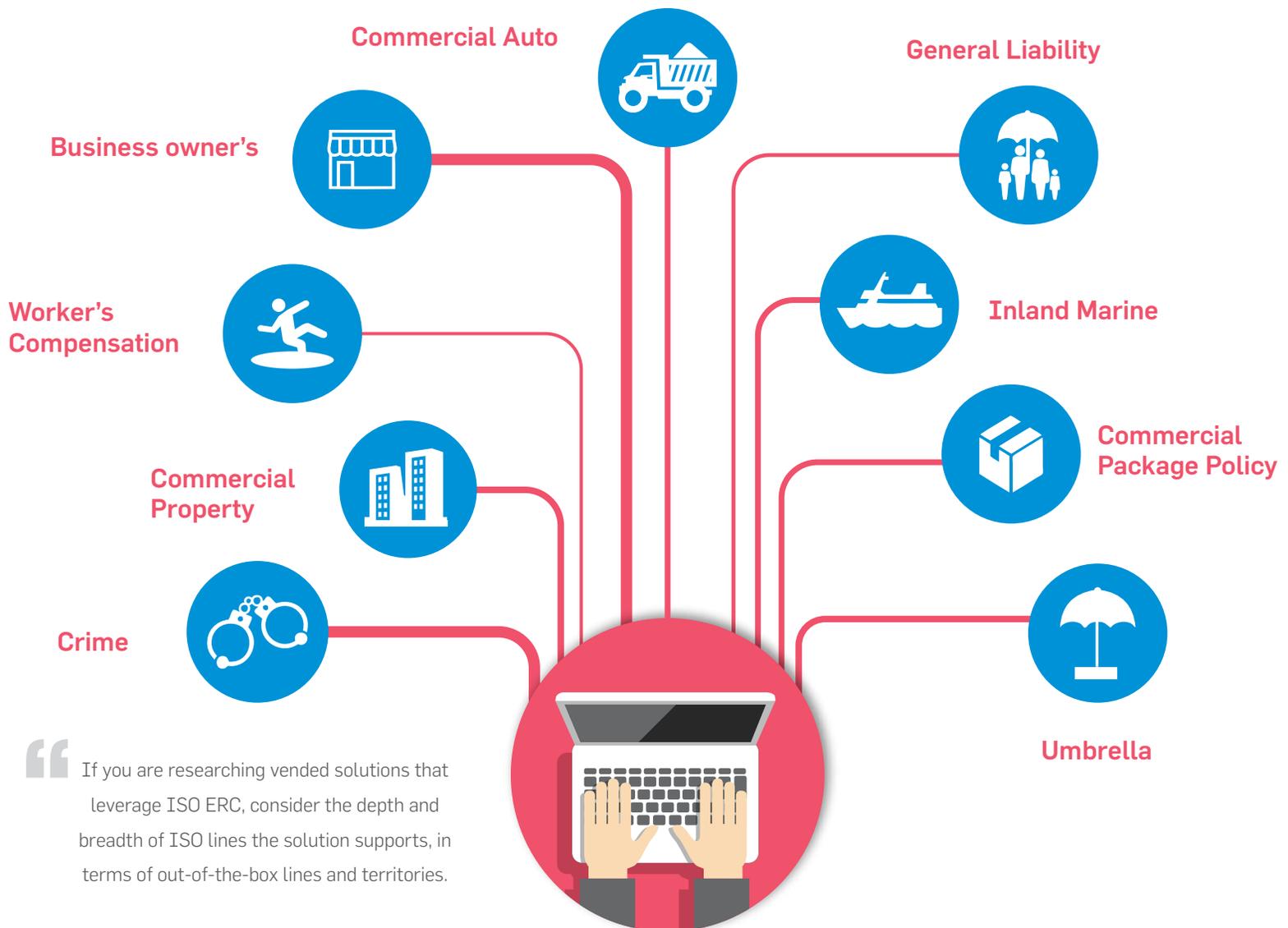
Whether you develop a solution in-house or select a vended solution, an important consideration is how you will ensure availability of current and future lines of business and territories, for your business needs.

The solution's architecture should be able to take advantage of ISO ERC such that future lines of business are not large scale efforts and keeping

current with ISO is not hindered by a rigidity of the solution.

A good measure of this is to understand the incremental time estimated to add new lines of business or territories – linearly longer times are indicative of less flexible and sub-optimal solution design – for both, custom and vended solutions.

With ERC, you will see development efforts decrease with subsequent states.



“ If you are researching vended solutions that leverage ISO ERC, consider the depth and breadth of ISO lines the solution supports, in terms of out-of-the-box lines and territories.

# Timely Implementation to ISO Updates

First, you need to plan for how you will manage the lifecycle of circulars from ISO. To do this, you need to plan for how your stakeholders are notified of ISO updates via circulars and build a process that helps them understand and commit to adoption of an ISO updates.

Next, you want to ensure how you are going to be able to keep up-to-date by implementing ISO changes. With ISO ERC, you could be in a position to fully absorb a new ISO release as-is, with ISO changes, interpreted and specifications issued by ISO. This allows you to keep current with ISO's most recent filings with almost no effort.

When evaluating your solution options, be sure to assess how your rating system can automatically absorb ISO Electronic Rating Content – because any manual effort will defeat the purpose, and potentially re-introduce risk of errors, increase time and costs to keep up-to-date.

## ISO ERC Notification

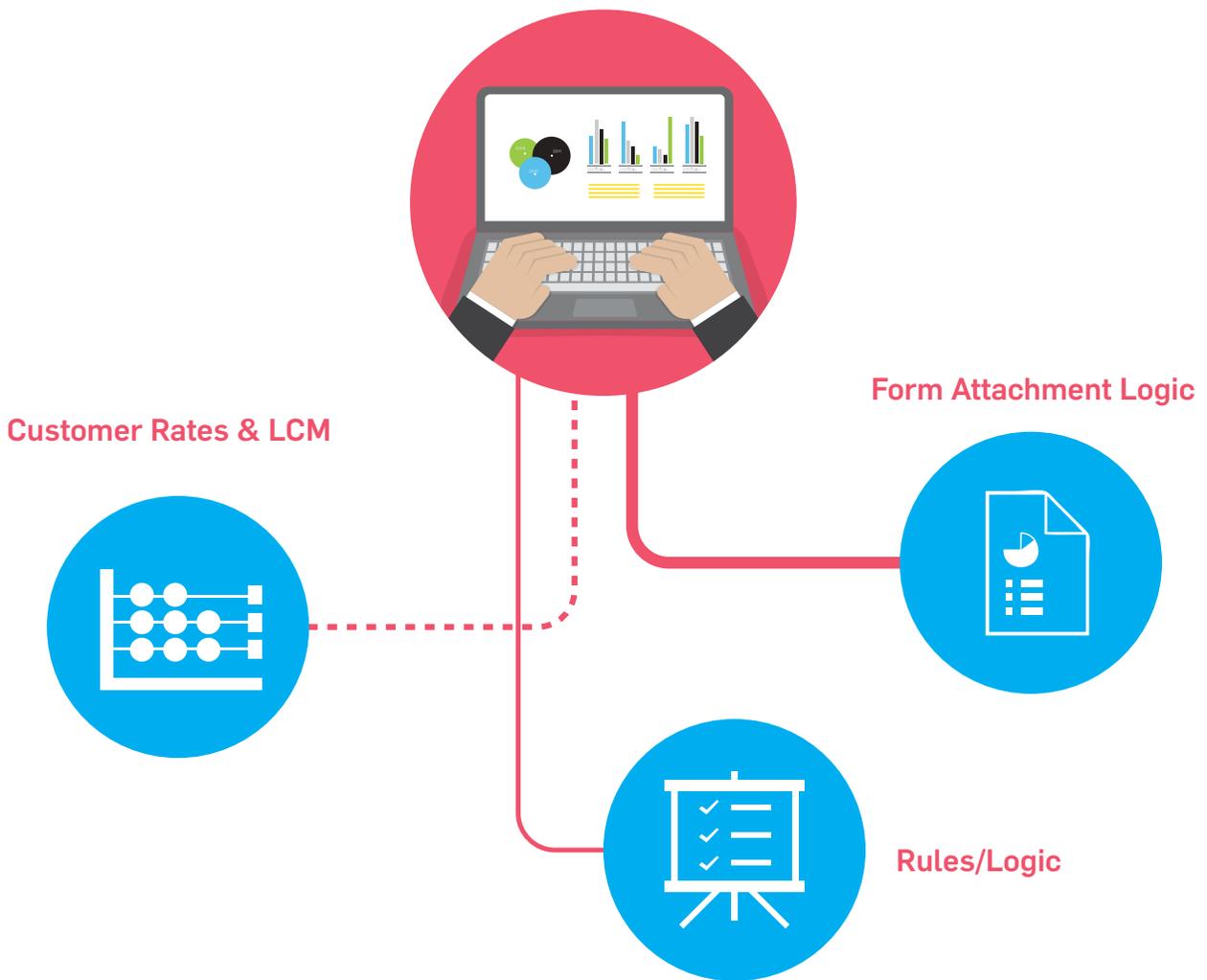


## Absorb ISO ERC 'As Is'

## Adoption by Effective Date



“ Best Practice: Ensure that your solution takes advantage of the “implementation specifications” provided by ISO ERC. Effectively taking advantage of this, will help insurers make sure that not only rate tables and algorithms are up-to-date, but so is the quoting system that enables data capture and performs validations against the ISO provided “implementation specifications”



## Support For Company Deviation

Your success in the market may rely on applying your company-specific deviations to ISO, reflecting the needs of, and the risk represented by your target customers.

Broadly, you need tooling that allows your users, or if you so choose, your vendor's users, to easily create deviations from ISO for experience-based loss cost modifiers, custom coverages, algorithms and rules.

You also need the tooling to separate what is baseline ISO content from your company deviation. This ensures that when new ISO ERC releases are available, your deviations can be retained, modified as necessary and applied to the ISO release.

The important thing to consider is how you benefit from new ISO releases, while managing your company deviations – intuitively and quickly.



Best Practice: Organize your company deviations separately from the base ISO content in your rating engine, so that when new ISO ERC releases are made available, the deviations can be applied without any additional effort.

## Ability To Assess Changes

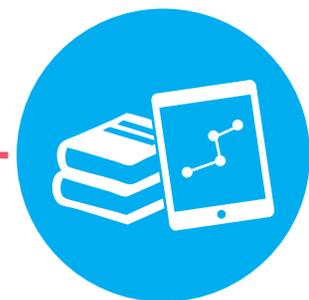
ISO provides a wealth of information, and if proper workflows and staffing resources are not allocated, it can become challenging to keep track of what is the most current ISO change for a specific product line.

You need to consider the following items associated with managing changes:

- What has changed from one release to another?
- What is the impact of the change to your business strategy and book of business?
- What is the impact on your company deviations?

This requires tooling to help you evaluate an ISO change, assess its impact and execute a plan of action.

**Summary of differences across versions**



**Book of Business Impact - Simulation**



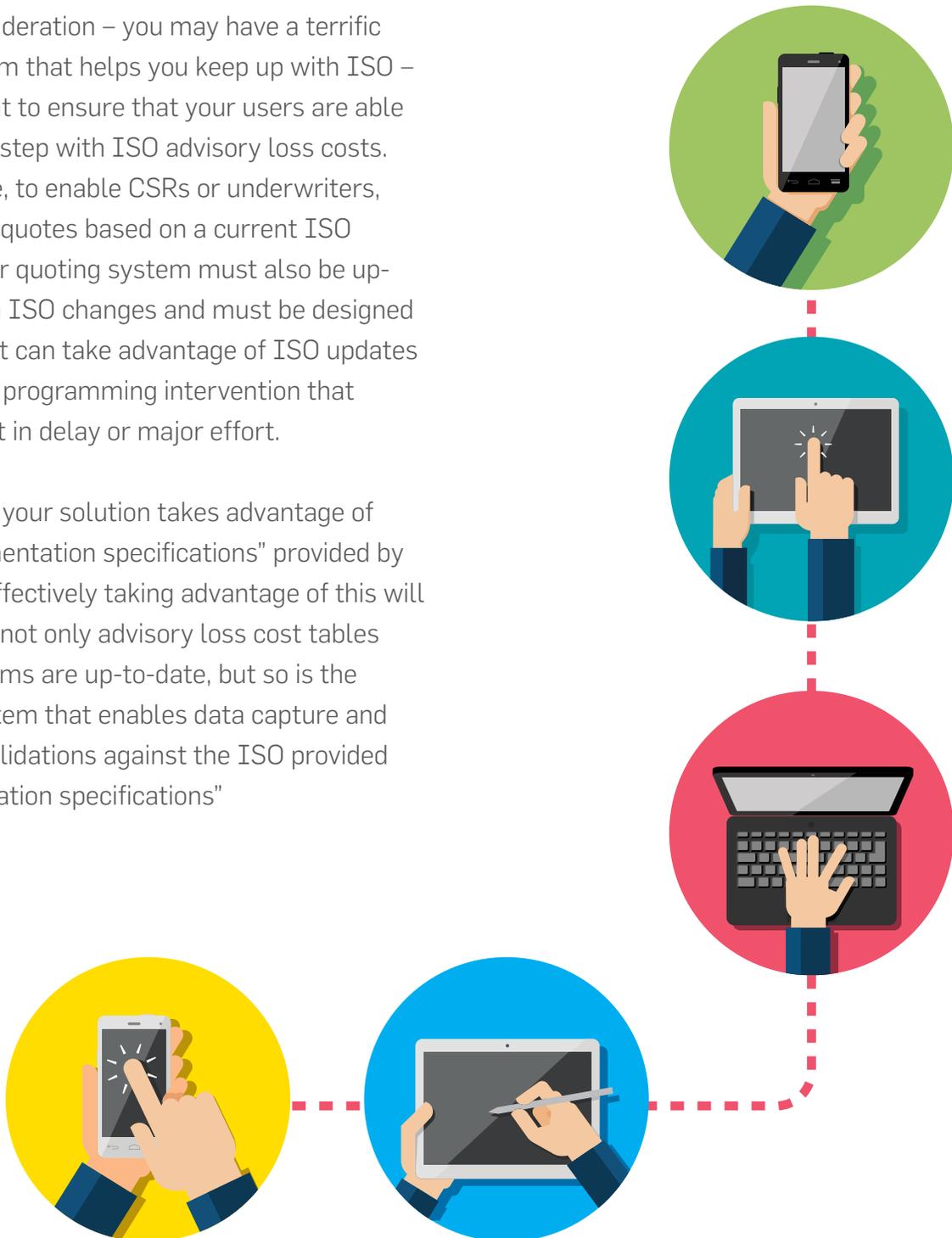
Advanced Capability: Your solution could also include advanced capability to assess the impact of the ISO changes on your book of business – to fine tune your strategies!

## Ability To Extend Online Rating & Quoting

A final consideration – you may have a terrific rating system that helps you keep up with ISO – but you want to ensure that your users are able to keep lockstep with ISO advisory loss costs. For example, to enable CSRs or underwriters, who initiate quotes based on a current ISO release, your quoting system must also be up-to-date with ISO changes and must be designed in a way that can take advantage of ISO updates without any programming intervention that would result in delay or major effort.

Ensure that your solution takes advantage of the “implementation specifications” provided by ISO ERC. Effectively taking advantage of this will ensure that not only advisory loss cost tables and algorithms are up-to-date, but so is the quoting system that enables data capture and performs validations against the ISO provided “implementation specifications”

Online quoting instantly aware of ISO changes



“ Best Practice: Your quoting application – custom built or vended – should be designed to take advantages of the validations of data entry fields such as limits and deductibles, such that changes to ISO validation logic can be automatically made available in the quoting application.

# ISO ERC Enablement - Demystified

## Do I have to license ISO Electronic Rating Content separately?

Yes.  
ISO licenses ERC separately from the vended solution. Contact your ISO representative to learn more.

## Do all vendors that support ISO, leverage ERC?

No.  
ISO has a "ISO Electronic Rating Content Associates Program". Be sure to ascertain that your vended solution is a member of the program.

**Note:** Those that support rating for ISO lines and are not a member of the program, leverage manual processes and the interpretation of the content comes from the vendor, not ISO.

## Is ISO ERC widely adopted by the carrier and vendor community?

Yes!

- According to a survey by Celent, although ISO ERC is still a relatively new product in the industry, vendors report growing interest in ISO ERC from their customer base.
- Most vendors either already offer ISO ERC or have definite plans to offer ISO ERC

You can download the Celent report to gain more detailed insights:

[CELENT INSURANCE INDUSTRY REPORT: ISO Rating Enablement in Core Systems Vendors](#)



# Technology Considerations

## Cloud or On-premise Deployment

What is the best option for your company? Most important considerations in your choice include speed-to-market, cost, control, and features. While cloud deployments provide significant speed-to-market and cost benefits, be sure to evaluate if the vendor meets security, availability and privacy requirements.

## Do-it-yourself or Managed Services

An important consideration in selecting a vended solution is whether you have agility to respond to business needs. Vended solutions that provide easy-to-use configuration capabilities, can help you gain or regain control over the ability to easily create and modify company-specific deviations from ISO and for currency with the latest ISO releases.

## Decoupled Architecture

Your ISO rating logic should be able to be invoked or called by any of your upstream agent portal and downstream administration systems to provide rate guidance. Be sure to evaluate if your vended rating or in-house solution is "stateless" and designed to provide rates (and not store quote data) and that part of the rating logic - especially ISO provided implementation specifications – are not hard-wired into the application screens. This way, you will avoid having to maintain data in multiple systems.

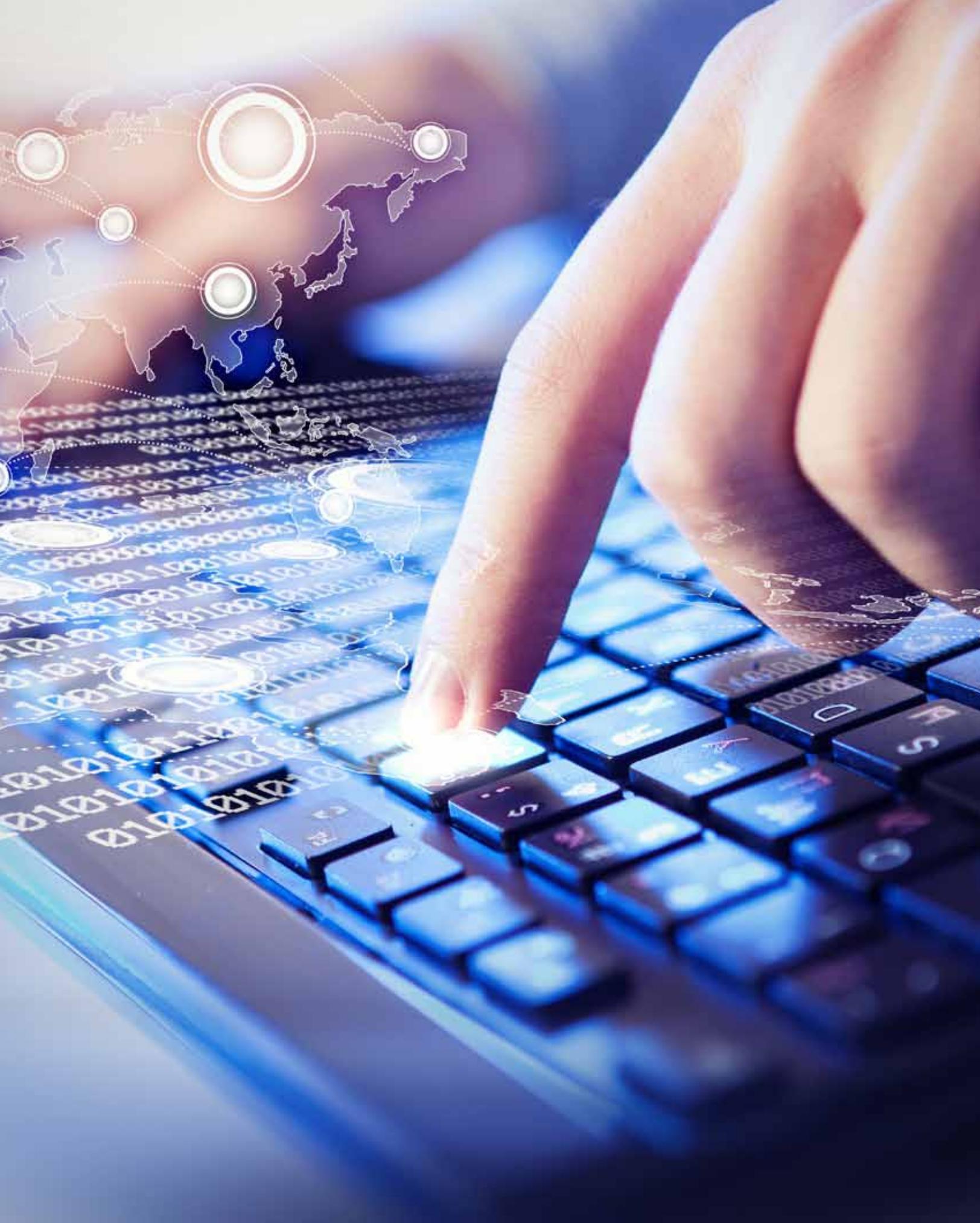
## Quote Portal

ISO Electronic Rating Content is a breakthrough offering for more than the obvious reason – i.e. switching from manual to electronic means. ISO also provides implementation specifications that drive how a system enables a user to interact with ISO content to create a quote or a policy – for example, field-level validations and edits for selections like limits and deductibles. Be sure to design your solution or assess your vended solution to ensure that the benefits of ISO Electronic Rating Content are comprehensive and not limited to rate tables and algorithms.

The implication of not utilizing the implementation specs is that validations and edits could be missing altogether or may be are hard-coded in the application screens, and future updates to ISO content will require programmatic intervention to modify the logic in the application screens, reducing speed-to-market, currency with ISO and increasing costs!

## Professional Services

While some rating engine deployments with for ISO ERC may be out-of-the-box, be sure to assess if your vendor can scale to support your unique needs, especially when it relates to integrating the rating solution with your upstream agent portal and downstream administration system solutions.





## Conclusion

ISO Electronic Rating Content, when combined with the right technology, can enable carriers to truly benefit from speed-to-market with ISO changes, lower costs and reduce premium leakage!

However, selecting the right strategy – developing a solution in-house or selecting

a vended solution is contingent on your due diligence around the key considerations presented in this document. The extent to which you can benefit from a modern solution combined with ISO Electronic Rating Content, will vary based on the extent to which these considerations are contemplated in your solution.

# Business Considerations

## Lines of Business supported

Needed	Today	Future
Commercial Auto	<input type="checkbox"/>	<input type="checkbox"/>
Commercial Property	<input type="checkbox"/>	<input type="checkbox"/>
Business owners Policy	<input type="checkbox"/>	<input type="checkbox"/>
Workers' Comp	<input type="checkbox"/>	<input type="checkbox"/>
General Liability	<input type="checkbox"/>	<input type="checkbox"/>
Inland Marine (Filed/Non-Filed)	<input type="checkbox"/>	<input type="checkbox"/>
Commercial Package Policy	<input type="checkbox"/>	<input type="checkbox"/>
Commercial Umbrella	<input type="checkbox"/>	<input type="checkbox"/>
Crime	<input type="checkbox"/>	<input type="checkbox"/>

## Timely implementation to ISO updates

Full automation to absorb ISO release	<input type="checkbox"/>	<input type="checkbox"/>
Automatic release notifications	<input type="checkbox"/>	<input type="checkbox"/>

## Versions

Visualize and quantify changes from prior release	<input type="checkbox"/>	<input type="checkbox"/>
Visualize and quantify impact of change to strategy	<input type="checkbox"/>	<input type="checkbox"/>
Visualize and quantify impact of change to deviations	<input type="checkbox"/>	<input type="checkbox"/>

## Support for Company Deviations

Tooling for configuring deviations	<input type="checkbox"/>	<input type="checkbox"/>
Separation of deviations from base ISO	<input type="checkbox"/>	<input type="checkbox"/>

## Ability to extend online rating & quoting

Provides intuitive web-based user interface for quoting ISO lines	<input type="checkbox"/>	<input type="checkbox"/>
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# Technology Considerations

## Deployment Options

Cloud	<input type="checkbox"/>	<input type="checkbox"/>
On-premise	<input type="checkbox"/>	<input type="checkbox"/>

## Maintenance Options

Self-service	<input type="checkbox"/>	<input type="checkbox"/>
Vendor provided managed services	<input type="checkbox"/>	<input type="checkbox"/>

## Integration Options

Integrates via web-services	<input type="checkbox"/>	<input type="checkbox"/>
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## Quote Portal

Provided out-of-the box	<input type="checkbox"/>	<input type="checkbox"/>
Quoting screens automatically updated with ISO changes	<input type="checkbox"/>	<input type="checkbox"/>

## Integration Options

Integrates via web-services	<input type="checkbox"/>	<input type="checkbox"/>
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## About ValueMomentum

ValueMomentum provides Software & Services to Insurance, Healthcare & Financial Services firms. Our Software is offered as part of our Foundry family of products that address Product Lifecycle Management, Rating and Agent Portal. Our Services offerings include Application Services, Content, Collaboration & Communications, Information & Insights and Verification & Validation.

[iFoundry™ Rating Engine](#) is a modern rating engine that helps you with ease of modeling and managing your proprietary rate plans and advisory loss costs. iFoundry provides powerful modeling tools to help you Regain Control and gain Speed-to-market. iFoundry enables Rating Innovation as well as helps you leverage ISO advisory loss costs using ISO Electronic Rating Content (ERC), with a sophisticated high performance rating engine. iFoundry integrates with your core systems and with quoting systems.



## Office & Contacts

US East Coast & Corporate  
220 Old New Brunswick  
Rd, Suite 100 Piscataway,  
NJ 08854  
Tel: (908) 755 0048

Asia - Pacific  
ValueMomentum Towers  
Plot No 36 & 37,  
Gachibowli, Financial District,  
Nanakramguda, Hyderabad – 500032,  
India, Ph: +91 40 67338400