

Dear Senators PATRICK, Guthrie, Ward-Engelking, and
Representatives BARBIERI, Clow, Smith:

The Legislative Services Office, Research and Legislation, has received the enclosed rules of
the Department of Insurance:

IDAPA 18.01.49 - Fire Protection Sprinkler Contractors - Proposed Rule (Docket No. 18-0149-1801);
IDAPA 18.01.62 - Annual Financial Reporting - Proposed Rule (Docket No. 18-0162-1801).

Pursuant to Section 67-454, Idaho Code, a meeting on the enclosed rules may be called by the
cochairmen or by two (2) or more members of the subcommittee giving oral or written notice to Research
and Legislation no later than fourteen (14) days after receipt of the rules' analysis from Legislative
Services. The final date to call a meeting on the enclosed rules is no later than 09/24/2018. If a meeting is
called, the subcommittee must hold the meeting within forty-two (42) days of receipt of the rules' analysis
from Legislative Services. The final date to hold a meeting on the enclosed rules is 10/23/2018.

The germane joint subcommittee may request a statement of economic impact with respect to a
proposed rule by notifying Research and Legislation. There is no time limit on requesting this statement,
and it may be requested whether or not a meeting on the proposed rule is called or after a meeting has
been held.

To notify Research and Legislation, call 334-4834, or send a written request to the address on the
memorandum attached below.



Eric Milstead
Director

Legislative Services Office

Idaho State Legislature

Serving Idaho's Citizen Legislature

MEMORANDUM

TO: Rules Review Subcommittee of the Senate Commerce & Human Resources Committee and the House Business Committee

FROM: Principal Legislative Research Analyst - Elizabeth Bowen

DATE: September 06, 2018

SUBJECT: Department of Insurance

IDAPA 18.01.49 - Fire Protection Sprinkler Contractors - Proposed Rule (Docket No. 18-0149-1801)

IDAPA 18.01.62 - Annual Financial Reporting - Proposed Rule (Docket No. 18-0162-1801)

Summary and Stated Reasons for the Rule

Docket No. 18-0149-1801, a proposed rule, removes language regarding: (1) an advisory board that does not exist; and (2) a 1% plans review fee on the bid amount for fire protection sprinkler systems. Language regarding other plans review fees is slightly revised for clarity. (Plans for fire protection sprinkler systems are reviewed by the state fire marshal and the local fire department prior to installation.)

Docket No. 18-0162-1801, also a proposed rule, requires certain insurers to establish an internal audit function in order to help the insurer maintain solvency. The rule applies to an insurer if the insurer has \$500,000,000 or more in annual premiums written or if the insurer is a member of a group and has \$1 billion or more in annual premiums written.

Negotiated Rulemaking / Fiscal Impact

Negotiated rulemaking was conducted for both rules. Neither is expected to have a negative fiscal impact on the state general fund.

Statutory Authority

I.C. 41-211 (both rules), I.C. 41-254 (Docket No. 18-0149-1801).

cc: Department of Insurance
Thomas A. Donovan

***** PLEASE NOTE *****

Per the Idaho Constitution, all administrative rules must be reviewed by the Legislature during the next legislative session. The Legislature has 3 options with this rulemaking docket: **1)** Approve the docket in its entirety; **2)** Reject the docket in its entirety; or **3)** Reject the docket in part.

Kristin Ford, Manager
Research & Legislation

Paul Headlee, Manager
Budget & Policy Analysis

April Renfro, Manager
Legislative Audits

Glenn Harris, Manager
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IDAPA 18 – IDAHO DEPARTMENT OF INSURANCE

18.01.49 – FIRE PROTECTION SPRINKLER CONTRACTORS

DOCKET NO. 18-0149-1801

NOTICE OF RULEMAKING – PROPOSED RULE

AUTHORITY: In compliance with Section 67-5221(1), Idaho Code, notice is hereby given that this agency has initiated proposed rulemaking procedures. The action is authorized pursuant to Sections 41-211 and 41-254, Idaho Code.

PUBLIC HEARING SCHEDULE: Public hearing(s) concerning this rulemaking will be scheduled if requested in writing by twenty-five (25) persons, a political subdivision, or an agency, not later than September 19, 2018.

The hearing site(s) will be accessible to persons with disabilities. Requests for accommodation must be made not later than five (5) days prior to the hearing, to the agency address below.

DESCRIPTIVE SUMMARY: The following is a nontechnical explanation of the substance and purpose of the proposed rulemaking:

The proposed rule revises language in IDAPA 18.01.49 to eliminate Subsection 011.07 providing for an advisory board, a board that never formed, and to eliminate language in Subsection 021.06 concerning fees that tie the fee amount to one percent (1%) of the bid amount. Language imposing fees in the amount of two dollars (\$2) per sprinkler head payable to the local department or the State Fire Marshal will be retained, including the retention of the maximum and minimum fees. The rulemaking also clarifies in Subsection 021.06 that the fee applies to each fire protection sprinkler system, which is defined in Subsection 004.01 of this rule.

FEE SUMMARY: The following is a specific description of the fee or charge imposed or increased: N/A

FISCAL IMPACT: The following is a specific description, if applicable, of any negative fiscal impact on the state general fund greater than ten thousand dollars (\$10,000) during the fiscal year resulting from this rulemaking: N/A

NEGOTIATED RULEMAKING: Pursuant to Section 67-5220(1), Idaho Code, negotiated rulemaking was conducted. The Notice of Intent to Promulgate Rules – Negotiated Rulemaking was published in the in the July 4, 2018, Idaho Administrative Bulletin, [Volume 18-7, page 136](#).

INCORPORATION BY REFERENCE: Pursuant to Section 67-5229(2)(a), Idaho Code, the following is a brief synopsis of why the materials cited are being incorporated by reference into this rule: N/A

ASSISTANCE ON TECHNICAL QUESTIONS, SUBMISSION OF WRITTEN COMMENTS: For assistance on technical questions concerning this proposed rule, contact Knute Sandahl at knute.sandahl@doi.idaho.gov, or (208) 334-4377.

Anyone may submit written comments regarding this proposed rulemaking. All written comments must be directed to the above contact and must be delivered on or before September 26, 2018.

Dated this 3rd day of August, 2018.

Dean L. Cameron
Director Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83702-0043
Phone: (208) 334-4250
Fax: (208) 334-4398

THE FOLLOWING IS THE PROPOSED TEXT OF DOCKET NO. 18-0149-1801
(Only Those Sections With Amendments Are Shown.)

011. POWERS AND DUTIES OF THE STATE FIRE MARSHAL.

In addition to the powers and duties prescribed in this rule, the State Fire Marshal shall: (7-1-93)

01. Assistants, Inspectors and Other Employees. Appoint an adequate number of assistants, inspectors and other employees that may be necessary to carry out the provisions of this rule, prescribe their duties, and fix their compensation within the amount appropriated. (7-1-93)

02. Licensing Procedures. Establish procedures for licensing of fire protection sprinkler contractors and fitters, set forth the form and content of applications, and investigate and examine all applicants as to their qualifications and fitness for such licensing. (7-1-93)

03. Records. Keep records of all licenses issued, suspended or revoked. (1-1-94)

04. Suspension or Revocation of License. Suspend or revoke any license for any cause prescribed by this rule, and refuse to grant any license for any cause which would be grounds for revocation or suspension. (7-1-93)

05. Examinations. Prepare, administer, and grade such applicable examinations and tests for applicants as may be required for the purposes of this rule, and determine the score that shall be deemed a passing score. (7-1-93)

06. Fees. Collect fees, including applications, testing, licensing, renewals, and duplication fees from the applicants, and license holders for the purpose of administering and funding this rule. (7-1-93)

~~**07. Advisory Board.** Appoint an advisory board consisting of six (6) members whose duties shall be to advise and counsel the State Fire Marshal on matters contained in this rule. One (1) or more representatives from each of the following professions or occupations shall be appointed to the board. (1-1-94)~~

~~**a. Architect.** (1-1-94)~~

~~**b. Mechanical Engineer.** (1-1-94)~~

~~**c. Fire Service Official.** (1-1-94)~~

~~**d. General Contractor.** (1-1-94)~~

~~**e. Licensed Fire Sprinkler Contractor—Two (2).** (1-1-94)~~

~~**f. The terms of the members of the board first appointed shall expire as follows: three (3) members two (2) years later, three (3) members three (3) years later. Thereafter, appointments shall be for three (3) years. At its first meeting of every calendar year the board shall elect a president from its members, and a secretary who may or may not be a member of the board. Members of the board shall serve without compensation. The staff of the office of the State Fire Marshal shall provide such assistance as the board may require. (1-1-94)**~~

(BREAK IN CONTINUITY OF SECTIONS)

020. SERVICE EVIDENCE.

01. Submission of Plans. Where automatic fire sprinkler systems are installed, the installer shall complete the contractor's material and test certificates NFPA 123 1-10.1. All systems must be under the supervision of a contractor or a R.M.E. These persons shall cause proper tests and inspections to be made at prescribed intervals and must have general charge of all alterations and additions to the systems under their supervision. (7-1-93)()

02. Conformance to Standards. A service tag conforming to the requirements of this chapter shall be attached to all systems. (7-1-93)

021. DESIGN REQUIREMENTS.

01. Submission of Plans. Detailed plans in accordance with applicable NFPA standards must be submitted by a licensed contractor for approval to the local fire department and to the State Fire Marshal. (7-1-93)

02. Conformance to Standards. The specifications must state that the installation will conform to the applicable standards listed in this rule and be approved by the local fire department and the State Fire Marshal. (7-1-93)

03. Tests. The specifications must include the specific tests required to meet the standards for approval of the local fire department and the State Fire Marshal. (7-1-93)

04. Scale. Plans must be drawn to an indicated scale or be suitably dimensioned, and must be made so that they can be easily reproduced. (7-1-93)

05. Detail. Plans must contain sufficient detail to evaluate the effectiveness of the system. (7-1-93)

06. Prior Approval of Plans. Plans must be submitted to the State Fire Marshal and the local fire department and approved, before work starts. Work may start prior to final plans submitted based on conceptual drawings if approved by the local fire department and the State Fire Marshal. A plans review fee of two dollars (\$2) per sprinkler head up to one thousand (1000) heads per fire protection sprinkler system (maximum two thousand dollars (\$2,000)) or one hundred dollars (\$100) per fire protection sprinkler system if less than fifty (50) sprinkler heads ~~or one percent (1%) of the total bid price (whichever is larger) up to the maximum of two thousand dollars (\$2,000) or the minimum of one hundred dollars (\$100).~~ The applicable fee must accompany the plans sent to the State Fire Marshal. Two (2) sprinkler heads on an arm-over will be considered as one (1) sprinkler head for fee purposes. (7-1-93)()

07. Corrected Plans. Where field conditions necessitate any substantial change from the approved plan, the corrected plan showing the system as installed must be submitted to the local fire department and the State Fire Marshal for approval. (7-1-93)

08. Exemption. A City or County may request, and the State Fire Marshal may grant, an exemption from the requirements of this Section that plans be submitted to the State Fire Marshal for review and approval. A request for exemption shall be made in writing signed by the Fire Chief, his designated representative or elected local official and shall set forth the reasons for the request. If the State Fire Marshal determines the request is justified, the requesting party will be provided a written notice of exemption. The exemption will continue until terminated by the State Fire Marshal. Any such exemption shall not apply to plans or inspections relating to structures owned, leased or controlled by the state or any state agency. (4-5-00)

IDAPA 18 – IDAHO DEPARTMENT OF INSURANCE

18.01.62 – ANNUAL FINANCIAL REPORTING

DOCKET NO. 18-0162-1801

NOTICE OF RULEMAKING – PROPOSED RULE

AUTHORITY: In compliance with Section 67-5221(1), Idaho Code, notice is hereby given that this agency has initiated proposed rulemaking procedures. The action is authorized pursuant to Section 41-211, Idaho Code.

PUBLIC HEARING SCHEDULE: Public hearing(s) concerning this rulemaking will be scheduled if requested in writing by twenty-five (25) persons, a political subdivision, or an agency, not later than September 19, 2018.

The hearing site(s) will be accessible to persons with disabilities. Requests for accommodation must be made not later than five (5) days prior to the hearing, to the agency address below.

DESCRIPTIVE SUMMARY: The following is a nontechnical explanation of the substance and purpose of the proposed rulemaking:

This proposed rule updates IDAPA 18.01.62 to include NAIC Annual Financial Reporting Model Regulation #205 provisions supporting the requirement of an independent internal audit function for large insurance companies or insurance holding company groups. The requirement would apply for insurance companies with over \$500 million in annual premiums written (or \$1 billion if a member of a group). This rulemaking will require a standard best corporate governance practice to assist company management and the board of large insurers by implementing sound business practices to maintain solvency and honor all policyholder obligations.

FEE SUMMARY: The following is a specific description of the fee or charge imposed or increased: N/A

FISCAL IMPACT: The following is a specific description, if applicable, of any negative fiscal impact on the state general fund greater than ten thousand dollars (\$10,000) during the fiscal year resulting from this rulemaking: N/A

NEGOTIATED RULEMAKING: Pursuant to Section 67-5220(1), Idaho Code, negotiated rulemaking was conducted. The Notice of Intent to Promulgate Rules – Negotiated Rulemaking was published in the July 4, 2018, Idaho Administrative Bulletin, [Volume 18-7, page 138](#).

INCORPORATION BY REFERENCE: Pursuant to Section 67-5229(2)(a), Idaho Code, the following is a brief synopsis of why the materials cited are being incorporated by reference into this rule: N/A

ASSISTANCE ON TECHNICAL QUESTIONS, SUBMISSION OF WRITTEN COMMENTS: For assistance on technical questions concerning this proposed rule, contact Nathan Faragher at nathan.faragher@doi.idaho.gov, or (208) 334-4314.

Anyone may submit written comments regarding this proposed rulemaking. All written comments must be directed to the above contact and must be delivered on or before September 26, 2018.

Dated this 3rd day of August, 2018.

Dean L. Cameron
Director Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83702-0043
Phone: (208) 334-4250
Fax: (208) 334-4398

THE FOLLOWING IS THE PROPOSED TEXT OF DOCKET NO. 18-0162-1801
(Only Those Sections With Amendments Are Shown.)

026. INTERNAL AUDIT FUNCTION REQUIREMENTS.

01. Exemption. An insurer is exempt from the requirements of this section if: ()

a. The insurer has annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than five hundred million dollars (\$500,000,000); and ()

b. If the insurer is a member of a group of insurers, the group has annual direct written and unaffiliated assumed premium including international direct and assumed premium, but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than one billion dollars (\$1,000,000,000). ()

02. Function. The insurer or group of insurers shall establish an internal audit function providing independent, objective and reasonable assurance to the audit committee and insurer management regarding the insurer's governance, risk management and internal controls. This assurance shall be provided by performing general and specific audits, reviews and tests and by employing other techniques deemed necessary to protect assets, evaluate control effectiveness and efficiency, and evaluate compliance with policies and regulations. ()

03. Independence. In order to ensure that internal auditors remain objective, the internal audit function must be organizationally independent. Specifically, the internal audit function will not defer ultimate judgment on audit matters to others, and shall appoint an individual to head the internal audit function who will have direct and unrestricted access to the board of directors. Organizational independence does not preclude dual-reporting relationships. ()

04. Reporting. The head of the internal audit function shall report to the audit committee regularly, but no less than annually, on the periodic audit plan, factors that may adversely impact the internal audit function's independence or effectiveness, material findings from completed audits and the appropriateness of corrective actions implemented by management as a result of audit findings. ()

05. Additional Requirements. If an insurer is a member of an insurance holding company system or included in a group of insurers, the insurer may satisfy the internal audit function requirements set forth in this section at the ultimate controlling parent level, an intermediate holding company level or the individual legal entity level. ()

0267. -- 999. (RESERVED)