

Transactional Data Support in Commercial Insurance



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Perspectives on the importance of application accuracy

- ✓ Old underwriting maxim:
The majority of “bad” accounts are, in reality, incorrectly classified accounts
- ✓ Old actuarial maxim:
A mis-rated account is an unprofitable account
- ✓ Old computer maxim:
GIGO - garbage in, garbage out
- ✓ New data mining maxim:
GIGO still applies



Reasons for data support vary

- ✓ Inform insurance buyer
- ✓ Prompt applicant to provide better detail
- ✓ Validate application post-submission
- ✓ Improve premium audit
- ✓ Account review prior to renewal
- ✓ Account review upon notice of loss
- ✓ Cleanse account data prior to analysis of loss experience



Types of Account Misclassification

- ✓ Incorrect SIC / NAICS code submitted
 - Codes of opportunity (SIC - 1599 miscellaneous special trades)
 - Missing secondary classes of business
- ✓ Incorrect BOP GL code or Use of “noc” GL code
 - Absence of common secondary GL code – country club with golf pro shop
- ✓ Understated exposure value(s)
- ✓ Incorrect location code
 - Zip Code of convenience
 - Missing secondary business locations



Case Study: Poor Commercial Auto U/W Results

✓ Setting:

- A national writer engaged ISO MarketStance to evaluate it's commercial auto book in one of its largest states.

✓ Approach:

- Carrier's accounts were matched against business demographics records and ISO MarketStance Commercial Insights data.
- Discrepancies in class of business, use classifications and number of commercial vehicles were flagged.
- Accounts with significant discrepancies were manually reviewed using Dun & Bradstreet data and examination of business websites.



Case Study – Commercial Auto Findings

Three Primary Business Use Classes for Trucks, Tractors and Trailer classifications

- ✓ **Retail** (vehicles used to pick up property from or deliver property to individual households)
 - In general, carriers commonly assign Retail the highest rates
- ✓ **Commercial** (property transport other than those classified as Service or Retail)
 - Carriers typically assign Commercial the second highest rates
- ✓ **Service** (confined to vehicles principally parked at job locations for most of the day)
 - Carriers often assign Service the lowest rates

Commercial Auto Validation						
Specimen Accounts with Misclassification						
Status	Account Name	Business Description	SIC	Use Classification	Written Premium	
Submitted	XX Electrical Company LLC	Electrical Contractor	SIC 1731	Service	\$4,085	
Corrected	XX Electric Company	Elect. Equip. Manuf.	SIC 3699	Commercial	\$5,600	
Submitted	Corrine XX	Sngl. Fam. Home Const	SIC 1521	Service	\$655	
Corrected	YY Marine Towing	Towing & Tugboat	SIC 4492	Commercial	\$940	
Submitted	XX USA	Misc. Apparel and Acce	SIC 5699	Retail	\$4,654	
Corrected	XX Transportation	Elect. Equip & Supplies	SIC 4111	Commercial	\$6,600	



Case Study – Commercial Auto Findings

- ✓ Some 17% of selected accounts were flagged as having questionable use classifications.
- ✓ Most variances resulted in an undercharge of premium
- ✓ Net of any premium returns, the classification corrections resulted in an approximate 5.5% increase in premium.
- ✓ Six agencies accounted for approximately 66% of the questionable use classifications.



Elements of Account-level Support

- ✓ Location – Correct ZIP Code, rating territory
 - Secondary operating locations
- ✓ Class of business – Correct class of business
 - Possible secondary classes
 - Incorrect use of “noc” classes
- ✓ Translation from SIC /NAICS to
 - Workers comp, BOP or GL class coding
- ✓ Exposure values
 - Employees, payroll, revenue, number of vehicles
- ✓ Exposure growth
 - Recent or forecast



Case Study: Append crime score prior to underwriting

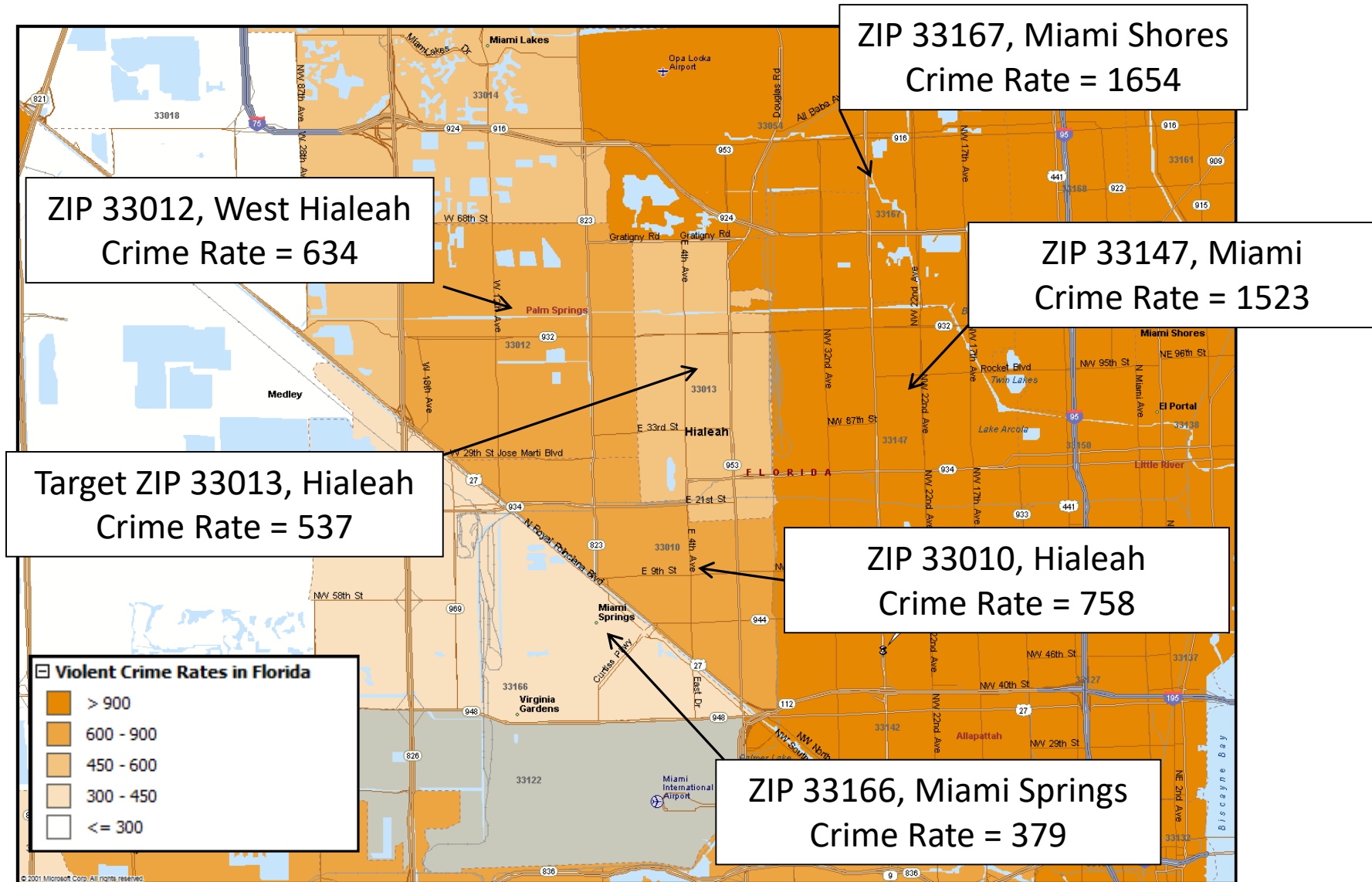
Setting: For a major writer of commercial habitational coverage, the violent crime score is an integral part of underwriting process. To be effective, the crime score must be specific to the narrow area in which the risk is situated.

Solution: ISO MarketStance developed:

- A crime rate methodology, superior to that used by the FBI, and which facilitates accurate comparisons across municipalities.
- Crime rates that are specific to Census Tracts – an area only about a half the size of a ZIP code.
- Crime scores that are proprietary to the carrier and designed to facilitate risk selection.
- A companion score that measures the existence of any high crime rate areas in proximity to the risk's Census Tract.



Hialeah's neighboring ZIP's complicate underwriting



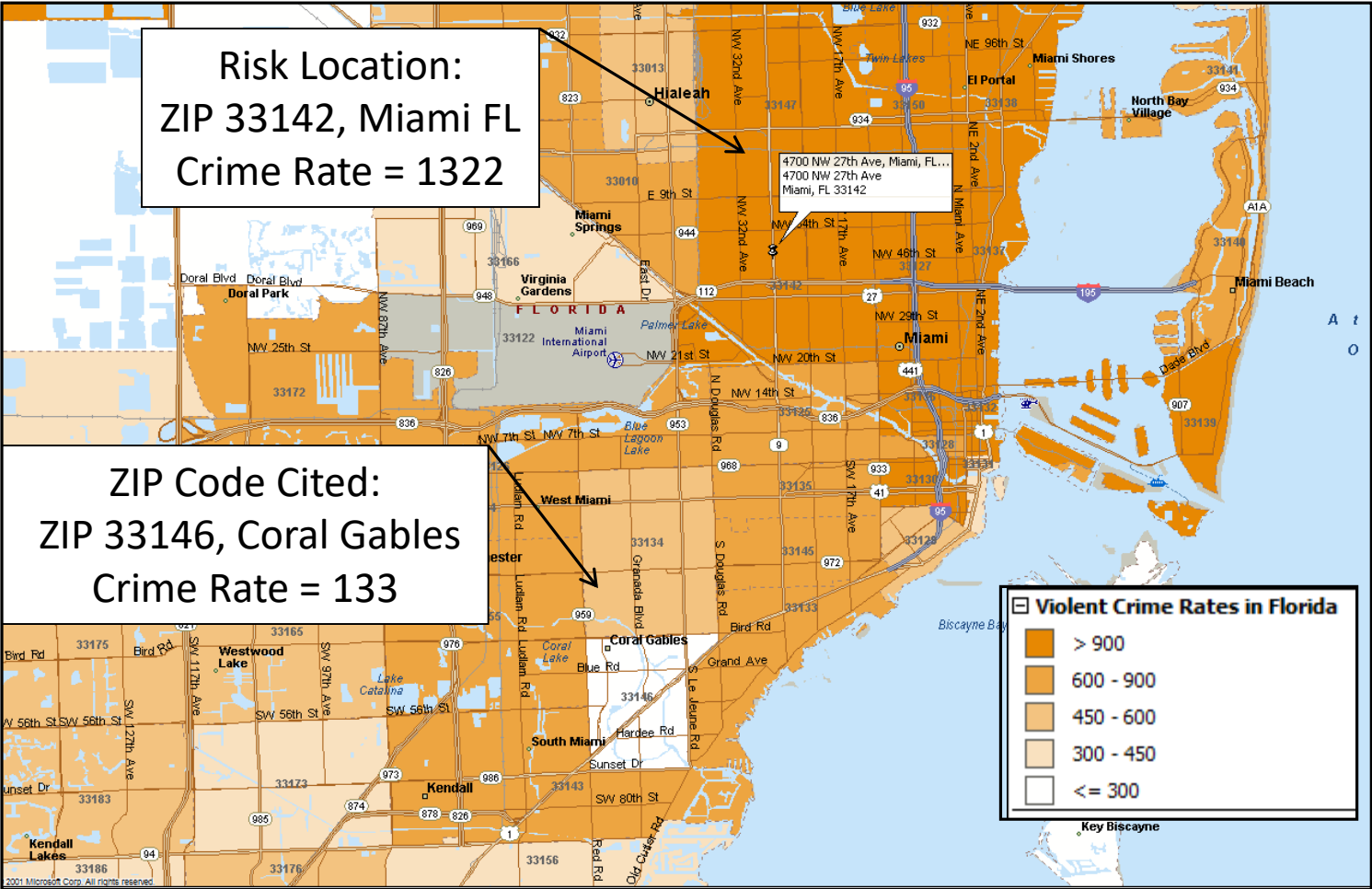


Types of data support

- ✓ Applicant-prompted revision of initial submission
- ✓ Flag likely misstated fields on application
- ✓ Post-submission, append ISO MarketStance estimates
 - SIC, payrolls, expected exposure growth
 - Account complexity score
 - Crime score
- ✓ Restate account data prior to renewal underwriting
 - Premium audit score



Violent crime rates diverge markedly in the Miami area





Formats for Account-level Support

- ✓ One-time batch processing (flat-file)
- ✓ Scheduled updates
- ✓ ISO MarketStance-supplied algorithms for in-house client processing (estimates of premium potential)
- ✓ API
 - Real-time correction of application



Case Study: API for Web-based Broker

- ✓ **Setting:**
 - For prospective customers, a web-based broker desires to provide information on the typical insurance coverages and costs utilized by businesses like theirs.
- ✓ **Current Solution:**
 - Broker's website gathers information on class of business and size of account and passes this to ISO MarketStance via an API.
 - API returns information on typical premiums to broker.
- ✓ **Possible Extensions:**
 - Enhanced API provides data on likely take-up rates for optional coverages and forecast exposure growth.
 - For quoting purposes, second API:
 - Prompts the prospect to clarify NAICS code
 - Validates exposure information
 - Translates to appropriate BOP and WC classes of business.

For questions or to learn more about any of the
concepts covered in this presentation
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