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**Current Topics in
Homeowners Insurance**

2011 CAS Annual Meeting
Chicago, IL
November 6-9, 2011

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About the Panel

- **Linda Brobeck**
 - Formerly with Allstate
 - Pricing, International and Research & Planning Center
 - Kemper National Insurance Companies
- **Dan Pickens**
 - Vice President, P&C Actuary, USAA
 - Aviva Insurance Group
 - GMAC Insurance – Personal Lines
- **Robert Curry**
 - AVP & Actuary - Personal Property Actuarial Division, ISO
 - Other positions at ISO:
 - Regulatory, Research and Data Management
- **Tom Botsko**
 - Ohio Department of Insurance
 - Risk Consultants & Actuaries, Ltd.
 - Nationwide Insurance

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Topics in Homeowners Insurance

- **Effects of the Financial Crisis**
- **Developments in Ratemaking**
 - Severe weather considerations
 - New data
 - Pricing sophistication
- **Impact of New Technologies**
 - Advances in home security and monitoring
 - Loss cost mitigators (indestructible homes)
- **Home value derivatives**


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Effects of the Financial Crisis

- Claims and claiming behavior
- Declining home values
- The new "Home Ownership" Paradigm
- Is the situation starting to improve?

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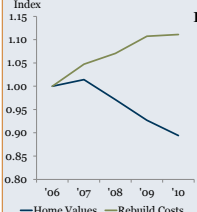
Claims and Claiming Behavior



- Timing of vacancy and occurrence of claim difficult to prove
- Presence of vacant homes exposes adjacent properties
- Maintenance-related claims on the rise
- "Claim Farmers"

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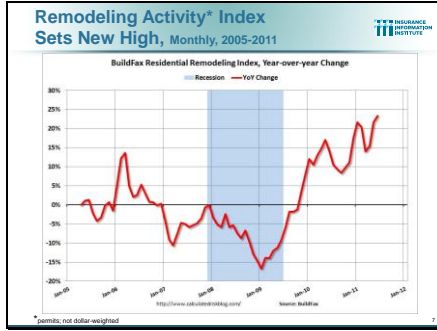
Effect of Declining Home Values



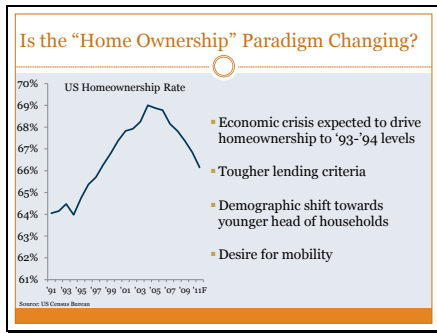
ITV Efforts More Challenging

- Growing gap between home values and estimated rebuild costs
- ITV efforts no longer aided by refinancing activity
- Targeted home inspections a must

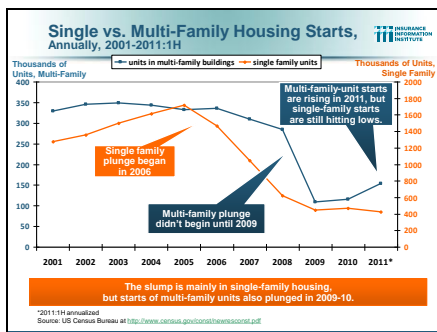
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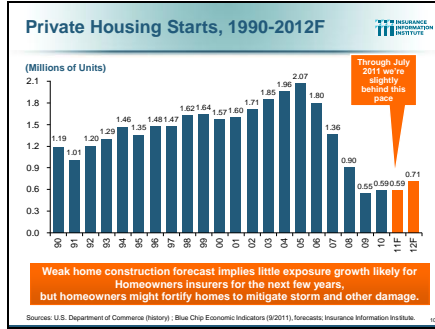
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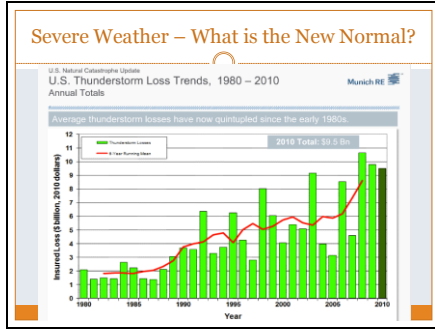


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Developments in Ratemaking

- Reactions to Severe Weather
- New Data
- Increased Pricing Sophistication

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- Severe Weather – What is the New Normal?
- Cyclical Weather Pattern? What time frame?
 - Population Shifts?
 - Changes in Damageability?

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Severe Weather - Top Ten Catastrophes

• Hurricane Katrina (2005)	\$41.1 billion
• WTC Attack (2001)	\$18.8 billion
• Hurricane Andrew (1992)	\$15.0 billion
• Northridge Earthquake (1994)	\$12.5 billion
• Hurricane Ike (2008)	\$12.5 billion
• Hurricane Wilma (2005)	\$10.3 billion
• Hurricane Charley (2004)	\$ 7.5 billion
• Wind and Thunderstorm Event (4/22-28, 2011)	\$ 7.3 billion
• Hurricane Ivan (2004)	\$ 7.1 billion
• Severe Weather (5/20-27, 2011)	\$ 5.9 billion

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Developments in Ratemaking – New Data

- Sources
- Uses and Value
- Cautions

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Homeowners Rating Characteristics

<ul style="list-style-type: none">• Home Characteristics: <ul style="list-style-type: none">▪ Square footage▪ Year built▪ # of bedrooms, bathrooms, stories, etc▪ Construction type▪ Location of laundry room▪ Pool indicator▪ Prior losses▪ Rebuild value▪ Foreclosure/vacancy	<ul style="list-style-type: none">• Location Related: <ul style="list-style-type: none">▪ Weather▪ Topography▪ Census data▪ Econometric trends (foreclosure rates, unemployment, crime statistics, etc)▪ Emergency services▪ Peril level scoring▪ Modeled catastrophe data	<ul style="list-style-type: none">• Insured/Occupant: <ul style="list-style-type: none">▪ Prior carrier▪ Prior coverage amount▪ Credit based insurance score▪ Occupancy type▪ Education/Occupation
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Pricing Sophistication

- Compare/contrast to Automobile
- Niche variables
- Impact on consumers

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Impact of New Technologies

- Loss Cost Mitigation (indestructible homes)
- Home Security and Monitoring
- Home telematics, inventory digital photos, RFID

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Home Technology Continues to Evolve

- **Water Damage:**
 - Braided hoses
 - Water detection alarms
 - Water heaters
 - Appliances
 - Roof maintenance
 - Caulk, weather stripping
- **Fire Prevention:**
 - Smoke detectors
 - Monitored systems
 - Surge protectors
 - Safety ladder
 - Fire extinguisher
 - Fire safe
- **Theft Avoidance:**
 - Monitored systems
 - Window locks
 - Timers
 - Motion lights
 - Perimeter lights
 - Home safe

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Water Detection Systems

A Suite of Solutions

Tier I: Local Alarm

Tier II: Monitored Alarm

Tier III: Water Shut-off

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