

# Verisk's Commercial Line Initiatives – Emerging Issues and Predictive Models

CAS RPM Seminar



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## Agenda

- Emerging issues initiative
- Drones
- Cyber Risk Modeling
- Commercial Auto Class Plan

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## Emerging Issues

"By failing to prepare, you are preparing to fail."  
*Benjamin Franklin*

"It's tough to make predictions, especially about the future."  
*Yogi Berra*

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### Emerging Issues

- What is an emerging issue:
  - New phenomenon: nature and effects are relatively unknown
    - E.g., nanotechnology
  - New risk: nature and effects are relatively known but involve unique characteristics
    - E.g., hydraulic fracturing
- Potential Impact:
  - May go beyond existing underwriting and risk management best practices
  - May go beyond existing actuarial calculations

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### How Can You Manage Emerging Risk

- Step 1 – Identify risks through employees, customer input
- Step 2 – Create multidisciplinary teams to evaluate exposures
- Step 3 – Take action
- Step 4 – Monitor results

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### Putting Theory Into Action

- Distinctly classify risks containing new exposures
  - Risks important to each insurer may vary
- Evaluate whether existing coverages and pricing sufficiently address those exposures
- Emerging issues are not just risks – they're opportunities
- Make emerging issues strategy part of corporate culture

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### Emerging Issues Portal

- Designed to lead to a more robust resource of information for each emerging issue
- Provides links to articles and publications related to various emerging issues
- <https://www5.iso.com/erm/app/EmergingHomePage.action>

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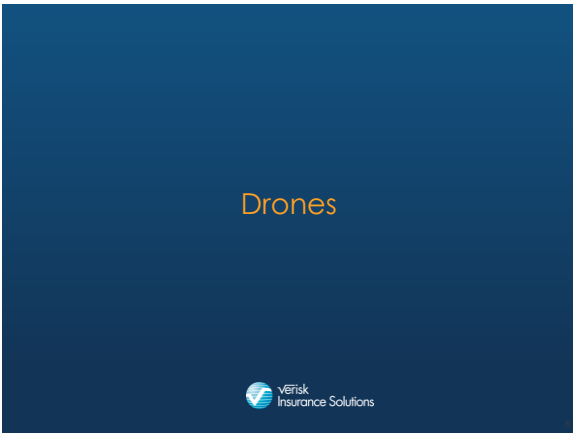
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### What Are Drones?

#### Definitions

- UAS - an unmanned aircraft and associated elements (including communication links and the components that control the unmanned aircraft) that are required for the pilot in command to operate safely and efficiently in the national airspace system
- UA - an aircraft that is operated without a possibility of direct human intervention from within or on the aircraft

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### Reported And Potential Uses

- Military
  - Intelligence gathering
  - Combat missions
- Law Enforcement And Security Surveillance
  - Crime investigation
  - Border protection
  - Security of commercial properties
  - Neighborhood watch



Source:  
[http://cronline.org/sites/default/files/stylized/inline-medium/public/customs\\_and\\_border\\_protection\\_drone.jpg?ok=KCYhFw](http://cronline.org/sites/default/files/stylized/inline-medium/public/customs_and_border_protection_drone.jpg?ok=KCYhFw)

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### Reported And Potential Uses

- Search And Rescue Operations
  - Search and rescue
  - Delivery of supplies and food to disaster areas
- Agriculture
  - Monitor crops
  - Locate livestock and assess available forage
  - Crop spraying



Source:  
<http://usa.noaa.gov/projects/demos/altair-fir/index.html>



Source:  
[https://www.faa.gov/about/office\\_org/field\\_offices/obdair/local\\_more/mediawiki/14summit/HESafetySummit\\_NextGenOverview\\_3\\_20\\_14.pdf](https://www.faa.gov/about/office_org/field_offices/obdair/local_more/mediawiki/14summit/HESafetySummit_NextGenOverview_3_20_14.pdf)

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### Reported And Potential Uses

- Communications
  - Movie filming
  - Sporting events
- Delivery
  - Packaged goods and other mail
- Photography
  - Real-estate
  - Weddings
- Inspection
  - Insurance claims evaluation
  - Infrastructure evaluation (e.g. bridges and dams)
  - Underwriting inspections (e.g. roof)

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## Regulatory Environment

- Federal legislation 2012
  - FAA to develop safe integration plan by 9/30/2015
  - FAA Summary of Major Provisions of proposed rules for small drones (up to 55 pounds) - February 2015:
    - UAV must remain close enough for operator to see UAV unaided by any device other than corrective lenses
    - Yield right of way to other aircrafts, manned or unmanned
    - May not fly over people, except those directly involved with the flight
    - Limited to 500 feet altitude
    - No faster than 100 mph
    - Use only during daylight hours
    - Operators may not operate in certain airspace areas for airports or other restricted airspace, and obey any FAA Temporary Flight Restrictions
  - Current FAA authorization avenues

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## Potential Exposures

- Bodily Injury And Property Damage Liability
  - Potential defect in design or manufacture
  - Collision with persons or property
  - Interruption in data-link transmission communication failure
- Personal injury
  - Invasion of privacy
  - Trespass and nuisance
  - Infringement and defamation
- Property
  - First-party property damage
  - Business interruption losses
  - Hacking

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## New ISO Liability Endorsements

- Optional exclusion endorsements
  - Coverage A only
  - Coverage B only
  - Coverage A and B
- Optional coverage endorsements
  - Coverage A only
  - Coverage B only
  - Coverage A and B

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### Drone Rating Considerations – Liability

- Limited Data on Non-military Drone Losses
- Incidents
  - Frequency
    - New Technology
    - Experience of Operator
    - Type of Business
  - How often will there be BI or PD – or both?

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### Drone Rating Considerations – Liability

- Location
  - Rural vs. Urban
  - On Insured's Premises vs. Off Premises
- Drone Characteristics
  - Size
  - Capabilities and Operations (photography, spraying, payload capabilities)

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### ISO Drone Activity

- Filed GL/Commercial Umbrella/Commercial Excess endorsements end of 2014
  - To become effective 6/1/2015
- Considering the development of Rating Information for GL
- Reviewing topic for following Lines:
  - Commercial Property
  - Businessowners
  - Farm
  - Commercial Inland Marine

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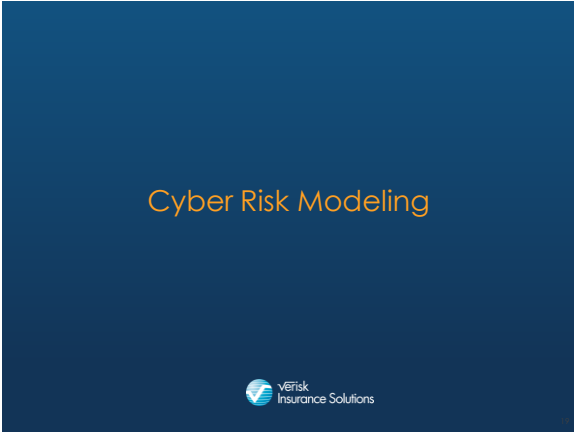
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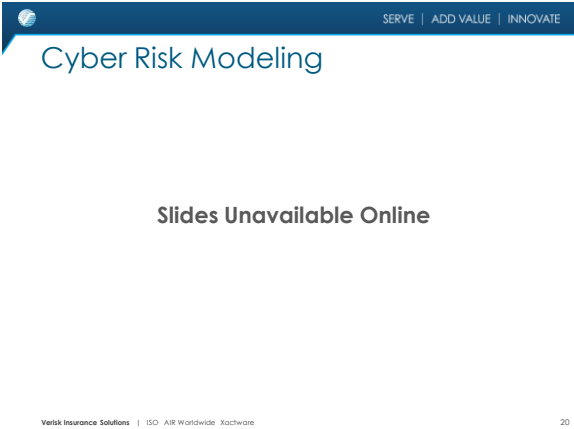
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### Project Overview

GLMs have been used to model classification plan enhancements for Trucks, Tractors, and Trailers and Private Passenger Types for Liability and Physical Damage.

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### Key Results

- Updated Mostly Multiplicative Rating Algorithm
- Introduction of New Variables
- Further Refinement of Existing Variables
  - Additional Segmentation of Variable Itself
  - Varying the Factors by Coverage in More Places
- To Be Provided as an Optional Rating Rule

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### NAICS Code

- Industry Classification
- Hierarchical six-digit structure
- Allows additional differentiation in rating by type of business

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### Original Cost New and Vehicle Age

- Current – Reflected for Physical Damage
- Applicability to Liability?

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### Trailers vs. Trucks

- Treated Similarly Today
- Are there differences?

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### Further Refinement of Existing Variables

- Allow the Primary and Secondary Factors to differ for Liability, Comprehensive, and Collision
  - Private Passenger Types
  - Trucks
- Expand Size of Fleet Buckets from current Fleet and Non-Fleet categories to include Additional Groupings
- Expand Number of OCN Ranges
- Expand Number of Age Ranges

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## Future Timeline

### Schedule:

- Informational Circular with table specifications
- Optional Rating Rule Filed: Beginning in the third quarter of 2015

Verisk Insurance Solutions | ISO AIR Worldwide Xactware

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Questions?




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## Emerging Issues

"When preparing for a crisis, it is instructive to recall that Noah started building the ark before it began to rain."

*Norman Augustine, retired chairman and CEO of Lockheed Martin*

Verisk Insurance Solutions | ISO AIR Worldwide Xactware

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