



# The evolution of home and auto insurance

Sheri Scott, FCAS, MAAA








November 2015

---

## Home & Auto Insurance Traditional Distribution

- Agent, broker, captive agent market & acquire new / renewal policies.
- Advertise in newspaper, radio, trade magazines, direct mail, television.
- Moderate spend by agency/brokers.
- Brand spend for some insurance companies (Allstate, State Farm).

# Direct Sales History

- 1980's International companies started selling direct via call centers & internet (HSBC Direct in UK, Canadian Direct Insurance)
- 1980  (auto) captive call center and later over the internet.
- 1996 ***PROGRESSIVE*** (auto) built an aggregator site and in 1997 started selling online. Previously sold through independent agents only. Incorporated user based driving behavior (UBI) into rating.
- 1999  (auto),  (home),  (auto & home) started selling via a call center, direct sales websites & aggregator sites.
- 2011  (auto UBI) and many other insurance companies including non-direct companies offer a UBI rating option.
- 2011  **Allstate** and other traditional insurance companies started purchasing direct writers like  to expand distribution network.

---

# Direct Sales Marketing & Underwriting

- Very LARGE marketing spend on television to build brand.
- Internet based advertising on target market websites.
- Include quotes on aggregator sites.
- Optimize web browser searches to show up at the top of the search engine results.
- Automated real-time underwriting to allow on-line binding for majority of risks, including obtaining prior loss history, property detail data needed for rating.

---

# IT and Internet Use for Insurance Rating

- Computer and automation facilitated more granular rating systems.
- Auto by-coverage rating (collision, comprehensive, bodily injury, etc.) incorporated new rating variables obtained real-time for rating like:
  - UBI
  - Credit
  - Traffic
  - Automated driving features
  - Rating by the mile
  - Population density
  - Crime
  - Other non-traditional data
- Home single rate for all perils converted to by-peril rating (fire, theft, water, liability, etc.) and incorporated new underwriting & rating variables:
  - WLMC, Property cat AAL
  - Property cat AAL
  - Roof age & type
  - Crime
  - DTC, elevation, surface roughness
  - Weather
  - Credit
  - Automated home features & Other

---

# Homeowners Underwriting & Rating Data / Tools

Existing data / modeling companies to pre-populate underwriting & rating variables:



Insurance Services Office data on property, weather, etc.



Catastrophe modeling software (AIR, RMS, EQE)



BuildFax for homeowner property attributes



Lexis Nexis CLUE prior loss history, credit, etc.



Credit scores, traffic court instances, etc.

# Homeowners Future Data / Tools

- Smart home technology to mitigate risk & control insurance losses



Smoke alarms, furnace, appliances, lights: remote control & alert when triggered (<https://nest.com/insurance-partners/>)



Household appliances: remote control & alert when leave house with stove on (<http://www.wallflower.com/>)



Monitored security alarm: remote control & alerts (<http://www.adt.com/media/home-security>) (<https://www.bayalarm.com/business/>)



Garage doors, irons, plugs: remote control & alerts (<https://www.liftmaster.com/for-homes/Accessories>)



Wayze, Facebook, Google, Amazon, other website data

- Smartphone & other millennial targeted features




---

# Automobile Underwriting & Rating Data / Tools

## Driving behavior tools

- Prior accidents, violations considered in rating and underwriting to encourage good behavior
- UBI now being used by several companies to monitor, reward good behavior, and calculate premium at a more granular level (Progressive, Metromile, etc.)

## Initially driving behavior tools are expensive and then become less costly

- Can obtain prior loss and violation history from several providers now  LexisNexis®
- Can obtain driving court records now before the verdict  TransUnion®
- UBI recording devices, data collection, and analysis used to be costly. Now a company has developed a smart phone application not requiring a separate device to be plugged into the car. Drivers and fleet owners are using the app to improve their own drivers' behavior (or their children's behavior), without having to have an insurance company involved:  <https://www.zendrive.com/>



---

# Automobile Underwriting & Rating Data / Tools

Automobile technology to mitigate risk & control insurance losses

- Several car manufacturers (Acura, etc.) have optional warning features like car located in blind spot warning, car approaching from front requiring break, etc
- Several car manufacturers (Volvo, etc.) have implemented additional safety features that protect the individuals in the car
- Driverless car features like parking the car without the driver, to avoid accidents
- Currently cars available that drive themselves (Google car, etc.) where the driver is only needed to keep a hand on the wheel to keep the car going

---

# Auto Underwriting & Rating Data / Tools

Next topics (Tammy)

- Driver Less Cars
- Car Sharing Economy
- Other Millennial Influences in the personal lines market

# Next topics

- Driverless cars
- Car-sharing economy
- Other millennial influences in the personal lines market



# Thank you

Sheri Scott, FCAS, MAAA  
415.394.3745  
sheri.scott@miliman.com