Emerging Issues in Homeowners Insurance

CAS RPM Seminar, March 16, 2016

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Panelists

- Rob Curry, ISO (Moderator)
- Paul Anderson, Milliman
- Robert Lee, Florida Office of Insurance Regulation
- Terri Dalenta, Allstate

Agenda

- Smart Homes
- More Refined Rating Plans
- Flood
- Home Sharing
- Personal Electronic Devices
- Live Poll Emerging Issue Discussion

Smart Homes – Live Poll Question

- If you had a smart home device, would you be willing to share your data with your insurer for a potential discount and real time alerts on potential claim situations?
  - Yes, I'd be willing to share all the data
  - Yes, but only data about potential claim situation (e.g. smoke alarms)
  - No

Smart Homes – Sample Devices

Includes: Climate, Entertainment, Fire Protection, Lighting, Security, Water Detection, etc.

Smart Homes – Appeal to Consumers

Consumers continue to adopt smart-home capabilities for various reasons:

1. Desire to enhance and automate current devices frequently used in homes today (i.e. climate, entertainment, & lighting)
2. Potential for insurance premium discounts
3. Greater peace of mind due to increased protection from damage to property caused by fire, theft, or water
4. Additional financial benefit from more economical use of energy

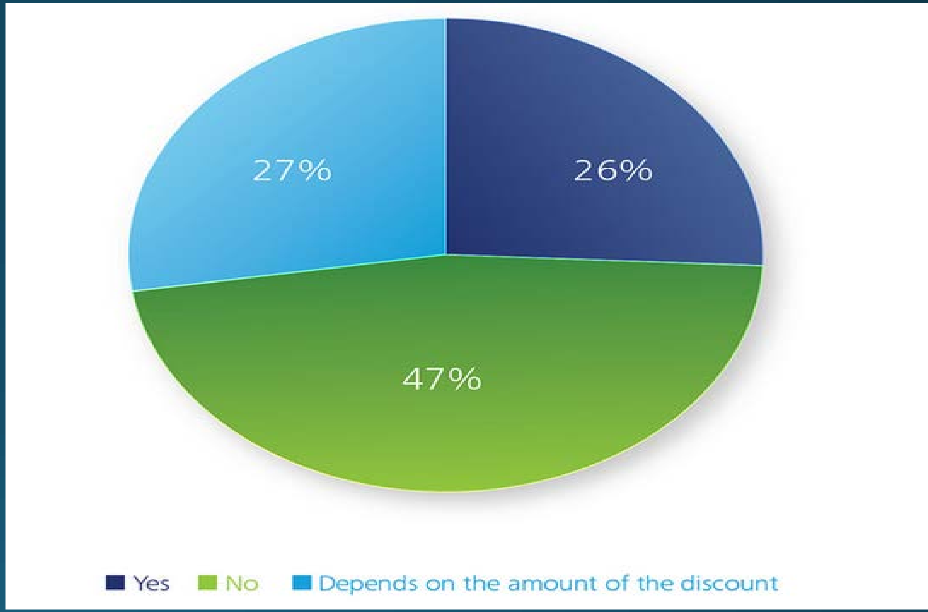
Smart Homes – Privacy Issues

As with any telematics device, many users are reluctant to share personal information with a third party

<u>What can Homeowners learn from Auto?</u>

According to a 2014 survey by Deloitte …

- **1-in-2 would NOT share data; 1-in-4 would; and 1-in-4 would, but only if the price was right (*see chart*)**
- **Over 50% expect a premium discount of more than 15%**
- **Age matters: More than twice as many respondents age 21-45 agreed to share data than in the 60+ age group**



More Refined Rate Plans – Live Poll

- Has the industry gone too far with more refined rating plans?
  - Yes
  - No
  - Maybe

More Refined Rating Plans

Recent developments in Homeowners rating plans:

- **Territories** defined by Zip Codes or Census Blocks
  - Some companies define each Zip Code as its own territory
- **By-peril pricing** with 8 or more premium “components” (often not defined in the rating manual)
- **GLMs** used with many **interaction terms** – creates large tables of factors
- Multiple rating elements based on **scoring models** – credit scores, dwelling scores, policy scores, roof scores, tier variables, etc.
- Increased used of **external data** (often from third-party vendors)
  - Location information (census, crime, demographics, topography, etc.)
  - Building data
  - Weather data (precipitation, temperatures, severe weather, etc.)

More Refined Rating Plans – Benefits

Highly-segmented rating algorithms can be positive:

- If based on credible loss cost analysis, provides a **better alignment** of insurance rates with risk
- More granular territories **minimize rate differences** along territory boundaries
- By-peril pricing **provides deeper insight** into key influences on premium
- Interaction terms in models **capture important correlations** between risk characteristics (e.g. coverage amount x deductible)
- Scoring models allow companies to develop **creative and proprietary rating structures** without disclosing details to competitors
- External data **enhances perspective of risk** and allows companies to reflect more information than what gets collected on the application

More Refined Rating Plans – Impacts

Highly-segmented rating algorithms can have drawbacks:

- Complex premium calculation process is more difficult to explain, **less transparent** to policyholders & regulators, and often less intuitive
- **Difficult to identify territories** defined by census block and to relate territory to its corresponding risk
- Potential for **significant premium changes** due to multitude of rating elements
- Difficult to explain **reasons for premium changes** with so many components, especially with scoring models
- Easier to **misuse external data** due to lack of familiarity
  - Unintuitive variables more likely to be included in model or rating structure

* Insurance is already confusing to most people; more sophisticated pricing makes it even more difficult for the customer and regulator to understand

Flood - Live Poll Question

- Do you think the voluntary market has the risk appetite to write some of the flood policies currently being written by the National Flood Insurance Program?
  - Yes
  - No
  - Maybe

NFIP Flood Statistics

1) Countrywide 5,100,089 policies and premium of $3,547,600,260 inforce as of 11/30/2015 per NFIP website.

2) Florida Policy Count is 1,828,566 36% of countrywide and Premium is $958,405,175 27% of countrywide.

3) Losses paid from 1978 to 11/30/2015 is $52,065,497,437. Florida is $3,883,808,457 or 7%. Florida loss and alae ratio from 1978-2012 is 28%.

Florida Office of Insurance Regulation

Florida Statute 627.715

1) Flood statute passed in 2014 Legislative session.
2) Rate filings until October 1, 2019 filed on informational basis with rate manual and rate change in filing but actuarial support not in filing subject to audit.
3) Florida Statute 627.0628 revised to require Florida Commission on Hurricane Loss Projection Methodology to develop standards to review flood models by July 1, 2017.
4) Flood coverage is as minimum NFIP but higher coverage can be filed.

Florida Office of Insurance Regulation

Florida Flood Private Market

1) NFIP Florida Policy Count declined from 2,069,879 as of 2012 to 1,828,566 as of November 2015.
2) Since new Flood Statute 6 insurer groups have introduced private flood on their risk in admitted market. Lloyds in surplus lines market is also writing.
3) In 2015 the primary private flood policy count is 1,116 which is expected to grow since most of the companies filed in late 2015.
4) In addition to the primary market there is excess flood for higher values of which 5,064 policies are in place.
5) Filings provide lower rates and more coverage as additional living expense provided than NFIP reflecting NFIP prices which charge same rates in more inland and coastal within the 30 different territorial rates calculated.

Home Sharing Live Poll Question

- Sharing your home through web sites like HomeAway and AirBnB has become increasingly popular, and it exposes the owner to risks that aren't covered in their homeowners policy. Which do you think is covered?
    1. Loss of rental income
    2. Party liability
    3. Guest injury on premises
    4. Theft of property by renter

Home Sharing

DESPITE RELATIVELY LOW BRAND AWARENESS OF KEY SHARING PLATFORMS, SHARING IS ON THE UPSWING IN THE US

1 in 20

have used sharing brands like Uber, Airbnb & HomeAway

32%

have heard of Airbnb & HomeAway

70%

think they will participate in the sharing economy in the coming year

"The Sharing Economy: Where We Go From Here". Leo Burnett, November 2014

HOME SHARING - WHAT DOES IT MEAN FOR INSURANCE?

HOME SHARING CREATES NEW PROTECTION NEEDS FOR HOSTS AND PERPETUATES COVERAGE NEEDS FOR TRAVELERS / RENTERS

HOST LISTINGS

560K

Home Sharing Listings in the US

Potential gaps in insurance coverage:

- Theft
- Liability
- Party Damage / Damage to Contents
- Loss of Rental Income

RENTERS

7M

Renters use Airbnb & HomeAway in the US annually

Potential gaps in insurance coverage:

- Personal property – large deductible on property policy
- Liability for damage done to the host's property
- Loss of funds due to cancellation / interruption
- Rental property is for some reason unavailable when they arrive
- Rental property is not as pictured / marketed

1 MARA primary research with Home Sharing hosts

Personal Electronic Devices Poll

- You may have a drone, a hoverboard, virtual reality glasses, smart watch. Which risk do you worry about most as an insurance professional?
    1. Product Liability
    2. Personal Injury
    3. Property Damage
    4. Bodily Injury

Personal electronic devices

Live Poll On Emerging Issues

- What additional homeowners emerging issue would you like the panel to discuss?