



**CASE STUDY:**  
**Development of a New Product**  
**Between Two Companies**  
Presented by Willis Towers Watson and e2Value  
Ratemaking, Product and Modeling Seminar  
March 26, 2019

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**Speakers**

<p><b>Jeff Kucera</b> Consultant and Actuary e2Value, Inc.</p>	<p><b>Klayton Southwood</b> Senior Director Willis Towers Watson</p>
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**Agenda**

- Intention
- Brief Background on Homeowner Rating
- Structure Insurance Score Defined
- Decision to Collaborate
- Offering Development
- Results and Implementation
- Lessons Learned
- Wrap-Up

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**Intention**

- To improve Homeowners rating in the marketplace based on our observation of the historical rate of development of sophisticated pricing and underwriting
- Create an offering targeted towards small- to mid-size carriers, who have limited resources and data, in order for them to gain a competitive advantage in the marketplace
- Listen to their reaction to our initial perceived value proposition and incorporate the feedback into our approach to maximize the benefit delivered

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**Brief Background on Homeowners Rating**

- Created in the 1950s, it is basically a fire rating algorithm
- Early 2000's Innovations
  - Introduction of multi-variate rating
  - Use of credit
  - Prior losses used for rating
  - Additional property characteristics utilized
  - By-peril concept introduced

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**Brief Background on Homeowners Rating**

- Other Innovations in Recent Years
  - Personal auto experience utilized
  - Method that insurance bill is paid
  - Days between application and effective date
  - Original owner of home
  - Age/type of roof

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**Structure Insurance Score Defined**

- Measures the inherent risk to an insurance company based on several different characteristics of a home or building
- Based on predictive modeling applications
- Recognizes specific characteristics of the home or building
- Applicable to residential, farm and commercial type risks

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**Structure Insurance Score Defined**

- Many companies are already using some house characteristics in rating of homeowners and dwelling fire
- Some examples include number of bathrooms, number of stories and age of roof
- A greater use of more home characteristics and/or a structure insurance score will improve rating even more



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**Structure Insurance Score Defined**

- Characteristics used to determine replacement cost that are above and beyond traditional dwelling or building information, which carriers use to rate and underwrite property coverage, may add significant lift or improvement in segmentation
- Level expected to vary by peril



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### Structure Insurance Score Defined

- Dwellings with identical characteristics will vary in lift due to geographic location and peril mix
- Similar in concept to make/model rating for automobile



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### Decision to Collaborate

We started in 2009 as EMB and e2Value.

**EMB**  
had the expertise needed for analyzing exposures (including home characteristics) and understanding how they drive loss propensity.

**e2Value**  
had the required home data driven by its patented valuation approach.

Individually we could reach some carriers and have a pretty good rating enhancement.  
**Together, we have the ability to reach all carriers with a new rating variable.**

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### Offering Development: Required Data

- 2M+ exposures per year
- Representation across the U.S.
- Sufficient coverage for various home types
- Data for all the exposures



- 3 to 5 years of exposure and loss information
- Rating information that could capture what the most sophisticated rating plans could identify – including elements that are typically common to all companies such as construction type, amount of insurance, deductible, etc.
- Cause of loss information for peril breakout

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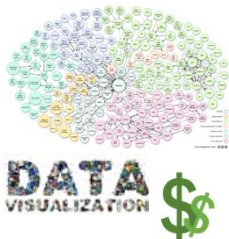
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**Offering Development: Benefits of Contributing**

**What are the benefits to individual insurance companies?**

- Will get early results and be able to implement before competitors
- A summary of scores for the individual company
- A comparison of score distributions between the individual companies and aggregated companies in the study
- Reduced cost for a number of years




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**Offering Development: Working Together**

- The end goal defined
- An agreement between the parties to spell out each company's and each person's role. The formal alliance defined
- Anticipate break-up
- Anticipate this project and product could lead to other projects or products outside the scope of this relationship
- Prescribe success measurements and steps when things are not going well – steps for resolution or dissolution
- Be ready for cross-company rivalries, intra-company motivation to market, internal goals at odds with certain products or clients
- Define roles of each company and person on the team
- "Success has a thousand parents, failure is an orphan"

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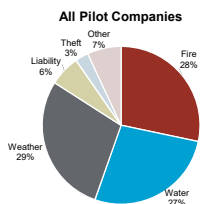
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**Offering Development: Road Show**

- Assembling the pilot companies: prepared a target list, determined who knew whom, developed presentations and a schedule
- Outlined roles for each call/webinar
- Debriefed after each call and updated the presentation
- 20+ calls, meetings for 15 interested participants
- Coordination to standardize data received from each pilot company
- Working with interested parties and accommodating their priorities w/r/t timing of data submission




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**Lessons Learned: If It Works, It Works Well!**

- Ten year process
- Three mergers, three name changes, three leadership teams with evolving goals and motivation
- 50 States
- 1,000+ insurance carriers
- Seven individuals
- Plan for Success!



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