

CAS Spring Meeting: Homeowners Profitability

Nancy Watkins, FCAS, MAAA
Principal and Consulting Actuary
Milliman, Inc.

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Why is Homeowners so challenging?

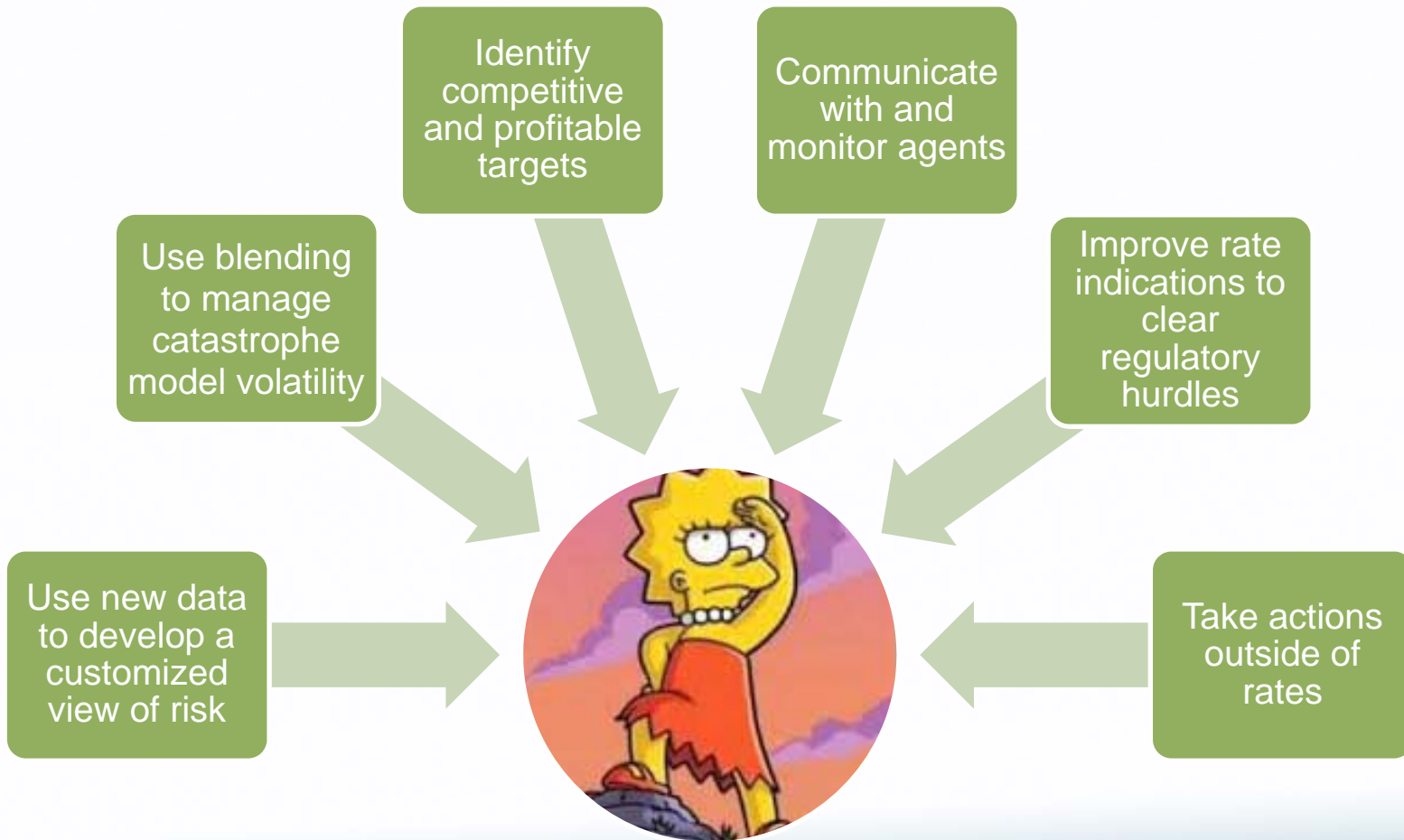


Rating agency perspective on catastrophe risk

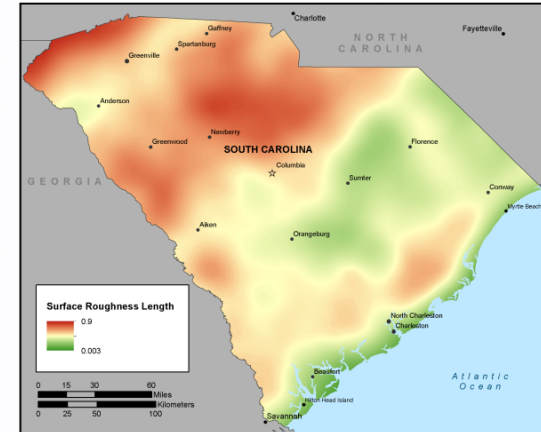
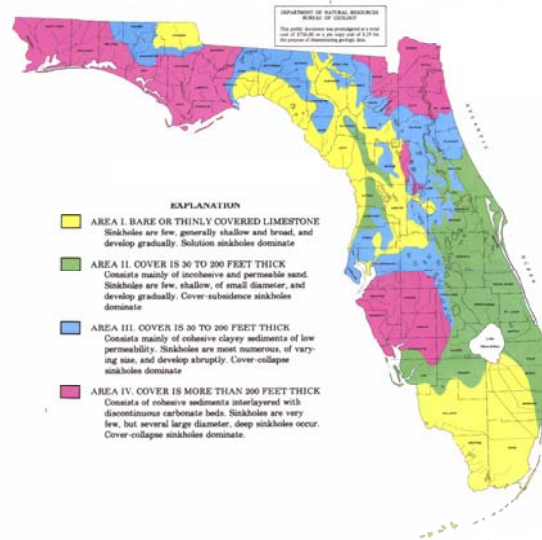
- *“A.M. Best Co. considers **catastrophic loss to be a primary threat to the financial strength and credit quality** of property and casualty insurers...”*
- *“Companies not only need to measure and model catastrophe risks after the business has been bound, but also need to mitigate the risk on the front end by **using a more proactive and integrated underwriting approach where all risks and risk relationships are considered.**”*
- *“A.M. Best expects that a company’s management will be able to **explain why it has utilized the output selected** to best represent its catastrophe exposure.”*

Source: “Catastrophe Analysis In A.M. Best Ratings” November 3, 2011
(emphasis added)

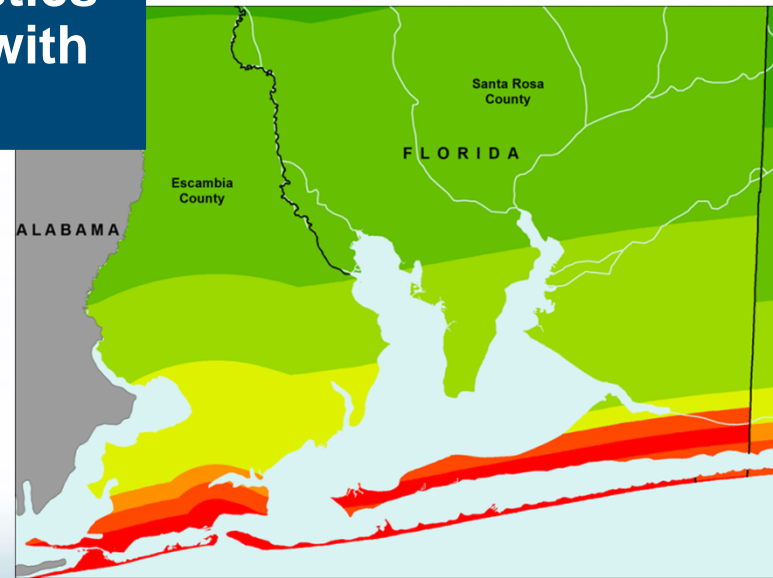
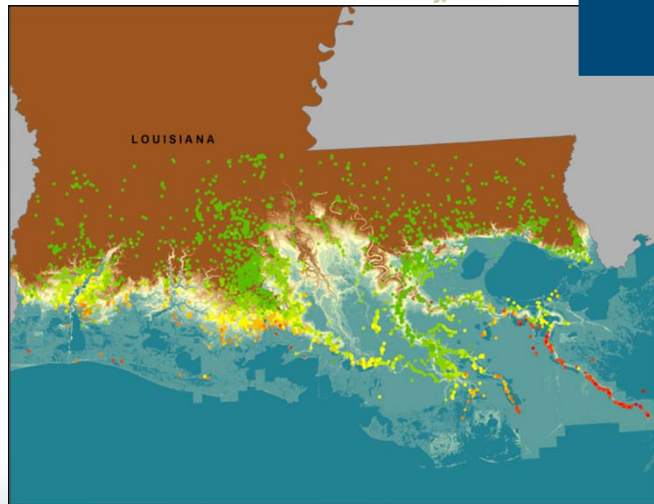
Strategies for integrated approach to risk



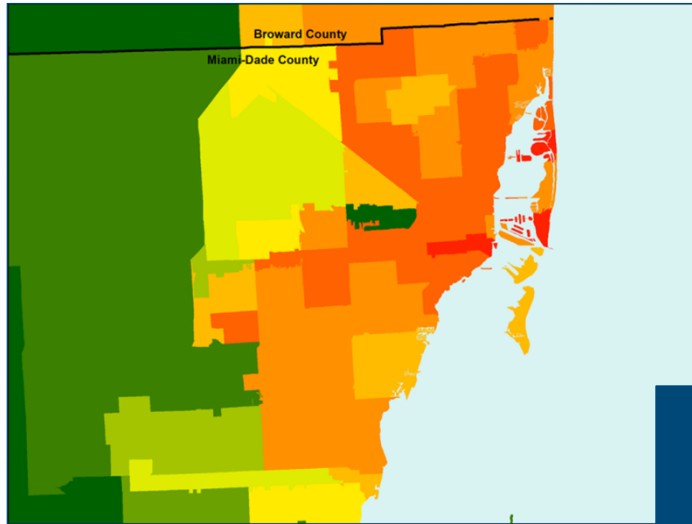
Use Geographic Information Systems data



Find physical characteristics that align with risk

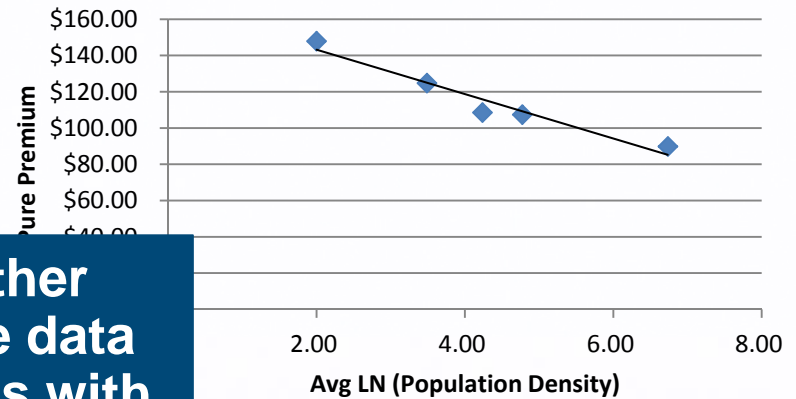


Use other third party data sources

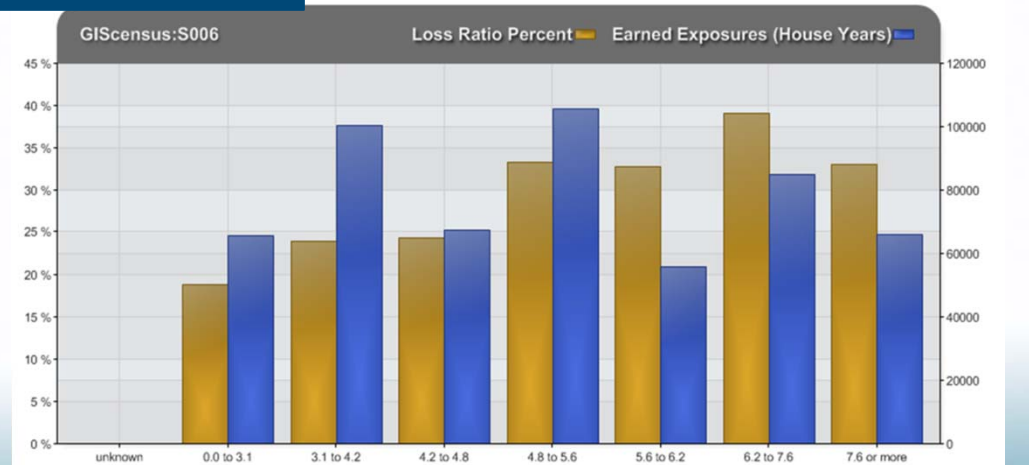
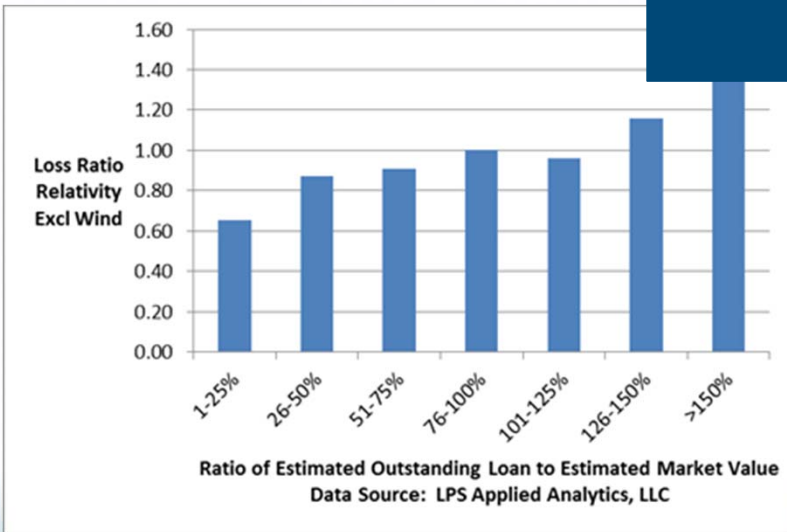


Population Density

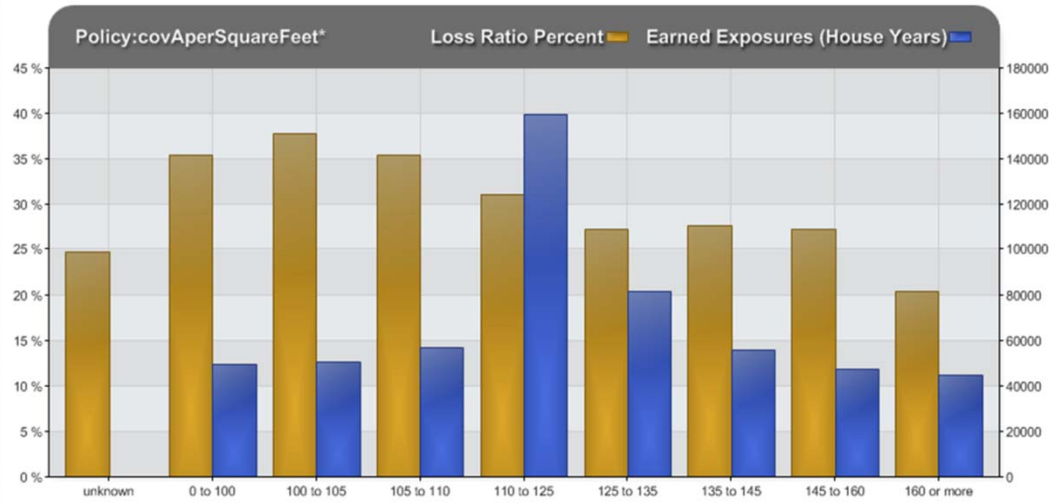
AOP Estimated Pure Premium by Zip Code Group



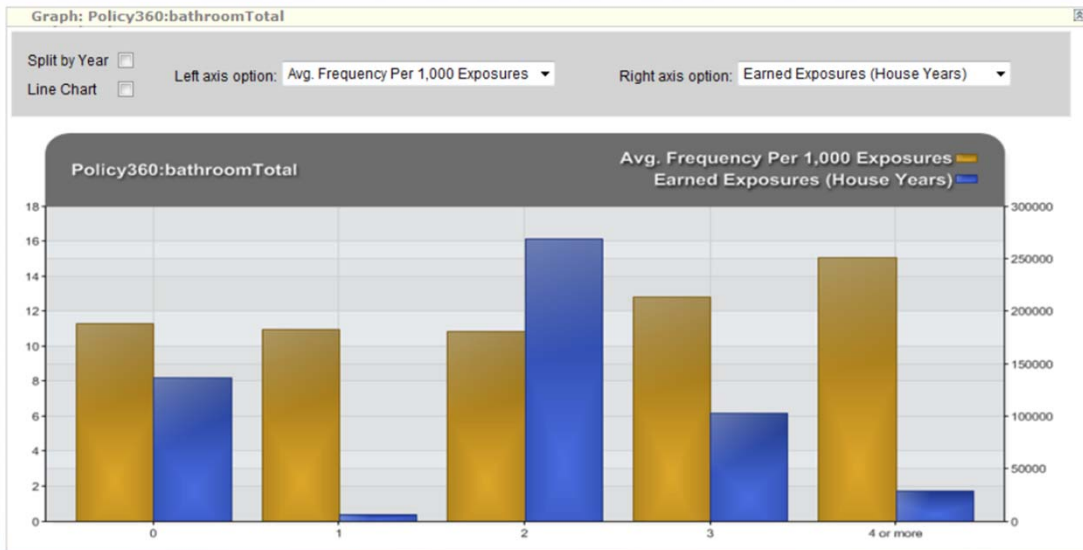
Find other objective data that aligns with risk



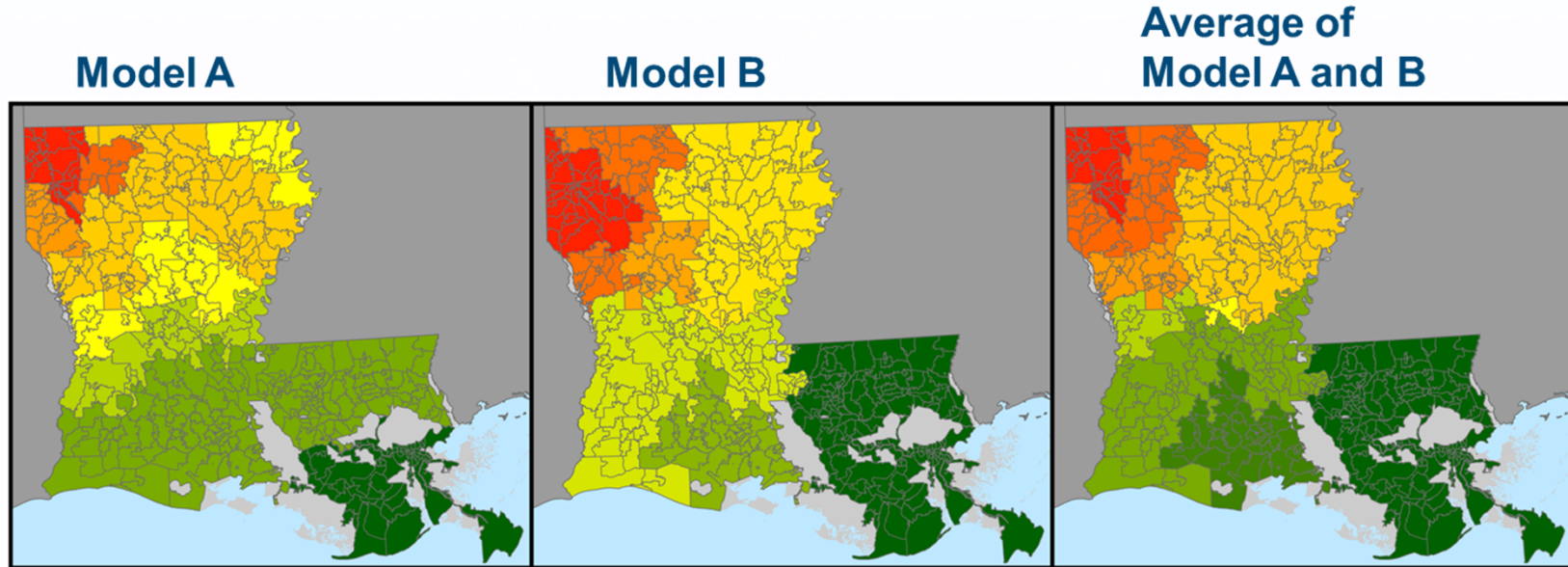
Use the data you already have



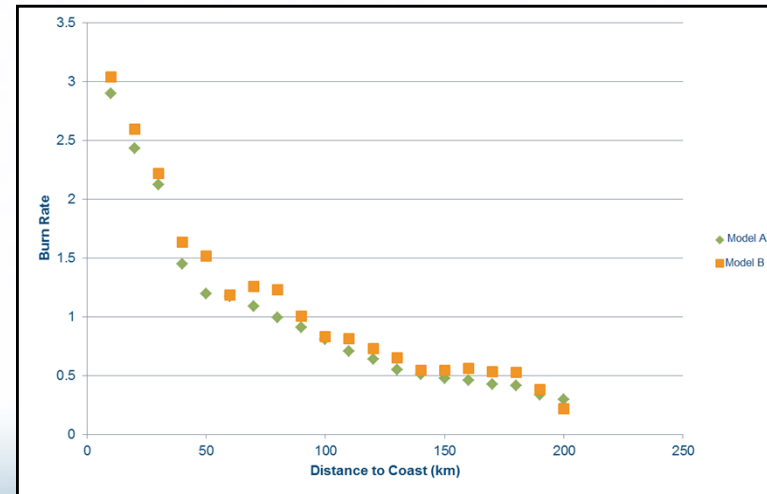
Find new insights within company data



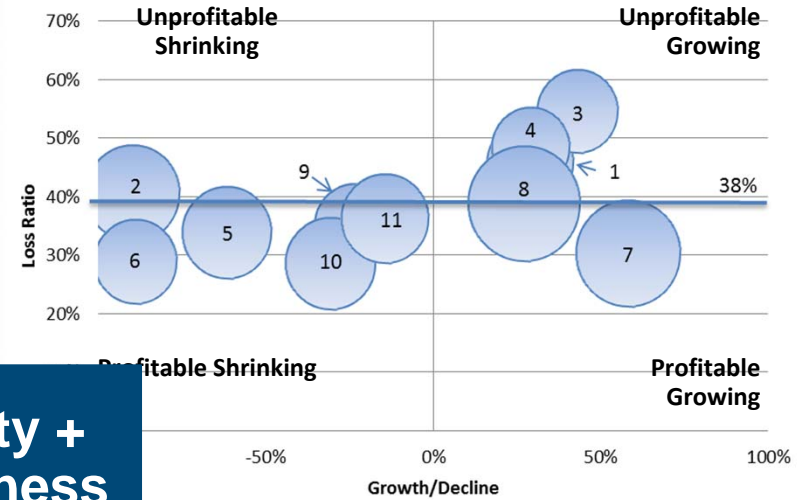
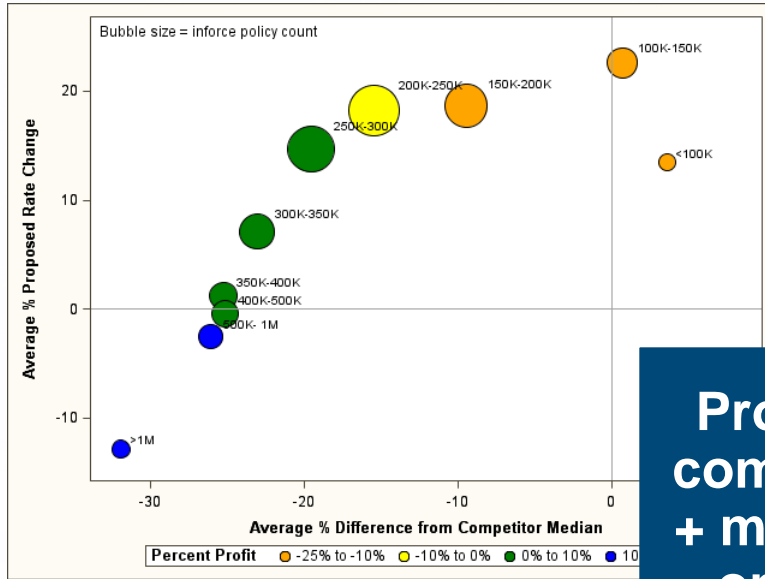
Blend catastrophe models



**Lessen impact
of cat model
volatility**

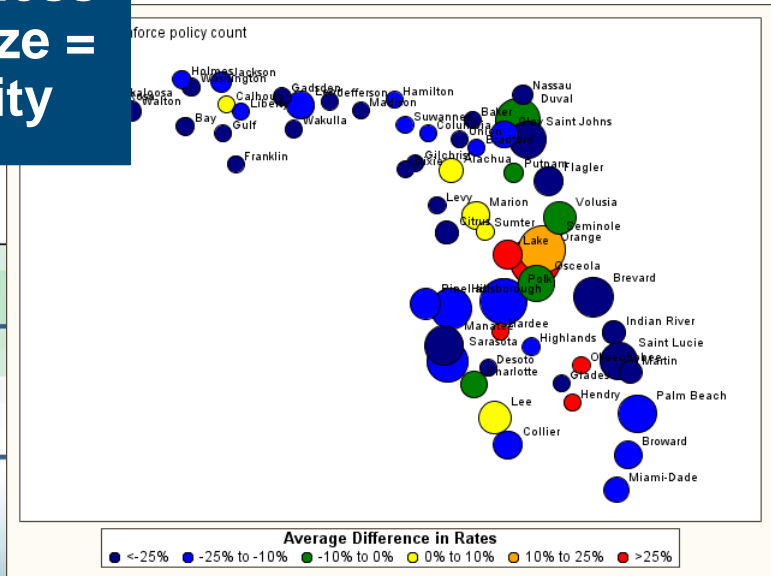


Identify profitable segments to target



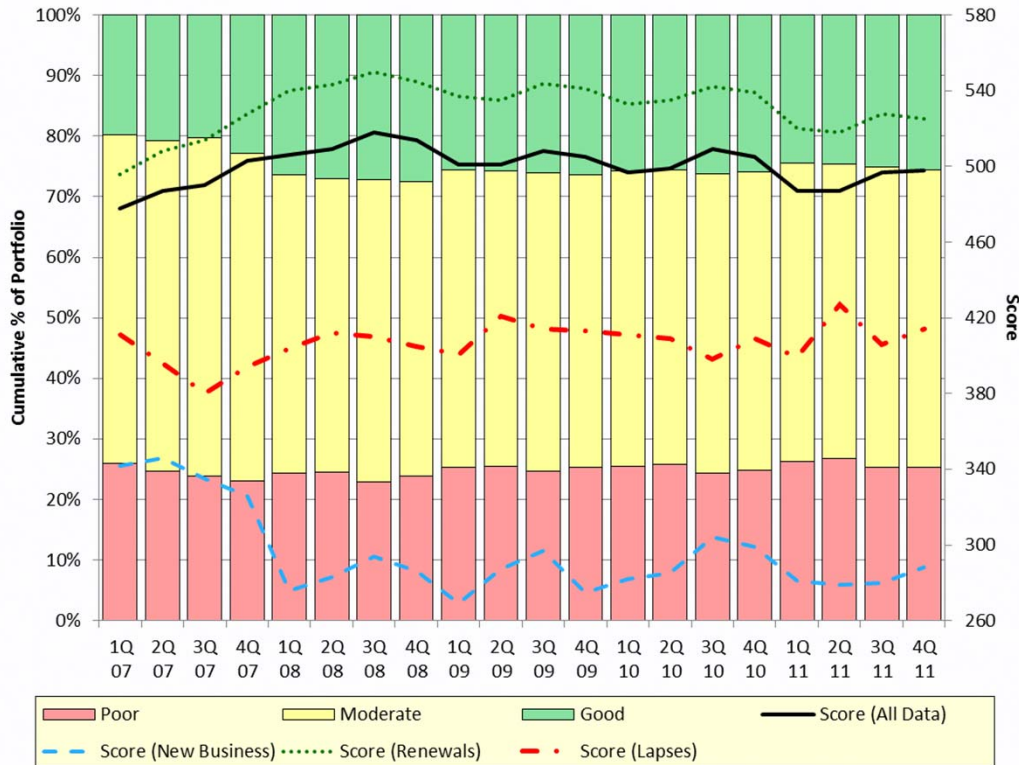
Profitability + competitiveness + market size = opportunity

Talon Loss Score Band	Talon Retention Score Band									
	96.2%	94.8%	94.5%	93.5%	92.6%	91.1%	89.7%	87.6%	85.7%	81.6%
1	0.00%	0.00%	0.00%	0.05%	0.10%	0.56%	0.79%	1.07%	0.63%	0.42%
2	0.00%	0.01%	0.13%	0.55%	0.57%	1.51%	2.30%	2.73%	2.06%	1.31%
3	0.00%	0.33%	0.54%	1.09%	1.06%	1.88%	2.58%	2.01%	2.02%	1.11%
4	0.10%	0.49%	0.74%	1.34%	1.35%	2.62%	3.04%	1.37%	1.85%	0.81%
5	0.62%	0.90%	0.86%	1.61%	1.50%	2.86%	2.45%	1.11%	1.44%	0.67%
6	1.78%	1.44%	0.99%	1.81%	1.52%	2.17%	1.88%	0.71%	0.98%	0.32%
7	2.48%	1.67%	1.26%	1.91%	1.89%	2.34%	1.46%	0.75%	0.80%	0.15%
8	0.07%	0.29%	0.59%	1.44%	1.46%	1.12%	0.40%	0.26%	0.16%	0.00%
36.7% Total	5.04%	5.13%	5.11%	9.81%	9.44%	15.05%	14.89%	10.02%	9.94%	4.80%



Communicate with and monitor agents

Baseline Scoring Model

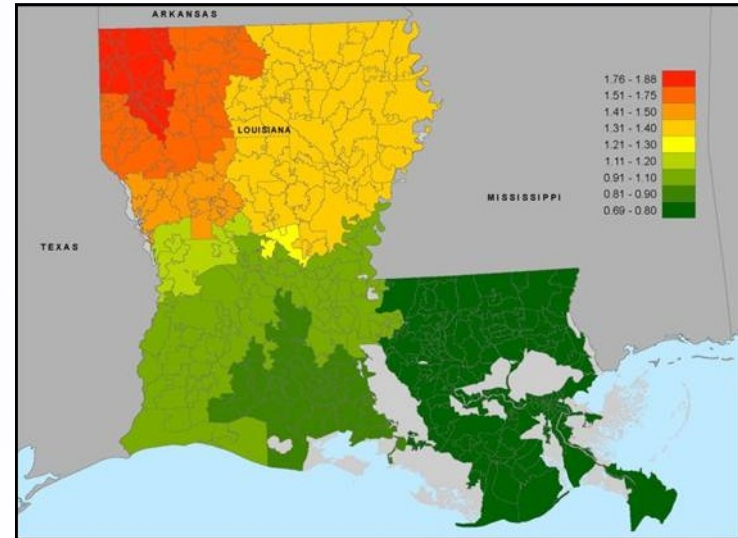


Use scoring to monitor portfolio by agent

Agency	WP Change	NB Change	Earned Premium Distribution	Retention Rate	Expected Loss Ratio (change)
1738368	2% ↑	-27% ↓		88%	108% -1%
1537668	320% ↑	140% ↑		91%	110% 3%
1539377	219% ↑	200% ↑		86%	111% 1%
1542068	135% ↑	550% ↑		96%	108% 3%
1542068	135% ↑	550% ↑		91%	107% 1%
1546788	127% ↑	175% ↑		91%	107% 1%
1542087	100% ↑	46% ↑		87%	118% 0%
1546776	97% ↑	80% ↑		91%	108% -4%
1546778	78% ↑	-61% ↓		92%	112% -4%
1545591	48% ↑	-75% ↓		92%	111% -1%
1545591	48% ↑	-75% ↓		88%	106% -2%
1541268	44% ↑	-5% ↓		88%	112% -1%
1335391	34% ↑	-22% ↓		88%	110% -1%
1537676	32% ↑	19% ↑		88%	111% -2%
1539373	29% ↑	22% ↑		90%	108% 0%

Improve your rate indications

- Rerate historical policies
- Split indications by peril
- Calculate a separate cost of reinsurance
 - Expected reinsurer profit = expected ceded premium less expected ceded loss and LAE
 - Allocate to company, state, program, line, form, peril, territory
- Enhance trend calculation
- Improve the complement of credibility
- Map results to see if they make sense



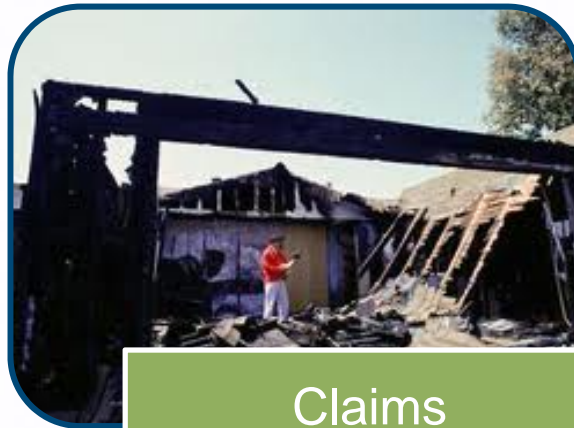
Take actions outside of rates



Marketing



Underwriting



Claims



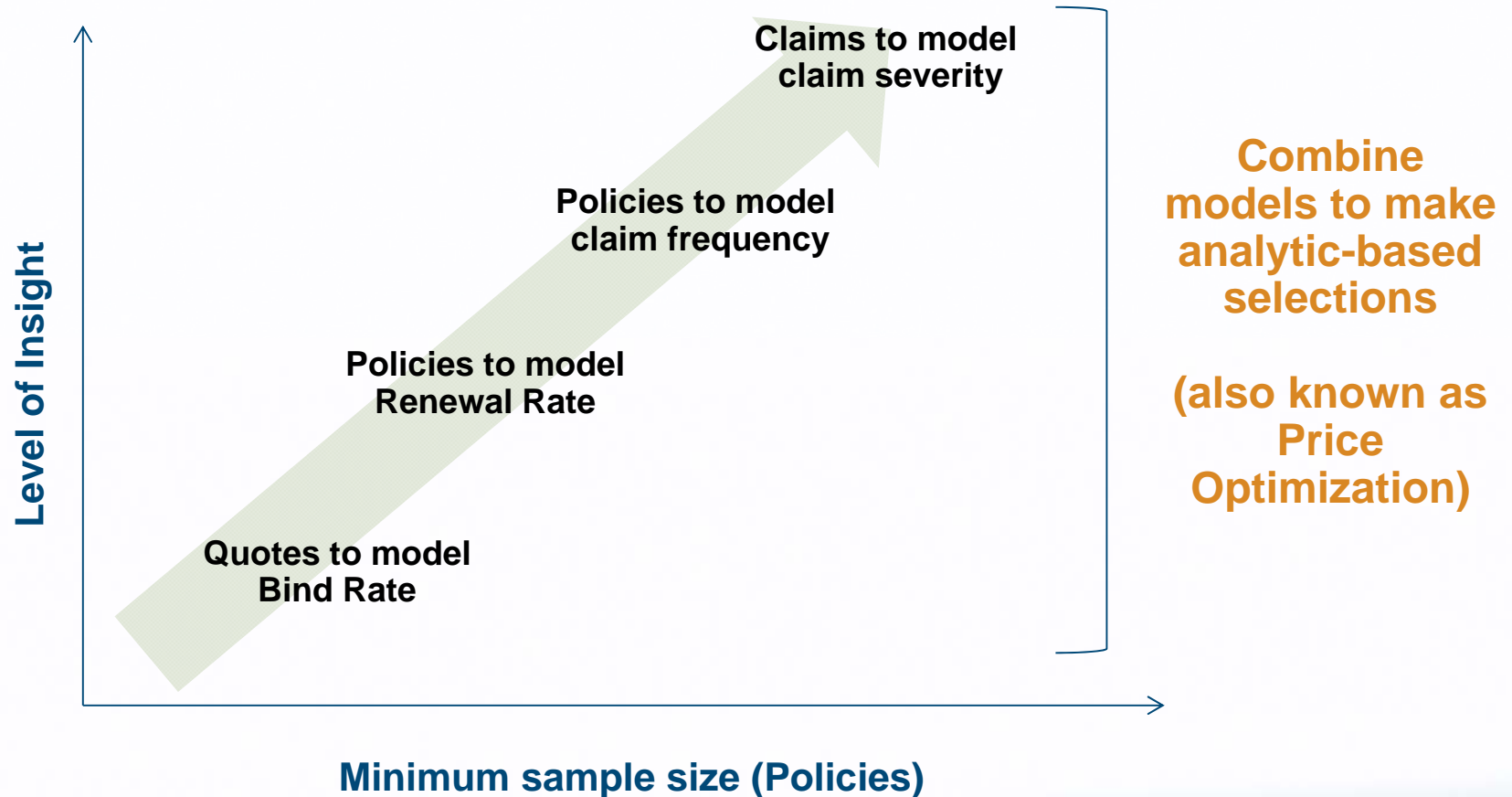
Policy administration

Challenges for “non-large” companies

What if you don't work for AllStateFarmers?

- Credibility
- Data availability
- Systems limitations
- In-house expertise / access to technology

Even small companies have usable data



Get started

Overhaul your old HO program

1. Split rating algorithm, at least by major peril
2. Get rid of misaligned discounts and rating factors
3. Redo your territories
 - Cat model output + GIS for cat perils
 - Experience + GIS for non-cat perils
4. Add new rating factors
5. Geocode your policies
6. Start collecting data today for the plan you want tomorrow

Questions?

nancy.watkins@milliman.com
415-394-3733

