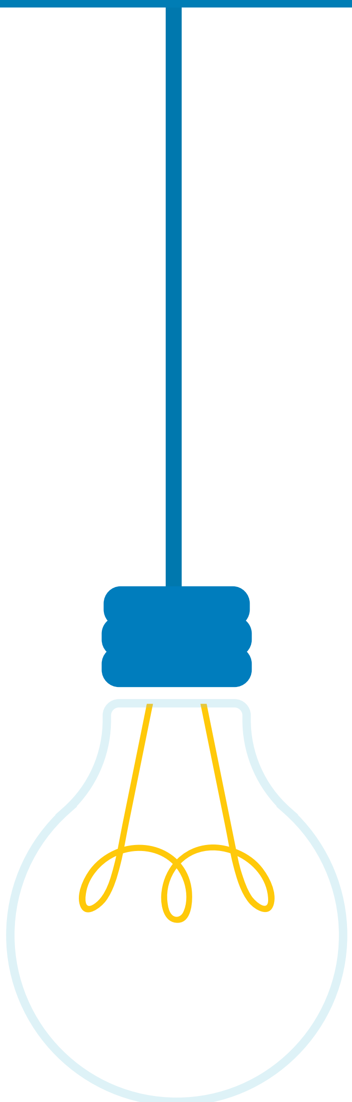
A Verisk Insurance Solutions Innovation Paper

The Challenge of Auto Insurance Premium Leakage

Mispriced risk is a $29 billion annual problem for the industry

Verisk Insurance Solutions



About Verisk Insurance Solutions Innovation Papers

Verisk Insurance Solutions is a leading source of information about property/casualty insurance risk. An innovator in advanced analytics, the company employs a committed team of data scientists to research and develop actionable information that improves insurer workflows, underwriting performance, and rating precision.

Verisk Analytics (VRSK), is a member of the S&P 500® and has been ranked among the top 20 on *Forbes* magazine's World's Most Innovative Companies list for both 2015 and 2016. Through our Innovation Papers, we share the latest research, trends, insights, and product developments shaping the insurance industry of tomorrow.

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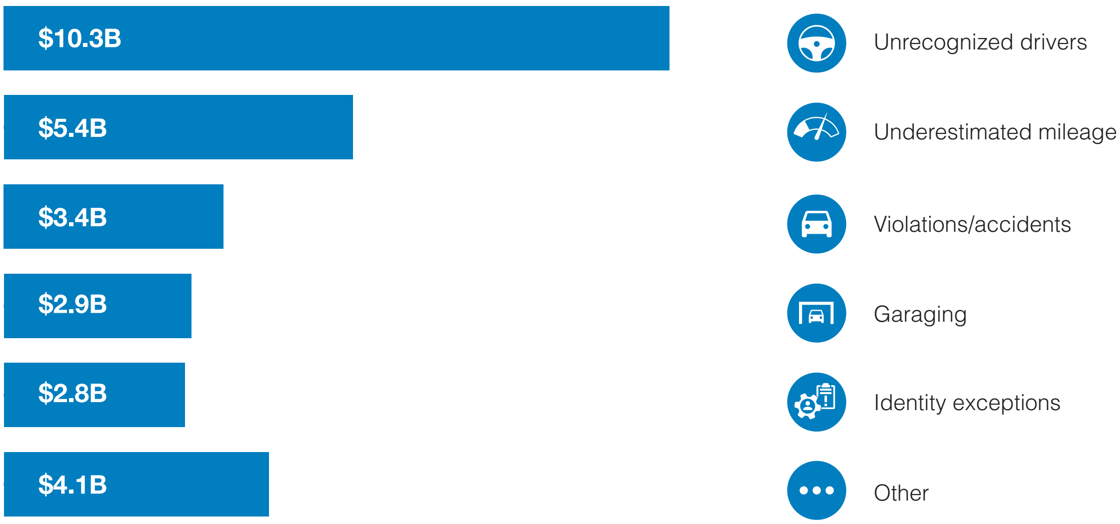
Beyond Premium Pursuit: Unlocking Lifetime Value

Personal lines automobile insurers face at least a $29 billion annual problem: premium leakage—omitted or misstated underwriting information that leads to inaccurate rates. With profitability under intense pressure from all sides, premium leakage demands attention.

At the same time, insurers face stiff competition to attract and retain business with a painless buying experience and a hassle-free customer relationship. Valuable policyholders could defect if their rates go up or the insurer wastes their time with unwarranted inquiries. The problem challenges underwriters and product managers to strike the right balance, especially in standard and preferred markets with high customer expectations. Nonstandard business demands vigilance against leakage—which is more likely a fraud indicator in this segment—but competition is still fierce.

At the heart of this competitive maelstrom is the growing challenge to land new business *and* keep the old.

Sources of personal auto premium leakage – 2016



Source: Verisk estimates

Verisk estimates peg leakage at 14% of premium.

Behind the Numbers

Two Verisk research initiatives support the majority of findings for this Innovation Paper. The *2016 Verisk Auto Insurance Premium Leakage Survey* explored insurers’ concerns, programs, and plans regarding premium leakage. The response represented 58% of private passenger auto insurance premiums.

Verisk also conducted a client analysis for 82 insurers split evenly between standard and nonstandard. The research combined Verisk’s RISK:check® predictive analytics model that identifies potentially fraudulent applications with additional data from more than 3 million policies (2.1 million standard, 1 million nonstandard).

The Dilemma

While the squeeze on margins persists, the imperative for risk-appropriate pricing clashes with the pressure to take market share from competitors' portfolios: nearly nine out of ten of insurers considered new business at least as important as retention.[1]

The premium leakage issue can appear at once...

$ too costly to ignore

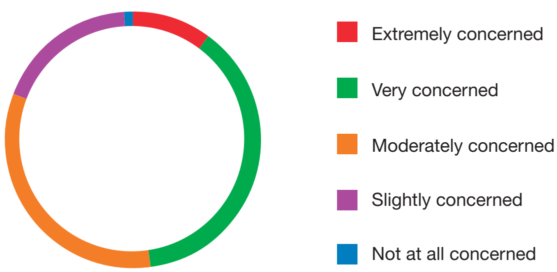
$$$ too expensive to address

and too risky to relationships

...in a market where customer loyalty is rare and the potential for churn is high.

Meeting those demands can push premium leakage to the bottom of the agenda, although the problem appears to weigh heavily on the minds of insurance leaders. More than 80% of respondents were at least "moderately concerned" about premium leakage, with nearly half "very concerned" or "extremely concerned."

Insurer Concerns about Premium Leakage



Source: *2016 Verisk Auto Insurance Premium Leakage Survey*

70% monitor leakage today

26% intend to within the next five years[2]

Dimensions of the Problem

- Auto insurance leaders are most concerned that premium leakage leads to decreased profitability and increased loss ratios.[3]
- Policies with more fraud risk indicators run higher loss ratios.[4]
- When pricing is more closely aligned with risk, the lifetime value of retention may outweigh the potential recovery of modest short-term premium leakage.[5]
- Rapid growth in remote shopping and purchasing—online or by phone—means less face-to-face interaction and makes misrepresentation easier.

Where the Leaks Are

Research results highlight insurers' efforts to identify and combat the premium leakage problem.

Premium leakage often starts at the point of sale, which accordingly gets the most attention

86%* of respondents pointed to this stage for their monitoring efforts[6]

The leakage comes about in various ways:

Dishonest or erroneous reporting of information by the applicant

Agents guiding applicants to shade the truth to lower their rate

Absent or unverified prefill functions that omit important underwriting information

Leakage can be compounded at renewal as life events—such as a new job, a major driving offense, or a new driver in the household—change a policyholder's risk profile

84%* monitor leakage at renewal[7]

*Among insurers that currently monitor for premium leakage

Monitoring of midterm policy changes is crucial to gain insight into an evolving exposure

47%* monitor midterm leakage[8]

Overcoming the Inertia

The challenges of leakage can discourage focused action. Among survey respondents that were at most "moderately concerned" about premium leakage, a third cited their current focus on other initiatives, and 19% said that managing anti-leakage programs would cost too much.[9] Asked what would induce them to outsource leakage monitoring, 63% ranked cost-effectiveness as the most important criterion.[10]

Successful companies are using data and analytics to move past those obstacles:

83% of respondents in the top 100 by direct written premium monitor for premium leakage vs. 57% of smaller insurers[11]

73%* of respondents check data sources on the policyholder's history at point of sale or initial quote[12]

69%* of respondents reported using data analytics in their renewal process[13]

*Among insurers that currently monitor for premium leakage

Where leakage is concerning enough to warrant pursuit, innovative tools can support carriers' efforts to recover missing premium with a focus on the costliest customers. Insurers can target a relatively narrow group of policyholders to recover premium and reduce losses by multiples of the cost of pursuit. Verisk client analysis shows the two riskiest deciles (based on RISK:check scores and representing a mere 3.5% of policies) produced a loss ratio of 127.7 compared with a median of 69.8.[14]

Prioritized recovery of premium leakage makes financial sense: Verisk client experience shows a substantial average return on investment (ROI) for a full prioritized premium leakage recovery program—targeting only high- risk and very-high-risk scores.

7:1

ROI
7:1 for the first year

22:1

ROI
22:1 over the lifetime of the policies

“Insurers that don’t make strategic use of granular analytics may not survive the next decade as they assume and retain underperforming business while losing high-potential, lifetime policyholders.”

— John Mullen, retired CEO, Direct General Insurance

Best Practices

Use prioritized pursuit strategies for your highest risks

Predictive analytics can identify sources of premium leakage that can yield the best results by pricing appropriately or shedding unprofitable policies. Verisk analysis shows that “pushing back” for the two highest-risk deciles of policyholders would result in the median loss ratio falling by five percentage points.[15]

Make sure the numbers *really* don’t lie

Tap into numerous information sources from a provider that offers selectable filters to corroborate your data. These filters may be based on the number of “hits” that point to potential leakage, completeness of records, and timeliness of the information. False positives lead to unnecessary friction with customers.

Consider lifetime policyholder value

Application-integrity scoring models can help insurers to decide when to pursue missing premium.

Align incentives with smart growth strategies

“Blind” growth strategies have sometimes led to taking on underpriced risks. Examine incentive structures and reevaluate risks at renewal to correct such situations.

Innovations

Sophisticated models can compare details of applications against multiple data sources to validate the integrity of rating variables and stop premium leakage before it occurs.

- This can be best achieved by bringing the data and models to the front end of the point-of-sale workflow, which yields the dual benefits of more risk-appropriate premiums and more accurate up-front quoting.
- The same models can be used to steer underwriters away from unnecessarily ordering costly motor vehicle reports (MVRs) at point of sale and to catch important changes to rating variables at renewal.
- Predictive analytics can help to build a feedback loop for measuring the impact of premium pursuit on profitability and retention.

Sources of Leakage

Drivers

Premium leakage related to misrepresented driver risks—unidentified drivers, violations, and identity exceptions—accounts for $16.5 billion in annual leakage, the top overall source of premium leakage for insurers.[16]

One factor behind unrecognized drivers is the cost of adding a newly licensed teenage driver, which can be $2,000 or more a year. A Verisk study at one top-ten insurer found it took an average of 13.6 months for new drivers to be added to policies, costing more than $1,000 in lost premium for each instance.[17]

Another factor is the lingering trend, triggered by the Great Recession, that brought “boomerang kids”—unemployed or underemployed young adults—back to their parents’ homes. A record 57 million Americans lived in multigenerational family households in 2012, twice as many as in 1980.[18]

“That ‘hidden’ driver may have a very different risk profile from named drivers.”

— Alan Tinney, Assistant Vice President of Auto Sales, Verisk Insurance Solutions

“Keeping track of policyholders’ driving records is critical and expensive, yet still an imperfect part of auto insurers’ operations,” says Robby Hobbs, Verisk’s vice president of auto operations. Verisk was selected to pilot the Texas Driver Record Monitoring Service in 2017, enabling insurers to monitor adverse activity, such as a driver’s license status change or a new moving violation.

MVR state registry fee increases have had a significant effect on the auto insurance market, since violation information remains critical for accurately rating auto risks. Insurers that pay more for MVRs may narrow their profit margins, while those that forgo MVRs to avoid the cost may misprice policies.

Dimensions of the Problem

12% of standard and 15% of nonstandard policies may have “hidden” drivers.[19]

Average annual additional premium per hidden driver decreases as the age of the hidden driver increases: $1,204 (16–17), $1,106 (18–24), $698 (25–39), $204 (40+).[20]

3/4 Almost three-quarters of discovered drivers are high risk, indicating a priority for pursuit.[21]

50% MVR fees have increased by nearly this amount over the past decade.[22]

Industry Trends

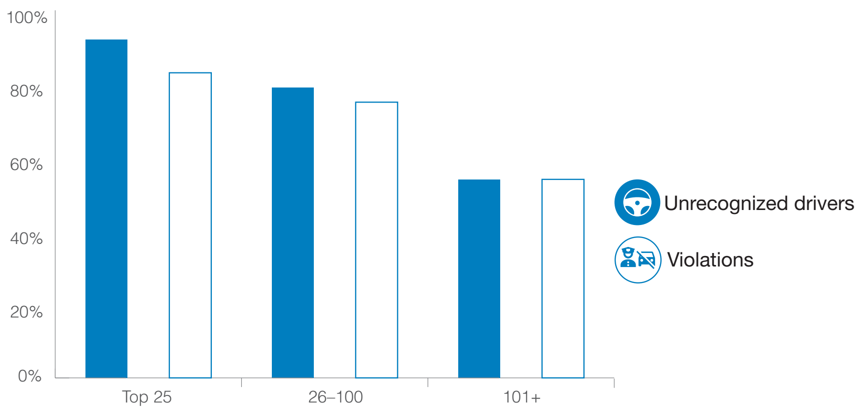
Unrecognized drivers account for the largest amount of premium leakage and easily eclipse any other source of premium leakage cited in the Verisk survey. This is reflected in the level of concern expressed by insurance leaders.

Concerns about Sources of Premium Leakage

Source: *2016 Verisk Auto Insurance Premium Leakage Survey*

The use of programs to address driver-based premium leakage varies widely by insurer size. Programs to address unrecognized drivers are more common than those to address violations, especially among insurers below the top 100, possibly due to the cost of violation programs.

Insurers That Have Program to Address Source of Premium Leakage



Source: *2016 Verisk Auto Insurance Premium Leakage Survey*

The "Foreign" Driver Problem

Foreign driver's license abuse is of increasing concern to U.S. auto insurers. In aggregate, immigrants represent a good book of business, but U.S. licensees can pose as foreigners to hide poor driving records (i.e., "pretenders"). Foreign driver surcharges are significantly less than those based on past tickets and accidents. These pretenders have extremely high frequency and severity.

Best Practices

Get the number right

Driver's license numbers are error-prone. Make sure you have the correct number, and follow up if it's identified as invalid.

Consider the age of the discovered driver

It may not be worth prioritizing premium for identified drivers over age 39, especially from your lowest-risk policyholders who represent a significant lifetime value.

Check frequently and widely

Among insurers that monitored for unrecognized drivers, two-thirds did so monthly or continually; and they monitored 77% of policies on average, as unnamed drivers are the cause of many claims.[23]

Sweat the details

To avoid false positives, capturing correct driver details is important for adequate pricing. This includes driver assignment, upcoming youthful drivers, and unrecognized drivers.

Optimize MVR spending

Look back for activity using cost-effective and more comprehensive tools and data sources, such as court records, where available. Add business rules, and overlay your geographical footprint with state-by-state MVR costs to find efficient ways to spend violation dollars.

Use neutral, skilled outreach

An experienced partner can tap into best practices for targeting the right customers in the right way to balance capturing leakage and retaining profitable business. If an agent is leading applicants, a neutral third party armed with robust analytics is best positioned to identify and address those policies.

Don't be late

Where available, ongoing monitoring can optimize the time when severe midterm violations can be up-charged or policies suspended where permissible. This can be done without overspending on MVRs for drivers with clean records.

Innovations

Quality data can identify anomalies to correct possible pricing errors.

- For example, an apparent mismatch between the insured's occupation and listed vehicles may suggest another driver is being hidden.

Lists of licensed drivers are indispensable, but it takes sophisticated analytics to measure the quality of the data across multiple sources.

- Supplement prefill data with more numerous and recent records connecting a driver to an address.

There are many ways for insurers to save on the high cost of obtaining driving history data and still manage violations risk accurately.

- Use cost-effective look-back indicators to streamline underwriting and reunderwriting processes. Violation-monitoring programs that alert insurers to new adverse activity posted to a policyholder's driving record can optimize reunderwriting spend, allocating dollars exactly where and when they're needed.

Mileage

Underreported mileage results in more than $5 billion each year in premium leakage.[24] An increase in miles driven strongly correlates with rising claims and shrinking margins.[25] Every mile adds incrementally to loss frequency, degrades a car's condition, depreciates its value, and potentially diminishes its safety.

Mileage may be more susceptible to honest mistakes rather than deliberate fraud. Self-reported estimates are notoriously inaccurate. And of course, some knowingly misstate odometer readings. In a 2012 survey, 16% of consumers said it was acceptable to lie to an insurer about miles driven.[26]

One-time events may spike mileage in a given year. Annual mileage can change dramatically when the driver moves or gets a new job and when vehicles are bought, sold, traded, or even junked.

And future usage of a vehicle is hard to predict even when accurate historical odometer readings have been obtained. Commuting distances, number and age of drivers in the household, and other factors change constantly and can affect odometer-based mileage programs.

Faced with this array of challenges, many insurers have surrendered on the issue, not using mileage in rate plans or employing mileage rating bands that are too wide. But technology and analytics are changing the insurance landscape when it comes to accurately assessing risk related to miles driven.

> **"Advancements in technology enable insurers to collect near-real-time mileage as policyholders drive their vehicles."**
>
> — Jim Levendusky, Vice President of Telematics, Verisk Insurance Solutions

Solutions now in development will match drivers and past vehicle identification numbers (VINs) in connected-car databases, so insurers can prefill accurate mileage estimates at the point of sale.

Verisk client experience with mileage leakage recovery shows an overall average ROI of 7:1 for the first year. Pursuit for mileage leakage has been concentrated in California, where the state requires insurers to use mileage as a rating variable and confirm mileage adjustments using two-way outreach. The ROI for this component can be lifted by increasing the granularity of the mileage bands used in rating, in combination with aligning the numbers with actual mileage.

Industry Trends

Concerned about Mileage?

Top 25 insurers are most concerned about underestimated mileage compared with three other sources of leakage—unrecognized drivers, garaging, and violations—while those below the top 100 are least concerned. Why the disparity?

	Top 25	26–100	101+
Have mileage programs[27]	92%	54%	24%
Concern rank[28]	1st — Most concerned	3rd — Middle of the road	4th — Least concerned
Potential reasons	- More have a program - More handle in-house - Inaccurate self-reported mileage - Weakest link among leakage programs	- Half have a program - Most likely to outsource - May exclude mileage as a rating factor or use fewer, broader mileage bands	- Fewer have a program - Cost-prohibitive - May exclude mileage as a rating factor or use fewer, broader mileage

On average, among insurers that have mileage programs, a third of policies are monitored[29], indicating a three-year rotation of mileage surveys or that mileage isn't as rigorously monitored outside of California.

Dimensions of the Problem

A broad, price-based approach to shrinking margins may be falling short; premiums for personal auto insurers grew 5.5% in 2015, not enough to offset rising losses, while premiums spiked in 2016.[30]

57% of policies undergo mileage band adjustments—up or down—when using outreach to verify mileage.[31]

Primarily as a result of an increase in miles driven, non-bodily-injury claim frequency is rising to prerecession levels, squeezing auto insurers' margins.[32]

Verisk research indicates that despite the importance of mileage as a rating variable, insurers tend to drop mileage or use mileage rating bands that are too wide due to the challenges of measurement.[33]

Best Practices

Explore the technology

As vehicles capture data on when, where, and how far they're driven, consider solutions that harness those capabilities and other technologies, such as mobile apps, to provide guaranteed accurate mileage.

Narrow the bands

Many insurers divide policyholders into broad mileage bands—as few as two in some cases. But a 2009 study by Verisk showed the value of more and narrower bands: The lowest annual mileage grouping of 0–3,000 miles had 44% fewer claims than the average for the total portfolio studied, while the highest mileage band of more than 20,000 miles had 28% more claims than the average.[34]

Know your data

If the distribution of policyholders across mileage bands doesn't make sense or you're seeing adverse selection, dig into it. You may be able to lower rates for many drivers while collecting the right premium for the highest mileage.

Frame the follow-up

Instead of accusing a policyholder of underreporting mileage, show interest in the life events that may have triggered a change.

Use skilled outreach

Work with a partner that specializes in contacting customers and has information already in hand for the policyholder to validate.

Innovations

There's no one-size-fits-all answer to the mileage issue, and solutions tailored to the individual insurer may be needed in many cases. But capturing accurate mileage lends itself to data-driven models and technological tools that compensate for the human factor while empowering and reassuring policyholders.

- Vehicle telematics and connected cars offer another window on actual vehicle mileage, providing efficient, accurate, no-touch solutions.
- Capturing an image of the odometer—for example, by using a smartphone app—ensures that the customer and insurer both have the same, undisputed information.
- An insurer's efforts to extract mileage information may get no response from the policyholder, and a simple extrapolation of historical data won't do. But a specialized partner can use what's already known about the policyholder's changing lifestyle and household to model reasonable estimates of annual mileage and follow up with skilled outreach.

Garaging

Auto premium lost to garaging misrepresentation is estimated at nearly $3 billion a year.[35] Verisk client model analysis found more than 10% of policies had verifiable garaging address defects, ranging from no verifiable match at the given address to cars reported as garaged at check-cashing facilities and prisons.[35]

It's not always intentional fraud, however. In some cases, it's a matter of a policyholder who's signed up for paperless services and forgets to notify the insurer of a move.

Agents looking to do their customers a favor and keep their business may participate, for example, by misrepresenting the agency's address as the garaging location. The actual location, meanwhile, is subject to much greater loss experience and should be charged a higher rate. Misrepresentation often crosses state lines; for example, a vehicle insured in Gary, Indiana, but garaged in Chicago may generate as much as 35% less premium than it should.[36]

For areas with high premium, the risk of garaging fraud can have a substantial cumulative impact.

> **"We estimate the annual value of garaging misrepresentation to the industry at $32.5 million in lost premium for the Miami area."[37]**
>
> — Gloria Guntinas, Senior Product Manager, Verisk Insurance Solutions

Mistakes and Misrepresentations

Garaging errors come about in various ways—some accidental, some not.

Unintentional

Snow birds
Nearly 1.5 million people spend the winter in Florida.[38] A similar shift affects the West and Southwest.

College students
Roughly 1 million U.S. students each year are returning sophomores from out of state.[39] This is usually their first year with a car on campus.

Moving
When policyholders move, insurers often update the billing address but not the garaging address. More than 7.5 million people a year move out of state.[40]

Deliberate

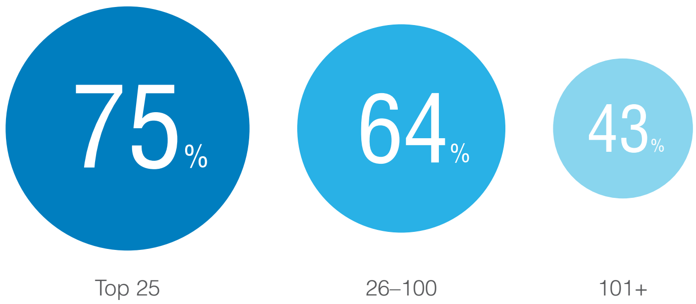
Agents
Insurers occasionally find disproportionate numbers of claims with garaging issues coming from specific agents, who may have abetted the misrepresentation to lower the premium and keep the commission.

Consumers
Some people deliberately falsify addresses to save money, and they may escape notice because they're not otherwise high-risk drivers. Consumer surveys show growing acceptance of insurance fraud.

Industry Trends

The Verisk premium leakage survey found wide variation by insurer size in the use of programs to address leakage as it relates to garaging.

Insurers That Have Program to Address Garaging as a Source of Leakage



Source: *2016 Verisk Auto Insurance Premium Leakage Survey*

Approaches to garaging-related leakage vary: Of those with programs, 78% in the top 25 handle garaging programs in-house. Nearly nine out of ten midsize insurers outsource aspects of their garaging programs, while only 44% of those below the top 100 outsource. On average among those with programs, 56% of policies are monitored for garaging inaccuracies.[41]

Dimensions of the Problem

>10% of policies have some type of garaging discrepancy.[42]

4% of policies have a misstated ZIP code.[43]

>100% is the average experiential loss ratio for policies with the following garaging characteristics:

- The address is a state or federal detention facility.
- The policy telephone area code does not correspond to the input area code.
- The driver's license or vehicle registration is out of state.
- The address is a check-cashing outlet (among nonstandard insurers).
- The address is a hotel or motel (among nonstandard insurers).[44]

Best Practices

Work with a partner that digs into the data Credit headers, MVRs, marketing data, and vehicle registrations can help determine whether the address is a legitimate residence.

Watch the ZIP code In municipalities with multiple ZIP codes, be certain you have the right one for the address to ensure proper rating.

Don't ignore the phone number If the area code and exchange of the policyholder's landline phone number don't place it somewhere near the given address, it may represent a problem.

Identify alternative garaging potential Compare work and garaging addresses; consider multiple or vacation homes; look for school addresses (where college students are involved); weigh urban on-street parking versus covered garages.

Watch the hot zones Pay special attention to target territories where misrepresentation is high, such as New Jersey versus Pennsylvania or New York, or Maryland and Virginia versus the District of Columbia.

Tap into technological innovations Knowing where the car spends the most time will help you price risks accurately. And sophisticated technologies and analytics can do the heavy lifting for insurers.

Reach out When possible garaging misrepresentation is found, contact the policyholder—and consider doing so through skilled third-party outreach that lessens the risk of alienating a desirable customer.

Innovations

Insurers can use license plate recognition technology combined with geospatial data to reveal clusters of sightings to validate garaging addresses.

This can:

- help price policies and renewals more accurately
- confirm commuting mileage
- spot red flags that need further investigation
- recover premium where loss costs differ between a vehicle's actual and claimed locations

Vehicles

Premium leakage not covered in previous chapters accounts for $4.1 billion annually. Much of this category relates to vehicle characteristics such as misrepresented commercial use, ownership, prior total-loss vehicles, and vehicles that are deemed beyond their mechanical limits.

Business use of a personal vehicle changes the risk profile: Pricing no longer reflects the added exposure, and premium is lost. An at-home day care provider may neglect to mention that the family minivan is used to transport children every day for the business, or the policyholder may not indicate construction and landscaping vehicle use.

Misstating ownership interest is another form of rate evasion. Generally, policyholders insure vehicles they don’t own to acquire insurance for otherwise uninsurable drivers—possibly due to a DUI—or those with driving records so bad that insurance is too expensive. Individuals—often recent immigrants—who lack the credit history to buy a vehicle may use services that retain title to the vehicle while the driver uses it, obscuring the true risk.

Title defects, or title “branding,” involves vehicles with overall mileage exceeding their useful life or that have been totaled in the past, are flood damaged, or have other issues. Such vehicles often don’t operate to proper specifications, and they generate significantly higher claim frequency. Fraudsters also like to use these types of vehicles to “stage” claims.

The high percentage of title defects may reflect the recent history of weak economic growth, which left a large percentage of the population underemployed or unemployed. Meanwhile, state governments facing budgetary constraints don’t communicate as they have in the past. This enables dishonest vehicle wholesalers to purchase flood-damaged and totaled vehicles, then ship them out of state to be retitled without disclosing the prior title branding.

Dimensions of the Problem

1% or more of personal lines policies lose premium through hidden business use.[45]

8% of all policies have some level of ownership misrepresentation. These policies’ loss ratio is more than double that of all policies studied.[46]

9% of vehicles studied have title defects or title “branding.”[47]

5x Higher average claim severity is seen in vehicles that combine title defects with misstated ownership interest over vehicles with no title defects, although this combination is rare.[48]

Best practices

Use registration data It can be an effective indicator of vehicles being used for commercial purposes.

Leverage professional licensing databases These can suggest potential business use of a vehicle.

Check the bill of sale It can help determine who really owns the vehicle.

Check the title history It may take more than current registration data to determine whether a vehicle should have a branded title—or already has one in its past.

Validate proper vehicle rating elements The correct year, make, model, and safety equipment are important to verify appropriate discounts, which can be over- or underapplied by agents. Nonfactory modifications such as handicap equipment, custom wheels, hydraulics, or turbochargers may cause insurers to reject a risk or charge more.

Keep it clean The long alphanumeric strings of vehicle identification numbers are prone to transcription errors; in Verisk's experience, at least 5% of VINs may be invalid. Practice good data hygiene and pay attention when a VIN is flagged.

Innovations

A number of methods can help flag discrepancies around the use and title status of vehicles and get a more precise picture of each vehicle.

- VIN matching can identify vehicles with current branded titles as well as those that may have been retitled in another state in an attempt to hide past defects. VINs also point to each vehicle's mechanical limits in terms of mileage.
- Corroborated household data can tie together vehicles, drivers, addresses, and coverages, which in turn can highlight issues that warrant further investigation.
- Reliable access to actual build sheet data opens a new window on year, make, and model information as well as safety equipment installed on individual vehicles.

Life Events and Discounts

No matter how much an application is scrutinized at the point of quote, life events bring the potential for premium leakage during the life of a policy. Policyholders marry, divorce, change jobs, move, and have children reaching driving age. An effective program to address missing premium needs a renewal component to capture changes that may warrant up-charges or the application or removal of a discount.

4 out of 10 policies change drivers, vehicles, or address each year[49]

Discounts provide ways to recognize favorable risk indicators, reward good driving, and attract business through affinity groups, employers, or organizations. But some drivers misrepresent themselves—for example, as married when they're single—or don't tell their insurer or agent when conditions that qualified them for a discount have changed. Many discounts can be readily verified through skilled outreach—and with the right information, new discounts can be identified and applied, solidifying the customer relationship.

Best Practices

Follow the demographics

A robust marketing database combined with sophisticated analytics can reveal education levels, employment, household demographics, marital status, family changes, youthful drivers, and other factors that point to eligibility—or not—for many discounts.

Cast a wide net

Credit header statistics, marketing sources, and state database "wallet" data can identify life event changes that can be addressed at renewal.

Innovations

The same analytics that improve underwriting and rates at point of sale can be applied throughout a policy's life cycle to monitor changing households and risk profiles, ensuring that prices and coverages remain appropriate.

- These tools not only help identify premium leakage but also help insurers manage relationships with valuable customers in a way that encourages and rewards loyalty and risk avoidance.

Are We There Yet?

If 70% of insurers are monitoring leakage and roughly 85% of those are doing so at point of sale and renewal, why is the magnitude of the problem still so large?

The issue, which cuts across insurers of all sizes, is one of degree in terms of precision, certainty, quality, alignment, and the temperature of the spin cycle (we'll explain in a moment…). The solution begins with data-driven insight.

Precision
Measuring premium leakage can be difficult, especially when relying on policy-holders to supply difficult-to-measure data. Insurers may also miss pricing errors by monitoring only a portion of their book to cut transaction-based data expense. And some insurers target leakage selectively, not rating for variables such as mileage or not collecting data on violations, for example.

The good news is that innovative data sources and sophisticated analytics can yield a more complete and accurate picture to identify missing premium and measure the ROI of capturing it.

Certainty
Insurers may surrender missing premium for fear of losing policyholders, but sometimes the benefits of pursuit may outweigh the lifetime value of nonpursuit.

The beauty of data and analytics is they can help prioritize pursuit toward the highest risks and start a virtuous feedback loop that enables insurers to predict the outcomes of their choices. A knowledgeable partner can help to increase certainty over time.

Quality
As insurers field more applications from third parties, sources of premium leakage can enter, such as prefill from unverified sources. On the flip side, internal sources not guided by best practices may degrade the policyholder experience.

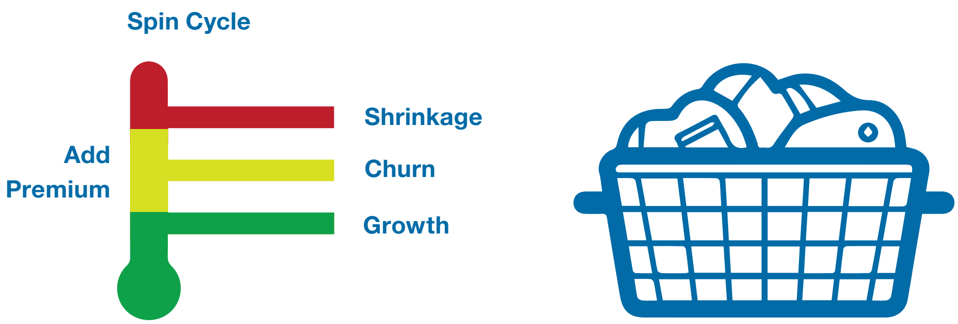
Data and analytics coupled with skilled, neutral third-party outreach can lead to a better customer experience by keeping interactions focused and professional—and avoiding those that are unwarranted.

Alignment
As insurers rely more on others whose goals aren't directly aligned, sources of premium leakage can enter, such as agents that may be less interested in pursuing identified missing premium.

Here again analytics and a neutral third party can quantify the underlying ROI and guide decisions that are in the insurer's best interest.

The Spin Cycle

Working to acquire profitable business but not keep it is only half a strategy. The traditional approach to premium leakage—trusting that it will “come out in the wash”—is analogous to a trip to the laundromat without enough quarters.



To run fewer loads and save money, everything is washed together, like a basket of risks with varying types and degrees of pricing errors and some that are perfectly “clean.” As long as the temperature is low (i.e., modest price adjustments), everything comes out—on average—relatively unscathed.

But times are changing; four trends are converging to create a new reality for insurers:

1. Increasing claim frequency and severity is squeezing margins[50] (www.verisk.com/frequency-severity).
2. Application integrity claim has eroded by more than 15%[51] (verisk.com/application-integrity).
3. The industry recently experienced the largest monthly spike in rates in the past 13 years[52]—driving perceptions of commoditization and increased shopping behavior.
4. Only one in five premium dollars belongs to insurers that are growing profitably.[53]

> **“Insurers that employ enlightened strategies will gain competitive pricing and market-share advantages, while those that stay in the ‘spin cycle’ are threatened with adverse selection and churn of their best risks.”**
>
> — Neil Spector, President, Verisk Insurance Solutions

A Way Forward

Premium pursuit should be more than a short-term quest for missing revenue. It can be part of a long-term strategy to keep profitable business and remediate or remove policies that are only costing you money. Quality retention grows more important as shopping behavior intensifies and new business becomes more elusive. Innovations and best practices help group like with like for the cleanest “wash.”

The key to balancing the competing priorities of underwriting integrity and growth in today’s environment is tailored retention—more than just benign apathy toward policyholders. Customers may already feel squeezed for more premium or challenged on their integrity; thus, the pursuit of leakage can be perilous. An independent agent might sooner shop the coverage than grill a client—especially if the agent manipulated the suspect information. An underwriter may not have the right approach with a customer. But a human touch from the insurer or a third party, backed by powerful data analytics, can safeguard customer relationships.

Outreach can go beyond seeking additional premium. A birthday greeting or a simple thank-you to a loyal, claim-free customer can lend a positive tone. Guided by predictive analytics, these and other gestures can lessen the consumer’s perception of apathy. Such an approach can replace methods of outreach that feel intrusive and threatening with best practices that optimize satisfaction and retention.

Finding the Keepers

Data analytics can streamline and refine many underwriting tasks. It can also weigh fleeting indicators of premium leakage against valuable customer traits such as good loss experience or opportunities to cross- or up-sell. Through data analytics, many breakthroughs are close at hand or already here:

Prevent and contain premium leakage across the policy life cycle with quality data assets.

More data and analytics up front validate key rating factors while also flagging points for underwriting follow-up at point of sale or renewal.

Verify previously unknowable underwriting information with the help of dependable partners.

New modeling and data-capture technologies reveal factors such as mileage and garaging through connected cars, smartphone apps, license plate recognition, and other innovations.

Build profitable customer relationships on trust and good will.

Data-driven analytics can be used to fast-track the best applicants and show interest in customers at key life milestones.

Go beyond risk financing for your customers.

You can give policyholders more than financial peace of mind through technology: for example, help parents track their teenage drivers' behavior.

Retain good customers with prioritized pursuit of missing premium that avoids false positives.

Data analytics can reveal each customer's fraud risk and lifetime value. The resulting decisions can reduce the risk of driving away valuable customers and increase the return on recovery.

Insurers are known for being late adopters of advanced technology and analytic tools, leaving them vulnerable to competitors that pursue enlightened strategies. But the right partner can bring tailored retention closer to reality through strategic use of granular data analytics. It starts by reaching out. Learn more by registering at the web page below.

Verisk Insurance Solutions is at the forefront of developing innovations that address premium leakage, improve competitiveness, boost profitability, and elevate the customer experience. To solve your premium leakage challenges and reach the next level, visit www.verisk.com/auto-solutions and sign up for our next auto solutions webinar, Precision Tools for Growth, Retention, and Profit.

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