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CASE STUDY

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Tying Risk to Geography Can Help Limit Exposure

Pinpointing the latitude and longitude of an address helps Homesite understand risk, improve CSM and speed up processes. By John McCormack

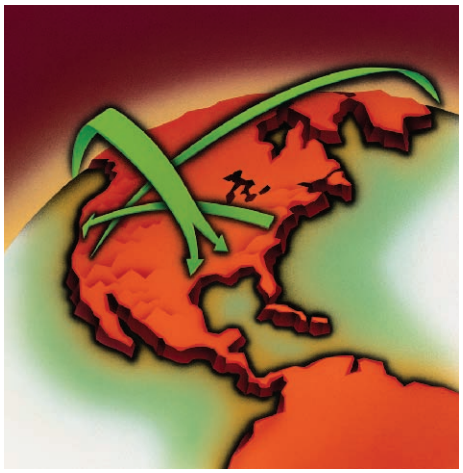
THE FOUNDERS OF Boston-based Homesite Insurance Group came together nearly a decade ago to create a progressive homeowners insurance company. In the quest to make their dream real, they got some help from software that links risk to geography.

Today, Homesite sells in 43 states, and its underwriters evaluate the risk associated with each potential policyholder's address, says one of the founders, Manuel Rios, who now serves as Homesite vice president and chief underwriter. They do it with GeoStan geocoding technology from Group 1 Software Inc., a Pitney Bowes Co. in Lanham, Md.

"We immediately understood the value of knowing where a property is located relative to geographical hazards," Rios says. "We have to have a good handle on geographic concentration and the associated geo-hazards, such as hurricane and brush fire."

Such hazards appear poised to wreak havoc in the near future, according to Karen Pauli, senior analyst, insurance, for the TowerGroup, a Needham, Mass.-based research company.

Californians living along the San Andreas Fault are due for one of the major earthquakes that strike there at 250- to 300-year intervals, she says. Meanwhile,



experts calculate the chance of a major hurricane hitting the United States this year at 81%, she says.

To make matters worse, population is increasing rapidly in parts of the Southeast most vulnerable to hurricanes and portions of the Southwest most susceptible to earthquakes, says Berkley Charlton, director of product management, business geographics for Group 1 Software. In both areas, sprawling subdivisions filled with high-priced houses are going up in areas developers used to deem too dangerous, he notes.

The potential for loss can seem particularly onerous to a company like Homesite, which Rios calls the "Geico of homeowner's insurers." Homesite, mainly a direct channel marketer, sells policies only to homeowners, condo owners and renters.

"With homeowner's, you live and die by natural disaster, so to speak," Rios says. Evaluating the geographic risk associated with certain locations is the single most important aspect of a homeowner's insurance company's underwriting process, he asserts.

The founders determined they needed nothing less than "bleeding-edge" technology to realize their goal of starting a truly progressive company. The trick would be to latch onto the right emerging technology—a challenge often tinged with an element of risk.

"We needed to find a way to use technology that would enable us to build an underwriting process that is high-volume and low-touch," Rios says. "We can't afford to touch every policy and wind up spending half of what we make on underwriting."

Steve Walden, Group 1 vice president and general manager, explained why Homesite chose geotechnology.

"It's common for insurers to use ZIP codes to evaluate risk—but they are created out of convenience for the post office and they change quite frequently," Walden says. "The geocode engine takes an address and immediately figures its latitude and longitude—providing a much more accurate assessment of risk."

In California, for example, many ZIP codes have brush fire hazards, Rios says "The technology allows us to assess if specific addresses within a ZIP code are affected, as opposed to disqualifying the entire ZIP code," Rios says.

The most detailed view, called point level, drills down to the rooftop of a building or the center-point of a parcel of land, says Group 1's Charlton.

In addition, the system automatically corrects errors customers make when writing down or inputting their addresses, says Walden. Many people, for example, use "Road" when their address should actually read "Avenue."

In fact, about 40% of the addresses provided by customers contain errors, says Charlton. He gives the example of 1400 Westgate Way somehow changing to 1400 W. Gateway or some other permutation.

The software takes those mistakes into account, and the risk location assessment is therefore computed accurately, says Walden. It's done by conflation—combining data from two sources into a single data set, says Charlton.

The technology also can incorporate business rules, says Charlton, such as "no more than $5 million of exposure closer than five miles to the coast."

That helps spread risk—a vital pursuit, according to TowerGroup's Pauli. Despite insurers' excellent results for 2006, when no huge disasters struck, reninsurers are not relaxing requirements for spread of risk, she says. Rating organizations aren't backing off, either, she adds.

The system also improves the underwriting process, Rios says. "In the old world, the customer would come in and the agent would write down their address," he says. "Then the agent would go look at the home and take a picture and submit the application. The underwriter would then make a ZIP-code-based hazard assessment.

Manuel Rios — Homesite Insurance Group

"With the technology in place, the process takes just seconds," Rios says.

Quick processing allows Homesite to qualify applicants immediately. This proves especially helpful when the insurer is trying to land a customer who is researching policies online.

CUSTOMER SERVICE

While helping Homesite assess risk and improve underwriting, geocoding also boosts customer service, says Rios.

During the California brush fires of 2004, for example, Homesite used the technology to locate fires and locate insured properties, enabling the carrier to warn customers when the flames were advancing toward their houses.

"We let them know they may be impacted [by the fires] and provided advance living expenses to those customers in the affected zones," Rios recalls.

After the Sept. 11 attack, Homesite representatives used the technology to call apartment dwellers living close to the World Trade Center to provide assistance.

Improved processes bring financial benefits, Walden says. "It's a cost savings for insurers because [fewer] people have to interact with the policy," he says. "Plus, agents are able to convert interested customers to policy holders in real time. It's important because then the potential customers don't have time to continue to shop."

And what does it mean to Rios? "It's all about balance," he says. If insurers underestimate risk, he notes, they lose money paying high claims settlements. Yet, if they overestimate risk in a geographic zone, they prevent growth.

Evaluating the geographic risk associated with certain locations," Rios says, "is the single most important aspect of a homeowner's insurance company's underwriting process." **INN**