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A newsletter from Lighthouse Consulting, LLC
Keeping you off the rocks

A break from COVID news. Mostly

There seem to be more webinars during this quarantine, and thankfully, some are not about COVID. I viewed a few related to use of third-party data in property underwriting.

Back in the good old days...

OK Boomer. Producers submitted applications with COPE data. Third party data was limited to vendors like ISO who provided basic data such as public protection. Application data was validated by inspections.

Nowadays...

Third party vendors provide detailed location level data. Data vendors can supply most of the application information by just having a street address. One company had a data scientist, who reported they had 30+ data sources. But gathering data is just the start. Machine learning and AI are being used to identify loss drivers. Algorithms are used to set selection and pricing targets.

And it is efficient

Pre-filling COPE data on underwriting systems saves a lot of time. No need for assistants to search for data. Cat models can be quickly populated, presenting the underwriter with pricing metrics. Fire rating is more efficient.

So, what's not to like?

I wouldn't be an auditor if I didn't point out some limitations.

Works best on Homeowners

The quality and quantity of data are better on relatively homogeneous risks in urban and suburban areas. Data on dwellings in rural areas tend to default to less accurate zip or county level data. Small commercial has fewer data sources and large commercial even less.

Inspections?

There is a cost to acquiring data and the tradeoff is in the number and scope of inspections. An above average risk according to the algorithm may not be inspected. Average risks may be inspected for the presence of hazards. Data validation is not usually part of the inspection. Companies know third party data is not always accurate, but it is accurate enough.

Still early days

Algorithms are tweaked to improve selection so this is a work in progress.

Conclusion

Data vendors are here to stay. I'm a little concerned that dwelling inspections are not as thorough and will be very concerned if that spills over into commercial lines.