PROPERTY INSURANCE REPORT

The Authority on Insuring Homes and Commercial Property

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INSIDE

THE GRAPEVINE

Aon Homeowners Study: Reinsurance Levels Playing Field For Small Insurers

Aon released its annual report on the return on equity (ROE) in homeowners insurance last week, for the first time breaking out national insurers from smaller carriers focused mostly on a single state. While Aon's analysis found that the ability of large, diversified insurers to utilize their own capital provided a clear advantage over small monoline insurers reliant on reinsurance, the gap was not dramatic, helping to explain the ability of small insurers to remain competitive.

Because of wide variances in state experience, Aon took its analysis to that level rather than evaluating only national results. Look-

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Insurers Navigate Catastrophes To Pursue Riches Among the Rich

Despite high catastrophe losses in recent years, insurers are finding ways to feed their hunger for growth in the high net worth market. That point was made loud and clear by the announcements this month that **Tokio Marine Holdings, Inc.** is buying **Privilege Underwriters, Inc.**, the holding company for high net worth personal lines insurer **PURE**, from its private equity investors for $3.1 billion and that **AIG** is launching a **Lloyd's** syndicate to extend its already deep roots among the ultra rich, writing up to $1 billion in new premiums.

Ross Buchmueller, CEO, PURE

PURE has grown organically by more than 20% in each of the past 13 years, with premiums pushing past $1 billion this year. Tokio Marine executives expect PURE to continue its trajectory as the high net worth segment grows faster than the rest of

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Growing Availability of Address Stability Data Adds New Angle To Homeowners Underwriting

New advances in data mining, and a willingness to invest in data enhancement, are empowering insurers to include the length of time a customer has lived in a home as an important new component in homeowners underwriting and pricing. The efforts are in their infancy – few carriers have fully implemented address stability as yet – but a number of companies are deep into testing, and early returns suggest it is worth the trouble.

Home insurers have known for years that the longer a customer stayed with the same insurer, the better for the

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ADDRESS STABILITY *Continued from Page 1*

insurer. In addition to spreading acquisition costs over more years, customers who stayed with the same insurer over time also tended to make fewer claims.

Home insurers have long suspected that similar trends would be true for how long a customer stayed in their own home. First of all, a customer who does not move very often tends not to shop as often, since moving is a major catalyst to shop. That helps with insurance tenure. Additionally, someone who stays in a home for a long time tends to invest in that home more than someone who stays only briefly before moving on. The greater attention to the home results in fewer problems as systems and appliances are maintained and replaced more often and more thoughtfully.

The problem in acting on this belief is that measuring address stability has proven difficult for homeowners insurers. Public data exists, but it tends to be reliable in the short term – perhaps up to three years – but it is less reliable for the longer time periods required to predict homeowners insurance losses. Auto insurers have been using address stability for some time, often relying on self-reported data, because knowing someone has been stable for two or three years is enough data to be predictive of lower auto insurance loss costs compared to someone moving all the time. For home insurers, however, experience has shown that address stability data needs to reach back at least seven years to be predictive of loss experience.

The most obvious way to get at this longer-term data is to simply ask the customer. Self-reported data is hardly perfect, but it can be accurate enough to deliver a modest benefit. However, in addition to its less than perfect reliability, customer-reported data requires the insurer to ask yet another question of a customer. Home insurers are working furiously to reduce the number questions being asked at the point of sale, or even upon renewal.

A second solution has been to use the most rudimentary public data, and accept its limitations.

The fact that address stability has not become a widely adopted tool for underwriting and pricing homeowners insurance among companies that use it for auto insurance suggests that for homeowners insurance imperfect data is not, in fact, better than no data at all.

And that begs the question: Would the insights achieved from a better data set for address stability be worth the money and effort required to build it? **LexisNexis**, in the business of selling more data, was obviously game to study the question. Eleven insurers participated in a LexisNexis study to assess the challenge of gathering the data, and then to assess the value. The carriers contributed data from 2014 to 2018 on 4.7 million exposures written on the traditional HO-3 single-family home policy form. Catastrophe losses were included.

The next step was for LexisNexis to spend the time and money to cross-reference all the possible data sets to develop a reliable measure of address stability reaching back seven years or more.

Finally, the group had to collectively develop a model that ensured they weren't double counting the weight of other factors, especially age. It stands to reason that young people have less address stability, and older people more.

The resulting index of insurance stability, or consistency, was a clear lift for underwriting, and created greater opportunities for pricing accuracy. By combining insurance tenure with address stability, a number of scenarios unfold:

• Customers who have long tenure with their insurer and long address stability perform better than customers with just long insurance tenure. If an insurer sees this in their own book of business, they would be wise to work aggressively to maintain the customer. If an insurer sees these customers in the marketplace, they would be

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***HIGH NET WORTH** Continued from Page 1*

the overall personal lines market.

Ross Buchmueller, a pioneer in the market who founded PURE after leading the high net worth business at **Chubb** and AIG, will continue to lead the organization as an independent operating unit within the Tokio Marine Group.

AIG intends to start writing new business for its ultra high net worth clients through Lloyd's Syndicate 2019 in January, pending regulatory approvals. The syndicate will be managed by **Talbot Underwriting Limited**, the managing agency acquired by AIG in 2018. AIG recently hired **Kathleen Zortman** as CEO of AIG Private Client Group. She had been president for property/casualty of **QBE North America** and chief field executive at **Fireman's Fund**.

Kathleen Zortman, CEO, AIG Private Client Group

These deals continue the rapid pace of mergers, acquisitions, and new players entering in the space since 2015, when **Ace**

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Chubb Ltd.

Homeowners Multiperil Insurance By State 2018 (000)

State	Written Premium 2018	Market Share 2018	Group Loss Ratio 2018	Industry Loss Ratio 2018	Written Premium 2017	Market Share 2017	Group Loss Ratio 2017	Industry Loss Ratio 2017	Premium Change 2017-18
New York	$610,344	11.3%	86.4%	55.8%	$597,227	11.2%	53.2%	42.8%	2.2%
Florida	$274,280	2.9%	20.8%	103.3%	$268,774	2.9%	113.5%	93.0%	2.0%
California	$239,097	2.9%	267.5%	175.7%	$235,034	3.0%	332.9%	200.8%	1.7%
Texas	$193,207	2.0%	31.0%	44.6%	$182,033	2.1%	176.1%	80.3%	6.1%
New Jersey	$183,071	6.6%	79.8%	55.4%	$189,442	7.1%	35.5%	38.8%	-3.4%
Massachusetts	$161,243	6.6%	52.5%	44.5%	$157,152	6.6%	17.8%	31.7%	2.6%
Connecticut	$158,953	10.4%	76.7%	67.6%	$161,224	10.9%	27.7%	35.9%	-1.4%
Pennsylvania	$105,792	3.1%	101.3%	59.1%	$104,223	3.1%	36.4%	43.9%	1.5%
Illinois	$81,398	2.2%	93.7%	66.7%	$79,290	2.2%	61.0%	81.5%	2.7%
Colorado	$76,523	3.1%	185.7%	127.2%	$69,302	3.0%	71.3%	83.7%	10.4%
Georgia	$56,472	1.7%	93.8%	74.5%	$54,963	1.8%	40.8%	75.1%	2.7%
Maryland	$48,010	2.6%	98.6%	90.8%	$46,104	2.6%	43.6%	52.5%	4.1%
Virginia	$43,596	1.9%	115.9%	77.0%	$44,046	2.0%	40.8%	59.4%	-1.0%
Minnesota	$41,242	1.9%	99.0%	58.4%	$39,122	1.9%	85.5%	89.4%	5.4%
Arizona	$32,892	2.0%	94.7%	62.4%	$32,344	2.0%	47.8%	48.0%	1.7%
Missouri	$31,964	1.5%	95.6%	44.4%	$30,532	1.5%	95.9%	66.3%	4.7%
Washington	$31,737	1.7%	109.1%	53.2%	$29,764	1.7%	66.0%	55.8%	6.6%
Louisiana	$30,936	1.6%	45.0%	34.9%	$32,448	1.8%	29.3%	33.3%	-4.7%
Michigan	$30,023	1.1%	114.4%	50.5%	$30,043	1.1%	92.6%	53.9%	-0.1%
North Carolina	$30,021	1.1%	98.2%	93.6%	$29,117	1.1%	92.0%	49.4%	3.1%
Tennessee	$26,845	1.3%	60.8%	46.6%	$26,574	1.3%	59.5%	53.6%	1.0%
Ohio	$26,812	0.9%	96.8%	45.8%	$26,777	0.9%	78.3%	48.7%	0.1%
South Carolina	$26,238	1.5%	39.6%	41.8%	$27,045	1.6%	20.3%	43.4%	-3.0%
Oklahoma	$23,665	1.4%	71.4%	35.4%	$23,144	1.4%	40.7%	45.2%	2.3%
U.S. Total	$2,829,447	2.86%	91.9%	72.4%	$2,774,843	2.95%	87.5%	73.5%	2.0%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio is incurred losses as a percentage of direct premium earned and does not include dividends or loss adjustment expense.

HIGH NET WORTH *Continued from Page 3*

bought Chubb and the personal lines business of Fireman's Fund and rebranded them under the Chubb name – essentially cutting the number of major insurers in the space in half. The consolidation coincided with faster post-recessionary growth at the top of the economy than the middle and bottom, creating a big opportunity in a niche that has only seen about 20% penetration by high net worth carriers, according to estimates from segment leaders.

The U.S. high net worth market ranges from $20 billion to $40 billion in premiums, according to estimates from **Dowling and Partners**. Of that, Chubb has an estimated 17% of the market, with AIG at 5% and 3% for PURE.

Here's a recap of developments in the high net worth market:

Will Van Den Heuvel, SVP, Cincinnati

• In 2014, **Cincinnati Insurance** brought in longtime Chubb and AIG Private Client vet **Will Van Den Heuvel** to lead its expansion in the market, adding high net worth programs to 12 states including **California**, **Massachusetts**, **New York**, **New Jersey** and **Texas**.

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PURE Group

Homeowners Multiperil Insurance By State 2018 (000)

State	Written Premium 2018	Market Share 2018	Group Loss Ratio 2018	Industry Loss Ratio 2018	Written Premium 2017	Market Share 2017	Group Loss Ratio 2017	Industry Loss Ratio 2017	Premium Change 2017-18
Florida	$91,709	1.0%	58.9%	103.3%	$81,753	0.9%	53.4%	93.0%	12.2%
New York	$77,829	1.4%	59.4%	55.8%	$66,187	1.3%	33.3%	42.8%	17.6%
Texas	$52,717	0.6%	62.4%	44.6%	$43,238	0.5%	98.8%	80.3%	21.9%
California	$33,135	0.4%	156.5%	175.7%	$22,243	0.3%	164.3%	200.8%	49.0%
Massachusetts	$32,018	1.3%	48.7%	44.5%	$25,781	1.1%	22.9%	31.7%	24.2%
South Carolina	$28,819	1.6%	29.0%	41.8%	$26,380	1.6%	31.6%	43.4%	9.2%
Connecticut	$22,753	1.5%	84.6%	67.6%	$19,703	1.3%	38.7%	35.9%	15.5%
Louisiana	$18,977	1.0%	15.9%	34.9%	$16,462	0.9%	27.6%	33.3%	15.3%
North Carolina	$15,966	0.6%	163.4%	93.6%	$13,923	0.5%	38.0%	49.4%	14.7%
New Jersey	$14,528	0.5%	93.8%	55.4%	$12,898	0.5%	45.0%	38.8%	12.6%
Georgia	$12,822	0.4%	55.6%	74.5%	$9,550	0.3%	67.7%	75.1%	34.3%
Illinois	$10,824	0.3%	51.8%	66.7%	$9,099	0.3%	105.3%	81.5%	19.0%
Alabama	$10,005	0.6%	67.8%	63.7%	$8,664	0.5%	90.7%	54.6%	15.5%
Tennessee	$7,831	0.4%	48.2%	46.6%	$5,830	0.3%	81.2%	53.6%	34.3%
Washington	$7,822	0.4%	56.5%	53.2%	$5,372	0.3%	71.2%	55.8%	45.6%
Colorado	$7,645	0.3%	81.8%	127.2%	$5,803	0.3%	60.4%	83.7%	31.7%
Rhode Island	$7,373	1.8%	62.7%	55.3%	$6,230	1.6%	14.5%	40.0%	18.3%
Pennsylvania	$7,371	0.2%	57.5%	59.1%	$5,864	0.2%	52.6%	43.9%	25.7%
Oklahoma	$7,101	0.4%	34.6%	35.4%	$5,959	0.4%	45.5%	45.2%	19.2%
Maryland	$6,871	0.4%	160.5%	90.8%	$5,729	0.3%	42.4%	52.5%	19.9%
U.S. Total	$548,196	0.56%	65.8%	72.4%	$548,196	0.48%	58.4%	73.5%	0.0%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio is incurred losses as a percentage of direct premium earned and does not include dividends or loss adjustment expense.

HIGH NET WORTH *Continued from Page 4*

• **W.R. Berkley** announced its high net worth brand, Berkley One, in 2016, and it is now offered in 11 states. In April, Berkley started offering private flood coverage for home insurance clients in **Minnesota** and **Wisconsin** and its wildfire response service in Texas.

• This year, **Hanover** expanded its Hanover Prestige to all of its personal lines markets for home, auto and condominiums.

• Last year, several AIG alumni launched **Vault** in St. Petersburg, **Florida**. Vault is not yet writing in California, though the state is on its list for upcoming expansion, said CEO **Charles Williamson**.

• In 2015, Nationwide rebranded its high net worth program from **Crestbrook** – the subsidiary that writes the business – to Nationwide Private Client.

The expectation for growth in the high net worth segment continues even while many insurers in the space tighten underwriting guidelines, take a closer look at capacity, spread their geographic footprint and shift some business to surplus lines. Major catastrophic events in 2017 and 2018 underscored the high-risk, high-reward nature of a market with a concentration of homes in areas prone to wildfires, hurricanes and catastrophic hail damage.

Charles Williamson, CEO, Vault

Jim Kane, SVP, USI Services

"Some folks that have rushed into this have screeched the breaks on it," said **Jim Kane**, senior vice president of personal insurance for broker **USI Services**. He added that companies that were hit hardest on the coasts are looking to write more premium in the middle of the country to balance their books. At the same time, they can't leave behind the biggest high net worth market in the country – California – even when the state's five costliest wildfires occurred in the last two years.

The size of the California market can be a blessing in this regard, Buchmueller said in an interview before the Tokio Marine deal. Estimated to represent 20% to 30% of the high net worth market, California's size means insurers have the ability to be selective.

"We don't need to pursue any high-risk business," Buchmueller said. "The market far

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Tokio Marine

Homeowners Multiperil Insurance By State 2018 (000)

State	Written Premium 2018	Market Share 2018	Group Loss Ratio 2018	Industry Loss Ratio 2018	Written Premium 2017	Market Share 2017	Group Loss Ratio 2017	Industry Loss Ratio 2017	Premium Change 2017-18
Hawaii	$39,257	9.8%	66.8%	47.0%	$36,632	9.6%	82.1%	32.8%	7.2%
California	$10,753	0.1%	29.8%	175.7%	$10,519	0.1%	30.2%	200.8%	2.2%
Florida	$1,314	0.0%	32.9%	103.3%	$0	0.0%	na	93.0%	na
Alabama	$138	0.0%	10.4%	63.7%	$0	0.0%	na	54.6%	na
U.S. Total	$51,672	0.05%	58.2%	72.4%	$47,151	0.05%	70.3%	73.5%	9.6%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio is incurred losses as a percentage of direct premium earned and does not include dividends or loss adjustment expense.

HIGH NET WORTH *Continued from Page 5*
exceeds what our appetite would ever be. If you know that going in, there is nothing you have to worry about."

The surplus lines market figures to be a growing part of all high net worth insurers' strategies to capture valuable properties in areas prone to elevated risk.

Buchmueller launched a surplus lines business, PURE Programs (a managing general underwriter writing on behalf of a variety of independent insurers) to write high risk properties that exceed PURE's underwriting appetite. It launched in Florida in 2017 and has added several other states in the years since, including California at the end of 2018. Buchmueller said the key is bringing the same white-glove service that comes with its traditional high net worth programs to surplus lines products.

"That business has grown quite substantially for us. We found that the market was a lot bigger than we ever thought it was," he said.

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American International Group

Homeowners Multiperil Insurance By State 2018 (000)

State	Written Premium 2018	Market Share 2018	Group Loss Ratio 2018	Industry Loss Ratio 2018	Written Premium 2017	Market Share 2017	Group Loss Ratio 2017	Industry Loss Ratio 2017	Premium Change 2017-18
Florida	$290,838	3.0%	92.5%	103.3%	$281,509	3.1%	100.5%	93.0%	3.3%
California	$185,624	2.2%	919.4%	175.7%	$178,350	2.3%	306.5%	200.8%	4.1%
New York	$165,048	3.0%	101.6%	55.8%	$165,216	3.1%	72.8%	42.8%	-0.1%
Texas	$59,118	0.6%	45.8%	44.6%	$54,547	0.6%	159.6%	80.3%	8.4%
New Jersey	$44,971	1.6%	105.4%	55.4%	$44,816	1.7%	53.8%	38.8%	0.3%
Massachusetts	$42,955	1.8%	48.1%	44.5%	$42,445	1.8%	27.8%	31.7%	1.2%
Connecticut	$42,172	2.8%	65.5%	67.6%	$38,335	2.6%	32.0%	35.9%	10.0%
South Carolina	$38,648	2.2%	20.1%	41.8%	$39,848	2.4%	13.8%	43.4%	-3.0%
Colorado	$26,018	1.1%	186.1%	127.2%	$23,287	1.0%	53.6%	83.7%	11.7%
Louisiana	$21,441	1.1%	18.5%	34.9%	$20,238	1.1%	25.9%	33.3%	5.9%
Illinois	$16,634	0.5%	46.8%	66.7%	$17,397	0.5%	73.7%	81.5%	-4.4%
Georgia	$15,844	0.5%	60.1%	74.5%	$15,328	0.5%	44.5%	75.1%	3.4%
Virginia	$15,363	0.7%	66.5%	77.0%	$13,777	0.6%	52.9%	59.4%	11.5%
Hawaii	$11,803	3.0%	173.2%	47.0%	$11,416	3.0%	24.1%	32.8%	3.4%
Mississippi	$10,430	1.1%	6.3%	41.1%	$12,871	1.3%	39.2%	47.2%	-19.0%
Rhode Island	$9,874	2.4%	15.9%	55.3%	$9,446	2.4%	27.9%	40.0%	4.5%
North Carolina	$9,528	0.4%	595.3%	93.6%	$10,694	0.4%	18.0%	49.4%	-10.9%
Michigan	$9,122	0.3%	44.9%	50.5%	$8,338	0.3%	29.7%	53.9%	9.4%
Maryland	$8,964	0.5%	152.4%	90.8%	$8,926	0.5%	24.4%	52.5%	0.4%
Washington	$8,552	0.5%	14.2%	53.2%	$7,810	0.5%	24.5%	55.8%	9.5%
Pennsylvania	$8,483	0.3%	84.9%	59.1%	$8,739	0.3%	36.4%	43.9%	-2.9%
Alabama	$7,358	0.4%	18.7%	63.7%	$9,805	0.6%	37.2%	54.6%	-25.0%
Oklahoma	$7,170	0.4%	50.9%	35.4%	$8,292	0.5%	40.3%	45.2%	-13.5%
Missouri	$6,404	0.3%	120.3%	44.4%	$6,301	0.3%	95.5%	66.3%	1.6%
U.S. Total	$1,145,260	1.16%	220.7%	72.4%	$1,116,109	1.18%	107.9%	73.5%	2.6%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio is incurred losses as a percentage of direct premium earned and does not include dividends or loss adjustment expense.

Loss Ratios for California's High-Value Home Insurers

Company	2018	2017
Chubb	267.5%	332.9%
AIG	919.4%	306.5%
PURE	156.5%	164.3%
Cincinnati	496.5%	54.8%
Crestbrook/NPC*	271.6%	799.4%
All Insurers	175.7%	200.8%

*Primary underwriting company for Nationwide Private Client.
Source: S&P Global Market Intelligence

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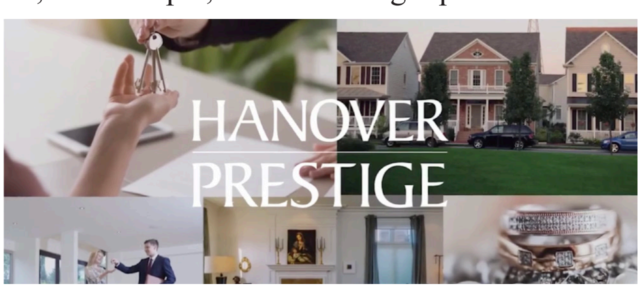
Cincinnati Insurance also expects surplus lines to play a bigger role moving forward, a sentiment echoed by everyone interviewed.

An explosion of new carriers and strategies in the space, even during a time of volatility, illustrates how insurers expect that the factors driving the success of the high net worth segment in the past will continue in the future. A big part of the appeal is that high net worth customers often buy multiple policies across multiple lines of business and often in multiple states. They buy home, auto, umbrella, valuables and collections, watercraft, aviation, cyber, kidnap and ransom coverage as well as coverage for domestic staff.

These customers are also less price sensitive and more service oriented, and they are likely to take steps to protect themselves and their properties, which reduces the frequency of claims.

But not every insurer is equipped to provide the type of service required to meet the needs of a high net worth customer. To insure and protect a large-carat diamond necklace bought in Geneva, for example, an insurer might provide security services and arrange transportation to safely bring the item back to the United States, as well as the proper security and storage back home. Increasingly, the affluent are diversifying their investments into categories such as fine art, and high net worth insurers must have the resources to offer up expert art buying and selling consultants, or the ability to orchestrate complex arts shipments to museums for loans, said **Steve Bitterman**, chief risk services officer at Vault.



Buchmueller introduced many of the innovations, like private fire department service for high net worth customers and other risk management strategies aimed at helping clients avoid loss and feel secure.

The high net worth segment is "growing at a significantly faster rate than the overall economy," he said. "Their needs are complex. Their expectations are high. It's pretty exciting, as an insurer, to play that critical role of helping people feel smarter about risk, and to feel safer in their home and in their life. And to allow them to pursue their passions with much greater confidence."

> ***Competitors can't ignore fire-prone California, the largest high net worth market.***

The high growth potential is tempting but also risky.

AIG, Chubb and Nationwide were all hit especially hard in the recent California wildfires. Neither AIG nor Chubb responded to requests for interviews.

PURE took less of a hit than the industry as a whole, as did Cincinnati in 2017, which was new to high net worth in California and benefited from a lack of legacy business in the state. Cincinnati's loss ratio in the state rose in 2018 as its presence there grew.

Nationwide's heavy 2017 losses in California began just a handful of years after it expanded its

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footprint in the market, doubling the number of states it did business in from 2014 to 2015.

Greg Burns, Nationwide's underwriting and loss control officer, said in an email that the company continues to see the high net worth market grow rapidly due to an emerging population whose wealth is increasing at a younger age and earlier in their career, and the group is underserved by insurers. The company declined to answer questions regarding tightening underwriting guidelines or a changing strategy in response to catastrophe losses in California.

Vault, started by Williamson and longtime colleagues from AIG, including Bitterman and **Stacy Warren** (chief sales and customer experience officer), wrote $13.8 million in premium in Florida and $1.1 million in **South Carolina** in its first year. The group has put a premium on using technology to increase the speed and ease of doing business for both agents and customers.

"We have one benefit of being a startup in that we got to start fresh on everything in terms of systems and process and technology," Williamson said.

Vault has since expanded into New Jersey, **Pennsylvania** and **Connecticut**. By next year, Williamson said the company expects to be in each of the top 20 states for high net worth. Vault already offers surplus lines coverage in every state but California.

Five years ago, insurers and brokers in the high net worth segment created the nonprofit **Private Risk Management Association** (PRMA) to educate participants on strategies to provide better service and solutions and to raise awareness of their expertise in the marketplace. Since its formation in 2014, PRMA has grown to 2,200 members and created a professional development course called the Chartered Private Risk and Insurance Advisor (CPRIA). The 18-month program offers six courses culminating in the CPRIA designation. PRMA Executive Director **Lisa Lindsay** said the program has graduated 600 members.

PRMA
PRIVATE RISK MANAGEMENT ASSOCIATION

Lisa Lindsay, Executive Director, PRMA

The aim is to help participants think of themselves as risk managers, not insurance agents, Lindsay said. "Our curriculum really helps them look beyond product, but also look into the individual, the lifestyle, all of the risks associated with it."

Cyber risk is a growing area of focus. The organization is also guiding its members through the changing risks in California and other regions with heavy catastrophe losses. "We go through cycles like this, and we will continue to go through cycles like this," she said. "So I think we absolutely are seeing a tightening of the market. It's becoming difficult in many instances for people to place risks that are in California."

The focus on risk management helps insurers continue to responsibly write insurance for high net worth clients in high-catastrophe states.

"You want to be able to be presented in the marketplace, you want to be that wildfire risk that doesn't have those Italian cedar trees that go up like matchsticks. You want to be the profile that has that perimeter around the house that's not going to burn. These aren't options anymore," Lindsay said.

"We need to work with clients and our members to make sure that all of these homes and risks are the best, not only for life safety and protection of property, but so that when they're presented to an underwriter, they look at it and say 'Yeah, I'm willing to take a chance.'" PIR

ADDRESS STABILITY *Continued from Page 2*

wise to court them aggressively. If the current insurer fails to recognize the value of the address stability, the challenger could possibly entice them away with a lower price that is actuarially justified.

• Customers with short tenure with their insurer but long address stability – a group that does not get a persistency discount today – also perform better than the average, and would justify a discount. The same approach applies here: current insurers should be defending this group, and challengers should be willing to attack.

• Customers that have long tenure with their insurer but lack address stability – a group that gets a persistency discount today – performed worse than the average customer with long tenure. That means the persistency discount currently being offered is too high, and challengers should be wary of courting the customer too aggressively.

• Finally, customers with both short insurance tenure and short address stability perform worse than the average customer with short insurance tenure, and they should pay a higher price. Current carriers should push up rates for this group, and challengers should avoid them.

After confirming for themselves if the lift from developing address stability data is worth the cost, insurers need to decide whether to build their own address stability data or rely on a third-party data provider. If home insurers start relying on address stability in a big way, expect lots of competitors to arrive on the scene.

The introduction of address stability as an underwriting factor will raise important public policy questions, such as the potential for disparate impact on certain customer groups, which could run afoul of regulators in some states.

But if acquiring address stability data becomes cost-effective and predictive, it seems a good bet that it will become a key part of the home insurance underwriting and pricing process. PIR

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GRAPEVINE

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ing at the combined ratio necessary to achieve a 10% ROE, Aon found that national insurers would need a 95% combined in **Illinois** on a direct basis before reinsurance, compared to 91% for smaller monoline writers. But on a net basis after reinsurance, the combined ratio for national insurers remains 95%, while smaller insurers see their need rise to 94%, a gap too small to be a competitive barrier.

Because of the vagaries of each state's risk profile, the gap varies significantly. In **New York**, for example, reinsurance costs are so high due to hurricane concerns that the net combined ratio needed for small monoline insurers is an almost unattainably low 82%, compared with 92% for diversified national writers.

We encourage you to read the full report, which is available for download from Aon's website: *thoughtleadership.aon.com*. PIR