Usage-Based Rating Will Change Future Automobile Underwriting

In the past 20 years, insurance scoring and predictive modeling have significantly changed the way insurance companies create auto rating and underwriting plans. Usage-Based Insurance (UBI) is the next significant change. Like insurance scoring and predictive modeling, how and where it will be implemented will depend on insurer, regulatory and consumer influences.

Progressive Insurance is an early UBI innovator. Progressive’s MyRateSM program sets premiums based on quality-of-miles. It considers speed, acceleration and deceleration rates along with the time of day the vehicle is driven. GMAC’s Low-Mileage program has taken a different approach, rating only miles driven. In both cases, the impact on consumer premiums can be considerable. Progressive offers discounts as high as 25%, while GMAC discounts as much as 54%.

With large premium discounts available, it is not surprising that using actual telematic data for rating has its proponents and opponents. Generally, all sides agree that better data on the number of miles actually driven is useful for establishing premiums. However, parties disagree on how much and what type of data should be captured.

For example, California recently implemented regulations that will allow insurers to use technological devices to capture actual miles driven. However, the regulations expressly prohibit the devices... ▲ continued on page 2

All Pinnacle Survey Respondents Would Recommend Pinnacle to a Colleague

All clients who took part in the Pinnacle Customer Satisfaction survey in 2008 and 2009 would recommend Pinnacle to a friend or colleague, according to the firm’s 2009 customer satisfaction survey results.

Pinnacle’s clients have consistently expressed that they are very satisfied with the quality of Pinnacle’s work performance. Using a ranking from 1 (dissatisfied) to 5 (highly-satisfied), Pinnacle’s average score was 4.528, up from the previous year’s result of 4.234.

Clients further rated the specific areas of project quality of Pinnacle’s staff and client interactions above 4.4.

Pinnacle also received high marks (about a 4.5 rating) for specific types of project support.

“The survey results clearly demonstrate that Pinnacle’s clients are generally satisfied with our work,” said Pinnacle’s Managing Principal Joseph Herbers. “The results support our philosophy of continuous improvement — especially in customer service.”

To ensure that this has been your experience with Pinnacle, we invite you to complete our brief customer response survey at http://www.pinnacleactuaries.com/feedback. ▲
Usage-Based Rating Will Change Auto Underwriting (continued)

from capturing any other type of data for rating purposes. These new regulations came as a compromise due to consumer privacy issues. (Additional information about California’s UBI program can be found at www.pinnacleactuaries.com/cnNewsFlash.) Other states allow consideration of the quality of miles driven. Last year, Texas approved yet another approach that allows a price-per-mile program where contract coverage is tied to a purchased mileage limit. While some commercial auto insurers do employ telematic data to set rates based on where the vehicle is driven, no U.S. jurisdiction has allowed personal auto insurers to do so. Location continues to be a rating consideration, but it is based on where the vehicle is garaged.

UBI programs will undoubtedly spread across states. Ultimately, they will vary from state-to-state just as insurance scoring. Beyond rating, UBI can open the door to collecting telematic data that influences other areas of insurance, such as decreasing the response times to accident scenes, improving claims processing, enhancing theft recovery and reducing fraud.

For more information, contact Shawna Ackerman at (415) 692-0937 or shawnaa@pinnacleactuaries.com.

Pinnacle Webinars

2010 Schedule

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Pinnacle Expands Brand with New Ads and Website

Over the last year, Pinnacle has expanded our branding efforts by inviting current and potential customers to “Experience the Pinnacle Difference.” Our new advertisement series, as seen in Best Review and Business Insurance, communicate three fundamental facets of the Pinnacle Difference: Extreme service, customized solutions and clear communication.

Early in 2010, we will further these communication efforts by unveiling our new and improved Pinnacle website. By improving navigation functionality, expanding content and creating a fresh new design, experiencing “The Pinnacle Difference” will be easier than ever.

Pinnacle Showcases its Expertise and Thought Leadership

Principal Shawna Ackerman discussed California insurance regulations at the 20th Annual ACIC General Counsel Seminar in August.

Managing Principal Joe Herbers discussed the actuarial impact of income taxes for captives at the Vermont Captive Insurance Association’s conference in August.

Principal Roosevelt Mosley spoke about emerging trends for personal lines insurance at the Chartered Property Casualty Underwriter’s annual meeting in August.

Consultant Sandy Ross and Principal Roosevelt Mosley offered a seminar on homeowners insurance characteristics in September. Sandy also presented, “Are You Tapping Into Your Data Silos?” at the National Association of Mutual Insurance Companies’ annual convention in September.

Consultant Chris Carlson, Casualty Actuarial Society Board Chair, gave an update on CAS issues and its future direction at the Midwest Actuarial Forum in September and to the Casualty Actuaries of Europe in November. Chris’ comments at the American Risk and Insurance Association last year were published in the article, “Florida Homeowners Insurance: How Big Is the Availability Problem and Is There A Fair Solution?” in the fall issue of Risk Management and Insurance Review.

Principal Robert Walling spoke on unique professionalism considerations for self-insured public entities at the CAS Fall Meeting in November. He also participated in a patient safety and medical liability reform forum hosted by Common Good and sponsored by the Robert Wood Johnson Foundation at the National Press Club in Washington, D.C. in December.
Drywall from China the Newest Mega Tort

Sulfur-tainted drywall imported from China is the next mega tort menace for general liability (GL) insurance, with economic loss estimates ranging from $8 billion - $25 billion.

Some 500 million pounds of drywall were imported into the United States due to residential building material shortages stemming from post-hurricane rebuilding in the Gulf Coast and Southeast.

The drywall, when exposed to high levels of heat and humidity, deteriorates electrical wiring, piping and appliances and produces noxious odors that smell like rotten eggs. Some 2,000 homeowners have filed complaints with various regulatory and legislative bodies. Estimates indicate some 100,000 to 300,000 homes have been affected.

GL has been negatively impacted for years by long latent claims from pollution, asbestos and construction defects. Tainted drywall is the next mega tort in line, though we don’t expect it will be at the same magnitude of these others.

However, we do expect the average severity per claim due to the tainted drywall will be much more substantial than the construction defect claims in the past decade.

This is given that remediation may involve replacing all the drywall in affected homes.

Loss ratios for general liability had been declining the past several accident years. In prior years, however, such loss ratios on a calendar year were impacted considerably by reserve additions to prior accident years. Massive reserve additions in 1993 – 2005 were due to long latent claims emergence for construction defect, asbestos and environmental liability claims.

The tainted drywall has been traced to two primary Chinese manufacturers. The problem has already attracted studies by the U.S. Environmental Protection Agency (EPA), the U.S. Consumer Product Safety Commission and the Florida Department of Health.

The trial bar is also paying close attention to this issue and has already attempted litigation in the United States. Foreign manufacturers argue that they are not required to participate in litigation in American courts by virtue of international trade agreements; they maintain the proper venue is the International Court of Justice in The Hague. How severe this may be to the insurance industry is a roll of the dice with the courts.

For more information, contact Joe Herbers at (309) 807-2310 or jherbers@pinnacleactuaries.com.
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Pinnacle News Briefs

Madigan Joins Pinnacle

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To reach Kevin, call (518) 288-0139 or write kmadigan@pinnacleactuaries.com.

Rauner Joins Pinnacle

Peter S. Rauner, FCAS, MAAA, joined Pinnacle as a Senior Consultant and Manager in its new Chicago office. Bringing over 22 years of actuarial experience to Pinnacle, Pete specializes in commercial insurance risks with expertise in healthcare liability and alternative risk markets. Pete has assisted clients with ratemaking, reserving, reinsurance, and regulatory compliance among other services. Pete earned an M.A. in Actuarial Science from Ball State University and a B.A. in Mathematics from Earlham College.

To reach Pete, call (630) 457-1296 or write prauner@pinnacleactuaries.com.

Pinnacle Supports Local and National Charities

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- The Clare House, a local food bank
- Habitat for Humanity
- The Children’s Foundation (Adopt a Family for Christmas)
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Pinnacle Provides Scholarship

Pinnacle joined with Illinois State University’s (ISU) Actuarial Scholar program in August. Through the program, Pinnacle provided a scholarship for Erin Dullard, a freshman honors student enrolled in ISU’s actuarial science program.

Picture information - Top row (left to right): Joe Herbers, Roosevelt Mosley, Erich Brandt and Steve Lehmann. Front Row (left to right): Erin Dullard, Pinnacle Scholar; Dr. Krzysztof M. Ostaszewski, Director and Professor of Mathematics, ISU.

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