
VERABRIDGE

Connecting Insights and Actions

Real-time Rating and Pricing of Commercial P&C Policies

A VeraBridge Rating & Pricing Engine Case Study



Executive Summary

Our client, a multinational insurer / reinsurer focused on growing their program business, was underwriting a successful childcare facility program in partnership with a national MGA. The MGA and carrier were offering childcare centers throughout the US a full-range of coverages for the property, contents, general liability, and commercial auto.

The arrangement between the carrier and the MGA was such that quoted premium per unit of exposure (e.g., per child, per van, per staff, etc.) was driven by the risk rating for each exposure. The MGA had some latitude to negotiate price within the rating bands, but generally the rating determined the premium.

When the carrier entered the childcare facilities market, they knew that ISO rating factors were so generic as to be unusable. Therefore, the carrier invested considerable effort and money to develop a model that reflected both severity of risk and frequency of occurrence. Over the years, the model had been tuned and updated, and was a good predictor of risk loss.

After the risk model was developed, the carrier developed a series of steps and complex Excel spreadsheets to implement a process. Once the submission was input, the “old” process took at a minimum of two days to return a rating, assuming there were no real problems that took longer to

resolve, that all staff were at the office, and the producer provided all the correct information. It was not unusual to take 4+ days just to get back a rating to enable the MGA to quote the premium.

With the VeraBridge Rating & Pricing Engine, the insurer is processing submissions in minutes or

hours instead of days, while almost eliminating errors and significantly improving win rates.

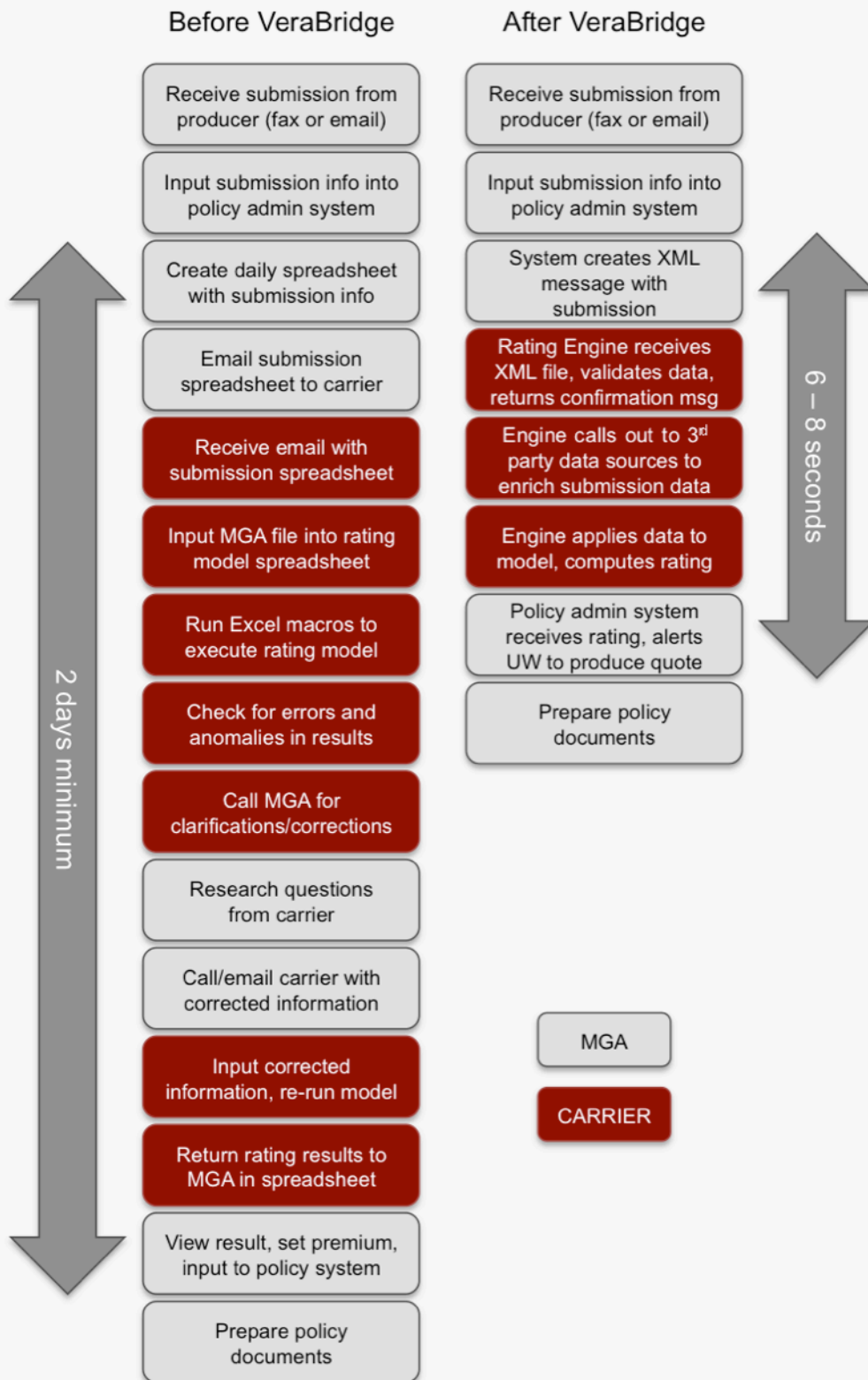
The manual, spreadsheet-driven process took at least two days to rate a submission

Vision for the solution

The carrier had four principles for the solution:

1. Be as close to real time as possible; i.e., immediate rating response to the MGA.
2. Have minimal to zero manual intervention to avoid errors and to speed processing.
3. Minimize underwriting information by using third party information sources to enhance submission data and improve risk modeling (e.g., geocoding, crime stats lookups, vehicle data lookup from VINs, etc.).
4. Not require IT investment or support staff.

Submission Rating & Pricing Comparison



The VeraBridge Rating & Pricing Engine

The VeraBridge Rating & Pricing Engine fit the insurer's solution principles perfectly:

1. Online, real-time rating of submissions.
2. The only manual part of the process is entering submission info one time.
3. Call-outs to four external information providers to enrich the submission data.
4. Subscription based Software-as-a-Service (SaaS) delivery model with hardware, networks, and IT support part of the fee.

Moreover, the VeraBridge solution was appealing as it was quick to implement and could properly reflect the complexity of the client's risk model. The rating engine was implemented over a few weeks in a series of well-defined steps undertaken collaboratively with the client and the MGA:

- **Configure risk model in rating engine**

VeraBridge worked side-by-side with the client's underwriters to set up the risk rating model in the VeraBridge Rating & Pricing Engine. This involved defining the types of variables, the risk factors, and the mathematical formulas in the frequency and severity models. Our flexible logic language and robust database made this a straightforward process.

- **Set up/test feed from MGA Policy Admin System**

VeraBridge worked with the MGA staff to set up the XML message (i.e., data feed) for each submission that is the input to the rating engine. We helped them set up and test the communication link and message contents.

- **Calibrate the risk model**

Once the model was configured we used test cases from the client's Excel spreadsheets to make sure the calculations were being done correctly. It was during this process we found a number of errors in the Excel spreadsheets that had been used for several years. Initially, the client felt the rating engine was wrong, but after detailed diagnostics on the

rating worksheets, the client realized they had been mis-rating several types of policies for a long time.

- **Set up/test rating message back to the MGA**
Once the carrier and MGA were satisfied the rating engine was computing results correctly, we set up the return messages to the MGA's systems (confirmation message that feed was received and message with rating).
- **Go-live**
We went live and monitored the feeds to and from the rating engine to make sure live production was mirroring testing.

The process flow is greatly simplified and much faster, as shown on the preceding page. Moreover, virtually no staff is needed to execute the rating process. The VeraBridge Rating & Pricing Engine is truly "lights out" processing requiring no manual intervention. Our client can now spend time improving the predictive power of the model, and the MGA can focus on serving their producers more effectively.

About VeraBridge

VeraBridge combines advanced technology and consulting to deliver analytical solutions for insurance companies like yours; enabling you to better understand your business and the dynamics of customer and producer behavior, and supporting decisions that lead to more profit and more volume without compromising your risk objectives.

Our technology solutions take advantage of the latest application and web technologies to deliver sophisticated business functionality in less time, at lower cost, and with less risk than traditional software. Our consultants, with deep expertise in predictive modeling and econometric analysis, work with your analytical staff to make the most of the technology and uncover insights that provide a basis for better analysis and decisions.

VeraBridge is headquartered in Atlanta, with offices in Dallas and London.



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