The calculation of residential replacement value and management of risk in real time are tasks for new technology tools.

by Barbara Bowers

Carriers are streamlining how they underwrite homeowners insurance with new technologies that enhance a range of capabilities from calculating residential replacement costs to estimating portfolio risk. As a result, they stand to see significant time and cost savings—a welcome development in a line of business that, for years, was considered a loss leader in the property/casualty segment.

Recently introduced technology products on the homeowners front include ISO HomeValue, a property replacement valuation tool from Insurance Services Office Inc. and its subsidiary, AIR Worldwide Corp., a longtime risk modeler, and RiskReview, a new exposure tracking solution based on MapInfo's location technology.

ISO HomeValue is a Web-based system that offers insurers a new way to estimate residential replacement values. It relies on component-based technology to provide information about individual properties, with the information drawn from an extensive residential property database, said George Davis, an actuarial consultant at AIR. This "pre-fill" information can supply key building features for more than 50 million residential properties in the United States, about two-thirds of all owner-occupied single family residences, he said.

At the core of ISO HomeValue are tens of thousands of individual component costs, including costs for materials, labor and equipment drawn from private and public sources that underwriters and agents generally do not have, he said. To provide accurate estimates based on limited information, AIR's engineers developed residential structural assemblies that combine components into construction designs and floor plans true to actual construction techniques and practices, Davis said.

Users have only to enter a street address and they can quickly see detailed property characteristics—for example, square footage or other structures such as a garage on the property—to provide an initial estimate of the replacement value, Davis said, noting that the user's addition of more information refines the estimate. The system reports total living area, the year the house was built, the building type, and exterior and interior features.

Key Points

- Carriers are using new technology to streamline how they underwrite homeowners insurance.
- Two recently introduced Web-based systems are ISO HomeValue, a property replacement valuation tool, and RiskReview, a new exposure tracking solution by MapInfo.
- ISO HomeValue relies on component-based technology to provide information about more than 50 million residential properties, with the information drawn from an extensive database.
- RiskReview notifies insurers and reinsurers if any geographic area, such as coastal property, exceeds their permitted exposure.
It also supplies statistics on other houses in the neighborhood, as well as street maps.

Additionally, ISO HomeValue can provide access to other important underwriting information, Davis said. Once an address is entered, this product automatically geocodes it so users can link to a wide range of information on the property, such as potential catastrophe hazards for flood, brush fire and severe thunderstorms, as well as the distance to the coast or a fault line for hurricane and earthquake risk. Other information includes claims/loss histories, public protection class codes and credit reports.

This tool joins other similar Web-based systems offered by Marshall & Swift/Boeckh, R.S.Means and e2Value, among others, in a highly competitive market. But it’s the use of an extensive database that distinguishes ISO HomeValue from other insurance-to-value estimators, Davis said. This wealth of information helps improve accuracy and the speed of making calculations, he said.

AIR has maintained a database on industry exposures for many years. “In a sense, we have taken it one step further, but it’s a very significant step further, because we’ve now gone down to individual properties,” Davis said.

Patrick Madigan, national underwriting director, Kemper Auto and Home, Jacksonville, Fla., said his company started using ISO HomeValue in early 2004. Kemper has linked it into its agency portal. Agents who go onto the insurer’s Web site can link to the HomeValue Web site and receive a replacement cost value for new risks, Madigan said. “We also use it for in-force business if there’s any question at all about the value of the home,” he said.

The feedback from the independent agents that Kemper works with has been very positive because it’s an easy tool to use, Madigan said. “It’s unique with the pre-fill capability because you can get a replacement cost value based on street address, the majority of the times,” he said. “With most replacement cost calculations, you need to enter information to obtain a value.”

Before the insurer incorporated this technology, Kemper was employing a paper cost estimator to arrive at replacement costs. “The biggest benefit right now is that the agents can create the record that has the replacement cost value and the agent and the underwriter see the same thing,” Madigan said. This eliminates the need for the agent to fax a replacement cost estimator to the underwriter.

“There’s less paper, and less keystrokes for the agents,” he said. “And we don’t have to worry about getting the latest versions to anyone because it’s just updated on the Web site.”

At any time an enhancement is made, it is automatically added to the system. The replacement cost calculations can be as detailed as the information that’s available, Madigan noted. “So if the agent has all the information and really wants to get a very detailed replacement cost calculation, they can just continue to drill down and enter more and more detail, and the tool is robust enough to handle that.”

ISO HomeValue also can be accessed through a company’s intranet, allowing underwriters, agents and other users to log in from any location. That’s the route that New York Central Mutual Fire Insurance Co., the largest regional writer of personal lines in New York State, decided to take, said Kathy Bell, vice president of underwriting. The company’s agents gain access to the product to do their cost estimations by signing onto New York Central Mutual’s Web site, she said.

The insurer looked at a number of similar systems and even considered having its own built, Bell said. Finally, agent enthusiasm for ISO HomeValue convinced the company that was their best choice, she said. It took only one day to integrate it into New York Central Mutual’s system, Bell said. “We are using it for guaranteed replacement cost on dwellings for the homeowner product and for establishing insurance to value,” she said.