

## ACORD: A WAY FORWARD IN SEAMLESS EXPOSURE DATA EXCHANGE

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EDITOR'S NOTE: The global insurance market is diverse, but data formats within this industry should not be. To operate efficiently, companies need a common framework for communication. They can begin to achieve this efficiency goal by collectively embracing industry standards for shared input data. The adoption of data standards is becoming increasingly widespread, and one standards development organization, ACORD, stands out; hundreds of insurance and reinsurance companies, agents and brokers, software providers and industry associations have become members. This summer, AIR Worldwide became the first catastrophe modeling firm to support ACORD's new binding authority exposure data standard. AIR's vice president George Davis and client relations director Giovanni Garcia explain why.

By George Davis, FCAS, MAAA, and Giovanni Garcia

### THE EXPOSURE DATA QUALITY PROBLEM

In the aftermath of Hurricane Katrina in 2005, AIR Worldwide released an analysis that revealed significant quality issues with insurers' exposure data. In 2008, Ernst & Young reiterated that the strongest concern for reinsurers underwriting property catastrophe today: the quality of cedant exposure data. Confidence in exposure data is lacking throughout the insurance industry, not just among reinsurers. The exposure data typically available to underwriters is often inaccurate and incomplete. Using it means chancing misstated exposure to catastrophe losses—a mistake that could translate to millions of dollars. A recent AIR survey of sample client portfolio data revealed that, in one case, poor exposure data caused clients to misstate hurricane-related loss potential by 17% compared to the risk revealed with improved data. Even if good quality exposure data is used "up front" in underwriting, the data doesn't necessarily get passed along.

Companies wanting to address challenges to exposure data quality need to facilitate a more seamless transfer of

data throughout the entire insurance value chain. They can do this by supporting open and standardized industry data formats. AIR has long been a proponent of open standards, as reflected by the UNICEDE® standard, which was developed by AIR in 1993 and made available to the industry via a public web site, [unicede.com](http://unicede.com). In addition to UNICEDE, however, a number of other electronic formats are in use for exchanging financial information, and this multiplicity of formats—most of which are not shared publicly—exacerbates the problem of poor data quality and creates excessive work.

Furthermore, each of these formats uses a code set to represent data for data input categories, including peril, occupancy or construction type and while AIR's definitions for code sets are publically available (UNICEDE), this is not the case for all catastrophe modelers. Each modeler uses a different set of values, meaning analysts have to guess what some of the values represent. There is not always a one-to-one translation from another modeler's code to an AIR code, or vice versa. The process of translating values is not

only fraught with the potential for error, but it is also time-consuming, involving manual review of data to determine whether it is pertinent.

## THE SOLUTION: A SINGLE, OPEN EXPOSURE DATA STANDARD

A solution resides in trading many non-standard formats for a single, open data standard, an industry-wide approach to sharing financial information. Collectively embracing a single, open standard would offer the market more of the data it needs, and that data would be more consistent. The final result would be reduced need for data manipulation and increased flow and accuracy of the details that are used to make financial decisions.

The concept of a single, open industry-wide data standard is gaining momentum. Some of the companies that have identified this need are pushing for the single standard from ACORD—an innovative, nonprofit standards developer with more than 30 years experience. ACORD has developed standards for insurance market segments including life & annuity, property & casualty, and reinsurance—and because it is independent and invites broad participation, the standards ACORD develops come from the perspective of the insurance industry as a whole. ACORD standards are presently in use by hundreds of companies worldwide, including insurance and reinsurance companies, agents, brokers, and software providers.

Earlier this year, supported by key market players, ACORD released a targeted-purpose standard—the new US Property Binding Authority (ER3001) exposure data standard. Within months, AIR enhanced its software systems to support it, enabling easy import of the ER3001 format in the current release of CLASIC/2™. AIR is the first catastrophe modeling firm to do so. Our support represents a proactive step towards implementing a data standard that is truly industry-wide.

It should be noted that the new binding authority exposure data standard from ACORD is one step toward creating a broader overall ACORD standard. ER3001 is the subset of a more generalized standard for property insurance that is currently under development. ACORD is the only organization working on a data standard that is so broadly applicable. Based on visible industry support even now, in the early stages, AIR is very optimistic about this forthcoming standard's utility.

## GROWING SUPPORT

AIR has supported ACORD for several years now and has actively participated in ACORD working groups focused on industry-wide data standard development. AIR representatives are also taking part in ACORD industry meetings where they have been regular attendees, working closely with clients to understand the nature of the data being provided, how the data fit in the template, and how the ACORD template could be supported by AIR. It is clear that AIR clients—many of whom struggle with the variety of formats in which data is currently exchanged—will benefit greatly from the ACORD data standard. Employing it will save time for catastrophe model analysts and eliminate the need to map and re-format data, thus minimizing the opportunity to introduce error and therefore eradicating a significant source of uncertainty in model results.

Presently, ACORD has a growing following. Supporters includes Lloyd's—a towering presence in the London financial market. ACORD's success with Lloyd's and other companies is in part a result of its strategy to adapt to the ever-changing eBusiness economy, namely by establishing partnerships electronically. Electronic partnerships support faster processing and help establish vibrant and flexible relationships. They also cost less. In general, the electronic approach to business increases profitability and expands market opportunities.

## THE WAY FORWARD

In today's global financial world, the speed of communication is faster than ever. Business models that are inefficient are likely to lose valuable opportunities, including new partnerships and new markets. Companies that want to survive should recognize that a significant number of transactions occur online and therefore, the creation of IT strategies that facilitate consistent and accurate data sharing is essential. For such sharing to happen, companies across the industry must commit to a single, open data standard.

By collaborating to design a standard that can be used throughout the entire insurance lifecycle, ACORD and AIR are working to achieve this goal.

## **ABOUT AIR WORLDWIDE CORPORATION**

AIR Worldwide Corporation (AIR) is the scientific leader and most respected provider of risk modeling software and consulting services. AIR founded the catastrophe modeling industry in 1987 and today models the risk from natural catastrophes and terrorism in more than 50 countries. More than 400 insurance, reinsurance, financial, corporate and government clients rely on AIR software and services for catastrophe risk management, insurance-linked securities, site-specific seismic engineering analysis, and property replacement cost valuation. AIR is a member of the ISO family of companies and is headquartered in Boston with additional offices in North America, Europe and Asia. For more information, please visit [www. air-worldwide.com](http://www.air-worldwide.com).

