

Palomar Specialty Utilizes the AIR Flood Model to Develop Risk-Based Pricing in California

Palomar Specialty Insurance Company is a California-based insurer and a leading provider of catastrophe insurance for personal and commercial property. Their team has decades of insurance and claims expertise and prides itself on using this expertise to develop customized coverage options for their clients. As managing flood risk becomes increasingly important to their customers, Palomar has sought to broaden their insurance offering to include a flood insurance product that was affordable, profitable, and actuarially sound. To help determine the pricing for this new flood coverage, Palomar sought a robust modeling solution they could rely on to set appropriate risk premiums.

Palomar Specialty chose the AIR Inland Flood Model for the United States. The model has equipped Palomar with the ability to quickly and easily determine the inherent flood risk of properties across California and helped them develop Flood Guard, a private flood program in California that uses an advanced and highly granular proprietary rating system. Flood Guard was recently approved by the California Department of Insurance (DOI), enabling Palomar to begin offering flood insurance policies to their customers either in place of or in addition to standard National Flood Insurance Program (NFIP) policies.

The Challenge Palomar Specialty wanted to supplement their existing earthquake and wind insurance products with a competitive flood offering that was both profitable and affordable. To achieve their goal, Palomar recognized that they needed a better way to assess the flood risk of the locations for which their clients are seeking coverage. Accurately assessing the flood risk at tens of thousands of locations can be challenging, especially when seeking a level of granularity that would go far beyond the broad zonation of risk provided by the Federal Emergency Management Agency (FEMA) flood maps and allow for a more precise risk differentiation.

The Solution After evaluating flood risk assessment tools currently available, Palomar Specialty selected AIR's Inland Flood Model for the United States, which they used as the basis for developing Flood Guard, a pioneering approach to flood coverage in California.

Flood Guard provides innovative residential flood coverage that can be used as an alternative or supplement to the NFIP. Through its sophisticated rating algorithm and online platform, Flood Guard offers affordable coverage and provides agents with the ability to quote and bind coverage in just minutes. Palomar Specialty has chosen to write Flood Guard exclusively through agents appointed with Prospect General Insurance Agency.

Palomar was able to integrate results from AIR's flood model into the company's existing pricing workflow, enabling them to assess the risk of each location seeking protection from floods and then make an informed decision on whether they can provide coverage that would meet their underwriting guidelines. In addition, the model helps Palomar set an appropriate price for the policy they are providing that is explicitly based on the underlying risk.

Palomar's process of evaluating a property for flood coverage begins with an examination of the location's exact address and a detailed claims history to determine the existing level of flood risk. Locations that have no history of flood claims in the past 10 years and have never suffered losses from a flood in excess of \$150,000 are eligible for coverage through Flood Guard. Once a location is determined to meet this minimum threshold, Palomar is able to use output from the model as input to their pricing tool to determine an actuarially sound rate for the flood coverage they provide in just minutes.

This system enables them to provide coverage that goes above and beyond what is typically available through the NFIP. Flood Guard can help homeowners fill the gap by providing primary and excess coverage up to \$5,000,000 in dwelling coverage and \$1,000,000 for personal property. NFIP policies, in contrast, are limited to \$250,000 and \$100,000 for dwelling and personal property, respectively. Flood Guard will also pay up to \$50,000 in Loss of Use coverage for living arrangements for families while their home is being repaired, whereas NFIP policies do not cover loss of use.

EMBRACING AN UNDERSERVED MARKET LEADS TO PROFITABLE GROWTH

With the AIR Inland Flood Model for the United States, Palomar found a solution that enabled them to quickly and reliably assess the flood risk at specific locations. This enabled their underwriters to determine in near real-time whether they could offer coverage to a homeowner.

This guidance was derived primarily from a combination of the model's assessment of a location's risk and the primary risk characteristics of the building(s), including the type of construction, the number of stories, the year built, and the foundation type. This information provides the underwriters with enough detail to determine the appropriate rate to charge for flood coverage.

“ We are extremely pleased to become the first admitted insurance company to successfully launch a stand-alone residential flood insurance product in California. Historically, the insurance industry has struggled to develop new products for hazards such as flood. That has changed with the introduction of AIR's innovative new flood model for the U.S. Now there's a credible probabilistic model in the market that enables Palomar to thoughtfully and competitively price a flood insurance product in the private market.

– Jon Christianson, Chief Operating Officer
Palomar Specialty

“ Palomar Specialty has a wealth of experience leveraging technology and catastrophe analytics to automate our earthquake and wind products. Flood Guard is a natural extension of our analytical approach in developing new products that resonate with agents and property owners.

– Mac Armstrong, CEO
Palomar Specialty

As a policy is being quoted, Palomar can quickly see a location's risk of experiencing significant flood losses and can adjust their rate to appropriately suit the risk. For homeowners that who are seeking coverage that exceeds what is offered by the NFIP, Palomar can quickly provide this coverage at a competitive price. The AIR flood model has enabled Palomar to reduce the uncertainty surrounding their overall flood exposure, grow their business into new areas, and improve profitability by charging risk-appropriate premiums.

Palomar was able to harness the risk analysis from the model to assess the flood risk in near real-time. Utilizing the model results, Palomar was able to expand their offerings to include innovative coverage of a peril that had been underserved by traditional sources of insurance. Today, Palomar is confident in their modeled results—and in their risk selection.

CONCLUSION

Using AIR's flood model to accurately assess a home's flood risk, Palomar is offering homeowners in California a new kind of flood coverage, one that goes far beyond what they could otherwise obtain from the NFIP. Palomar is able to provide a superior level of protection while maintaining sound limits on its overall exposure to this increasingly important peril.

Today, the flood model enables Palomar to grow its business while improving the resilience of homeowners throughout California who face potential losses from floods. It provides them with greater confidence that their trusted team of underwriters is making the right decisions when providing coverage for this challenging peril. Based on their successful experience with the flood model, Palomar will continue to expand their use of this powerful tool to find opportunities to provide coverage to more homeowners throughout the country.

REFERENCES

If you are interested in learning more from Palomar Specialty about their experience with the AIR Inland Flood Model for the U.S., your AIR account manager will be happy to put you in touch with:

Jon Christianson,
Chief Operating Officer
Palomar Specialty

ABOUT PALOMAR SPECIALTY INSURANCE COMPANY

Palomar Specialty Insurance Company (www.PalomarSpecialty.com) is a leading insurer that focuses on catastrophe-exposed residential and commercial property lines of business. Palomar's underwriting and analytical acumen allow it to concentrate on catastrophe insurance products including residential and commercial earthquake, multi-peril homeowners, residential hurricane and commercial business written on an "all-risk" basis in select hurricane exposed states. Based in La Jolla, California, the company is an admitted carrier in 23 states. Palomar Specialty has an A.M. Best financial strength rating of "A-" (Excellent).

ABOUT AIR WORLDWIDE AIR Worldwide (AIR) provides catastrophe risk modeling solutions that make individuals, businesses, and society more resilient. AIR founded the catastrophe modeling industry in 1987, and today models the risk from natural catastrophes and terrorism globally. Insurance, reinsurance, financial, corporate, and government clients rely on AIR's advanced science, software, and consulting services for catastrophe risk management, insurance-linked securities, site-specific engineering analyses, and agricultural risk management. AIR Worldwide, a Verisk Analytics (Nasdaq:VRSK) business, is headquartered in Boston with additional offices in North America, Europe, and Asia. For more information visit www.air-worldwide.com



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