White Paper

The Renewal Solution: Addressing Poor Loss Ratios with Property Inteligence

Arturo Intelligence

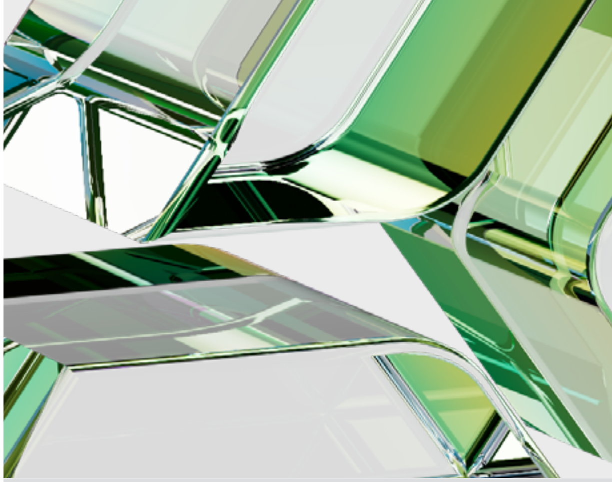
Executive Overview

With extreme natural disasters occurring as a result of climate change, increased exposure in homes as people renovate and upgrade, and new vulnerability with respect to how and where homes are being built, there are billions of dollars of losses that are compounding for insurance carriers everywhere.

Perils both big and small, like fires, tornadoes, hail, freeze and more are making it more risky to be a homeowner. In addition, other property lifecycle factors like home improvements, community changes, and even social and economic factors like inflation, war, supply chain issues and more make it complex to understand and quantify what that risk looks like.

If you're only assessing property risk at the beginning of the policy, you're missing major portions of the lifecycle and opportunities to reduce underinsurance, capture premium leakage, and balance your risk profile.

You're missing out on the renewal solution.



Contents

Section 1

Risk Profiled

In 2020, there were 22 billion-dollar weather and climate disasters in the U.S. In 2021, there were 20. And in 2022, there were 18. In order, these three years are ranked first, second, and third respectively for highest number of billion-dollar disasters, with 2022 tying in third place with 2017 and 2011. For a sense of comparison, since 1980, the average number of billion-dollar weather events per year is 7.9.

Simultaneously, according to a report by S&P Global, loss ratios for Q3 2022 were at 98%, exceeding that of the previous four years. At this same time in 2019, loss ratios were at 59.2%, and have ticked steadily upwards since.

These losses, driven in part by extreme and frequent natural disasters vis-a-vis climate change, are further compounded by property life cycle changes and inflation. Risk in a property is dynamic, so if you're only assessing risk at the first quote and not at renewals, you're missing a major part of the story — and if you're not reevaluating reconstruction cost as the price of materials changes, you're missing out on a significant portion of insuring to value.

As an example, according to a study conducted in October 2019 by Pew Research, 46% of Americans said they had given "serious thought" to adding solar panels to their homes, up from 40% in 2016.

During the pandemic, with more and more people staying at home, one of the greatest ways people chose to pass the time was in home improvements. According to the Home Advisor True Cost Report, the average household spent $13,138 on home services in 2020, with 63% of this sum allocated to home improvements. In addition, as home prices skyrocketed across the U.S., existing homeowners made big gains on their equity, giving them the means to remodel their homes.

In short, while homeowners spend their time remodeling and improving their homes, disasters are going up, as are loss ratios. The changing dynamic underscores the

98%

loss ratios for Q3 2022, exceeding that of the previous four years.

- S&P Global

Section 2

Loss Drivers

As these losses increase, equally important is understanding what types of claims arise. With this understanding, we can start to triangulate how to tackle these issues specifically.

According to the 2022 LexisNexis U.S. Home Insurance Trends Report, **95% of catastrophe losses were the result of hail, wind and weather-related water perils**. Of the catastrophe claims, 29% of the claims were seen in Texas. This is unsurprising, as wind and hail year-over-year lead the way for most frequent natural disasters.

This is even reflected in 2022's billion-dollar disasters documented by the National Oceanic and Atmospheric Administration, with 11 of the 18 events coming from severe storm events, which is inclusive of wind, hail, lightning, and other severe convective storm perils.

These are events that typically adversely affect roofs. As a result, roof losses represent the biggest opportunity for carriers to manage in order to keep their loss ratios and combined ratios down.

Section 3

Renewals Today

Writing good risk when it's being brought on is critical, but equally important, if not more so, is the risk you already carry. As a home stays in your book, its vulnerability changes as does its risk, and reassessing that properly is critical to making sure your book is healthy.

The strategy today with which to assess renewals varies by carriers and flexes with differing state regulations, and naturally, inspections are a big component of that. But for a renewals book, many carriers bind the policy but do little in the way of monitoring roof risk, for instance, on their existing policies in force. There are good reasons for this, like avoiding friction with existing customers, but this can come at the cost of a fuller picture of risk.

They also tend to use roof age as a trigger for inspections, but the challenging part about this is that it's like looking at two cars — they may both be 2015 Toyota Camrys, but what determines the value is not just the age, but the mileage.

Section 4

Renewals Tomorrow

Risk and exposure are ever-changing, but even the basics of correct classification and identification of new, high cost items can make big differences in terms of underinsurance on a property.

With today's technology and ability to detect changes across the life of a property, identifying changes in roof condition and the addition of new items in a house that homeowners wouldn't otherwise even think was relevant for their insurance carrier to know is easy.

For instance, going back to the popularity of solar panels today, each solar array of one to five panels adds around $30,000 to Coverage A — with additional panels incrementally adding another $10,000. For a $270,000 home, this represents 15% of the value of the home. It's easy to see how these additions can make a drastic difference in the size and scope of a policy. Items like artificial lawns, too, can come at a great cost: $15 to $20 per square foot, on top of installation.

Roof condition and detections represent a critical area to which to pay attention, as you can start to see precursors to potential losses downstream. As a home deteriorates, the risk goes up — and not all homes deteriorate equally. In the sunny southern U.S., for example, asphalt roof shingles degrade faster since they're exposed to the brutal summer sun than they do in the north.

Section 5

A Clear Picture of Risk

Drive-by inspections or walk-around inspections are the two most common types, but the ongoing imagery and sensor explosion is opening up new avenues to understand changing risk.

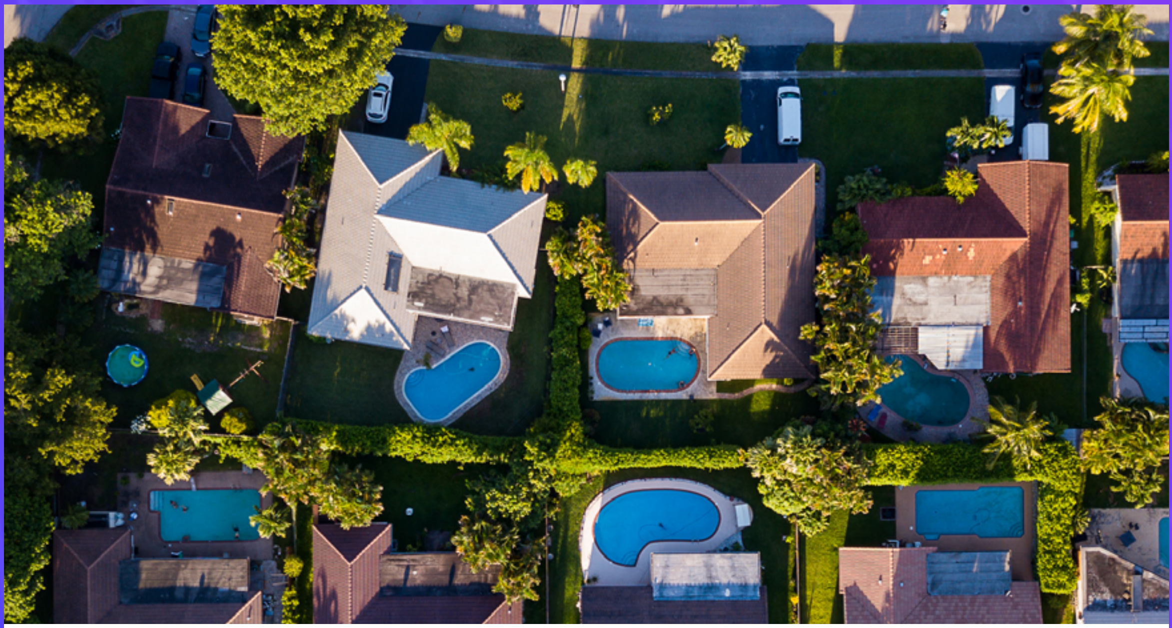
Getting insights into these detections is easier now than ever before. Photogrammetric sensors that take images of the earth solve some of these problems, but other sensor data like synthetic aperture radar (SAR) give the ability to even see through the clouds, looking at things like flooding temporally.

When combined with what you can't see, like weather forensics, claims history, conditional history and more, you get closer than ever to a complete picture of risk. Blending data science together with AI-derived input from imagery and other sensors gives you the ability to be more prescriptive to the address-level.

This kind of approach has been shown to work, with **20% improvements on accuracy and reduced underinsurance.** Some carriers even use these kinds of data points to **reduce their inspection spend by 30% to 50%.** And downstream in claims, Australia's largest carrier IAG has seen this approach shave 30 minutes off per claim.

30min

saved per claim by IAG, Australia's largest carrier



THE RENEWAL SOLUTION

Today, many carriers focus on driving new business to stay healthy. In this way, insurance policies are often like an iceberg, with new business above water, but below the water, there's a bigger set of claims coming in with what has already been written.

Getting to be more proactive with renewals and portfolio analysis, managing that risk sitting on your books can be a great way to get ahead of losses.

About Arturo

Arturo's mission is to harness technology to serve people, by providing clarity around the past, present, and future of personal property. How do we do it? By gathering, synchronizing, and analyzing property insights, we give insurers an immediate view into every single relevant data point, allowing them to make faster, smarter, and more confident decisions. We turn data into intelligence, giving insurers the ability to better predict the unpredictable and protect customers from the unimaginable.

Arturo's AI-based platform helps insurers securely underwrite risks, efficiently allocate resources, and lower claims cost across their book of business, allowing them to focus on what matters most: the customer.

Learn more about what Arturo can do for you!

arturo.ai