



Change Detection for Small Commercial Insurance

Smart monitoring for smarter underwriting



Keeping pace with fast-moving risks

Flexibility can be critical to a successful small business, but as entrepreneurs adapt to changing markets and new opportunities, insurers need to match their policyholders' agility. An expansion or a shift in focus can significantly alter a company's risk profile, and the insurer may need to reconsider.



Eligibility: Does the risk still meet underwriting guidelines?



Rating: Do the premiums accurately reflect increased or decreased risk and potential business growth?



Coverage: Do the existing coverages need additional exclusions or other adjustments?



Reinsurance: Do increased exposures require purchasing or adding to reinsurance coverage?

Staying on top of changes can help boost customer satisfaction with tailored coverage and responsive service while safeguarding long-term profitability. Careful attention to shifting risk can also help maintain regulatory compliance and detect potential fraud.

Cost of inaction

When an insurer misses changes in a policyholder's business operations or premises, an array of negative impacts can follow:

- **Increased risk exposure:** When a business diversifies, new operations can widen the range of potential claims.
- **Inaccurate underwriting and pricing:** These increased risks may leave the policy underpriced or misclassified.
- **Claims frequency and severity:** Failure to promptly identify significant changes may lead to more frequent or severe claims.
- **Missed mitigation opportunities:** Chances to offer risk reduction services such as safety training or regular inspections may slip away, leading to higher claims severity and frequency.
- **Premium leakage:** Insureds may pay less than the actual amount of risk they represent due to intentional fraud, misclassification, overlooked changes, or other underwriting gaps.
- **Renewal rates and terms:** Insurers may fail to recognize the need to raise premiums or may keep policies on their books that should be considered for nonrenewal.



Change detection in practice: The restaurant

Change in Business Operations

An insured opens as a full-service restaurant with the appropriate small commercial insurance coverage. Over time, however, the business becomes a dance club on the weekends to attract more visitors. This introduces new types of risk for the insurer:

Liability:

Dance clubs generally attract larger, more physically active crowds, increasing the risk of accidents, injuries, or altercations. This could lead to higher general liability claims, including slips and falls or violence-related incidents. Dance clubs also typically serve alcohol, which increases the risk of intoxicated patrons causing disturbances, injuries, or accidents.

Property damage:

The change in operations may require modifications to the building, including structural changes, new lighting, sound systems, and dance floors. These changes could increase the risk of damage to the property or pose hazards such as fire or electrical failures.

The insurer may want to suggest and update the type of coverage needed to reflect the changes—for example, liquor liability coverage—to protect the business and avoid unanticipated claims.

A regular full-service restaurant extends its operations to include a dance club on weekends.

Point of quote



Renewal



Change detection in practice: The credit bump

Change in Credit Score

Change doesn't always increase risk; it can have the opposite effect. An insured business improves its credit score from 382 to 466 out of 600 within a year by paying off debt, which signals better financial health. This raises possibilities for an informed insurer:

Premium adjustment:

Better financial stability could indicate lower risk to an insurer that uses credit scores as a rating factor. A downward premium adjustment and more favorable policy terms may be in order at renewal.

Customer satisfaction:

The business owner may be encouraged knowing that the insurer is paying attention to an important, favorable risk factor. This can strengthen customer satisfaction, reinforce trust, and give the insurer an edge in the highly competitive small commercial market.

A business's credit score improves as it successfully pays off debt.

Point of quote

382
credit score

The risk of delinquency
decreases by
50%

Renewal

466
credit score

The timeline of change detection

Underwriting timeline

Key moments throughout the policy period allow for the most impact from awareness of changes in an insured's business operations:

Point of quote:

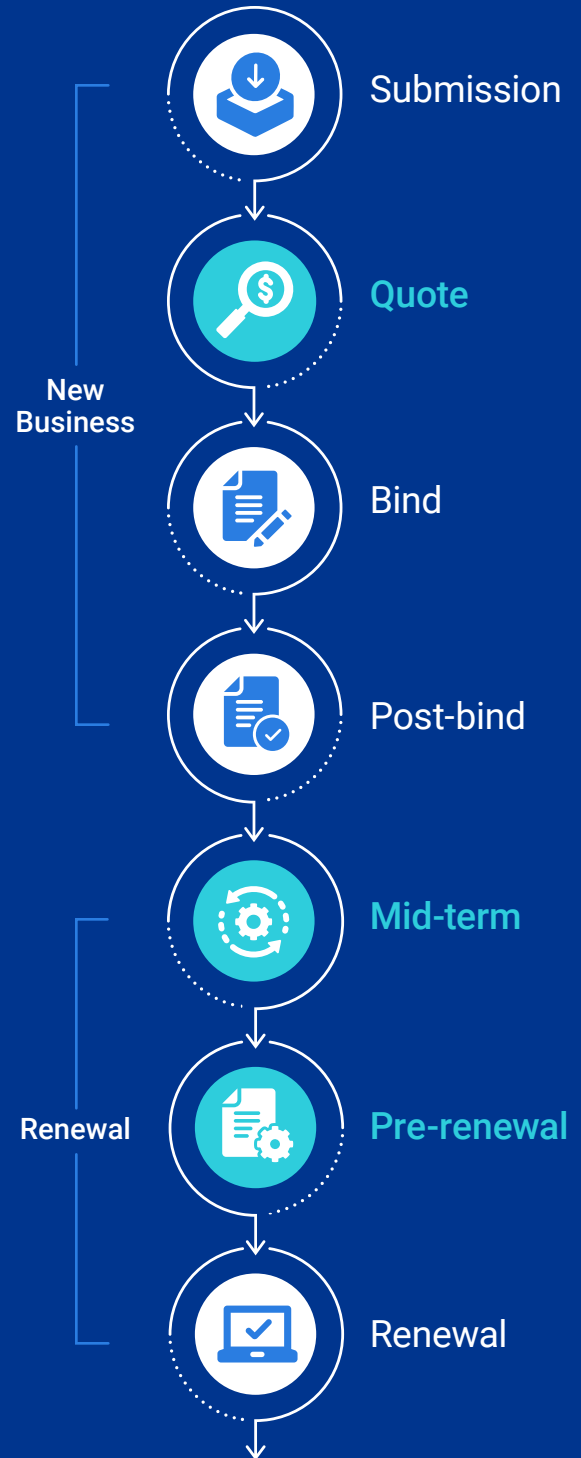
Accurate quoting demands a thorough understanding of the business's current situation, property, and operations. A long-term view of business performance is also beneficial. An unsteady credit history, for example, may point to the likely longevity of the risk.

Mid-term:

During the policy term, it's equally important to stay informed about changes in the insured's property or operations. Policyholders are generally required to notify their insurers of material changes that could affect coverage, but the information isn't always timely.

Pre-renewal:

This is a clear opportunity to adjust for changes in risk that occurred during the preceding policy term right before or at renewal.



Keys to early detection

Effective change detection isn't left to chance; it's built into underwriting workflows.

1

Regular check-ins and communication

- Engaging insureds with periodic meetings, surveys, and questionnaires can help gather information on operational, financial, or property-related changes to a business.
- Regular risk assessments or audits as part of the policy can also encourage businesses to stay on top of material changes.

2

Disclosure incentives

- Policyholders can gain additional coverage at lower cost or premium discounts as a reward for communicating changes proactively, e.g., a new fire suppression system or upgraded security system.
- This can encourage insureds to keep their coverage needs up to date and reduce the chances of underinsurance.

3

Improved data analytics


- External data sources can help close information gaps and track changes to the insured risk.
- Artificial intelligence and machine learning can help detect patterns that clarify the exposure and potential risks in an insured's operations or property.

How can Verisk's LightSpeed Small Commercial help?

The change detection feature in Verisk's LightSpeed® Small Commercial is designed to identify shifts in business operations over time. With just the business name and address as the input, underwriters can understand how businesses evolve and avoid coverage gaps.

Change indicators such as a higher or lower credit score or a new NAICS code, along with current and historical data, can shed light on any changes in key data points compared with the prior time period. Potential use cases include:

- Historical snapshots of new business at point of quote
- Monitoring changes for existing books at midterm or pre-renewal



Data Attribute	Change	Latest	Prior
Credit Score	+100	400	300
Primary NAICS	Yes	561730	238160

Contact a Verisk representative to learn more about
change detection in LightSpeed Small Commercial.



+1.800.888.4476 / verisk.com/lightspeedsmallcommercial