Optimizing Small Commercial Segments: Data Options and Approaches to Profitable Growth

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Today's Presenter

Policy Statement

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A copy of our Policy Statement on Discussion at Meetings can be found at https://www.verisk.com/495f8a/siteassets/media/downloads/chairpersons-statement.pdf

Today's agenda

1 Identifying Commercial Market Segments

Major Sources of Market Insight

- Company financial statements, filings
- Individual business records
- Statistics published by federal programs
- Admitted market statistical data
- Economic forecasts

Demand-side measures

Supply-side measures

No single data source provides actionable or complete measures of demand, supply, profitability or growth of the commercial insurance market.

US Commercial Lines MarketStance Forecast

Today's starting point

Keys:

- Combines the critical elements of demand and supply side sources to forecast the size, profitability and growth of commercial market segments.

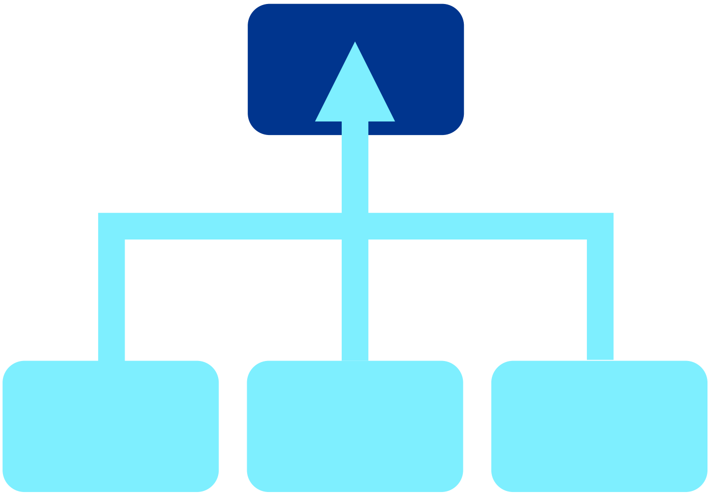
Millions of firmographic clusters identified by key attributes:

- Industry of location and account
- Account Size
- Location
- Year

For each cluster MarketStance creates:

- Exposure base and premium forecasts by LOB, including core, specialty
- Credibility-adjusted reference year loss ratios for BOP, GL, Auto, Property

Forecast and model updated monthly



2 Segment Optimization Scenarios

Planning for Success

Small commercial optimization: scenario 1

Company with unlimited appetite

Current situation

- Write all classes and states
- Core lines
- Market basket premiums
- DWP composition matches the market for all 3-digit NAICS

Optimization

- Exceed market basket profitability and growth while maintaining appetite
- DWP growth: >6.0%
- Composite LR: <62.4%

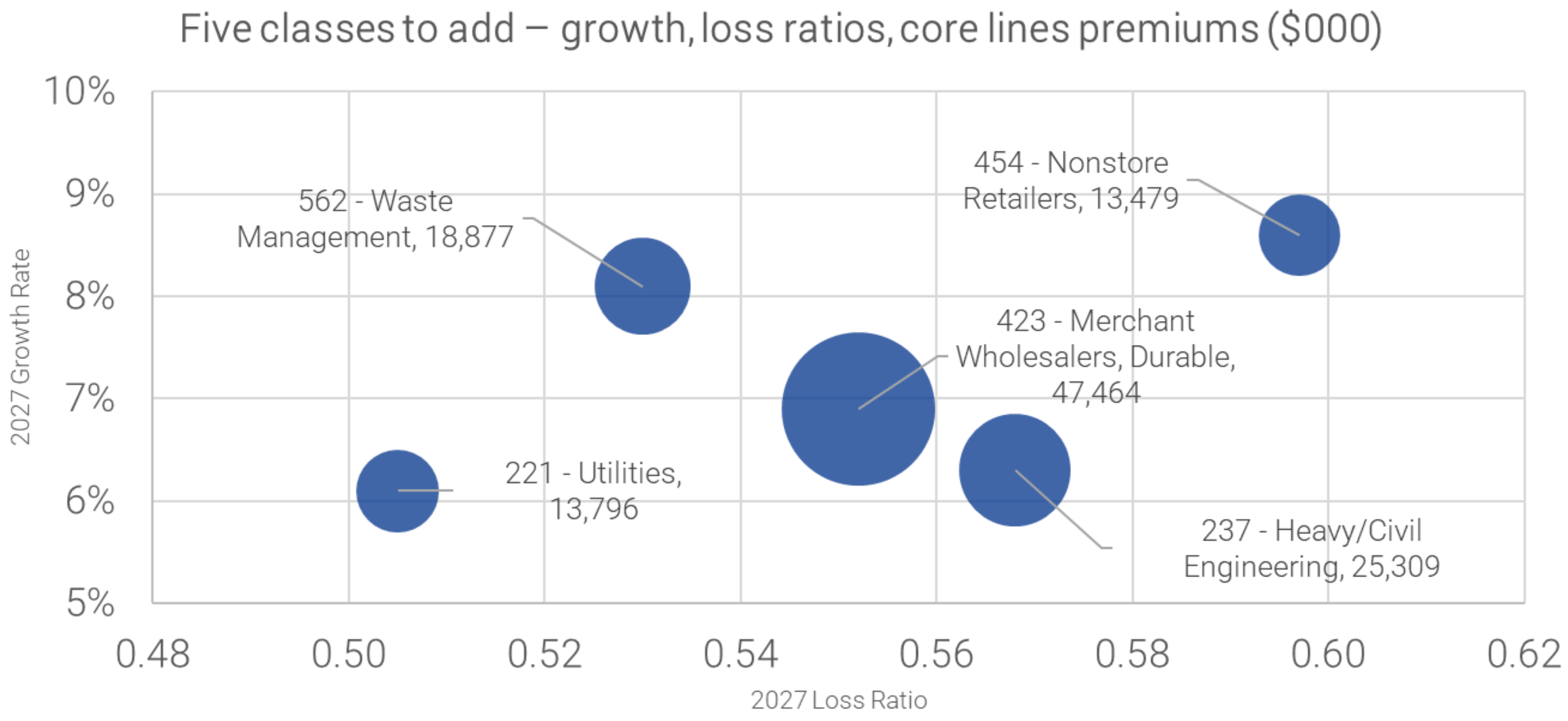
Constraints

- Continue writing all classes and states
- Plan to reweight at 3-digit NAICS level
- But limit change in weight to 25%
    - If current weight of a 3-digit NAICS = 5%, target new weight (4.75%-6.25%)

Definitions: Small commercial: private sector companies with 1-49 employees. Core lines: Businessowners, Commercial Auto, General Liability, Property. Loss ratios: Incurred and trended losses to direct written premiums including A/ULAE and developed to ultimate and adjusted for non-admitted experience. Composite loss ratios are a weighted average of core lines. Losses exclude catastrophes.

Small commercial segment optimization: scenario 1

Add to classes with favorable profitability, growth



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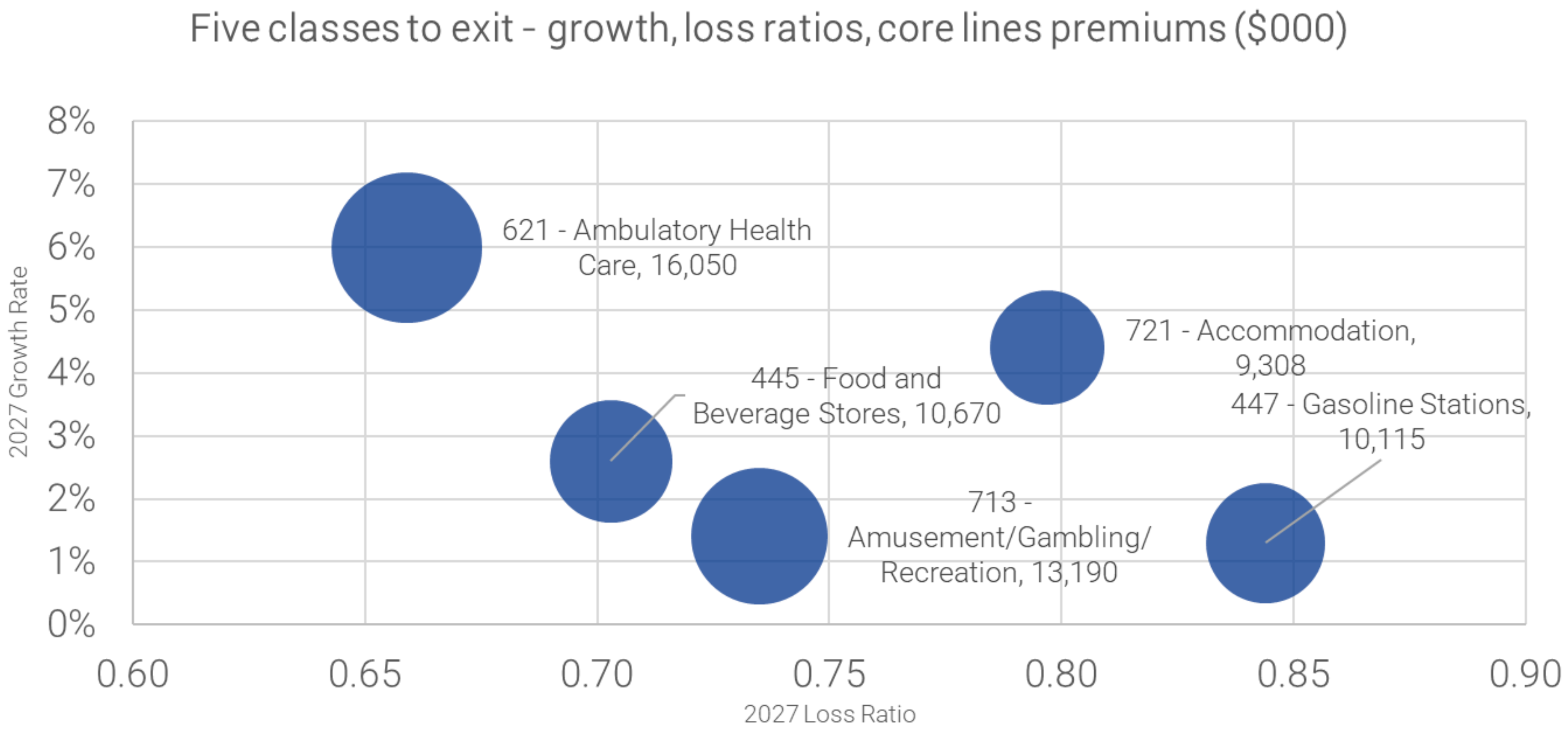
Small commercial segment optimization: scenario 1

Subtract from classes with unfavorable profitability, growth



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Small commercial segment optimization: scenario 1

Optimizing with an unlimited appetite

Metric	Optimized	Market basket (%)	Improvement
2027 Core DWP Growth Rate	6.1	6.0	+10 basis points
2027 Composite LR	61.9	62.4	-0.5 points
2027 DWP	1,061M	1,060M	+1.0M

- Despite leaving appetite untouched, marginal gains are possible in this example.

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Small commercial optimization: scenario 2

S2: Constrained exit and entry

Current situation

- Write all classes and states
- Core lines
- Market basket premiums
- DWP composition matches the market for all 3-digit NAICS

Optimization

- Revise appetite
- Exceed aggressive profitability and growth targets (>6.5% GR, <60% LR).

Constraints

- Write at least one 6-digit class in all 3-digit NAICS classes in current appetite.
- Exit markets in up to 20% of 6-digit classes (<=199 6-digit classes).

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Small commercial optimization: scenario 2

Constrained exit and entry: results

Plan	#6-digit NAICS	Description
Exit	199 (20%)	Worst-performing classes dropped
Increase weight 25%	204	Growth, loss ratios better than market
Decrease weight 25%	50	Growth, loss ratios worse than market
Hold at market weight	546	Unchanged weight (mixed performance)
Total	999	

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Small commercial optimization: scenario 2

Exit suggested due to unfavorable loss ratio forecast

6-Digit NAICS Class	2027 Core DWP Growth (%)	2027 Composite Loss Ratio (%)
Plumbing, Heating, and Air-Conditioning Contractors (NAICS 238220)	7.0	71.7
Electrical Contractors and Other Wiring Installation Contractors (NAICS 238210)	7.3	73.7
Residential Remodelers (NAICS 236118)	6.7	63.1
Full-Service Restaurants (NAICS 722511)	6.5	78.4
Limited-Service Restaurants (NAICS 722513)	6.6	79.4

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Small commercial optimization: scenario 2

Constrained exit and entry: summary

Metric	Target (%)	Optimized	Improvement
2027 Composite Loss Ratio	62.4	57.4	-5%
2027 Target Core DWP Growth Rate	>6.5	6.4	Likely to miss target but exceed market by 0.3%.

- Exit, increase, or reduce writing in <half of the 6-digit NAICS.
- Exceeds market profitability and growth but misses target growth rate.

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Small commercial optimization: scenario 3

Optimizing commercial auto by state

Current situation

- Current premium: $1B Commercial Auto, Southeastern states
- Book: Specialty Trade Contractors (NAICS 238)
- Current commercial auto loss ratio: 63% – much better than average carrier in the region.
- Expected growth (2026): 8%.

Optimization

- Slowly diversify book from concentration in NAICS 238.
- Meet or exceed the 2027 national market forecast of 7.3% premium growth.
- Achieve a commercial auto loss ratio <=63%.

Constraints

- Expand in current and/or adjacent states in 2027.
- Limit expansion in long-haul trucking to 5% of new DWP.
- 2027 market share by 3-digit NAICS forecast to range 0.5%-3% in new markets.
- 2027 CA LR forecast ranges widely from 55.5 to 70.5%.

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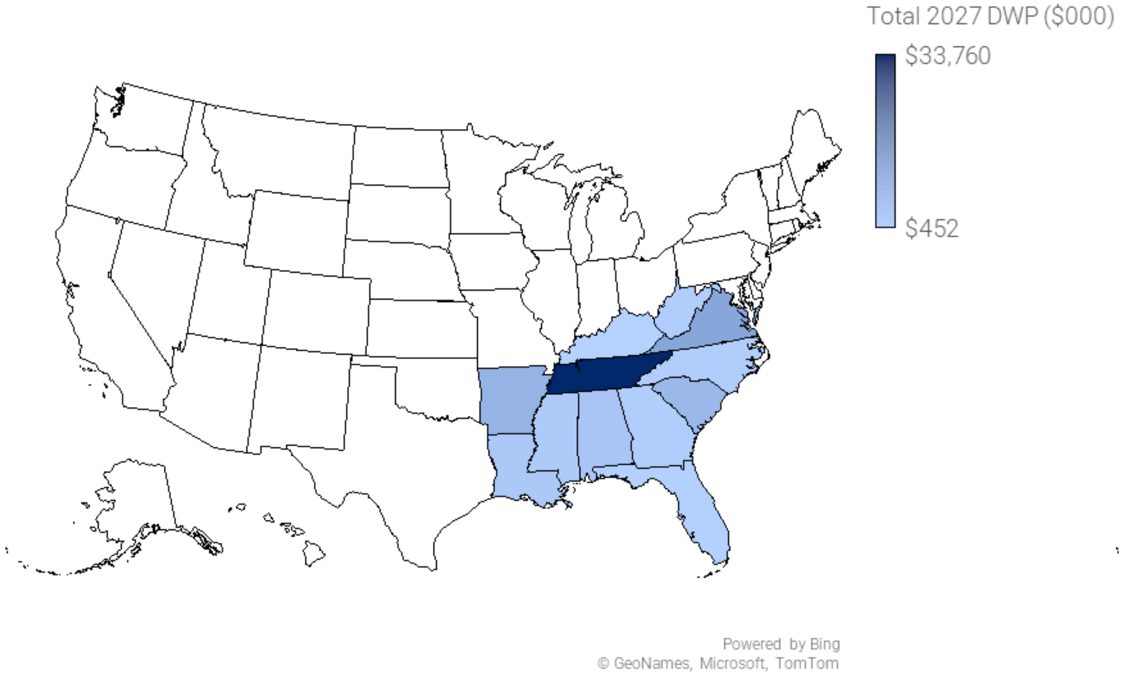
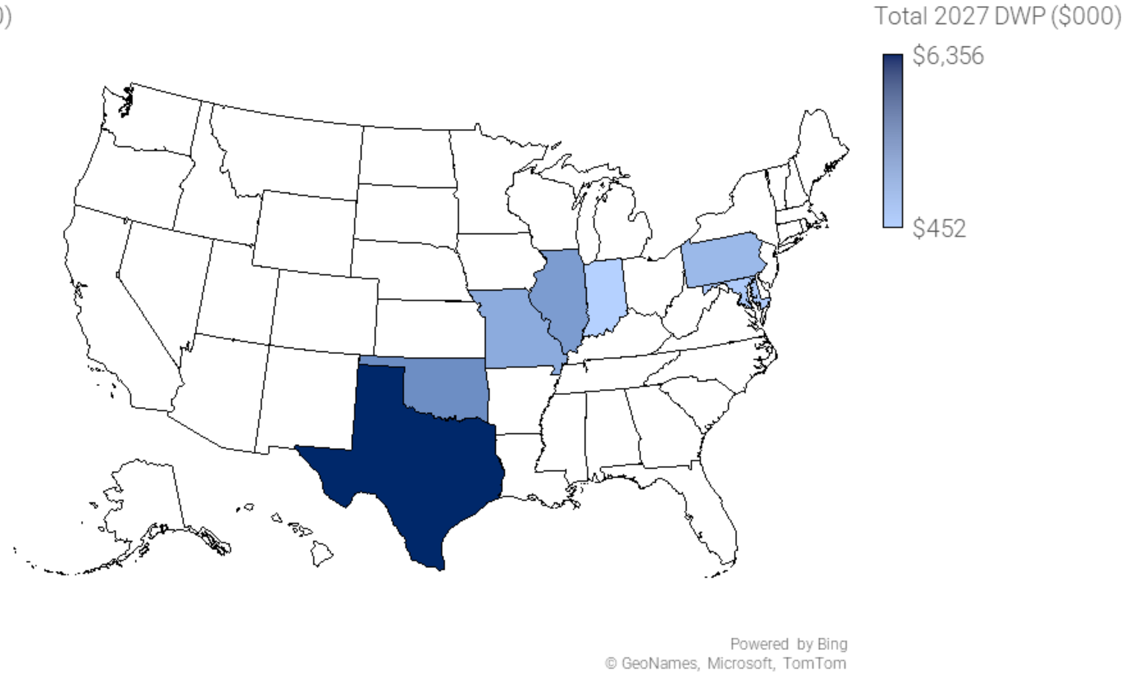
Small commercial optimization: scenario 3

Optimizing commercial auto by class & state: results

2027 additional premiums – current states



2027 additional CA DWP – expansion states



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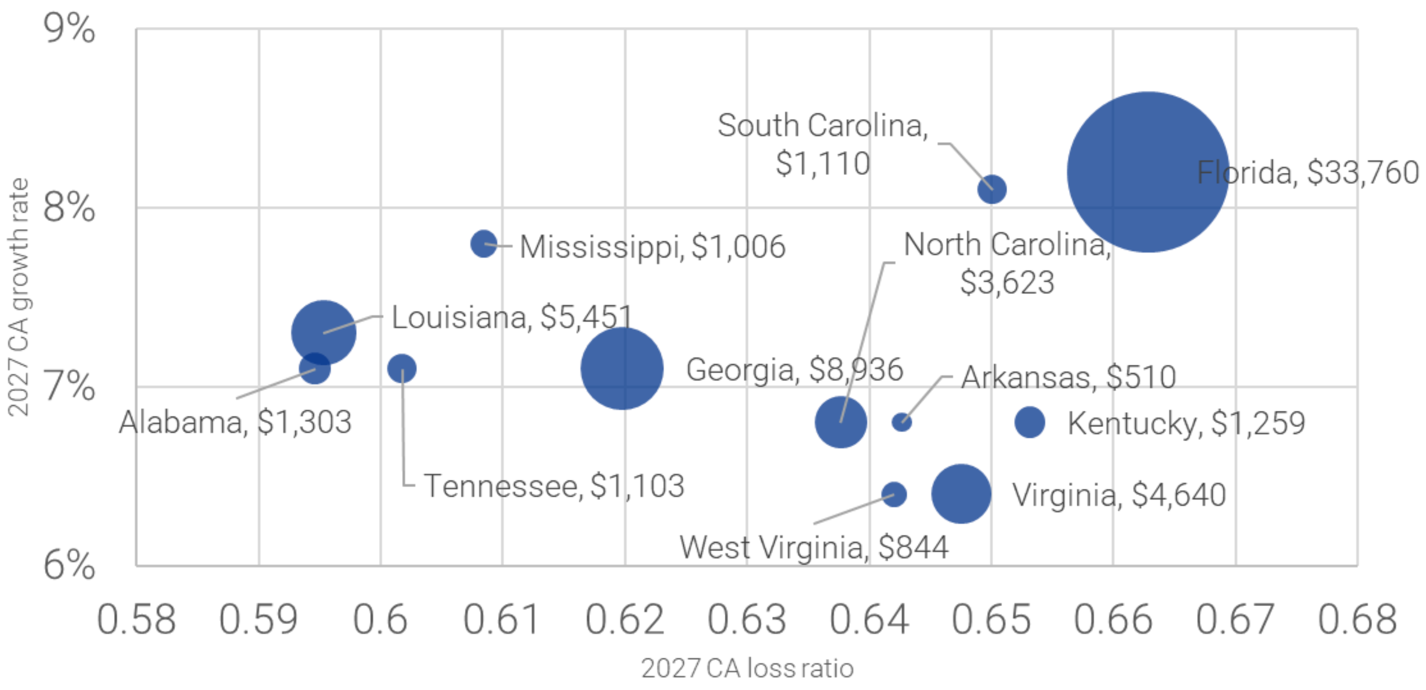
Small commercial optimization: scenario 3

Optimizing commercial auto by class & state: results



- Company forecasts continuing expansion in specialty trade contractors in current footprint.
- Current footprint accounts for 69.5% of SC expansion plan.
- Other than FL, NAICS 238 loss experience expected to be consistent with past.

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Small commercial optimization: scenario 3

Optimizing commercial auto by class & state: results

7.3% Growth CA DWP

<63% CA LR

7 new states

- NAICS 238 in new states: 16.4% of growth.
- Trucking (NAICS 484): 5.0%
- New NAICS Classes 9.1%
  - Professional Services (541)
  - Motor Vehicle Dealers (441),
  - Administrative Support (561)
  - Waste Management (562)

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Optimize with MarketStance

- ✓ Begin with MarketStance segment forecasts
- ✓ Understand your fit with the market
- ✓ Optimize using scenarios that reflect your assumptions, capabilities, and timeline
- ✓ Update your priorities

Contact your Verisk commercial lines account executive to arrange a discovery call or product demonstration.

3 Questions?

Contact:

Eric Price-Glynn: eglynn@verisk.com

www.verisk.com/marketstance

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4 Appendix

Commercial Market Data Source Overview

Insurance company statements & filings

Criteria	Score (0-4)	Pros	Cons
Classifications	0		None
CL premiums or losses	3	Unmatched scope	• Misalignment with CL exposures • Missing alien, captive universe
Insurer characteristics	3	Many dimensions	Missing alien, captive companies
Insured characteristics	0		
Data age	4	Lags 1-2 quarters	
Time period	2	Quarterly	No forecast

- Score & rationale: 12/20
  - Essential resource for supply side of market
  - Gaps challenging to fill
  - Other Liability sublines reporting mark a major improvement
  - Reporting conventions for liability lines prevent direct application for estimating sub-national markets.

Verisk

Marketing records, private providers

Criteria	Score (0-4)	Pros	Cons
Classifications	2	SIC/NAICS	Inaccuracy
Commercial lines premiums or losses	0		
Characteristics of the insurer	0		
Characteristics of the insured	2	Multiple attributes of the risk	Inaccuracy
Data age	3	Variable	2-5+ years not uncommon
Time period	2	Point in time	No forecast

- Scoring rationale:
  - Strong resource for *some* demand side components
  - Trading accuracy for individual business level insights.

Federal statistical programs

Criteria	Score (0-4)	Pros	Cons
Classifications	3	Most accurate business classifications	Challenging to relate to insurance classes
Commercial lines premiums or losses	0		
Characteristics of the insurer	0		
Characteristics of the insured	3	Most accurate risk sizing, full market coverage	• Aggregated data • Suppression • Lacks account attributes
Data age	2	More (**less**) current = less (**more**) detail.	
Time period	2	Extensive historical data	Limited forecast data

- Scoring rationale:
  - Most accurate and complete for demand side, insured exposure base components
  - Requires advanced techniques to utilize critical data sets
  - Challenges rectifying key concepts with insurance domain account attributes

Industry statistical data

Criteria	Score (0-4)	Pros	Cons
Classifications	2	Statistical plan insurance classes	Challenging to relate to business class data, accuracy concerns
Commercial lines premiums or losses	3	Premiums, losses, claims counts	Admitted sample, not the total addressable market
Characteristics of the insurer	0		
Characteristics of the insured	3	Line specific policy attributes, exposures	• No multi-line perspective • Account size?
Data age	3	6-9 months	
Time period	2	5-7 years historical	No forecast

- Scoring rationale:
  - Richly detailed and geared to critical actuarial values
  - Investment in actuarial skills key for most applications
  - Single line perspective in a multi-line market
  - Lacking key size attributes
  - Contributory market sample – not a measure of addressable market.

Economic forecasts, private providers

Criteria	Score (0-4)	Pros	Cons
Classifications	3	NAICS or proprietary	Challenging to relate to insurance classes
Commercial lines premiums or losses	0	Inflation forecasts	No insurance rate forecast component
Characteristics of the insurer	0		
Characteristics of the insured	2	County or state level exposure base data	Aggregate data with no account size component
Data age	4	Monthly	
Time period	2	10+ past, 5+ future	Limits to forecast validity

- Scoring rationale:
  - Macroeconomic forecasts stated at an actionable level
  - Merger with insurance data not straightforward, lacking some critical values
  - Rapidly diminishing validity beyond 12-18 months, partly depending on forecaster but mainly *inherent in forecasting*