MOODY'S

Insurance Solutions

CASE STUDY

Risk Intelligence: Accelerating innovation in catastrophe risk management

Company: Covenant Underwriters

Headquarters: Texas, US

Industry: Insurance MGA

Working with Moody's: 2.5 years

Moody's Products:

→   Location Intelligence API

The goal

CHALLENGE – GENERATING REAL-TIME, DATA-LED QUOTES

Covenant Underwriters is a program administrator that specializes in commercialpackage policies for specialty lines with a focus on small hotels. It uses an e-commerce distribution platform to reach its network of retail brokers and operates in 48 states with concentrations in Texas, the Southeast, and the Midwest.

Like many MGAs, Covenant's established approach to pricing was a combination of past experience and underwriting expertise, often applying blanket rating factors across different geographies. While this approach worked reasonably well for Texas and Louisiana where past rating experience was plentiful, itwas less successful when applied to new territories with differing catastrophe exposures and limited rating experience.

As Covenant expanded, it began to see a disconnect between how it priced business, using this blanket approach to rating, and how partner carriers viewed the same risks when assessed with probabilistic catastrophe models. Being heavily property focused, Covenant's portfolio was also impacted by a number of claims arising from hurricane and severe convective storm events. Overall, there was an increasing need for access to location-based catastrophe insights at the point of underwriting to enable a more sophisticated approach to rating.

The objective

PROVIDING REFINED, CONSISTENT QUOTES WITHIN SECONDS

Given the prevalence of Moody's RMS™ models among its brokers and capacity providers, Covenant was keen to use our analytics at the point of quote. That way, it could start to provide more refined location-level ratings incorporating pour model science. At the same time, this would increase confidence with broker partners and capacity providers by demonstrating the use of more sophisticated and consistent data for making underwriting decisions.

Covenant's underwriters were spending between five and ten minutes providing a premium estimate to their broker partners.

These calculations were carried out manually, based on Covenant's own proprietary loss data, knowledge of the market, and some estimations around construction type and insured value. This approach used up valuable resources in the absence of catastrophe model insight and made it challenging to ensure that business was priced adequately. A retrospective analysis of the in-force portfolio showed that almost 25 percent of policies were not receiving sufficient premium to cover

the risk, making reinsurance purchase—informed by catastrophe models—almost unaffordable.

The MGA's goal was to reduce manual time spent on every quote and limit mispricing at the point of underwriting, while simultaneously delivering a greater level of comfort to capacity providers. Covenant also required a solution that would support its growth and vision.

The solution

MOODY'S LOCATION INTELLIGENCE API

To meet the objective of building a balanced and profitable book of business over time, Covenant needed a solution that would enable every quote to be risk adjusted and provide the potential for loss from a range of natural perils and reflect the specific exposure attributes of each individual risk.

Our Location Intelligence API offered the sophisticated model science at the point of underwriting that Covenant was seeking. The API provides real-time risk insights at a granular level for all key perils including those critical to Covenant, such as windstorm, severe convective storm, and wildfire. The model science powering the API enables close alignment with the view of risk of Covenant's capacity providers (and that of their reinsurers) and offers transparency at every stage of the process.

The ability of Location Intelligence API to produce insights at the point of underwriting that reflect not only hazard but also vulnerability allows Covenant to generate accurate indicative quotes within seconds rather than minutes. This boost to efficiency frees up time to focus on high value-add activities such as business development, while the speed of response means Covenant's brokers have a higher success rate on the business they are quoting.

The process

ONBOARDING WITH AN ANALYTICS-HUNGRY TEAM

The tech-savvy team at Covenant described Location Intelligence as the most exciting API integration to date due to the immediate and noticeable impact on pricing and underwriting. Once the team had gained access to Location Intelligence, underwriters spent the first few months testing before integrating the API directly into their rating process.

> **Daniel Murray,**
> Chief Underwriting Officer,
> Covenant Underwriters
>
> **The only time you can control that rate is when it's being priced. Moody's Location Intelligence has been able to assist in ensuring we are pricing adequately at the end of the quarter.**

Initially, there was some churn as Covenant reappraised business that was shown to be inadequately priced under the new rating process. Going forward, the company anticipates its book will be more sustainable as it has more confidence in the profitability of the accounts it is retaining. Of the business it retained in 2021, there was an average of 30 percent uplift in premium rate.

The outcome

SIGNIFICANT GROWTH, NEW OPPORTUNITIES, AND A MORE NUANCED APPROACH

Covenant has seen an immediate impact after just one year, with 99 percent of accounts, up from 75 percent, now rating with technical adequacy and business nearly doubling. By assessing each location on its own merit, Covenant is able to take a more nuanced and selective approach to underwriting than its competitors, many of which underwrite at a zip-code level and issue flat declines in areas of bad experience.

In addition to improvements in rating, Covenant's ability to transparently provide an indicative premium amount to their broker partners within seconds better positions them for success. This also means less time is wasted in situations where other providers are offering quotes below pricing levels acceptable to Covenant, when assessed with our model science.

Covenant has been able to double the amount of capacity it is committing to the business. The company's data-driven, insightled approach has won the approval of its partners in the insurance value chain and their actuaries, paving the way for growth.

> **Oliver Smith,**
> Senior Product Manager, Moody's
>
> **Covenant wanted to bring model science to the point of underwriting. Moody's Location Intelligence API satisfies this requirement by distilling the same best-in-class science from our probabilistic models into easily consumable data that an be directly implemented into the underwriting process.**

The company is now in a position to branch out into new areas. In June 2022, Covenant will launch a new insurance solution and platform for convenience stores. This new niche aligns well with its existing hotel portfolio as many of Covenant's broker partners also cater to this segment.

Our Location Intelligence API scales to support the business as it diversifies, empowering the underwriting team to rate several locations rapidly in real time—offering a distinct competitive edge in the MGA universe.

Covenant Underwriters
e-commerce insurance programs

Based in Houston, Texas, Covenant Underwriters develops and administers e-commerce insurance programs that leverage custom forms, cutting-edge technology, and niche underwriting to make specialty insurance easy for retail brokers. Current niche programs include commercial package policies for limited-service hotels and convenience stores with gas stations. https://covenantunderwriters.com