Enhance your auto insurance territory rating using crash data to outperform competitors

Use Cases: Better Territory Ratemaking with TNEDICCA Road Risk Scores

By Karen Albright | March 12, 2024

2023 posed considerable challenges for the auto insurance industry. Insurers struggled to maintain rate adequacy with inflation, a more restrictive regulatory environment, claim costs rising faster than CPI and deteriorating driving behavior.[1]

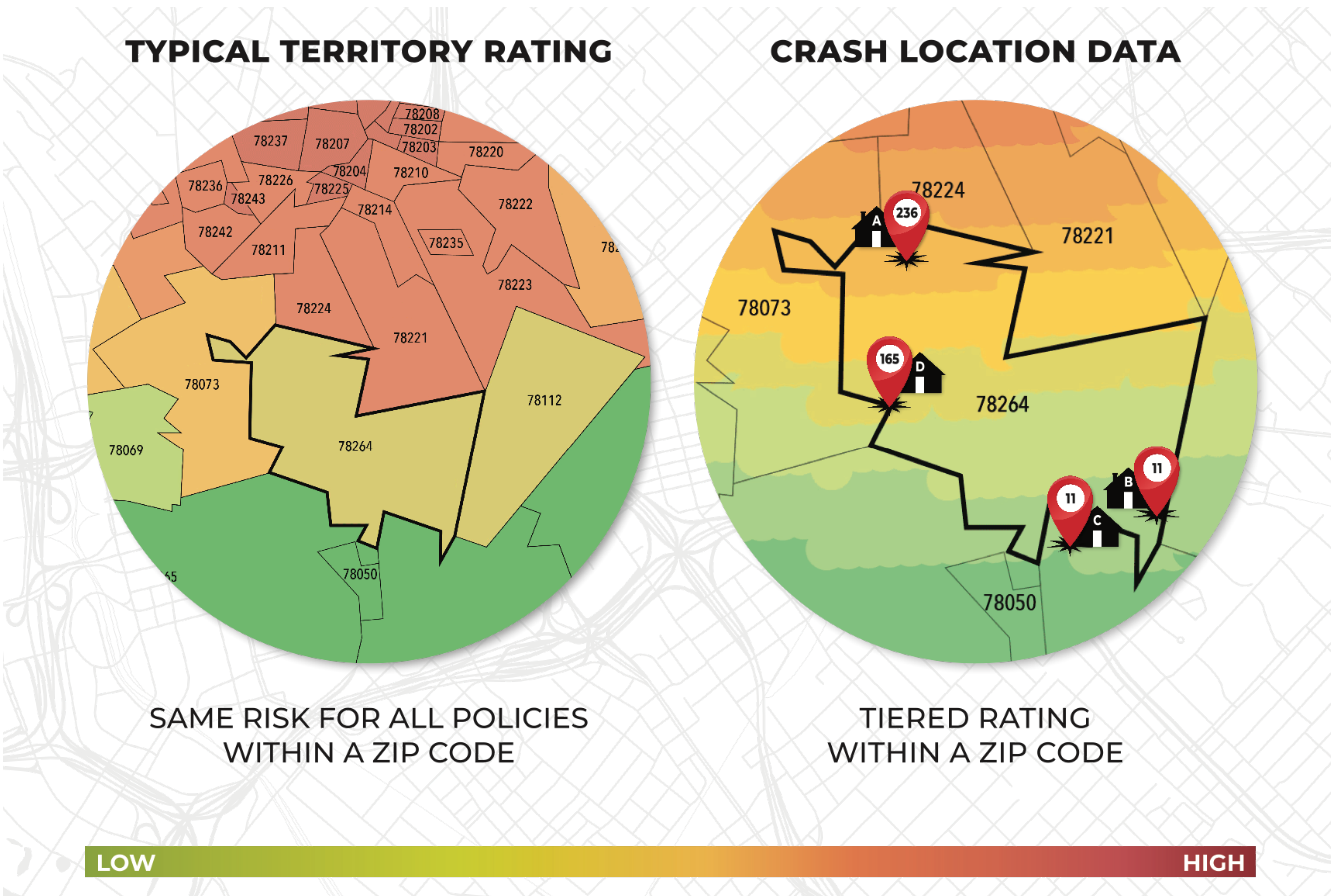
The good news is that the financial outlook for 2024 is improving as carriers shift their focus from loss improvement to growth. Meanwhile policyholders are continuing to see double-digit rate increases. Insurance shopping reached an all-time high in late 2023,[2] and we expect customer churn to continue in 2024. What does this all mean for the market? Auto carriers need to ensure their new business is priced right to acquire and retain a profitable book of business while avoiding adverse selection.

A new way to assess territory risk using crash data insights

Traditional territory ratemaking groups policyholders in a geographic area, usually defined by zip codes, into the same risk group for pricing. But not all risks within a territory are the same. A large territory may include areas in close proximity to busy, poorly designed intersections with a large number of crashes, while other parts of the zip code may have miles of wide-open roads with minimal crash risk.

Improve profitability with more precise location risk

TNEDICCA's scope and granularity of data allows for a more precise measure of location risk. TNEDICCA has over 30 million crash records from police reports, pinpointed to the precise location of the crash. TNEDICCA data and analytics are used to quantify the accident risk for each road segment. This enables TNEDICCA to provide a unique risk measure that is based on proximity to accident hotspots — where crash levels are highest.



Against a backdrop of evolving insurance pricing models, TNEDICCA Road Risk Scores℠ empower insurers to advance traditional auto insurance territory rating approaches with a precise risk score for every address. This migration towards more granular and personalized pricing insights using crash location data enables insurers to price more strategically in a competitive market.

How is the insurance market implementing this new territory ratemaking and pricing approach?

To get maximum benefit, carriers are implementing TNEDICCA Road Risk Scores as a new variable in their pricing models. Carriers that cannot do so immediately have opted for an initial use of an average TNEDICCA score at the zip-code level or census block group to improve current territory ratemaking.

Use Case 1: Street-level pricing precision using TNEDICCA Road Risk Scores
Company A was in the process of building a new auto insurance pricing model with future plans for a multi-year national rollout. The carrier's retro-loss analysis of TNEDICCA's crash location risk score showed an average expected 36% lift across states and perils. Company A decided to use TNEDICCA Road Risk Scores at the address level as a new variable in their pricing model to enhance their current approach. They added an API call to incorporate TNEDICCA Road Risk Scores during their policyholder quote flow to get a more precise risk for each policy. The benefits to Company A included a reduction in adverse selection, reduced loss costs and improved long-term profitability.

Use Case 2: Multi-state pricing strategy using crash location data to enhance performance
Company B sought to refine its territory rating factors by using TNEDICCA Road Risk Scores at the zip-code level, aiming for a more nuanced approach in states where its policy experience was limited. Amid a multi-year policy system overhaul, the carrier seamlessly integrated TNEDICCA scores to enhance pricing accuracy without additional IT complexities. The implementation of TNEDICCA's data not only facilitated a smoother rate filing process but also demonstrated the company's commitment to leveraging advanced data for superior risk segmentation. This strategic move underscores the shift towards more individualized pricing models, with TNEDICCA enabling insurers to achieve greater precision and a competitive edge.

By using TNEDICCA's Road Risk Scores for more accurate risk assessment, both Company A and Company B improved pricing segmentation and rating precision across their books of business. Both companies are now leveraging the power of crash data to price their auto policies more accurately, avoid adverse selection and out-segment their competitors.

Ready to make an immediate impact on your bottom line with TNEDICCA Road Risk Scores? Got questions or concerns about regulatory approval? Let's start a conversation.

1. "Auto Insurance: The Uncertain Road Ahead," apci.org, July 2023, https://www.apci.org/attachment/static/8465/

2. "J.D. Power: Auto Insurance Shopping Reaches All-Time High," insurancejournal.com, September 2023, https://www.insurancejournal.com/news/national/2023/09/15/740452.htm

Karen Albright
Head of Operations and Customer Success
