Insurance Quotes

Does new scoring system mean higher or lower insurance premiums for your home?

Nick DiUlio

When it comes to writing homeowner’s insurance policies, companies large and small often are plagued by the problem of making sure the coverage is sufficient and accurate. Consumers often are the ones who suffer most in this situation.

The issue? Many insurers simply don’t have enough accurate data to estimate precise replacement costs for a home or to identify a number of possible liability hazards like overhanging trees, old roofs or backyard trampolines. This means many homeowners are underinsured, and insurance companies often issue riskier policies than they otherwise might.

To address this matter, TransUnion, the country’s third largest credit bureau, and Valen Technologies, which specializes in data processing and predictive analytics (a system that uses a variety of statistics to predict future events), teamed up to create a product called PropertyRight. The software allows insurers to better identify homes that are potentially underinsured or that carry particularly high risks.

However, it’s unclear whether this technology will mean higher or lower home insurance premiums.

Thanks to TransUnion’s expertise in risk management and Valen’s property inspection database, PropertyRight will provide two types of “scores” for a home — one indicating liability hazards and another showing much insurance a property carries compared with its true value (also know as the insurance-to-value, or ITV, ratio). While liability hazards are scored on a scale of 1 through 100 (with 100 indicating an extremely high probability that a hazard exists), the ITV score is expressed as a percentage reflected in the ratio of the home’s insurance limit compared with its actual replacement costs.


Consumers aren't able to see their own scores, and insurers do no share these figures with each another.

"At the end of the day, what we're trying to do is identify homes that are underinsured or, in the insurance parlance, have an ITV problem," Valen CEO Dax Craig says. "And that has historically been a difficult thing for insurance carriers to do."

Underinsured homes

A standard homeowner's insurance policy will pay the costs for repair or rebuilding a home if it's damaged or destroyed by fire, hurricane, hail, lightning or other disasters (except for floods and earthquakes). The problem is, many homeowners don't have enough coverage.

According to a recent survey by insurance services company MSB, more than two-thirds of U.S. homeowners are underinsured by an average of 18 percent. This means that if your house cost $300,000, you'd be short by $54,000 if you needed to replace it.

"Homeowners don't usually think about this, because all they see is the market value of their house," says Crystal Euress, a Nationwide insurance agent from Georgia who specializes in claims and underwriting.

"But replacement cost is not about what the home would sell for on the market right now. It's about the cost of a builder, the cost of the labor and the cost of the materials needed to rebuild that home if, let's say, it burned to the ground."

Valen's CEO acknowledges he was ignorant about this potential gap in coverage before his company helped launch PropertyRight.

"I recently looked at my replacement costs laid out in my homeowner's policy, and it was at least 30 percent under what it would take to replace my home," Craig says. "That's bad."

Why the discrepancy?

Before writing a policy, insurers enter information about a property into what's called a replacement cost calculator. This information includes attributes like the home's square footage, the type of roof and the number of rooms. But unless an inspector actually has visited the property, it's difficult for the insurer to know whether the estimated replacement costs are accurate. Sending an inspector to every insured home is next to impossible.

"Insurers have always been interested in whatever they can learn about the characteristics of the property itself, but the inspection process can be expensive, and it's not always reliable because the conditions of the property will change over time," says Bob Detlefsen, research director for the National Association of Mutual Insurance Companies, a trade group. "Besides, policyholders usually aren't crazy about the idea of annual visits from insurance inspectors."

Home improvements also play a role in this accuracy problem. Maybe you rehabbed the kitchen or installed new flooring three years after buying your house. Unless you informed your insurance company about these updates, your carrier has no way of knowing that the cost of replacing your home has gone up.

"Homeowners do a lot of things to their homes that they don't tell their insurance carriers about," Craig says. "Not in a nefarious way — it's just that the last thing you think is to tell an insure company that you updated a bathroom or added a bedroom."

Then, there's the issue of hazards — a bad roof, a large overhanging tree or an old boiler that's on the verge of exploding. If an insurer never has inspected the home, it's not aware of any hazards. Of course, an agent can always ask a homeowner about these things, but insurers must rely on an honest, knowledgeable homeowner — something that's not always a given.

The benefit of predictive analytics

PropertyRight isn't the first product of its kind to hit the insurance market. Five years ago, FICO, which performs credit-based insurance scoring, teamed up with Millennium Information Services, an insurance property inspection in Illinois, to create Property Predictor.

Lamont Boyd, an insurance underwriting expert at FICO, says Property Predictor lets insurers zero in on key pieces of information from a vast property inspection database that indicates whether certain homes are underinsured, overinsured or entitled to discounts.

"We know that the more data an insurance company can collect, the more precise they can be in their pricing," Boyd says. "That's the benefit of predictive analytics — to identify key pieces of information that allow individual risks to be segmented from others."

While representatives of PropertyRight and Property Predictor won't disclose specifics about their predictive modeling techniques (they're kind of like a secret recipe), the general idea is this: With this data at their disposal, insurers can identify properties that may have problems and can order home inspections as they see fit.

"What they're doing is decreasing the need for too many home inspections; they are flagging homes that have inadequate insurance-to-value ratios or liability hazards," says Euress, the Nationwide agent. "The homes that are more likely to have these two things will be flagged for inspection, and the others will slip through the cracks."

The effect on consumers

Neither PropertyRight nor Property Predictor executives will disclose which insurers use their products. However, they say use of this brand of predictive modeling is growing among the country's largest home insurers. That's both good news and bad news for the typical homeowner.

"In some cases, a consumer may benefit from the introduction of this product if their property passes the test, but in most it would probably result in higher premiums," says Andrew Schrage, real estate expert at personal finance website MoneyCrashers.com.

"Carriers seem to have been rather lax in the past ensuring that homes were insured at the proper levels. So this product is probably going to uncover more areas where a higher premium is in order."

However, Craig points out, "just because you need 20 percent more insurance doesn't mean your policy increases by 20 percent. It's not a proportional increase."

In other words, if you have a $1,000 premium and you need to bump up replacement costs by 20 percent, that premium isn't necessarily going to rise by $200.

Some analysts think greater accuracy in writing home insurance policies eventually will mean lower premiums for all consumers. For instance, fewer inspections could translate into money saved by the insurance company, which may allow them to offer more competitive pricing.

"I think this is a good thing," says Tracy Becker, president of North Shore Advisory Inc., a credit restoration and education company in New York.

"The more information a carrier has, the better it can decide whether writing an insurance policy is a good idea, and everyone saves money. If they don't take people with high-risk properties, they will not be paying out as much money on claims. And that's what drives insurance premiums up."

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