

Effective Use of Geolocation to More Accurately Manage Risk

As property risk shifts to reflect a changing climate, having accurate, updated geolocation data is more important than ever.



INTRODUCTION

“Location, location, location” is a concept often associated with the real estate market, but property insurers understand the value of it, too. That’s because location information — specifically, geolocation data — is critical to calculating property risk. Indeed, quality geolocation data can paint the most complete and updated picture of risk for an insurer, allowing them to more accurately underwrite a policy.

But how can insurers use geolocation data for risk management? And, maybe more importantly, as climate change and other shifts expand what locations are susceptible to specific risks, what does it take to do so effectively? Here’s what to look for when assessing geolocation data providers.

GEOLOCATION: WHAT IT IS AND WHY IT’S IMPORTANT TO INSURERS

Now more than ever, Property & Casual (P&C) underwriters must pay very close attention to detail, and geolocation — specifically, geocoding — provides the type of detailed data that helps in this endeavor. Geocoding is the latitude and longitude of a given location, which can be as precise as rooftop-level coordinates (the precise coordinates of an individual address) to a ZIP+4 (usually 10-20 addresses) or an even more broad ZIP Code centroid.

For over a decade, insurers have embedded geocoding into risk assessment processes to provide basic latitude and longitude coordinates for a location, such as an address. It’s a great place to start when trying to determine a property’s proximity to hazards.

For example, flooding is a hazard that comes with a very high cost of damage. Insurers can use geocoding to determine if the property they’re writing a policy for is within a floodplain. It’s important to be precise here, as the risk of flooding can vary dramatically between properties. In fact, just a few feet can make a difference in pricing when underwriting a policy.

It can also provide historical information on the risks that may have occurred at a given location in past years. So, as more geolocation data is gathered, insurers can identify trends that will help inform the underwriting process in the future. Along these same lines, it’s

important to keep in mind that this data is ever-evolving and dynamic, and can change annually or even quarterly. Territories are redrawn, new housing developments pop up, and administrative boundaries, parcels, postal codes, street names and topographies change. Even hazard zones change. For example, data from First Street Foundation shows that the number of properties that have a 1% or greater annual chance of being affected by wildfire is expected to increase sixfold in the next 30 years — a point that will no doubt affect many policies. In addition, new sources of location data are emerging every year.

Failing to keep abreast of this dynamic information can be a big problem for both insurers and their customers. Consider this scenario: A public utility stored its fleet of service vans and trucks in a lot that, unbeknownst to the insurer, was within a floodplain and under sea level. Severe inclement weather, unpredictable and common as it is these days, wiped out the entire fleet, costing millions of dollars in damages.

There’s also the story of the school district that parked its buses in a known floodplain. Upon hearing of an impending hurricane, the district moved its buses to another property, not knowing it, too, was located in a floodplain. The entire fleet of buses was lost.

**Geolocation
Data is Moving!**

6x 
Increase in properties

 **Over
\$50 billion**
Estimate of value-at-risk

LEVERAGE THE RIGHT DATA, IN THE RIGHT WAY

Unfortunately, because geolocation data is a moving target, collecting it and making it usable isn't as straightforward as it would seem. Many insurers still rely on statistics and legacy geocoding solutions to help calculate risk — sources and solutions that lack precision and sometimes only provide mere estimates of the physical location of a property, let alone any new hazards in the proximity. Even for those insurers that are using advanced intelligence platforms, harnessing all this geolocation data and making it actionable can be a challenge. Complicating it all is the amount of location data coming from disparate sources. It must be verified and made sure that it's actionable and fit for insight. Otherwise, low-quality or incomplete data can mean either an underpriced policy (resulting in undue risk) or an overpriced policy (resulting in lost business) — a lose-lose for both the insurer and the insured. Inaccurately assessing risk contributes to the estimated over \$50 billion value-at-risk gap. It's truly a problem of "garbage in, garbage out."

The goal, then, is to ensure that insurers not only use the most high-quality geolocation data available, but that they also compare it against a wide variety of sources so that it's verified, cleaned and corrected. These sources may include the aforementioned postal authorities, census data, utilities, direct marketers, cataloguers and location technology companies. The process will bridge the value-at-risk gap and, more importantly, it will allow insurers to have confidence in the accuracy of their data so they can make the best possible business decisions and better underwrite policies against the backdrop of a dynamic and changing world.

DON'T GO IT ALONE

Clearly, having the cleanest, most actionable and up-to-date geolocation data gives insurers the confidence to better assess risk and properly underwrite policies for their customers. (For the record, it can also give insureds themselves a better understanding of their risk so that they can work with insurers to pick the right amount and type of coverage.) While accessing and verifying quality geolocation and geocoding data from multiple sources can be challenging, there exist third-party vendors that specialize in this for risk management that can help insurers navigate through it all. Melissa is one of them.

For more than 37 years, insurers have trusted Melissa's expertise in data quality, address management and multi-sourced reference data sets to assess hazard risk information for any property in the United States. As the Address Experts, Melissa is committed to understanding the changes in geolocation data over time, and then verifying, cleaning and correcting it. The result? Rich geolocation data that provides a current, complete picture of a property to be assessed.





www.melissa.com

About Melissa

Our 37+ years of address expertise started with ZIP+4 and turned into so much more. Melissa is a single-source vendor of global address management, data quality and identity verification solutions that help organizations harness accurate data for a more compelling customer view. Our industry-leading solutions have processed over 1 trillion address, name, phone and email records, making it clear why thousands of businesses worldwide trust Melissa with their data quality needs. For more information, visit www.melissa.com or call 1-800-Melissa.

US

**22382 Avenida Empresa
Rancho Santa Margarita, CA 92688-2112**

800 MELISSA (635 4772)

GERMANY

+49 (0) 221 97 58 92 40

INDIA

+91 (0)80 4854 0142

AUSTRALIA

+61 02 8091 6000

CANADA

800 635 4772

UK

+44 (0)20 7718 0070

SINGAPORE

+65 8 2997442