

## **The Homeowners Insurance Company**

### **Background:**

The Homeowners Insurance Company was formed in 2018 by Jason Traveller and Alison Farmer to market personal homeowners insurance policies. Prior to forming this new company they worked in the personal lines property-casualty field for over 25 years and developed expertise in both the underwriting and claim-handling business processes. Their marketing philosophy is to provide high quality service for policies written to cover high-value homes.

Their operating philosophy is to develop sophisticated information systems that will enable them to operate efficiently and thereby maintain a cost-effective operation. Unlike most property-casualty insurance companies, they intend to operate at an underwriting profit (i.e., the amount of premium that they collect will exceed the amount of money they pay out in claims). To achieve this goal they need to be able to selectively target market to specific individuals who are less likely to experience a loss or be involved in fraudulent insurance scams.

The initial target market will be the United States and Canada; however future plans call for expansion into Europe and Asia. Their home office is located in Chicago, IL. Policies are sold exclusively through the Internet through a policy quotation and underwriting system.

To initiate their operations, they will develop applications that utilize a centralized database. The database must support all of the information needs for their operations described within.

### **Homeowners Insurance Operations**

#### **Initial Quote and Approval**

Prospective customers fill out a request for a homeowner's insurance policy quote online. In addition to the names and social security numbers of each of the owners on the title of the home, they must include the address of the home, the name and address of the mortgage holder (if applicable), the number of smoke detectors, in the home and if the home has a security system (this is a Yes/No indicator).

A home may have more than one mortgage holder, so they need to include the amount of the mortgage for each mortgage holder.

In addition, they must list the name, type and value of any personal property that is valued at more than \$5,000. Examples of this include jewelry, artwork, electronics and antiques.

Once they hit submit, the quotation system will automatically pull the structural data about the home from the town's tax records and store that information. This includes the total square footage of the home, the number of rooms, its assessed value, the year it was assessed, and an indicator (Y/N) if there are any other buildings (e.g., detached garage) that exist on the property. The date and time that this data was obtained is also stored.

The homeowner's social security numbers are used to automatically extract employment information about each homeowner. The current employer, including their name and address will be stored along with the employment start date, current salary and job title. In addition, the date that the employment record was extracted is maintained.

Once all of the data has been compiled the underwriter reviews the file. Based upon the information, they make a decision to approve or reject the policy. The decision, along with the date and time that it was made must be maintained. On rare occasions, senior management can override a decision; when this occurs the override along with the date and time must also be maintained.

### **Policy Premium Calculation**

If a policy is approved, the premium to be charged is calculated and a policy effective and expiration date is established and must be maintained. The premium charged is .5% of the assessed value x .1% of the total square footage of the home. Table 1 below provides an example of sample premium amounts.

**Table 1. Sample Premium Amount**

Assessed Value	.5% of Assessed Value	Sq Footage	Sq Footage*.1%	Premium Amount
\$500,000	\$2,500	2100	2.1	\$5,250.00
\$500,000	\$2,500	2900	2.9	\$7,250.00
\$500,000	\$2,500	3200	3.2	\$8,000.00
\$700,000	\$3,500	2100	2.1	\$7,350.00
\$700,000	\$3,500	2900	2.9	\$10,150.00
\$700,000	\$3,500	3200	3.2	\$11,200.00
\$1,000,000	\$5,000	2100	2.1	\$10,500.00
\$1,000,000	\$5,000	2900	2.9	\$14,500.00
\$1,000,000	\$5,000	3200	3.2	\$16,000.00

Once a policy is approved the homeowner must supply a bank name, account number and routing number for electronic funds transfer of the premium; this is the only method of payment permitted. Policies are always one year in length and become effective at midnight of the policy effective date.

### **Policy Renewals**

Each year, when the policy is renewed town data is retrieved. The new assessment (if applicable) is used to calculate any premium changes. The town assessment data must be maintained each time it is retrieved along with the date and time of the retrieval.

There is an additional premium adjustment based upon whether a loss occurred in the prior year. Their policies cover several types of losses, such as mold and sewage backup that are typically excluded by other insurers. The loss adjustment is the reserve amount of the claim\* 3%. This amount is added to the premium.

Homeowner's policies and premium statements are sent to customers electronically. The document type (policy or statement) and the date/timestamp that it was sent are maintained for each document sent to each customer.

### **Homeowner's Claim**

When a loss occurs, the homeowner must file a claim electronically. The information consists of the type of loss (e.g., fire, tornado, hurricane), the date and time of the loss (which must be within an existing policy's effective and expiration date), and a description of the loss (including whether anyone was injured as a result). If no one was injured, it is a property damage claim. If someone(s) is injured then the claim will also have a personal injury claim. The claim handler who is assigned to the claim must be maintained; this information consists of their name and employee number.

### **Property Damage Claims**

The assigned claim handler then contacts the homeowner to gather any additional required information to settle the claim. For damage to a homeowner's property, this includes a list of damaged items. From this list the claim handler then sets a reserve amount that includes the total expected payout for each item. Once the list has been confirmed, payout of the claim is made. The reserve date and payment dates are required. Once the claim is paid, it becomes a closed file (a Y/N indicator). At any point in time, they need to know the number of open claims by claim handler.

### **Personal Injury Claims**

If the claim involved personal injuries, then the names and addresses of each person who was injured is recorded, along with a description of their injuries.

The medical providers (e.g., doctors, hospitals) are contacted to determine the types of injuries and a medical reserve is set-up to cover the expected payout for each claimant.

Medical bills are sent from the provider to the claim handler for payment. Payments are made via EFT and the date, amount, and payee for each payment is maintained.

In addition, the name and address of the medical provider that payment was made to are maintained.

**Database Notes**

The data requirements specified above must be maintained. It is not necessary to generate additional requirements. The database to be developed must be a relational database that is in third normal form.