

# BEST'S REVIEW® ISSUES & ANSWERS: RISK ANALYTICS, DATA AND AI

Insurers discuss how they're collecting data and utilizing technology to push the industry forward.



## Interviewed Inside:



**Bob Morgan**  
Philadelphia Insurance Cos.



**Arun Balakrishnan**  
Xceedance

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# Perils of Inaccurate ITV

Insurance policies are meant to provide peace of mind, but they can be a source of frustration for both the insured and the insurer if they are built on inaccurate information. This is particularly true for property coverage and the relationship between the value of the covered property and the coverage provided. As important as this aspect of property insurance is—a concept known as insurance-to-value (ITV)—there is an epidemic of inaccurate information when it comes to property values throughout the insurance industry. The following is an interview with Bob Morgan, Senior Vice President, Underwriting for Philadelphia Insurance Cos., about ITV.

## What is “insurance-to-value” and why is that important to an insurance company?

Insurance-to-value is getting the proper values for the coverages provided by the insurance company. It’s a matter of having the right square foot costs versus the exposures. If there’s a deficiency in the insurance-to-value, i.e., the values insured, it may cause losses to be higher than what would be expected, and that may have long-term effects, and that may cause rates to rise.

## How has ITV changed in the past five years or so?

In the past five years, there’s been a lot more concentration on using satellite imagery in order to get square footages. In the past, it may have been that the agent would have provided that square foot number. The insured may have provided that square foot number, or the insurance company may have determined the square footage by a physical inspection. It’s more accurate with that imagery information. That’s one of the biggest changes that I’ve seen.

## Why is it important that agents should know about ITV?

Because of the emphasis on the ITV, insurance companies are making some changes to the way they provide coverages. They may take a location out of the blanket limit. They may remove an agreed amount. They may provide a margin clause. These are all things that can impact the amount of insurance available if there’s a total loss. Because of that, it could affect the agent’s E&O insurance if the insurance-to-value isn’t appropriate.



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■ Factors Driving Property Valuation:

■ Square Footage

■ Material Costs

■ Labor Costs

## Bob Morgan

Senior Vice President, Underwriting  
Philadelphia Insurance Cos.



“While an accurate rate is important, the insured value is the foundation on which the ITV is built.”

Visit the Issues & Answers section at [bestsreview.ambest.com](https://bestsreview.ambest.com) to watch an interview with Bob Morgan.

## Do you think ITV will affect the future of insurance? If so, how?

It’s going to continue to affect the future of insurance. The values going up so much—that’s had an effect on reinsurance because of the amount of concentration of values and the increase in values. That may affect some carriers’ ability to write certain types of accounts due to the amount of value in a single building or in a cluster of buildings. That causes some disruption in the market as to which carriers can write which type of accounts.

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# Navigating the Challenges of AI

Arun Balakrishnan, Chairman and CEO of Xceedance, said, “When it comes to AI, ‘measure twice, cut once’ is an effective strategy.”



Following are excerpts from an interview.

## How should insurers implement advanced data and analytics to mitigate risk?

Today, vast amounts of external data are available, distinct from traditional insurance datasets. Companies must evaluate how such data aligns with their product needs and aids in risk assessment and rating. Considering their expertise, firms must decide whether to manage analytics internally or partner with external providers. An honest assessment of internal capabilities guides decisions on hiring, partnering, or utilizing external platforms to maximize data and analytics ROI.

## What challenges do insurers face when integrating AI-driven risk analytics into their existing systems and processes?

One of the most significant limitations is the legacy architecture of incumbent systems. Sometimes, a company might be new with systems that are not that old, but they acquire a few other companies or MGAs, and suddenly, they have legacy elements in the IT architecture. Most of today’s generative AI focuses on processing information in real time—either from in-house data warehouses or external data. But, sometimes, legacy platforms do not allow that. You can only experience the actual value with quick, real-time data integration, extraction, and analysis.

## Are there ethical considerations surrounding using AI and predictive analytics in risk assessment?

A lot. Whenever we talk about AI, I reinforce that it’s a disruptive technology that can deliver a lot of impact, but the pace of adoption is not important here. The FOMO is not worth it. That’s not to say AI models are giving unethical responses. We need to be sure the application of AI caters to the policyholders’ best interests without any bias because the multiplier effect of anything going wrong is drastic, given the efficiency of the technology.

## Arun Balakrishnan

Chairman and CEO  
Xceedance



“We need to be sure the application of AI caters to the policyholders’ best interests without any bias because the multiplier effect of anything going wrong is drastic, given the efficiency of the technology.”

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## How important are transparency and interpretability in risk analytics powered by AI?

They are essential even without AI. And technology can have more of an advantage here. If you ask an underwriter writing a large commercial book of business why they think the risk is good or bad, they will often cite empirical reasons, but with some caveats: “I don’t have a good feeling about it.” “I just don’t know.” “I think I know, and that’s why it’s a problem.” Whereas you can ask AI pointed questions: What is the logic behind your recommendation? What are your sources? There’s a better auditability of the thought process because AI is not hesitant about sharing it.

