

## Solving the Profitability Puzzle – Addressing Auto Insurance Quote Manipulation

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Quote manipulation can indicate higher claims risk as individuals provide incorrect information to appear less risky. Unchecked, widespread quote manipulation can lead to better customers subsidizing riskier ones, inflated premiums that drive away good customers, and greater risks of adverse selection.

New research suggests that up to 8% of new shopping events could be subject to auto insurance quote manipulation by individuals misrepresenting their garaging address.

A panel of data scientists and insurance experts examine how carriers can identify garaging address mismatches to better support underwriting and profitability.

### Panelists:



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### Executive Summary:

This webinar, sponsored by LexisNexis Risk Solutions, discusses the issue of auto insurance quote manipulation, where individuals misrepresent information to appear less risky and obtain lower premiums. The key points covered were:

- Quote manipulation can lead to better customers subsidizing riskier ones, inflated premiums, and adverse selection. Up to 8% of new shopping events may involve misrepresentation of garaging address.
- Carriers face challenges in balancing a smooth customer experience with applying friction when risk presents itself. They need real-time decisioning tools to detect manipulation.

- Data indicators of consumer quote manipulation include zip code mismatches. For agent-driven manipulation, indicators include quoting multiple household members with the same carrier in one day.
- Best practices for carriers include verifying data against reputable sources at the start of the quote process, monitoring for manipulation patterns, educating consumers, and incentivizing truthful disclosure.
- Having identity verification tools integrated into the workflow allows carriers to fast-track low-risk consumers while scrutinizing quotes that show signs of manipulation.
- Quote manipulation undermines proper risk pooling and pricing. Carriers should leverage data and systems to monitor for manipulation, improve the consumer experience, and ensure risks are appropriately priced at both new business and renewal.

## Highlights:



### 01. Misleading Quotes, Mispriced Risks: The Growing Problem of Insurance Fraud

Quote manipulation refers to the deliberate provision of inaccurate information by either the insurance agent or the consumer during the quotation process to secure a more favorable insurance rate. This involves knowledge of specific factors that can be adjusted to lower premiums for auto or homeowner's insurance. The issue is particularly relevant due to several factors:

- **Auto Insurance Industry Challenges:** The industry is recovering from significant losses, marked by high loss ratios and poor performance. In an effort to regain profitability, insurers are raising premiums. However, this alone sometimes isn't enough to counterbalance the losses.
- **Consumer Financial Pressure:** High inflation, increased cost of living, and the rising costs associated with car ownership are prompting consumers to seek ways to reduce expenses, including insurance costs. This financial strain may motivate some to misrepresent information on their insurance applications to secure lower premiums.
- **Agent Pressures:** Insurance agents face their own set of challenges, including the pressure to provide savings to their clients while ensuring their commission earnings. This can encourage some agents to participate in or overlook quote manipulation.

The concern with quote manipulation arises because it introduces incorrectly rated risks into the insurer's portfolio, threatening the insurer's long-term profitability. Incorrectly rated risks could lead to insufficient premium collection relative to the risk assumed, exacerbating financial challenges for insurers.



### 02. Zip Code Changes, Hidden Drivers: How Insurers Spot Quote Manipulation

From a consumer perspective, quote manipulation involves deliberately providing false or misleading information to insurance companies to secure lower premiums for auto or homeowner's insurance. Examples include:

- **Misrepresenting Location:** Claiming a residence in a different zip code to benefit from lower rates associated with that area.
- **Omitting Teenage Drivers:** Not disclosing teenage drivers living in the household due to the significant increase in premiums they can cause.
- **Falsifying Home Features:** Lying about the age of the home's roof or failing to mention potential hazards like trampolines, certain pets, or swimming pools that could increase premiums.

On the data analysis side, efforts to identify quote manipulation focus on inconsistencies in information provided during the quote process. For instance, a study on zip code mismatches revealed that 8% of quotations had

discrepancies in zip codes provided by the same consumer within a three-day period. This indicates potential manipulation as consumers may submit multiple inquiries with different zip codes to gauge the impact on rates.

Additionally, the correlation between poorly verified personal information and higher claims frequency and severity highlights the risks associated with quote manipulation. Insurance companies rely on accurate data to assess risk and determine premiums. Manipulation leads to inaccuracies in this assessment, resulting in financial implications for both the insurer and the broader customer base through potentially higher overall premiums to compensate for the increased risk and losses.



### 03. The Secret World of Insurance Quote Adjustment: How Agents Play the System

The agent component of quote manipulation involves insurance agents using their knowledge of the insurance system to alter information and secure lower premiums for clients. These practices include manipulating details about insured individuals, vehicles, driving habits, and property conditions to affect the insurance quotes favorably. Examples given are:

- **Adjusting Named Insured Details:** Comparing the credit of spouses to see which one results in a lower premium if listed as the primary insured.
- **Vehicle Assignments:** Assigning drivers to vehicles they seldom use to reduce the premium.
- **Underreporting Miles:** Claiming a driver travels fewer miles than they actually do.
- **Misrepresenting Property Conditions:** Falsely stating that a home's roof was recently replaced to obtain a lower homeowner insurance rate.

Agents utilize these “tricks of the trade” to move from quote to policy issuance, knowing that lower premiums are attractive to clients and can increase their chances of securing business. There’s an acknowledgment that agents possess a deeper understanding of the factors influencing insurance premiums compared to the general public, including the impact of raising liability limits temporarily to obtain more favorable quotes upon return.

Regarding the consequences for agents who engage in quote manipulation, it depends largely on the insurance carrier’s diligence in verifying the accuracy of the information provided. Carriers might observe patterns of manipulation, such as consistently unrealistic claims about property conditions or unlisted drivers on policies, and take action against agents displaying such patterns. The discussion implies that while agents have the expertise to navigate the insurance quoting process to benefit their clients, there are ethical considerations and potential ramifications for engaging in manipulation.



### 04. Agent-Driven Channels Exhibit Higher Rates of Quote Manipulation

In analyzing data for signs of quote manipulation from an agent perspective, a specific study highlighted the practice of quoting multiple individuals from the same household on the same day to find a more favorable rate, based on who is designated as the primary insured. This analysis revealed that approximately 7% of quotes exhibited this pattern. When breaking down the data by channel, it was found that agent-driven channels had a 9% occurrence rate of this practice, compared to only 2% in direct channels.

This disparity suggests that agents, leveraging their understanding of the insurance quoting process and the internal workings of their companies, may actively engage in strategies to manipulate quotes to secure lower premiums. The findings indicate that such tactics are more prevalent in agent-driven channels, underscoring the role of agents in potentially influencing the insurance quoting process through their specialized knowledge and the application of specific “tricks” to achieve more favorable rates for their clients. Despite legitimate reasons for quote variations, the data suggests a significant enough pattern to warrant consideration of these practices as potential manipulation.



## 05. The Friction Dilemma: How Insurers Can Stop Fraud Without Alienating Customers

Carriers face significant challenges when addressing quote manipulation, balancing the need to provide a smooth customer experience for legitimate consumers while applying necessary friction to prevent fraudulent activities. This balance requires real-time decision-making capabilities to differentiate between quotes to be fast-tracked and those needing closer scrutiny. The difficulties include:

- **Discerning Intent:** Distinguishing between innocent data misalignments (e.g., recent moves, ownership of multiple homes, data entry errors) and deliberate misrepresentations intended for rate evasion. Understanding the intent behind discrepancies in provided information is crucial but challenging without the right analytical tools.
- **Accurate Risk Assessment:** At the point of new business, carriers have a singular opportunity to gather accurate information to appropriately rate the risk. Any inaccuracies not caught at this stage can lead to incorrect premium calculations, affecting the carrier's profitability. This accuracy in data collection is equally important at renewal stages to ensure ongoing correct risk assessment.
- **Consumer Mindset Awareness:** Understanding the consumer's perspective is essential. Many consumers may not be fully aware of how different factors affect their insurance rates beyond the basics like accident history or vehicle model. Carriers need to consider what consumers realistically know and might misrepresent, intentionally or not, to address quote manipulation effectively.
- **Applying Friction Appropriately:** While it's necessary to add friction to identify and prevent fraudulent activities, it's equally important to ensure that legitimate customers are not unduly burdened by the verification processes. This involves strategic decisions on when and how to introduce checks in the process without compromising the customer experience.
- **Leveraging Verified Information:** Enhancing the quoting process with verified information (e.g., driving history, accidents, address) upfront can streamline the process for consumers and agents alike, reducing the need for back-and-forth information gathering and helping to ensure the accuracy of data used for quoting.

These challenges highlight the complexity of tackling quote manipulation, necessitating a nuanced approach that leverages data analytics, understands consumer behavior, and applies technological solutions judiciously to maintain the integrity of the insurance quoting and underwriting process.



## 06. Beyond the Surface: Insurers Deploy Sophisticated Tools to Uncover Quote Manipulation

To address the issue of quote manipulation, the fundamental strategy for carriers revolves around rigorous verification processes. The key principle is not to accept data provided by consumers or agents at face value but to confirm its accuracy against credible data sources. This involves identity verification, which uses minimal personally identifiable information (PII) inputs, such as name, garaging address, and date of birth, to establish a unique identity. Tools like LexisNexis' Instant ID are designed to link these inputs to a single identity and validate the data against various authoritative sources, including public records, credit data, and utility records.

This verification process allows carriers to:

- Resolve input data to a single, verified identity.
- Obtain an easy-to-use score indicating the reliability of the data.
- Receive alerts on potential identity risks.
- Access a chronological list of addresses associated with the consumer, aiding in the identification of new movers or those attempting to use previous addresses for premium discounts.
- Correct data entry errors (missed keys) by providing corrected information in the quote response.

Having verified data enables insurers to make informed, immediate decisions on handling quotes, increasing confidence in their ability to identify and counteract attempts at quote manipulation. This approach ensures that the insurer can efficiently differentiate between errors and potential fraud, enhancing the accuracy of risk assessment and premium calculation.

## **07. Data Analysis Key to Detecting Insurance Agent Quote Manipulation**

Insurers should understand the importance of proactive measures by carriers, especially in agent-driven channels, to combat quote manipulation. Jon suggests that carriers have a unique opportunity to implement systems that gather and analyze data from quotes to identify patterns that may indicate manipulation. This approach involves understanding the story behind each quote and what manipulation might look like in their data.

For agents, controlling and monitoring specific types of information could be key. For example, ensuring that bodily injury (BI) limits presented in quotes match policy history, or accurately capturing and verifying roof ages for homeowner policies. Carriers can employ data verification tools, like property data pre-fill, to establish baseline expectations for certain data points and then monitor deviations from these expectations.

Jon also points out the importance of utilizing claims history (CLUE reports) at renewal to catch any claims not captured at new business due to timing. This ensures accurate risk assessment over the policy term. Additionally, running violation checks at renewal can identify any new infractions that occurred during the policy period, and driver discovery processes can reveal unlisted licensed drivers living in the household, allowing for appropriate policy adjustments.

The overarching recommendation is for carriers to balance the customer experience with the need for vigilance against quote manipulation. This involves strategically adding friction where necessary while minimizing it for legitimate customers. Systems and processes should be in place to verify information both at the quote stage and throughout the policy term, ensuring accurate risk assessment and fair pricing.

## **08. The Digital Watchdog: Insurance Carriers Use Behavioral Analytics to Prevent Fraud**

Advancements in quote management and policy management systems have made it easier for carriers to identify patterns of quote manipulation by agents. With these systems becoming more sophisticated, carriers now have enhanced capabilities to monitor the entire quote journey. This includes tracking consumer interactions on websites, which can reveal potential red flags indicative of manipulation or fraudulent behavior.

Furthermore, the use of behavioral analytics tools allows carriers to identify signals of fraud, such as the activities of bad actors or bot farms, providing a broader perspective on potential threats. The foundation of these efforts is comprehensive visibility into the quote process, enabling carriers to compare consumer and agent-provided data against various reports and verify their accuracy and reliability.

The improvement in data quality and the richness of information available throughout the quote flow present new opportunities for carriers to proactively address and prevent quote manipulation and fraud, ensuring more accurate risk assessment and fair policy pricing.

## **09. Identity Checks at Quote Inception Essential for Cost Savings, Risk Pricing**

Integrating identity verification at the very beginning of the quote process is a crucial strategy for carriers to manage quote manipulation and other identity risks effectively. This early verification allows carriers to swiftly distinguish between low-risk (good) consumers and potential high-risk scenarios. For consumers deemed low-risk, carriers can streamline their experience through actions like pre-filling portions of the quote to provide a smooth, fast-tracked process. This not only enhances the customer experience but also promotes efficiency.

Conversely, if early identity verification signals a high risk of quote manipulation, carriers can immediately introduce necessary friction into the process. This might involve requiring consumers to answer additional questions, re-enter information, or undergo more rigorous scrutiny. Such measures help to mitigate risks associated with quote manipulation by ensuring a more thorough evaluation of the information provided.

Incorporating this step at the outset of the quoting process is essential for two main reasons. Firstly, it improves the overall consumer experience by facilitating a seamless process for legitimate consumers. Secondly, it offers carriers cost savings opportunities by accurately assessing the risk profile of each quote, allowing them to allocate resources more effectively and ensure accurate risk pricing. Jennifer emphasizes that missing this early verification step places carriers at a disadvantage, as it becomes more challenging to detect and prevent quote manipulation without it.



## 10. Best Practices: How Real-Time Verification is Transforming Quote Accuracy

Following best practices for combating quote manipulation means integrating robust verification tools into insurers workflows.

- **Real-time Identity Verification:** At the start of the quote process, verifying personal information against reliable data sources to establish a real and current identity. This enables carriers to fast-track low-risk quotes while applying necessary scrutiny to others.
- **Customized Quoting Experiences:** Tailoring the quoting process based on the risk presented by the data, including pre-filling information for smoother consumer experiences or adding friction when discrepancies or potential manipulations are detected.
- **Simplifying the Quote Process:** Recognizing the consumer and agent experience by minimizing the number of questions and leveraging pre-fill options to reduce input fatigue and encourage accurate data provision.
- **Education and Awareness:** Acknowledging that not all inaccuracies are due to malicious intent. There is a need for consumer education on insurance requirements and the impact of their information on quotes to prevent inadvertent errors.

Jennifer and Jon emphasize the dual goal of improving the accuracy of risk assessment while enhancing the consumer and agent experience. This approach not only deters quote manipulation through vigilant verification but also makes the process more efficient and user-friendly, encouraging honest and accurate data provision. Additionally, by reducing the complexity of the quoting process and incorporating educational elements, carriers can address both intentional manipulation and innocent mistakes, ensuring a more transparent and fair insurance quoting process.



## 11. Comprehensive Data Analysis Is Essential to Identify Quote Manipulation

Insurers should follow a multifaceted approach to effectively address quote manipulation.

- **Educational Resources:** Panelists suggest starting with educational materials, such as reading through white papers on quote manipulation, to understand the current landscape and the complexities involved. These resources can offer insights and considerations for carriers to ponder.
- **Reevaluation of Current Practices:** Given the dynamic nature of consumer behavior and the insurance market, carriers are encouraged to reassess their current strategies and systems. The significant increase in car insurance costs over the years has changed consumer behavior, necessitating a fresh look at how quote manipulation is addressed.



- **Comprehensive Analysis:** Carriers should conduct a thorough analysis from both the agent and consumer perspectives, examining how quote manipulation appears within their data, systems, and reporting. This includes identifying opportunities for better verifying information using third-party sources.
- **Differentiating Between Manipulation and Mistakes:** It's crucial to separate actual quote manipulation from simple errors or misunderstandings by consumers attempting to get legitimate quotes. Understanding the intent behind the provided information can help in tailoring appropriate responses without disrupting genuine inquiries.
- **Incentivizing Truthful Disclosure:** Strategies to encourage honest data provision include simplifying the quote process to meet consumer expectations for a quick and straightforward experience. By clearly communicating the expected duration and steps of the quote process, carriers can set appropriate expectations and reduce the likelihood of consumers providing inaccurate information to expedite the process.

By implementing these strategies, carriers can better navigate the challenges of quote manipulation, ensuring a balance between efficient service delivery and accurate risk assessment.



## 12. How Understanding Risk Pooling Can Discourage Quote Manipulation

Consumers and agents should both become aware of the dangers of quote manipulation.

- **Raising Awareness on Insurance Fraud:** It's essential to educate consumers that altering information to obtain lower premiums can constitute insurance fraud, carrying significant legal and financial consequences.
- **Agent Role in Education:** Agents play a vital role in informing consumers about policy details, including the importance of listing all drivers to avoid complications in the event of a claim.
- **Value of Direct Consumer Channels:** As direct-to-consumer channels grow, there's an opportunity to use these interactions for education, ensuring consumers understand the implications of their quote information.
- **Protecting Consumers from Unintended Risks:** Misrepresentation in quotes can leave consumers underprotected. Education should focus on ensuring consumers fully understand their coverage needs and the potential risks of underinsurance.
- **Impact on Risk Pooling:** Quote manipulation affects the entire insurance ecosystem by undermining risk pooling and leading to premium increases for all. Educating consumers about the collective impact of their actions can discourage manipulation.
- **Avoiding Adverse Selection:** Inaccurate risk pricing due to quote manipulation can drive away good risks, leading to a cycle where insurers are left covering bad risks at the expense of losing good ones.

The consensus is that education is a powerful tool in combating quote manipulation. By informing consumers and agents about the consequences of misrepresentation and the importance of accurate information, carriers can foster a more transparent, fair, and sustainable insurance marketplace.