



# Peer – to – Peer (P2P) Insurance Is It a Hype?

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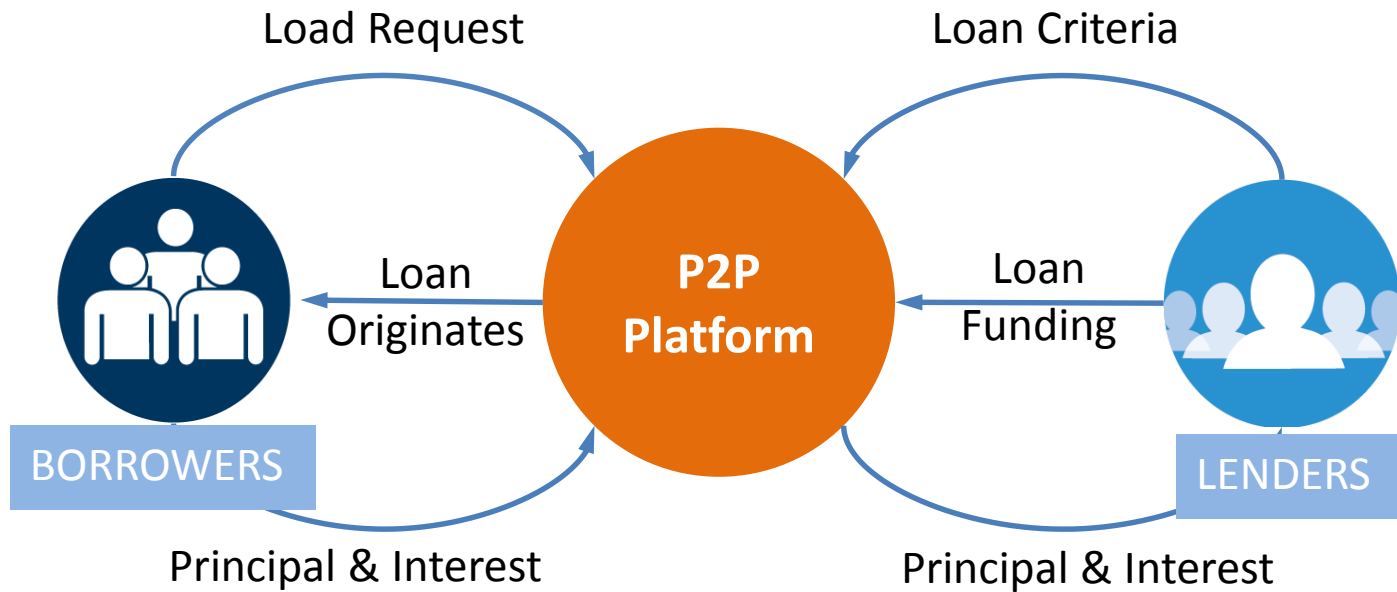


# Introduction

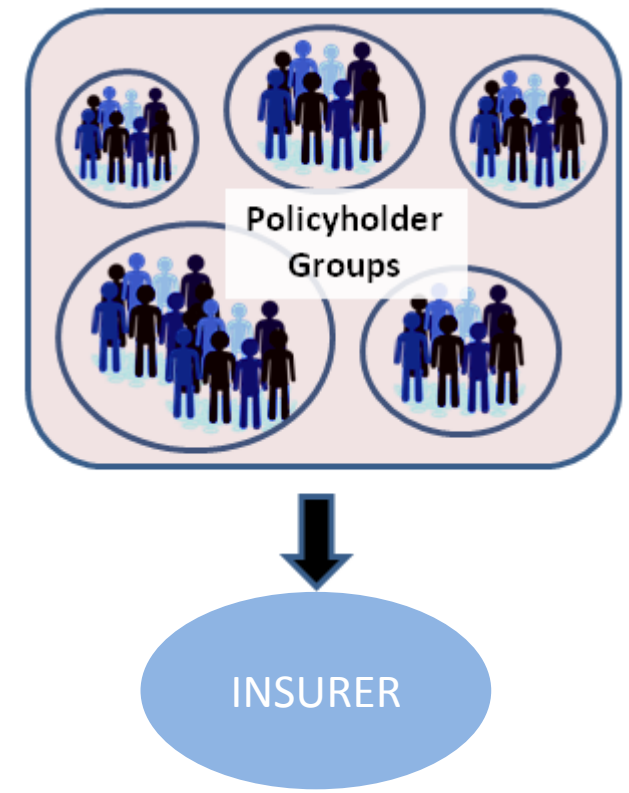
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- What is Peer – to – Peer (P2P) Insurance
- Major Players in the Marketplace
- Regulatory Environment
- Impacts on Traditional Insurance Companies
- The Issues for Consumers
- Pricing Sharing Economies
- The Future of Peer – to – Peer Insurance

# What Is Peer-to-Peer (P2P) Insurance



Peer-to-Peer Lending

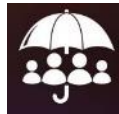


Peer-to-Peer Insurance

# Major Players in the Marketplace



# Various Business Models



Broker



Carrier



VERSICHERIX™



Self-governing

# The Regulatory Environment

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## The History of P2P Insurance

- **Edward Lloyd's Coffee House:**

- Tower Street, London
- Popular place for sailors, merchants & ship owners
- Shipping industry frequented to discuss insurance deals
- A place to obtain marine insurance to protect cargo
- Birthplace of the London insurance market – Lloyds of London



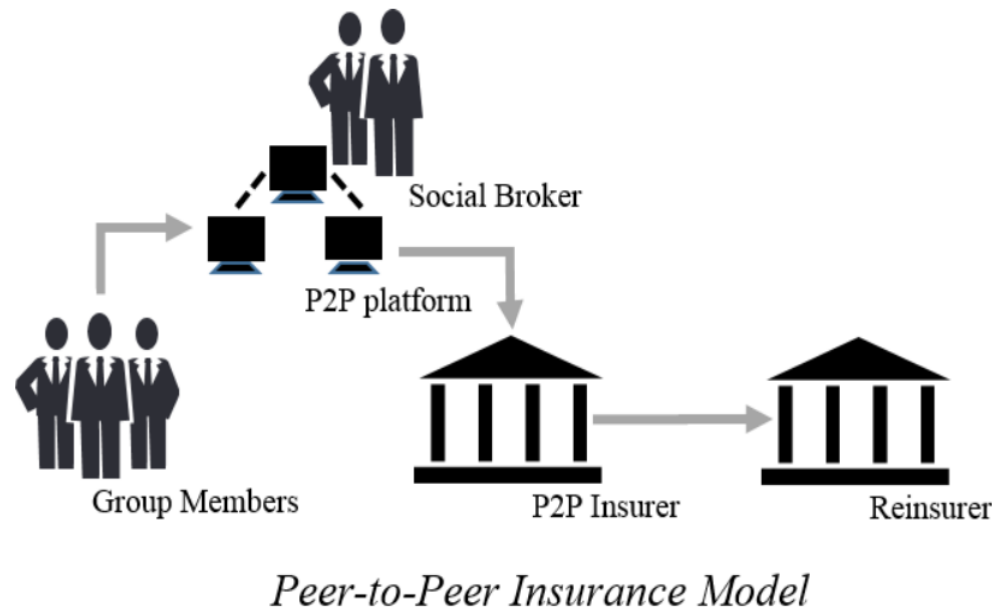
- **Philadelphia Contributionship:**

- Founded by Benjamin Franklin & his fellow firefighters
- 212 S. 4<sup>th</sup> Street Between Walnut and Locust Streets
- Policyholders shared equally in the losses and the gains
- Formed in 1752 as a mutual for policyholders to share risks
- Interested townsfolk held a meeting and elected a Board of Directors
- “Contribution” was defined as “that which is given by several hands for some common purpose.”



Source: <http://www.contributionship.com/history/>

# The Regulatory Environment



Source: <https://www.linkedin.com/pulse/peer-to-peer-insurance-back-basics-arindam-saha>

- Potential new disruptor in the marketplace.
- Rooted in “sharing economy” concept of the past.
- **Core Idea:** *Betterment of entire community with benefits accruing to community.*

## Misalignment of Interests:

- Residual reserve premiums held by Traditional ICs
- Residual funds returned to P2P members when claims lower than expected.
- Reinsurance is used to cover claims exceeding premiums in bad years. Insurance companies still have to maintain premium adequacy.
- This eliminates insurer-insured conflicts.

# The Regulatory Environment

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## Current Status of NAIC Position on P2P Insurance:

- Still developing ...
- NAIC closely monitoring P2Ps for industry disruption.
- The NAIC Center for Insurance Policy & Research (CIPR) hosted an Insurance and Technology event in April, 2016.
- Ty Sagalow, Chief Insurance Officer of Lemonade, Inc., had several key insights:
  - P2Ps should be licensed & regulated the way as TICs
  - P2Ps have lower expense and loss ratio than TICs
  - Lower fraud levels since they are community based
  - Lower claims expenses due to elimination of conflicts
  - Existing regulations can be used to create P2P Regs.

Source: <http://www.peercover.co.nz/blog/peercover-and-riovic-announce-collaboration-to-enhance-peer-to-peer-insurance>



# **Impact on Traditional Insurance Companies**

# Downwards Pressure on Premium

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- It is unclear how premium adequacy is addressed by peer-to-peer insurance programs.
- The overall lower peer-to-peer premiums will put downwards pressure on insurance companies.
- Insurance companies still have to maintain premium adequacy.

# CAS Principles Regarding Ratemaking

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A rate is reasonable and not excessive, **inadequate**, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

# Higher Deductibles

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- P2P is essentially insurance for the layer below deductible.
- Could see higher deductibles more popular.

# Change in Mix of Business

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- P2P pools policyholders with the same coverage together.
- This could be a factor for policyholders to consider when purchasing insurance.
- Could potentially change mix of business in terms of coverage, limits, and deductible.

# Claim Handling

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- Inexperienced/automated claim adjusting
  - Large claims could be initially perceived as small.
  - Insurance companies don't know about it and therefore didn't intervene at early stage.
  - Becomes larger later and pierce into the insurance companies layer.
  - But by that time the insurance companies have lost the opportunities of early intervention.
  - Particularly true with liabilities.

# **The Issues for Consumers**

# Potential Unfair Claim Treatment by Voting

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- Moral hazard.
- Incentive to deny claims.
- Lack of protection against unfair treatment.
- For some P2Ps, claim settlement is voted by participants.



# Potential Unfair Claim Treatment by Automation

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- Automated claim handling can streamline the process.
- It is unclear who guarantees the rules behind the process are fair.

# Contract of Adherence

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- Contract of adherence for insurance companies.
- It's take it or leave it.
- The policyholder cannot negotiate what language to be used in insurance contract.
- “reasonable person” approach.
- How to handle ambiguities in P2P contract language when disputes arise?

# More Options for Risk Management

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- Without P2P, the only option for under the deductible is to absorb it.
- With P2P
  - More than one option.
  - Higher deductibles.
  - Greater incentive in loss control.

# **Pricing Sharing Economies**

*Uberrima Fides* means “Utmost Good Faith”

This is a guiding principle for sharing economies.

It means “Trust” is a two-way street.

Two Sharing Community Divisions

»Peer – to – Peer Personal Insurance

»Peer – to – Peer Commercial Insurance

## What are “Micropreneurs”?

Individuals who switch their assets  
between business and personal use.



- » HomeSharing: Airbnb, VRBO, HomeAway, Wimdu
- » Transportation Network Companies (TNCs): Uber, Lyft
- » Carsharing: RelayRides, Getaround, FlightCar
- » Other: TaskRabbit, SnapGoods, EatWith



## Pricing Challenges:

- »Lack of Quality Data
- »Attribution of Risk: Personal or Commercial
- »Part-Time Personal Use vs. Part-Time Commercial Use
- »Industry “Wait & See” Posture
- »Need a Hybrid Solution



# Pricing Sharing Economies

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## Innovative Solutions:

- » Erie Insurance – TNC Driver Coverage
  - Remove livery exclusion from personal auto business use endorsement
- » Farmers Insurance Group – Rideshare Specific Endorsement
  - Personal auto insurance extended when app on but no passenger
  - Coverage stops when ride accepted by passenger
  - Group policy is primary when passenger in vehicle
- » Lloyd's of London – Host Guarantee Policy
  - Home sharing coverage
  - Provides \$1 million limit
  - Covers deliberate property damage by a guest
  - Does not cover accidental property damage or liability
  - Applies in excess of primary policy
- » Proper Insurance – A BOP Look Alike
  - Flat \$ amount regardless of use; \$1 million limits





## California Regulators Are Leading The Way

### » Airbnb Law

- Effective February 2015, San Francisco legalized property rentals for less than 90 days
- Property owners are required to collect hotel taxes and maintain a minimum of \$500k of liability coverage

### » Transportation Network Companies (TNCs)

- California Public Utilities Commission (CPUC) passes a law (9/13) labeling ridesharing companies as TNCs.
- Drivers must carry \$1m commercial liability insurance effective when vehicle operating as livery
- No guidance given regarding the use of personal liability coverage
- Gaps in coverage remained after passage of law

## California Regulators Are Leading The Way

### » Sophia Liu – Bill AB 2293

- On December 32, 2013 an Uber driver struck and killed Sophia Liu and injured her mother and brother
- The driver was not carrying a passenger or en route to pick one up, but his app was turned on!!!
- The personal lines insurer denied liability since the app was turn on, signaling the driver was on the clock!
- Uber denied liability because the driver was not carrying a passenger or responding to a request for pickup

### • Bill AB 2293, Effective July 2015 effected a Three Period System:

- Period 1: Driver turns app on waiting for a passenger match
- Period 2: Match accepted, driver en route but passenger not picked up yet
- Period 3: Passenger in vehicle until passenger exits vehicle

*AB 2293 requires coverage minimums of \$50k Death and Personal Injury (PDI), \$100k for PDI of two or more persons, and \$25k for property damage per incident.*

### » NAIC Model Law Development

# The Future of Peer to Peer Insurance

## Three Perspectives:

### April Yu:

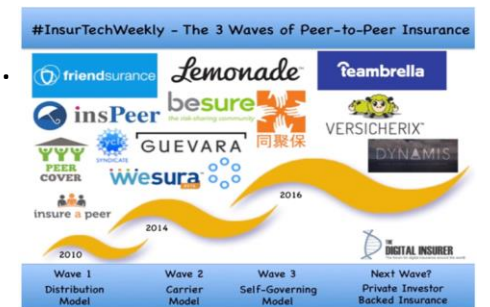
- Likely to be a fad and fade away.
  - Potential unfair practice may lead to disputes and attrition.
  - Administrative cost of insuring under the deductible may eat into the saving.

### Kevin Huang:

- P2P may be a small feature comparing to the on-demand, deep analytics, AI, and blockchain technology offered by the P2P insurance platforms
- Behavior economics does indicate that group rewards will drive group behavior

### Dorothy Andrews:

- It's not going away, so traditional companies are going to have to deal with them as competitors.
- I support bringing lower prices & easy access to consumers, but not at all costs.
- There is a third wave of P2P gaining foothold in the market place - The Self-Governing Model
- The Next Wave currently in formation is the Private Investor Backed Insurance Model .



Source: <https://www.the-digital-insurer.com/blog/insurtech-teambrella-and-the-third-wave-of-peer-to-peer-insurance/>

# Questions

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What do you think the future holds for P2Ps?

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