

# Peer-to-Peer Insurance

## PEER-TO-PEER INSURANCE MODELS: SHARING ECONOMY ADDS (NEW) TECH TWIST TO (OLD) RISK POOLING

June 2016 / By Ingrid Sapona

*Abstract: The so-called sharing economy has disrupted many industries. Examples of it include Airbnb – people “sharing” their homes by renting out accommodation to others; Uber – people “sharing” their cars by driving others around; and DogVacay – dog lovers who “share” their home with dogs as an alternative to a kennel.*

*Indeed, the sharing economy is making headway in the insurance industry with so-called peer-to-peer insurance. The different business models that are emerging under the peer-to-peer insurance banner are diverse – for example: Besure (Canada-based), Friendsurance (out of Germany), Gather (Washington, D.C. based), Guevera (out of the UK), InsPeer (in France), Lemonade (out of New York), and PeerCover (in New Zealand) – is testament to the fact that it’s a broad category.*

*Despite the diversity, there is a common denominator driving them. As one commentator put it, these start-ups “... want to change the relationship between the insured and insurer” and they want to “address human behaviour and the moral hazard”. [1] The secret sauce these services are betting on is that people will act socially responsible about risk taking if they know their actions (whether it’s the taking of risk or the making of a claim) will directly impact a social group or community they joined.*

This Trends Paper will look at:

- What has given rise to peer-to-peer insurance
- Some specific peer-to-peer insurance business models
- Issues related to regulation of peer-to-peer insurance services

As you’ll see, some peer-to-peer insurance services are similar to models that have been around a long time, for example, mutual insurance and reciprocal inter-insurance exchanges. But, peer-to-peer insurance services are differentiated from traditional models by a number of factors, such as:

- Reliance on technology
- Focus on the customer
- Role of social groups and social media

### Reliance on Technology

InsureTech [2], as it's sometimes referred to, is a growing category in the FinTech world. The main reason that's noteworthy is that it means venture capitalists (VCs) are interested and are helping drive the development of peer-to-peer insurance tech solutions. Though there's no universal definition of either term, they both relate to technology companies – start-ups, mainly – that are focused on disrupting the way things are done in different segments of the financial services sector. For example, quite a number of FinTech start-ups are focused on money transfer, lending, mobile payments, crowdsourcing, and asset management.[3] As one commentator pointed out, one reason a large segment of the FinTech world is focused on payments is because payment transactions tend to be high volume and high frequency [4] and so they lend themselves to tech applications.

While the field of FinTech has been recognized as a niche for nearly 20 years [5] in the VC world, InsureTech has emerged as a specialty separate from FinTech only over the past few years.[6] As the moniker implies, InsureTech companies focus on applications related to the insurance industry specifically. The technology being developed by InsureTech firms are designed to both compete with the insurance industry and to provide solutions to it.[7] So, InsureTech describes companies focused on everything from automating application and claims processes, to telematics, to platforms that facilitate the formation of groups that come together to pool risks or that seek specialized coverages.

## Focus on the Consumer

Those developing platforms and products in the peer-to-peer insurance sector place the customer at the center. In doing this, they focus on a variety of themes, including:

- Empowerment
- Transparency
- Digital Only
- Cost Sensitivity

## Empowerment

For those in the peer-to-peer insurance sector, customer empowerment encompasses many things. It can include, for example, tailoring products to a particular group's wants and needs. "Customers no longer want ... generic products. What they want is a tailored experience and product offerings that reflect a deep understanding of their needs and risks,"[8] says Steven Mendel, CEO and co-founder of [Bought by Many](#), which is a U.K. based brokerage that aims to overhaul the insurance industry and send "a powerful message" to the insurance industry about treating people as individuals.[9] A commentator describing the increasing demand by consumers in the industry sector for individualization put it this way: "No longer should my car insurance be priced according to a category determined by my age, gender and location when it can be priced specifically to how well and how often I drive my car (thanks to the telematics from my car)."[10]

Indeed, Teambrella, which bills itself as “the first peer-to-peer insurance service provider powered by Bitcoin”, is at the extreme end of empowerment. Though it has not launched yet, the concept is that individuals form teams and the team members cover each other. The team decides all aspects of the insurance transaction – including whether –and how much – to pay out on a team member’s claim.

## Transparency

Beyond making policies relevant to an individual’s needs and circumstance and personalizing coverage, transparency is another aspect of focusing on the consumer. In this regard, ensuring customers understand the policy terms and making it clear how the cost is determined is paramount.<sup>[11]</sup> Transparency also extends to things like knowing the identity of all the members of the group; and the ability to track, online, how the group you’re part of is doing in terms of claims, for example.

## Digital Only

To many in the traditional insurance industry, when they talk about the impact of digital on consumers, they’re referring to digital sales channels. Those in the peer-to-peer insurance sector, see digital as much more. “The digital revolution has been one of the main catalysts for customers’ ever more exacting expectations,” according to PricewaterhouseCoopers’s (PwC’s) insurance consultancy group in their report “Insurance 2020: The digital prize – Taking customer connection to a new level” [hereafter referred to as PwC Digital Prize]. Thanks to the digital revolution, customers expect “the ease, intuition and anytime/anywhere interaction of digital retail” and they have the “power to dictate how and when they want to do business with an organization and compare prices and offerings at the touch of a screen. Customers also want to communicate their views via social media and see their opinions taken into account”.<sup>[12]</sup>

## Cost Sensitivity

The belief that consumers are looking to reduce their costs is another factor underlying the peer-to-peer insurance sector.<sup>[13]</sup> Sebastian Herfurth, one of the founders of Friendsurance, believes “Many policyholders are annoyed at paying a lot of money for insurance they only rarely use, and many of them wish they were rewarded when they have no claims.”<sup>[14]</sup> As a result, Friendsurance offers a claim-free bonus.

InsureTech models being developed that address both customization and cost sensitivity include usage-based models like Metromile, which “has developed a customer - rather than risk - centric value proposition for occasional drivers” that offers “a low base rate and then charges a few cents per mile driven”<sup>[15]</sup> and an app that provides personalized driving, navigation, and diagnostic tips. The good news is that technology developed by those in the InsureTech category can also help traditional insurers keep their costs down, creating efficiencies that can help them maintain their margin while lowering the cost to their customers.

## Role of Social Groups and Social Media

As [PwC Digital Prize](#) points out, “customers are increasingly using social media to find out about insurance products and how others rate the services. Social media also provides a very public medium to vent any dissatisfaction.”<sup>[16]</sup> While those are important trends the insurance industry is aware of, the role of social groups and social media are central in most peer-to-peer business models in other ways as well. Besure, for example, describes itself as a platform that harnesses the power of social networking.<sup>[17]</sup>

Many peer-to-peer insurance business models are based on the idea that customers will use social media to engage and recruit friends, family members, and others who have similar interests or assets they want to protect, to form a group (for example, Friendsurance and Besure). But beyond the digital formation of groups, many in the peer-to-peer insurance sector believe groups of consumers who know each other (for example, a group comprised of family members) or who share particular qualities or passions (for example, a group of cycling enthusiasts) feel a sense of responsibility and reciprocal obligations that can end up benefitting the group. Friendsurance’s Herfurth believes peer-to-peer insurance groups can result in reduced fraud because, “People don’t cheat their friends”, and group members are more likely to not engage in risky behaviour.<sup>[18]</sup>

Emmanuelle Mury, co-founder of InsPeer, believes the advantage peer-to-peer models have is that “... you band together with your community which creates more virtuous behavior – a lower claims rate for instance. This can only be possible if people have a sense of community.”<sup>[19]</sup>

Whether consumers are truly looking to foster social relationships by being part of a group set up as part of a peer-to-peer insurance service is not clear. In the Harvard Business Review article, “The Sharing Economy Isn’t About Sharing at All”, marketing professors Giana M. Eckhardt and Fleura Bardhi argue that “... when a company is an intermediary between consumers who don’t know each other ... it’s an economic exchange, and consumers are after utilitarian, rather than social, value. ... [c]onsumers are more interested in lower costs and convenience than they are in fostering social relationships with the company or other consumers.” In fact, Eckhardt and Bardhi, who prefer the term “the access economy” say that “contrary to the current sharing economy rhetoric”, their research shows that “consumers simply want to make savvy purchases, and the access economy companies that emphasize convenience and price over ability to foster connections will have a competitive advantage. Start-ups that have tried to facilitate direct connections between consumers have found low levels of trust between strangers when there is no market mediation.”

## **Examples of Peer-to-Peer Insurance Services**

To get a sense of some of the different business models companies in the peer-to-peer insurance sector are using, the following are brief descriptions of some of the current start-ups referred to in this paper:

Besure\_ (to be launched later in 2016) – This Canadian company intends to provide a platform for people to self-insure, according to Karim Lalani, team lead at Besure. The company aims to bring together people with common interests and risks they want to protect to form risk sharing pools. “We want to create a social safety net for people left behind by the insurance industry because the industry doesn’t have a product for them,” Lalani said. For example, a community might be formed for snowboarders who are concerned their boards might be stolen. “All members of a pool share the same risks, contribute equally, and agreed to the same terms of use and pool bylaws,” says Lalani. The business model will work like this: Coverage of the community is backed entirely by the amount of contributions in the pool. If the community’s claims happen to exceed the amount in the pool, the claims are paid proportionately from the pool.

People join Besure by posting a profile and photo of themselves on the platform. Members must also accept the platform’s terms of use, privacy policy, and bylaws, which are basically rules of conduct for members and responsibilities members will owe to each other. Members can then search the platform for communities that are of interest to them.

Besure creates communities based on feedback it receives from members and others. People who have risks they want to share provide information to Besure about the risks they want to cover and, using actuarial principles, Besure calculates the number of people the community would need and the contribution per member in order for the community to be actuarially viable. If the contribution amount is prohibitively high, given the number of people the community expects to attract, Besure can offer alternative scenarios that might see the risks varied. Once a community has enough members, Besure launches it.

Each community’s description sets out the traits that community members must have, for example, a trait that might be required for the snowboarder community is that members own a snowboard. To join a community, members upload whatever that community requires as evidence that members qualify for the community (for example, the snowboard community may require members to submit a receipt for their snowboard and a picture of it) and pay their contribution amount. Members can use social media to recruit friends and family to join their community. Once a community is launched, community member contributions are locked for the coverage period. Besure charges the community an administrative fee that is 10% of the community pool.

If a community member has a claim, they submit a claim packet that includes information about the claim, including the required claims evidence, and additional information they think will be helpful to community members who volunteer to be on the so-called Community Court. Besure does not get involved in pool decision-making. Community members who volunteer for the Community Court receive the entire claims packet and vote on whether to accept or deny the claim. They will also be able to ask, anonymously, for additional information before making their decision. A jury of Community Court members is then randomly selected and the majority of their votes will carry. Claims that are accepted are paid from the community’s pool.

Transparency will be facilitated in a variety of ways at Besure:

- All pool members will be known by everyone in the community – through individual profiles and photos.
- If a community member volunteers to be on the Community Court, that will be noted on their profile.
- Each pool will have a claims page that will allow members to see the claims made and pending.
- Each community will have an accounting page that enables members to see “where every dollar is going”, says Lalani.

Funds in the pool at the end of the pool term will be distributed to community members that have not received any money from the pool – in other words, it will be distributed to people who have not made a claim or whose claim was denied. So, for example, if a community has no claims during the pool term, community members will get 90% of what they contributed (100% of the contribution less Besure’s 10% administration fee).

Besure will not be in the business of selling or underwriting insurance and therefore it does not believe it will be subject to regulation, according to Lalani.

Besure hasn’t launched yet, but Lalani says they plan to launch to select communities in late summer 2016, with a full release following shortly after.

CycleSyndicate – (2014) – this UK-based company bills itself as “social assurance” that gives members bike protection without insurance. “Fuelled by friendship”, bike owners join a Facebook group – their “syndicate” – which can be comprised of up to 75 “trusted” people (friends, family, colleagues). Members pay an annual flat membership fee (£10) and must use an approved bike lock. If no bike is stolen from the syndicate in a given year, there is no other cost to the members. If the bike of someone in the syndicate is stolen, all members of the syndicate “chip in” to pay for the stolen bike.

The amount each member chips in is proportionate to the value of their bike that is covered by the group (members must provide information about the value of their bike when they join). CycleSyndicate has an online calculator so people can get a sense of how much they could be out of pocket in the event a specified percent of syndicate members’ bikes are stolen. The simple example they give is if 5% of the total bike value of the syndicate is lost, a member will pay 5% of the value of their bike.

When a claim is made, members are provided the details. If a member believes the claim does not qualify, they can anonymously report their concerns to CycleSyndicate, who will investigate. If the claim is approved, then members are notified of how much they are expected to contribute. The claimant then gets the money, less a 15% claims handling fee that CycleSyndicate gets.

CycleSyndicate’s website warns it is not insurance, and so full payouts are not

guaranteed. But, they also note that since the syndicates are by invitation only, there is an added layer of trust that members will not renege on their commitment to contribute in the event of a claim.

As Suzie McCracken wrote in an article in Total Woman's Cycling, "The idea is sort of insurance in reverse: instead of paying a premium in case your bike is stolen, you get together with a group of people and agree to help pay for each others (sic) bikes if they are stolen. That means that you only pay when something bad has happened to someone in the group. ... Cycle Syndicate act (sic) as a responsible middle man in all of this – they check the validity of claims and arrange for payment to be taken from everyone in the syndicate ... and then sent to the victim of the crime (minus a 15% handling fee)."

Friendsurance\_– (2010) – this German-based company is one of the first to enter the sector. Indeed, Eva Genzmer, Friendsurance's head of corporate communications, points out that it was "the worldwide first p2p insurance provider" and its vision is to make insurance more customer-friendly. It operates as an independent broker in Germany and it works with about 70 German insurance partners.[1]

People who have insurance policies of the same type (at this point it can be insurance for home contents, auto, private liability, and legal expenses) form small groups (co-founder Tim Kunde is quoted as saying groups of 10 are ideal [20]). As the Friendsurance website explains, a portion of their premium is paid into a cashback pool. The percentage paid into the cashback pool depends on the insurance type. If no claims are submitted by anyone in the group during the year, group members get a claims-free bonus. The bonus can be up to 40% of their premiums. If there have been claims by anyone in the group, the cashback pool decreases. Small claims are paid for from the group's cashback pool. Bigger claims are paid by the insurance company backing the arrangement.[21] As a result, policy owners have full coverage and since the maximum they pay is what they would have paid for premiums to an insurer, they never pay more than they would if they didn't use Friendsurance.

Friendsurance co-founder, Kunde, says that Friendsurance has passed on 20-40% fewer claims to insurers [21] and for 2013 and 2014 more than 80% of their customers received some of their premiums back. Kunde believes the reason for this is twofold:

1. He believes people are good at assessing others
2. They probably pick people for their group who they think will make fewer claims and group members realize that when they make a claim, people they know – the others in the group – are disadvantaged.[21]

Gather – (2014) – this Washington, D.C. company's technology platform lets small businesses come together to form a group and will incorporate a captive insurance company that is owned by the group. Gather incorporates a separate captive insurance company in Washington, D.C. for each group. Members of the group pay premiums to the insurance company. Each member's ownership proportion is based on the

premiums they contribute relative to the total premiums by all members. The insurance company's profits are shared by group members in the form of a discount at renewal. Gather handles claims for the insurance company, charging it for the services at cost. The costs are included in the insurance policy premium the members pay. Any money left in the insurance company after paying claims, plus interest on premiums, is kept by the insurance company. Gather's only profit is as a 5% membership fee they collect.

Guevera – this UK company started offering a standard auto insurance in 2014.<sup>[22]</sup> It uses traditional rating factors with market competitive premiums. When they join, customers choose a group. Guevera splits the premium each customer pays, with a portion going to the so-called Protection Pool (the group the customer joined) and the rest going into a collective pot (the so-called Insurance Fees).<sup>[22]</sup> The split between the two depends on the number of people in the group. If the group has 10 or less, the split is 20%/80% (with 20% going to the Protection Pool). For groups of 100 or more, the split is 50%/50%.<sup>[22]</sup>

Claims are made by people in the group and they are paid out of the group's Protection Pool. When the amount in the Protection Pool runs out, claims are then paid out of the Insurance Fee. And, if the amount in the Insurance Fees is not sufficient to cover a claim, the claim is covered by reinsurance.<sup>[22]</sup>

If there is money left in the group's Protection Pool at renewal time, the money remains in the Protection Pool but the members get a discount on their renewal premium. So, for example, if no one in a group makes a claim, the members get a 100% discount on the portion of their renewal premium that would normally go to the Protection Pool.

Guevera's founders believe their model fosters behaviour that keeps claim expenses down because members know that their claims will directly impact their group, which is comprised of friends and family.<sup>[22]</sup>

InsPeer – (2015) – with this French company, users maintain their own insurance but they mutualize the deductible portion of claims on their home, auto, or motorcycle insurance with others through InsPeer. This allows users to opt for higher deductibles and thereby lower their insurance premiums. French residents register for free through the website and they provide information about their coverage, including confirmation of insurance. Users form small groups that share the risk that one or more users in the group will file an insurance claim.

If a user suffers an insured loss, they make a claim with their insurer and upload their insurer's confirmation letter to InsPeer. InsPeer then collects the amounts from the claimant's group members and pays the claimant the amount they are out of pocket for their deductible, less a 10% fee. If no claims are made, users pay nothing.

InsPeer users can also estimate the likelihood of their having to pay a claim by using a risk indicator the company has developed using industry data. The risk is expressed in years, according to co-founder Mury, who offered this example: "... If [the risk indicated]

is 8.5 years, then you have a chance of paying a claim once every 8.5 years.”<sup>[19]</sup> In the future, InsPeer hopes to factor into its risk algorithm proprietary data based on its own users’ experience, says Mury.<sup>[19]</sup>

Lemonade – this New York-based service is receiving a lot of industry press – and funding – despite not a lot of detail about its model being publicly available as of yet. Given that it raised U.S. \$13 million in initial funding, no doubt investors have been provided with details, but publicly Lemonade's website simply proclaims itself “the world’s first Peer to Peer insurance carrier” and that they’ve redesigned insurance from the ground up to make it honest, instant and delightful.

The other interesting facts that have been made public is the line-up of reinsurance partners (for example, Berkshire Hathaway and Lloyd’s of London syndicates) and an impressive array of insurance industry execs (from ACE and American International Group (AIG), for example) that have signed on.<sup>[23]</sup> As well, in February 2016 they announced they’ve hired Duke University psychology and behavioral economics prof, Dan Ariely, as its chief behavioural officer. Co-founder and President, Shai Wininger, explained that they plan on using the professor’s research and expertise to help decrease fraud and get rid of bureaucracy to help lower costs for customers.<sup>[24]</sup>

PeerCover – this New Zealand-based company lets people who sign up create a group of friends and family members. Like InsPeer, the group members basically mutualize their deductible costs, which means they can lower their insurance costs by opting for a higher deductible than they might otherwise choose. Each member chooses an initial contribution that they deposit with PeerCover. PeerCover acts as a non-discretionary trustee of the group funds. Members can withdraw their contributions at any time, less amounts of claims that were paid out by the group prior to their withdrawal. If a group member has an insurance claim, they submit it to their insurer and to PeerCover. PeerCover provides the group with an independent recommendation about whether to pay out the claim. If PeerCover recommends payment of a claim, a majority of the group can overturn the decision. The maximum a member can be paid on a claim is the lesser of:

- five times their balance, which is basically their initial contribution less any claims and costs paid
- the group’s total balance at the time (claims are paid out on a first filed, first served basis)

PeerCover charges a \$100 fee per paid loss. The fee is shared in proportion to each member’s balance.

## Regulation

As with many new products and services, the issue of whether different peer-to-peer insurance services are subject to government regulation is not settled. Because of this, you’ll find a lot of creative descriptions of these services. For good reason, they are

careful to steer clear of descriptors and names that might lead regulators – and the public – to think they are providing insurance.

Some in the sector have submitted themselves to regulation (whether as an insurer or as a broker), for example, Guevera, Gather, Lemonade and Friendsurance. Others, however, believe they are not subject to regulatory oversight because they are simply providing marketplaces, platforms, or portals and so they believe their activities are not subject to regulation. You may remember that when Uber launched in Canada, it made the same kind of argument: it's not a Transportation Network Company (TNC) – it's just a technology company whose app lets people arrange and schedule rides.

It's clear that many companies in the peer-to-peer insurance sector have considered regulatory issues. For example, when he was setting up PeerCover, founder Chris Logan contacted New Zealand regulators to see if it might be subject to New Zealand regulatory schemes. Because the field of peer-to-peer insurance is so new, the regulators advised Logan to seek legal advice. He did, and based on that – and the current laws and regulations – he's confident PeerCover is not acting as an insurer.

Logan explains, "in most countries, insurance is defined as providing a guarantee of payment/indemnity based on future uncertain events. PeerCover does not provide guarantees." Instead, as he describes it, "PeerCover is a non-discretionary trustee. Customers instruct PeerCover to deposit their money into a single non-interest-earning bank account and to pay their share of claims, should anyone in their group have a loss. Sharing and coverage depends on one's balance and the group's total balance."

Another sign that PeerCover has taken care to fulfill regulatory requirements is Logan's recognition that PeerCover is providing a financial service under New Zealand law and it is registered as such. To satisfy requirements as a financial service provider, PeerCover has a robust complaints process for those who are not satisfied with the service they receive. Complaints first go through PeerCover's internal complaints process and if a customer is not satisfied with the response, the customer can ask that the matter be referred to Financial Services Complaints Ltd. (FSCL), an independent dispute resolution organization.

Similarly, InsPeer co-founder Louis de Broglie says it has presented its model to French authorities and it doesn't need an insurance licence. But, it is seen as a crowdfunding platform (for insurance) and therefore is subject to French financial regulation.<sup>[19]</sup> Teambrella also has made its view that it should not be subject to regulation quite clear. Under the FAQs on its website, Teambrella says it's not in "a business of insurance",<sup>[25]</sup> pointing out:

- There are no contracts or obligations between an insurer and insured in Teambrella,
- Teambrella doesn't underwrite policies,
- Teambrella doesn't keep clients' funds ("there are no money pools" ), and
- Teambrella doesn't make any payments to its clients.

Furthermore, in response to a question about why anyone would want to “insure” with Teambrella, given that Teambrella sees itself as “immune to regulation”, Teambrella says that “Regulation is a tool for resolving conflicts. Teambrella resolves conflicts in another way – by aligning interests. It is in your teammates’ interest to do what they believe to be fair. By doing so, they set the standards of treatment that would be applied to them in case of an incident.”<sup>[25]</sup>

UK Solicitor Chris Finney, a partner at Cooley LLP who advises on UK and European insurance regulatory matters, believes that “in most jurisdictions, the regulators will take an interest in a platform that starts to engage in P2P insurance activity without being authorised – even if it is “just a platform”, and everything is done automatically, using phone apps and websites etc.”

Finney noted that when person-to-person lending and crowdfunding platforms first emerged in the UK, some platform operators were surprised to learn that they were engaging in regulated activities and they figured regulators wouldn’t be interested in what they were doing. But, says Finney, “they were wrong. The law might pre-date these business models, but it still applies to them. Carry on a regulated activity in the UK without being authorised, or exempt from the obligation to be authorised, and you’ll commit a criminal offence. If that’s prosecuted, fines and imprisonment may follow, your platform will be shut down, and the company that’s operating the platform may be wound up. In addition, you won’t be able to enforce any of the contracts you’ve entered into – but they can still be enforced against you. ... Similar things are happening in the insurance sector – but the regulatory position is complicated by the way the businesses see and describe themselves.”

Finney adds, “some peer-to-peer insurers and peer-to-peer insurance platforms are acting as insurers, while others are really acting as insurance brokers or distributors but calling themselves peer-to-peer insurers. But the broad effect is the same. The platform needs to be authorised as an insurer, if it’s entering into insurance contracts and accepting the insurance risks; or as a broker/distributor; if the platform/system allows people who want to buy insurance to buy in from 3rd party insurers who are willing to sell it; or exempt from the obligation to be authorised. Again, the law predates these business models/ideas, but it still applies in the same way that it applies to any other insurer, or broker/distributor, regardless of the way in which the business organises or structures itself, and regardless of how automated the business’ processes are.”

Finney says he hasn’t seen any particular speeches, consultation papers, or regulatory rules that expressly refer to peer-to-peer insurance services, but that could be because they are such a recent development. He cautions, “But, I don’t think for a moment that that means the regulators don’t have an interest; or that the usual rules don’t apply. In fact, I don’t think any of this will make the slightest difference in the UK, or anywhere else.”

To date, not many Canadian regulators have made public statements about peer-to-peer insurance. One notable exception is Quebec's Autorité des marchés financiers

(AMF), the regulatory and oversight body for Quebec's financial sector. In April it issued a press release about "peer-to-peer risk sharing platforms".<sup>[26]</sup> Though the AMF didn't offer a definitive definition or specific examples of the platforms it was referring to, the opening paragraph of the press release makes it clear that they're talking about the types of peer-to-peer insurance services we've talked about in this Trends Paper: "The AMF has noticed that companies are offering consumers platforms where they can form pools to protect similar property without using an insurer. Consumers are asked to determine the risks they want to cover, premiums and claims processing, since the pool's participants decide together on the eligibility of claims."

The AMF urged Quebecers to "be cautious due to the recent emergence of peer-to-peer risk sharing platforms" and reminded people that:

"...any offering of insurance products or services, whether through a Web-based platform or in person, is a regulated activity. Therefore, any company wishing to market an insurance produce in Quebec must hold a licence issued by the AMF... Some platforms, which are gradually available in Quebec via the Internet or phone apps, allow participants to share certain risks related in particular to health, travel, events, cars, homes and job loss. Based on Information currently available, the AMF is of the opinion that products or services offered in this way are similar to insurance products. The AMF has yet to decide on the compliance of these products or service and the companies offering them. In the interim, it is asking consumers to be careful."

The AMF also gave some examples of the risk consumers could face, for example, exposure to loss if pool participants unreasonably refuse to pay a claim, or if the pool has insufficient funds.

Though the press release was ostensibly to warn the public about the risks they face if they use such platforms, the AMF also took the opportunity to "remind anyone wishing to offer financial products and services via new technologies that they should contact the AMF to determine whether they are subject to the existing regulatory framework."<sup>[26]</sup>

## **Conclusion**

We're clearly in the early days of so-called peer-to-peer insurance. As such, it's too early to say whether peer-to-peer insurance will really take hold and whether it will deliver on its lofty goals of altering consumers' behaviour in terms of willingness to take risks.

But, the handwriting is on the wall. Consumers are evolving and the industry should pay attention to the factors these start-ups – and the investors in these start-ups – believe will be the keys to success going forward:

- reliance on technology,
- individualization of products,
- product price, and
- making the most of social media.

#### Footnotes:

[1] [“Peer 2 Peer Insurance is taking the industry back to its roots!”](#), by Rich Huckstep, Dec., 23, 2015,

[2] There doesn’t seem to be an accepted spelling – some spell it InsureTech, some InsurTech – in this article I have used InsureTech, unless a quoting from (or citing) a source that spells it differently.

[3] See, for example, the definition set out by Jens Münch, [“Jens Münch discusses how despite seeing global investment in fintech rise to \\$12 billion in 2015, most people are still unsure about what it actually is”](#).

[4] See comments attributed to Kim Miller of Guevara in [Darius Kumana’s post](#)

[5] For example, some site PayPal, which debuted in the late 1990s, as one of the early FinTech companies.

[6] See, for example, [“The Daily Fintech Top 10 InsurTech Predictions for 2016”](#), by Rick Huckstep. In that article Huckstep argues that InsureTech emerged from the shadow of FinTech in 2015.

[7] [Insurers face increasing threat from InsurTech start-ups](#), by Cintia Cheong, March 29, 2016

[8] [“The good side of disruption”](#), by Steve Mendel, published in the 2015 KPMG Report: A New World of Opportunity.

[9] [Bought by Many](#) describes itself as a free, members-only service that helps you find insurance for the things in your life that are out of the ordinary. For example, they have sourced travel insurance for a group (with over 800 members, according to their website) of people who have heart conditions and who have been unable to get such insurance due to their pre-existing conditions.

[10] Quote attributed to Rick Huckstep in [“Fintech 1,000 shows not so many insurance tech startups ... yet”](#), by Bernard Lunn.

[11] See, for example, comments in [“The Contribution of InsurTech”](#).

[12] [“Insurance 2020: The digital prize – Taking customer connection to a new level”](#), PricewaterhouseCoopers, at p. 8-9 [Hereafter referred to as PwC Digital Prize].

[13] See, for example, comments in [“The Contribution of InsureTech”](#)

[14] [“Digital Friends with Benefits”](#), Post Magazine, Jan. 29, 2015, at p. 12.

[15] [“InsurTech: A golden opportunity for insurers to innovate”](#), March 2-16, PricewaterhouseCoopers, at p. 6.

[16] PwC Digital Prize, supra note 15, at p. 10.

[17] [“Besurance Corporation Launches the First True Peer-to-Peer Risk Sharing Platform”](#)

[18] See [Friendsurance's website](#).

[19] [“InsPeer: The First French P2P Insurance Platform”](#) July 15, 2015.

[20] Friendsurance's press kit (as of April 2016) at p.3

[21] [“A Social Network For Insurance That Cuts Costs And Reduces Fraud”](#), by Ben Schiller, Dec. 10, 2013.

[22] [“Guevera, moral hazard and the future of P2P Insurance”](#), by Rick Huckstep, Dec. 24, 2015.

[23] [“Leading Reinsurers Line Up for Lemonade, the P2P Insurer”](#), by Andrew G. Simpson, Feb. 9, 2016.

[24] [“Startup Lemonade Bets Behavioral Science Can Help Insurance Not Such,”](#) by Andrew G. Simpson, Feb. 24, 2016.

[25] The information referenced here can be found under the General Concerns heading question: [“Do you have a license to operate in my country/state?” under the FAQs.](#)

[26] [“AMF urges caution about peer-to-peer risk sharing platforms,”](#) April 19, 2016.