“Peer-to-peer” insurance: a grassroots revolution?

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After the hospitality sector, transportation of passengers and corporate financing, insurance could be the next sector to see its business model influenced by the sharing economy. In the past few years, numerous start-up companies have launched businesses in “peer-to-peer” (“P2P”) insurance on risksharing platforms, claiming to reduce bureaucracy and costs, and insure risks not covered by the traditional markets. Below is a brief overview of this business model which, while still inconspicuous in Quebec, was the subject of a warning from the Autorité des marchés financiers (“AMF”).

What is P2P insurance?

The idea behind P2P insurance companies is simple: to form communities of users for the purpose of insuring similar goods or services. It is the users themselves who determine which risks associated with their goods are covered, and the community decides the eligibility of claims collectively.

However, the idea is not so new. After all, this is in fact a return to its roots for the insurance industry. Already, between 1000 and 600 B.C., the *Lex Rhodia* — the precursor to contemporary maritime law — provided a mechanism for the indemnification of similar damages, whereby a group of merchants shipping their goods together each paid an amount prior to the voyage for purposes of indemnifying anyone whose cargo was cast off at sea during the passage in order to ensure the safe return of the ship — and remaining cargo — to port.[1] While this principle still exists in maritime insurance, the business model for the property insurance and personal insurance industries has since taken a different direction.

Two types of P2P businesses have emerged in the past few years: those acting as brokers for existing insurance companies, and those offering coverage independently of any other company. P2P companies claim that the simplified process they propose allows them to reduce the number of intermediaries between the user and insurance product, thereby reducing costs, particularly those associated with brokerage commissions, administrative overhead and adjusters’ fees. P2P companies also claim that they hand control over risks, claims and even indemnification back to the insureds. In this regard, some platforms have created “community courts” made up of volunteer “juries” drawn from the members who decide the merits of claims and the indemnification to be paid. In particular, this is how *Besure*,[2] a Canadian P2P company, works.

AMF warning

Consumers should still be vigilant. In Quebec, the AMF recently issued a warning to potential users of these platforms,[3] reminding them that the sale of insurance services or products is a regulated activity requiring a license. Furthermore, products must be offered in accordance with the requirements of the *Act respecting the distribution of financial products and services*.

The AMF is still reviewing the similarities and differences between these platforms and the existing insurance companies. In the meantime, users are exposed to risks while they wait for the AMF to decide on the conformity of P2P platforms to Quebec regulations. For example, they could face potential losses if the indemnification fund collected by the users is not large enough to cover all their damages, or the community refuses to provide reasonable indemnification after a loss. The AMF also recommends that individuals verify whether the risk-sharing company does in fact have a license before transacting through it, since, in the event of the community's insolvency, the insureds' losses may not be covered by the *Fonds d'indemnisation des services financiers* ("financial services compensation fund") administered by the AMF, which only protects consumers who have purchased insurance through a licensed representative.

Some examples outside Quebec

While the P2P insurance phenomenon is currently fashionable abroad, it is maintaining a low profile for the time being in Quebec. The Canadian platform, *Besure*,[4] launched in January 2016, is still only a marginal player.[5] This platform allows users to form small pools in order to purchase various kinds of insurance, and also benefit from a refund if there are few or no claims.

Besure functions in a similar manner to *Friendsurance*,[6] P2P enterprise in Germany. Like *Inspeer*[7] in France and *Guevara*[8] in England, it relies much less on actuarial data, using behavioral studies instead to set insurance premiums. Indeed, their concept is based on the theory of the deterrent effect of the community system, in which everyone benefits by acting in a prudent manner. Since the cost of the premium which is paid to join a pool depends on the conduct of its members, P2P companies claim that this discourages more risky behavior and fraudulent claims.[9]

While it is still early days for the P2P model, *Lemonade*,[10] a P2P start-up company in damage insurance based in New York, was able to amass more than $13M over the past year, even before disclosing its business model.[11]

Further afield in China, the insureds of the company known as *TongJuBao*[12] contribute to an indemnification fund and, following a loss, obtain an amount from the fund in accordance with the insurance they purchased.

Conclusion

P2P companies promise a simplified system for users. However, P2P insurance still has its share of drawbacks, particularly the uncertainty over the sufficiency of funds to indemnify all potential claims, both small and large. After all, is not the primary objective of insurance to ensure indemnification of all covered losses?

While this phenomenon remains marginal for the time being, and, to our knowledge, no P2P risk-sharing program has yet been approved by the Quebec regulatory authorities, the insurance market should ensure that it fully understands these new players and their business model.

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1. Hudson, N. Geoffrey. *The York-Antwerp Rules – The Principles and Practice of General Average Adjustment*, 2e Ed., 1996, London, pp.1-2.
2. https://www.besure.com/Home/HowItWorks
3. Autorité des marchés financiers, "AMF urges caution about peer-to-peer risk sharing platforms", April 19, 2016.
4. https://www.besure.com
5. To our knowledge, the AMF has not yet issued a license to *Besure*.
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7. https://www.inspeer.me
8. https://heyguevara.com
9. Zack Guzman, "The social(ist) revolution coming for insurance", CNBC, 18 juillet 2015.
10. http://lemonade.com
11. Jacqueline Nelson, "Regulator eyes peer-to-peer insurance start-ups, warns of potential risk", The Globe and Mail, 24 avril 2016.
12. http://www.tongjubao.com/en