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From Airbnb to Uber: How Peer to Peer Insurance is Transforming the Insurance Industry

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If you've ever taken Uber or stayed in an Airbnb, then you've participated in the peer-to-peer economy. Interestingly, Uber, which was founded in 2009, currently has a valuation of $62 billion. The company is on track to deliver 3 billion rides by the end of 2016—and the word "Uber"—as in "No need to pick me up. I'll Uber,"—has gone from company name to generic verb for using any ridesharing service. Airbnb has experienced similar growth. The company started in 2008 when its founders, looking for a way to make rent, rented out three air mattresses on their loft floor. Today it's valued at $25.5 billion. With peer-to-peer transactions becoming so commonplace, it stands to reason that we'd start to see this model in the insurance industry. In peer-to-peer insurance, people join a peer or affinity group—a church, club or other special interest—and pool their premiums. If the totality of the premiums collected is insufficient to pay the group's claims, the insurance company steps in to meet the need with its share of retained premiums and reinsurance. But if there's an excess of premiums in the pool, the funds are returned to individual contributors, used to fund the following year's premiums, or in some cases, donated to a charity of their choice.

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Friendsurance, founded in Germany in 2010, while not technically an insurance company—it operates as an independent broker—was the first company to put the model to the test. Reports state that 80 percent of Friendsurance customers receive at least a portion of their premiums back, and their own website says the current cash-back incentive for not making a claim can be up to 40 percent. Friendsurance definitely isn't seeing the exponential growth of Uber and Airbnb. But with a policies-in-force (PIF) count that currently numbers in the hundreds of thousands and additions of just under a hundred thousand PIFs per year, it is making steady, if modest, inroads. Friendsurance is by no means the only game in town. Several other high-profile peer-to-peer insurance companies are also in operation—including Guevara, which offers car insurance in the UK, and the newly licensed Lemonade, which offers home owners and renters insurance in the state of New York. Peer-to-peer insurance companies are also operating in France, New Zealand and China, with more to come soon. There are a couple of economic disruptions at play. First, there's a big social component to marketing this type of insurance that dramatically reduces distribution costs. Second—and this is one that I find really fascinating—because the individuals that comprise a pool are connected by an affinity, and because a claim impacts both the claimant and everyone else within that affinity group, there is both financial and social motivation for fair behavior throughout the claims process. Essentially, the peer-to-peer model incentivizes ethical behavior—and dis-incentivizes fraud. And in the case of Lemonade, where unused premiums go to the charity of the insured's choice, the ability to have a positive social impact may also serve as an ethical guidepost.

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Is all this sounding familiar to you—a group of people with similar backgrounds who share risk and get money back when claims are low? If so, it's likely because it's very much in the vein of one of the earliest forms of insurance—mutual insurance. But now, rather than connecting farmers or seafarers in a geographic region, they're using technology to connect people with similar affinities in digital communities while keeping them honest with traditional social contracts. Peer-to-peer insurance is essentially a new take on an old favorite, only this time around, technology is both driving the demand and enabling the infrastructure.

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