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Swipe Right for On-Demand Insurance

By Shanique (Nikki) Hall, CIPR Manager

◆ Introduction

The ever growing on-demand economy—where consumers get immediate fulfillment of orders for goods and services by means of technology[1]—is revolutionizing the way people transact business and manage their daily lives. It has also substantially raised consumer expectations across industries. Equipped with smartphones, apps and 24/7 access to the web, consumers (particularly millennials) now expect to be able to order almost any good or service and have it delivered instantly—and they are getting it. Companies like Uber, Airbnb and even Amazon Prime are leading the way, with business models conveniently matching supply and demand of livery, temporary housing, groceries, consumer goods and more.

As our culture continues to evolve into one of instant gratification, entrepreneurs and fast-paced technology startups have now targeted the next business frontier—insurance—by offering new, innovative products such as on-demand insurance. With on-demand insurance, consumers can use their smartphone to activate, amend or pause insurance coverage for very specific items or needs, such as: electronics, home sharing, renters, personal auto, and flying a drone.

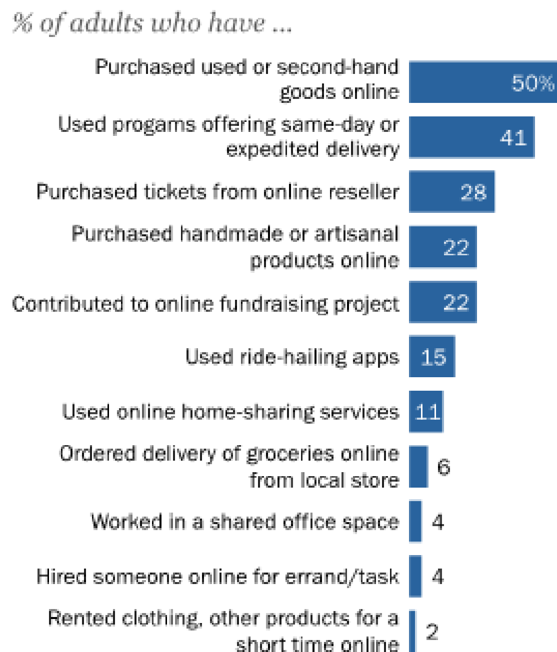
The rate of innovation and technological change is accelerating so quickly our ability to understand the implications has never been so important, and also so challenging. Previous articles in the *CIPR Newsletter* have explored emerging innovation and technology in the insurance sector with artificial intelligence, blockchain and wearable devices. This article will explore another innovative approach to insurance—on-demand insurance—and discuss how it's reshaping the traditional insurance business model.

◆ The Booming On-Demand Economy

I'll admit I'm a habitual Starbucks "mobile order" abuser. I can't remember the last time I waited in line at Starbucks—I typically pre-order with the mobile app whenever I need a coffee fix. I now buy a lot of my household needs online (e.g., Amazon Prime) and typically make reservations and appointments with an app. While I'm not technically a "millennial," I am completely addicted.

And I'm not alone. The past several years have seen the rise of what has been variously referred to as the on-demand, collaborative, sharing or peer-to-peer economy. Companies like Uber and Airbnb have led the charge, allowing everyday people to share and monetize their under-utilized assets in search of additional sources of income. Last year, Uber became the world's most valuable privately owned company, with a valuation of over $60 billion,[2] making it clear the on-demand economy is no passing fad.

Figure 1: Percentage of Adults Who Have Used Some Type of On-Demand Service



Source: Pew Research.

The on-demand economy has changed the way people order food, summon a ride or find a place to stay while on vacation. For example, when we need groceries, Instacart allows us to order groceries with same-day delivery from the comfort of our couch. When we need to get somewhere, we pull out our smartphone and send a request to Uber or Lyft. A recent survey by the Pew Research Center found 72% of American adults have used some type of shared or on-demand online service[3]—and this number will continue to grow (Figure 1).

The evolution in the way business is now being conducted is driven by years of technological innovation and a resulting change in consumer expectations. Immediate access to

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email, messaging and other online functionality through smartphones has generated a sense of entitlement to fast, simple and efficient experiences.

For example, Google reported mobile searches related to "same-day shipping" have grown 120% since 2015,[4] as people are no longer willing to wait even a few days for their order to arrive. Moreover, Amazon Prime subscribers, where members receive same-day delivery at an annual cost, have grown steadily in the U.S., from 25 million at the end of 2013 to 90 million in September 2017, according to Statista.[5] In order to keep up with changing consumer trends, Amazon recently launched a new service called "Prime Now" where orders are delivered within one hour in certain geographical locations.

These trends have not gone unnoticed. According to CB Insights, more than $9 billion has been invested in on-demand startups since 2010.[6] The number of companies, the categories represented, and the growth of the industry is expanding at an accelerating pace. There are now hundreds of on-demand solutions popping up all over the world, including babysitting, pet sitting, dog walking, dry cleaning and laundry delivery, parking services and even insurance.[7]

◆ ON-DEMAND INSURANCE

Insurance is a 300-year-old industry and has historically been slow to innovate. Meanwhile, consumer needs are rapidly changing as technology enables new interfaces for traditional services. As consumers become more accustomed to on-demand services, it's not surprising on-demand insurance is on the horizon.

On-demand insurance is a new business model specializing in covering only those risks faced at a certain moment. The idea is you can get insurance coverage whenever you want, wherever you want and only when you think you need it. In other words, consumers only pay for insurance when the asset is actually in use and "at risk."[7]

There are no long-term contracts, no need to fill our insurance forms and no need to speak to a representative over the phone. It is an innovation making insurance coverage literally a simple swipe on a smartphone. For example, if you want to insure your phone after you've bought it, you would enter the required details, see the prices and then "swipe right" on your smartphone to insure it. Premiums for these micro-duration policies are paid in-app, and claims are typically filed using a mobile chat interface.

On-demand insurance is appealing to consumers because it provides the ease of one-click purchasing through an attractive customer interface and flexible/customized coverage to meet their needs. Moreover, unlike one-size fits all policies covering everything at once, on-demand insurance enables coverage at a more granular level.

On-demand insurance is still in its infancy, representing less than 1% of the global insurance market, according to KPMG.[7] However, the market is poised for growth and starting to take shape. Some of the insurance technology startups (or "InsurTechs") succeeding in the business of on-demand insurance are those targeting millennials.

Millennials make up nearly half of on-demand consumers (Figure 2).They are also more than twice as likely as all other generations to purchase their policies online rather than through an agent, according the Gallup Business Journal.[8] The process of getting insurance is entirely foreign for a generation that orders their cars and food from an app. Simple transactions with no paperwork done from a smartphone

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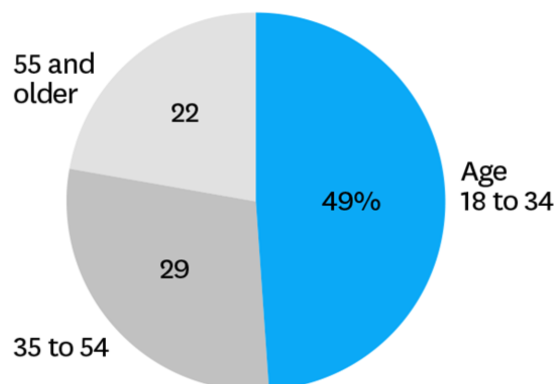
FIGURE 2: ON-DEMAND ECONOMY CONSUMERS BY AGE GROUP

Millennials Make Up Nearly Half of On-Demand Consumers



Source: National Technology Readiness Survey 2015.

are commonplace for millennials and younger generations, and they are coming to expect the same for insurance.

These startups are also addressing new kinds of risks emerging from the sharing economy. With the rise of home based businesses (i.e., AirBnB, Uber, Lyft) new coverage issues are arising under the typical homeowners and/or auto policies. For example, one risk associated with home sharing arises from having guests. A guest may be more prone to accidents or intentionally mischievous. As a result, hosts sharing their homes are subject to increased first-party and/or third-party losses.

In addition, these startups are using cutting-edge innovations such as artificial intelligence (AI), the internet of things (IoT), big data and predictive modeling to reinvent the way insurance products are created, underwritten, priced and distributed. Here's an example of what a few startups are doing with on-demand insurance:

<u>Slice Labs, Inc.</u>

Slice Labs, Inc. offers on-demand home share insurance to hosts using home share platforms such as AirBnB and HomeAway. It allows its customers to insure their homes for the time they are acting as a business, so users can pick and choose the dates for which they receive coverage, whether it's minutes, hours or days. According to Slice, "You tap a button you become a business, you tap a button again you become a person again. We are insuring and protecting that period of time where they are acting as a business."

Slice aims to protect hosts "from all the things you don't really want to think about but you'll be glad you did: Theft and vandalism, excess utility usage, insect infestations, lost income, and more," the company says on its website.[9] A customized commercial insurance policy includes commercial liability coverage limits of $2 million, full replacement cost value of the home, as well as the above-mentioned issues you "don't really want to think about." Slice is also currently testing ride-sharing insurance for transportation network companies (TNCs) such as Uber and Lyft.[11]

Slice is a great example of a startup identifying newly formed risks and addressing a market gap. Slice seeks to fill the gap between the demands of these on-demand services and traditional insurance contracts, which may not cover home rental or car-sharing. While the industry and lawmakers have attempted to close the potential for insurance coverage gaps associated with the home-sharing sector and TNCs, some issues still exist.

Homeowners' insurance policies traditionally do not include coverage of homes if rental operations are being carried out on the premises. Instead, insurance companies recommend hosts purchase commercial coverage, which is generally more expensive. Airbnb introduced Host Protection Insurance in January 2015, which provides coverage of up to $1 million for property damage; however, the coverage has limits. With TNCs, Uber and Lyft do not provide collision coverage for Period 1 (when the driver has turned on the app and is looking to pick up a fare).

Slice is a Managing General Agent (MGA) and is licensed in all 50 states and the District of Columbia. It provides home-share coverage in all states (accept Kentucky).[12]

<u>Trōv</u>

Trōv allows consumers to insure "the things they love"—such as smartphones, laptops, headphones, cameras and wearables—for just the time they want coverage (hours, days, months or longer). Trōv provides micro-duration policies (down to the second), charges micro-premiums (down to the cent) and uses "chatbots"—an artificially intelligent chat system—to manage claims. After registering items in the Trōv app, which pulls live valuation data from its database, a consumer can "swipe right" to activate coverage, let's say for their camera while traveling abroad. A "swipe left" ends the coverage.

Trōv's business model is built around "insurable moments" rather than long-term contracts. According to Trōv, "If you only care about your camera, laptop or bicycle, you can use Trōv to protect just those items, rather than buying a blanket policy that encompasses all your possessions." [13]

Trōv insurance covers accidental damage, theft or loss. While many standard homeowners and renter's insurance policies cover personal property, depending on the deductible policyholders choose, they might not be able to file a claim for something lost or damaged. Many smartphones and laptops, for example, aren't valued at more than $500 or $1,000, which is the lowest deductibles homeowners and renter's insurance policyholders can choose.

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Founded in 2012, Trōv originally launched as a personal inventory service in the cloud. The personal inventory service is still available in the U.S. while Trov prepares for its insurance launch this year (it is currently approved for property insurance in 38 states).[14] Trōv is a MGA and partners with established insurers to provide the underwriting and capital. Trov launched in Australia in May 2016, where it is underwritten by Suncorp, and the UK in December 2016, where AXA is its underwriting partner.

Metromile

Another emerging form of on-demand insurance is usage-based or pay-as-you-go coverage. In other words, auto insurance by the mile. Metromile sells car insurance on a pay-per-mile basis. Standard auto insurance policies aren't always tailored to people who drive very little. A common grievance some have with car insurance is paying to insure cars that spend most of the time sitting in parking garages or driveways.

Metromile installs a device in users' vehicles that records mileage. Metromile then charges rates based on the total mileage driven—benefiting low-mileage drivers. The device only tracks mileage and reports it back to the Metromile to help determine the insurance premium. It does not track other driving factors such as driving speed or hard-breaking incidents. Customers pay a monthly base rate, plus a per-mile charge, normally a few cents per mile. A claim can be filed directly from a smartphone. Metromile is currently available in California, Illinois, New Jersey, Oregon, Pennsylvania, Virginia and Washington, with plans to expand into other states.[15]

◆ OPPORTUNITIES AND CHALLENGES

The on-demand economy has brought about a cultural shift in the traditional insurance sector. New, technology savvy start-ups are entering the insurance sector, creating more flexible insurance solutions and changing the way insurance is experienced by customers.

However, insurance is much more complex than most other industries with unique elements to it, such as the regulatory environment. As such, the scale and speed of the on-demand economy's growth means regulators, insurers and on-demand startups should work together to understand the regulated nature of the industry and the statutes and regulations that must be followed to ensure consumers are not harmed.

One such example is Metromile. Their original concept was to sell blocks of coverage for a specified number of miles. If a consumer bought 500 miles worth of coverage, a start and end point for determination of whether coverage was in effect were needed. State insurance regulators, motor vehicle administrators and law enforcement balked at coverage vanishing as a person drove the 501st mile. It placed the consumer in a position of noncompliance with mandatory auto insurance laws.

Metromile solved the dilemma by changing its contract to charge a monthly base rate and a per-mile rate. Instead of coverage vanishing during a trip, Metromile tracks the usage and bills the consumer in arrears. Thus Metromile, regulators and insurers worked to develop a creative solution to assure compliance with mandatory coverage laws yet provide consumers the benefits of controlling a portion of premiums through conscious decisions to drive fewer miles.

Moreover, a Feb. 2018 report by Insurance Business Magazine found insurers either investing in or working alongside InsurTechs tend to perform better than insurers that do not. The report notes, "In the end, it may not matter whether specific InsurTechs survive in the long term or themselves become victims of disruption—the ideas they bring into the world of insurance are here to stay."[16]

Many insurers and InsurTechs are partnering together to a reach new markets. For insurers, collaborating with InsurTechs could lower the cost of entry into this increasingly digitized and competitive space. It would also provide expertise in emerging technologies such as AI and blockchain. On the other hand, established insurers have capital and regulatory expertise as well as greater access to resources to help scale and expand across countries.

However, while the idea of on-demand insurance sounds novel, the model may have some challenges. First, according KPMG, there is increased risk exposure. With the ability to turn insurance coverage on and off so easily, some consumers may be incentivized to exploit the on-demand-model, only switching on their insurance when they want to make a claim, creating fraud risks. For example, how do you determine whether the camera really did disappear? Or, how do you determine whether the laptop is actually owned by the person using the app and how do you know enough about him or her to determine the risk and the premium?[17]

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In addition, consumers may be more likely to purchase insurance when they are engaged in higher risk activities and not turn on coverage when they believe they are engaging in lower risk activities. This could increase the cost per unit of exposure above what is normal for traditional insurers.[18]

Secondly, premiums for coverage used only occasionally mean the customer is paying less overall. As such, the insurer may need to reserve more capital than it would require for an incumbent product to cover the additional risk factors, which could reduce profit further. In order for on-demand insurance to go mainstream, the economics of the model have to work for the insurer; i.e., where the per-use rate is higher than it would be in case of an annual policy, thereby giving the insurer a higher profit margin, according to KPMG. On the other hand, if not frequently used, the overall price would be substantially lower than for an annual policy.[19]

◆ SUMMARY

The changes brought about by the on-demand economy have led to an emerging breed of on-demand platforms. InsurTech startups like Trōv, Slice and Metromile are helping consumers insure everything from their apartment to their laptop. However, as with any new industry, new issues and risks are expected. Startups, regulators and insurers should work to identify and address risk issues and provide appropriate consumer protection.

The NAIC appointed the Innovation and Technology (EX) Task Force in 2017 to provide a forum for the discussion of innovation and technology developments in the insurance sector. The Task Force is charged to discuss emerging issues related to insurers or licensees leveraging new technologies to develop products for on-demand insurance purposes—in addition to potential implications on the state-based insurance regulatory structure—including, but not limited to, reviewing new products, cancellations, nonrenewals, coverage issues, notice provisions and policy-delivery requirements.

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