Crowdfunding Insurance

The growing number of under-insured and uninsured, as well as the increased acceptance of crowdfunding initiatives, introduces new business possibilities to insurers willing to accept upfront risk in exchange for potential long-term rewards.

Executive Summary

Demographic change and macroeconomic forces around the world have caused insurers to rethink their competitive strategies in an uncertain market. In order to increase sales of their products and services, insurers must overcome the common challenges of unaffordable premiums, customer overconfidence in the financial security of their savings and a widespread lack of understanding about the cost of unexpected life events.

One survival tactic that many carriers are considering is to expand into uncharted market segments with new crowdsourcing-based products and channel solutions aimed at uninsured and under-insured segments of the population.

This white paper describes the principles of crowdfunding and assesses the wisdom of this approach to help mainstream insurers determine how it could be applied to their lines of business to increase relevance and profitability in the marketplace.

A Market in Flux

Several factors are driving insurers to consider alternative insurance approaches:

- **Increased age of retirement.** Many workers today are delaying retirement, particularly because of the uncertain global economy, insufficient savings for future expenses, over-dependence on children and immediate family to fund post-retirement expenses and the inability to afford retirement.
- **Increasing medical and disability costs.** As healthcare costs continue to soar, patients with inadequate insurance struggle to afford co-pays, deductibles and other out-of-pocket costs not covered by their insurance plans, resulting in a need for external assistance.
- **Under-insured populations.** Low-income and certain ethnic groups are historically non- or under-insured.
- **The proliferation of the "sharing" economy.** With Uber and AirBnB showing the way, the concept of sharing assets on a peer-to-peer, real-time basis has emerged in multiple industries, including transportation, real estate and hospitality. This new approach signals a shift for the industry into collaborative, shared approaches to help consumers pay for insurance (see Figure 1, next page).

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Sharing the Risk & Reward

Health Insurance

Pooling Mechanism: An imminent or planned medical treatment can be covered under a medical plan by starting a campaign to generate funds well in advance.

Reward Mechanism: Crowdfunding can help cover deductibles and other out-of-pocket expenses not covered by the plan for all members in the pool.

Group Employee Benefits

Pooling Mechanism: Employers can opt to provide additional benefits to employees through specific group policies, such as group health or gratuity plans. Premiums can be funded by creating a pool to which other employees voluntarily contribute.

Reward Mechanism: Additional premiums can provide tax advantages for employees.

Retirement Funds

Pooling Mechanism: Low-income workers often face a retirement gap. Organizations can develop pools for such individuals to fund their retirement accounts or annuity purchase through donor contributions.

Reward Mechanism: Such contributions can be made attractive by offering tax deductions on the contributions.

Personal Savings Account

Pooling Mechanism: State-sponsored savings plans* that fund specific needs later in life (such as college education) can be administered online for free. Funds can be pooled with friends and family and other defined pools.

Reward Mechanism: Covered members can choose to reward contributors, as in traditional crowdfunding scenarios.

Comprehensive Car Insurance

Pooling Mechanism: Crowdfunding can be used to pay for comprehensive coverage for an automobile shared by multiple individuals. Collision damage and liability coverage can be provided in a "car-sharing" scenario in which all users contribute to the plan.

Reward Mechanism: In the case of an accident, costs and benefits can be shared on a prorated basis among members.

** Certain state-sponsored savings plans offer tax advantages and other incentives.*

Figure 1

Crowdfunding Use Cases

The potential exists for insurers to apply crowd-funded approaches to traditional interactions and transactions. For example:

Group Employee Benefits

- **Scenario:** Richard has a group retirement plan with his employer that would cover most of his post-retirement needs. However, while the benefits go into effect after Richard turns 65, his health issues are forcing him to retire earlier, at 55. This not only disrupts his income flow, but it also reduces his retirement fund, which may not be enough to cover his daily needs.
- **Solution:** Richard's employer starts a crowd-funding campaign to raise donations to cover his losses, inviting employees in the organization and their social connections to contribute. Once the shortfall in the retirement fund is met, the employer can provide Richard with an annuitized option.
- **Enter crowdfunding:** Although people on average expect their retirement to last 18 years, their retirement savings typically last just 10 years, according to numerous industry watchers. Retirement also often coincides with increased health and long-term care costs, posing major questions for how to cope with the additional expenses. In financial terms, older age groups stand to lose more than other populations due to the financial hardships caused by unexpected life events.

Education Funds

- **Scenario:** Brandi is a school-age girl whose parents are determined to send her to college in spite of the high costs of education.
- **Solution:** Brandi's parents set up a government savings plan when their daughter turned 10, which appreciates over time. Additionally, they set up a crowdfunding website page, on which they regularly post their daughter's school grades to encourage donations. They also ask friends and family to donate to the fund rather than give her presents for birthdays or other occasions. When the target is met, Brandi's parents withdraw the money and purchase single-premium, cash-value insurance for her.
- **Enter crowdfunding:** Certain state-sponsored savings plans can be used to fund specific needs later in life (e.g., college education). Such plans can be administered for free online. Donors can also contribute toward a student's education though a variety of platforms, including organizations focused on investment vehicles (i.e., 529 plans and other college savings plans in the U.S.), sites on which students manage their own donation outreach, and parent-run sites intended for family and friends to donate toward their children's future college goals in lieu of gifts.

Health Insurance

- **Scenario:** Rachel is an expectant mother who is determined to give her child the best post-natal care available; however, the expenses are alarmingly high. Because her health insurance plan will pay only part of the costs, the rest will need to be funded by Rachel and her husband's savings plans, which will greatly impact their family's future.
- **Solution:** Rachel starts a campaign on a crowd-funding platform, asking for donations to cover her medical expenses.
- **Enter crowdfunding:** Some medical conditions require complex treatments or post-treatment home care whose costs exceed what is normally covered by a health insurance policy, resulting in excessive financial strain. Moreover, the long duration of home care can also drain the resources of patients' families.

  An imminent or planned medical treatment can be covered under a health plan that receives funds from a crowdfunding source. Campaigns to generate donations can be started well in advance through an online crowdsourcing website. Such funds can be used to purchase insurance plans specifically required by the individual or to cover additional deductibles and out-of-pocket expenses. Tax deductions can be offered if donations are made out to a 501(c) (3) in the U.S. for a registered nonprofit organization.

Emerging Examples of Crowdfunded Insurance

Already, insurance, financial services and e-commerce sites around the world have begun to offer crowdfunding approaches to covering expenses:

- Fidelity now offers a 529 online gifting service and is leveraging social media to help customers save for college.[1]
- China's second-biggest e-commerce player JD launched a Kickstarter-like crowdfunding platform, Coufenzi, which allows participants to invest in a movie of their choice, with

donations as low as RMB 100 (USD$16) and up to RMB 2,000 (USD$320). Deposits are bundled into the company's wealth management and insurance products that pay a fixed interest rate.[2]

- Love Upgrading is a crowdfunded insurance service offered by Sunshine Insurance Co. on WeChat, China's voice and text messaging app. Buyers pay an initial premium of 100 yuan (USD$16) for one year of insurance with 50,000 yuan (USD$8,000) of coverage. They can then share the link on WeChat and invite friends to pitch in. Each contributor can raise the insurance amount by 2,500 yuan (USD$400) for a maximum of 100,000 yuan.[3]

When and How to Adopt Crowdfunding

As noted above, the factors driving crowdfunding as a growth strategy include the following:

- The need to reach a demographic that is unserved or under-served due to unaffordability or limited access.
- The desire to target customers whose current policies are lapsing because they cannot afford to maintain them.
- The need to respond to emerging types of insurability that require the application of crowdfunding.

From a business strategy, technology and operations perspective, carriers must consider the following points before deploying a crowdfunding mechanism:

- **Understand the current customer base and prospects** to identify the target segment.
- **Determine products and pricing** that will suit the target segment and fulfill the insurer's end goals of market expansion and increased profitability.
- **Analyze the current digital strategy** and assess whether an in-house or third-party platform is a more advantageous approach.
  - **Setting up the platform IT architecture:** Key decision points include multi-device, multi-OS operability, technology penetration among the target market and cost-efficiency of maintenance.
  - **Setting up the platform policy and security:** This is an extremely important issue, not only to meet compliance requirements but also to minimize vulnerability to risks such as money-laundering, data leakage, etc.
- **Implement organizational change management** to address business process reengineering, as well as guide internal and external customers and employees toward seamless acceptance and adoption of the new offering.

Once stakeholders reach consensus, the following steps can be taken:

- **Host a campaign**
  - Campaigns can be insurer-backed, in which the insurer offers an entirely new, small-ticket, short-term product suite meant for a group or individual to start a crowdfunding campaign. In this case, the campaign is hosted on the landing page of the insurer's website, as this is the most effective way to get donors' attention, gain credibility for the campaign and attract the maximum amount of funds from interested contributors.
  - Alternatively, insurers can host campaigns on a dedicated microsite. For example, TIAA-CREF has its own social network called the Communities, on which members can discuss their financial health, exchange ideas and host campaigns. Currently, two distinct sub-groups are represented on the social network, for women and members planning their retirement.
  - A third option is for the insurer to partner with an existing crowdfunding platform, such as Kickstarter, Indiegogo or Wishberry, and host sponsored campaigns. This is an effective way to gain attention and attract funds.
  - Insurers can also attain additional publicity through their social media channels.
- **Evaluate the campaign**
  - A crowdfunded insurance plan cannot be offered for all of lines of business. The most relevant plans are those for which no special processing is necessary (i.e., there is a clear case of insurability and/or no need for specific screening).
  - Premium requirements for such plans might need to be considered if campaigns are hosted on third-party platforms, to account for platform fees, etc.
- **Structure the campaign**
  - A crowdfunding campaign can either be flexible (i.e., the fund-seeker keeps whatever funds are raised) or fixed (i.e., the fund-seeker gets either the target amount or nothing). Also, campaigns can either run for a specific duration of time or be closed as soon as the

Crowdsourcing Benefits Extend Across the Ecosystem

Insurer Benefits

- **Increased revenue** as more people seek insurance through crowdfunding. This can also lead to customization of products suitable for crowdfunding.
- **Better brand perception.** When insurers offer a social funding vehicle, it can boost the company's image as an organization that cares.
- **Improved ability to reach under-insured populations.**

Donor Benefits

- **A sense of doing good** by supporting a family member or friend or making donations for a worthy cause.
- **Possible tax exemptions** through plans that are developed to suit this type of funding.

Seeker Benefits

- **Better protection,** especially for the under- and uninsured.
- **Successful policy retention** through prefunding.
- **More affordable coverage** for individuals who are under-insured.

Figure 2

target is reached. Because insurance payments are generally time- and money-bound, the ideal setup is a campaign that is fixed and set to close upon reaching the target amount. Insurers should issue such polices with the provision of a single premium, as this will help insured members avoid having to launch campaigns before every premium payment.

- **Reward contributors**

  While most small-ticket donors participate just for the sake of altruism, big-ticket contributors typically look for a tangible return. Insurers can issue the following types of rewards:

  - If the contributor is a current customer, the insurer can offer incentives such as premium discounts, waived fees, additional top-up premiums and additional coverage.
  - If the contributor is not a current customer, incentives can include a free session with a financial advisor, small-ticket travel insurance offerings or even – for very large contributions – the opportunity to purchase a policy with a small percentage of the amount donated.

Key Challenges

Because the concept of crowdfunding is fairly new in the mainstream insurance industry, the initial forays may be met with roadblocks, including the following:

- **Uncharted territory:** This is an entirely novel and untested area for mainstream insurers. Additionally, because crowdfunded policies may not be highly valuable to insurers, organizations may have little interest in exploring this approach. Thus, the biggest challenge is breaking the psychological ceiling in the traditional mindset and attracting interest in the concept.
- **User acceptance:** It is also unknown whether the general public will embrace the idea of donating to crowdfunding efforts. While some may welcome the idea of contributing to a worthy cause, others may be less enthusiastic due to security concerns or the sense of being pressured to donate.[4]
- **Minimum premium requirements:** Insurance companies have a minimum premium requirement that could be higher than what a crowdfunding campaign or company can reasonably afford. Greater upfront investment in policy processing software will be needed to keep overall costs under control.
- **Need for increased transparency:** To protect against issues arising from anti-money laundering clauses, plans that are sponsored using online crowdfunding may require greater transparency for both contributors and fund-seekers.

The Last Word

In today's age of technology-enabled collaboration, crowdfunding has already made some initial inroads, nibbling at the extreme corners of the insurance market. Given the ever-growing proportion of non- or under-insured individuals, crowdfunding could be a lucrative way of addressing mass market needs, especially individual disability benefits, retirements and pensions, as well as group plans.

While insurers fight to distinguish themselves, social media might be an especially effective way to kick off crowdfunding initiatives, as they can increase awareness and engagement. Moreover, using social approaches will provide carries with access to mobile wallets to ease program administration and campaign funds collection.

Footnotes

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2. Paul Bischoff, "China's Second Biggest Ecommerce Firm JD Launches Kickstarter-Like Crowdfunding Site," TechInAsia, July 2, 2014, https://www.techinasia.com/chinas-secondbiggest-ecommerce-firm-jd-launches-kickstarterlike-crowdfunding-site/.
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4. Ibid.

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