The Sharing Economy: Implications for Property & Casualty Insurers

Collaborative consumption services like Uber and Airbnb pose significant risk for the insurance industry. To capitalize on this market’s exponential growth, carriers must rethink fundamental operating assumptions that impact everything from product pricing and underwriting, to policy services and claims.
Executive Summary

In 2014, over 140 million rides were taken by more than 8 million people using Uber, a ridesharing service that transacts business in 53 countries but does not own a single cab. If that’s surprising, consider this: In the same year, hotelier Airbnb, which operates in over 190 countries, made over 37 million bookings, yet does not own a single room. These companies operate in what is popularly known as the “sharing economy,” a concept that seeks to tap underutilized or surplus resources by enabling consumers to rent or share them for an agreed-upon price.

In the last millennium, brands were built on institutional trust. Companies created products or services, used advertising and marketing to influence consumer perceptions, and employed appropriate distribution channels to reach them. But now, with the growth of social media, peer networking, and networking companies such as Uber and Airbnb, consumers are gradually overcoming their fear of interacting and directly exchanging goods and services with strangers; many are more willing to conduct transactions based on peer trust.

Today, peers influence others’ purchasing decisions through online review platforms such as Yelp, TripAdvisor, as well as through blogs. Also, more consumers – particularly cash-strapped millennials – are looking for ways to have vehicles at their disposal and places to stay when traveling, without having to own them or pay extraordinary fees to rent them. This change in consumer mentality, coupled with the concept of “shareables” is fueling the growth of the sharing economy. In fact, “making money by sharing” is becoming a new mantra. Digital tools and social techniques make it easier for virtually anyone to become an entrepreneur by offering underutilized resources – cars, an apartment, spare time or other personal assets – to people who need them.

The exponential growth of this phenomenon – also known as the “Peer-to-Peer” or “P2P” economy or “collaborative consumption” – presents a radically new way of conducting commerce, and is enabling individuals and
businesses alike to access specialized skills, resources, goods or services from anyone, anywhere, at any time. It is a shift that is transforming existing businesses and sectors – such as travel and hospitality – and generating new business models. Looking over the horizon, the sharing economy appears poised to disrupt additional industries, including financial services and insurance.

The sharing economy is growing at a staggering pace. From a valuation of $26 billion in 2013, this market is projected to reach at $335 billion by 2025 (estimated CAGR of ~24%) – bringing with it new types of business models and risks that property and casualty (P&C) insurance carriers have not previously considered, such as the use of personal property for commercial purposes at certain times; high-frequency transactions (assuming that each transaction has to be underwritten and priced individually); low premium amounts per transaction; less control over how assets are used with a degree of variance between transactions; plus significant reliance on external data for underwriting, pricing and claims.

Historically, some insurers have not shown much interest in writing these risks; a few, in fact, actually cancelled policies after covered assets were offered in the sharing economy.

A lack of insurance coverage from traditional carriers obliges sharing-economy companies to approach excess and surplus lines carriers and risk syndicates. However, in our view, the sharing economy offers significant revenue opportunities for P&C carriers at a time when most have experienced flat-line growth. Failing to embrace this trend could be detrimental to the industry’s overall health.

Carriers willing to participate in the sharing economy must make investments to modify and upgrade their business processes, operations and technologies. Those that choose not to participate will still need to make changes to their existing products and coverages, as well as their underwriting and claims processes. This white paper takes a detailed look at the growing significance of the sharing economy, and recommends ways P&C carriers can profit from this important trend.
The Evolution of the Sharing Economy

The concept of the sharing economy surfaced roughly 15 years ago. Since then, it has fostered seventeen companies with billion-dollar valuation, and disrupted many industries by redefining their core business models. Its impact has been felt primarily in the transportation industry, which includes ride-as-a-service and ridesharing; home and office space sharing; and workforce and services on demand.

- **Transportation**: Transportation sharing focuses on services like car rentals, the conveyance of people and goods, and the rental of parking spaces - allowing individuals to monetize idle capacity by offering it for use to other consumers. Since its advent, transportation sharing has gained popularity, not only by providing more transit options, but also by enabling shorter wait times, ease of use and, in many cases, lower prices. Today, Uber and Lyft dominate this market in terms of adoption, revenue and market capitalization.

- **Home and office space sharing**: Idle property capacity applies to unused private assets, such as an extra room, an entire residence, a vacation home or even extra office space. Home and office space sharing allows people to monetize excess space by offering it to customers for a few hours, days or weeks. The dominant players in this segment are Airbnb and HomeAway.

- **Workforce on demand**: Many companies and individuals engage skilled resources for services such as building a website, installing equipment, assembling furniture, cleaning and so on. The sharing economy model provides an online platform for resources to advertise their skills and expertise and easily connect with prospective customers. The self-employed U.S. workforce is estimated to be about

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Measuring the Sharing Economy

<table>
<thead>
<tr>
<th>Year Founded</th>
<th>Transportation As a Service</th>
<th>Home/Office Sharing</th>
<th>Workforce on Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Upwork</td>
<td>LiquidSpace</td>
<td>WhereiPark</td>
</tr>
<tr>
<td>2005</td>
<td>HomeAway</td>
<td>PivotDesk</td>
<td>Lyft</td>
</tr>
<tr>
<td>2008</td>
<td>Airbnb</td>
<td>TaskRabbit</td>
<td>Lyft</td>
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<tr>
<td>2009</td>
<td>Airbnb</td>
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<td>2009</td>
<td>HomeAway</td>
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<td>LiquidSpace</td>
<td>LiquidSpace</td>
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<td>2010</td>
<td>Uber</td>
<td>Uber</td>
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<td>2012</td>
<td>Lyft</td>
<td>Lyft</td>
<td>Lyft</td>
</tr>
<tr>
<td>2014</td>
<td>WhereiPark</td>
<td>WhereiPark</td>
<td>WhereiPark</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Registered Assets/Service Providers</th>
<th>User Base</th>
<th>Traded Amount (per annum)</th>
<th>Countries of Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uber</td>
<td>150 K</td>
<td>$11 B</td>
<td>68</td>
</tr>
<tr>
<td>Lyft</td>
<td>60 K</td>
<td>NA</td>
<td>1</td>
</tr>
<tr>
<td>Airbnb</td>
<td>2 M</td>
<td>$5.8 B</td>
<td>192</td>
</tr>
<tr>
<td>HomeAway</td>
<td>1 M</td>
<td>$15 B</td>
<td>190</td>
</tr>
<tr>
<td>LiquidSpace</td>
<td>8.7 K</td>
<td>$10 M</td>
<td>4</td>
</tr>
<tr>
<td>Upwork</td>
<td>3 M</td>
<td>$1 B</td>
<td>180</td>
</tr>
<tr>
<td>TaskRabbit</td>
<td>50 K</td>
<td>NA</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Latest publicly available data
Figure 1
53 million, which equates to approximately 34% of the entire U.S. workforce (circa 2014), and is expected to grow to about 60 million by 2020. On-demand workforce services are led by companies such as Upwork and TaskRabbit.

Figure 1 on the previous page depicts milestones in the evolution of the sharing economy, and provides statistics for some of the industry’s key players.

Dissecting the Trends

The concept of a sharing economy gained momentum as consumer attitudes shifted from wanting to own, to being more willing to share and participate in a collaborative environment.

The massive adoption of digital technologies spurred more growth - creating a disruptive force that redefined how goods and services could be sold and consumed.

Changes in the Societal Mindset

Numerous factors have facilitated the phenomenal growth of the shared economy.

A Willingness to Share and Utilize Assets and Services

Cash-strapped consumers increasingly prefer access to ownership. That’s not surprising, given the upfront capital investments needed to purchase things such as homes and cars, or lease prime office space. The sharing economy provides an alternative for players (businesses and consumers) to monetize under-utilized assets.

According to research by Nielsen Media, 68% of global online consumers are willing to share or rent their personal items in shared communities for a fee, whereas two-thirds are likely to use the products and services from others in such a community. Convenience, trust and a sense of community contribute to the adoption of collaborative consumption, especially among millennials.

In our view, the sharing economy offers significant revenue opportunities for P&C carriers at a time when most have experienced flat-line growth.

A Willingness to Trust One’s Peers

Recommendations and reviews by peer groups and prior users are key factors in the sharing economy, and the contemporary form of customer referrals and word-of-mouth endorsements. Average ratings, number of ratings and user feedback play a significant role in customers’ decisions regarding the purchase and consumption of assets and services. Furthermore, the proliferation of Internet connections, mobile devices, collaboration tools and the rise of social media have catalyzed connectivity among peer groups willing and eager to share feedback.

The Search for Alternate and Additional Sources of Income with Flexible Work Options

Economic uncertainty, global financial issues and lower interest rates have raised concerns about the increasingly high cost of living and the decreasing returns from traditional financial investments. Furthermore, nearly 17% of youth in the U.S. are unemployed, and others are swimming in debt from student loans. These circumstances have led many in the younger generation to look for alternate
sources of income and more flexibility through freelancing. Even those who belong to Generation X (people aged 35-49) appear willing to participate in the sharing economy to increase their options for alternate income.

**Entering the Sharing Economy Market**

Abundant funding options...easy access to digital technologies...the availability of individuals who can provide products or services...a strong potential customer base and global reach have made it relatively easy for startups to establish operations in the sharing economy.

**Greater Access to Capital**

Investors and venture capital firms have flocked to fund companies in the sharing economy. The market’s well publicized growth potential, the unfair advantage of organizations that can effectively manage costs to match buyers with sellers, plus the minimal capital investments required to launch these companies and become cash-flow positive are strong attractions. With the right pricing strategy, these businesses have the potential to generate strong profits. As a result, the industry is experiencing exponential growth in investment. Figure 2 depicts the growth in sharing-economy funding over the last decade.

**Technology Adoption**

The impact of social media is complemented by the ubiquity of smartphones and tablets. Smartphone penetration rates have reached 60% of the mobile installed base in the developed world, with 51% in Europe and 70% in North America at the end of 2014\(^\text{13}\). With the increase in smartphone take-up, mobile data traffic is expected to grow ten-fold. This means that customers can offer and locate goods and services more often – anytime, anywhere. As a result, startups in the sharing economy depend heavily on mobile apps.

Today, many sharing platforms utilize social networks to execute marketing campaigns, manage public relations and maintain communications. Chatter on social media can often reveal changes in consumer attitudes and perceptions, and help improve the customer experience. According to the SPREAD sustainable lifestyle 2050 report, 78%\(^\text{14}\) of survey respondents believe their online interactions made them more open to the idea of sharing.

Digital payments (including m-payment options such as Apple Pay and Android Pay) have further driven transactional growth in the sharing economy. Digital payment is forecasted to grow significantly in the next three years, from $1.7 trillion in 2014 to $3 trillion\(^\text{15}\) in 2018. Ease of use and security have made it easier for both providers and consumers of goods and services to transact digitally. Most of the leading mobile payments platforms, such as Square and Dwolla, disintermediate middlemen and enable small business owners to more easily accept payments.
More Choices, Affordable Prices

The sharing economy offers more choices for consumers, typically at prices that are lower than traditional options. Also, companies such as Airbnb employ machine intelligence to set prices, and are continually striving to make their pricing algorithms more sophisticated. These businesses follow a dynamic pricing approach, whereby general pricing algorithms are fine-tuned to factor in daily changes in market conditions, as well as the particulars of each listing, to adjust prices based on demand.

In the case of ridesharing, customers can choose different types of vehicles - an option traditional cab companies do not provide. Also, companies in the sharing economy typically offer services that are priced lower and offer greater security (such as the ability to track the car or see the driver’s profile). An Uber survey reveals that cost-effectiveness (22%), better service (21%), convenience (11%), and reliability (11%) are the key reasons why consumers choose its ridesharing service. Similarly, big hotel chains are often unable to compete on price because of higher overheads and operating costs, whereas home and office-space sharing companies have minimal operating expenditures.

The Impact on Property & Casualty Insurers

The disruptive changes brought about by the sharing economy cross industries - causing a ripple effect for P&C insurance carriers. The line of demarcation between personal and commercial lines has started to blur in scenarios where personal assets are used for commercial purposes.

For example, assume a consumer (call him Joe) has registered his car through a sharing-economy company and provides ride services for a few hours a day. When Joe drives his car to drop off his kids at school, it is for personal use, for which his personal lines auto policy will provide coverage. However, if he is driving a passenger who has contacted him through the ridesharing app, then his vehicle is being used commercially and his personal lines policy will not provide coverage in the event of an accident. The same principles apply when renting out a home or a room. Similarly, providers of on-demand services need commercial insurance coverage like workers compensation, commercial auto, general liability and crime when providing services to their customers.

Clearly, product owners and service providers participating in the sharing economy need the flexibility to opt in and out of insurance coverage - similar to pay-as-you-go business models. Consequently, carriers must factor in unique risks specific to each situation when making underwriting and pricing decisions.

As the sharing economy proliferates, insurance carriers need to think long and hard about how to align their businesses, operations and technology strategies with this disruptive trend and remain responsive to their customers, particularly the millennials, which represents a long-term growth opportunity.

For the past decade, insurance companies languished in flat-line growth. In the sharing economy, they can turn risks into rewards by creating new revenue
In the sharing economy, insurers can turn risks into rewards by creating new revenue streams. Carriers that choose not to offer products and services for this segment still need to make changes to their product language and core processes to ensure they are not taking on more risks than they should, and to avoid claims leakage. In short, the sharing economy impacts insurance carriers in the following areas:

- Revenue growth and customer retention.
- Business processes (e.g., product design, distribution, underwriting, pricing, policy servicing, billing, claims).
- Operations (e.g., policy servicing, billing, claims).
- Technology (e.g., core platforms, mobility, analytics).

**Revenue Growth & Customer Retention**

We believe there is considerable potential for carriers to realize premium revenue in the sharing economy, especially in segments like ridesharing, home and office space, and on-demand workforce. Customer retention is a key issue for today’s P&C carriers (especially personal lines carriers). As more personal-lines customers participate in ridesharing and home-sharing, carriers that do not offer coverage for these consumers could have trouble retaining them. Our rationale is based on the belief that customers might be unwilling to carry multiple policies – preferring a single policy that covers both the personal and commercial use of their automobile or home.

**Premium Potential from Ridesharing**

We estimate that the ridesharing segment will provide ~$2 billion in revenue to the P&C industry by 2020. According to a TSRC Berkeley report, there were 1.3 million ridesharing members in the U.S. in 2014, and that base is growing at a rate of 35% annually. In the same year, the average annual auto insurance cost was ~$907 for a vehicle used solely for personal use (see Figure 3, below). We estimate the incremental cost of auto insurance for ridesharing to be about 30% of the annual cost of auto insurance. If premiums remain equivalent for the next six years, the additional premium from this segment is projected to reach $2.15 billion by 2020.

**Ridesharing’s Premium Upside**

![Ridesharing's Premium Upside](source: Cognizant Analysis, Figure 3)
Premium Potential from Home & Office Space Sharing

Approximately 30%⁹ of the one million home and office space listings by companies such as Airbnb and HomeAway are in the U.S. Each unit is charged with an average short-term rental liability premium of $36²⁰ per month ($432 annually). Based on these estimates, the premium potential from the space-sharing market is valued at $130 million in 2015. Considering the space-sharing unit growth expected in the next five years at the overall sharing-economy market growth rate of ~24%²¹ (CAGR), the premium potential in 2020 is at least ~$380 million (see Figure 4).

The Premium Potential of Home & Office Space Sharing

![Diagram showing distribution of units worldwide and premium calculation.]

Source: Cognizant Analysis
Figure 4

Premium Potential from Workforce On-Demand Services

The self-employed U.S. workforce is growing - estimated at ~53 million²² in 2015 - which is roughly 34% of the entire U.S. workforce. Freelance union-group plans from small-business insurance companies such as Hiscox start at around $22.5 per month. It is projected that about one-third of these freelancers are full-timers. Assuming that this segment does not carry liability insurance, the premium potential from this sector is estimated at $4.7 billion in 2015. A greater premium share is expected from this segment because of the anticipated growth in the freelance U.S. workforce - to ~60 million by 2020. This should provide much-needed revenue growth for the small commercial business segment, which has endured a period of flat-line growth.

Business Processes, Operations & Technology

Carriers that choose to issue policies for sharing-economy participants will need to modify their current processes, operations and technology platforms. Even carriers that choose not to participate will need to amend their product forms, policy language, underwriting and claims processes to ensure that they are not taking undesirable risks or paying unnecessary claims. Figure 5 on the following page offers a high-level overview of the impact across business processes, operations and technology.
## Business Process, Operations & Technology Prescriptions

<table>
<thead>
<tr>
<th>Product Design</th>
<th>Distribution</th>
<th>Underwriting</th>
<th>Pricing</th>
<th>Policy Servicing &amp; Billing</th>
<th>Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Design products that are affordable and address the current coverage gaps.</td>
<td>• Reach sharing economy participants through channels such as mobile-based apps, aggregators and networking companies.</td>
<td>• Develop new processes that are straight-through, with minimal data collection from the customer.</td>
<td>• Leverage non-traditional rating parameters such as reviews, ratings, time of service, operating region.</td>
<td>• Support large volumes of transactions, such as banking and retail industries.</td>
<td>• Redesign claims submission questionnaires to have separate questions and workflows for claims incurred through sharing-economy transactions.</td>
</tr>
<tr>
<td>• Design forms with clauses specific to the sharing economy.</td>
<td>• Offer insurance to customers during new membership sign-up.</td>
<td>• Determine new ways of pre-qualifying drivers or asset owners.</td>
<td>• Support large volumes of transactions if pricing is done per transaction.</td>
<td>• Provide policies of micro-duration that can cover a single transaction of a few minutes or a few days.</td>
<td>• Establish criteria and processes to unequivocally determine coverage at the time of loss.</td>
</tr>
<tr>
<td>• Ensure quick turnaround for product design, product updates and rollout processes.</td>
<td>• Expose rating engines to networking companies for real-time pricing.</td>
<td>• Utilize external data for risk assessment, e.g., social media data, reviews, weather, traffic.</td>
<td>• Frequently adjust rating table and rating algorithm based on win/loss analytics data, competitor pricing, loss history, and third-party data.</td>
<td>• Support e-delivery of documents.</td>
<td>• Provide capabilities to submit, track and settle claims through digital channels, even for workforce on-demand segment.</td>
</tr>
<tr>
<td>• Adapt to changing regulatory requirements quickly.</td>
<td>• Enable account-level underwriting and threshold management.</td>
<td>• Enable account-level underwriting and threshold management.</td>
<td>• Implement transaction-level billing for micro-duration policies.</td>
<td>• Enable direct billing to customers with automatic and direct settling.</td>
<td>• Support account management functions for people sharing multiple vehicles, properties.</td>
</tr>
</tbody>
</table>

*Figure 5*
• **Product design:** The sharing economy has created gaping holes in insurance coverage for transacting parties. For instance, for a person who rents out his property, his homeowners policy will cover only the named insured and the people living in the household. It will not cover losses that arise while the home is shared. The homeowner would need a separate dwelling fire policy to ensure coverage while the home is rented, as well as coverage for crime, theft and vandalism. This means that the sharing-economy participants would need to take out a new policy for insurance coverage when the transactions are live, or make amendments to the current policy. Similar coverage gaps exist in ridesharing. Carriers need to additionally ensure that they have accurately identified all possible coverage needs; for instance, while designing policies for ridesharing drivers, or drivers providing delivery services (e.g., UberFRESH). They also need to strategize innovative, affordable products and design new forms with sharing economy-specific clauses that allow the commercial use of assets, or design entirely new policies that plug any gaps. The product-design and product-management processes need to be extensible to accommodate near-real-time changes to product features based on consumer behavior – necessitating technology platforms that support quick rollouts. Finally, carriers should also ensure compliance with the ever-changing regulatory landscape.

• **Distribution:** Carriers need to rethink their distribution strategy, given that traditional distribution models may not be highly effective for selling products to participants in the sharing economy. On this emerging landscape, policies could be sold as a blanket policy to the networking company, as a policy to consumers to cover all sharing economy transactions, or as a policy on a transaction basis.

  A 2014 study by the Insurance Information Institute found that while 95% of homeowners have homeowners insurance, only 37% of renters have renters insurance. Renters without their own policy rely on home-rental companies, many of which offer limited or no coverage. In 2010, California passed legislation that holds peer-to-peer networking companies responsible for providing insurance to participants when a private asset is shared. Other states are expected to pass similar laws.

  Considering the above, carriers should start thinking about distribution strategies such as providing easy-to-use mobile quick quotes and binding applications that integrate with the apps from networking companies; partnering with aggregators focused on insuring the sharing-economy segment; partnering with sharing-economy companies to approach customers; and reaching out to interested customers directly through targeted advertisements. Carriers should be able to leverage social and other third-party data to identify prospects for direct marketing campaigns. Some early examples are MetroMile partnering with Uber to provide drivers with a liability coverage of up to $1 million, and CBIZ insurance providing coverage to owners who share their homes through HomeAway.

Other carriers are slowly entering this space. For instance, GEICO now offers an insurance product for ridesharing drivers that covers both personal and ridesharing use. Interestingly, drivers are not limited to one TNC (transportation networking company). Similarly, MetLife Auto and Home has launched a new rideshare insurance product for drivers working within the Lyft rideshare network, and Farmers offers a new ridesharing endorsement on its personal auto insurance policies.
Internet of Things devices embedded in connected cars could help underwriters gather useful data on owners’ behavior and safety measures used for risk assessment.

- **Underwriting:** A unique feature of the sharing economy is that the transactions are temporal, episodic and small, making it prohibitively expensive and time-consuming to underwrite every single risk manually. Hence, carriers need to be creative in identifying new parameters (e.g., online reviews and ratings; credit history; claim history on primary insurance; online behavior obtained from social media sites; safe-driving information; and daily usage data extracted from a vehicle’s telematics systems) for underwriting and pre-qualifying drivers and asset owners. Carriers’ underwriting systems should be capable of processing these additional data sets, which would help assess risks and enable real-time underwriting.

Internet of Things (IoT) devices embedded in connected cars could help underwriters gather useful data on owners’ behavior and safety measures used for risk assessment. Carriers could also partner with networking companies to introduce eligibility criteria, such as quality and maintenance records of the asset, and conduct background checks.

- **Pricing:** As it happens with the introduction of any new product, carriers may have to struggle initially to find the right rating and pricing models for the sharing economy, especially given the lack of historical loss information. Companies will need to analyze and assess exposure units and rating factors to arrive at an appropriate premium. For instance, in the transportation segment, they could consider parameters such as time of ride, distance, traffic, number of passengers, neighborhood, weather, etc.

We anticipate pricing uncertainties in the early years of adoption. Actuaries will need to closely monitor evolving market trends and loss information to assess the effectiveness of their pricing models. Rating tables will need to be frequently reviewed and rating algorithms constantly readjusted based on claims experience, competitor pricing, win and loss details, and relevant third-party data. As micro-premium and micro-duration policies become the new norm, actuaries will need to maintain higher granularity in their pricing models. From a technological standpoint, rating engines could interface with the networking company’s point of sale system to improve data integration and enable quick turnaround.

- **Policy servicing and billing:** In the sharing economy, policy terms could span anywhere from a few minutes, to a few weeks, to months. A ridesharing driver who provides occasional rides to customers only a few times a week may need a per-day or even a per-ride policy. For carriers, this means having to reengineer their product sales and servicing processes, and adapting to short, repetitive sales cycles and multiple customer touchpoints to modify their policies for new transactions. To meet the needs of this segment, carriers must strengthen the customer experience through self-service; operations support; speedy underwriting; ease of access; round-the-clock availability; omnichannel support, and seamless integration with networking companies.

Actuaries will need to closely monitor evolving market trends and loss information to assess the effectiveness of their pricing models. Rating tables will need to be frequently reviewed and rating algorithms constantly readjusted.
The traditional half-yearly or yearly billing cycles may also need to be redesigned to accommodate transaction-level billing in order to support micro-duration policies. This would also mean that the existing billing processes would need to be scalable enough to support a high volume of small value payments from micro-duration policies. Customers in this segment typically expect capabilities such as direct-to-customer billing, m-payments, payment automation, and omnichannel support.

**Claims:** The changes needed to claims are not significant when compared with previous functional areas covered in this white paper. Carriers will have to make changes to their current claims processes, mostly at claims submission (FNOL), to ensure that accurate information is captured, determine if the claim event occurred during a sharing-economy transaction, and which policy is liable to pay the claim if there are multiple policies. For example, in the case of transportation, carriers should ask questions regarding the nature of vehicle usage at the time of an accident. Claim investigators will need to be more rigorous in order to unequivocally establish the policy in force at the time of the incident. Data from

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**Quick Take**

**How Ridesharing Insurance Policies Could be Sold**

The purchase of a personal auto policy typically takes place once or sometimes twice a year. Consider a sharing-economy driver who has signed up with a TNC. For a particular transaction, the driver offers a ride from Point A to Point B, and is looking to purchase insurance for that transaction. There are several solutions that carriers can provide in these scenarios.

TNCs offer a platform for capturing details of the ride, such as origin, destination, the number of passengers, etc. Drivers can be pre-qualified based on their driving history, credit rating, existing personal insurance details, loss history, and other third-party external data. Carriers can utilize ride-related parameters from the TNC and driver details to assess the risk and price the coverage on a real-time basis. TNCs can assume the role of aggregator by consolidating all quotes received from various partnering carriers and letting the driver choose a policy.

Another solution pertains to cases where drivers use their smartphones to access an aggregator app and provide details of the ride for which they need insurance. Carriers can use this information to price the transaction; the aggregator app can offer a summary of coverage options and pricing, with terms and conditions from all insurance partners.

Drivers can then choose the best coverage in terms of price, coverage features and deductibles, then close the purchase process through the app or a mobile website. Payments can be electronic, and the policy and the bill can be delivered electronically.
multiple sources, such as on-board devices, smart sensors and so on might have to be integrated into the claims process for appropriate adjudication. This would require investments in the latest data analytics technologies, such as big data and data sciences (pattern recognition capabilities), so as to utilize external non-standard data sets (social media data and telematics data, for example) to assist in claims adjudication. Technology should also support the ability to submit, track and settle claims through digital channels, since policyholders will likely have high smartphone adoption rates.

Key Challenges to Overcome

While the sharing economy presents opportunities for P&C carriers to reinvigorate revenue growth and improve customer retention, there are key challenges that must be addressed in the following areas:

- **Underwriting:** Irrespective of how distribution evolves and how policies will be sold to individuals participating in the sharing economy, underwriting is going to be challenging. The level of complexity is compounded by the fact that there could be multiple policies at different levels, such as a blanket policy provided by the networking company, policies taken out by an individual to cover all sharing economy-based transactions, or perhaps a transaction-based policy covering the specific instances where the asset is rented or the service is utilized. Also, in cases of transportation and home sharing, the personal-lines policy of the person renting an individual’s car or home would provide coverage when the asset is not used for commercial purposes. Underwriters need to be aware of all existing policies, and understand the risks that are being evaluated in order to provide the right coverage. If coverage is offered on a transaction basis, underwriting decisions must be made instantaneously. The underwriting ecosystem needs to support real-time, straight-through processing, should be available 24x7, and should integrate seamlessly with third-party data sources and networking companies. Underwriting guidelines and rules must be in place and continuously updated, based on policy and loss-history information. The need for on-demand underwriting will be critical, and underwriting processes, operations and platforms should support this capability.

The lack of accurate data and the inability to control some of the variables that determine risk exposures make underwriting complex and challenging. Even if underwriting decisions are not made on a transaction basis, issues still exist, since carriers do not have a lot of information on risks they are covering. When blanket polices are provided, carriers do not have data on all sharing-economy service providers and consumers. Moreover, each transaction will be different, and the associated risks will vary.

- **Pricing uncertainty:** Carriers will have to create new pricing models that reflect the risks in a sharing economy. The uncertainties involved in accurately identifying pricing parameters and the absence of loss data are the two main factors that impact pricing. Carriers must determine what types of pricing data are available, what needs to be captured, and how that data can be used. Ridesharing companies already gather data about vehicle owners and drivers. Peer reviews provide
additional data not traditionally available to carriers. Carriers should work with sharing-economy companies to determine what data can be made available real-time and develop pricing models accordingly. A few innovative companies are experimenting with new insurance models. For example, Metromile lets drivers pay for insurance by the mile. Drivers simply plug a device, called the Metronome, into the car’s onboard diagnostic switch to count miles driven. JFloat allows consumers to buy into a “collaborative consumption self-insured pool” through the web. A reinsurer backs the pool when claims cross the maximum amount.

- **Regulatory compliance:** Carriers must consider the issues surrounding compliance with regulatory laws, whether existing or new, which have been specifically introduced to deal with the sharing economy. A few cities, such as Eugene, Oregon, have banned TNCs, citing that these companies are violating the city code. TNCs fought a series of legal battles to ensure that their operations continue in New York City and the state of Nevada.

On the other hand, up to 19 U.S. states have recently passed laws that would increase the responsibility of TNCs to provide higher liability insurance coverage to their contract drivers. There are also labor regulations to be considered. This year, the California Labor Commission ruled that an Uber driver is an employee, not a contractor, and should be considered for employee benefits. Regulatory scrutiny and new laws are likely to increase as collaborative consumption becomes even more widely adopted. Given that many of the expected changes in the regulatory landscape will likely impact carriers, these companies should engage early with regulators and lawmakers to design appropriate policies, procedures and processes around the sharing economy.

- **Adopting a different operating model:** As senior insurance executives look to the sharing economy for new business opportunities, the level of maturity and preparedness needed to transform the industry’s current operating model to align with customers will vary widely across carriers and business functions. What follows are examples of the challenges that carriers may face when transforming their operating model:
  - It may be difficult for existing actuarial processes to blend unconventional data, such as ratings and reviews, with conventional data for modeling risks.
  - Due to very short sales cycles, current underwriting process and operations may have to undergo a complete transformation to support instantaneous risk assessment and pricing.
  - Transformation will also be required in current distribution channels in order to accommodate network companies. Core business processes will need to adapt to a large number of transactions of low premium value.
  - Current technology platforms will have to offer the flexibility and scalability needed to accommodate the company’s various business processes, address multiple digital channels, provide an omni-channel customer experience, and support faster turnaround of product changes.

The transition to this new operating model should be smooth, with all of its aspects – organization, processes, people, technology and partners – planned well and executed with precision. To help ensure success, carriers must view these initiatives in the context of overall business and operating-model transformations.

Carriers must consider the issues surrounding compliance with regulatory laws, whether existing or new, which have been specifically introduced to deal with the sharing economy.
Looking Ahead

The sharing economy has the potential to completely disrupt the way in which traditional carriers operate. Somewhat surprisingly, only a few carriers have responded to the insurance demands in this market, despite the opportunities. We believe that the time is ripe for carriers to start thinking, strategizing and aligning themselves to the needs of this segment.

Carriers need to seriously rethink their business models to balance their traditional business practices with the sharing economy's transaction-driven needs. They should be prepared to develop new products and services, redesign underwriting and pricing, and reorient their business processes and operations to accommodate the dynamics of this economy.

Fortunately, the field is still at an even keel, since most carriers are taking a “wait and watch” approach to their peers’ actions in this new arena. Moving fast to collaborate with leading networking companies to fill the current gaps will drive success in the long run.

Footnotes

8 Ibid.
10 Ibid.
12 “Collaborative Economy Funding (2002-Present),” Google Docs, September, 2015. https://docs.google.com/spreadsheets/d/1xTPJNvdOZvzERueyA-dILGTtL_KWK Tb-mj6RyQg9XXs/edit#gid=253059398.
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