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Trend:
The insurance industry has been slow to respond to the sharing economy, which is expected to generate $335 billion in global revenue by 2025.

Implications:

- The sharing economy is here to stay and encompasses transportation, renting, lending, subscribing, reselling, swapping, and donating.
- It has generated hundreds of start-ups and a significant number of extremely high value global brands.
- People have always delivered goods and products for cash. What’s new is the ability to do it much more broadly through internet platforms.
- PWC estimates the industry will grow from $15bn in 2013 to $335bn by 2025.
- Smartphone apps allow people to conduct transactions anywhere with the convenience of their mobile phone.
- Online payment services offer quick, safe, widely available means of compensation with low transactional costs.
- During the first three months of 2016, more than 143 million Americans visited a leading space-sharing site and there were over 107 million visits to top financial sharing sites.
- A 2014 study estimates over 10 million “sharers” in Canada. 45% of Canadians are willing to rent their possessions to others and 42% are willing to rent from others.
- Sharing platforms benefit consumers by increasing the availability of service providers, lowering costs, and providing altogether new services.
- Some people consider the sharing economy as a more sustainable way of living in a world with finite resources.
- Sharing platforms pose new public safety and consumer protection issues, and legislators and regulators are just beginning to confront these concerns.
- In many cases, the individuals who provide or use these services find out too late that they’re not covered by their insurance policies because they’re not built for commercial use.
- The challenge for insurers operating in the sharing economy is underwriting and pricing for a completely different risk profile than a policy’s original intended use – standard auto to livery driver, homeowners to mini-hotel, etc., or developing new products for this emerging risk.

Opportunities:

- There are at least three types of insurance customers in the sharing economy: the online sharing platforms – Uber, Airbnb, start-ups, etc.; participants – those offering the use of their cars, homes, services, etc.; and consumers – the end users.
- Traditional insurance products are not designed for the sharing economy.
- The insurance industry has an opportunity to design products and services that meet the needs of this new online economy and provide a customer experience that goes beyond pricing.
• Insurance regulators and consumer advocacy groups are important partners, since they want to make sure that those who participate in the sharing economy understand the potential risk protections they may require.

• Insurers are developing endorsements, additional policies, or excess policies to cover sharing economy risks. Some of these shift the expense to the consumer. They can be crafted specifically for business, but generic ones exist that offer limited benefits.

• Companies are introducing “pay for use” insurance purchasing platforms through applications that allow users to purchase specific insurance when a “sharing economy” type exposure exists, i.e. the period of an Airbnb rental or a ride sharing fare.

• Reputational and cyber risks are significant issues for sharing platforms and products are available from the Lloyd’s, London, and international markets.

• Property sharing risks are less regulated and may offer greater opportunities.

• For on-demand ridesharing services, the main issue is a possible gap in coverage between the driver’s personal automobile insurance policy and the ride sharing company’s policy.
  o Erie Insurance recently introduced auto insurance coverage to protect drivers who use ridesharing services in Illinois and Indiana.
  o USAA recently announced the launch of a pilot program in Colorado that provides coverage for ridesharing drivers from the moment they turn on their mobile apps until they are matched to a passenger.
  o Metromile allows rideshare drivers purchasing coverage in California to add a new endorsement to their personal auto policy that provides insurance during the pre-match period when the ride sharing application is open but the driver is not matched with a passenger.
  o The two largest insurers in Canada have developed a commercial auto wording in Alberta for Uber-type risks.

• Opportunities exist to identify new risks, develop new products, and take advantage of the specialty expertise of insurance wholesalers.

Threats:

• The E&S insurance industry has been slow to respond to a quickly growing market – while other insurers are already developing and marketing products.

• Claims and lawsuits have arisen from high profile incidents, including reports of pedestrian deaths, attacks on riders and home renters, destruction of property, invasion of privacy, and bodily injury.

• It’s difficult for sharing economy businesses to find agents, brokers, and insurers that understand their risk transfer needs.

• Many of the insurance programs that currently exist are cost prohibitive and don’t offer comprehensive coverage.

• Insurers are not necessarily able to control the exposures they face — they can’t survey each and every home or the quality of maintenance on every vehicle.

• “Pay for use” apps diminish the value of spreading risk and contribute to adverse selection when purchased when the most adverse exposure exists, i.e. renting to a known bad tenant or purchasing ride share insurance when the driver is most fatigued or impaired.
• Claims and court cases can potentially shift the entire model, putting price at risk.
• If the courts determine that ridesharing participants who were classified as independent contractors in the past are in fact employees, the workers’ compensation carrier will be put in the position of having to pay compensation claims brought by employees for whom it was never able to collect premium.
• Personal lines insurers may offer more options than commercial or specialty lines insurers.
• The sharing economy is seen as a threat to traditional businesses, which are pushing back with regulators.
• While there is limited legislation and regulation, the regulatory landscape is volatile.
• Regulatory challenges include adequately defining the business, equal access and employment laws, zoning regulations, consumer protection, and health and safety standards.
• Calls for regulation in the fastest growing segments of the sharing economy are rising as fast as their popularity.
• There is limited data on terms, pricing and claims.
• Peer-to-Peer Insurance, which operates by pooling insurance premiums from people who know and trust one another, is an emerging risk.
Sources Cited: