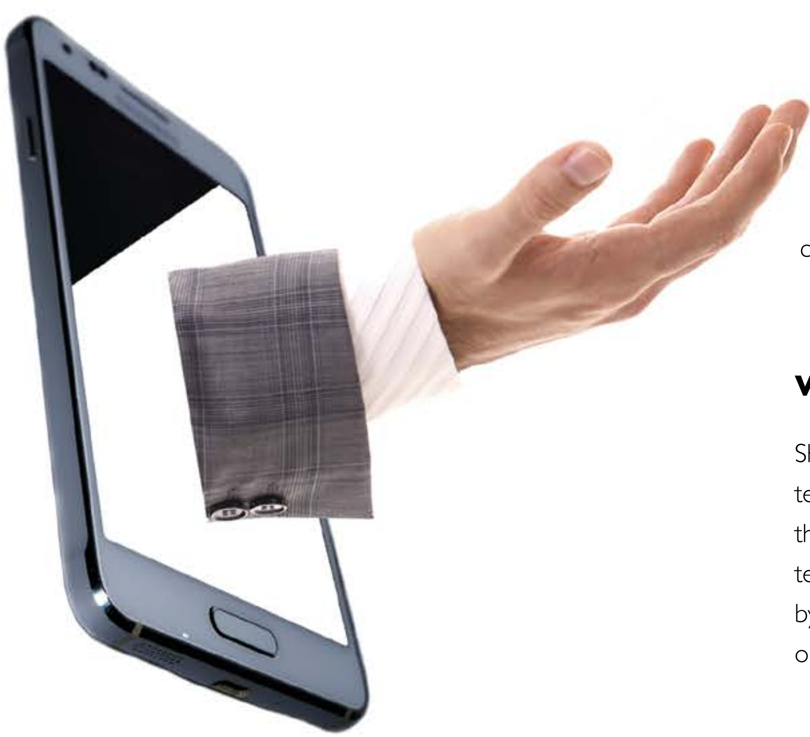
# CAPTIVES
## OFFERING INSURANCE SOLUTIONS FOR THE SHARING ECONOMY

*By Karrie Hyatt*



The Sharing Economy is poised to grow at exponential rates over the next eight years. Traditional insurance companies have been slow moving when it comes to meeting the insurance needs of these types companies. Captives, with their flexibility and entrepreneurial mind-set, are crossing the bridge, offering insurance for companies in the Sharing Economy.

### What Is the Sharing Economy?

Sharing Economy has become a familiar refrain in in the media. A term which everyone has heard, but may not be familiar with. It is the catch-all phrase that refers to new business practices that allow technologies to directly match services and assets to consumers, bypassing traditional middlemen. Also known as the "trust economy" or as "collaborative consumption."

According to the Oxford Dictionary, which added the term in 2015, it is defined as, "An economic system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the Internet." While "Sharing Economy" has become the catch-all phrase for this modern version of the barter system, it doesn't quite describe the different ways in which these new disruptive economies work.

Uber and Airbnb, which both got their start during the economic collapse in 2007/2008, have become the juggernauts in these new markets using the power of the Internet and mobile phone apps, but they offer different services. Airbnb's business model is the standard example of a Sharing Economy while Uber's model is more service oriented. Better terms to describe its services are "on-demand economy" or "peer-to-peer economy."

With the rise of these new types of markets, consumers can rent surfboards or parking spaces from individuals, consumers can be matched with services providers—such as movers or a handyman—get low-interest peer-to-peer loans, or have food delivered.

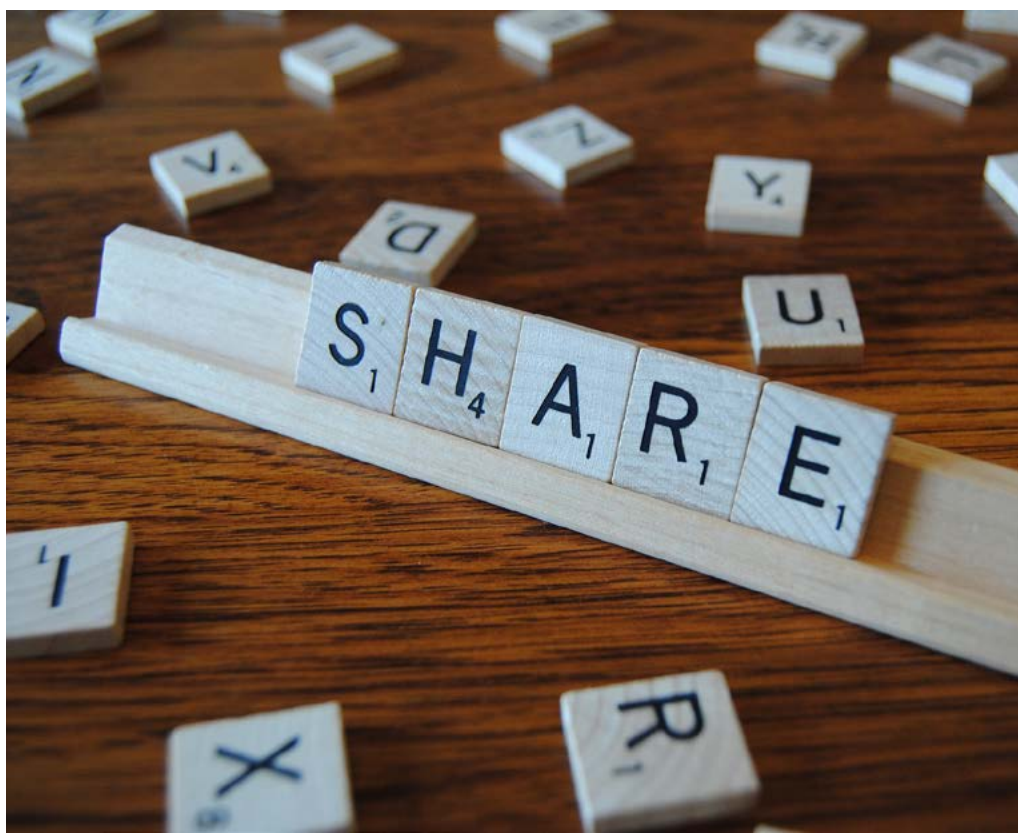
Companies in the Sharing Economy have one thing in common—they are reimaging how goods and services are provided to consumers. And these break-out companies are just getting started. The Sharing Economy was estimated to be worth approximately $28 billion in 2015 and is estimated to grow to more than $300 billion by 2025.

## The Sharing Economy and Traditional Insurance

Just as the Sharing Economy is disruptive to established markets, it is disrupting to how insurers have long-operated. When it comes to insurance coverage, they are disrupting decades (or even centuries) of actuarial data making it difficult to define and forecast the risks they may face.

While the types of risk are not unique—auto liability, workers' compensation, homeowners, Directors & Officers—the situations that could lead to claims are. According to Tina Summers, senior vice president, Marsh Captive Solutions, the challenge to insurance underwriters, "Is the relationship between the company and the exposure. For example, auto liability coverage for a company that owns the fleet of cars is pretty straight-forward. It gets complicated when the company is providing a technology platform to connect a buyer to a service that is delivered via a car owned by an independent contractor."

Especially if the owner of that car uses it for both personal use and as a service provider for companies like Uber or Lyft. Similar challenges arise for homeowners renting a room or a whole property through Airbnb or Homeaway.



On top of this, these business models and companies are so new that there is not enough loss experience for underwriters to make accurate estimates.

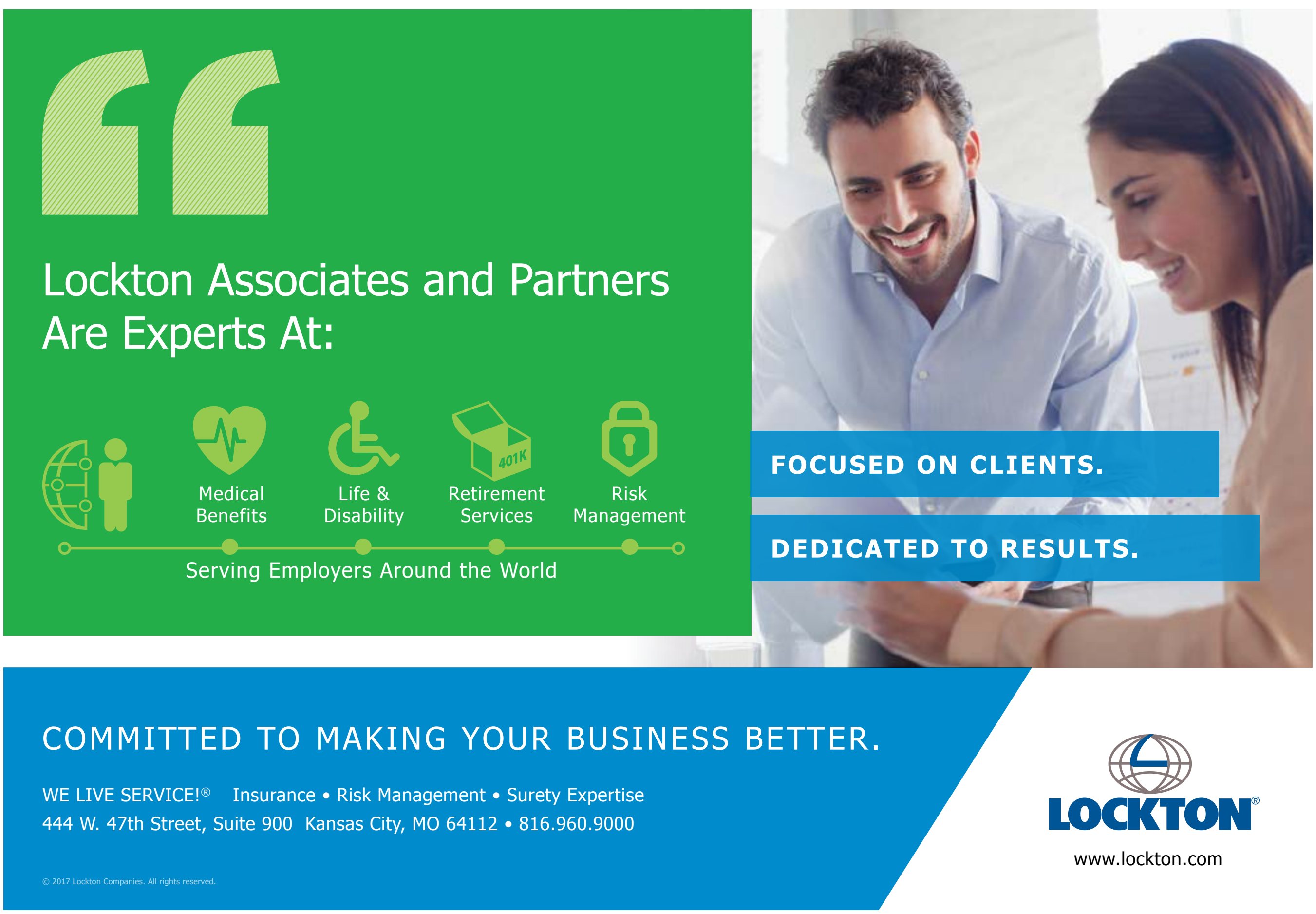
*"As many of the sharing economy companies are start-ups they don't have audited financials and have limited loss data,"* said Summers. *"Underwriters tend to be conservative when there are unknowns on an account which will often be reflected in higher pricing."*

"Regulation is a key challenge as it varies by state, municipality, county, airport jurisdiction, etc.," Summers added. When every locality has different laws regarding home rental, livery, or other peer-to-peer transaction, that effects insurance policies. Since most of the companies in the Sharing Economy operate nationwide, or even internationally, it adds complications to the cut-and-paste policy language that most insurers rely on.

The potential for risk for Sharing Economy companies may be much higher than anticipated as well, which could leave companies open for huge risk. There is a genuine lack of knowledge regarding the exposures these disruptive companies could face which makes it difficult to find an insurer that can offer adequate coverage.

## Closing the Gap With Captives

With all of the insurance challenges companies in the Sharing Economy face, captives can play an advantageous role. The flexibility that captives are known for translates especially well to start-up companies in the Sharing Economy. The customized policies, underwriting and claims efficiencies, and detailed risk management that distinguishes captives means they will be as agile as the start-ups they work with in the Sharing Economy. Captives give these companies the ability to better protect themselves as they continue to grow and evolve.




As Summers described it, "Since captives are essentially a formalized vehicle for self-insurance they are able to offer a number of benefits to companies in the Sharing Economy space—funding of retained risk in captive structure [that] can provide leverage when negotiating with commercial markets; improved unit economics due to flexibility that captives allow; ability to manuscript wording; [and the] ability to offer insurance to connected but unrelated parties (i.e., delivery drivers)."

Another important way a captive can help these companies is by giving them access to the reinsurance market. "These markets provide insurance-to-insurance companies and cannot be accessed by companies directly," said Summers. "In some cases, reinsurance markets have an appetite for risk that retail markets are not interested in. They may also offer broader coverage and more competitive pricing."

This is an ideal fit as start-up companies in the Sharing Economy tend to be more willing to accept risk. Being able to obtain insurance in innovative ways makes more sense for companies in this space.

To start a captive, it can generally take several years, giving companies time to build up actuarial data in the traditional market, but captive managers are finding that in the Sharing Economy businesses are seeking out captives earlier than is usually expected. Many times start-ups often have an excess of investment capital that can be funneled into a captive, allowing them to access captive insurance much sooner than most conventional companies would be able too.

Yet, like being insured through the traditional market, companies in the Sharing Economy seeking to access insurance through a captive still lack the actuarial data that makes underwriting a challenge. This presents a problem to captive managers and to regulators. Because companies in the Sharing Economy are so disruptive to standard business models, their potential for risk exposure may be much higher than businesses in more traditional industries. This creates a gap between what can be expected and what potentially may happen.

While captives make sense for many companies in the Sharing Economy to get appropriate insurance coverage, they can also be used to cultivate relationships with service providers and customers. The juggernauts of the Sharing Economy, Uber and Airbnb, have both developed insurance programs for their customers and service providers. However, most start-ups won't have the means to develop a program on their own. Through their captive they can offer their providers and clients access to low-cost insurance. It's just another a way for these companies to grow with and maintain high-quality providers while giving their customers a great experience.

As the Sharing Economy continues to grow exponentially, captives will be able to offer evolutionary insurance coverage for companies that are expanding the way that we think of business, keeping up with and covering their risks. ■

*Karrie Hyatt is a freelance writer who has been involved in the captive industry for more than ten years. More information about her work can be found at: www.karriehyatt.com.*