With a little help from my friends

In June of this year, auto insurer, Guevara opened its doors to the UK market. Setting this company apart from the competition is the company's claim to be a true peer-to-peer (P2P) insurance company. But while the company describes itself as a revolution in insurance, the fact remains that others have tried this route and failed.

Dominic Uys

Through its peer-to-peer system, Guevara claims to be able to reduce policyholders' premiums by around 50 to 80 per cent. The concept is based on the methodology that members pool their premiums in groups that they select or that are allocated to them by the company. The unclaimed money in the pool will subsidise a reduction in premiums for the following year.

Safer driving pools can see year-on-year decreases in premiums, but this also means that the unsafe driver pools could essentially see premiums rise. The company points out, however, that premiums are capped, providing at least some safety net for members.

Members choose their pools in one of two ways. They are either invited by a friend or family member, or the company will suggest the best fit. Higher risk members pay a higher amount as a joining premium and are assessed in the same way as other mainstream insurers approach new policyholders. From there the member continues as usual and, in theory, could start seeing rewards for safer driving behaviour from the following year.

Members who claim often, or who are considered to be reckless, can also be silently voted out. The company can then reassign the member to a new group. If members' friends or family join the company later, members can also elect to change to their pool.

The concept seems simple enough, and the company certainly proved its appeal by selling around £100,000 in premiums within the first 24 hours of officially opening shop.

Guevara is moving in on a business sector that has been exclusively operated by one Germany-based operator in recent years. It is important to note that peer-to-peer insurance has been attempted in the market by several companies in the past, with the majority of hopefuls folding.

Friendsurance seems to have survived the odds, however, having operated in the space for the past four years. Friendsurance launched into the European market in March of 2010, covering most mainstream short-term policies from liability to auto insurance.

Proven model

Friendsurance spokesperson, Eva Genzmer tells *RISKSA* that the company's P2P model proved itself effective by year three of operation.

"In 2010, the founders of Friendsurance realised that many people own insurance policies that they rarely or never use. However, insurers do not reward caution and fair play. Ironically, it could also mean less work and lower operating costs for the insurers themselves. We developed the Friendsurance Method, which allowed policy owners to regularly get some of their premiums back if no claims are submitted," she starts.

As with Guevara, Friendsurance policy owners form small groups, with a part of their premiums paid into a common pool. If no claims are submitted, the members of the group get some of their money back at the end of each year. Small claims are settled with the money in the pool while larger claims are settled by the insurer.

"In either case, policy owners always enjoy full coverage and do not pay more than they would without Friendsurance. In 2013, more than 90 per cent of those who took advantage of the Friendsurance Method received some of their premiums back," Genzmer says.

"To form the groups, Friendsurance links policy owners in the same lines. Alternatively members can create their groups individually and connect with people that they know. They can invite friends and family or match their Facebook and Linkedin contacts with the Friendsurance members," she continues.

"Currently, our peer-to-peer insurance concept can be used for existing personal liability, home contents, and legal expenses insurance policies with different values as well as for new insurance policies, which are taken out on Friendsurance.de."

When a claim is submitted, it is displayed in the personal account of all group members – without giving any details.

Positive reception

Keeping the company's lights on over the four years of its existence has not been easy, according to Genzmer. "There have been regulatory challenges as well as actuarial challenges.

It also took some time to find partners. As a newcomer in an established branch, you are either dismissed outright or not taken too seriously. But this is normal and simply something one has to overcome as a new player in a new market," she says.

The response from the market however gradually turned to a positive one, with its business model convincing institutional and private investors from the internet scene to buy into the company. "Among them e-ventures as well as the Hong Kong billionaire Li Ka-Shing and his technology focused Horizons Ventures. At the same time we have increased our customer base to a good five digit number," Genzmer reports.

"Today we also cooperate with the most renowned insurance providers in Germany. They like to work with us because they save costs with our Friendsurance principle. We have a proven track record of reducing fraud while at the same time reducing operational costs for the handling of small claims.

Our vision for the future is to enable all policy owners to profit from the Friendsurance method as we believe that insurances should become cheaper when you don't have claims," she concludes.