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General Track: Digital Transformation of Captives



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Introducing



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Introduction on GIG Economy

Definition 1:

„A way of working that is based on people having temporary jobs or doing separate pieces of work, each paid separately, rather than working for an employer“

Definition 2:

„Work transacted through digital platforms“



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Characteristics of GIG Economy



Online platforms connect workers and customers



Users work whenever they want



Rate is paid for a specific task



Payment is intermediated by the platforms

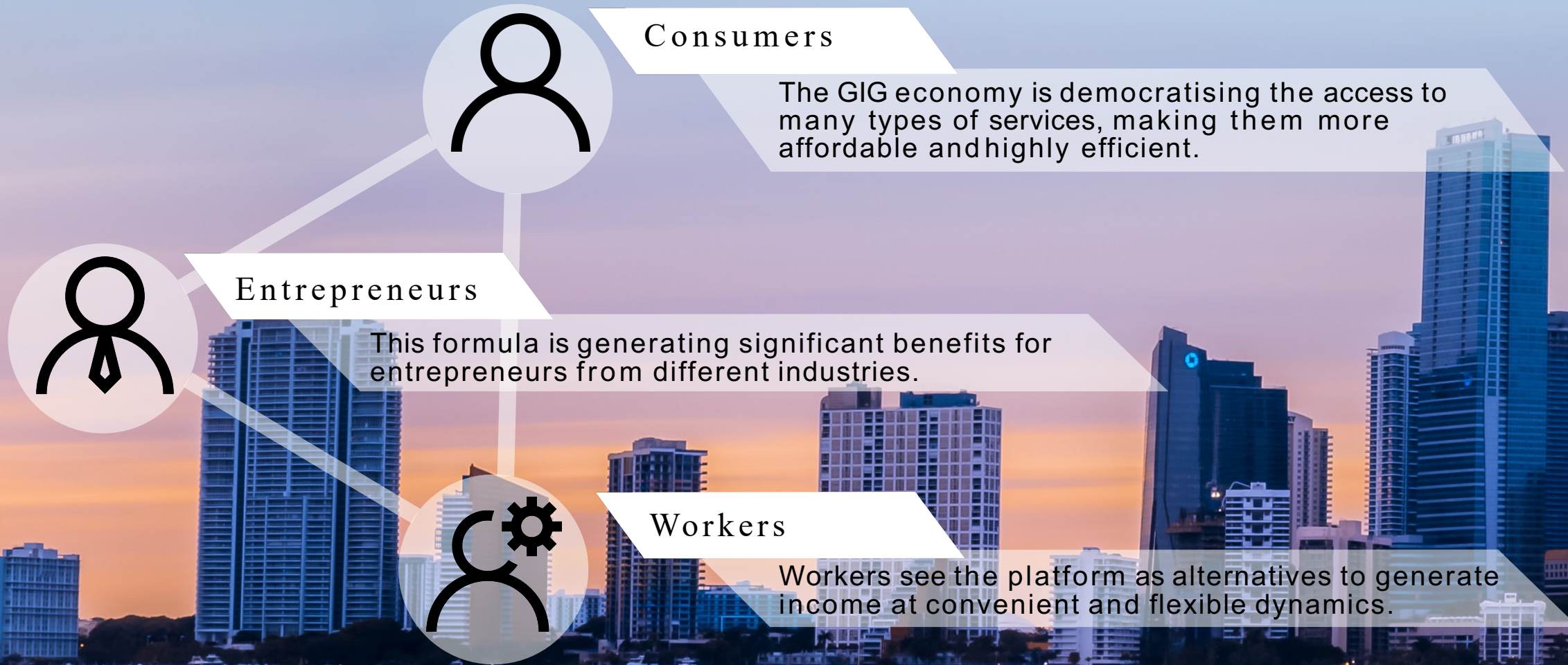


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Benefits of GIG Economy



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Example of a GIG Eco.Startup

The Uber logo, consisting of the word "Uber" in a white, sans-serif font, is centered within a black rectangular box. The background of the slide features a city skyline at dusk or dawn, with various skyscrapers and buildings visible against a gradient sky.

Uber became the fastest-growing startup in all history, and today it is higher valued than Ford or General Motors

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A stylized globe with a grid pattern and a bright light source on the left, creating a lens flare effect.

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GIG vs. Sharing Economy

GIG Economy: Online platform where work can be transacted

Example: Drivers can connect to UBER to offer rides

Sharing Economy: Systems facilitate sharing of underused assets

Example: Airbnb connects people looking for accommodation with those with spare rooms or underused properties

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GIG Economy in Facts



<1% of working age population participates in the gig economy today



2/3 is what Uber represents in the GIG Economy being considered a „quintessential“ employer for GIG work



\$1.3 trillion per year is what the GIG economy can inject in the global economy as of 2025 (Source: McKinsey & Company)

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Benefits of GIG Economy



Flexibility & Freedom



Mobility



Global Productivity



Small Businesses Overrepresented



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Challenges of the GIG Economy

- Almighty Companies
- Lack of Responsibility
- Lack of Transparency
- Lack of Competitiveness

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Influence of GIG Economy I

The services offered by the GIG Economy are likely to be disruptive

- ▣ More Convenient
- ▣ More Efficient
- ▣ Better Facilities
- ▣ Better Payment Method
- ▣ Better General Experience

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Influence of GIG Economy II

Disruption is a positive force and ensure innovations on the market

- ▣ Product development
- ▣ Service development
- ▣ Process Optimazition
- ▣ Organizational Optimization

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Interim Conclusion



GIG Economy is a growth market



Existing business models are replaced or reinvented



Due to the platform structure rapid growth is possible and there are potential candidates for a captive solution



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GIG & Mobility Market



Captive Industry: Well positioned to capitalize on this ever evolving economy



Basic premise: Alternative risk management industry allows companies to insure non-traditional risks in ways that more fully correspond to the level of risk



Industry Paradox: Traditional market committing millions of investment dollars; at the same time not allocating the corresponding level of resources to developing coverages

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Challenges & Response



Bridging the Gaps: the traditional vs new economies; and the standard vs the alternative risk markets



Determining the evolving risk characteristics and contract coverage



Industry has to design the contract coverage(s) and wait for the plaintiffs' bar



Taking a “leap of faith” with early stage limited data



Identifying the critical metrics for measuring and tracking performance

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Fundamental Issues



The “Round Hole-Square Peg” conundrum



The Gig economy’s insurance requirements does not fit into traditional coverages



Correspondingly the insurance industry is failing at developing coverage(s) responses



Changes are occurring at such a rapid pace at the risk of overlooking the positives of being at the front end of the increasing opportunities



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Solutions



Utilize technologies that provide a true and measurable ROI and ROE (“Return on Effort”)



Perform the required level of due diligence



Transitioning legacy mindsets to meeting the requirements of the “Gig” Economy



A concerted effort and partnership between the tech and alternative risk sectors while not overlooking the standard markets

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Case Study

GIG Economy Platform Company



Tech platform that bridges ride share companies with vehicles and drivers



Commenced limited operations in Spring 2015



Coverage initially written under a “hired/non-owned coverage” with a traditional carrier



Early claims activity highlighted coverage deficiencies

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Case Study

GIG Economy Platform Company



MGA partners with RRG to design a manuscript policy



Database created by MGA at inception to track the business throughout the life cycle



Working in partnership with Company, MGA and RRG developed key data metrics

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Case Study

GIG Economy Platform Company



Fast forward to 4th Quarter 2018, traditional carriers re-entered the sector working from the coverage and extensive data developed by the partnership of Company, MGA and RRG



Data identified a number of risk mitigation and claims issues



Company upon seeing and realizing the benefits to alternative risk created a captive insurance company to continue sharing in the risk

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Summation & Conclusion



Opportunity is significant for the alternative risk market to be at the forefront



Requires a cohesive and complementary strategy within a partnership philosophy



Determine who should be sitting at the table



Not lose sight of regulatory “creep” into the flexibility of utilizing the alternative market

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Bob Arowood // President Appalachian UW

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Scenarios for Digital Platforms

Risk Retention Group (RRG)

Pros

- ❑ Formed under state specific captive laws
- ❑ No need for captive to rent a “front”
- ❑ Quickly expand for national footprint
- ❑ Capital efficiency

Cons

- ❑ Only certain lines of business can be written with the RRG
- ❑ Need for the insured group to be homogenous in nature
- ❑ Market pushback for RRG vs traditional carrier

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Scenarios for Digital Platforms

Reinsurance Captive

Pros

- ❑ Can increase leverage ratio based on domicile
- ❑ Some control over coverage form/pricing
- ❑ Build long term value creation based on underwriting/investment gain

Cons

- ❑ Cannot write direct - need to partner with a "front"
- ❑ Collateral requirements from the fronting partner

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Scenarios for Digital Platforms

Admitted Carrier & Captive Reinsuror

Pros

- Admitted carrier can offer coverage for all lines
- More accepted in the marketplace vs an RRG
- Can use captive to increase leverage ratios of the carrier

Cons

- Need to buy a multi-state shell or the slow process of adding states one at a time
- Working with various rating agencies as needed
- Time and energy managing a regulated carrier

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Scenarios for Digital Platforms

Conclusion

For summary there are no obvious road maps for a digital partner to follow - both current needs and the longer-term objective must be taken into account.



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Q&A



Having set up your captives and RRG going back over 12 years - as a successful large program MGA why did you see the need to do this ?



Looking into the future as a captive owner and underwriter of an RRG, what do you think the major issues will be in the next 12-24 months for the alt risk industry and even more particularly for your company ?

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