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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



Consumers

The GIG economy is democratising the access to many types of services, making them more affordable and highly efficient.



Entrepreneurs

This formula is generating significant benefits for entrepreneurs from different industries.



Workers

Workers see the platform as alternatives to generate income at convenient and flexible dynamics.



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Example of a GIG Eco.Startup

The Uber logo is displayed in white, lowercase letters on a black rectangular background. The background of the entire slide is a city skyline at dusk or dawn, with various skyscrapers and buildings under a gradient sky from orange to blue.

Uber

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

A small, stylized globe icon is located in the bottom left corner of the slide, showing the Americas in silhouette against a glowing background.

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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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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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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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