Peer-to-Peer Loans and Insurance

ocial Transactions

Technology and the sharing economy have led to seismic changes in how people live – altering the face of social ollaboration. Peer-to-peer (P2P) lending, or social lending, ccurs when lenders and borrowers deal directly with one nother through online services. P2P insurance involves group of people with a common interest pooling their unds to provide insurance for the members. Helping clients nderstand the pros and cons of peer-to-peer transactions another value-added service of the professional insurance gent.

People take out loans for a variety of reasons – to buy a ouse or business, or to consolidate debts. Not all lending ptions are the same. There are four types of P2P loans: usiness, individual, mortgage, and student. P2P loans can be ecured or unsecured. Secured loans are much less common s they are secured with the borrower's property, which could e a luxury item, such as a house or boat. IMARC group, a arket research firm, estimated the size of the P2P market o be $147.9 billion in 2022, with growth projections to $626.5 illion by 2028. Other estimates are even higher. Consumer ending is 80% of the market (globenewswire.com).

The P2P lending process is straightforward. The potential orrower fills out the application through an online platform. he applicant's risk and credit rating are assessed, including ackground checks. The applicant is assigned to a risk category ith an appropriate interest rate based on the results. The orrower then chooses from among interested investors. The nline platform handles payments, and charges a fee for their ervices to both borrowers and lenders.

As with all online transactions, P2P lending has risks. P2P ans are not protected by the government and are not insured y the FDIC (Federal Deposit Insurance Corporation). These ans are not allowed in some jurisdictions and may be subject o investment regulations. Lenders are exposed to high credit sk, as borrowers who resort to P2P loans may have no other ptions.

Advantages of P2P lending are lower interest rates, a ore efficient and transparent process, a wider variety of pportunities, and a faster approval. For lenders, there is an pportunity to experience much higher rates of return than aditional financers. Borrowers may have access to lower nterest rates. This is due to lower fees involved in the P2P ending process and competition among lenders.

P2P insurance is another example of a growing trend in ocial collaboration. Similar to traditional mutual insurance ompanies, with P2P insurance, funds collected in excess f claims paid are returned to members. According to the ational Association of Insurance Commissioners (NAIC), 2P insurance involves a group of like-minded people with utual interests grouping their policies together (content. aic.org). This leads to reduced costs and a sense of control, rust, and transparency. Reinsurance is still needed for times

when the losses exceed premiums paid.

New P2P insurers may use blockchain technology. For example, premiums may be added to an escrow-type account in a digital wallet to be used for future claims payments. Each insured's liability is limited to the amount in their digital wallet. Teambrella is an early user of blockchain in P2P insurance(content.naic.org).

According to sciencedirect.com, there are typically three models for P2P insurers. Self-organizers operate without an intermediary. Members usually know each other and share common interests. Premiums are pooled and money from the pool is used to pay claims.

The broker model uses an intermediary to create and manage the affairs of the groups of peers. Members typically do not know each other. Premium payments are made into a fund, with claims paid out of the fund. A portion of premiums is also sent to a traditional insurer as a backstop for claims that exceed capacity of the fund.

The third model is the carrier model, represented by Lemonade - recognized as the first P2P insurance company. Insurance is purchased online and most claims are handled electronically, as well. The company takes a flat fee and, after claims are paid, donates any residual funds to charity.

A primary advantage of P2P insurance is faster claims payments due to lack of hierarchy. A disadvantage is that P2P insurance may not be a scalable model. People may not trust the P2P insurance to be able to pay claims.

Advances in technology have greatly expanded opportunities for social collaboration, including P2P insurance and lending. Helping clients understand the advantages and disadvantages of peer-to-peer transactions is another sign of the true insurance professional.

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