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Your Friends Could Soon Be the Key to Cheaper Insurance

By: Bob Sullivan, Credit.com

The Internet, and the sharing economy, have changed the way we buy everything — from books to mattresses to "hotel rooms" to taxi rides. Now, it's the insurance industry's turn.

A series of startups promise disruption of this product consumers love to hate. (Sorry, Flo.) Even well-known author Dan Ariely is now in on the act.

Ariely, a behavioral economist famous for best-sellers like Predictably Irrational, just joined insurance FinTech startup Lemonade as Chief Behavioral Officer.

Fraud is a big reason insurance costs so much, and Ariely said he will use his research into dishonesty as a way to shrink costs for everyone.

"We've spent recent years deepening our understanding of honesty and trust, and our conclusion is that insurance is crying out for a makeover," Ariely said in a press release. "With its unique business model and technology, Lemonade aims to reverse the adversarial dynamics that plague the industry, transforming both the economics and experience of insurance."

Less Fraud, Better Policies?

Insurance fraud is a huge problem — and consumers pay for it through higher premiums. By some measures, it's the largest criminal enterprise in the U.S. after narcotics trafficking. The Coalition Against Insurance Fraud says there's $80 billion worth of fraud in the U.S. every year. In some places, things are even worse; one out of every three auto claims in New York are fraudulent, according to PropertyCasualty360.com.

Reducing fraud would be a good thing; probably a great thing. Ariely is suggesting a lot of fraud stems from the acrimonious relationship between consumers and the insurance industry.

"Imagine that you wanted to create a system that would get the worst out of people," he says in a video announcing his relationship with Lemonade. "What would you do? You would start by getting people to give you their money and then you would promise to give them things back later when bad things happen to them but when something bad happens you would start fighting with them plus you would show them that you don't trust them and you would have extra small print and you would say we don't cover this and we don't cover that."The implication is that consumers who don't feel cheated all the time are

less likely to "cheat back." In fact, Ariely 's research has found it's possible to nudge consumers into better behavior.

Lemonade did not respond to request for comment on whether the less-organized, one-off fraud Ariely wants to nudge consumers away from would constitute a lot or a little of the overall fraud rate.

In fact, Lemonade isn't answering a lot of questions at the moment; the startup is in stealth mode. It describes itself as "set to be the world's first P2P insurance carrier," so you can make some guesses about how it'll work. It's getting a lot of attention because it's attracted a tidy sum from investors and some big-name partners, including Berkshire Hathaway and some leading Lloyd's of London syndicates, according to InsuranceJournal.com. Other insurance startups receiving big investments, the site said, are PolicyGenius ($15 million), Zenefits ($500 million) and China's Zhong An ($930 million).

Friend-to-Friend Insurance?

Internet/sharing economy insurance startups are gaining some traction in other parts of the world. Germany-based Friendsurance puts together small pools of consumers — friends who go in together, or groups assembled by the firm — who receive

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