THE SHARING ECONOMY:
DISRUPTIVE INNOVATION TO ECONOMIC INSTITUTION

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STRUCTURE

- Introduction to Sharing Economy
- Disruptive Innovation
- Unlocking Asset Value
- Rapid Growth
  - Winners and Losers
  - Underestimation of Legal / Regulatory / Insurance challenges
- Examples
- Future Developments and Questions
45 million American adults participate in the sharing economy (1 in 5 American adults)
*Airbnb* averages 425,000 guests per night, nearly 22% more than Hilton Worldwide
– PriceWaterhouseCooper (2015)

*Expected growth in Sharing Economy*: $15 billion in 2015 to around $335 billion by 2025
– PriceWaterhouseCooper (2015)

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**The Sharing Economy: An Introduction**

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**Sharing Economy Sectors**

*Only a partial list*

- **Transportation**
  - Ride sharing, bicycle sharing, parking reservations, borrowing cars, etc.
- **Hospitality**
  - Home sharing, Vacation home rentals
- **Food Services**
  - Restaurant Delivery
- **Personal Services**
  - Tasks
  - Home repair
  - Sharing tool
  - Dog watching
  - Cooking
  - Buy/Sell/Rent clothing
- **Financial services**
  - Lending
  - Crowd sourcing
Estimated Uber market capitalization $60-75 billion

State Ridesharing Legislation

Some assets are too expensive for most individuals

- It is convenient to share some assets

Assets can either be *stores of value* or *wasting assets*. The latter are more common.

- Sharing Economy technologies allow individuals to unlock (monetize) owned assets.
- This creates value for both sides of the transaction.
**DISRUPTIVE INNOVATION**
(aka COMPETITIVE DESTRUCTION)

- Tech-based sharing economy is indeed revolutionary in monetizing assets
- Using cell network connectedness has profoundly changed how individuals interact in open markets
- Example of the *Internet of Things*, with a twist
  - Allows entrepreneurs to unlock the value of owned assets, including human capital
  - Monetizes underutilized assets

**DISRUPTIVE INNOVATION**
EXAMPLE: RIDESHARING

- Technological Transportation Networks (TNCs) changed urban transportation, competing with and supplementing services provided by traditional taxis
  - **Drivers** unlocked the value of owned assets in an entrepreneurial effort and employment
  - **Passengers** considered more convenient, less expensive and more transparent
- Resulted in reduced medallion values, bankruptcies for some taxi companies, and reduced earnings for taxi drivers
Unlocking Value in Wasting Asset
Automobile Depreciation over 5 years

Monetizing an Underutilized Asset via a Technological Platform

Drivers
Unlocks value of underutilized assets to provide income

Passengers
Don't need to purchase an underutilized asset

Technological Platform (TNC)
Connects drivers & passengers via smartphone
Manages payments
Reduces asymmetric information
Extracts economic rents

WIN ... WIN ... WIN!

BUT DO ALL WIN?
Technology Driven
Ease and Trust
Safe and Secure

Get a ride in minutes.

Economic Impact on Passengers
With car ownership costs approaching $9,000 per year
[Survey response: 5,700 passengers and 2,600 drivers across 7 major cities]

- 46% of passengers avoid owning a car entirely because of Lyft
- 25% use Lyft to connect to public transit
- 45% of passengers spend more money at local businesses
- 73% of passengers go out more and/or stay out longer
- 54% say Lyft allows them to get places otherwise inaccessible

Opposition to Ridesharing

- Initial opposition came from taxi industry which viewed ride sharing as unfair competition
- Insurance industry became increasingly concerned about unknown risks and losses associated with ridesharing drivers
  - Personal Auto Policies exclude livery services
- Consumer advocates and attorneys became involved in support of both riders and drivers
- Banks concerned about insurance coverage for leased or financed vehicles

Major Legislative Issues
Sharing Economy / Ridesharing

- Determination of Legality of ridesharing.
- Requirements for Public Safety, including adequacy of insurance coverage and background checks of drivers and disclosure
- Insurance Companies Rights to cancel or not renew insurance for rideshare drivers; or deny coverage while engaged in ridesharing
- Voter preferences
- State rights vs. Municipal rights
- Independent Contractor vs. Employee
Insurance Adequacy

- Are the drivers covered by Personal Auto Policies, or are more costly commercial policies needed?
- Is coverage sufficient to protect the passenger, the driver and the general public?
- Do drivers have sufficient protection operating as independent contractors?
  - Worker's Compensation (medical, disability, and earnings replacement)
  - Other employee benefits (401Ks, group life, etc.)

Commercial Insurance Coverage
Provided by Ridesharing Firms

Coverage varies by State
[Contingent coverage, Deductibles]
Insurance Gaps

Passengers:
- Generally equal or better coverage than taxis

Drivers:
- Will personal auto policy provide coverage?
  - Will policy be cancelled if insurer discovers rideshare activity?
  - Will ridesharing firm drop them if they have an accident?
- Fairly low coverage level during contingent period (possibly no comprehensive/collision).
- Currently no worker’s compensation coverage
- Drivers are on their own for medical, life and disability insurance

Need for Innovation in Insurance Markets

Big Data Problem

TNCs are working with selected insurers to design policies for Rideshare Drivers

Why the Delay?
Open Discussion
Legal/Regulatory, Sharing Economy Structure, Insurance

The Sharing Economy
What the Future Holds
Sharing Economy Perception
Source: PriceWaterhouseCooper (2015)

For some, the word “sharing” was a misnomer, a savvy but disingenuous spin on an industry they felt was more about monetary opportunism than altruism.

For others, more apt titles included:
- The Trust Economy
- Collaborative Consumption
- The On-Demand or Peer-to-Peer Economy.
- The Gig Economy

There is, however, uniform agreement that the sharing economy is getting very big, very fast:

- 45 million American adults participate in the sharing economy (1 in 5 American adults) – Time Magazine (6 Jan 2016)
- Airbnb averages 425,000 guests per night, nearly 22% more than Hilton Worldwide – PriceWaterhouseCooper (2015)
- At $62.5 billion, the car-sharing firm is now potentially worth more than the stock market capitalizations of automakers BMW, GM and Honda and close to those of VW, Daimler and Ford. – Reuters (June 2016)

Current Status
Gig Economy ➔ Gig Workers

There has been a fundamental change in how some individuals view employment relationships

- This is generational, particularly strong in high tech / start-ups
- Rather than viewing employment as a long-term prospect, they move from gig to gig (sometimes working in the sharing economy between gigs)

This leaves workers at risk without access to:

- Employer sponsored retirement plans, vesting, etc.
- Traditional insurance coverage: medical, disability, life insurance, workers compensation, etc.

- Gig workers subject to sudden wage shifts
  - Difficulty in managing rent, car payments, mortgages
  - Impact access to credit and other debts.

- Need for new employment laws as gig economy grows
Workers engaged in alternative work arrangements*
- Rose from 10.1% in 2005 to 15.8 percent in 2015.
- 54% of increase via contract companies.
- Only 3% of employment via sharing economy firms.
- All of the net employment growth in the U.S. economy from 2005 to 2015 appears to have occurred in alternative work arrangements.
- Percent of workers reporting working for firms that contracted their services rose from 0.6% in 2005 to 3.1% in 2015.

*Defined as temporary help agency workers, on-call workers, contract workers, and independent contractors or freelancers.

Rideshare Companies:
Insurance & Regulatory Issues for States

Webcast
Griffith Foundation & Council of State Governments
4 November 2015

Thank You!
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