

THE SHARING ECONOMY: DISRUPTIVE INNOVATION TO ECONOMIC INSTITUTION

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THE OPINIONS EXPRESSED ARE THOSE OF THE AUTHOR AND NOT CSUS OR SPONSORING ORGANIZATIONS

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)

–Exclusive: See How Big the Gig Economy Really Is. *Time Magazine* (1/6/16)
 Airbnb averages 425,000 guests per night, nearly 22% more than Hilton Worldwide
 –PriceWaterhouseCooper (2015)

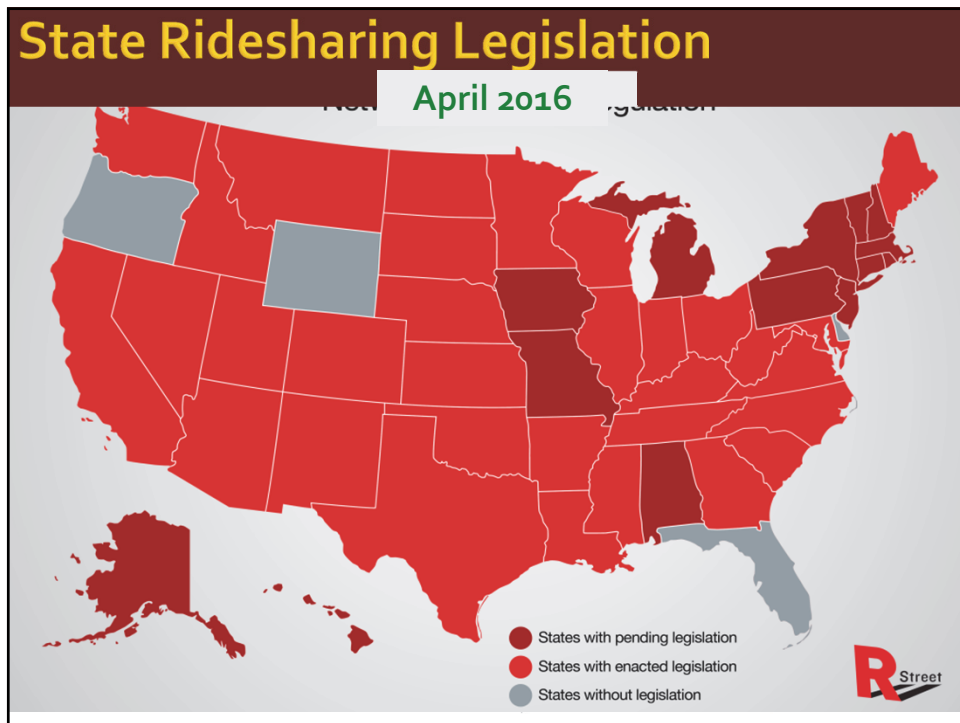
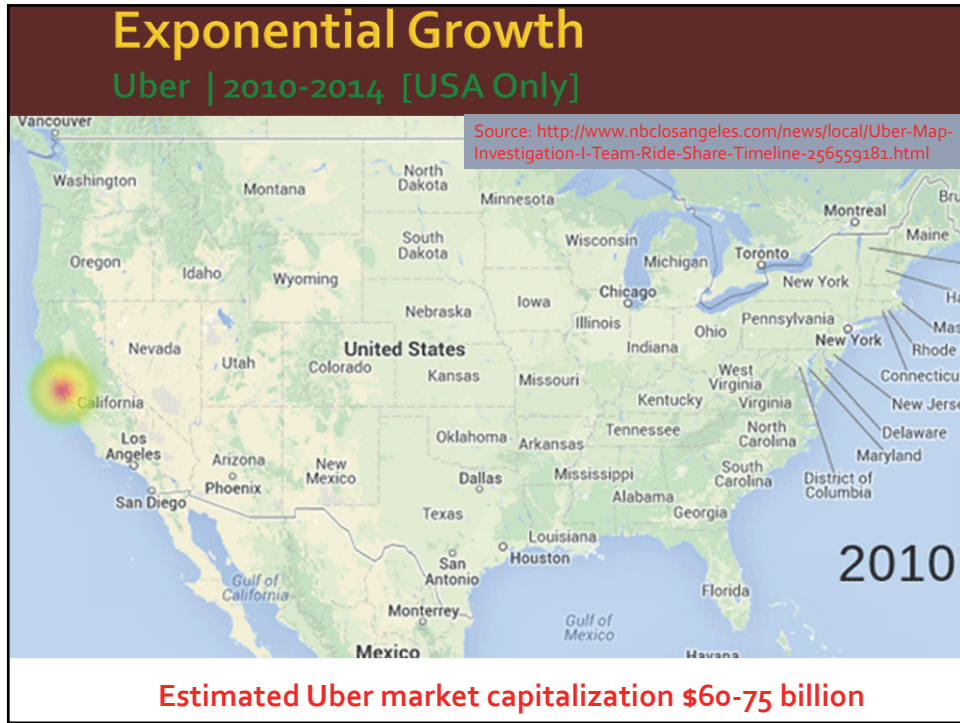
Expected growth in Sharing Economy: \$15 billion in 2015 to around \$335 billion by 2025
 –PriceWaterhouseCooper (2015)

The Sharing Economy: An Introduction

Sharing Economy Sectors

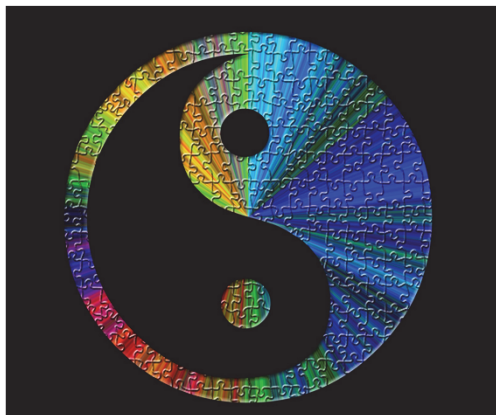
Only a partial list

- 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



History of the Sharing Economy

There is nothing new under the sun!



- Some assets are too expensive for most individuals
- It is convenient to share some assets

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Unlocking Value in Underutilized 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.

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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

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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

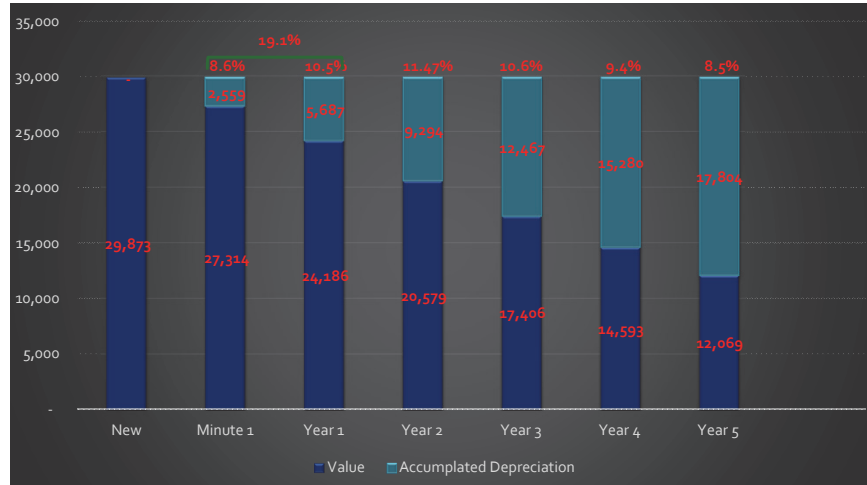
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Unlocking Value in Wasting Asset

Automobile Depreciation over 5 years



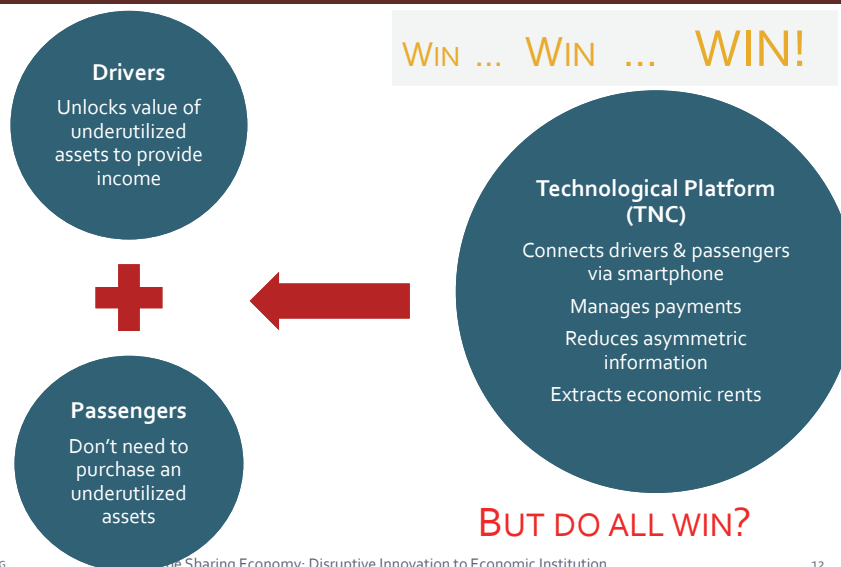
Source: <http://www.edmunds.com/car-buying/how-fast-does-my-new-car-lose-value-infographic.html> (Retrieved 6/16/2015).
 Assumes \$15,000 miles per year. Does not include the cost of fuel, maintenance, insurance, etc.

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Monetizing an Underutilized Asset via a Technological Platform



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Technology Driven

Ease and Trust
Safe and Secure

Get a ride in minutes.

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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%

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

Source: Lyft (2015, Oct. 22). The Power of the Passenger. <http://blog.lyft.com/posts/thepowerofthepassenger>.

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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

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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

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Insurance Adequacy

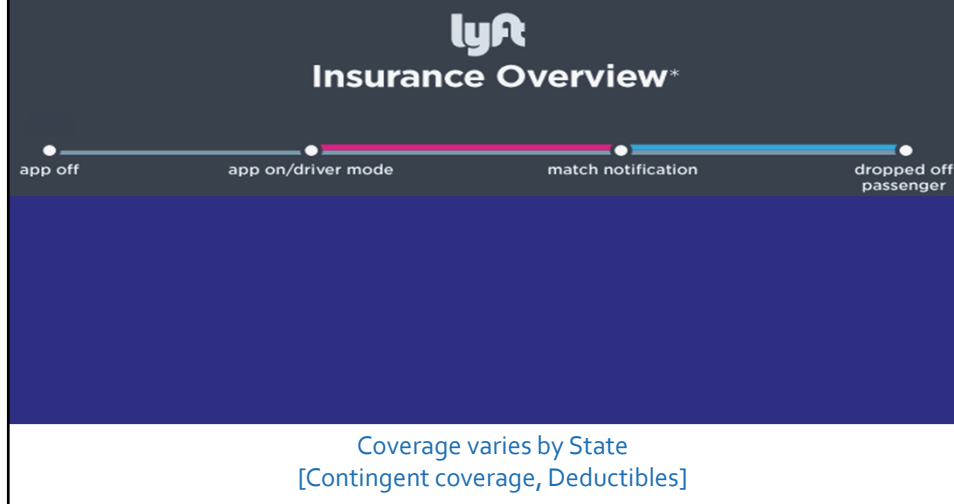
- Are the drivers covered by **Personal Auto Policies**, or are more costly commercial policies needed?
- Is **coverage sufficient** to protect the passenger, the driver and the general public?
- Do drivers have sufficient protection operating as **independent contractors**?
 - Worker's Compensation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

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Commercial Insurance Coverage Provided by Ridesharing Firms



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

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Need for Innovation in Insurance Markets



Why the Delay?

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Open Discussion
Legal/Regulatory, Sharing Economy Structure, Insurance

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The Sharing Economy
What the Future Holds

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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

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Current Status

- 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)
- Expected growth in Sharing Economy: \$15 billion in 2015 to around \$335 billion by 2025
– 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)

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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)

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Gig Economy → Gig Workers

- 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

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Gig Economy / Gig Workers

Source: Katz, L.F. & A.B. Krueger (2016). The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015. *National Bureau of Economic Research*.

- 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

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4 NOVEMBER 2015

THANK YOU!

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