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Lead the Pack or Follow the Leader

Insuring Risk in the Sharing Economy

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Executive summary

The insurance industry is continuously seeking new ways to better serve the needs of customers and achieve profitable growth. One way to generate growth is to seek out—and lead—new market opportunities. The sharing economy, which is a product of a fundamental shift in consumer consumption models and other factors, presents a unique opportunity for insurers. This market is there for the taking by the companies that can respond with the right combination of innovative risk models and tailored products to most effectively address the unique challenges.

The sharing economy brings people together through technology to exchange or rent access to goods and services. Entrepreneurs are building this economy by leveraging emerging digital technologies to meet customer needs in new and disruptive ways. Forbes predicts that the global sharing economy will grow by 25 percent this year, reaching just over $3.5 billion. Frost & Sullivan estimates that the North American car-sharing economy alone will reach $3.3 billion by 2016, with more than 9 million members participating.

The sharing economy represents an outstanding opportunity for insurers to forge closer relationships with their customers and connect with a wider base of prospects. In addition, it is forcing insurers to rethink all aspects of their business including product design, pricing, risk assessment and channel strategies. Insurers that are first-movers in this arena are likely to become powerful market leaders in the sharing economy. Given the rapid and likely long-term expansion of this market, this should provide an excellent opportunity to drive profitability and growth.

What is the sharing economy?

The sharing economy offers a fast and efficient way for owners of assets and renters to connect through online services.

Any device with online access can quickly connect consumers with millions of people worldwide who are willing to provide temporary access to property and services for a fee or donation. Some forgo money altogether and operate on an exchange system.

Innovative entrepreneurs who recognize that advances in digital technologies can be used to meet customer needs in new, more efficient ways are driving this economy. In many cases, these advances are being used to disrupt entrenched industries including the hotel, car rental and taxi industries. As these new business models become part of the accepted norm, they will cause further disruptions in other areas including insurance, regulation and taxation.

The most prominent markets in the sharing economy are home and auto. Airbnb stands out as the market leader in the home arena. Founded in 2008, this sharing economy company enables people to rent out their homes or rooms on a short-term basis. Options are available to meet almost every consumer's need, from a simple apartment in San Francisco to a castle in Dubrovnik to a tree house in India. So far, more than 15 million guest stays have been booked in 190 countries.

In the auto market, consumers might go through companies such as RelayRides or Getaround to access a car for a few hours of errand running or perhaps an SUV for a ski vacation. Those in need of a ride might contact drivers through Uber or Lyft. The idea is rapidly catching on. BlaBlaCar will soon serve more passengers than Eurostar rail lines in Europe. Uber, which launched in San Francisco just four years ago, is now in 25 countries. In 2013 alone, more than 8.5 million one-way rides[1] took place worldwide.

The sharing economy is not limited to auto and home, however. As the concept gains popularity, new business models have emerged. These models share two common characteristics:

- They provide an efficient way for those willing to offer access to assets or services to connect with interested consumers and businesses.
- They all require unique insurance solutions to protect their businesses, assets and participants.

Boatbound, for example, allows registered owners to offset the $10 billion they collectively spend on annual maintenance and storage fees by renting out their boats. Feastly, SupperKing and EatWith match hungry diners with home chefs desiring to share a meal. Consumers who have a home wi-fi network can share a portion of their access through the Fon network. In return, they can gain free access to over 12 million hotspots.

Sharing economy companies are not just limited to physical assets. Several companies match those who have extra time or special skills, with individuals or companies in need of their services. As one of the market leaders in this area, Taskrabbit offers a variety of services from simple jobs like grocery shopping to more complex assignments such as usability testing or photography.

Many say that the sharing economy is the "triumph of access over ownership." This concept aligns with the mindset of most Millennials who grew up with the ideas of sharing, renting or paying small transaction fees for access to items such as music and movies. Unlike previous generations, Millennials have been slow to get their drivers' licenses and to purchase big-ticket items such as homes and cars. Accessing what they need, where and when they need it, aligns more with the lifestyle of this generation, a lifestyle also influenced by the impact to their (and their parents') pocketbooks of a deep recession from 2008 to 2010 and a slow recovery. Insurers that want to best serve this generation must learn to adapt their traditional models to cater to this new breed of consumers.

A fledgling market begins to mature

Is the sharing economy a passing fad? All signs point to the contrary.

On the individual level, sharing economy participants are profiting. Top Airbnb hosts in New York, for example, have each grossed approximately $400,000 over the last three years. The top 100 hosts have grossed a total of over $54 million within that same time period. Though the car-sharing market generates more modest profits, the owner of a high-end car can earn approximately $1,200 a month.

As individuals begin to profit from the sharing economy, some are branching out to expand their offerings. These micropreneurs are purchasing homes specifically to list on sites like Airbnb or are offering their services as property managers for those with multiple listings. Similarly, some micropreneurs are building up small fleets of cars to generate additional income from the growing car-sharing market.

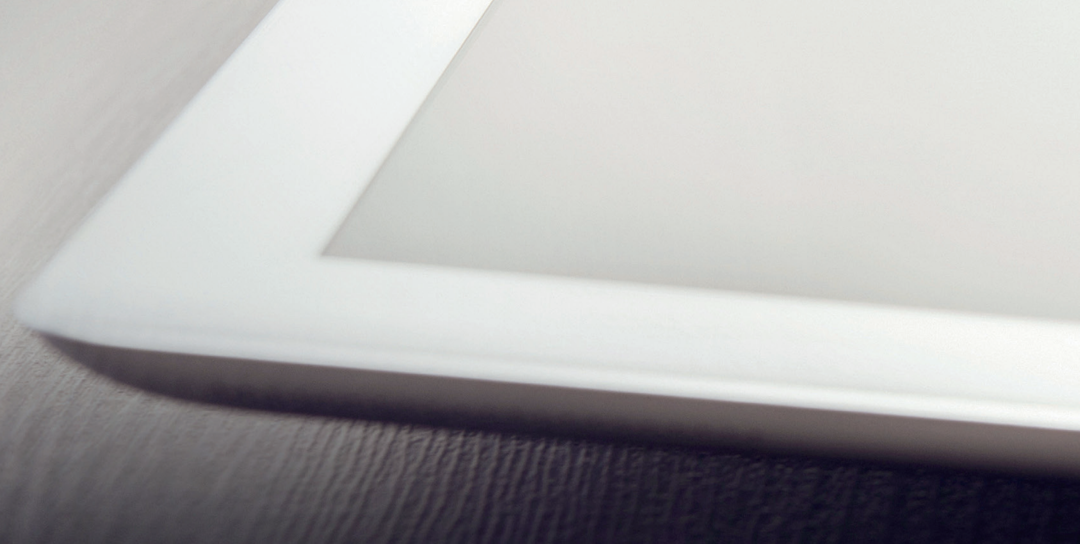
Corporations are also starting to embrace the sharing economy. Avis paid $500 million for Zipcar[2] as a fast way to enter the peer-to-peer car-sharing market. Daimler offers its own car-sharing service, Car2Go. Consumers are charged 41 cents per minute, which includes fuel, insurance and parking. With two-thirds of the world's population predicted to live in cities by 2050,[3] Daimler is seeking new ways to reach potential customers who may not need or want to own a car.

GM is not only an investor in RelayRides, but also an active partner. The corporation's 15 million OnStar subscribers can link their cars to their RelayRides account. As a result, these subscribers can now rent out their cars without having to meet the renter in person. Instead, the renters can unlock a car through a smart phone app or by replying to a text. The partnership strengthens the offerings of RelayRides and provides a convenient way to expose potential car-buying customers to GM's cars and OnStar services.

While some corporations are looking to reach new customers, others are hoping to establish faster and more efficient processes through the sharing economy. Wal-Mart is hoping to better compete with Amazon and cut transportation costs by increasing its home deliveries. Rather than hire additional employees or contract with a delivery company, Wal-Mart is considering tapping into its customer base. In exchange for a percentage off of their bill, customers would make the deliveries to other customers' homes.

Even government organizations are starting to embrace the sharing economy—albeit slowly. In Northern California, for example, the Bay Area Quality Management District recently launched a bike-sharing program. Several public agencies are contributing to its $11.2 million in funding.[4]

Although rapid growth is a positive indicator of the sharing economy's long-term viability, success in venture funding is perhaps an even greater vote of confidence from the market. Investors in the sharing economy include a host of prominent venture capitalists. Ride-sharing competitors Uber and Lyft have already raised well in excess of $300 million, achieving valuations in the billions as still nascent companies. In April 2014 Airbnb closed on an investment that valued the company at $10 billion, making it worth more than some hotel chains such as Hyatt and Wyndham.[5] Clearly investors see the sharing economy as serious business, established on strong foundations and likely to continue expanding.



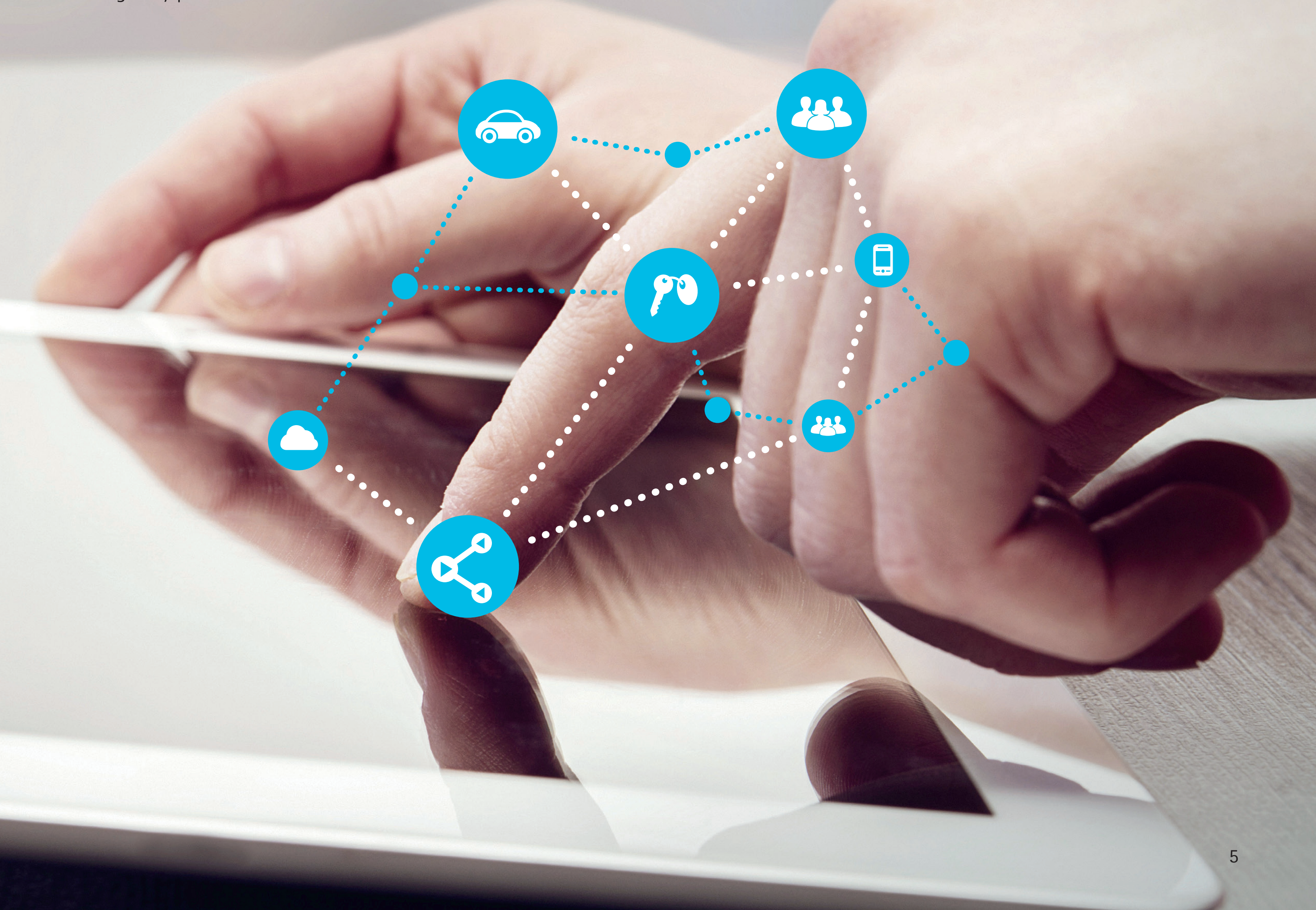
Car-sharing vs. Ride-sharing

Car-sharing

- A type of car rental
- For people who want to rent cars for relatively short periods (minutes or hours)
- Pay by distance traveled or duration of rental; insurance included
- 24/7 access
- Return car to where it was originally parked

Ride-sharing

- A service that arranges one-time shared rides on short notice
- Usually arranged via a smartphone app
- Drivers might be professional or non-professional
- Widely seen as an alternative to taxicab or limousine service



Challenges to the sharing economy

Despite its rapid growth and mostly positive media coverage, the sharing economy is not without its challenges.

(1) Regulation

The sharing economy's rapid growth has gained the attention of regulators and entrenched businesses. This is particularly evident in the ride-sharing arena where taxi drivers feel threatened. Around the world, taxi organizations have staged protests and lobbied their local governments to more strictly regulate ride-sharing companies. In the United States, taxi companies pay large sums for a municipality-issued medallion, after a long period on a waiting list. In Europe, they strenuously lobby the authorities to limit the number of licenses for taxis, ensuring that the demand for cabs comfortably exceeds the supply. These taxi companies insist that ride-sharing companies are not subject to the strict regulations that apply to the taxi industry, nor do they have to pay the high cost of licenses.

Governments are starting to respond to their concerns. In France, it was initially ruled that ride-sharing drivers with companies such as Uber had to wait a mandatory 15 minutes between the time they were contacted and the time they picked up a passenger (although this requirement was struck down by the constitutional court in early 2014). In Brussels and Berlin, taxi drivers that use the Uber app are subject to stiff fines, while in London, the Licensed Taxi Drivers' Association claims the app violates a regulation that bans private hire vehicles from having meters.

In the US, the city of Seattle has passed legislation that will limit the number of ride-sharing drivers from UberX, Lyft and Sidecar at any one time. An ordinance passed in Chicago places a cap on "surge pricing," a practice which multiplies fares during peak demand hours, and requires drivers to complete background checks and drug tests. Some municipalities, such as Minneapolis, have even gone so far as to impound cars of ride-sharing drivers in an attempt to discourage this type of activity.

Sharing economy auto-related companies are not just sitting back and accepting legislation. Instead, they are proactively working with entrenched industries and regulators to help draft the rules that will govern their activities. Their efforts have had some significant success. The California Public Utility Commission worked with several ride-sharing companies to develop appropriate regulations for the industry. Now labeled "transportation network companies," ride-sharing companies that comply with 28 insurance and safety requirements can operate within the state of California.

Ride-sharing companies have also worked closely with Colorado, which has passed similar legislation. The state not only requires transportation network companies to provide commercial liability coverage while a passenger is in the car, but from the time a driver is available for hire. This is a change widely supported by insurance companies, which were previously exposed to additional risks during this time period. It is expected that other states will soon follow the examples set by California and Colorado.

The home-sharing market is also facing challenges from entrenched businesses and local populations affected by the short-term rentals. The hotel industry argues that accommodation providers using companies like Airbnb are not subject to the same regulations that apply to hotels, such as taxation, safety guidelines and zoning laws. This gives the hosts an unfair competitive advantage, according to hoteliers. New Orleans estimates that licensed hotels lose approximately $13 million to short-term rentals and that the city misses out on $1.4 million in taxes and licensing fees.[6] San Francisco has similar issues with the home-sharing giant. The city estimated that it would collect $191 million in hotel taxes last year[7] and wants Airbnb to pay its share. The company, which has offered to help collect the transient occupancy tax that is standard for hotels in both New York City and San Francisco, wants to work with city officials to develop the rules.

80M

Sharers in the US

91%

Of sharers would recommend the last sharing service they used, to a friend or colleague

22

Number of hours the average car owner's vehicle sits idle per day

600+

Castles for rent through Airbnb

$500M

Amount paid by Avis to acquire Zipcar

$54M

Amount grossed by 100 top Airbnb hosts in last three years

$3.5B

Global market in shared goods and services in 2014

11M

Guest stays booked at Airbnb since 2005

8.5M

One-way rides taken with UberX in 2013, worldwide

66%

Of Americans under age 35 own cars, 7% fewer than in 2007

$250

Average monthly income of RelayRides car owners who rent their vehicles to others

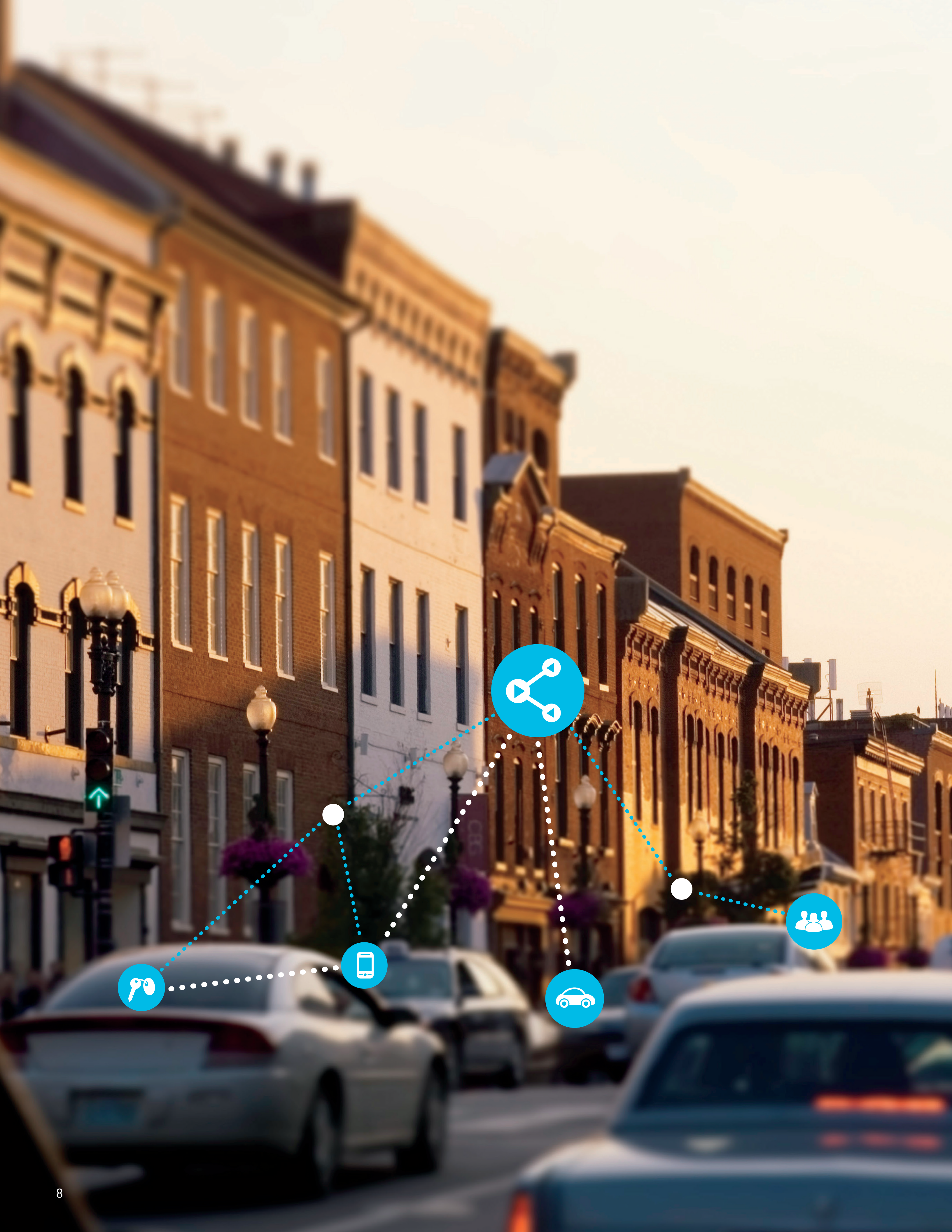
75%

Of sharers mention convenience as a reason for sharing; more than half cite price

300

Airports around the US where RelayRides cars are available

Sources for the data above: World Economic Forum ("Young Global Leaders Sharing Economy Dialogue Position Paper 2013"); Vision Critical ("Sharing Is the New Buying," March 2014); The New York Times; Forbes; Boston Magazine.



(2) Insurance and Liability Issues

One of the biggest issues the sharing economy faces is that of insurance. Since sharing economy companies are relatively new, the risks that they present are in the early phases of being understood and quantified. This makes setting accurate rates or even determining the right type of policy difficult. Sharing economy start-ups have come up against this challenge when trying to obtain insurance. Some report being turned away by carriers with which they'd normally do business, and as a result cold-calling other insurers to find executives willing to discuss innovative risk models and tailored coverage.

On an individual level, the majority of personal auto and home policies specifically state that commercial use of the insured asset is not covered. However, most individuals participating in the sharing economy find commercial insurance cost-prohibitive. Since many conduct their activities part-time or with just a single vehicle or home, commercial rates would quickly diminish any potential profits. These participants also fear losing their auto or homeowners policy if they discuss the matter with their insurers. Therefore, it is widely believed that a significant percentage of those sharing their assets do not reveal their activities to their insurance companies. Auto insurers have argued that if they cannot accurately assess which policyholders are engaged in car sharing, they will be forced to spread the risk by raising the premiums of all their customers.

Some state legislatures have started to define the limits of personal versus corporate liability, at least in the context of car-sharing. For example, in California, Oregon and Washington, laws declare that:

1) an owner providing a car-sharing service does not have to procure commercial insurance; and

2) the car-sharing company's insurance assumes all liability while the car is being rented.

The law in these states further provides that insurers cannot drop or deny renewal to personal lines policyholders for participating in car-sharing activities.

While the car- and ride-sharing sectors have received most of the media attention around insurance issues, the home-sharing space is also experiencing challenges. The issue comes to light when a renter damages a host's property. Partly as a result, Airbnb began to offer a host guarantee. This guarantee, which is backed by Lloyd's of London, promises to reimburse hosts for up to $1 million in property damages. It does not, however, cover liability for personal injury. If a renter is injured while staying at a host's home, that host could be held liable for any damages. It is unclear whether and to what extent traditional homeowners policies will apply.

To complicate the issue further, many long-term renters have become Airbnb hosts. In San Francisco, where rents are high and renters make up two-thirds of the population, generating extra income through Airbnb has become a popular activity. In many cases, however, the owners of these properties are unaware of the activity, which they find especially aggravating when the hosting is taking place in rent-controlled areas. Again, insurance coverage comes into question. Does the owner's property or umbrella insurance provide liability insurance in these cases? Is the owner, the long-term renter or the Airbnb customer liable for any damages that occur?

These are just some of the issues that the insurance industry, together with regulators and sharing economy companies, must address. It is no longer possible to simply declare that commercial activities are not covered under a personal policy and assume that the issue is resolved. As regulators and sharing economy stakeholders enter into the debate, new laws and solutions will arise. The question is: will the insurance industry assume leadership in crafting solutions or will it be forced into a defensive position in which it can only react to the latest changes rather than drive them?

The opportunity for insurers

The challenges brought on by the sharing economy and its new business models are numerous and complex. This is especially true in the area of insurance, where the industry is being challenged to develop new products that align with both the needs of the sharing economy companies and their product or service providers. While the lack of historical data and nebulous boundaries can prove problematic, the sharing economy also offers an opportunity for companies to rise above traditional insurance market dynamics and define the rules in an entirely new playing field. The sharing economy represents a phenomenal opportunity for those insurers that become first-movers in this arena.

Through the sharing economy, insurers can connect with customers and prospects in entirely new ways. Just as car manufactures are adapting their models to reach more consumers, insurance companies can take advantage of the sharing economy to deepen customer connections and broaden their prospect base. For example, an innovative insurer might design an offering or a technology that not only allows it to interact with the owner of a car or home, but also with all the renters that conduct business with that owner. Insurers who present solutions to their sharing economy customers are also likely to build strong loyalty that strengthens retention. In addition, those insurers that develop suitable solutions for sharing economy companies may find an ally that not only provides them with valuable data, but helps to promote that insurer to its thousands, or even millions, of participants.

As the sharing economy and its ideas become more entrenched, businesses and consumers alike will expect insurers to keep pace with their changing needs. This expectation will apply to all insurers, regardless of whether they choose to offer products specifically for the sharing economy. Traditional businesses are already blurring the boundaries, adopting ideas from the sharing economy that enhance their own levels of service and market reach. Similarly, consumers are taking advantage of sharing economy offerings, many assuming that their traditional insurance coverage automatically applies.

It will be up to insurers to determine how to offer profitable products that align with newer approaches to owning and renting assets. Those that accomplish this quickly and efficiently will become the market leaders that set the insurance standards and customer expectations of the future.

Through the sharing economy, insurers can connect with customers and prospects in entirely new ways.

Next steps for insurers

Insurers have a strong opportunity to lead innovation in the sharing economy, particularly in the car-sharing market. In much the same way as they have provided sound leadership decisions about innovations in the past, the decisions about whether and how to get involved in the sharing economy should start by looking at some basic questions.

What is the market opportunity?

What is the market size now and what are the projections? The ideas of car sharing and home sharing are gaining traction, and thus considerable study is being given to their potential. Insurers should ask themselves not only about market growth projections, but also about prospective new revenue in premiums.

What are the market needs?

Sharing economy companies and renters are proactively reaching out to insurers to provide insight into their unique business models and risk needs. Carriers should take advantage of this opportunity to talk in depth with this potential new customer base and explore different models and products that might meet their needs.

What types of data are needed for accurate risk assessment and where can that data be obtained?

Many sharing economy companies are already capturing information on their owners and drivers. Further, peer reviews are providing additional data not traditionally available to insurance companies. Insurers should work with these start-ups to determine what types of data are available, what needs to be captured and how that data can be collected and used.

How can this data be used to assess whether the car-sharing market aligns with current risk appetites?

Most insurance companies have a clearly defined and communicated risk appetite. By its very nature, the sharing economy will not automatically fit into any pre-established category. By conducting a careful assessment of market potential and available data, insurance companies can determine if they want to explore this opportunity further.

Conclusion

Insurers are highly qualified to help lead the development of the sharing economy because:

- They have experience and knowledge in understanding businesses, the risks they pose and how to reduce those risks.
- They excel at using advanced analytics to create a unique and comprehensive view of owners and renters.
- They have a field-tested ability to work with regulators to forge new models and rules.
- They have extensive knowledge of commercial and personal lines and are most knowledgeable about how those can be blended together.

Insurers truly have the choice of "leading the pack" or "following the leader" insofar as the sharing economy is concerned. Establishing a leadership position in this space early in its development could be a source of significant competitive advantage. Conversely, taking a conservative, passive, "wait and see" approach, waiting for others to innovate, could prove costly on multiple levels.

The sharing economy represents a potentially profitable new market for the insurance industry. Innovative insurers have the opportunity to develop new products for this market and to help steer its development. Proactive insurers will gain first-mover advantage in the sharing economy. The window of opportunity is now.

Endnotes

[1] Frank Jordans, "Automakers Say 'Ja' To Car Sharing Services In Germany." Huffington Post (February 19, 2014).

[2] Ronald Holden, "The sharing economy? Corporations want a piece." Crosscut.com (January 14, 2013).

[3] See footnote 2.

[4] Heather Somerville, "Sharing economy to drive more policy changes in new year." San Jose Mercury News (January 1, 2014).

[5] Seattlepi.com staff, "Airbnb could be worth $10 billion." Seattlepi.com (March 20, 2014).

[6] Richard Rainey, "New Orleans residents slam illegal short-term rental practice." The Times-Picayune (March 18, 2013).

[7] Verne Kopytoff, "Airbnb's Woes Show How Far the Sharing Economy Has Come." Time (October 7, 2013).

About the Author

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