THE SHARING ECONOMY

A CHALLENGE FOR THE INSURANCE MARKET

BY **JOANA CAMPOS CARVALHO**

The terms sharing economy and collaborative economy have been used to refer to companies such as Airbnb, Uber, Taskrabbit and Craigslist who, by breaking the mould of traditional business models, have come to revolutionize the way in which we access goods and services.

Many companies seek to be part of this phenomenon, since it associates them with innovation or even disruption, increasing the popularity of their brand. The sharing economy is trendy – though no one is clearly saying what the sharing economy exactly is. The definitions are multiplying, with scholars seeking to introduce rigor to allow them to study the phenomenon and companies seeking to extend and blur its limits in order to join this trend which has conquered younger generations.

Most definitions of sharing economy include business models where a digital platform is used to connect people, allowing a better use of goods and services.

Digital platforms serve as intermediaries, allowing them to connect more efficiently the demand and supply of particular goods or services. However, caution is needed by those who view such platforms (and the companies operating with them) as mere intermediaries.

Analyzing the reality, we conclude that the platforms in fact, have differing degrees of intervention in the contract between users. On the one hand, the platform serves only as a meeting point between the parties (in the case of Olx or Craigslist). On the other, the platform assumes a leading role to such a degree that it must be considered part of the main contract (as in the case of Uber, with whom the passenger concludes a transport contract). Between the two extremes there are platforms that influence the main contract by defining applicable contractual terms, setting prices and withholding payments in the event of a dispute, etc.

The existence of the platform as a third--party in the contractual structure poses major challenges to contract law, which essentially means to regulate contracts concluded directly between two parties. For example, in many cases the third--party turns out to be the player with the greatest power within the relationship, and it seems unfair that this party receives the profit (arising from commissions) without accepting part of the risk of the contract completion between platform users (for example non-compliance).

The second feature of the sharing economy is the fact that the business model allows a more efficient use of goods and services, acknowledging the fact that many fail to maximise their potential (idling capacity).

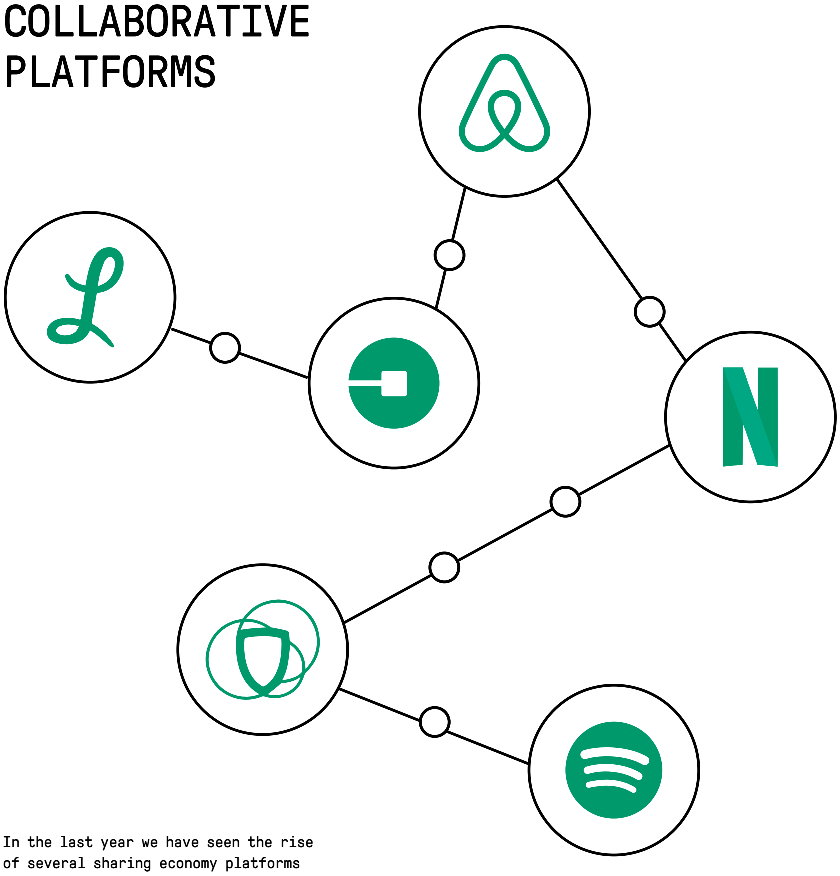
This more efficient use can be achieved through the shared use of a particular asset (type of access) or its reuse (for example by purchasing second-hand).

Nevertheless, improved use can be linked to this simple business model, due to it being less cumbersome than the traditional model or by granting greater responsibility to the parties, allowing more efficient access to a product or service. This is the case in the insurance sector, as we shall see later.

The shared use of goods is increasingly based on the fact that people value access to goods rather than possessing them. An example cited by Rachel Botsman and Roo Rogers, in one of the most important books on this subject (*What's mine is yours*, Harper Collins, 2011, p. 83), is that a person does not need a drill, there just needs to be a hole in the wall. Similarly, people do not need to have a car, they need to be able to move around by car and they do not need DVDs, only the movies they contain. This paradigm shift is what allows for the success of streaming companies such as Netflix and Spotify and carsharing firms such as Citydrive and Drive Now.

Finally, a significant part of the sharing economy platforms are peer-to-peer (P2P), which means contracts are concluded between two private people, as opposed to the traditional structure of business-to--consumer (B2C), between a professional and a consumer. For example, if I list my house on Airbnb, the contracts I conclude with the guests are P2P, as house rental is not an activity I engage in professionally.

COLLABORATIVE PLATFORMS



In the last year we have seen the rise of several sharing economy platforms such as Lemonade, Uber,AirBnb Netflix, Friendsurance, Spotify

The sharing economy and insurance

Contrary to what one might associate with such a traditional and apparently inflexible sector, this phenomenon has already arrived in the insurance industry.

Some companies use digital platforms to conclude insurance contracts, implementing business models that challenge the traditional structure of the insurance contract.

Currently, we can separate these business models into three different types.

The first is the company that manages the platform and acts as an intermediary, as in the case of German company Friendsurance. This business establishes partnerships with several insurance companies, offering insurance services at the same price customers would pay if they transacted directly with the insurer. From the premiums paid, the platform manager takes a commission and a percentage for its handling. The remaining amount is transferred to the insurance company. The business managing the platform classifies customers into different groups and creates a fund into which it puts a percentage of the premium that was retained from each of them. During the year, this fund is used to cover claims costs and at the end of the year, what's left in the fund is distributed among members of the group. The insurer is only required to intervene when the amount available in the fund is insufficient to cover all claims. A similar business model is also followed by the English company Guevara and the French Inspeer (both only for car insurance).

The second is when the platform manager is the insurance company itself. The business model is similar to the previous one, the difference is that the platform only offers the insurance services of this company. In addition, the company manages the entire value of the premiums, though, as in the previous model, only part is placed into funds belonging to different groups of customers. Lemonade is an example of this type of business.

The third is the self-management business model. This is where the company limits itself to provide a platform through which people can communicate, enter into and fulfil contracts. Groups are formed and each comprehensively defines the applicable rules (what is covered by the insurance, what documentation needs to be sent to the group, admission of new members, payment terms, etc). Usually no premiums are paid, instead members must have a certain amount available in their virtual wallet which is associated with their profile. When a claim is reported, members vote to decide whether it should be covered. An example of this is Teambrella where payments on this platform are made using Blockchain technology, ensuring members do not escape their payment liabilities.

Being a relatively new concept, it is very difficult to predict how the sharing economy insurance business models will evolve, but I think I can safely say that the insurance market of the future will pass – to a greater or lesser extent – through this. •

Joana Campos Carvalho

Joana Campos Carvalho is a PhD candidate and visiting professor at the Nova Law School, in Lisbon. Her research focuses on contracts concluded through online platforms, especially those of the so--called sharing economy.