The Sharing Economy

Where do credit unions fit into this new economic and cultural paradigm, and what will tomorrow's members be looking for?

By Tim McAlpine

A new economic model has arrived. Named by *TIME* as one of the "10 Ideas That Will Change the World," collaborative consumption describes the shift in consumer values from ownership to access. Together, entire communities and cities around the world are using network technologies to do more with less by renting, lending, swapping, bartering, gifting and sharing products on a scale never before possible.

This shift is primarily being driven by those under 35. These young adults are more aware of their situation, less financially stable, more realistic yet still optimistic, and have built incredible platforms that turn economic scarcity on its head.

Adapting to New Reality

Over the past five to 10 years, young adults have come to terms with the fact that they are the first generation that will not do better than their parents economically. According to a PricewaterhouseCoopers (*www.pwc.com*) study, "A generation of young people will be 25 percent less well off than their parents were when they reach the age of 65."

Gone are the days when you would graduate from college, land a sweet job and work your way up the corporate ladder, all the while earning a solid pension and accumulating assets along the way. Career prospects for long-term employment are falling, while the costs of getting a university degree are rising. This is the new economic reality and young people are adapting to it. For many, owning a home or a car is not a real priority or even a long-term goal.

Over the past three decades, those under 35 seem to have re-calibrated their financial expectations. When times get tough, you really don't have a choice; you simply adapt. This shift in mindset is having a significant effect on debt and ownership.

Pew Research Center (*www.pewresearch.org*) has studied this trend. In 1983, the typical young adult household (people under 35) were $7,000 in debt while typical households with people 35 and older were $5,000 in debt. Fast forward to today and the numbers have flipped: typical young adult households are $15,000 in debt while households of those 35 and older are $30,000 in debt. In fact, indebtedness among young adult households has dropped from 83 percent in 2001 to 68 percent in 2011.

Pew also found that in 2001, 85 out of 1,000 renters under the age of 35 became a homeowner and in 2011 only 55 out of 1,000 young adult renters became a homeowner. Because of lower income and economic uncertainty, young adults have pulled back on the reigns of getting into long-term debt.

Collaborative Consumption

Meanwhile, technology has marched ahead. The personal computer, then the Internet, e-commerce, social networking and now smartphones have created accessibility and a connectedness that did not previously exist. This advancement in technology combined with economic scarcity has led to collaborative consumption. It's built around the premise that access is more important and more valuable than ownership.

We've seen this with music. We went from owning a big collection of vinyl records, to buying CDs, to buying digital MP3s from iTunes to now subscribing to services like Spotify (*www.spotify.com*) or Rdio (*www.rdio.com*) instead. In many cases, young people skipped the buying all together and jumped to illegal downloads.

And this thirst for access over ownership has not stopped at music. If you can't afford a luxury hotel or even a budget hotel, no problem. You now have access to more than 800,000 unique accommodations around the world through Airbnb (*www.airbnb.com*), a trusted community marketplace for people to list, discover, and book a spare room, an apartment or a whole house online or from a mobile phone. Airbnb is also an easy way for people to monetize their extra space and showcase it to an audience of millions.

Even the idea of owning a car is becoming passé. In major U.S. cities, you can use Getaround (*www.getaround.com*), a peer-to-peer network that enables you to rent a car from people nearby by the hour or by the day, with insurance included, all from your mobile phone. In fact, you even open the car using your phone. This is ideal when you are traveling or when you need a pick-up truck to haul something big.

Many city dwellers are opting for membership in a car sharing network like Zipcar (*www.zipcar.com*) or Car2Go (*www.car2go.com*) instead of owning their own car or second vehicle. Car sharing is a model of car rental where people rent cars for short periods of time, often by the hour. Car sharing services are available in more than a thousand cities in many nations. According to the Transportation Sustainability Research Center at U.C. Berkeley (*www.tsrc.berkeley.edu*), as of December 2012, there were an estimated 1.7 million car sharing members in 27 countries, including 800,000 members in the U.S. and 100,000 in Canada. By the beginning of 2014, those numbers had jumped to 1.2 million members sharing 17,000 vehicles in the U.S. and 224,000 members sharing 4,000 vehicles in Canada.

There's also the phenomenon called real-time ridesharing. This is a service that arranges one-time shared rides on very short notice. The services make use of three recent technological advances, including GPS navigation, to determine a driver's route and arrange the shared ride; smartphones for travelers to request a ride from wherever they happen to be; and social networks to establish trust and accountability between drivers and passengers. These elements are coordinated through a network service, which can instantaneously handle the driver payments and match rides using an optimization algorithm.

Ridesharing companies Uber (*www.uber.com*) and Lyft (*www.lyft.com*) are disrupting established and regulated taxi and limousine business all over the world. They are also providing a legitimate primary or secondary income stream for thousands of people looking to make money from the investment in their own vehicle.

Renting rooms and getting a ride are just the tip of the iceberg. Enter Peers. "Peers is a member-driven organization that supports the sharing economy movement," according to *www.peers.org*. "We believe that by sharing what we already have—like cars, homes, skills and time—everyone benefits in the process. The sharing economy is helping us pay the bills, work flexible hours, meet new people or spend more time with our families. We think it's how the 21st century economy should work, so we're coming together to grow, mainstream and protect the sharing economy."

People are making money by sharing bicycles, meals, workspace, meeting space, tools, cleaning services, storage space, handyman services, design services, leisure equipment and so on. The list is touching every facet of our lives and appears to be endless.

Even the traditional financial services space is not immune to collaborative consumption and disintermediation. Peer-to-peer lending, commonly abbreviated as P2PL, is the practice of lending money to unrelated individuals, or "peers," without going through a traditional financial intermediary such as a bank or CU. This lending takes place on peer-to-peer lending companies' websites, using various lending platforms and credit checking tools.

Companies like Prosper (*www.prosper.com*) and Lending Club (*www.lendingclub.com*) are having significant success. Lending Club in particular is backed by Google and has funded more than $5 billion in peer-to-peer loans with almost $500 million in interest paid to the individuals funding the loans.

The latest sharing economy success story appears to be crowdfunding. Crowdfunding is the practice of raising funds from two or more people over the Internet toward a common service, project, product, investment, cause or experience. The crowdfunding model is fueled by three types of individuals: the project initiator who proposes the idea or project to be funded, individuals or groups who support the idea and a moderating organization—the platform—that brings the parties together to launch the idea.

Forbes reports that in 2013, the crowdfunding industry grew to be over $5.1 billion worldwide. There are now hundreds of crowdfunding websites with the two most popular platforms being Kickstarter (*www.kickstarter.com*) and Indiegogo (*www.indiegogo.com*).

These platforms serve as network orchestrators. They create the necessary organizational systems and conditions for resource integration among other players to take place. They act as an intermediary between supply and demand. They replace traditional intermediaries (such as traditional record companies, venture capitalists and financial institutions). These platforms link new artists, designers and project initiators with committed supporters who believe in the people behind the projects strongly enough to provide monetary support.

The magic in all of these sharing economy and collaborative consumption examples is the technology platforms, personal accountability through public peer review, and the widespread access that eliminates the need to be an owner.

Where Do CUs Fit?

The origin story of the sharing economy is actually very similar to the credit union industry's origin story—economic scarcity and inequality bringing people together to solve a problem in a new, better way. The question is, can the 100-year-old credit union industry learn to embrace the new sharing economy and purpose to build products and services to fit this new reality?

On the surface, there are a bunch of obvious reasons to stay as far away as possible, including risk, insurance, regulatory compliance and accountability. But, dig a little deeper and you can see how CUs are already sharing technology and resources through credit-union-owned CUSOs. What if you extended this thinking to other areas of your business?

Here are a couple of scenarios to consider.

What if there were five credit unions in a major metropolitan area involved in indirect lending and each had a few loans go south every year. Rather than just repossessing those vehicles and sending them to auction to recoup some of the losses, what if those five credit unions got together and formed a car sharing CUSO?

Or, what if your CU's board amended your investment and lending policy to encourage loans to people with the express interest in renting a portion of their property? For instance, if a young couple was looking to buy their first home but was having trouble making the numbers work, you could encourage them to dedicate the spare room for renting through Airbnb.

Now that you have a better understanding of what the sharing economy and collaborative consumption are, spend some time brainstorming with your team to consider how your credit union can be an active participant in this new economic paradigm.

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