RISK & INNOVATION

Risk Or Reward? The Future Of The On-Demand Economy

OVERVIEW

The on-demand economy is transforming industries as quickly as it delivers the services which have come to define it. However, the transformation itself is not proving to be as smooth as those swift deliveries ordered at the tap of a finger. For business leaders and consumers, we are on an exciting journey – but for the former, the on-demand economy is not only opening up new opportunities, it is changing risk profiles, creating business challenges, and at the same time, prompting new legislation and regulations.

In the latest installment of our analysis of the on-demand economy, we look at the road ahead for those who have already embraced this new way of doing business, and those companies considering following or adapting to this rapidly growing trend.

IN DEPTH

Evolving Risks

Data drives decision-making. When new technologies emerge and innovation moves fast, assessing risks becomes more complex. Building a risk management strategy would usually begin with looking back at historical data and using it to plan appropriate solutions. However, those grappling with the disruptive, fast-moving, on-demand economy do not have this luxury.

When insurers are dealing with whole new business models, there is often little or no historical data to draw on. How can a risk be quantified and insured if its frequency is unknown? How will hybrid private-commercial assets be classified? After all, with ride-sharing, a driver's car is both a private vehicle and a place of business.

How do you insure something that has both personal and business use? Robin Novello, Executive Vice President of Aon's Affinity Insurance Services business – a group that works with on-demand platform providers to cost-effectively create and distribute insurance products for independent workers – states: "From the 'sharing' to the 'gig', to the 'on-demand' economy, we're seeing a change in the model. The rise of this new economy has created a gap in ready access to insurance coverages traditionally made available by or through employers." But if someone is using their own vehicle for personal use 75 percent of the time, how do you accurately offer and price insurance needed for the remaining 25 percent? "Usage-based pricing models and coverages designed to address an individual transaction or event – offered at the time of the event – are much more aligned to the unique needs and characteristics of the on-demand worker."

New solutions are being developed. For example, "just-in-time" insurance has emerged as a way of enabling on-demand workers to buy insurance in granular packages, covering small, specific periods of operations – such as the length of time it takes to carry out a paid ride. Technology has a role to play here too. Even as new, undiscovered frontiers of risk open up, new tools emerge to quantify and manage those risks. For instance, sensors installed inside a car could collect data on individual rides, which could then be used to more precisely price insurance.

Evolving Business Challenges & Opportunities

Businesses have several challenges to overcome to capitalize on the disruption and take advantage of its opportunities.

Joe Propati, Chief Operations Officer, U.S. Retail, Aon Risk Solutions, sees this new on-demand economy as an opportunity: "Our world is increasingly more connected and data-intensive." Companies that are already taking part in this world are aggregating a lot of data. He explains that value: "With such a vast amount of consumer data available – from geocoordinates showing locations to immediate feedback mechanisms – the platform providers are able to make more informed decisions that enhance their products." All companies, he asserts, should learn from this type of thinking.

If companies are to compete with on-demand players – or become one in their own right – they must learn to think like them and embrace similar technologies. In 2015, drivers of London's "black taxis" launched a hailing app, and began taking card payments for the first time, in response to competition from cash-less ride-hailing apps. In July 2017, French hotel chain Accor bought online home-sharing platform OneFineStay, as part of its broader acquisitions strategy to compete with services like Airbnb.

In the on-demand economy, a solution is found almost as soon as a need is identified. And there's an ever-increasing number of risk products being developed to meet those needs. Novello details some of progress already being made in various parts of the world:

- Cash flow protection for on-demand workers against named perils
- Temporary disability in the event of accident or illness
- Reimbursing the cost of emergency daycare for freelance workers in event of accident or illness of child
- Earnings replacement in the event of bankruptcy or default of a client of an on-demand worker

Evolving Regulations

Innovation tends to move quicker than regulations. Responses are moving at different paces around the world and although, so far, all are in the early stages of implementation, there have recently been some notable developments:

- **Europe:** The U.K. government commissioned the Taylor Review, which was published in July 2017. It recommended steps such as the reclassification of on-demand workers as "dependent contractors" – which would be a new category of worker in British law. It also recommended that on-demand workers are guaranteed "good work," defined as jobs with good pay and meaningful routes to professional advancement. Meanwhile, in June 2017 the European Parliament adopted a draft report calling for fresh EU-wide legislation to ensure greater protection for workers in the on-demand economy.
- **APAC:** In Australia, 90 percent of jobs created between June 2015 and June 2016 were part-time. Their employee / contractor distinction is enforced, with the latter entitled to 125 percent of the hourly rate of full-time pay of employed workers. Meanwhile, in New Zealand, zero-hour contracts have been banned completely.
- **The Americas:** In the U.S., various lawmakers have been working to classify the "independent worker" through the IRS and Department of Labor. Introduced in mid-July and known as the "Gig Act 2017," this proposed legislation would actually create a new classification of worker.

As more workers join the on-demand economy, regulatory scrutiny is only likely to increase. Businesses will look to lawmakers to provide forward-thinking legislation that encourages growth and protects the rights and wellbeing of workers. Regulators may well follow the path already being laid by insurance products, with granulated legislation allowing for episodic classification of workers and assets in different scenarios.

Big Changes Call For Big Thinking

The rapid expansion of the on-demand economy is bringing different challenges and opportunities to businesses, and those that implement a program of adaptation can harness this disruption to their advantage.

Adaptation could mean a change in talent strategy, with an emphasis on technological expertise. It could mean a higher proportion of internal spend going on R&D, in order to maintain competitiveness. Or it could mean acquiring or partnering with firms that already have on-demand expertise or market share.

Propati challenges companies to look inward and ask themselves not how to protect against disruption, but to encourage innovation: "Companies should be asking themselves: How do we play in this space? Or how do we support the companies in this space?"

This type of opportunistic thinking could open up additional markets. "Outside of the technology itself, if you look at where investments are being made," Propati says, "they are increasingly towards people management: How do you manage people remotely? How do you manage productivity and how do you protect your brand when your workers technically are not a part of your workforce?"

With the proliferation of on-demand businesses set to continue, a growing labor force eager to join them, and changing consumer expectations in the driving seat, adaptation to the on-demand economy is reaching the point of inevitability for many businesses. For some this will be executed as a bold and planned strategic action, for others it may come simply as an eventual necessity. Either way, as with every great change to the global business landscape, agility will be required.

TALKING POINTS

"There is huge scope for governments to use technology for enforcing the new regulations. Most transactions on the gig economy are done via the internet and as such they can be tracked. These companies do need to contribute to insurance and other social contributions." – Sandra Polaski, Deputy Director-General of Policy, ILO

"Today's fast-growing "gig economy" has made it easier for people to offer unique services, like home repair and cleaning, child care, food delivery, or ride sharing, through easy-to-use mobile applications that can be opened with a simple swipe of a finger. While these gig economy companies have created thousands of new jobs, they've also faced new challenges when it comes to how the service providers are classified by the IRS." – U.S. Senator John Thune, member of the Senate Finance Committee

FURTHER READING

- What The Gig Economy Looks Like Around The World – The Atlantic, April 13, 2017
- Is The Gig Economy Working? – The New Yorker, May 15, 2017
- The Taylor Review: At-A-Glance Guide – BBC, July 11, 2017
- Self-Employed, Or Employee? Britain Wrestles With The Gig Economy – The Economist, July 13, 2017