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What Needs To Be Shared About the "Sharing Economy"

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The sharing economy (sometimes also referred to as the peer-to-peer economy) is a socio-economic system built around the sharing of human and physical resources. The idea is nothing new - humans have engaged in the business of bartering for a long time. Thanks to new start-up technology companies like UberX and Airbnb, however, the sharing economy is getting new attention from both consumers and those in the hospitality industry.

UberX is an internet-based taxi service that allows tens of thousands of people to become on-the-spot drivers and offer taxi-like services for paying passengers. Airbnb, another internet-based service, allows people to rent out anything from a spare bed to an entire mansion from willing hosts. While there are hundreds of other peer-to-peer services, it seems that the ones in the car and accommodations business are especially booming. In 2013, investors valued UberX at $3.4 billion.[1] From its launch in 2007 to the end 2013, more than 10 million people found temporary lodging using Airbnb.[2] The philosophy of these companies, and other similar ones, is simple: they offer efficient access to resources in a convenient way. For example, a person can easily find out where an Uber driver is from his or her smartphone, request a ride (even specifying the kind of vehicle they prefer), see beforehand how much the ride will cost and even pay from their phone. It is no surprise that many of these companies were founded in the aftermath of the global financial crisis, at a time when the hospitality industry struggled to find and keep loyal customers.

Proponents of the sharing economy not only tout the benefits that these services bring to consumers, but also note the advantages experienced by servicers. For instance, Uber drivers can drive as much or as little as they prefer, without making a commitment to a standard shift and can make significantly more money than they would if they were driving a standard cab. All of this sounds like a win-win, right? Well, not exactly.

As these services have become more popular, questions regarding insurance and legal liability have surfaced. Peer to peer services can raise issues of safety for customers and present significant challenges to the existing tax and regulatory structures. Peer to peer service companies can avoid fees and regulations by arguing that the company is merely a software application that connects service providers to customers - not a company that provides services. While customers may save a few dollars with UberX, for example, they may not realize that the fees associated with traditional cab companies are used to pay licensing and taxes and ensure compliance with mandatory laws - all for the benefit of the general public. Sure, Airbnb may be less hassle and cheaper than finding a hotel room, but there is no requirement for operational permits, inspections, or even cleanliness in one's own home.

Litigation and legislation focused on the sharing economy are popping up across the country in a variety of ways.

Most insurance companies do not allow policyholders to rent or otherwise use their vehicle for commercial purposes. Therefore, car owners who participate in peer-to-peer services can be in violation of the terms of their insurance contracts, resulting in a denial of coverage. To date, California, Oregon and Washington have all passed laws that recognize car-sharing and prevent insurance companies from canceling an owner's policy if they rent their vehicle in this way. The laws require car-share programs to provide liability insurance acceptable to the state.

Zoning laws, likewise, may interfere with a homeowner's or renter's ability to rent out his or her residence. Many cities prohibit the rental of property for less than a specified period of time (typically thirty days) that have not been licensed and inspected. Renters could be served with eviction notices for violating the terms of a lease if they let strangers stay in their dwelling pursuant to Airbnb or another sharing service.

In 2012, the city of San Francisco ruled that Airbnb and other similar services had to pay the city's 15% hotel tax. The company argued that the taxes should not apply to internet-era business models, but for now, at least, the company must comply with the regulatory scheme to which all other hotels are subject.

The sharing economy is certainly gaining popularity, but it is also putting many businesses that play by the rules at a competitive disadvantage. Customers may flock to these services for a variety of reasons: quicker service, better deals, or even to experience the emotion of playing on the cutting-edge of innovation. They should first consider, however, what they may be losing in return (i.e., a promise of quality, safety, or compliance). When something sounds too good to be true, it often is.

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[1] Alyson Shontell, *The Vision For $3.4 Billion Uber Is Much More Than Just A Car Service, And It Could Vastly Improve Our Lives*, Business Insider (Aug. 23, 2013).

[2] Ryan Lawler, *Airbnb Tops 10 Million Guest Stays Since Launch, Now Has 550,000 Properties Listed Worldwide*, Tech Crunch (Dec. 19, 2013).