IDENTITY VERIFICATION

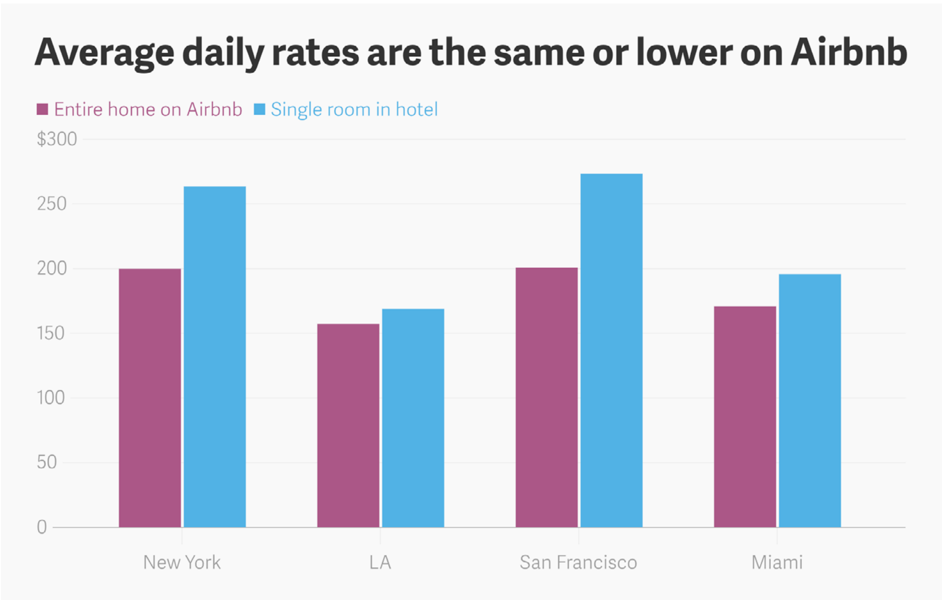
Building Trust in the Trust Economy

TABLE OF CONTENTS

THE SHARING ECONOMY IS BIG AND GETTING BIGGER

The rise of the sharing economy over the past decade has transformed commerce. Today, services like Airbnb, Uber, Lyft, TaskRabbit, Postmates and Rover have become household names. In turn, they and other providers have disrupted numerous markets, including transportation, travel, grocery delivery, personal services (like dog walking) and more. These platforms enable individuals to earn income from underutilized assets (like their cars, their homes, and even their free time), greatly expand choice and convenience for consumers, and often offer lower costs.

The growth of this market has been nothing short of phenomenal. From a standing start in 2008, the sharing economy reached $14 billion by 2014 and is projected to reach $335 billion globally by 2025.[1] By 2016, according to one poll, an estimated 42 percent of Americans had tried a sharing economy service.[2]



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And it's not just consumers and individuals who participate. Business to business (B2B) sharing platforms, including Yard Club, FLEXE, Floow2 and Cargomatic, are changing the way businesses provision and derive value from equipment, warehouse space, and shipping capacity.

[1] https://www.brookings.edu/research/the-current-and-future-state-of-the-sharing-economy/
[2] https://cacm.acm.org/magazines/2018/1/223874-the-sharing-economy-meets-reality/fullte

Sharing economy platforms take several forms. Peer-to-peer (P2P) sharing platforms facilitate transactions between individual service providers and buyers. These include services such as Airbnb, Lyft, TaskRabbit, and Rover. Marketplace commerce platforms focus on the sale of new and used goods. They include OfferUp, Etsy, LetGo, eBay and others. There are also marketplace communities that enable people to share information. Services like Nextdoor, OpenDoor, TripAdvisor and Zillow may not facilitate transactions directly, but their reputations as recommendation engines and information resources depend on the credibility of their participants.

As the sharing economy has grown, it has also seen more specialization, by vertical, by market, and by region. Not too long ago, Craigslist was almost alone as the platform for individuals offering goods and services. Today there are niche-dedicated apps for selling and buying everything from high-end used clothing (Poshmark), and designer home furnishings (Chairish)to even hiring a mechanic that will come directly to your home (Wrench).

All of these platforms, while disparate in their goals and target markets, are collaborative communities that match buyers to sellers (or providers to consumers, in the case of services). They rely on technology to innovate quickly and leverage low overhead costs to significantly undercut the prices of traditional market incumbents. Since the platform companies hold few assets or inventory, they can focus on the customer experience in order to both increase transaction volume and build a lasting relationship with customers that leads to repeat business. But, most importantly, they are built on—and depend on—trust, safety and reputation.

THE SHARING ECONOMY REACHED $14 BILLION BY 2014 AND IS PROJECTED TO REACH $335 BILLION GLOBALLY BY 2025.

THREE KEYS TO THE SHARING ECONOMY: TRUST, SAFETY, AND REPUTATION

"WHAT WE INVENTED WASN'T STAYING IN PEOPLE'S HOMES. WE INVENTED TRUST AMONG STRANGERS."

- BRIAN CHESKY, CEO AND CO-FOUNDER AIRBNB.[3]

It's with good reason that the sharing economy is often called the "trust economy." After all, it takes trust for a property owner to rent their home to strangers, or for a person to get into the car of someone they've never met before. For these services to work, both providers and consumers need to feel confident that the entity on the other side of the transaction is who they say they are and the services or goods being sold will meet the buyer's expectations.

For sharing platforms, this trust relationship is especially important. A negative experience is just as likely, and perhaps even more likely, to reflect poorly on the platform as it is on an individual provider or consumer. Too many bad experiences and the platform's market itself could break down.

While the number of bad experiences on sharing platforms is probably small relative to the overall volume of transactions, they tend to get wide attention and can create a perception that a platform is untrustworthy. On Airbnb, for instance, some fraudsters have created fake listings and even fake websites (complete with reviews and chat) to lure unwitting consumers into going outside of the platform. They are then tricked into providing payment for non-existent accommodations or asked to pay cash, only to have their reservations cancelled without any refund.

[3] http://www.cityam.com/260734/airbnb-valued-30bn-after-chinas-sovereign-wealth-fund

TripAdvisor has had to battle perceptions that its ratings are tainted by hoteliers and other accommodations providers posting or buying fake reviews to drive up the popularity of various properties. Some Uber riders have been hit with large and unjustified fees–as much as $150–for cleaning up vehicles after a ride, a tactic known as “vomit fraud.”[4] Again, while these sorts of scams are the exception rather than the rule, they can have an outsized impact on the reputation of a platform and even threaten its viability.

The nature of the sharing economy places a premium on safety. For instance, in a more traditional eCommerce transaction, a customer buys a pair of shoes and has them shipped to their home or office. A negative outcome—a shoddy product or a fraudulent buyer—will generally cause the buyer or seller some inconvenience and maybe a financial loss. But in the sharing economy, proximity raises the issue of physical security. A rideshare passenger is in a car with his or her driver; a TaskRabbit customer may have a handyman in their home. In those scenarios, there is the potential for bad actors to do real harm. Both providers and consumers are counting on the platform to have proper checks and balances in place that prevent anyone who may be untrustworthy or dangerous from participating in the marketplace.

“EVERYONE GETS RATED IN THE TRUST ECONOMY SO REPUTATION IS EVERYTHING.”[5]

Reputation is also an essential component of the sharing economy. On most platforms, both providers and buyers rate each other. Since 97 percent of consumers read online reviews before making a purchase decision[6], it stands to reason that they’d be as diligent when choosing a short-term accommodation or a dog walker. And sharing economy platforms

4 https://thepointsguy.com/news/uber-vomit-fraud-scam/
5 https://www.information-age.com/evolution-sharing-economy-123460199/
6 https://www.bryancaplan.com/blog-posts/top-30-online-review-statistics-2018

double down on the importance of ratings. Uber, for example, deactivates drivers with a rating below 4.6 out of 5 stars. By setting a high expectation of service, these companies are working to uphold their end of the trust consumers place in them.[7]

85% OF PEOPLE TRUST ONLINE REVIEWS AS MUCH AS THEY DO RECOMMENDATIONS FROM FRIENDS AND FAMILY

Ratings and reviews not only help buyers and providers, but they also help to foster a sense of community and trust. An overwhelming majority (85 percent) of people trust online reviews as much as they do recommendations from friends and family.[8] But, again, it's vital that reviews are authentic. Fake reviews posted by fraudsters or those with an axe to grind (say a competing provider or service) undermines faith in a platform.

[7] https://qz.com/1038285/uber-will-make-riders-explain-when-they-rate-a-driver-below-five-stars/
[8] https://www.bryancaplan.com/blog-posts/top-30-online-review-statistics-2018

WITH GREAT POTENTIAL COMES UNCONVENTIONAL RISK

There are undeniable advantages to the sharing economy model, but also unique risks. Platforms don't need to manage inventory, worry about delivery and logistics, or figure out how to market individual products. Once the marketplace is established (admittedly no small task), buyers and sellers simply "find each other". And when things are working well, network effects help to accelerate growth; after trying a service, a user might decide to earn a few extra dollars by becoming a rideshare driver, or rent out an extra room in their home. Freed from many of the requirements of a traditional eCommerce business, sharing platforms can put the bulk of their energy and resources toward creating a fantastic customer experience.

Successful sharing economy companies have tapped into the needs and desires of today's consumers (especially younger ones). Buyers actively seek greater authenticity (a personalized home vs. a cookie cutter hotel room), enjoy the process of discovery, want more flexibility and options, are comfortable with and expect feedback loops, and want minimal friction when conducting transactions.

But to thrive in the long run, sharing economy platforms have to keep both providers and consumers happy, engaged and coming back for more. The very things that make marketplace economy platforms succeed—like low barriers to entry for providers and users, widespread access to technology (especially mobile devices), and rapid innovation—also make it easy for users and providers to take their business elsewhere if they lose faith in a platform.

For platform providers, long-term success depends on their ability to address risks on both the supply side and demand side of the marketplace equation.

On the supply side, those risks include:

BAD ACTORS

Platforms need to invest in identity verification and background checks to ensure that providers are qualified, trustworthy and pose no risk to customers.

FINANCIAL GUARANTEES

Providers now expect sharing platforms to share some or all of the cost if a customer damages their property. After a high-profile incident in which a host's home was trashed by a guest, Airbnb started offering hosts a $50,000 security guarantee. That number is now up to $1 million.

ACCOUNT TAKEOVER

Fraudsters have become very sophisticated in their efforts to assume the online identities of individuals. That's particularly problematic for platforms that need to ensure providers are who they say they are, especially with personal safety in mind.

FRADULENT LISTINGS

Sharing economy platforms need to ensure that what's being offered is in fact what's being sold, even though they don't manage inventory directly. A consumer who rents a swanky penthouse only to find out it's a moldy basement probably won't try that service again and is likely to share their frustrations throughout their online and offline networks.

Even when nothing goes wrong, individual providers often bear the burden of things like wear and tear on their property, compliance with local laws and regulations, insurance, and other costs. If those things start to outweigh the benefits of participating in the platform, the result could be fewer providers and less choice and convenience for customers.

On the demand side, the challenges are no less daunting, including:

BALANCING FRICTION AND VERIFICATION

In an on-demand world, users expect the process of signing up for a new account–known as onboarding–to be simple and immediate. But if sharing platforms set the verification bar too low to make it easier for new users, they risk being inundated by fraudsters or worse, those who could do real harm to people and property.

PAYMENT FRAUD

In recent years, numerous retailers, insurers, mortgage lenders and others have had high-profile data breaches of consumers' personally identifiable information (PII). Such breaches have made it easier for fraudsters to secure credit cards or establish lines of credit using stolen identities. Those fraudulent accounts can then be used to pay for sharing economy services.

FAKE REVIEWS

As previously mentioned, trust is hugely important to the sharing economy and reviews are an essential part of that trust relationship. However, it's surprisingly easy to create a fake identity to post a review, and organizations have sprung up to provide "sock puppet" reviews for a fee. Sharing platforms need to ensure that reviews are from legitimate sources (buyers and providers), or consumer trust will be violated. Since nearly every sharing economy platform has a direct competitor eager to gain market share, the consequences of lost trust have direct, and severe financial impacts.

PROMOTION ABUSE

Users can try to create fake or redundant identities in order to take advantage of promotional offers meant for new users of the platform.

WHAT’S ON TAP FOR THE NEXT DECADE OF THE SHARING ECONOMY?

The sharing economy is here to stay. In the U.S. alone, it’s estimated that nearly 45 million adults were sharing economy users in 2016, a number that’s expected to increase to 86.5 million by 2021[9]. New services continue to spring up daily, targeting more specific verticals, needs and interests, from farming to religion-focused travel.

But fraud is a very real threat to the long-term viability of sharing economy platforms. The reputational damage— especially in the social media age— can far exceed the financial loss. Providers and users need to know that they and their property are safe, while platforms ensure that all participants are acting in good faith.

In the next decade, artificial intelligence and machine learning will likely play a significant role in addressing the challenges on both the supply and demand sides of the sharing economy. By analyzing massive data sets in real time, these technologies can make it easier to spot the patterns and practices of bad actors and provide more certainty about the identity of both providers and consumers. Of course, the best way to ensure the integrity of these marketplaces and reduce the incidence of fraud and abuse is to keep the bad actors out in the first place.

Identity verification solutions like Ekata simultaneously provide much greater assurance that individuals are who they say they are and help to streamline the account signup process. By combining these systems with other technologies like device ID and biometric verification, sharing economy platforms can reduce account risk, including promotion abuse, fake account creation, transaction risk and offline risk, without adding significant friction.

Ekata is the global leader in identity verification solutions. Using real-time data from hundreds of sources, we developed a fully-integrated, Identity Graph database which houses more than 5 billion global identity records and provides unparalleled coverage, accuracy, and performance in identity verification. Learn more at www.ekata.com.

[9] *https://www.statista.com/statistics/289856/number-sharing-economy-users-us/*