Trust Metamorphosis and the Shared Economy

Adapting to a New Environment for Consumer Trust and Safety | Marketplace and Digital Commerce Edition

2020 Edition

In this report you will learn how reputational risk is changing in the sharing economy and impacting future revenues, why 2020 has become the tipping point for trust metamorphosis and how technology can reduce friction and help build customer trust.

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Executive Summary

As the digitized age has shifted paradigms for the concepts of privacy and trust, how can marketplace platforms build trust?

A decade ago, few people would consider staying in a stranger's home, renting the latest fashion items from people they had never met or crowd funding various aspects of their lives online, and yet that's the world of today.

The advancement of mobile technology and the growth of sharing economy platforms across a wide range of industries have changed the game for travel, lodging, food delivery, transportation, peer-to-peer lending and selling, and just about anything else.

All of these interactions are human interactions — even when they play out online — and trust is essential. So, it is no surprise that of the many factors the sharing economy depends upon, trust is undoubtedly the most important.

Changing consumer expectations, however, are shifting the concepts of privacy and trust as digital behavior makes people more public. Amid this societal upheaval is an opportunity to set a new standard for customer experience that builds trust, and 2020 has emerged as the tipping point for this trust metamorphosis.

Emailage® research found four major trends impacting the sharing economy as a whole:

Consumer trust has reached a tipping point

More than half of sharing economy users do not trust others.

Fake reviews and ratings hit trust hard

Consumers expect negative reviews, and 48 percent will churn if they encounter one.

Churn risk is at an all-time high

33 percent of consumers will churn after a single bad experience, no matter what caused it.

Consumers expect platforms to know who to trust

Despite growing distrust, users will not disclose Personally Identifiable Information (PII) to help brands manage this issue.

The new sharing economy status quo

Since the sharing economy operates on private individuals sharing assets or services, peer reviews and ratings are important. Bad actors and fraudsters have used these important control mechanisms to influence users on sharing economy platforms for some time, making consumers increasingly anxious and skeptical of those they deal with online.

As a result, a brand's reputation is a more critical factor to success and growth than ever before. Protecting that reputation by keeping bad actors off marketplace platforms is a vital component for brands that operate in this space and has become a route for returning confidence to users and instilling trust.

Yet, users are unwilling to help marketplace platforms identify who is good and bad, still expecting a frictionless experience. Therefore, only brands that are able to find a way to balance this problem — protecting both consumers and service providers from bad actors without introducing unwanted friction — will come out on top.

What you will get from this report

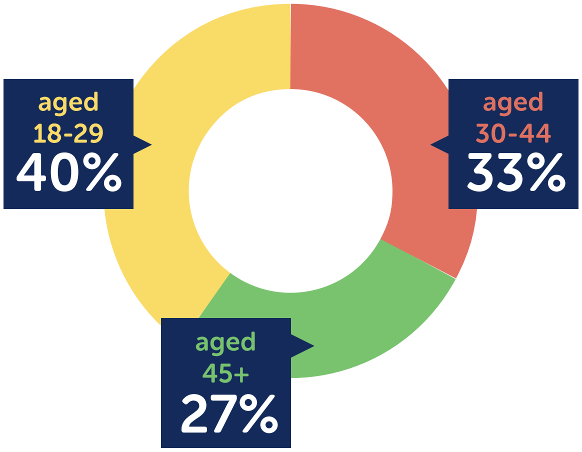
This report will explore the reasons behind changing consumer expectations that have led to the trust metamorphosis. It will also assess how this change influences operational and reputational risk for marketplace services and the bottom-line impact on companies that fail to take adequate steps to protect their reputation.

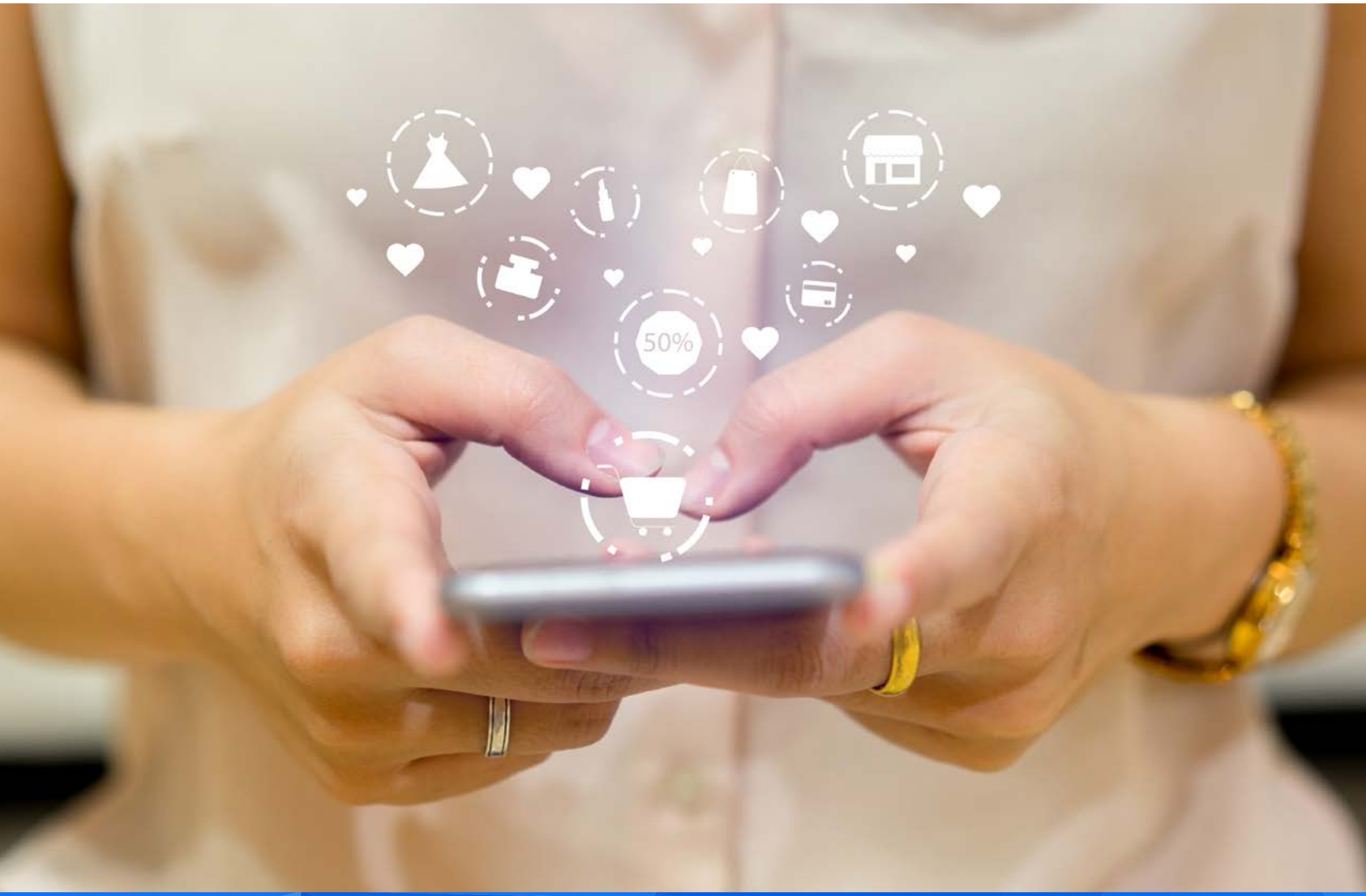
Research Sources

This report pulls from three main research sources, offering a cross section of insights from consumers and businesses inside the sharing economy.

The analysis draws from:

- A comprehensive survey of 500 UK consumers, weighted to the following age demographics:
- Executive insights from leading platforms in the sharing economy and the global customer base of Emailage, including the content subscription service segment
- Risk management, fraud prevention, and threat identification data and best practice insights from Emailage deployments





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Who Is Emailage?

Outsmarting fraud, protecting reputations and safeguarding revenues for major brands around the world

Emailage, a LexisNexis Risk Solutions Company, is a global provider of fraud prevention and risk management solutions. Our global intelligence network unites industry-leading companies around the world in the fight against fraud.

Through key partnerships, proprietary data and advanced machine learning technology, Emailage provides multifaceted predictive solutions with email at the core. We are outsmarting fraud together with our clients and helping businesses around the world realize significant return on investment through improved detection of fraudulent transactions.

With Juniper Research predicting online payment fraud losses to exceed $200 billion over the next five years,[1] Emailage is a key player to help reduce this threat and to protect business reputations.

About Emailage

277 billion global data points analyzed

Prevented more than $4.5 billion of fraud

700+ customers processing transactions in every corner of the globe

Proactive prevention, identifying fraudulent trends before they hit

Trend #1:
Consumer Trust has Reached a Tipping Point

The majority of consumers do not trust others online

The sharing economy has seen considerable growth since its inception. It has transformed not only the macro economy, but also the way people view goods and services. And, despite challenging market conditions, marketplace platforms that make up the sharing economy support an ever-increasing number of workers in what is referred to as "gig"-based roles. Current projections expect more than 50 percent of the U.S. workforce to participate in this "gig" economy by 2027,[2] with similar figures elsewhere in the world.

Even amid the fallout of coronavirus, institutional belief in the value of the sharing economy has held strong. Airbnb recently raised $1 billion[3] in a new round of funding, despite operating in a sector (travel) that coronavirus hit especially hard in the short term.

The market is clearly very bullish on Airbnb, much as it is on several other marketplace platforms, with that optimism led by growth projections for the sharing economy. According to PwC, five key sharing sectors — travel, mobility, finance, streaming and staffing — will be worth $335 billion by 2025,[4] driven in part by a range of new platforms that will enter the market to capitalize on its growth. And, like all services in the sharing economy, these new entrants will operate on the basis of one key factor: trust.

The digitized age has created a greater need for trust

Trust has been paramount to the growth of the sharing economy, to the point that it is often called the "trust" economy. Generally, humans are only willing to share things with people they trust, which is why sharing economy platforms depend on establishing a baseline of trust between strangers.

In the mid-2010s, a barometer of trust between strangers in Europe found several countries where more than 60 percent of people trusted others.[5] Today, the trust landscape is very different. According to Emailage research, only **48 percent think other people are trustworthy** — a sharp decline, which sets the foundation for the consumer shift that is taking place across the sharing economy.

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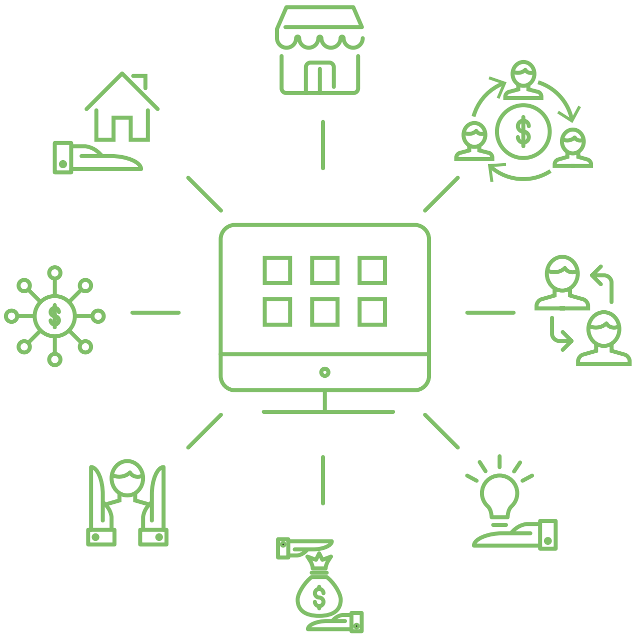
Marketplace platforms underpin the sharing economy

Marketplace platforms are a cornerstone of the overall sharing economy. Unlike traditional marketplaces, which have companies on the supply side (i.e., Booking.com), sharing economy marketplaces have individuals on the supply side (i.e., Airbnb hosts).

The business model behind sharing economy marketplaces taps into renewed acceptance from consumers in the past decade to transact with their peers. That is one of the reasons why, in 2017, Airbnb could offer 4 million hosts[6] against Booking.com's 1.5 million listed properties.[7] In fact, at that point in time, Airbnb had acquired more listings worldwide than the five largest hotel brands combined.[8]

Yet, Airbnb is only one example of a sharing economy marketplace:

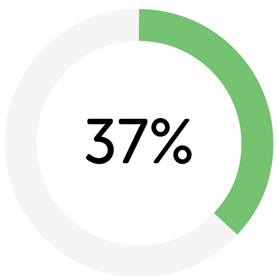


Sharing economy marketplace type	What it challenges	Brand examples
Crowdfunding	Traditional business financing	Kickstarter, Indiegogo
Peer-to-peer lending	Traditional institution-based lending	LendingClub, Prosper
House sharing	Traditional hospitality industry	Airbnb, HomeExchange
Peer-to-peer selling	Markets and retail outlets	eBay, Amazon Marketplace
Talent sharing	Traditional job-based roles and positions	Upwork, Fiverr
Care-based services	Varied	Rover (pet boarding with dog lovers), Sittercity (caregiving community)

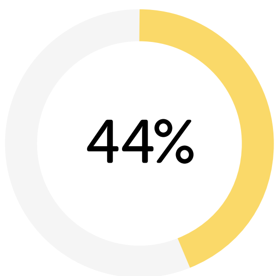
It is clear that the sharing economy is helping to change the status quo of many long-established industries. But, as these platforms deal in the business of connecting strangers, it is imperative they lead the charge in rebuilding trust — starting with keeping bad actors off their service.

Trend #2:
Fake Reviews and Ratings Hit Trust Hard

Consumers are getting better at spotting fake reviews



of consumers across all age demographics think they **have encountered a fake review or rating on a marketplace platform.**



This figure is 7 percent higher (44 percent in total) among 18- to 29-year-olds. With younger generations getting increasingly tech-savvy, this percentage will likely grow year after year if action is not taken.

If the sharing economy depends on trust, then social proof is a key part of that. Online reviews and ratings tell users, at a glance, which companies are worth their time. Yet, these ratings have much more than a surface-level impact. They fundamentally influence whether or not someone is likely to use a marketplace platform, helping to build trust that the product or service ordered will arrive on time and meet its description.

Ratings can impact the livelihood of service providers, too. For Airbnb hosts, a run of bad reviews often means fewer bookings. For unscrupulous sellers on eBay, a flood of positive ratings can push them above legitimate listings. Similar stories play out on marketplace platforms across the industry.

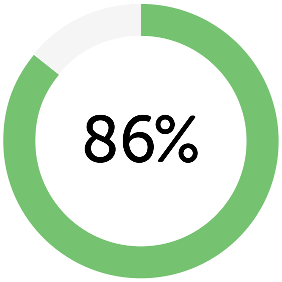
Fake reviews are becoming a much bigger issue

Faced with more fake reviews than ever before, users expect to encounter a fake review or rating. That has undoubtedly had an impact on rising levels of distrust, weakening consumer perception of marketplace services and emphasizing the trust metamorphosis.

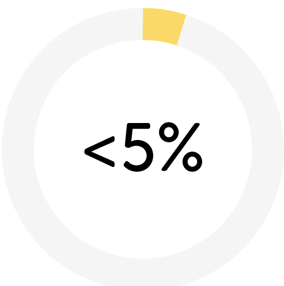
However, the problem of fake reviews is much larger than most people realize. **One senior fraud and revenue assurance executive polled for this report intimated more than half the current reviews on his service were likely fake**.

So, although 37 percent of consumers *think* they have encountered a fake review, the number of users who *actually* have is likely much higher. Unless brands take action to address this problem, it will become more pronounced as time goes on.

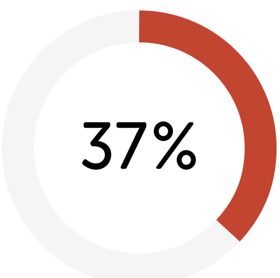
Reviews are still important but need policing to prevent churn



of consumers take notice of ratings and reviews, actively choosing to deal with users who have positive feedback



Less than 5 percent of people pay no attention to user reviews



More than one-third of consumers **only buy from a seller with positive feedback or a high rating**

Despite knowing fake reviews are a possibility, consumers still value peer feedback. On a platform that connects buyers and sellers, this is one of the few metrics that helps sellers decide whom to conduct business with.

Ratings and reviews, whether fake or not, give consumers the perception of control at a time when they are less trusting than ever. This is a good thing for marketplace platforms. It demonstrates that, if protected from bad actors, reviews can contribute to tackling the distrust consumers currently feel.

If consumers cannot trust these metrics, however, the system quickly falls. When reviews are the only metric with which to regain an element of control and they become useless due to bad actors gaming the system, users will not hesitate to churn.

Fake reviews spike churn

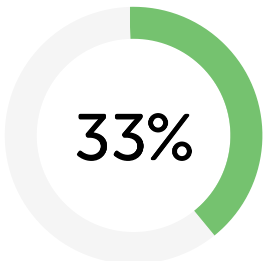
Generally speaking, the more reviews a service provider has on a marketplace platform, the more secure users feel in transacting with that provider. There is an implication of trust that the provider will deliver a good experience. When fake reviews flood a platform, that trust is immediately hit, as fraudsters who have gamed the system in this way will not deliver what they have promised.

Emailage research shows nearly half (48 percent) of consumers are **less likely to use a sharing economy service** if they encounter a fake review or profile. For marketplace brands, then, fake reviews not only contribute to a poor user experience, but they can also negatively impact reputation.

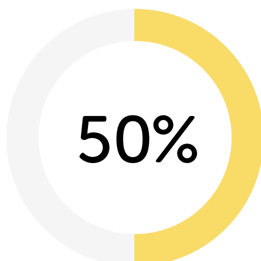
To tackle this adequately, a brand needs to know whether a user is genuine or has had his or her account compromised before allowing that user to leave a review that potentially creates a bad experience for legitimate users.

Trend #3:
Churn Risk is at an All-time High

A third of consumers will move to a competing service after a single bad experience



of platform users admit they will churn after a single bad experience.



will disappear after two bad experiences.

The experience offered by service providers through a marketplace platform links directly to that brand's reputation. Service providers are obviously separate from a marketplace platform but, in the eyes of the consumer, they still represent the brand.

Consumers who experience poor service at the hands of a bad actor will, understandably, blame the platform itself. In today's economy, consumers have taken to voting with their feet — or the applications they allow to fill their phones.

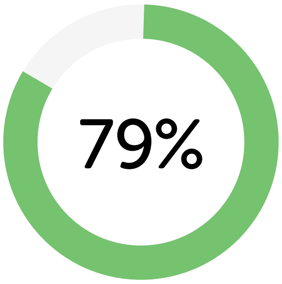
For sharing economy services, consumers are growing increasingly intolerant of anything less than a stellar experience.

Users will churn no matter what causes a bad experience

Whatever way you look at it, Emailage research shows there is little wiggle room for things to go wrong — particularly when **respondents said they would move to a competitor no matter what caused a bad experience to take place** (i.e., whether it was the platform's fault or not).

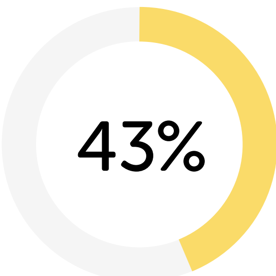
Bad actors and fraudsters who are able to operate on a platform not only cause headaches for users they interact with, but they also add to the level of distrust felt across the board.

Consumers who churn will influence others by word of mouth



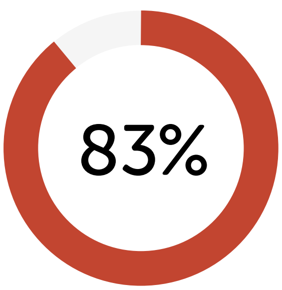
Peer review is critical

of consumers would likely sign up for a service based on a family or friend recommendation.



In contrast, brands that fail to protect their reputation will find their marketing efforts are not as effective:

of consumers would not sign up for a service based on an advertisement or promotional activity.



The impact of a single bad experience multiplies:

of consumers would influence others to follow in their footsteps through word of mouth.

In the offline world, people value the views and opinions of family and friends above all others. They often act on those recommendations, which makes peers an important influence. Emailage research shows that influence extends to interactions with digital services, too.

One-third of users churning after a single bad experience is bad news for any sharing economy service. But, knowing that **83 percent of those users will then spread the word to their peers** is far worse.

Given the weight of the recommendations and opinions of peers, this is a worrying statistic and a key contributor to total churn risk in the trust metamorphosis. As a result, the true number of users this could affect — who might ultimately choose to stop using a sharing economy service after a single user's bad experience — might be several multiples higher than Emailage figures suggest.

How many people can a single bad experience influence?

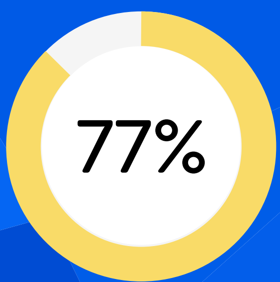
According to Dunbar's number[9] — the theory of how many people an individual can maintain relationships with — everyone operates a tight-knit circle of five "loved ones." This is often a mixture of family and close friends. After that come successive layers of 15 "good friends" and 50 "friends."

If you assume a user complains about a bad experience to multiple people, and that complaint influences one member of each relationship group, that is four people total (including the original user) impacted by a single bad actor.

Trend #4:
Consumers Expect Platforms to Know who to Trust

Consumers will not help weed out bad actors by providing personally identifiable information

Consumers expect immediate validation



of those surveyed expect a sharing economy service to know who they are and that they are trustworthy without disclosing any Personally Identifiable Information (PII).

Consumers know there is a risk of encountering a bad actor on a marketplace service. This is why consumers are on the lookout for fake reviews and why they are likely to churn if they have a negative experience.

It is understandable then why marketplace platform providers might want to ask consumers for Personally Identifiable Information (PII) as an extra line of defense against bad actors during the sign-up process. Although this is commonplace in the banking sector, and users have grown to accept Know Your Customer (KYC) checks, Emailage research shows consumers will not accept the same from a sharing economy service.

In other words, consumers are saying, "I don't trust anyone, but you had better trust me." By not providing personally identifiable information, consumers make it harder for brands to validate their identity.

This is particularly difficult for platform providers that do not require a lot of information before a user can create an account. If all they have to work with is an email address and a first and last name, that does not go a long way toward confirming who that person is at first glance. Even requiring a user's postal address is not guaranteed to solve the problem, particularly if he or she gives false information.

Identifying bad actors is like finding a needle in a haystack

If nearly four-fifths of consumers expect a sharing economy service to know who is trustworthy, it is reasonable to assume they also expect a service to know who is *not* trustworthy based on the same limited information. However, if users are not required to confirm who they are, and no other system is in place to validate identity, it is impossible to weed out bad actors before they make their presence known.

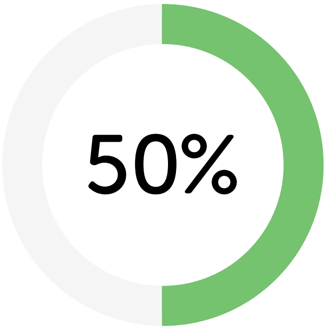
Emailage research revealed more respondents (82 percent) in the 18- to 29-year-old age bracket expect immediate validation. Five percent higher than the all-ages baseline, this suggests **expectation for immediate validation will increase** over time as more digitally savvy younger generations become the largest pool of users on sharing economy marketplaces.

It is imperative to deliver seamless customer experiences

Despite not trusting others, consumers expect a frictionless experience. They are drawn toward high-reputation, low-friction services. In today's trust metamorphosis, the future success of marketplace platforms depends on the two going hand in hand.

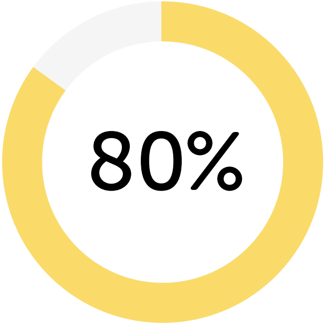
However, friction must be balanced with efforts to safeguard consumers and service providers — and, by extension, brand reputation. Failing to get this right will create headaches down the line, not only in terms of lost revenue, but also in terms of regulation and red tape.

Several executives we interviewed echoed this sentiment about the challenges associated with user verification and the regulatory hurdles this can create if not tackled correctly.



No tolerance for friction:

Almost half of consumers would be totally put off signing up for a sharing economy service if asked to hand over Personally Identifiable Information (PII) (i.e., a scan of a driver's license of passport).



Sign-up speed impacts user acquisition:

Four-fifths of consumers will not spend more than two minutes on the sign-up process. This is critical for brands to get right. If they do not, they run the risk of the sign-up process being a bad experience that causes consumers to switch to a competitor before even creating an account.

What Fraud Leaders Say

"Sadly, I don't think the industry is doing enough, and this will invite regulation in the future. I truly hope that the industry will take their duty of safeguarding consumers and the service providers it connects them with more seriously, and invest more heavily in technology to solve the problem, or else consumers will be so jaded that revenue will suffer."

A senior sharing economy platform executive

"Verification has been fought for a long time, and it will have to become an issue for these groups to survive long term. These verification programs will have to be robust because the stories of in-person meetings gone wrong appear more and more and will be more than simply off-putting in the future."

A senior sharing economy platform executive

How Technology Can Help

Managing the Tension Between Deterring Fraud and Delivering a Good Customer Experience

In the trust metamorphosis, everything connects, meaning it is easy to see how the four trends we have uncovered compound.

When you consider trust is at an all-time low and consumers generally do not believe reviews that should give them confidence, it is no surprise they are increasingly willing to churn.

Add expectation from consumers for the platforms they use to know who is good and bad at the point of sign-up, and this creates a seemingly insurmountable situation for brands operating in this space.

Failure to stop bad actors will not only impact overall trust, but also customer lifetime value and user retention. As a result, brands need to minimize reputational and operational risk to avoid slipping into a vicious cycle of skepticism and lost revenue.

Spiraling skepticism vs. the bottom line

Imagine a marketplace platform has a customer acquisition cost of $20. Then, consider a new user who churns after a bad experience and encourages two of his or her closest friends to do the same.

Emailage research found nearly three-quarters of sharing economy platform users spend up to $63 per month on average, meaning the true impact of a damaged reputation ratchets up quickly.

$63 per month x **3** users + the acquisition cost of those users ($60) = a **$249** loss

The above equation demonstrates how a lack of control over bad actors on a platform can cost far more than the original cost of acquiring those users. Any sharing economy service has a lot of upfront costs in terms of user acquisition, and those costs must be balanced against lifetime value, which requires a better grasp on tackling churn.

How do you deliver seamless experiences and deter fraud?

Tackling this challenge requires a new method for establishing whether a user is who he or she says — even if he or she appears to be legitimate at first glance.

There are two ways to approach this:

- Identify and stop a bad actor before it can cause damage, often at the point of sign up.
- Wait for a bad actor to make itself known after after it has been using the platform, and then take action.

What's the right approach?

The problem with the second option is that a bad actor is free to operate for long enough to damage at least one user's experience. In fact, it is likely that bad actor will impact far more than a single user. The majority of executives we polled believe **bad actors can reach up to seven users before platforms can stop them**.

In today's trust metamorphosis, brands cannot allow this to happen, which means option one is the only viable choice. But, stopping a bad actor before it can cause damage is difficult.

At the point of sign-up, marketplace platforms have limited data with which to work. This problem worsens if fraudsters create a synthetic ID — a blend of real and fake information to generate a "new" persona — or gain access to an existing user's login through an account takeover attack.

An effective way to approach this is by using the email address, which can act as a digital passport. Unlike postal addresses or driver's licenses, email addresses are global. Practically every sharing economy service requires a user's email address in order to create an account, and users are comfortable providing it. This makes it a valuable starting point for account-based risk assessment and fraud prevention.

You only get one chance to get things right

"The impacts [of reputation damage] can be catastrophic. If you look at those who have had trust hits, their brands are always associated with those issues [reputational and operational risk]. You only get one chance to get things right, and it's extremely difficult to resurrect a brand after reputational or operational risk hits."

A senior sharing economy platform executive

How does email fraud prevention work?

Every use of an email address leaves a trace. Over time, those traces add up to a multilayered story to create a picture of the true identity of a user. The intelligence and history associated with an email address creates a frictionless way to prevent fraud.

Emailage combines decades of fraud prevention expertise with advanced machine learning and uses behavioral patterns to generate Digital Identity Scores. Delivering a Digital Identity Score reduces the need for transaction-based verification. This not only minimizes disruption, but it also tackles fraud before it can occur.

What does this mean for the user experience?

Legitimate users who have held their email address for years and have registered for multiple services with it (i.e., the vast majority of people) will encounter a low-friction experience as they sign up for and use a sharing economy platform.

Users who provide an email address linked to bad historical data, or no data at all, will naturally raise flags. So too will fraudsters who have compromised a legitimate user account, as their behavior will be different than that of the true owner.

Who We Are

Emailage, a LexisNexis Risk Solutions Company, is a global provider of fraud prevention and risk management solutions. Through key partnerships, proprietary data, and advanced machine-learning technology, Emailage provides multi-faceted predictive solutions with email at its core. We're outsmarting fraud together with our clients and helping businesses around the world realize significant return on investment through improved detection of fraudulent transactions.

Let's Outsmart Fraud. Together.

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[2]https://www.morganstanley.com/ideas/freelance-economy
[3]https://www.cnbc.com/2020/04/06/airbnb-raising-1-billion-amid-fallout-from-coronanvirus.html
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