The dichotomy at the heart of the 'gig economy'

At ESOMAR's, 70th anniversary, World Congress from 10-13 September in Amsterdam www.esomar.org/congress we will be presenting a paper on transformational change in the financial services industry, entitled …

Are you insured, Scarlett? *'I can't think about that right now… I'll think about that tomorrow'.* How MetLife imagined a new future for the insurance industry… and is delivering it today

In the run up to this presentation we will be exploring some of the themes touched on in the paper with a weekly blog post. We will also provide a link to the paper and presentation at the end of the Congress.

This first blog entitled … *The dichotomy at the heart of the 'gig economy'*, explores the growth of this phenomenon and the vision needed to cope with changes in the world of work.

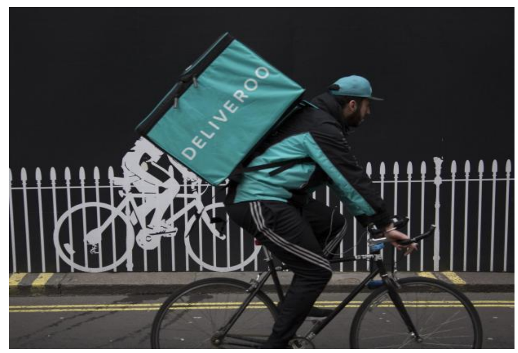
For some it is synonymous with exploitation, "bogus" self-employment, sham contracts, curtailing of employees' rights and underpayment, but its advocates claim it provides workers with unprecedented levels of flexibility and freedom without the hassle associated with traditional self-employment. In its recent publication, 'Good Gigs – A Fairer Future for the UK's Gig Economy', the RSA found that young people (aged 16-30) are actually attracted to the idea of gig work – one in four said they would consider some form of it in future.

The term "gig economy" was coined at the height of the financial crisis, and referred to the unemployed making a living by gigging, or working several part-time jobs, wherever they could. The concept has rapidly evolved from a necessity to (as some see it) a lifestyle choice, driven extensively by the emergence of unicorn companies such as Airbnb and Uber. The spread of the phenomenon has been staggering. According to the RSA there are now an estimated 1.1 million people in Britain's gig economy (3% to 4% of the UK workforce) – to put this into context the UK's largest employer, the National Health Service (NHS) in England, employs 'only' 1.4 million. An Airbnb study, covering the 12 months from November 2012 to October 2013, found that Airbnb generated £502 million in economic activity in the UK in one year and supported 11,629 jobs. There are 40,000 places to stay in London alone. Airbnb claim that hosting enables UK residents to be more entrepreneurial and pursue nontraditional forms of work. 42 percent of hosts are self-employed, freelancers or part-time workers, many of whom say Airbnb helped them pursue these careers.

In the US, McKinsey (*Independent Work: Choice, Necessity, and the Gig Economy*) estimates that about a quarter of the labour force of 160 million are independent workers – and of those, 72% do so by choice, the other 28% out of necessity, and only 11% get all their income from only one platform. As the traditional view of a career or 'job for life' recedes, there is some evidence that 'gig' work is being used to bookend a number of years of more stable work, perhaps providing opportunities to those groups who may have experienced a dearth of traditional employment roles. McKinsey's findings show that 47% of youths (under the age of 25) and 44% of seniors (over the age of 65) participate in independent work.

The trend of using online platforms to source small, sometimes on-demand, jobs has accelerated, and shows little sign of slowing down. Let's look at Uber as the 'poster-child' (for good and ill) for the gig-economy. While accurate numbers are hard to come by, in the US alone Uber's active driver base grew from zero in 2012 to over 160,000 at the end of 2014, with the number of new drivers doubling every six months. Another figure put the global number of drivers at 1.5 million in early 2016. This (to use a much abused phrase) is a paradigm shift in the world of work. A recent report by Uber (In The Driver's Seat: A Closer Look At The Uber Partner Experience*)*, shows that 73% of their drivers choose to drive for Uber because of the flexibility afforded to them, and 71% say that their income is better since starting to drive. While not as obvious, Ebay and other online trading sites are also key players in the more flexible alternative economy – providing another string to the 'gigers' bow. Some commentary has suggested that many of those hoping to profit from online marketplaces are over-50s, seeking either to change direction after a career elsewhere or to supplement their pension income. What are the implications of this explosive growth of 'gig-jobs'?

In the UK, as in many other countries, the size and scale of the gig economy is likely to put an increasing strain on central government finances – assuming no change in the tax treatment of the self-employed. The decline of the 'traditional job' will have far reaching implications, and the uncertainty over how gig workers will fare over time makes some uneasy about their potential reliance on the state to guarantee a minimum standard of living. On the other side of the coin many gig workers feel that their 'status' diminishes their access to support. UK National Insurance Contributions are key to funding the 'safety net' provided by central government (According to the Institute for Fiscal Studies, NICs are forecast to raise £126.5bn in 2016/17 - the second largest source of revenue for the government, behind income tax and ahead of VAT). But participants in the 'gig economy' are likely to be paying lower levels of NIC (if they are paying it) - and most platforms don't pay Employer NICs because their workers are classed as 'self-employed' – and so are excluded from many of the support mechanisms (provided by the employer or central government) available to people working in traditional job … sick pay, maternity pay, auto-enrollment pensions etc. Equally in the US unemployment insurance, workers compensation, disability insurance etc. may not be available to freelance or independent workers.



The sheer scale of the 'gig' sector makes this an interesting opportunity, but traditional financial services firms – undoubtedly more cautious than they were 10 years – don't do a great job of providing products and services tailored to the needs of gig workers. Their marketing and customer experience is aimed at those whose income and prospects would seem more stable and predictable. Nature abhors a vacuum, and in the US some of the platforms have attempted to fill the gap by offering bank accounts, debit cards, money transfers, car loans (support to rent, lease or buy a car) etc. through partner financial institutions. And more agile fintech companies are entering this space and offering products such as cash advances and instant pay (ActiveHours) as well as access to capital based on revenue predictions (Clearbanc "Financing for the new economy").

A number of 'trade bodies' e.g. The Indy Workers Guild, have appeared to represent the interests of the gig worker – based on notions of cooperation or mutualisation. While at the moment they provide advice on contracts or tax etc. they may be well placed to provide access to independent financial services (there is a conflict of interest when platforms not only pay their contractors but also provide them access to financial services), and supported work on portable benefits.

There is a huge potential here for more mainstream financial service providers to better serve the needs of gig workers, but to do this they will need to think more creatively - it is unlikely to be a phenomenon that goes away. By entering the gig sector they will not only bring broader choice, and more price competition, but also foster better consumer protection and more responsible lending practices. At the moment they are failing to effectively address this phenomenon, leaving the field to those disrupters who are more comfortable with the uncertainty.