

Krystyna Mitreęa-Niestrój

Uniwersytet Ekonomiczny w Katowicach

THE SHARING ECONOMY AND COLLABORATIVE FINANCE – OUTLINE OF THE PROBLEMS

Introduction

The revolutionary changes in information technology and the rise of the significance of social networks, stimulate the emergence of the new economic model based rather on the cooperation than on the competition. The indication of these changes is the vast development of so called sharing economy which is now concerning more and more sector and activities – also financial system and finance in general. The sharing economy manifest itself also in finance through so called collaborative finance. The collaborative finance means finance “made” by people – without the intermediation of financial institutions. Participants of the collaborative finance are convinced that by peer-to-peer financial transactions they can create more positive effects and that money becomes “human” again.

This article aims, firstly, to introduce the concepts of sharing economy and collaborative finance, and secondly to characterize the emergent forms of collaborative finance. The research methodology is based on a literature review, using descriptive and qualitative methods.

It must be underline that in a view of the complexity of the issues raised in this article and a limited volume of paper only chosen problem would be presented.

1. The concept of sharing economy and its scope

The sharing economy (the term was first used in 2008 by Lawrence Lessig, a professor at the Harvard Law School), called also a collaborative consumption, is a new economical model, being based rather on the consumer cooperation than

on the competition between producers. This model assumes rather a sharing of the resources and the cooperation, than the priority typical for the market economy – the possession of goods and the competition. In the sharing economy social value is improved by sharing and not by ownership. So, “utilization” in this new model is more important than “possession”¹. Concept of sharing and the cooperation is nothing new in the society, however at present is gaining the more structural form and is characterized by first for all – common (collective) thinking and the broad participation in the realization of defined objectives. What more – sharing economy gives people sense of independence of governments and corporations.

There are several factors which are contributing to the development of the concept of sharing economy. The most important issue is that people nowadays have great capacity to communicate and share thoughts, ideas but also goods. It is possible because of the development of the social media – a group of Internet-based applications which through employment of mobile and web-based technologies make people interconnected all over the world. The use of mobile devices (for instance mobile phones, mobile computers, tablets, pagers, etc.) makes very easy to locate individuals in time and space but also track and locate things (“track and trace systems”)². So, the sharing economy probably couldn’t emerge without the development of “digital economy” which is based on digital technologies. Today’s networked world based on communication infrastructures allows an unprecedented degree of searching for information, communicating, interacting and collaboration within communities in trans border and global dimension.

An outburst of the financial world-wide crisis and its effects are also an important catalyst of the development of the collaborative consumption. The society started realizing that by joint organizing and acting it is possible to achieve deliberate objectives more effectively and counteract effects of the financial and economic crises. The global financial crisis raised doubts about functioning of the current structures of economy and triggered off as well the crisis of trust in the corporation, financial institutions, as well as governments³.

There are also several factors which make the sharing economy attractive to consumers, among others are⁴:

¹ See: P.S. Eun: Collaborative Consumption; Sharing Rather Than Buying, <http://www.thegranite-tower.com/news/articleView.html?idxno=318> (18 December 2012).

² Based on the interview: L. Gansky: Three Factors Driving the Sharing Economy. <http://www.wobi.com/wbftv/lisa-gansky-three-factors-driving-sharing-economy> (28 December 2012).

³ <http://www.deskmag.com/en/the-nature-and-potential-of-the-collaborative-economy> (28 December 2012).

⁴ P.S. Eun: Collaborative Consumption..., op. cit.

- sustainable development – consumers incline to avoid spending excessively, they are more likely to use the resources more effectively – this induces the change among manufacturers, who are more prone to discover the demands of consumers before producing; they don't overproduce leaving resources for the next generations,
- social stability – because the concept of sharing economy is based on cooperation, members of the community attach less significance to ownership; it can lessen the problem of social polarization and make society more harmonious,
- meeting the new demands – sharing economy can meet the new demand of consumers which existing economic system cannot afford.

The collaborative consumption in practice involves different activities like sharing, lending, renting, trading, bartering, gifting and swapping various kinds of assets (fig. 1 shows the examples).

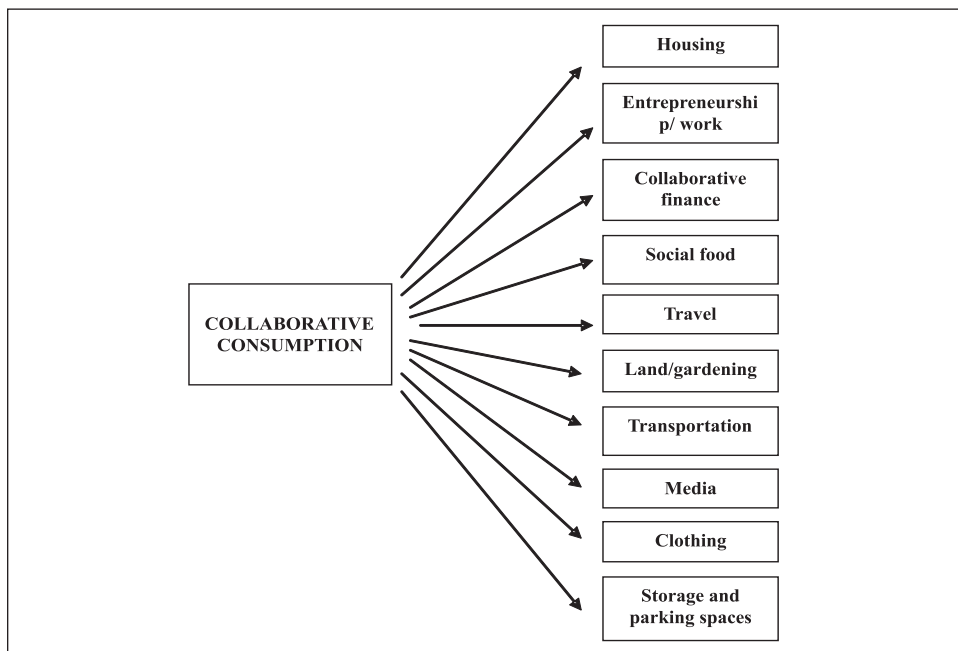


Fig. 1. Examples of different kind of assets involved in collaborative consumption

Source: Based on: <http://www.collaborativefinance.org/> (29 December 2012).

The sharing economy more and more universally manifest itself also in finance through so called collaborative finance.

2. The collaborative finance and its forms

In last over twenty years the financial industry went through very fast and deep changes. Technological innovations revolutionized its activity and turned it into one of the most modern business. However, the global financial crisis caused the fall of the confidence in financial system especially in banking sector and people started to seek for an alternative manners of investing capital and financing apart from the “traditional” financial institutions. The global financial crisis was one of the principal catalyst for the collaborative finance (also “peer-to-peer finance” or “person-to-person finance”). In general this term refers to financial transactions which are being conducted between relevant parties (which can be well-known to oneself or completely anonymous) without the intermediation of financial institutions. The supporters of the collaborative finance perceive it as the best answer for all shortcomings of the “traditional” finance. The development of collaborative finance is possible nowadays because of the digital networking and communication infrastructures which provide a platform for communicating and cooperation. The “natural environment” for the collaborative finance is Internet, and for its users the chances it creates seems to be limitless.

Collaborative finance is particularly attractive to individuals – low income households, students, young couples, because it: facilitates very small savings, has strong organizational structures, is not regulated by the central bank or any other financial authority, is non-profit motivated, has multiple proprietorship, has specific borrowers identified, services are personalized and provides localized services, has high repayment rates (above 95%), facilitates reciprocation of credit disbursement, has close informational links and also encourages community participation in other fields of development⁵.

The participants of the collaborative finance find it more “human” and are satisfied that they don’t have to pay the financial institutions. “No banks in the middle” means higher returns for customers. Of course collaborative finance is not free from problems and risks. One of the main issue is that this new “approach” to finance, and the sharing economy in general”, is based on trust. The counterparty believes in good intentions of the other side. In such a situation is therefore not difficult for misappropriation of funds. Other problems are: information asymmetry and its consequence, i.e. negative selection. Of course the Internet platforms take action against these dangers (e.g. collecting detailed information about counterparties, using of credit scoring, collaterals, etc.). Bankruptcy of

⁵ <http://www.collaborativefinance.org/> (29 December 2012).

platforms offering the services of p2p finance can also be a threat. These above-mentioned are only chosen problems of the collective finance.

There is no universally accepted and used typology of the collaborative finance – fig. 2 shows only chosen examples of p2p financial transactions.

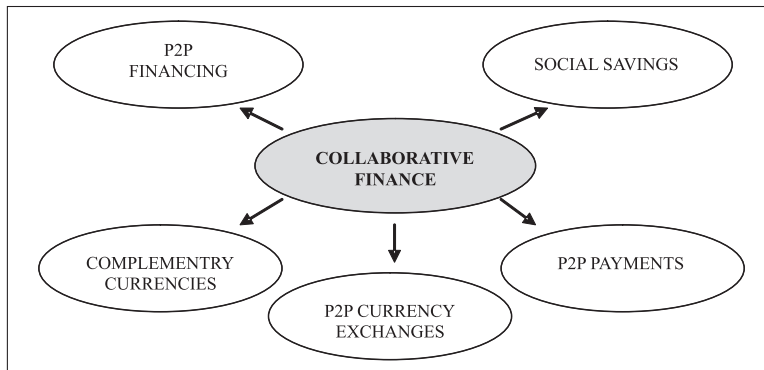


Fig. 2. Chosen examples of p2p financial transactions

3. P2p financing – social lending and crowdfunding

One of the most important offer in the collaborative finance is possibility of financing. The main benefits of p2p financing are that lenders get quite high returns and borrowers – low-cost loans. There are at least two main possibilities to obtain funding without the participation of financial institution:

- 1) social lending,
- 2) crowdfunding.

Social lending transactions take place on the principle of an auction, through the Internet, most often on portals specialized in such services. It allows lenders and borrowers, which different property and social status, to fast agree on conditions of the transaction, and most importantly – on interest rate which suits them. The participants of the p2p lending can be individuals, small and medium-sized enterprises, however conditions vary according to the country and web portal. Loans are mainly arranged for consumption, small business activity, studies, but there are also offers for mortgage loans. The social lending services can be divided in three main categories⁶:

⁶ <http://www.wiseclerk.com/group-news/services-p2p-lending-companies-by-loan-volume/> (2 January 2013).

1. P2p lending marketplaces (e.g. Prosper, Zopa) – transactions held because of economic motives.
2. Social lending services enabling micro financing (e.g. Kiva, MyC4) – transactions held because of social motives.
3. Others – for instance facilitating financing families between friends and members (e.g. family and friend lending – which in the past was offered by Virginmoney).

Taking a p2p loan is very easy and takes only a few very simple steps: 1) finding and registering with the website that offers p2p lending (most sites require no fee to sign up), 2) entering the personal and financial information (it's important for verifying and checking customer credit score), 3) entering information concerning the loan – its purpose, size, time and the level of the interest rate which the borrower is ready “to pay”, 4) waiting for the results of the auction, during which offer of the potential borrower finds the ready to grant it lenders (if conditions of the offer are competitive the costs of the loan could be lower), 5) decision – acceptance of the loan if the borrower approves or withdraw the listing if does not (although some fees may apply if the potential borrower withdraws after the bidding has ended), 6) making payments (usually at monthly basis)⁷. It is also possible to find platforms, where potential lenders offer their conditions and borrowers chose the offers which suits them best. In case of p2p financing a possibility exists that one lender lends money for one specific borrower, however due to the diversification of the risk, lenders prefer the allocation of resources to the bigger number of borrowers with different credit scores. The p2p loans could be: secured loans (require a collateral e.g. a car) and unsecured loans – in this case lenders base mainly on the credit worthiness of the consumer⁸.

The biggest loan volumes are generated in the US market – the 2012 was the best year ever for the US p2p lending industry: loan volume between Prosper and Lending Club in December was 103.7 million USD and for the year the total was 871.1 million USD – a 162% increase in one year⁹. Although the social lending develop also in other highly developed (e.g. Great Britain, Germany, Spain) and developing countries (e.g. China, India, South Africa). For instance in Great Britain 2p2 lending is predicted to exceed 300 million GBP in 2013¹⁰. Fig. 3 shows

⁷ K. Lorette: How to find a people to people lending loan, http://www.ehow.com/how_5554585_people-people-lending-loan.html (29 December 2012).

⁸ See: K. Mitreġa-Niestrój: Bankowość p2p jako alternatywa dla tradycyjnych banków detalicznych. Wydawnictwo Uniwersytetu Marii Curie-Skłodowskiej, in press.

⁹ P. Renton: In 2012 U.S. P2P Lenders Issue \$871 Million in New Loans. December 31, 2012, <http://www.lendacademy.com/2012-p2p-lenders-871-million/> (2 January 2013).

¹⁰ <http://peertopeerlendingtree.com/> (29 December 2012).

new loans per month in selected p2p companies in millions of USD in march 2011 and march 2012.

P2p lending is also developing in Poland – Kokos.pl, or Finansowo.pl – are the examples of web platforms offering such services.

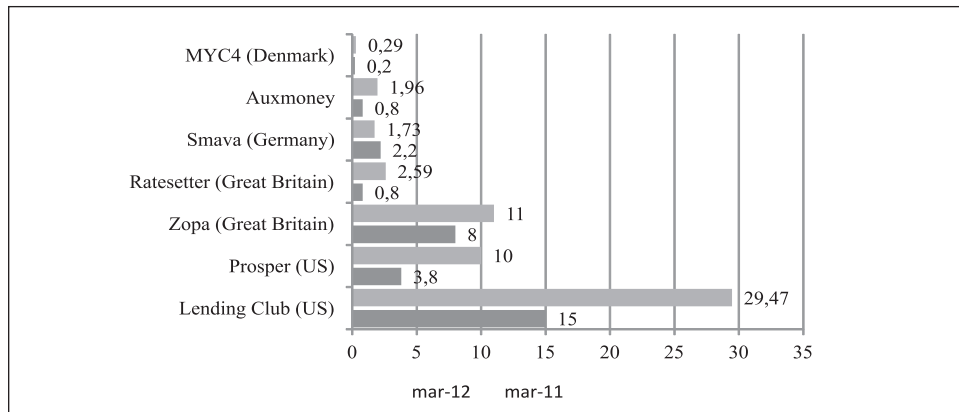


Fig. 3. New loans per month in selected p2p companies in mln of USD in march 2011 and march 2012

Source: Based on: Updated: State of Selected P2P Lending Companies. March 15th, 2011, <http://www.wiseclerk.com/group-news/countries/germany-updated-state-of-selected-p2p-lending-companies/> and State of Selected P2P Lending Companies. March 15th, 2012, <http://www.wiseclerk.com/group-news/category/p2p-banking-review/> (2 December 2012).

The main idea of the crowdfunding (the term was first used on the blog by Michael Sullivan in 2006) is that people through collective cooperation network pool their resources together (usually via the Internet) in order to support various efforts initiated by other people or organizations (e.g. including startup company funding, disaster relief, citizen journalism, support of artists by fans, political campaigns, movie or free software development, and even scientific research). The crowdfunding is intensively used by the non-profit community and philanthropy and can replace the need for specialized grant applications or other forms of fundraising. The Internet allows quick and effective way for finding funds for even sudden needs (e.g. disaster relief)¹¹. The crowdfunding is a very good way for financing of creative projects if they find people's wide-web acceptance. And is a very good example of self organization of people in virtual reality for realization of special goals. There are a multitude of the crowdfunding platforms, in many countries and very often they specialize in certain areas. There are four types of crowdfunding platforms:

¹¹ <http://crowdfunding.pbworks.com/w/page/10402176/Crowdfunding> (22 December 2012).

- lending-based crowdfunding – funders expect their money back plus a commission after a set period of time,
- equity-based crowdfunding – investors receive a stake in the company,
- reward-based crowdfunding – funders receive non-monetary benefits for their donation, a gift (e.g. material object or service),
- donation-based crowdfunding – the motivation of funders is purely philanthropic, for their personal satisfaction¹².

According to *Crowdfunding Industry Report* almost 1.5 billion USD was raised and more than 1 million successful campaigns were run by crowdfunding platforms (CFPs) world-wide in 2011. As of April 2012 – 452 CFPs were operating globally. The *Report* also assumes that the total funding volume should double in 2012 (fig. 4)¹³.

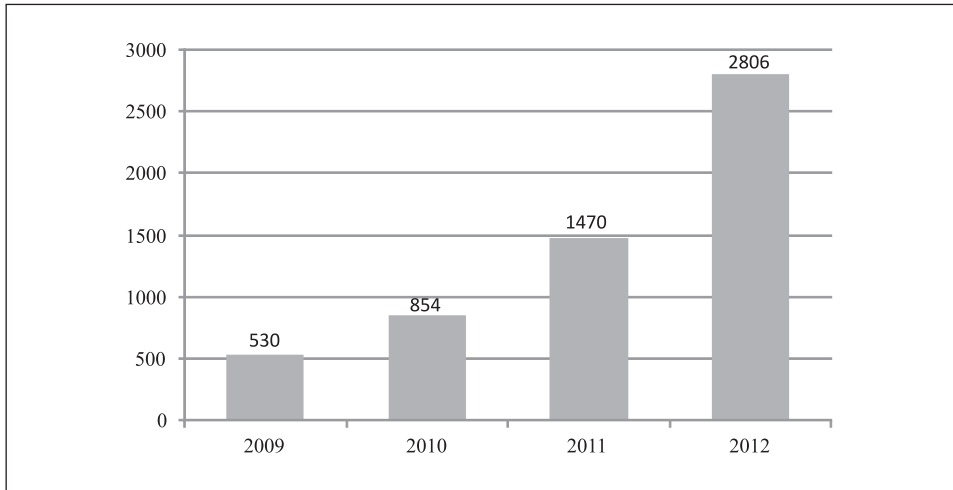


Fig. 4. Crowdfunding – the total funding volume world-wide

Source: Crowdfunding Industry Report. Market Trends Composition and Crowdfunding Platforms. Research Report, Abridged Version, May 2012, p. 15.

The crowdfunding is also present in Poland: siepomaga.pl, polakpotrafi.pl, beesfund.com are examples of platforms offering such services¹⁴.

¹² <http://brickstarter.org/a-timely-global-survey-of-crowdfunding-platforms/> and <http://blog.ideascale.com/2012/05/18/future-of-the-crowdfunding-industry/> (20 December 2012).

¹³ Crowdfunding Industry Report. Market Trends, Composition and Crowdfunding Platforms, Research Report. Abridged Version, <http://www.crowdfunding.nl/wp-content/uploads/2012/05/92834651-Massolution-abridged-Crowd-Funding-Industry-Report1.pdf>, May 2012, (12 December 2012).

¹⁴ See: Crowdfunding w Polsce, <http://crowdfunding.pl/crowdfunding-w-polsce/#.UOwNUazr0Xg> (2 January 2013).

4. Other examples of the collaborative finance

The next example of the collaborative finance are social savings which take place on the Internet platforms. But the social savings platforms differ from the traditional online savings accounts because money is not just being “stored” but is saved for a specific goal. According to Mike Ferrari co-founder of the US platform SmartyPig people are saving mainly for: “saving to save”, travel, emergency fund and home improvement. The goal is made public – because people want to be held accountable and society (including friends and family) “donates” money (in practice by making a credit card payment) on a saving account. Opening, funding, and redeeming a goal is free of charge, but there are limitation for savings goal (e.g. for SmartyPig – the minimum requirement for a savings goal is 250 USD and the maximum – 250,000 USD). The social savings platforms usually use a third party to hold the funds – e.g. in the US SmartyPig or Savingspoint funds are held at the member Federal Deposit Insurance Corporation (FDIC) partner bank and are insured by the FDIC to the full legal amount. The partner bank also determines the interest rate which is accrued daily and paid on savers account (monthly or quarterly)¹⁵.

The collective finance also concerns the issue of currencies, as the problem of monetary reform or transformation is one of the most interesting questions for a part of modern society, which of course was reinforced by the experiences of the global financial crisis. There are society groups which are convinced that they have the right to create currencies or even monetary system which will fulfill their expectations and needs contrary to the existing one¹⁶. The example of the social movement are so called complementary currencies (also called – “community currencies” or “local currencies” or “common tenders”) which can be defined as agreements within a community to accept something else than national currencies as a means of payment. They “complement” another currency, usually a national one. It must be stated that the idea of the complementary currency is not new, although nowadays is arouse interest all over the world. According to professor Margrit Kennedy the most important feature of the complementary currencies is that they are designed for specific purposes and may support the achievement of very important aims, among others: social, cultural or ecological¹⁷. Other

¹⁵ <http://www.automaticfinances.com/smarty-pig-social-saving-platform/and>, <http://banking.about.com/b/2008/03/08/social-saving-with-smartypig.htm> (18 December 2012).

¹⁶ Look: Synthetic overview of the collaborative economy. P2P Foundations, 2012, s. 241, <http://p2p.coop/files/reports/collaborative-economy-2012.pdf>, (18 December 2012).

¹⁷ M. Kennedy: Complementary currencies. New Paths to Sustainable Abundance. August 15th 2006, p. 1, http://margritkennedy.de/media/art_en_complementary_currencies_54.pdf (28 December 2012).

distinguished characteristics are that the issuance of these currencies is relative to use and that they are based on underlying corresponding value¹⁸. There are different classifications of the complementary currencies – one of them distinguishes four types of complementary currencies¹⁹:

- 1) fully backed by the national currency – e.g. SOL in France, Lewes Pounds in the UK, Eco-Pesa in Kenya, social currencies in Brazil and others,
- 2) backed by guarantees from members of the exchange system – e.g. Time Dollars, some types of Local Exchange and Trade System (LETS),
- 3) backed by goods – e. g. Mendo Credits in the US or COMAL in Honduras – backed by reserves of stored food, Mulligan Books (backed by inventory of books), commercial vouchers (coupons) provided in promotional materials etc.,
- 4) backed by services: frequent traveller programs in airlines, some types of Regiogeld in Germany.

These currencies very often have a local character and support the social and economical development of the given community. One of the well known examples of the local currency is the Brixton Pound (B£) in the British town Brixton, which exists in paper (since September 2009) and electronic format (2 years later). The pound sterling backing for all Brixton Pounds in circulation is held at a local bank. The functioning of the B£ has many important local aims e.g.: developing a strong local economy, raise community awareness of the local Brixton economy and protect jobs and livelihoods of community members²⁰. There are also examples of introducing local currencies is Poland but with different results.

Another important area of activity of collective finance within currencies is p2p currency exchanges platforms which match people who want to exchange foreign currencies. Such peer-to-peer marketplace offers attractive exchange rates – because clients deal directly with each other and can negotiate a mutually beneficial rate and lower fees comparing to banks²¹ – because the funds do not have to “travel” internationally – they are available where the client needs them. Exchanging currencies with p2p platforms is very simple, and in case of CurrencyFair one of the most popular platforms operating in the UK, Ireland and Australia

¹⁸ <http://www.quora.com/Are-complementary-currencies-a-likely-remedy-for-economic-problems/answer/Stan-Stalnaker> (18 December 2012).

¹⁹ Complementary Currencies, http://p2pfoundation.net/Complementary_Currencies (28 December 2012).

²⁰ <http://brixtonpound.org> (3 January 2013).

²¹ Most banks charge the spread about 2.5% – CurrencyFair the participants decide on the rate. After the transaction is completed, CurrencyFair charges 0.15% of its value and also a small fee for sending the money to the recipient’s bank account. Over the sea and far away. „The Economist”, May 19th 2012, <http://www.economist.com/node/21554740> (3 January 2013).

is done in three easy steps: 1) a client has to make a deposit of the funds he or she wants to exchange into segregated client bank account, 2) exchange the funds into a chosen currency (there are now 17 currencies also Polish Zloty) and 3) send the foreign currency the client has purchased to a bank account worldwide. The market is open 24 hours a day, and soon there will be opportunity to exchange currencies also at the weekends²².

The previous forms of collaborative finance are accompanied by development of infrastructure for payments replacing traditional banking and financial services. P2P payments are person-to-person payments via a mobile phones or email addresses allowing consumers send or receive money anytime for a low, or no, fee. P2P payments aren't something new because in 1999 it was PayPal which offered people to exchange money digitally²³. P2P payment include various payment activities, e.g.: me-to-me payments (money moves between accounts – either on an ad-hoc or regular basis) or me-to-small-business or service provider²⁴. Such payments are also part of the traditional banking offer.

The collaborative finance covers also other activities not mentioned before, as for instance risk and wealth management, insurance or business banking. It is developing very fast and it is not easy to predict future p2p transactions.

Conclusions

The sharing economy based on collective thinking and cooperation gives an extraordinary opportunity also in the area of finance. The society is keen on using all abilities which contemporary institutional changes and technological innovations offer in finance. It turns out that financial institutions aren't already essential for attractive investing or borrowing money. The collective finance is developing fast and the areas of the p2p financial transactions still emerge. Social lending and savings, crowdfunding, complementary currencies, P2P payments are only examples of the wide, developing offer and describing the full picture of p2p finance was beyond this study.

The collective finance for its participants seems to be the right answer for the dangers of today's globalized world, heavily touched by financial and economic

²² <http://www.currencyfair.com> (3 January 2013).

²³ P2P Payment Systems. <http://www.collaborativefinance.org/about/p2p-person-to-person-payment-systems/> (4 January 2013).

²⁴ Person-to-Person Payments. <http://www.fisglobal.com/products-epayment-personstopersonpayments> (4 January 2013).

crisis. Although this new way of making financial business is not free from dangers and important questions. For instance – the functioning of p2p finance in developing countries or potential possibility of regulating such transactions. Therefore the collective finance is a very challenging area for a future research.

Bibliography

- Complementary Currencies, http://p2pfoundation.net/Complementary_Currencies (28 December 2012).
- Crowdfunding Industry Report. Market Trends, Composition and Crowdfunding Platforms, Research Report. Abridged Version, May 2012, <http://www.crowdfunding.nl/wp-content/uploads/2012/05/92834651-Massolution-abridged-Crowd-Funding-Industry-Report1.pdf> (12 December 2012).
- Crowdfunding w Polsce, <http://crowdfunding.pl/crowdfunding-w-polsce/#.UOWNU-azr0Xg> (2 January 2013).
- Gansky L.: Three Factors Driving the Sharing Economy. <http://www.wobi.com/wbftv/lisa-gansky-three-factors-driving-sharing-economy> (28 December 2012).
- <http://banking.about.com/b/2008/03/08/social-saving-with-smartypig.htm> (18 December 2012).
- <http://blog.ideascale.com/2012/05/18/future-of-the-crowdfunding-industry/> (20 December 2012).
- <http://brickstarter.org/a-timely-global-survey-of-crowdfunding-platforms/>.
- <http://brixtonpound.org> (3 January 2013).
- <http://crowdfunding.pbworks.com/w/page/10402176/Crowdfunding> (22 December 2012).
- <http://peertopeerlendingtree.com/> (29 December 2012).
- <http://www.automaticfinances.com/smartypig-social-saving-platform/>.
- <http://www.collaborativefinance.org/> (29 December 2012).
- <http://www.deskmag.com/en/the-nature-and-potential-of-the-collaborative-economy> (28 December 2012).
- <http://www.quora.com/Are-complementary-currencies-a-likely-remedy-for-economic-problems/answer/Stan-Stalnaker> (18 December 2012).
- <http://www.wiseclerk.com/group-news/services-p2p-lending-companies-by-loan-volume/> (2 January 2013).
- Kennedy M.: Complementary currencies. *New Paths to Sustainable Abundance*. August 15th 2006. http://margritkennedy.de/media/art_en_complementary_currencies_54.pdf (28 December 2012).

- Lorette K.: How to find a people to people lending loan. http://www.ehow.com/how_5554585_people-people-lending-loan.html (29 December 2012).
- Mitrega-Niestrój K.: Bankowość p2p jako alternatywa dla tradycyjnych banków detalicznych. Wydawnictwo Uniwersytetu Marii Curie-Skłodowskiej, in press.
- Over the sea and far away. "The Economist", May 19th 2012, <http://www.economist.com/node/21554740> (3 January 2013).
- Park Sang Eun: Collaborative Consumption; Sharing Rather Than Buying, <http://www.thegranitetower.com/news/articleView.html?idxno=318> (18 December 2012).
- Renton P.: In 2012 U.S. P2P Lenders Issue \$871 Million in New Loans. December 31, 2012, <http://www.lendacademy.com/2012-p2p-lenders-871-million/> (2 January 2013).
- State of Selected P2P Lending Companies. March 15th, 2012, <http://www.wiseclerk.com/group-news/category/p2p-banking-review/> (2 December 2012).
- Synthetic overview of the collaborative economy. P2P Foundations, 2012, <http://p2p.coop/files/reports/collaborative-economy-2012.pdf> (18 December 2012).
- Updated: State of Selected P2P Lending Companies. March 15th, 2011, <http://www.wiseclerk.com/group-news/countries/germany-updated-state-of-selected-p2p-lending-companies/> (18 December 2012).

EKONOMIA DZIELENIA SIĘ ORAZ WSPÓLNE FINANSE – ZARYS PROBLEMÓW

Streszczenie

Ekonomia dzielenia się (*sharing economy*), nazywana również konsumpcją społecznościową (*collaborative consumption*), to nowy model ekonomiczny, opierający się raczej na konsumenckiej współpracy niż na konkurencji producentów. Model ten zakłada raczej dzielenie się zasobami i współpracę, a nie typowy dla gospodarki rynkowej priorytet posiadania i konkurencji. Ekonomia dzielenia się coraz powszechniej dotyczy również finansów, co przejawia się np. w rozwoju bankowości p2p czy społecznościowego rynku walutowego. Celem artykułu jest przedstawienie koncepcji ekonomii dzielenia się oraz jej przejawów we współczesnych finansach – poprzez przybliżenie rodzajów tzw. wspólnych finansów.