



INSIGHTS

DATING APPS: ESG RATING AGENCIES “SWIPE LEFT”

JULY 2021

Dating has been the standard gateway for relationships for many decades. Whether it was for long term, short term, or even for a quick chat around coffee, dating can take many forms fulfilling varied human physical and emotional needs for pleasure, connection, and intimacy.

Like many human activities, social interactions have changed and evolved throughout time. The act of finding a pair drastically changed driven by the rise of technology, demographic changes as well as the ever-evolving consumer behavior. Long gone are the times where the only means of meeting people had to be done physically – like many other things, the solution today is, literally, at the tip of our fingers. From the conventional offline way where, one places an ad in the local newspaper, to the start of the Internet and online dating, mate finding for humans has evolved. Today the choice is wide, and the options are numerous – stored in our phones, we can find apps that meet that purpose in different shapes, colors and tastes. Dating has become a game that many have taken part in and many will continue to do so in the future.

From the traditional, more formal and elaborate courtship of the 19th century, today's digital era has created a dating ritual fitting its time, and well, its technology - swipe, match, chat, meet, and then decide - whether to repeat the cycle or start one's 'happy ending'. And while there have been many success stories, swipe rights that led to marriage and families, there have been unhappy endings too. Cases of low self-esteem, addiction, despair, harassment, stalking and unsolicited content have been linked to the increasing use of dating apps.

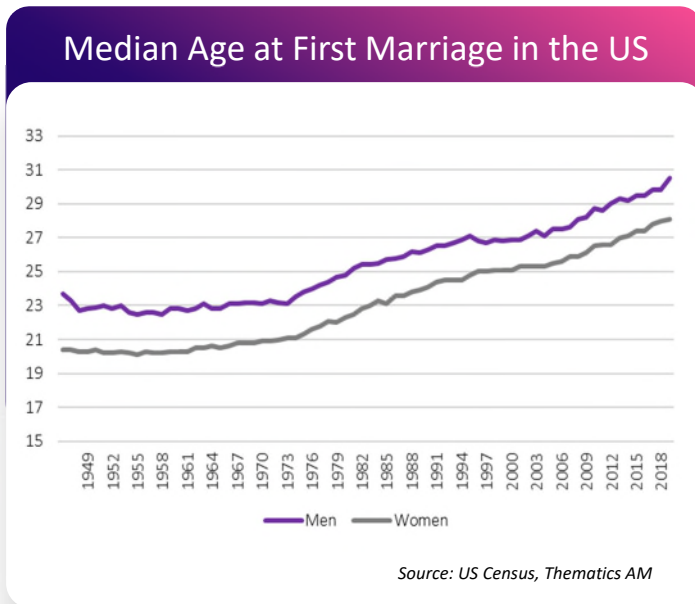
Finding a mate, seeking a romantic relationship, is a fundamental human need. And dating is a precursor to searching for 'the one', an essential ritual humans engage in and will continue to do so throughout time. For some, it's a one-off process before finding eternity. For many others, a repeatable cycle as needed. And with it comes an opportunity. The dating industry has now become a multi-billion-dollar business. Several first movers have early on established a strong dominance and have been successful in capturing the demand, fulfilling user needs. With the accelerating digitalization, dating apps is becoming choice for pursuing relationships. And with this, many experts say the dating apps industry is just starting, with so much room to grow and opportunities to seize.

THE SINGLE'S MARKET:

Much like any market, relationships are all about supply and demand. As of today, there is abundant supply and demand. In today's modern society, two main phenomenon have been feeding the dating

market : the gradual increase in the number of singles coupled with an increased penetration of technology, and particularly apps.

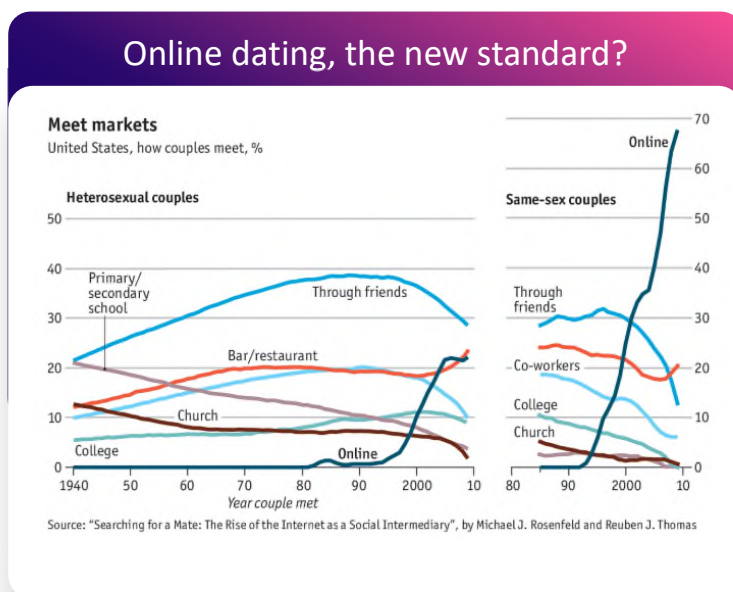
The increase in the average marriage age is ultimately down to three factors :



- The empowerment of women who have gradually become more career-oriented leaving less opportunity for early commitment
- Younger Generations see marriage as being obsolete - a thing of the past – they usually opt for cohabitation rather than a legally binding marriage
- Divorce rates have skyrocketed over the last decades further reducing the attractiveness of the sacred tradition

One might argue that relationships can be long lasting without the tie of marriage, however the latter has proven to increase the lifespan of a relationship, at least on paper.

The result is an increasing pool of single people, that are mostly actively looking to find a partner whether it is for the short run or the long run. And where to look if not on a dating app ? In fact dating apps have rapidly become the go to solution in matchmaking for as long as they have existed, replacing

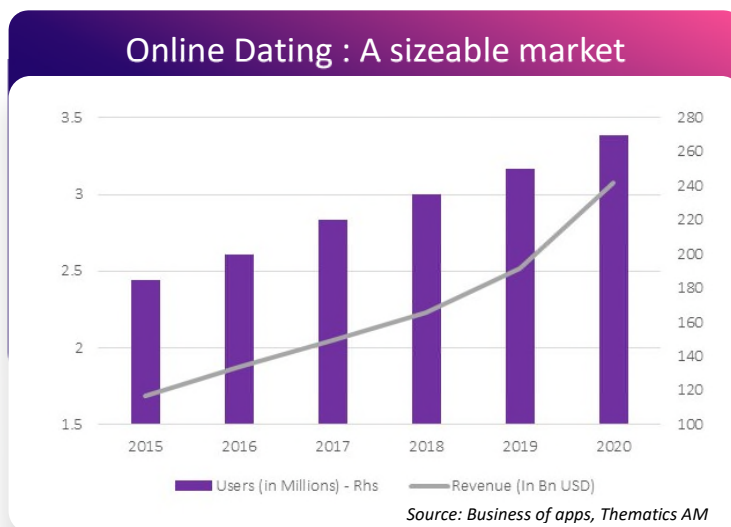


previously popular dating websites.

It all started in 1994 with the launch of Kiss.com followed by the notorious Match.com in 1995 and since then the ecosystem has never ceased to grow, amplified by the inevitable transition to mobile, increasing the applications' reach drastically. The tech-savvy nature of younger generations played a big

part in the digitization of love and many corporations have since rushed to capitalize on this rapidly growing market.

As of today, online dating has amassed more than 270 million subscribers growing at 12.7% CAGR over the past 5 years. Revenues also followed the same path, almost doubling over the same time span. According to business of apps, sales should grow further reaching \$5.7 billion US dollars. With these figures at hand, it is important to understand who the main actors are and what are the mechanisms through which these corporations are generating revenues.



SWIPE, MATCH, DATE, RINSE AND REPEAT:

Apps have transformed dating into a game, people swipe right if they like what they see, left if they don't. Matches are the fruit of both people swiping right to each other's profile then the chatting game starts.

Tinder was a pioneer in that market and democratized this simple procedure. However, the dating giant found innovative ways to monetize its business mainly through subscriptions.

Subscription Type	Functionalities	Price
 Unlimited Likes & More!	<ul style="list-style-type: none"> • Unlimited Likes • Rewind Last Swipe • 5 Super Likes/Day • 1 Profile boost/month • Passport to swipe around the world 	<ul style="list-style-type: none"> • \$19.99/Month • \$74.99 for 6 Months (\$12.5/Month) • \$99.99 for 1 Year (\$8.33/Month)
 See Who Likes You & More!	<ul style="list-style-type: none"> • All of tinder+ functionalities • See who likes you 	<ul style="list-style-type: none"> • \$29.99/Month • \$112.99 for 6 Months (\$34.83/Month) • \$14.99 for 1 Year (\$12.50/Month)
 A First Class Dating Experience	<ul style="list-style-type: none"> • All of tinder Gold functionalities • Message before matching • Prioritized likes 	<ul style="list-style-type: none"> • \$53.99/Month • \$204.99 for 6 Months (\$34.16/Month) • \$269.99 for 1 Year (\$22.50/Month)

Source: Company Info, Thematics AM

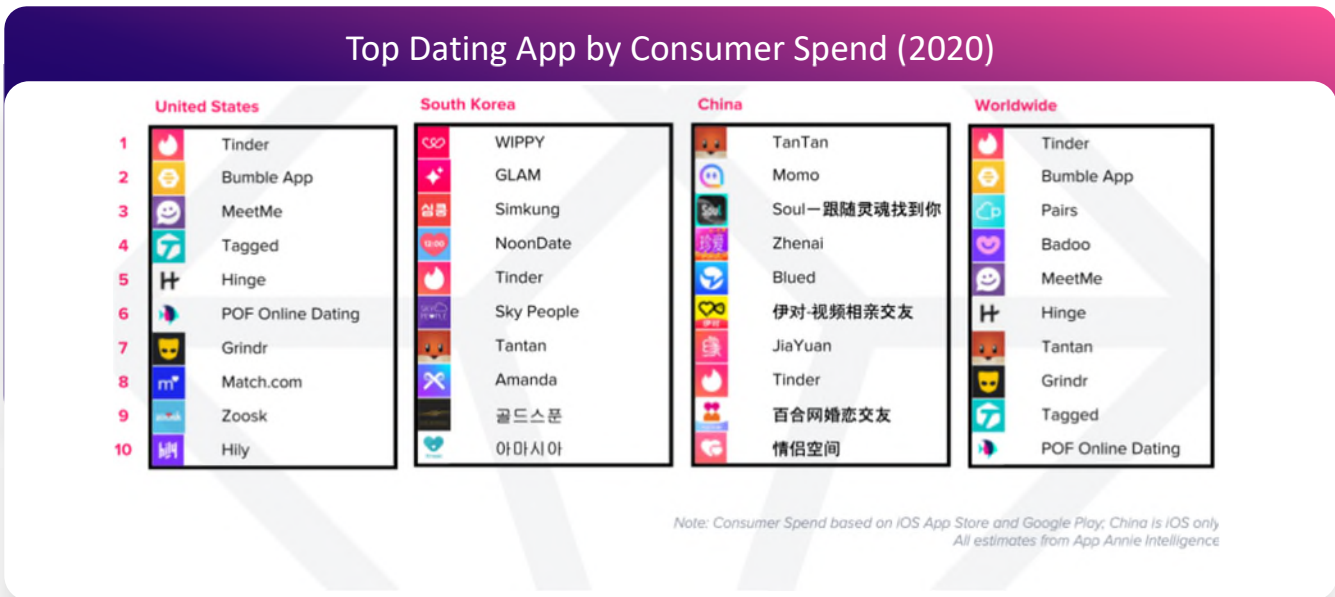
Super Likes send an instant notification to another user, paying or non paying, that someone “Super Liked” them – hence increasing the suitor’s visibility and consequently the user’s chance to match.

Tinder also monetizes its services through “a la carte” features, where a user can pay for a single functionality, not through a subscription, but rather a pay for use approach. For example, a user can buy 5 Super Likes and spend them on the go.

One last monetization vector, albeit a more traditional source and a much smaller stream of revenue for dating apps is advertising. Their prevalence is much lower than with traditional app, in order to preserve user experience and keep the focus on the goal which is dating.

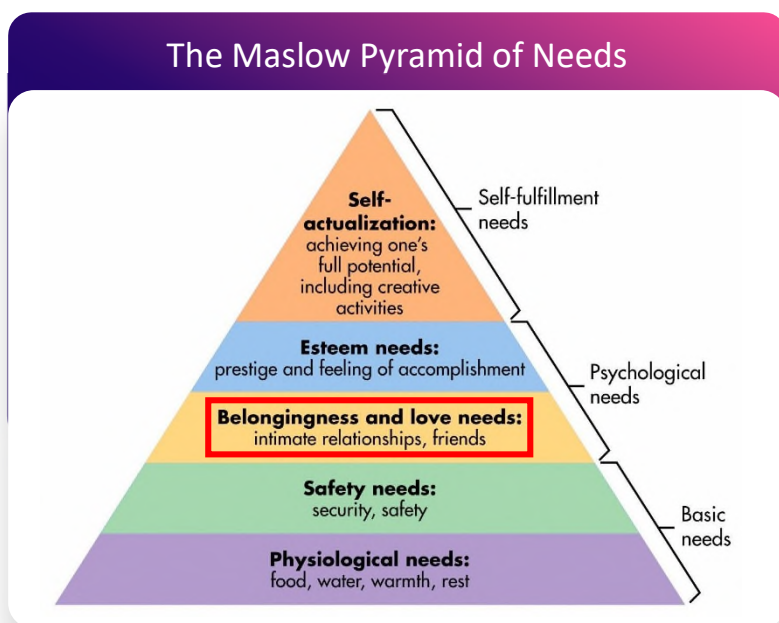
Tinder is probably the most renowned example when it comes to dating but the ecosystem goes far beyond the flame logo app. Match group, tinder’s owner has the biggest portfolio as of today. With the rapidly growing Hinge, the Japanese oriented Pairs, Gen X centric Match.com/Meetic or even Hawaya a dating app for single Muslims, Match Group supports more than 21 apps!

Other groups have recently emerged with their own solutions with the recently listed Bumble, an app destined to empower women on the dating scene, or the Chinese tinder known as TanTan (to curb ban on foreign apps) and more recently Facebook introduced a dating feature in a try to nibble some share of this multi-billion dollar industry. Globally, many applications have emerged to serve either a particular country/region or a specific demographic - and rightly so – because of cultural differences, one model might work in one country but not in another.



THE MODERN TOOL FOR FULFILLMENT OF SOME HUMAN NEEDS?

Maslow, a highly influential psychologist of the 20th century put in place the pyramid of human needs – a kind of a walkthrough to one’s happiness and self-fulfillment. At the third level of the pyramid, nested in what is called the Psychological needs, lie two fundamental elements: intimate relationships and friends.

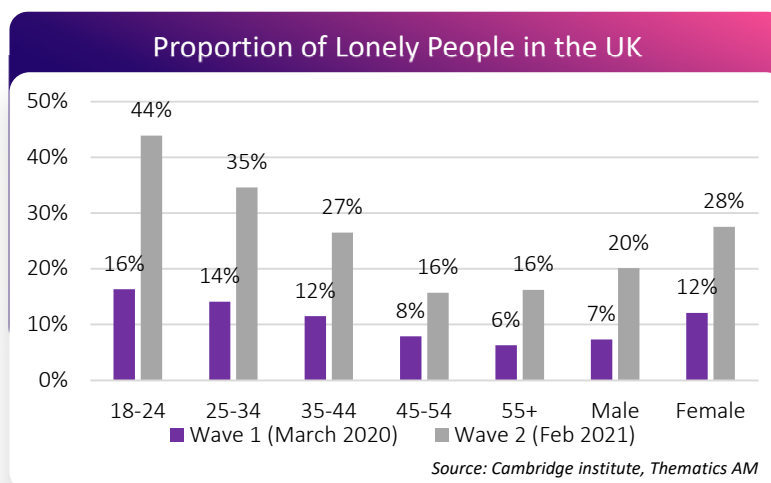


Indeed, social interactions are of utmost importance for the vast majority of human beings.

A good way of understanding this would be to analyze the behavior of humans during the COVID-19 pandemic. Intuitively, one might think that social interaction with strangers came to a halt during the sudden lockdowns. However, figures for traffic, downloads and engagement tell a whole different story!

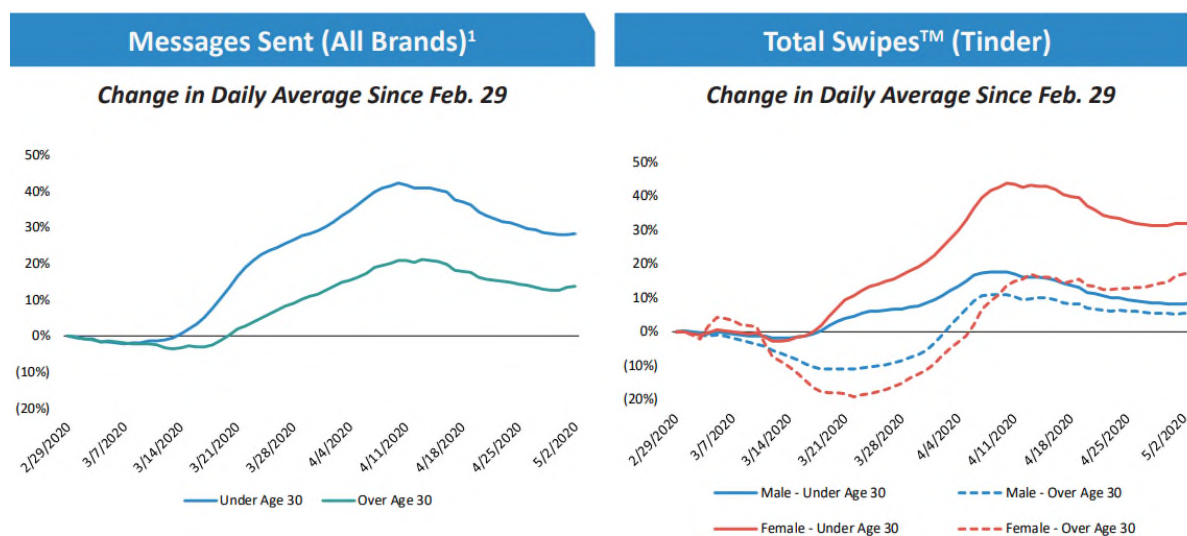
During that time, social interactions outside of one’s home were practically null. Usual meeting places such as colleges, restaurants, bars, offices even parks were closed, pushing people, particularly young adults, to find alternative ways to *mingle*. And what better tool than a dating app?

Indeed, applications adapted to this new normal as fast as society did, rolling out features such as video chats, quizzes and even increased the number of promotions on their products. Naturally, this translated into higher user engagement across the board.



Loneliness along with other mental issues were the second biggest health issues stemming from the pandemic. People in the UK

reportedly felt lonelier as lockdowns progressed. Those aged between 18 and 44 were the hardest hit, probably due to the high proportion of singles among them, as mentioned before. This is why the likes of Match group reported a significant increase in messaging, in swiping as well as longer conversations on average again showing that there is an undeniable positive impact on mental health and on one’s general wellbeing.



1: Includes Tinder, Match, Meetic, Hinge, OkCupid, Plenty of Fish, Affinity and Pairs. Source: Match group

Match’s management were even surprised by the big uptick in women activity. Women went out of their ways and out of their comfort zone to fill their social needs. During this undeniably difficult phase, the positive externalities of apps was clear and help greatly reduce the mental toll of spending time, alone, between four walls.

FRIENDSHIPS ARE ALSO PART OF THE GAME

Both Match and Bumble have also added new features/app to their ecosystem, but this time focused on friendships. For Bumble BFF, the same principal is applied, swipe and match, but this time to find new friends close to you, chat and eventually meet. This is particularly useful for people that move into new cities/countries as it helps them find people with the same interests. This new concept substitutes social media where content has been less and less personal but rather topical.

For Match, the Ablo app saw particularly strong traffic during lockdowns. Ablo enables users to connect randomly with people around the world and to communicate regardless of their preferred language. A person in France could speak French to a person in Turkey, who in turn would answer in Turkish – however Ablo will take care of the translation for both to keep the conversation seamless!

It is therefore with basis to consider that dating apps have positive contributions in terms of fulfilling some of human needs and well-being.

THE ESG OF DATING INDUSTRY

Looking at the ESG ratings of listed companies in the dating industry, the most common material ESG issues that major sustainability rating agencies consider for companies within this activity are the data privacy and security, business ethics, and product governance. Their solutions are also not considered as having any potential to contribute to any social objectives, for example promotion of health and well-being in the Sustainable Development Goals. They are generally classified as Internet Software & Services alongside tech companies like Adobe or Microsoft. In this modern day of digital love and human relationship, are dating apps deserving of more recognition for their role in facilitating if not fulfilling evolutionary and social needs of humans?

POSITIVE IMPACT?

In the current definition of ESG Rating agencies, what qualify as products or services with positive contributions are those that are providing solutions to achieve the different targets of the UN Sustainable Development Goals. The most common sustainable product categories used by rating agencies relating to health and well-being are Ensuring Health or Promotion of Good Health & Well-being. To qualify whether a solution is contributing to these themes, the definitions generally reference the World Health definition – a product can be considered having positive contribution to health and well-being if it helps in ensuring that every person can, to the best extent possible, be cured from disease or infirmity and achieve or maintain a state of complete physical, mental and social well-being.

Following the above definition, could dating apps be considered as contributing to achieving or maintaining mental and social well-being? Shouldn't their utility in facilitating human fundamental needs for connection, love and belongingness, factors that are essential part of mental and emotional well-being considered aligned with the current definition? The UN SDG Goal 3 - Ensuring healthy lives and promote well-being for all at all ages - specifically set-out and define in one of its targets the promotion of mental health and well-being.



SDG target 3.4: by 2030, reduce by one third premature mortality from noncommunicable diseases through prevention and treatment and promote mental health and well-being.

One of the stated proposition of one of the companies, Bumble, is to empower women by leveling the field. Looking at SDG Goal 5 focused on gender equality, one can argue that dating apps can also be linked to this sustainability theme.



GOAL 5.
Achieve gender
equality and
empower all
women and girls

By trying to remedy the unbalanced dating game, Bumble has been viewed as able to give a much-needed breath of fresh air to the industry. In the dating game of 'pursuits', men have traditionally had the upper hand. Bumble's mechanism has given women the 'power', to do the first move, to initiate, to set the tone.

Bumble's proposition is putting women at the center of the app. Their thesis is that relationships are not equal for men and women, and rightly so. Men have too much pressure and must almost exclusively make the first move – pressure is often synonym with rejection and rejection opens the door to inappropriate behavior. The main differentiating point of this platform is that the first move can be exclusively done by women – meaning that only women can start a conversation with a match. In that case, women feel safer, men feel less pressure and the experience is more enjoyable for both parties. On top of that Bumble invests a lot to curb the effect of impunity, hence inappropriate behavior equals an automatic ban, pushing users to think twice before acting. Bumble is a textbook example of how to deal with a potential problem efficiently and has rapidly risen to the top of the dating app ladder, along with tinder and Hinge (both owned by match group). Gradual rollouts of identity checks, AI driven platform security, background checks among other functionalities have drastically improved user experience, however a lot remains to be done.

From a traditional lens, women empowerment and equality is largely viewed around issues like equal pay, gender diversity, equal access. Shouldn't relationship be also an area where empowerment of women can be promoted and enabled?

SOME NEGATIVE IMPACT TOO

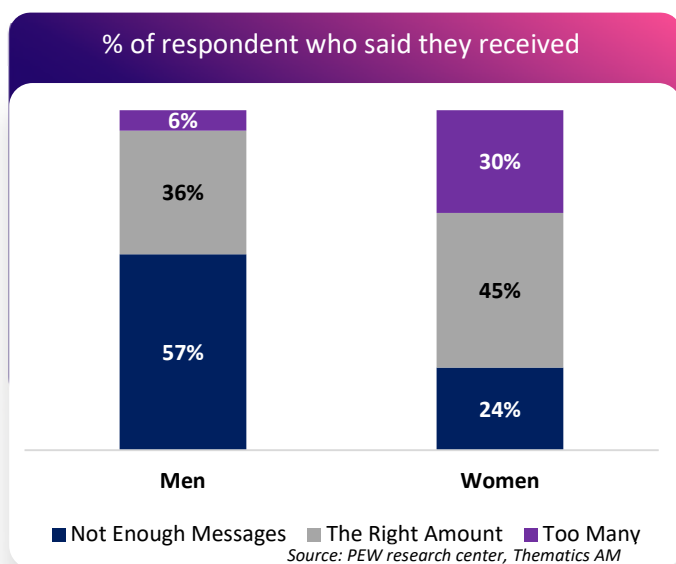
As many say, technology is neutral. It enables, and the outcome is dependent on the objective of the user. And so as with any other technology, dating apps is also at risk of directly or indirectly causing harm.

Women have often complained of men's behavior on apps. They often report harassment, unsolicited explicit pictures as well as stalking. Indeed, the impunity of being behind a screen may seem too laxist at times and render the experience for some quite unpleasant. According to the PEW research center:

- 53% of women in the US think dating sites or apps are an unsafe way to meet people
- 48% of women said that matches continued to contact them despite not being interested
- 46% of women received sexually explicit messages or images they didn't ask for
- 33% of women got called offensive names
- 11% of women were threatened to be physically harmed

These proportions were high as we go down the age pyramid with Gen Z and Millennials reporting more incidents than older generations. Men also reported the same behavior from their counterpart, but the proportion of positive respondents was 50% lower than for women.

Also, on men's side, the downside was more on the moral toll those apps can have – low matches, low response to messages can make a person question himself. We could even think that this is exactly



what dating apps are trying to capitalize on. Indeed, in an effort to increase their chances, people that are unsuccessful on these apps, will splash the cash, spend more time on the app, tweak their profile and even sometimes lie or even create fake accounts. Apart from the last two points, all of these reactions are beneficial to corporations that operate in the dating market.

While apps have proven to cure loneliness, they can be source of other personal issues such as loss of self-confidence, fear of intimacy as well as aggressive behavior.

Other issues came also under the spotlight for those highly popular applications:

- Underage usage of the app – which in turn translates into potential child abuse
- Age discrimination: Tinder platinum is more expensive the older you are – while facially this is to preserve the popularity of this particular app among younger cohorts (18-25 years old), it can be viewed as unethical and a rather discriminative decision
- The use of the platform by sex workers – A fact that had a particular negative effect in China where the government enforced bans on dating apps until the situation became under control

Companies are aware of the potential threat to their reputation and have put a great deal of effort to limit whatever loophole one can find in their apps. Today apps can require ID verification (most of

them do) that can prevent either fake accounts or underage usage and it can also increase accountability and hence a user that committed a misdemeanor will be banned from using the app preserving both safety and the quality of the app. Heavy investment in AI also aid to filter unacceptable content and ensure that users comply by the application's guidelines. This is primordial for the company's ESG profile as it greatly limits the risks associated to its core business. And in turn should translate into better ratings.

CONCLUSIONS

The current ESG risk-opportunity assessment of companies appears to be more tilted to zoning in on the risks while unrecognized if not disregarding the opportunities. It is our view that the 'S' in ESG can be improved or re-defined to account for new areas or activities and the evolving human behaviour and consumption patterns as they move with time and technology.

Online dating is a double-edged sword. One day it can be perceived as a modern day, digital cupid, and another day it can be considered a threat. One thing for sure is that the industry is going in the right direction, investment in R&D has been continuously rising to ensure the best user experience. Subscription based models are the perfect motivation to constantly improve the ecosystem, to be on the listen of paying users' needs and ultimately to be at the forefront of societal interaction and ultimately matching.

Written in July 2021

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