The regulation of point-to-point transport services

Julian Wright

Department of Economics

National University of Singapore

A blank slate

Designing regulations from scratch	Objective to promote a competitive point-to-point transport system that delivers good outcomes for consumers (riders) and drivers
What would sensible regulation look like?	- shouldn't be based on what operators/drivers/vehicles have historically been labelled as - taxis, TNCs, PHCs etc - should be based on economics of underlying services offered

Different matching technologies

Street-hailing

- only option for some consumers (e.g. tourists)
- sometimes more efficient (Shapiro, 2018)
- asymmetric information problem and search problems; potential for price gouging and haggling costs
- operator-level network effects do not arise

Ride-hailing

- more efficient in less densely populated settings
- search is easy, prices observed upfront, feedback mechanism to address driver moral hazard
- operator-level network effects can lead to monopolization under driver exclusivity

Regulation for street-hailing

Car signage

- signage must clearly indicate associated P2P transport operator, must have meter
- minimum fleet size; could be achieved by requiring operators own fleet of “taxis”

Pricing

- default metered fares; terms visible in car
- rate based on P2P transport operator
- metered fares are publicly announced on operator’s app and website
- flat fares or other options can be offered

Regulation of ride-hailing services

Ban exclusive contracts

- that prohibit drivers from driving for rival operators for purpose of ride hailing
- apply to all operators
- not applicable for fully employed drivers

Ban de-facto exclusive contracts

- via affiliated taxi, rental or insurance companies
- via minimum hours or trips with operator
- via aggressive loyalty schemes for drivers designed to ensure exclusivity

Regulation for ride hailing

Facilitate multihoming

- don’t let ride-hailing operators unreasonably block multihoming apps
- provide operators with a list of qualified drivers

Avoid free-riding over fixed costs

- ride-hailing operator not required to bear costs of driver/car (e.g. licensing drivers, training, insurance, inward facing cameras, etc)
- should be borne by driver or rental car co, or else shared proportionally by operators
- regulator may need to facilitate sharing scheme

Multihoming implications

Drivers' side

- drive for multiple P2P transport operators
- reduces driver idle/en-route times, rider wait time
- allows consumers to capture most of market-wide network benefits
- apps like mystro manage the process for drivers

Riders' side

- download multiple apps; and compare before trips
- reduces rider wait time, driver idle/en-route times
- allows drivers to capture most of market-wide network benefits
- can be facilitated by comparisons on Google maps or other meta-search apps (Bellhop and RideGuru)

Level playing field

Unify regulations and licensing requirements

- all operators can offer street-hailing and ride-hailing services subject to licenses and regulations
- relax availability and service requirements for taxis
- operators free to set fares other than “transparency requirements” for street hailing

License P2P transport operators

- to make sure operators are reputable, capable, and comply with regulations
- separate licenses for street-hailing and ride-hailing

Drivers/vehicles

- all drivers/vehicles require appropriate licenses, insurance and meet strict safety standards

Resulting market structure

Multiple car-rental companies with different fleets of cars	• some owned by P2P operators (e.g. traditional taxi companies)
Multiple P2P transport operators	• some focus on street-hailing, some focus on ride-hailing and some do both
Multihoming drivers	• most drivers would provide ride-hailing services for multiple operators
Multihoming riders	• competition for ride-hailing consumers would mainly be in price, pricing options, branding, search/matching features and complementary services

Singapore P2P sector

- Seven taxi operators who specialize in street-hailing
- Grab and Uber competed until March 2018
- Grab had imposed exclusivity on drivers and taxi operators but had to remove them under CCCS direction
- Major ride-hailing players: ComfortDelGro, Grab and Gojek
- Driver multihoming is commonplace
- Consumer outcomes much improved from pre-Uber days
- New regulatory framework from June 2020

Exclusivity in other jurisdictions?

Exclusivity clauses may not be used in other jurisdictions

- platforms may avoid exclusivity so drivers still classified as independent contractors
- different competition law standards
- hostile taxi operators

Should still impose ban though

- labor/competition law attitudes may change
- taxi operators' attitude may change
- still need to worry about de-facto exclusivity

Viability of ride-hailing

Will Uber/Lyft/Grab ever make a profit?

- investors hoping for winner-takes-all dynamics due to network effects
- in reality, without exclusivity, limited profits to be made
- limited scale economies
- limited differentiation

Lack of profits doesn't justify exclusivity

- if incumbents know they cannot extract much from ride-hailing, operator pricing will be more sustainable
- they may adapt their business models (e.g. offering subscriptions)

Some further discussion points

Employment contracts

- need to make sure genuine, and not overly restrictive
- no lock-in, non-compete clauses, restrictions on holidays, weekends and leave periods

Surge pricing

- would caps be needed? E.g. in case of public transport breakdown

Price discrimination

- charge history-dependent personalized prices to riders

Algorithmic bias

- platform could recommend drivers that it can tell are exclusive/loyal
- platform could give priority to riders that are loyal

Carpooling

- network effects remain even with 100% driver multihoming