Tweaks for a better ride-hailing market

Singapore’s regulatory regime for the ride-hailing market is sound but more can be done to facilitate ‘multihoming’ and prevent exclusive contracts

Timothy Wong and Julian Wright

For The Straits Times

The rapid emergence of ride-hailing operators like Uber, Didi and Grab has challenged regulators of the point-to-point transport sector.

Some jurisdictions have declared Uber illegal (for example, Hong Kong) or imposed regulations so stringent that Uber has left (for example, Denmark). Other jurisdictions have welcomed ride-hailing operators, often subjecting them to less onerous regulations than regular taxi operators.

What regulatory framework should apply? To answer this, one must understand the different types of services offered. While an obvious distinction is between traditional taxi companies and ride-hailing operators, the more relevant distinction is how drivers are matched to riders, of which there are two primary ways.

**STREET-HAILING V RIDE-HAILING**

The first is street-hailing, where riders flag down drivers from the curb or at designated taxi stands. Singapore’s regulations leave street-hailing exclusively to traditional taxi companies.

The second is ride-hailing, where drivers respond to bookings via smartphone apps, the technology utilised by ride-hailing operators, or via phone, the traditional booking method of taxi companies.

Regulations should be designed to allow both matching methods to co-exist, reflecting that each is efficient in different circumstances.

Street-hailing is efficient when traditional taxi queues, or flagging a car in the vicinity, can match riders to drivers quickly.

In contrast, ride-hailing may be slower since it involves the time of booking a ride, and riders and drivers locating each other in a crowded area. Ride-hailing is more efficient when drivers and riders are physically dispersed. In addition, some people, such as
tourists and the elderly, may still rely on street-hailing for various reasons. However, the regulations needed for street-hailing are quite different to those required for ride-hailing. The main problem facing street-hailing in a deregulated marketplace is that riders can be easily “taken for a ride”. Drivers could take a circuitous route or add surcharges which were not clearly communicated to the rider at the start of the trip. At the very least, if the price for street-hailing is not displayed transparently, one can expect a lot of haggling over price, meaning the potential efficiencies from quick matching via street-hailing will be lost. App-based ride-hailing operators use technology to address some of these problems. When booking a ride, riders get upfront information about the driver and car (identified by its licence plate), and the price of the trip. Riders can provide feedback on drivers and know that unscrupulous drivers will be screened out based on previous feedback. All this implies that street-hailed trips need to be regulated more stringently than ride-hailed trips. But ride-hail trips should not go completely unregulated. Regulators should still ensure that ride-hail drivers meet minimum standards of competence and safety. Moreover, ride-hailing requires forms of regulation that are not required for street-hailing.

**NETWORK EFFECTS**

Such regulation stems from another important distinction between street-hailing and ride-hailing, which is with respect to “network effects”. A ride-hailing operator that signs up more drivers is more valuable to riders, since riders enjoy shorter wait times when using the operator’s app given the higher chance of a rider being nearby. Likewise, drivers incur less idle time and en-route time when there are many riders using the same operator given the higher chance of a rider being nearby. Operators with larger networks are therefore preferred by both drivers and riders, granting such operators an edge over competitors with smaller networks.

In contrast, street-hailing operators do not benefit from similar network effects. Riders typically choose whichever taxi they see first and do not care how many other drivers are signed up with the same operator. Similarly, a taxi operator’s network size does not improve a driver’s chances of picking up riders via street-hailing. Since for ride-hailing, network size is largely rivalrous, it increases
the likelihood that ride-hailing services will be concentrated in the hands of just one or two operators, raising concerns of market power and barriers to entry.

Small entrants will struggle to compete against dominant incumbents even if the entrant offers a better app, because most riders will not download and use the entrant’s app if they expect little chance of finding a nearby driver, and likewise for drivers, who expect little chance of finding a nearby rider. Ultimately, a monopolised market may result in higher prices, fewer transacted rides and less innovation.

FACILITATING “MULTIHOMING”

One way to address this is to facilitate the process by which drivers and/or riders can access multiple operators, something economists refer to as “multihoming”.

To the extent that drivers multihome, say by signing up to drive for both Grab and Ryde in Singapore, riders can reach these drivers regardless of which app the riders use. Similarly, to the extent that riders compare rides on both Grab and Ryde’s apps in Singapore, drivers have a chance to reach these riders through whichever operator they prefer.

Thus, multihoming maintains many of the network efficiencies that can be derived from a larger number of drivers and riders in Singapore using ride-hailing while refocusing competition among operators to other dimensions, such as price, product quality and customer service.

Multihoming can be facilitated by technology. For example, the Mystro app in the US enables drivers to accept rides from multiple operators (for example, Uber and Lyft) without toggling between the respective apps. This not only makes it easier for drivers to work for multiple operators, it also makes it safer.

On the rider side, Bellhop and RideGuru in the US and CheaperRides in Singapore are examples of apps that allow riders to compare prices across multiple operators more easily. However, based on the US experience at least, such comparison apps are constantly battling against the dominant ride-hailing operators who would like to block them.

Thus, there is an important role for regulation to ensure such comparison services for ride-hailing are not blocked. Indeed, if the authorities can facilitate the smooth working of comparison services both on the rider and driver sides, this may go a significant way towards making ride-hailing contestable.

The regulator could further encourage driver multihoming by providing all ride-hailing operators with a list of licensed drivers so that operators can solicit drivers already working for competing operators.

TACKLING EXCLUSIVE CONTRACTS

Dominant ride-hailing operators have another more powerful way to eliminate multihoming and protect their network advantage, which is via exclusive contracts. A dominant operator can make exclusive deals with drivers (or the taxi operators they drive for) to ensure that the drivers work only with them and not with competing ride-hailing operators, thereby eliminating multihoming by drivers.

In addition, exclusive contracts raise barriers to entry for new operators which would have access to fewer drivers. Hence, banning the use of exclusive driver contracts by operators is also critical to ensure the contestability of ride-hailing. Specifically, neither firms leasing cars (which could be in partnership with ride-hailing operators) nor ride-hailing operators themselves should be able to limit which operators a driver can accept ride-hailing jobs from. Any other form of contract with drivers that has a similar exclusive effect should be scrutinised carefully by regulators, including driver loyalty schemes.

As should be clear from the preceding discussion, while street-hailing and ride-hailing provide similar services to the rider, differences in the way they match riders to drivers result in very different regulatory implications. Regulation should be based on whether the service offered involves street-hailing or ride-hailing, and not whether the operator involved happens to be a traditional taxi operator or an app-based ride-hailing operator.

Based on this logic, both types of operators can compete to offer both types of services, subject to the specific regulations for each type of service.

SINGAPORE’S CURRENT APPROACH

Fortunately, Singapore’s current approach to regulating taxi and ride-hailing operators does not require major changes to achieve these outcomes. Banning exclusive contracts with respect to ride-hailing for all operators is a small step from the current situation, where Grab already has these contracts banned via CCCS’ (Competition and Consumer Commission of Singapore’s) Infringement Decision. Regulators should take further steps to facilitate multihoming, as discussed above. Current requirements for street-hailing, including taxi driver licences, vehicle signage and displaying fares prominently, still make sense. But some adjustments are necessary.

Currently, taxi companies meet more stringent standards, especially regarding taxi availability, quality of service and minimum fleet sizes. In the new regulatory environment we are proposing, in which competition and entry are enhanced, these requirements can be relaxed. At the same time, all operators, including ride-hailing operators, need to be licensed to ensure that they comply with regulations for the respective services.

While the disruption of the point-to-point transport sector by app-based technologies has created powerful ride-hailing operators around the world, with an appropriate regulatory framework, the sector can still sustain effective competition to the benefit of Singapore consumers.

stopinion@sph.com.sg
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Headline	Tweaks for a better ride-hailing market
MediaTitle	The Straits Times (Front Page) (Mon - Wed)
Date	17 Oct 2018
Page No	A18
Journalist	Timothy Wong