Separate rules required for private-hire vehicles and taxis

FROM PREVIOUS PAGE

trying to exit the Southeast Asian market to stem losses, in preparation for a planned IPO. For 3Q2017, it posted a loss of US$1.5 billion ($1.97 billion).

Shifting incentives and rules

Whatever Grab and Uber say about the benefits of their ride-hailing platforms and dynamic pricing models, their overriding incentive is clearly to maximise the total fare revenue within their networks. Uber and Grab take a 20% cut of all private-car rides, and 10% of all taxi rides that use UberFLASH or JustGrab. Uber does not charge a fee on metered rides ordered from its platform. Grab takes a fixed 60 cents per metered ride, regardless of how large the fare is at the end of the ride.

This marks a shift from the traditional taxi business model. ComfortDelGro and other taxi companies earn revenue primarily from renting vehicles to cabbies. And, while they set the fares that riders pay, they do not earn any direct revenue from those fares. In effect, they are incentivised to put as many taxis on the road, but not necessarily to ensure that fare revenue within the system is maximised.

Now, with the convenience of their ride-hailing apps, and prices that are often lower than metered fares, Grab and Uber appear to be eclipsing the traditional taxi business model. And, their incentive structure is likely to come under greater scrutiny to ensure that drivers as well as riders are being treated fairly.

Theseira points out that the metered fare system is transparent, even if the final cost of a ride is only known at the end. Both the cabbie and rider are, in theory, aware of the rates and any surcharges before the ride begins. And, if a ride takes longer than expected, or involves an unforeseen detour, the rider would end up paying a cabbie more for his time and effort on the road.

By contrast, there is an opaqueness to the dynamic pricing system of Grab and Uber. While fares can be lower than metered taxi fares, drawing riders away from traditional taxis, they can also be exorbitant when traditional taxis are in short supply. For instance, a train breakdown in 2015 led to a 3.8 times surge pricing, sparking outrage from commuters.

As traditional taxis begin adopting the dynamic pricing model of Grab and Uber, consumers will likely have no choice but to pay higher fares during periods of disruption, or simply not travel. "[As prices surge], you are going to have taxis that shy away from picking [passengers using] metered fare," says Theseira.

Is this any worse than the bad old days when there were no taxis in sight during train breakdowns or thunderstorms? Do consumers in Singapore want to be subjected to a raw

ALBERT CHUA/THE EDGE SINGAPORE

Chi: Dynamic pricing makes it more difficult for regulators to control pricing to protect consumers

WALTER THESEIRA

Theseira thinks that both Grab and Uber are constantly tweaking their pricing algorithms

market-driven system that makes transport available to the highest bidders? Or, should there be rules that reflect the sensibilities of the people of our city?

Traditional cabbies are not allowed to favour one passenger over another. "Taxis had to obey the taxi rank rule, which means all taxis would have to pick up the first passenger that flags them down, regardless of where the passenger is going or [what he is] paying," Theseira says. No doubt, cabbies often flout this rule when they are "changing shift". Yet, questions are now being raised about whether similar rules should be embedded into the ride-hailing platforms.

Quite apart from the dynamic pricing model disrupting egalitarian queues at a taxi stand, the ride-hailing platforms are also overtly offering special treatment to some riders over others. For instance, Grab has a tiered membership programme that promises riders priority bookings. Theseira says these practices could become an issue if it becomes clear that some groups of consumers are being treated differently from others. "Do the platforms create conditions for who gets services and who doesn't? I think once they cross the line, [the government] has to regulate because everybody needs to have access," Theseira says.

Is regulation warranted?

Calls for regulation could become louder in the event of some kind of consolidation between Grab and Uber. In China, following the merger of Didi Chuxing and Uber, overall fares increased, according to venture firm Vickers Venture Partners. "To make matters worse, dynamic pricing makes it more difficult for regulators to control pricing to protect consumers as they did with s etting prices for taxis. Innovation is a double-edged sword," says Vickers' vice-chairman of Asia, Jeffrey Chi. A study conducted by Chinese web portal Sina shows that 81.7% of respondents find it harder to get a ride in China than before the merger and 86.6% say it is more expensive than before.

Lee Der-Horng, associate professor of the department of civil engineering at NUS, says it may not be wise to allow platform operators to set prices in an unregulated fashion. "There [should be] a framework," he says, "There must [be some] visibility of how many vehicles are on the road [at different times], so that we know the real demand and supply. And, how they define surge pricing [should be made clear]."

Rather than allowing the lines between traditional taxi services and private-hire cars to be blurred by Grab and Uber, the authorities ought to construct separate regulatory frameworks for them, says Lee. "We should clearly separate the rules around private-hire vehicles and taxis," he says. "For instance, [in Beijing and Shanghai], private hires can only use a certain type of vehicle and drivers must have [residence permits]."

According to Lee, the more stringent rules in China ensure that taxis and private-hire vehicles target different segments of the society. As the cost to become a private-hire driver increases, private cars are mainly for higher-end rides, while taxis cater to the mass population. "There are now more people taking taxis, especially after the new regulatory framework and the merger between Didi Chuxing and Uber," says Lee.

Some riders who spoke to *The Edge Singapore* say they think fares will become more expensive if metered fare is no longer available. "I think taxi [companies] should not remove the meter charges," says Erik Cheong, co-founder of logistics start-up Park N Parcel, "For me, [during] non-peak [hours], I use Grab and Uber, which is cheaper. [During the] peak period, I will [take a metered] taxi."

Indeed, with the right regulatory framework, traditional cabbies in Singapore might well be able to co-exist with the private-car hires supported by Grab and Uber. "In Japan, it is not uncommon to see taxis waiting for passengers. They won't work much, but they do earn quite a bit," says Theseira, "[We may find a situation where] cabbies would rather wait 20 minutes for a $20 ride, than take four rides to earn $20."

Going with the flow?

For now, however, it seems that Singapore is submitting to the seeming inevitability of Grab and Uber setting new standards for the taxi business. "There is no turning back to the metered fare because the old scheme cannot compete with dynamic pricing," says Fan, "They have to [embrace] the new technology."

Last year, the taxi companies sought the blessing of the Public Transport Council and the Land Transport Authority of Singapore for their drivers to utilise dynamic pricing. The regulators had no objection to that proposal. Meanwhile, the executive adviser of National Taxi Association, Ang Hin Kee, is now also the executive adviser to the National Private Hire Vehicles Association. "The only difference is that both associations will be working together, as a common voice, to look at common interests and common challenges," says Ang.

Still, that does not necessarily mean that traditional cabbies will be worse off. According to Fan, one reason some cabbies are complaining of lower incomes with the dynamic pricing of fares is because Grab and Uber are still vying for market share. "Once they become comfortable in their business volume and market share, they may be more willing to increase the difference between peak and non-peak prices. Dynamic pricing should help improve a driver's revenue, and assuming that a price floor is followed."

New business models by taxi companies could also improve the lot of their cabbies. For instance, electric taxi firm HDT pays its cabbies a base salary of $1,600 a month. Drivers have to clock a minimum $6,000 in fares each month. On average, HDT cabbies earn over $3,000 monthly, says HDT managing director James Ng. HDT has 100 cabbies.

"About 70% of the rides come through the ride-hailing platform" he says. "The key is to help drivers be more productive. Dynamic pricing stirs up more demand, so there will be more jobs in the system. Our business can be sustainable if we can encourage drivers to [take more jobs]." Drivers are rewarded bonuses as they clock more rides consistently. E