

The need for new age regulations for new age businesses: The case of Mobile Application-Based E-Hailing in the Philippines



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Outline

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- Taxi Operators and Drivers

What are Transportation Network Companies?

- TNCs in the Philippines
- Conventional Taxi vis-à-vis TNCs

Regulating TNCs in PH

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Transportation Services in the Philippines

Back in 2012, before Transportation Network Companies (TNCs) entered the country, the main land transportation services available in Manila are tricycles, jeepneys, franchised vans, conventional taxis, buses, and trains.



Image sources: www.dreamstime.com, www.123rf.com, www.newsinfo.inquirer.net

Taxi Operators and Drivers

- Direct transportation service, or service that allows the rider to book a vehicle going to their desired destination, was monopolized by the taxi industry.
- However, the taxi industry in Manila is plagued with complaints from riders.
 - Based on a study on the vehicle hailing preferences of Filipino riders, the top three complaints of commuters who ride the conventional taxis in Manila are refusal to convey, non-usage of taxi meter, and unsafe driving. (Adriano & Sy Su, 2017)
 - Another study by Mendoza, Ko, and Manipon (2015) which explores the taxi industry in Manila states that the possible driving factor of taxi drivers to provide poor service is their meagre income due to the need to reach their daily remittance to their respective taxi operators (this ranges from PhP 1,000 to PhP 2,000).

What are TNCs and TNVS?

- Through Department Order No. 2015-011, the Department of Transportation and Communications, now DOTr, classified Uber and Grab as Transportation Network Companies (**TNCs**), while the drivers or service providers were classified as Transportation Network Vehicle Services (**TNVS**).
- Utilizing the Global Positioning System (GPS) installed in smartphones, both the passengers and drivers know each other's location. This allows TNCs and TNVS to estimate the distance and time from pick-up point to desired destination, thus also enabling them to compute the fare even before booking.
- Aside from the fare, upon booking a ride, the passenger is also provided with necessary details of the driver, vehicle, and estimated time of travel.
- These innovative features allow TNCs to address the major concerns of conventional taxi riders in Metro Manila.

TNCs Services in the Philippines



- The lowest cost option offered by Uber is UberX which runs in daily-driven cars.
- UberBlack is the company's original transportation service which costs a bit more than UberX but runs in high-end cars.
- UberXL is the service for passengers who prefer larger vehicles (e.g. SUVs) but availed at a premium.
- Grab's first service offering in Manila is GrabTaxi, which allows commuters to hail conventional taxis online with a booking fee on top of the regular taxi meter.
- GrabCar is the lowest cost option that runs in daily-driven cars.
- The third option is GrabCar+ which runs in premium sedans charged at a higher base fare and price per kilometer rate.

TNCs in the Philippines

- Another innovative service that TNCs offer is the option to share the ride with other riders who are headed to the same destination.
- Uber's UberPool allows up to three other people to ride with first one while Grab's GrabShare allows up to two riders with one companion.
- Availing this ride-sharing feature would lessen the regular fare by 25% to 30%.

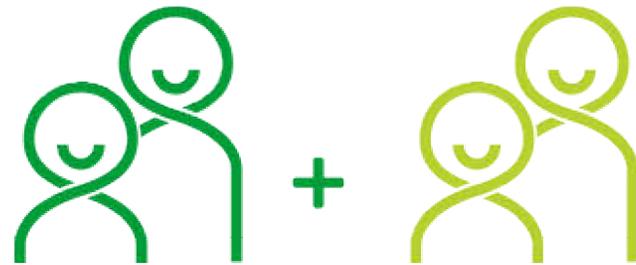


Image sources: <https://www.grab.com/sg/share/>,
<https://www.uber.com/en-PH/>

Comparison of Fares: Regular Taxis with Uber Taxi

	Taxi	UberX	UberBlack
Flag down	₱ 40	₱ 40	₱ 90
+ Per Minute	₱ 1.75 (₱ 3.50/2minutes)	₱ 2.00	₱ 2.45
+ Per Kilometer	₱ 11.67 after first 500meters (₱ 3.50/300meters)	₱ 5.70	₱ 13.75
Cancellation Fee	-	₱ 100	₱ 100
Minimum Fare	₱ 40	₱ 40	₱ 120
Surge Pricing? [Price adjustments due to increase in demand in peak periods]	NO (however, some drivers charge an additional ₱50-100, up to ₱200 in some cases)	YES (usually 1.5 up to 2x, up to 8x in certain cases)	YES (usually 1.5 up to 2x, up to 8x in certain cases)
SAMPLE RIDE 1: 2 km, 30 minutes (eg. Ayala Avenue from Ayala Station [EDSA] to RCBC Plaza [Buendia])	₱ 110.00 [₱ 40+3.5*15+ 3.5*(2000-500)/300]	₱ 111.40* [₱ 40+2*30+5.7*2]	₱ 191.00* [₱ 90+2.45*30+13.75*2]
SAMPLE RIDE 2: 10km, 60 minutes (eg. Bonifacio Global City to NAIA)	₱ 255.83 [₱ 40+ 3.50*30 + 3.5*(10000-500)/300]	₱ 175.70* [₱ 40+2*60+5.7*10]	₱ 374.50* [₱90+2.45*60+13.75*10]

*Estimates for Uber do not include possible surge pricing during peak hours

Source: Mendoza, et al. (2015) with additions, Uber website <<https://www.uber.com/en-PH/fare-estimate/>>, Grab website <<https://www.grab.com/ph/car/>> LTFRB Metro Manila Fare <http://ltfrb.gov.ph/media/downloadable/fare_rates_MM.pdf>

Key Performance Indicators of TNCs and Conventional Taxis

TRAVEL SPEED (kilometers per hour)		
Uber	GrabCar	Conventional Taxi
21.3189	12.3267	12.9462
RELIABILITY (availability or no. of available vehicles at pick-up point)		
Uber	GrabCar	Conventional Taxi
2.7572	7.6	2.6792
PASSENGER EXPENSE (pesos per kilometer)		
Uber	GrabCar	Conventional Taxi
20.7157	32.0678	28.4879
QUALITY OF SERVICE (Rating from 1 to 5, 5 being the highest)		
Uber	GrabCar	Conventional Taxi
4.8179	4.7111	3.9434

Source: Adriano & Sy Su, 2017

- Of the four key performance indicators, the TNCs in the Philippines scored higher than the conventional taxi in three namely, travel speed, reliability, and quality of service.
- The high passenger expense of TNCs is most likely due to the surge pricing technology which has become an issue for consumers, taxi industry, and regulator in the country.

Views on from stakeholders

FOR

TNCs

- Standards of safety and convenience of both drivers and riders are assured through the features of the mobile e-hailing application.
 - The TNC may suspend drivers and passengers real-time should there be any incidence reported and validated.

Consumers

- Provided with more options and higher quality transportation services
 - “People want transparency in pricing, accountability of both the passengers and drivers, reliability of service, driver courtesy, the convenience technology, and the smell of a new car”

Drivers

- TNVS providers earn up to 30 percent higher income compared to the average income in the country

AGAINST

Protest by Conventional Taxi against TNCs

- Under DO No. 2015-011, the TNVS providers are required to be in good standing with its accredited TNC. Otherwise, the franchise for the TNVS will be revoked if the accreditation is cancelled by TNC.
 - The taxi operators and drivers protest that the abovementioned regulation is unfair because like conventional taxis, the LTFRB should be the one accrediting the TNVS, not the TNCs.
- LTFRB limited the number of units of conventional taxi operators, while TNCs have no cap on number of units.
- Transport group Drivers Unite for Mass Progress and Equal Rights (DUMPER) protest that TNCs in the Philippines are causing the decline in the profits of conventional taxi drivers from the average of PHP 1,500 a day to PHP 500.
 - They are also asking LTFRB to stop Grab and Uber from operating because they do not pay taxes, unlike conventional taxi operators and drivers.

Sources: News from ABS-CBN, Inquirer.net, GMA News, & Rappler

Regulatory issues (1)

- In July 2016, the Land Transportation Franchise and Regulatory Board (LTFRB) issued an order to suspend further applications for TNVS or drivers/partners of TNCs due to their sudden rise in volume and investigation on the operation of unaccredited TNVS.
 - In a House committee hearing conducted recently, Grab and Uber reported having about 100,000 TNVS who have at least taken one trip in the past year. Out of these, only 5,500 to 6,500 have either provisional authority or certificate of public convenience from LTFRB. (Rappler, 2017)
- The TNCs stated that 60 percent of the operating TNVS providers only work on a part-time basis who only provide services during peak hours in the morning and the afternoon. The regulator is of the view that it would be better to grant a franchise to TNVS who work full time. They are considering imposing minimum working hours.
- A group of economists from the Foundation of Economic Freedom (FEF) contend that limiting the vehicles allowed to provide ride-sharing services is anti-competitive as it removes alternatives for riders. It also forces commuters to use their own private vehicles, which will only aggravate the already severe traffic condition in Manila.

Regulatory issues (2)

- A study by Adriano and Sy Su on the vehicle hailing preferences of Filipino taxi riders based on participation intent found that 7,000 out of the 25,000 taxis operating in Manila do not have a legitimate franchise. According to the authors, “the prevalence of unfranchised taxis reflects the failure of the LTFRB to regulate the industry.”
- Who has jurisdiction over the price surge issue - The industry regulator (currently, the LTFRB) or the competition authority (PCC)? In other countries, drivers have been suspected of collusion. They manipulate Uber's algorithm by logging out of the app at the same time, making it think that there is a shortage of cars (<http://www.telegraph.co.uk/technology/2017/08/02/uber-drivers-gang-cause-surge-pricing-research-says/>)
- Tiopanco (2015) identifies the following regulatory gaps, among others:
 1. Jurisdiction – Technically, UBER is a “Value Added Service (VAS)” and not a transport service and should be under the National Telecommunications Commission (NTC). However, the NTC may also not be the appropriate regulator if passenger safety is the ultimate objective of regulation.
 2. Regulation – The question is not whether there should be government regulation but rather the extent of such regulation. Self-regulatory standards will inevitably be too lenient.
 3. Liability allocation – What is the liability of Uber and other TNCs for acts and negligence of their partner drivers? Under the current legal framework, since the drivers are independent contractors, the TNCs have minimal (near zero) liability.

Current status: Congress to establish legal framework

➤ Congress will consolidate four house bills and four resolutions to formalize the operation of TNCs and TNVS, as well as subject them to the regulations of LTFRB.

- To ensure road worthiness of vehicles, qualifications of drivers, reasonability of prices, protection of passengers, and payment of fees and taxes
- Intention of regulation is not to hinder TNCs but to serve as a safety net for the riding public
- Key regulations included in the House bills and resolutions subject for consolidation are the following:
 - To operate fleet service*, it is required to secure a CPC and Necessity from LTFRB
 - Maintenance of insurance policy to cover claims for incidents involving vehicle, drivers, or passengers
 - Upon completion of trip, the TNC must provide an electronic receipt which shows the breakdown of the total fare
 - Dynamic pricing may be suspended during abnormal market disruptions such as weather disturbances, natural calamities, failure or shortage of electric power, etc.
 - The LTFRB will be authorized to determine the maximum number of Transportation Network Drivers allowed to provide TNVS
 - Transportation network vehicle must not be more than ten (10) years old from date of manufacture

➤ LTFRB currently looking into the number of TNVS providers needed in Metro Manila based on public demand

- Assessment is conducted using data from the TNCs and assistance from the National Center for Transport Study



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