

Ride-Sharing and the Consequences to Insurance

Shaun Cawley

March 10, 2014

Ride-Sharing and the Consequences to Insurance

A new problem in the insurance industry is the new trend of ride-sharing. Ride sharing is when individuals use an app that automatically connects the two with different matching criteria like price, distance from each other and other aspects which allows these individuals share a ride to a certain destination. This arrangement has a “highly suggested” price that the rider would pay the driver. I will describe “highly suggested” further in the paper. The three major companies that are using ride-sharing apps are Uber, Sidecar, and Lyft. These ride-sharing apps are a problem for insurance companies for many reasons. Insurance currently do not have clear words in their contract to determine if the driver when driving is carpooling or actually making money on the transaction. Insurance companies and lawmaking have not caught up to determine who would be liable in the case of an accident. Also, there is no clear line in if the insurance should be covered under personal insurance or under commercial. Through all of these loopholes ride-sharing apps are becoming a problem for insurance companies and law makers.

The first topic that needs to be discussed is why laws cannot enforce these ride-sharing companies. The drivers for the app Uber are not employed under the company what-so-ever. Uber maintains that they are just a technology companies that connects a driver and a rider just like a dating website would connect to single individuals for a date. This makes it very hard for lawmakers and insurance companies to know when a driver is driving on his own time or is using his car as an Uber driver. Uber uses the current law from Section 230 of the Communications Decency Act of 1996 that states, “No provider or user of an interactive computer service shall be held liable on account of— (A) any action voluntarily taken in good faith to restrict access to or availability of material that the provider or user considers to be

obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected; or (B) any action taken to enable or make available to information content providers or others the technical means to restrict access to material described.” (Lehmann 3). This comes back to Uber only having “highly suggested” prices. Uber not having a set price on any car ride means that the rider and the driver can technically call it a good will ride. This separates Uber from any laws and in the case of insurance having to insure their riders under commercial law. These ride-sharing companies also get around the law because the drivers are considered “independent contractors”. This means that they are never under Uber or other ride-sharing companies when they are transporting customers. This makes it very hard for lawmakers to connect make drivers employees of these ride-sharing companies. Millennials are becoming so adapt with social technology that connect people that would never have been connected before. Those in big cities are starting to forgo buying a car and starting to use other forms of transportation. These ride-sharing apps seem to be here to stay for a little while. Law makers and insurance companies need to catch up to this trend before insurance companies start losing money on the personal coverage they give to ride sharers.

Ride-sharing produces a lot of problems for insurance companies. These problems range from who’s insurance should be charged to underwriting uncertainties. The first obvious problems is which insurance is charged in case of an accident is a driver is on assignment from Uber. The majority of these ride-sharing apps have bought insurance to cover some of the expenses in case one the drivers get into an accident during the course of a ride. Also when registering to become a driver for these sites they require that you carry insurance of your own. The problem is that the required insurance for the ride-sharing companies is the minimum

required insurance for each state. In most cases this leaves a lot of money that still needs to be collected in an accident. This begins the argument that are these drivers operating under commercial or personal insurance. Insurance companies have always provided personal insurance on the grounds that no one drives for any other purpose than themselves. Insurance companies would have to increase the rates of drivers who are driving more to pick up costumers and then drop them off at their destination. The more driving you do the more likely you will be in a crash and this will in turn cause more payments that the insurance company would have to pay out that would not have been predicted. It is estimated that Uber has about 162,000 drivers. All these drivers have to have personal insurance by law and Uber makes sure each driver has a predetermined set of insurance. Their personal insurance companies have them insured for non-commercial reason. Then they go make money while still being on personal insurance. These ride-sharing companies need to start providing commercial insurance for their drivers. The next problem for the insurance company is when is a driver under his personal insurance and when does it change to commercial insurance under one of these ride-sharing companies. Many insurance companies would argue that the second a drivers start to move to pick up a rider is when commercial insurance should cover it. This is because, as described above, the driver is driving more than he would have on his personal time. This problem is demonstrated in the case when and Uber driver Muzaffar hit and killed a girl on his way to an assignment. The court decision is still being decided if the family can sue Uber even though the driver has not yet picked up his assignment yet. I believe law makers should look at the situation like the insurance companies would. Some of the liability would have to fall to Uber. Without him taking on this assignment Muzaffar would have had no reason to be driving where the accident happen or

driving at all. It would have completely eliminated the risk of exposure of any accident, but he took on a commercial pursuit, so Uber and his commercial insurance should take primary liability in the case. If he was just driving to a friend's house it would have been on his personal insurance. However, since he was driving to a customer's house it became a form of a business transaction. The biggest problem faced by insurance companies is to get lawmakers to act and get these ride-sharing companies to have commercial insurance ready if any of their "independent contractors" get into accident while on the way or during a job. The other problems are the market and regulatory uncertainty. Different states have different laws regulating personal and commercial policy. Some states do not let commercial lines to be added on a personal line. This would make it very hard for insurance companies to add this commercial line and make it profitable for either party. It would be much easier if an insurance company could just had a commercial rider for being a ride-share driver. They could determine how much you drive and figure out a rate that would be beneficial to the policy owner and the insurance company. The other concern for insurance companies is market uncertainty. Insurance companies operate under the law of large number. The market for these ride-sharing companies is big and is growing, but insurance companies do not know when it will stop. Now there are only about 150,000 total drivers in the United States. Now this number can be very off because many ride-share drives hide their designation and the ride-share companies do not share their numbers very often. Known to anyone in insurance, the law of large numbers need numbers in the millions for the insurance companies to be able to make an accurate prediction of losses and be able to still make a profit and pay out of loss benefits. Also, not having an accurate way to determine if you are a ride-sharing driving makes it difficult for insurance companies. All of

these problems need to be solved by insurance companies and lawmakers. There is a lot of gray space for both parties and insurance companies and law makers may need to work together to work toward a common goal.

I have some recommendation for insurance companies to fix the ride-sharing problem. The first is that insurance companies need lawmakers to catch up with this growing epidemic. If insured properly ride-sharing could be a good thing for society and insurance companies. For this to work the ride-sharing companies are going to have to have a standing list of all of their drivers. Insurance companies need the law of large number to be able to operate and make money. To make up for the lack of small number, when an insurance companies will be making the commercial line contract it will be mandated that all of these drivers need to be superb drivers. The insurance companies can do this by screening all driver for any traffic violations. If insurance companies can contract with these ride-sharing companies to commercially insure all of these top tier driver then insurance should be able to underwrite this, especially has these ride-sharing apps become more popular with millennials be-coming of age and using these products more and more. Next, while lawmakers are trying to adapt to these laws insurance companies need to take some of the personal insurance matters into their own hands. It is next to impossible to find out if existing drivers are ride-sharing drivers. For new applicants I recommend that insurance companies ask if they are intending to participate in ride-sharing activities. If this is so I would recommend that insurance companies do not provide coverage to these applicants. This is because a normal driver would have to drive to work, drive the kids to school, and maybe go out to eat. If a normal driver in a demographic drives 80 miles a week imagine if he had a non-personal reason to drive more. Essentially this is what happens with these ride-sharing apps.

Most drivers could be driving 80 miles while this ride-sharing driver is driving 160 miles. This is essentially doubling the risk that this policyholder will cause a loss. There can be some risk prevention if these drivers are considered to be top tier driver like mentioned before. Finally, I recommend insurance companies change the wording in their contracts. The line in insurance contracts that is causing the most problems is, "liability arising out of the ownership or operation of a vehicle while it is being used as a public or livery conveyance". (Levendusky) This is excluded by, "does not apply to a share-the-expense car pool." (Levendusky). These ride-sharing websites get away from the law by calling themselves "car pools". These ride-sharers are no longer carpooling to a destination. They are using this app on their phone and a private contractor is driving them to a destination. They are now a taxi driver. I feel that insurance policies need to read that a car pool is when both occupants are going to the same destination. This is hard to enforce, but if a wreck occurs and it is proved that the driver is using Uber and the driver is not planning on staying at the destination then an insurance company can have a case to not pay the claim.

These ride-sharing apps are a new technology problem for lawmakers and for insurance companies. Insurance companies are doing different things to get the upper hand on these ride-sharers. I have provided recommendations that can be used by insurance companies to make it easier to defend themselves, especially if a wreck occurs while using a ride-sharing service. Ride-sharing is a new age problems that insurance companies need to make new policies and different commercial lines to defend against.

Bibliography

Lehmann, R.J. *Blurred Lines: Insurance Challenges in Ridesharing Market* (2014): 1-12. Web.

Levendusky, Jim. *What Do Ride Sharing And Car Sharing Mean For Personal Auto Insurance - Verisk*. Verisk Analytics, 2013. Web. 09 Mar. 2015.