

Industry Report

Uber

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How to make Uber work in Hong Kong

Police Actions Sparked Controversial Topic

On 11th August, 2015, Hong Kong police had arrested 5 Uber drivers and 3 office staffs allegedly for operating without a hire car permit and driving without proper insurance.

Business Model of Uber

Uber named itself “ride sharing app”, which allows customers to request a trip through the use of smartphone apps, then routed to the driver who use their own cars. Uber only accepts credit card for payment, which is then keeps 20% of the fare and pays the rest to the driver on a weekly basis. It is easy to become an Uber driver, simply register from their website by providing simple personal information, followed by the check of Uber, and it’s done.

Legal Issues in Hong Kong

Based on its business model in U.S., Uber is facing various problems due to different laws, controversies of Uber in Hong Kong is arising from two main issues, licensing and insurance.

How to Make Uber Works

1. Upgrade the insurance coverage to meet Hong Kong’s requirement
2. Ensure the quality of driver
3. Only use cars with valid permit

Key Data

Number of Taxi in Hong Kong as at Aug, 2015

Urban Taxi (Red)	15,250
New Territories Taxi (Green)	2,838
Lantau Taxi (Blue)	50
Total	18,138

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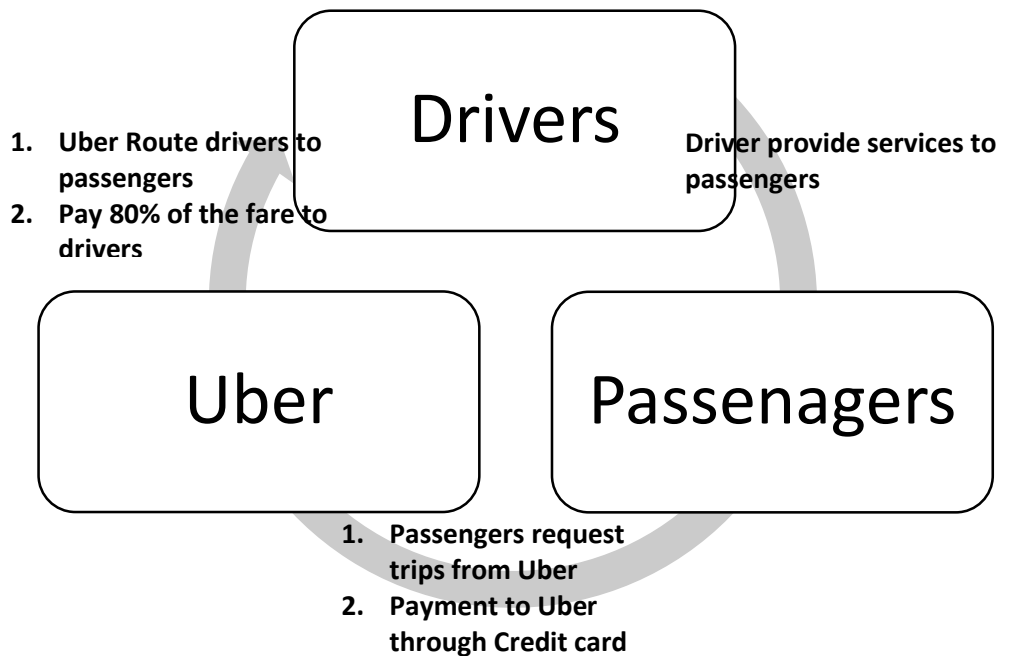
Uber is always a controversial topic in the society around the world since it launched in 2009, governments reacted differently to the issues brought by Uber, some of them banned the operation of the company, while others like Philippine made it legal. Recently, Uber’s operation rolled out in Hong Kong and like what happened in most countries, discontent from taxi drivers arose. On 11th August, 2015, Hong Kong police had arrested 7 Uber drivers and 3 office staffs allegedly for operating without a hire car permit and driving without proper insurance. Although there is no further information announced by Hong Kong government, citizens in Hong Kong had already split into two factions, one supporting the government to ban the operation while the other wants Uber to be legalize.

Business Model of Uber

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In Hong Kong, Uber provides three kinds of service, Uber Taxi, Uber Black and Uber Van. Among three of them, Uber Black is the most popular one, in which it offer sedans with a price higher than taxi.

Exhibit 1: Uber’s Business Model



Source: Hooray Securities Research

What Makes Uber Popular in Hong Kong

Launched in Hong Kong in 2014, Uber quickly becomes one of the hottest app in Hong Kong, this part will evaluate the reasons behind Uber popularity in two perspectives, demand side and supply side.

1. Demand Side's Factors

On the demand side, demand of a substitute of taxi is mainly because of the bad quality of services. Negative news, complaints like bad attitude of taxi drivers, refusing hiring and overcharging, etc., rose rapidly these years, with no substitute, passenger can only tolerate, however, once Uber rolls out on the market, even Uber Black is 40% to 90% more expensive than taxi, passengers are still willing to replace taxi by Uber.

2. Supply Side's Factors

People loves to become Uber driver is mainly because of its accessibility and flexibility. It's easy to qualify as a driver, which only required a valid driving license and a car. Also, driver can plan their own schedule, as there are no requirement on working time. People always loves to earn easy money, that's one of the reasons why Uber becomes so popular.

Legal Issues in Hong Kong

Based on its business model in U.S., Uber is facing various problems due to different laws, controversies of Uber in Hong Kong is arising from two main issues, licensing and insurance.

1. Licensing Problem

According to the Road Traffic Regulations, Cap. 374D, drivers are required to have a hire car permit for the use of private car to carry passengers for rewards (not limited to cash). However, most of the Uber drivers are amateur driver which don't have required licenses. In Hong Kong, the government only granted 886 hire permits, without such permit, driver can't buy appropriate insurance for their car, which leads to the insurance problem that will discuss in below.

In the U.S., New York City had permitted Uber Sedan (similar to Uber Black in Hong Kong) to operate. In New York, a class E license is needed to become a commercial driver, and in the application process, applicant need to upload his license to Uber and it will make the decision if it is successful. However, with the same application process, Uber HK can't ensure all drivers are eligible to be a

commercial driver because the required license, “hire car permit” is not shown on the driving license but stick on the front glass of the car instead (showed in the picture below).

Exhibit 2: Hire Car Permit – Private Service (Limousine)



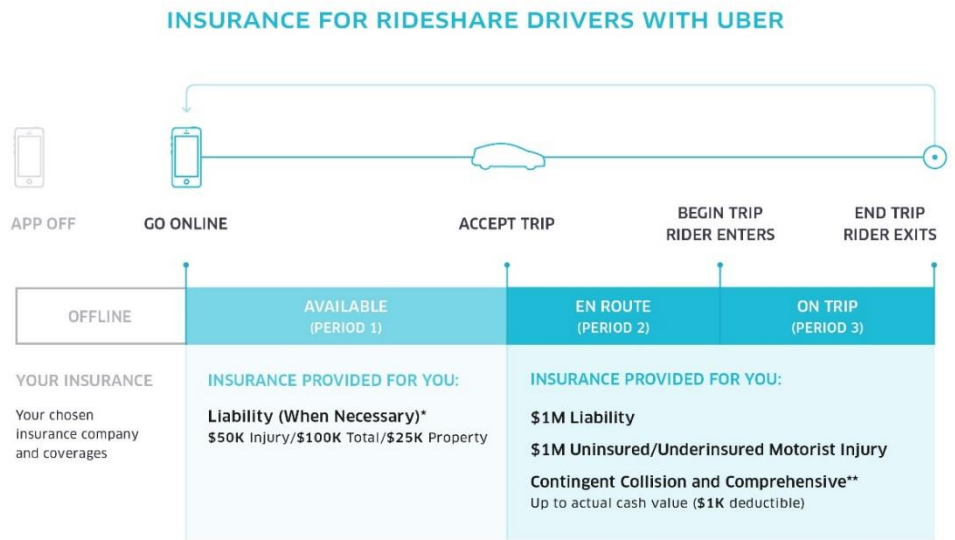
Source: Transport Department of Hong Kong

2. Insurance

Insurance is the main concern over Uber’s operation in Hong Kong, bounded by the Motor Vehicles Insurance (Third Party Risks) Ordinance, all cars in Hong Kong must have the appropriate insurance in respect to the third party risks. As mentioned before, the third party risk insurance of for hire car can only buy by government licensed car. However, most of the Uber cars are not complying with this ordinance, thus, when accident happens, insurance company will refuse to cover the damage.

Uber claimed on their website that they have bought commercial liabilities insurance for the passenger since 2013, however, as shown in the picture below, they do not specify if the insurance can cover Hong Kong’s operation. Furthermore, even if that insurance can cover Hong Kong’s operation, it can only cover compensation up to USD1 million (approx. HKD7.8million), which is less that Hong Kong’s minimum coverage of HKD100million according to the Motor Vehicles Insurance (Third Party Risks) Ordinance.

Exhibit 3: Uber’s Commercial Liabilities Insurance



* We maintain automobile liability insurance on your behalf if you do not maintain applicable insurance of at least this amount.
 ** Pays for damage to your vehicle if you maintain auto insurance that includes collision coverage for that vehicle.
 Note: Additional coverage will be provided where required by state and local laws. At least this much coverage is provided in all US states for drivers while operating personal vehicles under the transportation network company model.

Source: Uber

Is Uber Illegal or Law Outdated?

People supporting Uber suggested that the Law in Hong Kong is outdated in technological advanced society, in which Hong Kong should amend the law and create healthy competitions between taxi and Uber like Phillipine, while the opposition proposed that Uber can only operate if they comply with all the laws.

In our opinion, Uber can only operates if they can comply with all related legislations, as Hong Kong government needs to ensure the safety of the passenger in public transport. However, some legislations should also keep routine update with the times, so that the laws can be more applicable under rapid changing environment.

How to Make Uber Work?

In our point of view, Uber can make few adjustments in their business model, so that it can work in Hong Kong.

To begin with, we don’t see Uber as a substitute of taxi, but as a deluxe version of taxi. According to recent market price, taxi license price has already skyrocketed to HK\$8 million, with total 18,138 taxis in Hong Kong, in which the total value of taxi licenses is up to HK\$144bn! It would be hard for Hong Kong government to amend the legislation for Uber, which is unfair to

the owners of taxi licenses, as it will hugely affect the value of taxi licenses which is their assets.

1. Upgrade the Insurance to Meet Hong Kong's Requirements

To be legal in Hong Kong, Uber must first solve the insurance problem. By upgrading the maximum coverage of its current commercial liability insurance from US\$1mn to the requirement HK\$100mn, and disclose it clearly to the public. To cover the increased cost, Uber can simply charge 0.5% to 1% insurance cost per trip of the total fare.

2. Ensure the Quality of Driver

Uber can't make sure if all drivers have valid license in current application process, it can amend its recruitment procedure so that only drivers with taxi driver licenses can be an Uber driver. As aimed to be deluxe version of taxi, it is crucial that all drivers are familiar with the roads / streets in Hong Kong, which is even more important in the case of no GPS navigation. Name of the drivers should also display on the dashboard like taxi, so that the protection on the security of the passenger can be further enhance.

3. Only Use Cars with Valid Permit

One of the reason why government against Uber is the former can't control the number of Uber's cars. If stay with the old business model, the effect on the taxi license will be the same. Thus, Uber should only use cars with for hire permit, in the meantime, third person liabilities insurance problem can be solved.

We also understand that government may only approve the application with the tourism purpose, so Uber may discuss with the government for the additional licenses. Furthermore, Uber can even help drivers to apply for the permit if they can reach agreement with the government.

Related financial data like insurance fee, license fee can be access easily in the market, thus, capital budgeting would be able to perform for the feasibility of the suggestions.

Conclusion

The purpose of technology advancement is to improve our quality of living, with such a good idea, Uber should amend its business model, and to create a healthy competition with taxi, and thus, to improve the level of transportation services in Hong Kong.

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