Risk Analysis of Uber

As society progresses and technology advances, new businesses emerge that enter legal gray areas. Uber, a technology company that connects riders and drivers, is one such business. From a customer standpoint, Uber is very similar to a taxi service, but from an operational view, Uber is quite different. After downloading the Uber app and creating an account, users can request rides in a very simple and efficient manner. On the app, a map interface appears, and users must drag a pin to a point on the map where they would like to request to be picked up. Also on the map visible to users are various car icons, which show the locations of Uber drivers in the area, and offers an estimation of how long it will take for a driver to arrive once requested. Once a ride is requested, the drivers in the area with their Uber apps turned on get a notification that someone nearby has requested a ride. Drivers can choose to accept or decline the opportunity to pick up that passenger; the first driver to accept it gets the job. The driver then picks up the passenger or passengers, and drives them to their destination. Once the trip is completed and the fare is calculated, the driver receives roughly 80-90%, while Uber receives the rest. Taking a cut from each fare for facilitating the connection between driver and passenger is how Uber generates revenue (Pullen).

This process of requesting a ride with the Uber app is much more user-friendly than the traditional way of requesting a taxi, which involves calling a Taxi company and receiving a vague time frame in which the driver might arrive. Another benefit of riding an Uber in comparison to riding a taxi is that with Uber, transactions are handled electronically through the app. A rider never has to worry about needing to have cash to pay for the fare or for tip; instead, at the conclusion of the ride, the rider gets a notification saying how much their credit card was charged for the ride. The majority of times, riding an Uber is cheaper than riding a taxi. However, during times of “surge pricing”, riding an Uber can become very expensive. When there is high demand for rides and a low supply of available drivers, Uber implements surge pricing, which entails multiplying the fare rate by a certain factor. Upon requesting a ride, users are prompted with the message that surge pricing is in effect, and how much the price of their ride will be multiplied by; they are free to accept the price surge, or decline it and choose a mode of transportation other than Uber. This solves the supply and demand issue in two ways: it decreases the number of people requesting rides, and it increases the number of available drivers,
because it motivates non-active drivers to become active and take advantage of the potential of increased fair prices. Many users oppose surge pricing, but Uber defends the policy by saying that its intent is to balance out supply and demand and ensure that whenever a user requests an Uber, he or she can get one in a timely fashion (Hall and Kendrick).

Currently, Uber operates in hundreds of cities across sixty countries. The main aspect that impedes Uber’s growth is legal disputes. As Uber attempts to open operations in a new city, they must be cognizant of the laws and regulations of that municipality; many cities have deemed Uber an illegal practice. Lawmakers in cities such as Portland, San Antonio, and Auburn have outlawed Uber because they feel the service is not regulated enough and entails too many risks for all parties involved (Kholsa). A lot of these legal issues boil down to the fact that Uber claims its drivers are independent contractors rather than employees. Uber makes this claim for a variety of reasons: drivers use their own cars, choose their own hours, and tend to have other occupations. The opposing argument is that Uber drivers are not independent contractors because they are dependents on Uber’s services in order to operate, in the sense that if not for the existence of the Uber app, they would not be able to pick up riders and earn revenue (Fox).

The decision of whether drivers are Uber employees or independent contractors has many implications. If drivers are classified as employees, this makes Uber liable for driver expense reimbursement, and for the wrong-doing of drivers (for example, if a driver gets into an accident, or assaults a riders). Additionally, classifying the drivers as employees grants them increased legal rights, such as the right to unionize and earn unemployment if terminated. The independent contractor issue has already been brought to court in many states. When an Uber driver was denied unemployment reimbursement by Uber after his car was damaged and he could no longer operate as a driver, he filed a law suit. In May 2015 The Florida Department of Economic Opportunity ruled that the driver was in fact an Uber employee and is therefore entitled to unemployment benefits (Bhuiyan). Similarly, in July 2015, the California labor commissioner ruled that Uber drivers are to be considered employees rather than independent contractors (“A California Ruling Just Challenged Uber's Entire Business Model”). Uber is appealing these decisions, because if other states follow the precedents set by Florida and California, Uber’s entire business model will be altered.
The independent contractor status, along with the nature of the service that Uber provides, creates many loss exposures and a great deal of risk. Even though Uber treats its drivers as independent contractors, the company accepts a certain amount of risk on behalf of the drivers. From the time an Uber driver accepts a trip to the time the driver drops off the rider at the destination, Uber must provide the driver with up to $1 million liability insurance, up to $1 million uninsured/underinsured motorist injury, and contingent collision and comprehensive insurance up to actual cash value (Huet). The best technique for Uber to manage this loss exposure and prevent Uber drivers from getting into costly accidents is education and training. If Uber trained its drivers on how to drive safer, they would get in less accidents and Uber would incur less losses.

However, the insurance that Uber provides its drivers is incomplete and leaves drivers partially uncovered. For example, a gap in the coverage means that if an Uber driver is in a crash that is his or her fault, Uber will pay repair damages to the other driver involved in the crash, but not to the Uber driver (Huet). An Uber driver creates a loss exposure for himself every time he gets in the car to drive for Uber, because he can get into an accident and find that Uber will not award him damages to cover car repair bills or personal medical bills. This exposure could be eliminated if Uber made its insurance policy more extensive, and agreed to cover any loss incurred by a driver who got in an accident while the Uber app was activated.

Similarly, passengers face a loss exposure anytime they ride with an Uber driver because the driver could get in an accident and Uber would not be liable to cover the passenger’s losses. Uber’s terms and conditions state: “By using the services, you acknowledge that you may be exposed to situations involving third party providers that are potentially unsafe, offensive, harmful to minors, or otherwise objectionable… using the services is at your own risk and judgment. Uber shall not have any liability…” (Miller). Uber could eliminate this loss exposure by promising passengers that if they suffer an injury while riding with Uber, the company will cover the medical costs incurred. The legal gray area created by Uber and similar companies is slowly becoming less gray as lawmakers intervene and make decisions regarding who is liable for what. As more legislation regarding Uber is passed, the hope is that the service can stay strong in terms of simplicity and user-friendliness, while becoming safer and less risky for all parties involved.

Works Cited


