Ride-sharing and insurance: Q&A

Everything you need to know about coverage for TNCs

Auto Insurance

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Q: What is ride-sharing and why is it getting so much attention from insurance companies?

A: Ride-sharing companies provide taxi-like services by connecting passengers to drivers via a smart phone app. Rides can be arranged in advance or on short notice.

The official name for a ride-sharing business is a Transportation Network Company (TNC). TNCs contract with drivers who use their personal vehicles to transport passengers. Therefore, many of the drivers who work for TNCs do not have a livery driver?s license, and their cars are neither registered nor insured as commercial vehicles. These drivers are distinct from limousine or taxi drivers, who use a commercial vehicle and already have commercial insurance coverage.

Insurers and insurance regulators are concerned about misconceptions regarding the use of personal auto policies by TNC drivers. Personal auto insurance policies are not designed, underwritten or priced for commercial ride-sharing; indeed, they typically exclude ?livery services.? The assumption is that private-passenger motorists drive themselves, family members and friends, and have an average annual travel of 12,000 miles?and, of course, that no money is earned from these private trips.

Like conventional taxicab companies, TNCs are commercial enterprises. Therefore, in order to have coverage, TNC drivers need commercial insurance coverages?just like taxi and livery car drivers. Commercial auto insurance policies generally carry higher liability limits. They are also underwritten with the recognition that commercial vehicles travel more miles than private-passenger cars, and that the passengers in a TNC vehicle are customers, rather than friends or family members.

Q: Does a TNC driver?s personal auto policy cover ride-sharing?

A: Generally a standard personal auto policy will *not* provide coverage for ride-sharing. A standard personal auto insurance policy stops providing coverage from the moment a driver logs into a TNC ride-sharing app to the moment the customer has exited the car and the transaction is closed.

Recognizing this coverage gap, lawmakers have been working to enact legislation that specifies what insurance coverage is needed to operate legally from ?app-on to app-off.? There are three distinct periods where a personal auto policy offers no coverage to TNC drivers, according to a National Association of Insurance Commissioners (NAIC) March 2015 white paper.

- Period 1: when the TNC driver logs into the TNC application but is not matched with a passenger;
- Period 2: when the TNC driver has made, and accepted, a match with a prospective passenger but that passenger is not yet physically in the vehicle;
- Period 3: when the TNC driver has picked up the passenger and the passenger is occupying the TNC driver?s vehicle.

Q: Do insurance companies oppose ride-sharing services?

A: No. The insurance industry is a staunch proponent of innovation and new business. However, it is important that it be clear that a personal auto policy is designed to cover *only* the personal use of a private-passenger vehicle, not the commercial use of a vehicle. This commercial use exclusion extends beyond ride-sharing. It includes any business use of a private-passenger vehicle?such as using a pickup truck to plow snow off driveways or to make business deliveries.

Numerous state insurance regulators have also noted that passengers are taking a risk when they pay for a ride with an uninsured?or underinsured?TNC driver. In the event of an accident, an injured TNC passenger may not be able to recoup damages, as they would from a traditional licensed and commercially insured taxi or limousine service.

The insurance industry welcomes the innovation that TNCs have brought to the for-hire ground transportation marketplace. Indeed, a handful of auto insurers in some states are now offering policies that cover drivers using their cars as either private passenger vehicles or as part of a TNC company?s operations. Specialty or niche insurance products are a growing part of the insurance business.

Q: Why don?t more insurance companies cover ride-sharing?

A:The short answer: Auto insurers have not yet determined how to underwrite the risks of personal-line policyholders using their private-passenger vehicles on a for-hire basis. Surplus lines insurers, who sell policies that aren?t available from state-licensed insurers, are providing coverage currently to TNCs. Given the proliferation of companies like Uber and Lyft, however, it is likely that auto insurers will at some point start to offer policies that provide motorists with coverage for both traditional private use of a vehicle and commercial vehicle use on behalf of a TNC.

Q: What are policymakers, such as state legislators and regulators, doing regarding insurance and TNCs? Are there any laws governing this area?

A: City and state governments have been discussing how to respond to the extraordinary growth of TNCs. The two key regulation questions are:

1. Must TNC drivers be licensed in the same way as taxi and other for-hire drivers?
2. If personal auto policies do *not* cover drivers when they are working for a TNC, how do these drivers become properly insured?

Signed into law in June 2014, Colorado?s Senate Bill 125, the Transportation Network Company Act, has won widespread praise for addressing these questions. Since January 15, 2015, either a TNC or its Colorado drivers must have policies that:

1. Specifically cover TNC activity.
2. Provide primary liability coverage of at least $50,000 per injured person, $100,000 for all injuries in an accident and $30,000 for property damage.

Regulatory compliance can be achieved if a TNC provides its drivers with 24/7 commercial coverage or the driver secures an appropriate rider or endorsement to their personal auto policy, covering the vehicle?s periodic TNC-related use. As an alternative, a TNC can purchase a commercial policy that covers its drivers only for the time when a TNC driver?s app is on.

Q: Are any other states responding to this issue?

A: California is worth special mention because ride-sharing has grown exponentially in cities such as Los Angeles and San Francisco. In September 2014, Governor Jerry Brown signed into law Assembly Bill 2293, which at the last minute was supported by Uber and Lyft. The law took effect on July 1, 2015.

The legislation was sponsored by the auto insurance industry because it:

1. Requires TNCs to disclose to drivers upfront that the driver?s personal auto policy will *not* apply while using their private passenger vehicle for a TNC assignment.
2. Requires TNC insurance from the moment the driver logs onto the app, until the driver logs off.
3. Clarifies that TNC insurance is primary coverage.
4. Requires the TNC?s insurer to defend and indemnify TNC drivers when they have a claim, or accident, while on a TNC assignment.

1. Ensures the TNC?s coverage is not dependent on a private-passenger auto insurer first declining coverage.

According to the *Los Angeles Times*, for Period 1 (from log-on until match), drivers or the TNC would buy a basic primary policy, covering $50,000 for death or injury for one person in an accident, $100,000 for all persons and $30,000 for property damage. TNCs would have to purchase excess liability policies covering an additional $200,000 in damages. For the remaining period of time (Periods 2 and 3, from match until the passenger exits the vehicle), the TNC would maintain a $1 million liability and $1 million uninsured/underinsured (UM/UIM) policy.

Q: How can prospective TNC drivers learn if they have sufficient coverage?

A: Prospective drivers should ask the TNC what level of coverage it provides. Drivers should also contact their own auto insurer to address gaps, if any, in their liability protection. It is also recommended that TNC drivers review a copy of their TNC?s insurance contracts so they know the exact terms and conditions of the coverage.

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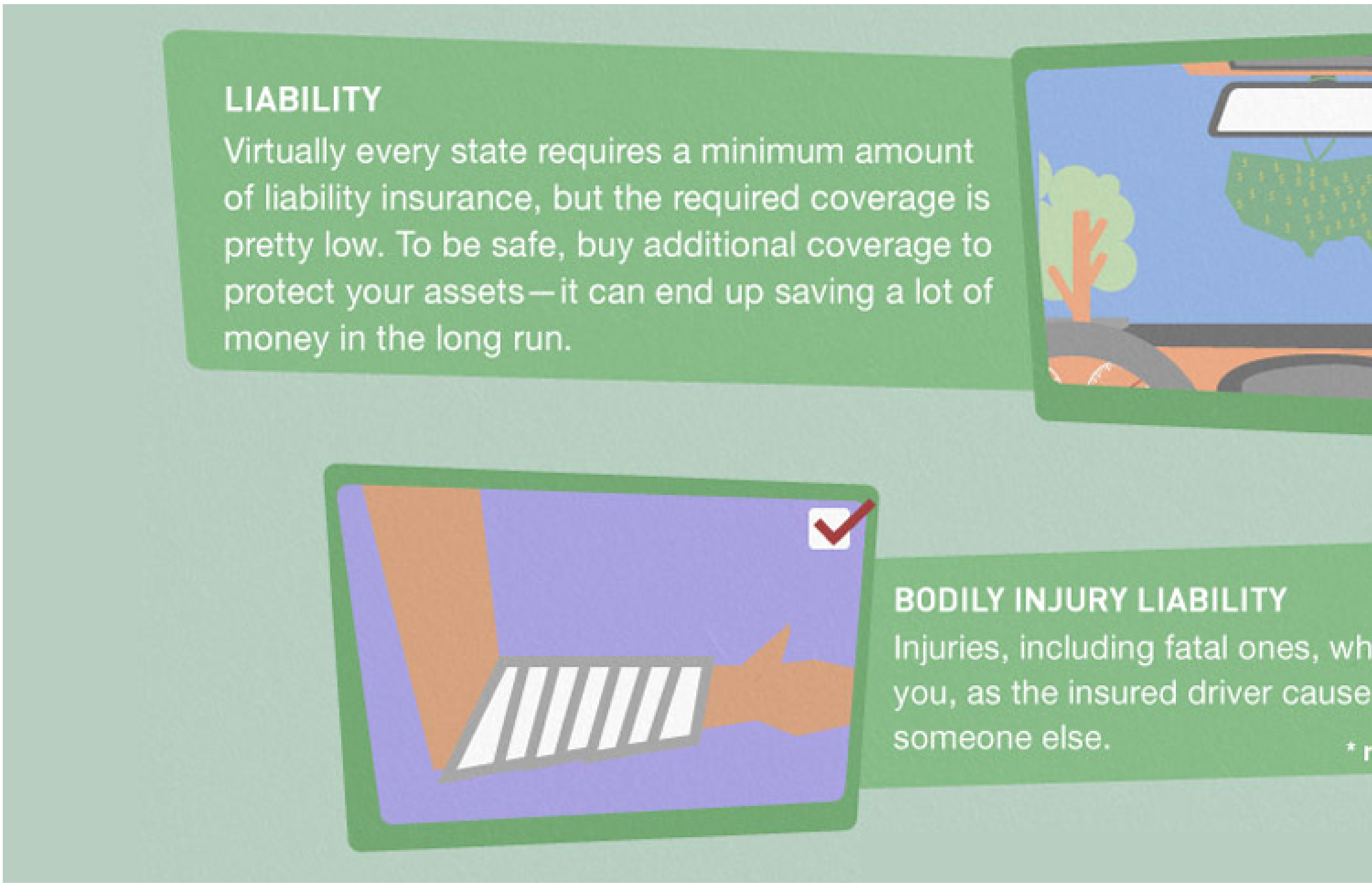

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