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### INDIAN COMPETITION AUTHORITY RELEASES ITS MARKET STUDY FINDINGS ON THE TAXI AND CAB AGGREGATOR INDUSTRY

16 September 2022

#### **Background and Methodology**

On 9 September 2022, the Competition Commission of India (Commission) released its findings pursuant to a market study on the taxi and cab aggregator industry in its report with special reference to surge pricing (Market Study).<sup>1</sup>

The Market Study was commissioned with the aim to understand the: (i) the existence of personalised pricing in the cab industry and the necessity of regulatory intervention, (ii) perceptions of drivers, riders and industry stakeholders on surge pricing, (iii) concerns surrounding the opaque nature of pricing structure and fare calculations by cab aggregators.

The observations of the Commission in the Market Study are primarily based on: (i) data collected from four cities (two tier 1 cities viz. Mumbai and Delhi and two tier 2 cities viz. Jaipur and Indore), (ii) controlled real time experiments, and (iii) existing literature.

Stakeholder consultations included engaging with traditional taxi operators, transport department officials, industry experts, drivers, riders, and cab aggregators to understand regulatory gaps and provide policy recommendations.

#### **Key Observations and Findings**

##### ➤ Personalised pricing

Cab aggregators were perceived to be and found to be (based on the controlled real time experiments) engaging in personalised pricing. Further, the possession of personalised data on the consumers (i.e., riders) facilitated personalised pricing by cab aggregators.

- Ambiguity surrounding the calculation of 'total fare' payable: Pricing computed by cab aggregators takes into account several factors such as: (i) distance travelled, (ii) number of trips, (iii) type of ride, (iv) mode of payment. (v) nature of mobile handset used.

<sup>1</sup> Competition Commission of India, *Market Study on the Competition and Regulatory Issues Related to the Taxi and Cab Aggregator Industry: With Special Reference to Surge Pricing in the Indian Context - Key Findings and Recommendations* dated 9 September 2022, available at: <https://cci.gov.in/economics-research/market-studies>

- Actual pricing methodology adopted by cab aggregators: There was no evidence to indicate that personalised pricing was practiced by the cab aggregators. The cab aggregators confirmed that while base fare could not be different for two individuals who book a cab (of the same category) at the same time, from the same location and for the same destination, total fare payable may be different from such individuals on account of discounts / promotions.
- Impact of Personalised Pricing: Personalised pricing may not necessarily lead to an adverse impact on consumer welfare or raise any competition issues, and adverse effects of personalised pricing were dependent on several other parameters being fulfilled.

Recommendations:

The Commission recommended the need to promote transparency regarding total fare in general and all its different components amongst drivers and riders. A few self-regulatory measures outlined in the report include:

- The cab aggregators to provide the various components of the total fare.
- The surge component of the total fare (along with a break-up of the total fare).
- Providing a transparent cancellation policy demarcating sharing of cancellation charges between the cab aggregator and the driver in the event a rider / consumer cancels the ride.

➤ Surge Pricing

- Rationale for surge-pricing: The cab aggregators explained that a surge is applicable typically on account of factors such as: (i) bad weather, (ii) festivals, (iii) end of concerts and shows, (iv) during weekends, (v) rush-hours, among others. The rationale for surge pricing is primarily to incentivise drivers to increase supply of their services.
- Information asymmetry: A disconnect between the surge being charged to riders and the amount being displayed to drivers was observed, leading to an inference that a portion of the 'surge' was being retained by the cab aggregators themselves.
- Surge Multiplier: The Commission also observed that there was significant ambiguity surrounding the precise surge multiplier being charged to the rider.

Recommendations

The Commission recommended that cab-aggregators undertake certain measures to ensure greater transparency in: (i) the surge being charged from riders, and (ii) the quantum of surge being passed on to drivers. A few measures are illustrated below:

- Formulation of a clear and transparent policy on surge pricing to drivers and riders, providing for revenue split in times of surge between the drivers and the cab aggregators.
- Cab aggregators to ensure that surge charged for each ride is reflected appropriately in the invoice.

➤ *Algorithmic Pricing*

The Market Study revealed that there was significant ambiguity in: (i) rides being priced uniquely, (ii) differential fares being charged to riders, (iii) drivers' perception on the surge multiplier being charged to the riders and the final surge offered to a particular driver, (iv) calculation of the surge multiplier by algorithms, (v) drivers perception surrounding self-preferencing by cab aggregators. In this regard, the following observations of the Commission are noteworthy:

- The Commission observed that the Motor Vehicle Guidelines 2020 impose a requirement on the cab aggregators to ensure transparency in their operations on aspects such as: (i) functioning of the mobile application algorithm, (ii) incentives and proportion of fare payable to the drivers, (iii) incentives given to the driver, among others. However, these are model guidelines, and final implementation rests with the state governments.
- Sensitization of technology experts about competitive law violations through internal training, conducting workshops etc. This would ensure that the technology experts are cautious whilst designing algorithms, thereby minimising inadvertent collusion.

Recommendations:

Highlighting the disparity between the actual business conduct of the cab aggregators and perceptions of the riders and drivers around the same, the Commission emphasised on the need to ensure greater transparency by the cab aggregators. In this regard, the Commission recommended that cab-aggregators undertake the following self-regulatory measures such as:

- Institution of a clear and transparent policy on data collection, its usage, sharing of such data with third parties
- Ensuring that the algorithms used by cab aggregators do not prefer cabs owned (directly or indirectly) by the cab aggregators while allocating rides.

**Comment**

The penchant of the Commission to study digital platform markets is not new. In the past the Commission has instituted market studies in e-commerce, telecom, pharmaceutical and healthcare sectors, among others. The recommendations of the Commission once again underscore the need for greater transparency in the cab aggregator industry on aspects such as policies and pricing strategies, much like the market study released by the Commission on the e-commerce market in India.

Further, while the cab aggregation industry has been scrutinised by the Commission in the past for predatory pricing, unfair terms, algorithmic pricing etc. it remains to be

seen whether the Market Study findings will result in initiation of any fresh probes by the Commission. In the interim, the industry participants may be advised to integrate the recommendations contained in the Market Study to avert any potential future competition law infractions.

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