Uber and Similar Services May Pose Risk to Vehicle Loan Collateral

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By Al Olson, Staff Underwriting Specialist, CUNA Mutual Group

The rapid growth of Uber, Lyft, and other Transportation Network Companies (TNCs) seems to be outpacing the efforts of local, state, and federal agencies to regulate these services. One result is that responsibility for losses to TNC drivers' vehicles isn't always clear.

Private auto insurance generally excludes coverage for a vehicle when it's being used as a cab (or "livery" service). And don't expect the TNC to pick up the tab.

What is the risk to your auto loan portfolio caused by borrowers driving their uninsured or underinsured vehicles for a TNC?

How TNCs Work, and Why That Could be a Problem for Lenders

TNCs arrange transportation for a fee. Customers access the service online, often through a mobile phone app that connects riders and drivers.

Drivers typically use their own cars, and although regulations are beginning to change, they're often not subject to many of the same rules as licensed livery drivers. Drivers sign up with the TNC and provide proof of ownership and insurance for their vehicle. They gain permission to use the TNC's software to find and bill passengers, and the TNC takes a portion of each fee.

People who want to use TNCs usually download an app and create an account by providing credit card information, just as they would for Amazon or eBay.

Here's the part that concerns lenders: The terms and conditions of the agreements with drivers can place primary responsibility on the driver—not the TNC—for certain vehicle damage losses. Some larger TNCs provide limited comprehensive/collision coverage. But even with those TNCs, certain types of losses won't be covered by the TNC or the driver's personal insurance policy.

So if your member walks away from a vehicle loan after the collateral is damaged, and neither the TNC nor the borrower's personal insurance covers the damages, you may have to absorb that loss.

Assess the Risk to Your Credit Union

It can be difficult to assess your auto portfolio's level of risk from TNC-related vehicle damages, because you don't know how many of your members are TNC drivers.

However, don't assume the communities you serve aren't using these services. Uber published an analysis[1] of the labor market for its drivers in the U.S., and reported that from next to zero drivers at the start of 2012 through the end of 2014, it had added more than 160,000 active drivers.

Uber dominates the TNC market, but the competition is growing. The second-largest U.S. TNC is Lyft. According to a Bloomberg.com article[2], Lyft grew from 400 drivers giving an average of 40,000 rides per month in December 2012 to 51,000 drivers and 2.2 million monthly rides in 2014.

A market growing this quickly is likely to continue spawning new competitors. Joining Uber and Lyft so far have been Sidecar, Wingz, Summon, and Hailo, among others.

The point is, the risk to your auto loan portfolio from TNC drivers may be a moving target—even if you think it's not significant now, it may be before too long.

Review Your Collateral Protection Plan

The first step in understanding your risk is to understand the terms and conditions of your Collateral Protection (CP) program. Review your CP coverage with your provider, and confirm whether losses caused by collateral damaged while in use for a TNC are covered.

If you don't currently have a CP program, the increasing risk that TNCs represent may be a tipping point as you consider potential CP options.

As with any young, dynamic industry, the TNC marketplace appears to be shifting quickly as new players emerge and legislation is introduced. Stay informed, so your credit union doesn't go along for the ride in a bad way.

For more information about CUNA Mutual Group's Collateral Protection products, visit https://www.cunamutual.com/collateralprotection.

[1] "An Analysis of the Labor Market for Uber's Driver-Partners in the United States," January 22, 2015, Uber Technologies.

[2] "Leaked Lyft Document Reveals a Costly Battle With Uber," April 30, 2015, BloombergBusiness