

Nancy J. Egan, State Government Relations Counsel
Nancy.Egan@apci.org Cell: 443-841-4174

Testimony of the American Property Casualty Insurance Association (APCIA)

House Economic Matters Committee

House Bill 1418 - Motor Vehicle Liability Insurance - Replacement Parts for Damaged Motor Vehicles

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Letter of Opposition

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to provide written comments in opposition of House Bill 1418. APCIA is the primary national trade association for home, auto, and business insurers. Representing nearly 60 percent of the U.S. property casualty market, APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions – protecting families, communities, and businesses in the U.S. and across the globe. In Maryland, APCIA members write more than 43.4 percent of the personal auto market.

House Bill 1418 would require insurers that provide coverage for the repair of physical damage to an insured vehicle in the state to authorize repairs using “genuine crash parts” that will “maintain” the warranty of the motor vehicle within two years of its manufacture date. After the two-year period, the insurer may not require use of “aftermarket crash parts” or crash parts that are not “certified aftermarket crash parts.” Regardless of the vehicle’s manufacture date, an insured motorist must consent in writing during repair for the use of these types of parts.

This bill raises several concerns because it creates the false assumption that vehicle warranties are voided if an aftermarket part is used, when manufacturers are prohibited from doing so by federal law. The Magnuson-Moss Act specifically prohibits product manufacturers from conditioning consumer warranties on the use of any original equipment part or service.

The bill’s requirement that insurers change their policy language, and require vehicle owners to consent in writing to the use of parts other than car company parts, are clearly aimed at creating the impression that alternative parts are inherently dangerous, and undermining a competitive market place for replacement parts. APCIA estimates that eliminating competition for replacement parts could increase auto property damage loss costs by as much as **7 percent**, which would in turn put upward pressure on personal auto premiums. That is why consumer groups, such as the Consumer Federation of America and the Advocates for Highway and Auto Safety, agree that aftermarket parts provide quality, low cost repair options that are good for consumers, especially those that may be paying for repairs out of their own pocket.

The bill raises other questions, for example the definition of “aftermarket crash parts” says that they are not manufactured by the original manufacturer (OEM), but since many OEM parts are made by

suppliers and may or may not be branded by the OEM itself, would these parts also be considered “aftermarket”? The bill doesn’t address other types of parts commonly used in collision repairs, such as recycled (salvage), reconditioned, or rebuilt parts. If those types of parts will no longer be an option to be used on older vehicles, the result will be that vehicles will become a total loss, that would otherwise be repairable. Vehicle owners could be forced to finance the purchase of a replacement vehicle, and the opportunity for a body shop to repair the vehicle would be lost.

For these reasons, the APCIA urges the Committee to provide an unfavorable report on House Bill 1418.



HIGHER REPAIR COSTS AHEAD

Eliminating aftermarket parts can harm consumers

Would you pay \$114,000 for a 2014 Ford F150?



REPLACEMENT HOOD
DEALER COST **\$1,018.32**
AFTERMARKET **\$866.00**
SAVINGS **\$152.32**

LEFT FENDER
DEALER COST **\$308.80**
AFTERMARKET **\$262.00**
SAVINGS **\$46.80**

You would if it were rebuilt entirely from car company parts at their replacement prices. This is **nearly three times the car's original (MSRP) price of \$39,960**. While these costs may seem outrageous, this illustrates how a monopoly on the use of car parts could put a severe dent in consumers' pocketbooks.



COSTS OF THE CAR COMPANY PARTS MONOPOLY

POLICYHOLDERS' ANNUAL PREMIUM COULD **INCREASE** BECAUSE A LOSS OF COMPETITION IS ESTIMATED TO ADD ROUGHLY \$1.5 BILLION TO INSURERS' COSTS.

VEHICLE OWNERS WITHOUT PHYSICAL DAMAGE COVERAGE MAY BE FORCED TO FORGO REPAIRS BECAUSE OF THE **INCREASE** IN CAR COMPANIES' PARTS PRICES.



BENEFITS OF AFTERMARKET PARTS

LOWER REPAIR COSTS RESULT IN LOWER INSURANCE CLAIM COSTS WHICH **HELPS CONTROL PREMIUMS**.

PARTS COMPETITION KEEPS THE **PRICE OF CAR COMPANY PARTS LOWER**.

RESTRICTING PARTS COMPETITION: BACKDOOR TO MONOPOLY AND HIGHER COSTS

SOME CAR COMPANIES HAVE USED A VARIETY OF MEANS TO LIMIT PARTS COMPETITION. DISCRIMINATORY DISCLOSURES, VEHICLE AGE OR MILEAGE RESTRICTIONS AND PATENT LAWS HAVE ALL BEEN USED IN ATTEMPTS TO PRESERVE THEIR MONOPOLY OF REPLACEMENT CRASH PARTS. SOME BODY SHOPS HAVE SUPPORTED THESE RESTRICTIONS AS WELL, AGAINST THEIR OWN INTERESTS, BECAUSE THEY **REDUCE THE NUMBER OF VEHICLES THAT CAN BE REPAIRED**.

AFTERMARKET PARTS: ENSURING HIGH QUALITY AND CONSUMER CHOICE

CONSUMER GROUPS, SUCH AS THE CONSUMER FEDERATION OF AMERICA AND THE ADVOCATES FOR HIGHWAY AND AUTO SAFETY, AGREE THAT AFTERMARKET PARTS PROMOTE CHOICE QUALITY AND LOW COSTS THAT ARE **GOOD FOR THE CONSUMER**.

AFTERMARKET PARTS **REDUCE COSTS** WHICH MAY MEAN A CAR CAN BE REPAIRED RATHER THAN BEING DECLARED A TOTAL LOSS, FORCING THE OWNER TO BUY AND POSSIBLY FINANCE A REPLACEMENT VEHICLE.