



April 13, 2017

To: The Honorable Tom Daly (Chair),
The Honorable Melinda Melendez (Vice Chair)
Members, Assembly Insurance Committee

From: ACIC (Property Casualty Insurers Association of America), American Insurance Association, California Chamber of Commerce, National Association of Mutual Insurance Companies, and Personal Insurance Federation of California

Subject: AB 1679 (Burke) Protects Consumers from the Rising Cost of Car Repairs (SUPPORT)

On behalf of all the organizations listed above, we are in support of AB 1679. It provides an alternative, and less costly, approach to the California Department of Insurance's (CDI) sole method of conducting an auto labor rate survey as set forth in the recently adopted regulations. It also clarifies the type of information a consumer is entitled to receive during the claims process and eliminates CDI anti-steering regulations that are inconsistent with existing law. Insurers survey auto body shops to establish a reasonable market rate for car repair costs. It is critical for consumers that insurers can ensure these surveys reflect the actual prevailing market rate. When car repair costs go up, consumers' insurance premiums are likely to increase. It should be noted that existing labor rate and steering laws do not authorize CDI to adopt such regulations.

Protect Consumers from Rising Cost of Car Repairs

1. Car accidents have increased 6.9% in California, making it one of the top ten states with the biggest increase in accidents (based on fast track data in 2015).
2. Over the last 10 years, the hourly labor rate for car repairs in California has increased by 15 percent, making it the 9th highest rate in the country at \$55.48/hour (Mitchell Data).
3. Regulations recently promulgated by the CDI will only add to these rising costs by creating one survey method that creates very small geographic regional markets and allows for auto body shops to report whatever labor rate they choose. Early estimates demonstrate that Californians could see a \$280 to \$300 million increase in auto repairs because of inflated labor rates. Note: After only two months of being in place, insurers across the state are already seeing coordinated efforts from certain auto body shops demanding unprecedented hourly rate increases ranging from \$5 to \$40 dollars.
4. A single set of government regulations should not cause one industry to financially benefit at the cost of consumers. These windfalls for auto body shops will directly impact consumers' pocketbooks. *One company projects a California family with two cars and a teenage driver could see their annual auto insurance premium increase \$64 because of these new regulations.* AB 1679 is necessary to protect consumers from the rising cost of car repairs.

Protect Consumer Choice During the Claims Process

AB 1679 clarifies the type of information a consumer is entitled to receive during the claims process: description of insurers' direct repair programs ("DRP"), time frames necessary for completion of repairs, differences in the claim adjustment and repair process between a DRP and non-DRP, equipment capabilities, types of parts, and warranties. This information allows customers to better understand and make informed decisions about the claims process.

Protect the Ability to Innovate in the Claims Handling Process

Insurance Code section 758 (c) states in part: "Any insurer that conducts an auto body repair labor rate survey to determine and set a specified prevailing auto body rate in a specific area shall report the results of that survey to the Department, which shall make the information available upon request." In writing this statute, the legislature provided insurers with the flexibility to implement a survey that fits with their own unique business practices. This flexibility allows for healthy competition among insurers and for innovation. Some insurers provide a survey to auto body shops on an online forum, allowing labor rates to be updated in real-time. Other insurers are moving away from writing estimates at auto body shops all together, instead allowing customers to use an app on their phones to send pictures of their damaged vehicle and receive a settlement check for the repair in the same day. The CDI regulations, on the other hand, cement in stone one standardized way of conducting an auto labor rate survey. Insurers only receive a presumption that they handled the claim fairly if they use this one method. As the technological and innovation capital of the world, the state of California should not limit insurers' ability to innovate to keep costs down and to enhance the customer's experience.

AB 1679 is scheduled to be heard in Assembly Insurance Committee on April 19, 2017. It is a carefully crafted legislation that helps address the rising cost of car repairs for consumers. For these reasons, we urge your "AYE" vote.