

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Provide Limited Government - This bill expands s. 627.744, F.S., to require preinsurance inspection of motor vehicles in all Florida counties. It also requires an inspection to include a two color images of the vehicle.

B. EFFECT OF PROPOSED CHANGES:

Section 627.744, F.S.¹ requires a private passenger motor vehicle insurance policy providing physical damage coverage, including collision or comprehensive coverage, to undergo a preinsurance inspection. The statute lists 12 exceptions to its preinsurance inspection requirement. It is only applicable in counties with a 1988 estimated population of over 500,000.² These counties are Miami-Dade, Broward, Palm Beach, Orange, Pinellas, Hillsborough, and Duval counties. The statute also does not apply to policyholders who have been insured for 2 or more consecutive years with the same insurer; to a new, unused motor vehicle as long as the insurer is provided with certain documentation; to a temporary substitute vehicle; to a motor vehicle leased for less than 6 months; to a vehicle that is more than 10 years old; to a renewal policy; to an insured vehicle that is under a commercially rated policy that insures five or more vehicles, and when an insurance producer is transferring a book of business from one insurer to another.

The inspection of those vehicles not exempt by the statute must include: taking a physical imprint of the vehicle identification number of the vehicle or otherwise recording the vehicle identification; recording the presence of accessories required by the commission to be recorded; and recording the locations of and a description of existing damage to the vehicle. Section 627.744(4), F.S. allows insurance companies to charge policyholders up to \$5 per inspection.

According to the Office of Insurance Regulation, the statute's original purpose was to prevent fraud by requiring insurance companies to document any pre-existing damages to the insured vehicle and to record the insured vehicle's VIN number.³ The recorded information prevents the insurer from paying a claim for a "total loss" vehicle or repairing a vehicle's pre-existing damages. The VIN number serves to identify the vehicle's owner as the insurance claimant.

This bill expands the preinsurance inspection requirement to all counties in Florida. It further requires the inspection to include the taking of two color images at oblique angles, including one of the Motor Vehicle Safety Standard label. It removes the requirement of taking a physical imprint of the vehicle identification number.

The bill requires the physical damage coverage, including collision and comprehensive coverage, to be suspended if the preinsurance inspection is not completed within 10 days after the effective date of the coverage. If physical damage cover is suspended, the insurer must take certain actions in order to have the coverage be reinstated in full.

Proponents of the bill include a representative from CARCO⁴, an automobile inspection group. CARCO argues that the Special Investigative Units of insurance companies are insufficient because they only investigate fraud after fraud is suspected. CARCO's position is that it is easier to deter fraud after

¹ s. 627.744, F.S. became law in 1990.

² s. 627.744(g), F.S. (2005).

³ Office of Insurance Regulation Legislative Analysis on HB 197 and SB 420.

⁴ CARCO is a nation-wide automobile inspection group hired by insurance companies to do preinsurance inspection on vehicles.

insurance companies have all information pertaining to the vehicle they are insuring. CARCO points to a study completed in 1993 that showed that two years after s. 627.744, F.S. was enacted, the seven counties with required preinsurance inspection saw an 8.4 percent decrease in vehicle theft whereas their surrounding counties experienced an 8.8 percent increase in vehicle theft.⁵

Several law enforcement officials from different organizations also support the bill, including: The Florida Highway Patrol, the Florida Auto Theft Intelligence Unit, and the Society of Former Special Agents of the FBI. At least 11 law enforcement officials wrote their legislators endorsing the passage of this bill, claiming that the bill would help fight insurance fraud in Florida.⁶ Among the benefits listed for state-wide preinsurance inspection of motor vehicles include: reduction of wasted work hours investigating a "stolen" car that never existed; free access to a database with millions of vehicle photographs; and the deterrence of most common fraudulent schemes.⁷

Opponents of the bill argue that the preinsurance inspection requirement's cost and inconvenience to customers outweigh the benefits it provides.⁸ They state that of the ten counties with the highest frequency of thefts, seven are counties where preinsurance inspection is required. Progressive Insurance Company argues that in order for the benefit of the inspections to outweigh the costs, 6 percent of the theft claims would have to be fraudulent. Progressive asserts that in actuality, its special investigative unit investigated 1,000 thefts, of which 76 substantially supported insurance fraud. It found that 10 of the 76 fraudulent claims involved cloned vehicles. Accordingly, Progressive concluded that if for every 700,000 insured autos, 10 fraudulent claims are detected in a preinsurance inspection, the net return investment of preinsurance inspections equal -\$1,115,729.

Opponents further contend that that HB 915 would nearly double the number of required preinsurance inspections performed for agency Progressive insured.⁹ Progressive, which controls approximately 7 percent of the market share, conducts 7,000 inspections each month. Industry-wide, they estimate 100,000 inspections are conducted monthly. If state-wide preinsurance inspections would double the current number of monthly inspection, 2,400,000 inspections would be completed annually. At a cost of \$9 per inspection, Progressive estimated that the cost to perform preinsurance inspection throughout the state is \$21,600,000.¹⁰

The Florida Association of Insurance Agents stated that "HB 915 presents numerous difficulties to independent agents and the carriers they represent."¹¹ Some reasons for this include:

- 1) Agents have to perform inspection or take the picture and their remuneration does not contemplate this additional expense. Agents are only allowed to charge up to \$5, but that is insufficient.
- 2) Many carriers do not want to inspect vehicles prior to issuance as they believe they can determine "prior damage" at the time of nay loss.
- 3) Inspections would be outside of the performing tasks of carriers that sell by phone or the internet. And,
- 4) The auto insurance market is the best it has been.

This act will take effect October 1, 2006.

⁵ Mark Cooper, *Auto Insurance Fraud: An Analysis of the Effectiveness of Anti-Fraud Programs*, Prepared for: The Coalition Against Insurance Fraud, June 1993. The decrease in reported thefts may have coincided with the passing of s. 627.744, F.S. because by having the required preinsurance inspection, there may have been a decrease in the number of falsified thefts.

⁶ Letters on file with the insurance committee.

⁷ Compiled from letters on file with the insurance committee.

⁸ Letter from SIU Manager from Progressive Insurance, dated March 3, 2006, available with the Insurance Committee.

⁹ Letter from Progressive representative, dated April 3, 2006, on file with the Insurance Committee.

¹⁰ Letter from Progressive representative, dated April 3, 2006, on file with the Insurance Committee.

¹¹ Letter from Executive Vice President of the Florida Association of Insurance Agents, dated April 3, 2006, available with the Insurance Committee.

C. SECTION DIRECTORY:

Section 1. Amends s. 627.744, F.S., relating to required preinsurance inspection of private passenger motor vehicles.

Section 2. Provides that the bill will take effect October 1, 2006.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

To the extent that insurance companies build in the price of preinsurance inspections to a customer's insurance cost, this bill will increase the cost of motor vehicle insurance. According to Progressive, that is \$9 per inspection. The private sector may benefit to the extent that the preinsurance inspections can be demonstrated to reduce insurance fraud and contribute to the stability of the motor vehicle market.

Furthermore, the cost of preinsurance inspection will also increase by the added cost of the taking of two color images of the motor vehicle at oblique angles.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not require counties or municipalities to spend funds or to take action requiring the expenditure of funds. The bill does not reduce the percentage of a state tax shared with counties or municipalities. The bill does not reduce the authority that municipalities have to raise revenue.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

Current law already provides rule making for the section being amended.

C. DRAFTING ISSUES OR OTHER COMMENTS:

This bill directly conflicts with House Bill 197 which has already passed the Insurance Committee and the Commerce Council. House Bill 197, amends s 627.744, F.S., relating to preinsurance inspections, by making preinsurance inspections optional instead of being required.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES