

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 197

Preinsurance Inspection of Private Passenger Motor Vehicles

SPONSOR(S): Hays

TIED BILLS:

IDEN./SIM. BILLS: SB 420

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Insurance Committee	13 Y, 2 N	Freire	Cooper
2) Commerce Council	13 Y, 0 N	Freire	Liepshutz
3) _____	_____	_____	_____
4) _____	_____	_____	_____
5) _____	_____	_____	_____

SUMMARY ANALYSIS

Currently, before a private passenger motor vehicle can be insured, s. 627.744, F.S. requires the vehicle to undergo a preinsurance inspection. The statute lists various exceptions to the preinsurance inspection requirement, and the inspection is only required in 7 counties. These counties are: Miami-Dade, Broward, Palm Beach, Orange, Pinellas, Hillsborough, and Duval counties.

This bill amends s. 627.744, F.S. relating to required preinsurance inspection of private passenger motor vehicles. It removes an insurance company's obligation to inspect a motor vehicle before providing physical damage coverage, including collision and comprehensive coverage, and allows insurance companies to voluntarily require preinsurance inspections of any motor vehicle in any county.

Proponents of the bill claim that the statute lacks efficacy because of its numerous exceptions. They also claim that other statutes requiring insurance companies to have Special Investigative Units adequately address insurance fraud. Opponents of the bill argue that insurance fraud will increase if the preinsurance inspection is not mandatory because preinsurance inspection aims to rule out fraud whereas the Special Investigative Units only fight fraud retroactively.

This bill does not have a fiscal impact on state or local government.

This bill will take effect upon becoming a law.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Provide Limited Government: This bill removes the preinsurance inspection requirement for private passenger motor vehicles set forth in s. 627.744, F.S., and allows insurance companies to voluntarily require preinsurance inspections.

B. EFFECT OF PROPOSED CHANGES:

Currently, s. 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.

This bill amends s. 627.744, F.S. Instead of requiring mandatory preinsurance inspection of motor vehicles, this bill allows, not requires, an insurance company to require a preinsurance inspection of any motor vehicle, in any county in Florida, as part of their fraud prevention program and as a condition of issuance of physical damage coverage.

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.

Representatives from State Farm and Progressive Auto Insurance Companies contend that s. 627.744, F.S., is a cumbersome statute with questionable efficacy due to the large number of exceptions and its applicability in few counties.⁴ Progressive (representing 7 percent of the auto insurance market) estimates that it does about 7,000 inspections per month.⁵ Industry-wide, Progressive estimates that there are 100,000 inspections done each month at a cost of \$9 per inspection, or \$10.8 million per year. This cost is built into the company's rate.⁶

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 Telephone conversation with a representative from Progressive on November 23, 2005; telephone conversation with a representative from State Farm Insurance on December 14, 2005.

⁵ Data gathered by a representative from Progressive on January 18, 2006.

⁶ While s. 627.744(4), F.S. allows insurance companies to charge customers up to \$5 for an inspection, Progressive does not charge customers directly; rather, Progressive has built the cost of inspections into the company's rate.

Progressive finds that s. 626.9891, F.S., which created the Special Investigative Units, addresses insurance fraud more adequately. Progressive argues that that preinsurance inspections were created to eliminate “paper cars”, but today, criminals have moved on to “cloning” vehicles which are not detectable by preinsurance inspections. Progressive also states that while preinsurance inspections are thought to detect prior damages, their claims representatives are trained to identify pre-existing damages.

A representative from CARCO⁷, an automobile inspection group, opposes the bill. CARCO argues that the Special Investigative Units are insufficient because they only investigate fraud after fraud is suspected. CARCO’s position is that it is easier to deter fraud after 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 suffered an 8.8 percent increase in vehicle theft.⁸

A representative from the Division of Insurance Fraud within the Department of Financial Services stated that the bill may promote fraudulent behavior because without it, a policyholder can purchase a wrecked vehicle and fraudulently tell the insurance company that the car was not purchased under that condition or damaged in any other way.⁹ The department believes that the preinsurance inspection statute reduces fraud and ultimately, not mandating the preinsurance inspections could negatively impact the insurance industry.

C. SECTION DIRECTORY:

Section 1. Amends s. 627.744, F.S., which requires preinsurance inspection of private motor vehicles, to allow voluntary preinsurance inspection of private motor vehicles in all counties.

Section 2. Provides that the bill will be effective upon becoming a law.

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.

⁷ CARCO is a nation-wide automobile inspection group hired by insurance companies to do preinsurance inspection on vehicles.

⁸ 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.

⁹ Telephone conversation with a representative from the Division of Insurance Fraud within the Department of Financial Services on December 15, 2005.

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 may save customers the cost of preinsurance inspections. According to Progressive, that is \$9 per inspection. According to the Office of Insurance Regulation, the private sector may be affected to the extent that vehicle inspections can be demonstrated to reduce insurance fraud, and those savings contribute to the stability of the motor vehicle market.¹⁰

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:

C. DRAFTING ISSUES OR OTHER COMMENTS: Section 627.744, F.S., may be expanded by SB 1384, relating to preinsurance inspections. Senate bill 1384 seeks to delete the exceptions to preinsurance inspection of private passenger motor vehicles, deletes the requirement to take imprint of vehicle identification number, and requires that certain digital images of the vehicle be made.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

At the March 9, 2006 meeting, the Commerce Council approved HB 197 with a strike-all amendment. The strike-all amendment changes s. 627.744, F.S., from requiring preinsurance inspection of private motor vehicles in some counties to making it voluntary in all counties. The bill as originally filed repealed the mandatory preinsurance inspection statute in its entirety.

This analysis has been updated to reflect the changes made by the Commerce Council at its March 9, 2006 meeting.

¹⁰ Office of Insurance Regulation Legislative Analysis complete on November 2, 2005.