

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Banking and Insurance

BILL: SB 1316

INTRODUCER: Senator Bracy

SUBJECT: Preinsurance Inspection

DATE: March 31, 2017

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Matiyow	Knudson	BI	Pre-meeting
2.			TR	
3.			RC	

I. Summary:

SB 1316 allows motor vehicle insurers an exemption from the requirement they must inspect each private passenger motor vehicle before issuing an insurance policy that provides coverage for physical damage. The inspection requirement only applies in counties with a 1988 population of 500,000 or greater. The bill requires insurers using the exemption to file a manual rule with the Office of Insurance Regulation (OIR) and allows an insurer to establish their own pre-insurance inspection requirements before insuring a private passenger motor vehicle.

II. Present Situation:

Preinsurance Inspection of Private Passenger Motor Vehicles

Section 627.744, F.S., requires insurers to perform preinsurance inspections of private passenger motor vehicles. The inspection must include:

- Taking a physical imprint of the vehicle identification number of the vehicle or otherwise recording the vehicle identification number in a manner prescribed by the commission.
- Recording the presence of accessories required by the commission to be recorded.
- Recording the locations of and a description of existing damage to the vehicle.

The requirement applies to a policy issued on a private passenger motor vehicle principally garaged in counties with a 1988 population of 500,000 or greater. These counties are Duval, Palm Beach, Broward, Dade, Orange, Hillsborough, and Pinellas. There are various exemptions from the required preinsurance inspection, including exceptions for:

- new, unused motor vehicles “purchased” from a licensed motor vehicle dealer or leasing company when the insurer is provided with the bill of sale, buyer’s order, or copy of the title,
- Vehicles added by policyholders continuously insured for two or more years,
- Temporary substitute motor vehicles,
- Motor vehicles leased for less than six months, contingent upon certain documentation,

- Vehicles 10 years old or older,
- Renewal policies,
- Vehicles or policies exempted by rule,
- Vehicles that are garaged too far from a contracted inspection facility,
- Vehicles on a commercial rated policy with five or more insured vehicles,
- Upon transfer of a book of business among insurers, and
- When an individual insured's coverage is being transferred and initiated by a producer to a new insurer.

Despite the exemptions, an insurer may require a preinsurance inspection of any motor vehicle as a condition of issuance of physical damage coverage. Physical damage coverage may not be suspended during the policy period due to the applicant's failure to provide the required documents. However, claim payments are conditioned upon, and are not payable until, the required documents are received by the insurer. Applicants for insurance may be required to pay the cost of the preinsurance inspection, not to exceed \$5.¹

In 2016, the Legislature required the Department of Financial Services (DFS) to provide a report on preinsurance inspections in the state.² The report was issued on December 22, 2016.³ The required elements and reported data⁴ for 2012-2016 are:

- Total cost incurred by insurers and policyholders in order to comply with the inspections.
 - Insurers: \$12,062,089
 - Policyholders: None
- Total cost incurred by insurers to have motor vehicles inspected.
 - \$12,062,089
- Total premium savings for policyholders as a result of the inspections.
 - \$35,640
- Total number of inspected motor vehicles that had preexisting damage.
 - 125,787 motor vehicles inspected.
- Data on potential fraud within the first 125 days after issuance of a new policy.
 - 6,166 potential fraud claims.
- Total number of referrals to the National Insurance Crime Bureau (NICB) by preinsurance inspectors during the past 5 years.
 - 626 referrals made to NICB.⁵

Many insurers argue based on the findings of this report the mandatory cost for such inspections do not justify the potential cost avoidance. However, vendors that provide these mandatory inspections argue when taking into account the average cost of repair to vehicles along with the number of vehicles noted as having damage at time of inspection, the total cost avoidance from potential fraud should be much higher than what has been reported.

¹ Section 627.744(4), F.S.

² ch. 2016-133, L.O.F.

³ FLORIDA DEPARTMENT OF FINANCIAL SERVICES, DIVISION OF INVESTIGATIVE & FORENSIC SERVICES, *627.744(8)(a), F.S. Motor Vehicle Pre-Inspection – Reporting Requirements* (Dec. 22, 2016). (on file with the Senate Committee on Banking and Insurance.)

⁴ The survey and data request summarized in the report included responses received from 157 insurers (39 provided data).

⁵ DFS also reports that 4,065 referrals were made by insurers to the Division of Investigative & Forensic Services (formerly the Division of Insurance Fraud) during the same period.

III. Effect of Proposed Changes:

The bill allows motor vehicle insurers to opt out of the requirement they must inspect each private passenger motor vehicle before issuing an insurance policy that provides coverage for physical damage. Physical damage includes collision and comprehensive coverages. The inspection requirement only applies in counties with a 1988 population of 500,000 or greater. These counties are Duval, Palm Beach, Broward, Dade, Orange, Hillsborough, and Pinellas.

When an insurer elects to opt out of inspection requirements they must file a manual rule with the OIR indicating that the insurer will not participate in the inspection program and will not require the preinsurance inspection of its insureds' motor vehicles.

An insurer that files such a manual rule with the OIR is allowed to establish its own preinsurance inspection requirements as a condition to issuing a private passenger motor vehicle insurance policy.

IV. Constitutional Issues:**A. Municipality/County Mandates Restrictions:**

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:**A. Tax/Fee Issues:**

None.

B. Private Sector Impact:

Insurers will no longer be required to pay for or preform such inspections.

Inspections companies could see an indeterminate negative impact should insurers choose not to utilizing their services.⁶

⁶ In 2012-2016, one vendor reported conducting more than 584,000 inspections on behalf of 33 insurers. The total cost for these inspections was \$5,256,000 or an average of \$9 per inspection. Approximately 12 percent or roughly 71,000 of the 584,000 vehicles inspected were noted by the vendor as having existing damage at time of inspection. (information on file with the committee on Banking and Insurance).

C. **Government Sector Impact:**

None.

VI. Technical Deficiencies:

In lines 24 - 27: The bill does not have any language requiring the insurer to file a rule with the OIR establishing the requirements of their own inspection program. Without such rule on file the OIR is concerned they will have no way of knowing if the inspection program is unfair or discriminatory, if it places an undue burden on insureds, or if there was an established cap on inspection fees.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends section 627.744 of the Florida Statutes.

IX. Additional Information:

A. **Committee Substitute – Statement of Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. **Amendments:**

None.