

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/HB 1299 Preinsurance Inspection
SPONSOR(S): Insurance & Banking Subcommittee; DuBose
TIED BILLS: IDEN./SIM. **BILLS:** SB 1316

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Insurance & Banking Subcommittee	12 Y, 1 N, As CS	Lloyd	Luczynski
2) Commerce Committee			

SUMMARY ANALYSIS

Subject to certain exceptions, insurers are required to conduct preinsurance motor vehicle inspections in seven large counties. In 2016, the Legislature required the Department of Financial Services (DFS) to provide a report on preinsurance inspections in the state. The report was issued on December 22, 2016. From 2012 through 2016, insurers inspected 125,787 motor vehicles at a cost of \$12,062,089 (none to policyholders) with a reduction in premiums of \$35,640. During the period, insurers reported 6,166 potential fraud claims to the DFS.

The bill allows insurers to opt-out of the required inspections upon a filing with the Office of Insurance Regulation and authorizes the insurer to implement their own preinsurance inspection program at a maximum cost to consumers of \$5 per inspection.

The bill has no fiscal impact on state or local government expenditures. The bill has both positive and negative impacts on the private sector.

The bill is effective July 1, 2017.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Preinsurance Inspection of Private Passenger Motor Vehicles

Section 627.744, F.S., requires insurers to perform preinsurance inspections of private passenger motor vehicles.¹ The requirement generally 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 and certain other documentation.²

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 five dollars.

In 2016, the Legislature required the Department of Financial Services (DFS) to provide a report on preinsurance inspections in the state.³ The report was issued on December 22, 2016.⁴ The required elements and reported data⁵ 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

¹ The inspection must include:

- Taking an imprint or record of the vehicle identification number in a manner set by rule,
- Recording of accessories, as specified by rule, and
- Recording the location and description of damaged areas.

s. 627.744(5), F.S.

² The other exemptions are:

- 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 coverage is transferred by an individual insured to a new insurer.

s. 627.744(2), F.S.

³ ch. 2016-133, Laws of Fla.

⁴ 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).

⁵ The survey and data request summarized in the report included responses received from 157 insurers (39 provided data). *Id.* at 2.

- 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.⁶

The bill authorizes insurers to opt-out of required preinsurance inspections. When opting-out, the insurer must file a manual rule with the Office of Insurance Regulation stating that the insurer will not be participating in the statutory inspection program and will not require such inspections. An insurer that has opted-out may establish its own preinsurance inspection requirements as a condition to issuing a private passenger motor vehicle insurance policy. It also limits the consumer's expense to \$5 in those instances where an insurer implements their own preinsurance inspection program.

B. SECTION DIRECTORY:

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

Section 2: Provides an effective date of July 1, 2017.

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:

Policyholders and insurers may experience reduced costs if the insurers elect not to require preinsurance inspections while maintaining control over claim fraud through currently available or lower cost alternative methods. Preinsurance inspection providers may see a decrease in referrals if insurers choose to opt-out of required inspections.⁷

D. FISCAL COMMENTS:

None.

⁶ DFS also reports that 4,065 referrals were made to the Division of Investigative & Forensic Services (formerly the Division of Insurance Fraud) during the same period. *Id.* at 7.

⁷ CARCO Group, Inc., which is a service provider, provided data that was included in the DFS report. For 2012-2016, CARCO reported \$5.6 million in total costs incurred by 34 clients over the period. *Id.* at 4.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not Applicable. This bill does not appear to affect county or municipal governments.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

The bill neither authorizes nor requires administrative rulemaking.

C. DRAFTING ISSUES OR OTHER COMMENTS:

The Legislature created s. 627.744(8), F.S., in 2016 to require a report by DFS on preinsurance inspection data. DFS delivered the report in December 2016. This subsection is now superfluous and can be deleted without negative impacts.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

On March 27, 2017, the Insurance & Banking Subcommittee adopted a strike all amendment and reported the bill favorably as a committee substitute. The amendment creates express authority for an insurer to elect not to participate in required preinsurance inspection of motor vehicles under s. 627.744, F.S., and limits the consumer's expense to \$5 in those instances where an insurer has opted-out of the statutory preinsurance inspections and implements their own inspections instead.

The staff analysis has been updated to reflect the committee substitute.