

**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.)

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Prepared By: The Professional Staff of the Committee on Transportation

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BILL: CS/SB 1316

INTRODUCER: Banking and Insurance Committee and Senator Bracy

SUBJECT: Preinsurance Inspection

DATE: April 18, 2017

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Matiyow</u>	<u>Knudson</u>	<u>BI</u>	<u>Fav/CS</u>
2.	<u>Jones</u>	<u>Miller</u>	<u>TR</u>	<u>Pre-meeting</u>
3.	_____	_____	<u>RC</u>	_____

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**Please see Section IX. for Additional Information:**

COMMITTEE SUBSTITUTE - Substantial Changes

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**I. Summary:**

CS/SB 1316 allows motor vehicle insurers an exemption from the requirement that they 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 file with the OIR their own preinsurance inspection requirements before insuring a private passenger motor vehicle.

The bill does not appear to have a fiscal impact on state or local government.

**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's vehicle identification number or otherwise recording the vehicle identification number in a manner prescribed by the Financial Services Commission (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 or leased from a licensed motor vehicle dealer or leasing company;<sup>1</sup>
- Vehicles added by policyholders continuously insured for 2 or more years;
- Temporary substitute motor vehicles;
- Motor vehicles leased for less than 6 months, contingent upon certain documentation
- Vehicles 10 years old or older;
- Renewal policies;
- Vehicles or policies exempted by rule of the commission;
- Vehicles garaged too far from a contracted inspection facility;
- Vehicles on a commercial rated policy with five or more insured vehicles;
- When an insurance producer transferring a book of business from one insurer to another; 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.<sup>2</sup>

In 2016, the Legislature required the Department of Financial Services (DFS) to provide a report on preinsurance inspections in the state.<sup>3</sup> The report was issued on December 22, 2016.<sup>4</sup> The required elements and reported data<sup>5</sup> 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.

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<sup>1</sup> The insurer may require a bill of sale, buyer's order, or lease agreement, or copy of title or registration that establishes transfer of ownership from the dealer or leasing company and the window sticker. See s. 627.744(2)(b), F.S.

<sup>2</sup> Section 627.744(4), F.S.

<sup>3</sup> Chapter 2016-133, L.O.F.

<sup>4</sup> FLORIDA DEPARTMENT OF FINANCIAL SERVICES, DIVISION OF INVESTIGATIVE & FORENSIC SERVICES, s. 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.)

<sup>5</sup> The survey and data request summarized in the report included responses received from 157 insurers (39 provided data).

- 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.<sup>6</sup>

Many insurers argue based on the findings of this report that the mandatory cost for such inspections does 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.

### **III. Effect of Proposed Changes:**

The bill allows motor vehicle insurers to opt out of the requirement that they inspect each private passenger motor vehicle before issuing an insurance policy that provides coverage for physical damage, including collision and comprehensive coverages.

An insurer who elects to opt out of inspection requirements must file a manual rule with the OIR indicating it will not participate in the inspection program under s. 627.744, F.S. The insurer may establish its own preinsurance inspection requirements as a condition to issuing a private passenger motor vehicle insurance policy, and such requirements must be included in the manual rule filed with the OIR. Insurers may charge applicants up to \$5 for the inspection.

The bill takes effect July 1, 2017.

### **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.

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<sup>6</sup> 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.

**B. Private Sector Impact:**

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

Inspection companies could see an indeterminate negative impact should insurers choose not to utilize their services.<sup>7</sup>

**C. Government Sector Impact:**

The bill does not appear to have a fiscal impact on state or local government.

**VI. Technical Deficiencies:**

None.

**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 Substantial Changes:**  
(Summarizing differences between the Committee Substitute and the prior version of the bill.)**CS by Banking and Insurance on April 3, 2017:**

Requires insurers that opt out of statutory preinsurance inspections to file a manual rule with the OIR indicating its non-participation. An insurer may establish its own preinsurance requirements in the manual rule. Insurers may charge applicants up to \$5 for the inspection, which is the maximum charge under current law for inspections conducted pursuant to s. 627.744, F.S.

**B. Amendments:**

None.

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This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.

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<sup>7</sup> 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 Banking and Insurance Committee).