

# HOUSE BILL REPORT

## HB 1113

---

### As Reported by House Committee On:

Insurance, Financial Services & Consumer Protection

**Title:** An act relating to prohibiting insurers from having a financial interest in automotive repair facilities.

**Brief Description:** Prohibiting insurers from having a financial interest in automotive repair facilities.

**Sponsors:** Representatives Kirby, Williams, McDonald, Hasegawa, Ormsby, Morrell, Moeller and Wallace.

### Brief History:

#### Committee Activity:

Insurance, Financial Services & Consumer Protection: 1/16/07, 1/18/07 [DP].

#### Brief Summary of Bill

- Insurers may not have an ownership interest in an automotive repair facility.
- An insurer that has an ownership interest in an automotive repair facility must divest itself of the ownership interest by July 1, 2008.

---

## HOUSE COMMITTEE ON INSURANCE, FINANCIAL SERVICES & CONSUMER PROTECTION

**Majority Report:** Do pass. Signed by 5 members: Representatives Kirby, Chair; Kelley, Vice Chair; Strow, Assistant Ranking Minority Member; Hurst and Santos.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Roach, Ranking Minority Member; Rodne and Simpson.

**Staff:** Jon Hedegard (786-7127).

### Background:

The Office of the Insurance Commissioner (OIC) is responsible for the regulation of property casualty insurance in the state of Washington. The OIC is authorized to regulate both the rates

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

and contracts of the companies doing business in this state. The OIC also oversees claims handling practices.

Under current insurance rules, insurers must provide an insured with estimates for costs of vehicle repairs and the names of shops that will repair the vehicle for the estimated costs. The insurer cannot require an insured to travel an unreasonable distance to get an estimate or to have a vehicle repaired. Insurers are permitted to have contractual provisions that allow the insurer to have the vehicles repaired at a facility designated by the insurer.

Although various insurance statutes and rules prohibit unfair practices in auto claims settlements, no statute or rule explicitly prohibits an insurer from owning all or part of an automotive repair facility.

---

**Summary of Bill:**

An insuring entity may not have any ownership interest in an automotive repair facility. An insuring entity that has an ownership interest in an automotive repair facility must divest itself of the ownership interest by July 1, 2008.

"Insuring entity" means an insurer, including a fraternal mutual insurer, that is licensed to write casualty insurance in this state.

"Ownership interest" means the right to control the affairs of a business, or the right to share in the profits of a business, and includes a loan to the business when the interest on the loan is based upon the income of the business or the loan carries more than a commercially reasonable rate of interest.

---

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:**

(In support) Consumers are required to carry auto insurance. As a result, government must have adequate consumer protections to prevent abuses. In our system, insurers have control of the premium dollars and the claims payment process. Over time, insurers are getting closer to controlling how each dollar is spent. Insurance was developed to pool and spread risk. Today, insurance is no longer about spreading risk and making the consumer whole. Insurance is about collecting premiums and reducing exposure. It is the job of an insurer to reduce claims payment. A question we must ask is - is that job being done in an appropriate manner? If necessary repairs aren't allowed, or substandard labor or parts are used, safety and quality are compromised. Steering is illegal in Washington. This bill is intended to prevent

the development of a claims practice that could lead to illegal steering. Insurers will say that insurer-owned shops reduce costs which, in turn, reduces premiums. Insurer-owned shops will actually allow insurers to subsidize premiums and limit consumer choice. There is a train wreck waiting to happen. This concept is being used in other states. Washington should prevent it before it happens here.

Insurers should focus on the job of insuring customers. They should not try to be in the auto repair business. Insurers have inherent conflicts of interest that can lead to problems. The relationship can be adversarial because an auto repair shop wants the customer to be happy and safe; the insurer wants to process a claim as cheaply as possible. This can lead to a shop fighting the insurer on behalf of the customer. The complaints usually are due to denials of repairs. An issue that came up in testimony on previous bills on this subject was a suit over a similar bill. That statute was upheld by a judge.

Independent shops depend on service and customer service to ensure repeat business. Insurer-owned shops in California have been fined \$5 million by the state and forced to reinspect thousands of cars. In Detroit, insurer-owned shops were forced to close because consumers refused to use those shops. Across the country, insurer-owned shops have customer satisfaction levels that are below the national average.

(Opposed) Customer retention is very important. Insurers can offer many different lines of insurance and many financial products. Often, an auto claim can lead to an adversarial relation between an insurer and an insured. In turn, the insured may take all of their business elsewhere. Allstate has a financial relationship with Sterling Autobody Centers. Sterling has extremely high customer satisfaction ratings. We are raising the bar in customer service. Other insurers now are trying to compete on customer service.

Sterling is revolutionizing the repair process. It uses new technology and new team-based approaches to estimate and to repair damage. There is a lifetime guarantee on the parts and service. There are 60 Sterling locations in 16 states. There are no Sterling locations in Washington today or any other insurer-owned auto repair shops. Sterling employees have career options that did not use to be available in the automotive repair world. Employees are paid good wages and have retirement benefits and health care coverage. We are proud to be affiliated with Allstate and disclose that on all of our forms. Not all of Sterling's business is with Allstate; 15 percent of Sterling's business is from other insurers. Sterling's customer satisfaction rate is very high.

There are no insurer-owned shops today in Washington. The insurance industry opposes this bill because that option should not be precluded. If circumstances change and that model can provide more efficient alternative, it should be an available option. Auto repair is an area that leads to many complaints to the Attorney General; more competition would improve service.

Progressive does not own shops. Still, Progressive opposes the bill because all options should remain open. They do operate a concierge service where a customer can bring in a car, receive a rental car, and Progressive will take the damaged car to a local shop for repair and

return it to the owner. This is a costly service but Progressive customers and the local shops like it. Our customer service satisfaction levels have risen.

In addition to the concerns previously raised, the bill also raises issues about upstream ownership. At what point is owning an interest in an insurer and an auto repair shop allowed?

**Persons Testifying:** (In support) Representative Kirby, prime sponsor; and James McMahan and Mike West, Autobody Craftsman Association.

(Opposed) Mel Sorensen, Allstate Insurance, PCI Insurance and American Family Insurance; Sharon Mazanec, Sterling Autobody Centers; Cliff Webster, Associated Independent Agencies; Carrie Tellefson, Progressive Insurance; Mocerri, Elizabeth, Allstate Insurance; and Mike Kapphahn, Farmer's Insurance.

**Persons Signed In To Testify But Not Testifying:** None.