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May 12, 2017

The Honorable Lorena Gonzalez Fletcher
Chair, Assembly Appropriations Committee
State Capitol, Room 2114
Sacramento, CA 95814

RE: Assembly Bill 1679 (Burke) Motor vehicle insurance: auto body repair – OPPOSE
As Amended on April 6, 2017
Assembly Appropriations Committee – May 17, 2015

Dear Assemblymember Gonzalez Fletcher:

The Consumer Federation of California (CFC) opposes Assembly Bill 1679, authored by Assemblymember Burke, which would weaken important consumer protections for automobile policy holders.

AB 1679 would undercut recent regulations promulgated by the California Department of Insurance that went into effect in March 2017 following a lengthy rulemaking process in which insurers had every opportunity to participate. The regulations afford protections to claimants against being improperly steered toward an insurer's preferred auto body repair facility, and implement standards to make sure that insurers are accurately surveying auto body repair labor rates in determining the cost of an insured repair.

California's anti-steering law and regulations are designed to protect consumers from an unfair and uncompetitive insurance industry practice of sending automobile insurance policyholders to an insurer's captive repair shops (Direct Repair Network shops). Too often, DRN body shops agree to accept reduced payments from insurers in exchange for the increased business that the insurer steers their way. To offset the lower pay from the insurer, too often these captive shops cut corners on repair protocols, use inferior aftermarket parts, and undermine local wage and benefit standards in the industry. These practices benefit insurers and are detrimental to consumers.

By superseding the Department of Insurance's recently enacted regulations, AB 1679 will eliminate important consumer protections that guard against requiring claimants to travel excessive distances for vehicle inspections by insurers, prohibit delayed insurer vehicle inspections, and open the door for unscrupulous insurers to provide one-sided and manipulative information for the purpose of unduly influencing the policyholder to act in the insurer's financial interest at the policyholder's expense.

AB 1679 further undermines these regulations by permitting insurers to conduct unreliable insurer labor rate surveys with a rebuttable presumption of validity, making it difficult for consumers to challenge the amount an insurer is willing to pay. AB 1679 would allow insurers to use large geographical areas in their survey, instead of the local area where one would reasonably expect the repair to occur; and would allow insurers to include shops operating in the underground economy that fail to meet requirements of law³, such as providing evidence of liability and workers' compensation insurance, and would designate the results of those surveys as confidential trade secrets, preventing consumers and the public from reviewing the validity of these surveys.

Artificially low labor rate surveys result in consumers being forced to pay excessive out-of-pocket costs should the consumer decline to use the insurer's preferred repair shop. AB 1679 affords an insurer additional opportunities to persuade a consumer to replace his or her chosen auto body shop with a shop that may have a contractual relationship with the insurer, without providing consumers with objective information in order to make better informed choices, for example requiring the insurer to inform the consumer of the terms and conditions of the insurer's contractual relationship with the DRN shop.

I respectfully urge you to vote "No" on AB 1679. If you or your staff has any questions, please contact Aaron Lewis, CFC Legislative Advocate, at (916) 498-9616.

Sincerely,

A handwritten signature in black ink that reads "Richard Holober". The signature is written in a cursive, flowing style.

Richard Holober
Executive Director

cc: Members and Committee Staff, Assembly Appropriations Committee
Assemblymember Burke