

**STATEMENT**

**OF**

**MR. DAN RISLEY**

**PRESIDENT**

**AUTOMOTIVE SERVICE ASSOCIATION**

**NORTH RICHLAND HILLS, TEXAS**

**BEFORE THE**

**MICHIGAN SENATE INSURANCE COMMITTEE**

**LANSING, MICHIGAN**

**DECEMBER 2, 2015**



Good Afternoon Mr. Chairman and Members of the Committee. My name is Dan Risley. I am President of the Automotive Service Association (ASA) and I am here today representing our association. ASA is the largest not-for-profit trade association of its kind dedicated to and governed by independent automotive service and repair professionals. ASA serves an international membership base that includes numerous affiliate, state and chapter groups from both the collision and mechanical repair segments of the automotive service industry. Our state affiliate, ASA-Michigan, is the largest automotive service association in the State of Michigan. Prior to ASA, I was involved in a family-owned collision repair facility, served as the executive director of another automotive association and spent a number of years at Allstate Insurance Company.

ASA has a long history of working with insurance companies in ensuring our customers the best possible repair experience following an accident. ASA is supportive of insurer direct repair programs (DRP) that are open and fair to both vehicle owners and collision repairers. Many of our leaders serve on DRP advisory boards of state and national insurance companies. Mandatory parts procurement programs began as a pilot program with a limited number of shops involved in one company's DRP programs. These parts programs have now spread across the country with one major insurance company. Our position on mandatory parts procurement systems is not about DRP's but rather about how an insurer can go too far in controlling a small business and its vendors.

ASA supports Senate Bill 430 which prohibits insurance companies from requiring the use of mandatory parts procurement systems and limiting the choice of parts vendor(s) by automotive repair shops. Senate Bill 430 **DOES NOT** prohibit the use of insurer DRP agreements with automotive repair shops. The vast majority of insurers have opted not to require the use of mandatory parts procurement systems.

**Insurer mandated parts procurement systems are harmful to collision repair shops and to local parts vendors.** Auto repair shops have worked for many years to develop relationships with local automotive parts vendors. Insurer parts mandates eliminate this economically significant parts purchasing relationship. Cost savings in automotive repair such as local delivery versus overnight charges increase the cost of the repair. Since a pre-existing relationship doesn't exist and the vendor doesn't have the majority of the shop's business, standard service level agreements aren't in effect. Shops will experience delays in receiving parts, in the frequency of deliveries, in processing returns and in parts accuracy. Mandatory parts procurement systems can add a significant amount of administrative time to the claims process as opposed to using one of their preferred vendors for parts.

**Insurer mandated parts procurement systems are harmful to consumers.** There are increased delays with a mandatory parts procurement system versus local purchases. These delays cause consumers to incur additional costs; for example, additional car rental days, loss of transportation, etc. Often times the lower price parts located by automated systems are of a lower quality, thus necessitating the return of the part. Some insurers will argue that mandating vendors for small businesses will save consumers money. This is not the case. Collision shops have noted that average estimates have remained the same since the new mandatory parts

program was put in place. The same vehicle parts are being purchased but from unfamiliar, non-local parts vendors. Or, on the flip side, the fees that some part procurement systems charge to vendors are often passed on to the shops, increasing the cost of repairs for the customer. Collision shops have not determined that there is any potential for cost savings under the new procurement system.

**Policyholders are not seeing insurance rate reductions due to the new mandated parts system.**

**Insurer mandated parts procurement systems are harmful to local communities.** Preventing local auto repair shops from buying automotive parts in their local communities will harm local businesses and impact sales tax revenue.

I want to leave you with some closing thoughts:

- **Shops are not opposed to parts procurement tools.** ASA opposes an insurance company requiring the use of a specific company. An insurer requiring the use of one company ignores the potential for technological advances in parts procurement and discourages competition. There are parts procurement systems currently in development that may provide superior service to the insurer mandated system, yet they are excluded from some direct repair agreements.
- **Shops work with multiple insurance companies in automotive repair.** If 5 different insurers require 5 different parts procurement systems, it will be cost prohibitive and too labor intensive for repair shops. In addition, these increased costs will be passed on to the consumer. Historically,

insurance providers with no parts procurement mandates advertise the lowest premiums, such as GEICO and Progressive. With no insurance rate reductions due to mandatory parts procurement, insurance premiums will continue to increase.

- **There is currently no statistical information available to the public to validate that these mandates are lowering claim costs.** It takes several years for the actuarial departments to adjust the policy premium based upon the prior several years of history.

We ask the Committee to consider the negative economic impact that an insurer mandated parts procurement program has on small businesses, consumers and Michigan communities. Please support Senate Bill 430.

I appreciate the opportunity to testify before the Committee today. Thank you.