

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 1418 (Delegate Lisanti)
Economic Matters

Motor Vehicle Liability Insurance - Replacement Parts for Damaged Motor Vehicles

This bill requires each motor vehicle liability policy that covers the repair of physical damage to an insured vehicle to include the option for the policyholder to require that repairs be made using “genuine crash parts,” “certified aftermarket crash parts,” or “aftermarket crash parts.” The option must appear in the policy prominently and in clear, understandable language. An insured may consent in writing at the time of repair to the use of aftermarket crash parts or crash parts that are not certified. **The bill takes effect January 1, 2021.**

Fiscal Summary

State Effect: Minimal special fund revenue increase from the \$125 rate and form filing fee in FY 2021. Review of the filings can be handled with existing resources. General fund revenues increase beginning in FY 2021 due to the 2% tax collected on all premiums in the State, as discussed below.

Maryland Automobile Insurance Fund (MAIF) Effect: MAIF nonbudgeted expenditures increase, potentially significantly, beginning in FY 2021 to the extent that MAIF pays more for insurance claims under the bill. MAIF nonbudgeted revenues increase by the same amount as premiums are raised to account for MAIF’s additional liability.

Local Effect: The bill does not directly affect local operations or finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: “Crash parts” means exterior or interior sheet metal or fiberglass panels and parts that form the structure or body of a motor vehicle.

“Aftermarket crash parts” means crash parts manufactured by a person other than the original manufacturer of a motor vehicle and for which the original manufacturer has not authorized the use of its name or trademark for the parts.

“Certified aftermarket crash parts” means crash parts that are certified to specified quality standards, subject to regular testing from an independent third-party testing facility to ensure the quality standards are met, and meet specified identification requirements.

“Genuine crash parts” means crash parts manufactured by or for the original manufacturer of a motor vehicle that is being repaired and that are authorized to carry the name or trademark of the original manufacturer of the motor vehicle.

Current Law: The owner of a motor vehicle that is required to be registered in the State must maintain insurance for the vehicle during the registration period. The Motor Vehicle Administration (MVA) may not issue or transfer the registration of a motor vehicle unless the owner or prospective owner of the vehicle furnishes evidence satisfactory to MVA that the required insurance is in effect. Among other types of coverage, each insurance policy must include property damage liability coverage of \$15,000.

An automotive repair facility must prepare an invoice for all work done, including all warranty work, and all parts supplied by the facility. If the parts used by an automotive repair facility are aftermarket crash parts, the facility must include with its estimate a specified written statement to inform the customer that aftermarket parts were used. An automotive repair facility must, on request of the customer, provide a copy of the warranty for the aftermarket crash parts used in the repair of a vehicle, if available. An insurer must also, on request of the insured, provide a copy of the warranty for any aftermarket crash parts used in the repair of a vehicle, if available.

Background: According to [Claims Journal](#), as of October 2017, 35 states had laws or regulations that address an insurer’s obligations regarding the use of aftermarket crash parts. Of the 35 states:

- 31 states required a disclosure statement with the repair estimate that addresses the use of aftermarket crash parts;
- 20 states required aftermarket crash parts to be identified by the manufacturer;
- 13 states required aftermarket crash parts to be of “like kind and quality” as the corresponding genuine crash parts; and
- 6 states required the consent of an insured before using aftermarket crash parts.

MAIF Fiscal Effect: MAIF advises that, under its current practices, it does not write estimates using aftermarket crash parts unless the vehicle is more than two years old.

Additionally, MAIF advises that, on average, genuine crash parts are 70% more costly than aftermarket crash parts. Under the bill, MAIF is likely to have to use genuine crash parts more frequently, thereby increasing MAIF's nonbudgeted expenditures; however, any such increase depends on how many more repairs are made using genuine crash parts and, therefore, cannot be reliably estimated at this time. MAIF also experiences a one-time payment of \$125 as it updates its policy forms with the Maryland Insurance Administration to reflect the bill's requirements.

For illustrative purposes only, if 50% of the repairs paid by MAIF in 2018 used genuine crash parts instead of other types of crash parts, MAIF expenditures would have increased by \$3.6 million in 2018.

MAIF advises that any increase in expenditures under the bill is ultimately paid by its policyholders through increased premiums. Therefore, MAIF nonbudgeted revenues increase correspondingly to any increase in expenditures.

State Revenues: As previously mentioned, MAIF anticipates an overall increase in premiums since more policyholders are likely to have their vehicles repaired using more costly genuine crash parts under the bill. Other insurers are likely to have similar experiences.

Thus, general fund revenues increase to the extent that policyholders choose to have their vehicles repaired using genuine crash parts due to the 2% tax collected on all premiums in the State. Any such increase depends on how much insurance premium rates are increased by insurers in the State as a result of the bill and, therefore, cannot be reliably estimated at this time.

Additional Information

Prior Introductions: HB 1258 of 2016, a similar bill, received a hearing in the House Economic Matters Committee but was withdrawn. HB 574 of 2014, a similar bill, received an unfavorable report from the House Economic Matters Committee. Its cross file, SB 487, received a hearing in the Senate Finance Committee, but no further action was taken. HB 1375 of 2013, another similar bill, was referred to the House Economic Matters Committee, but no further action was taken.

Designated Cross File: None.

Information Source(s): Maryland Insurance Administration; Maryland Automobile Insurance Fund; claimsjournal.com; Department of Legislative Services

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an/jc

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