

April 16, 1993

**MEMO TO:** Frank R. Haines  
Claims Vice President

**FROM:** Bill Hardt  
Assistant Vice President-Property Claims

**SUBJECT:** CAPA

CAPA has served the insurance industry goals well. However, many of the problems CAPA is to address no longer seem to exist. We can simplify the CAPA goals by saying their purpose serves to address the quality and political issues that were obstacles to cost savings.

We are no longer hearing the complaints on quality, and the political activity from the OEM appears to have diminished. The OEM did not get legislation to "outlaw" non-OEM parts.

The fact the OEM will usually reduce a part price when an aftermarket part is available may not be a viable cost saving argument. The OEM tell us they simply raise the cost of parts without aftermarket competition to compensate.

The aftermarket manufacturers can sell all the parts they can make without certification. We are told CAPA has become somewhat of a joke in Taiwan because of this. There is no market incentive to use CAPA certified parts. In fact, there is an incentive not to use them as they cost more than non-certified parts. The only entity that truly supports certified parts is the insurance industry and they are not directly in the market loop. To "enforce" the use of certified parts is a challenge.

[New York has enacted legislation to limit the use of aftermarket parts to those that are certified or guaranteed by an insurance company.] I expect other states will enact similar legislation. Even without CAPA, we could and do warrant the parts. Therefore, legislation would not be an insurmountable problem.

We may be better off without CAPA. If we went back to our previous non-OEM parts criteria, the responsibility to use aftermarket parts with proper fit and corrosive protection would rest with the shops. Shops would continue to use aftermarket parts as they do now, and we would have the benefit of better supply and price. Competition with the OEM would still exist, and may be enhanced because of broader, more aggressive competition. That worked very well for us in the past, providing the quality control our policyholders needed.

As I see it, the real issue is quality. It seems the quality is now available whether certified or non-certified. The future question is, if CAPA no longer existed, would the quality remain? I believe it would.

Because of CAPA, the aftermarket industry has evolved rapidly. I expect the marketplace will not allow a reversal.

WFH:YE  
c: Gerry Colbert