

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS

“first draft”

GM's RESPONSE TO THE PROPERTY-CASUALTY INSURANCE COMMITTEE - SUB-COMMITTEE'S QUESTIONS September 20, 2002

1. In what specific ways will the proposed “*Certified Aftermarket Crash Parts Model Act*” benefit consumers?

The “Model Act” provides no apparent benefit to consumers. The best way to consider this question is to examine what will change as a result of the “Model Act”.

- There will be no improvement in choices for consumers. Today, consumers can already choose or reject OEM, certified aftermarket, non-certified aftermarket, or salvage parts. If anything, consumer choice and competitive dynamics will be lessened, as the market access for non-certified and salvage parts would be severely diminished.
- There will be no change in the competitive dynamics. Aftermarket producers and distributors will continue to “cherry pick” crash parts that offer them high profits, and they will continue to achieve their substantial market share among the parts they offer. OEMs will continue to offer a full compliment of parts for their vehicles, covering the full needs of consumers and insurance companies.
- There will be no change in the relative quality levels of parts. The “Model Act” does not require improvements in the CAPA certification model. CAPA parts continue to demonstrate that the CAPA model can not assure consistent quality of parts sold in the marketplace (see “More Jack-in-the-Box Hoods). Aftermarket manufacturers will continue to produce imitation parts with non-validated material substitutions, design changes and construction shortcuts to attain the cheapest cost.
- Claimed insurance premium reductions are unlikely to be realized. The insurance industry has offered no assurances, estimates or projections as to how, and how much insurance rates would be reduced.
- The principle benefits designed into the “Model Act” are aimed at CAPA and its profit based members. CAPA, its manufacturers and distributors would gain a legislated guarantee of business and a legislatively established marketing claim. Insurance companies would benefit from a legislated reduction in their contractual performance threshold and related risks.

2. What specific negative consequences might the proposed model have on consumers?

- Consumers will be misled into believing that aftermarket parts are equal to OEM, and may make choices that lead to disappointment and dis-satisfaction with repairs and their vehicles.
- Consumer's right to choose higher quality OEM parts, currently affirmed by many existing state statutes, would be reduced or eliminated.
- Consumer recourse for poor quality certified replacement parts would be drastically diminished, with the burden of proof shifted to the consumer.

- Consumers, as taxpayers, will bear the burden of increased state administration costs whose only purposes will be to supplement/replace the aftermarket manufacturers', aftermarket distributors', insurance companies' and CAPA's marketing programs.

3. To what extent are Original Equipment Manufacturer (OEM) crash parts out-sourced to manufacturers in, for instance, Taiwan?

- OEMs crash parts are either produced in house or with OEM qualified suppliers that meet all OEM supplier qualifications. The OEM's do not rebadge or remarket any "Crash Part" under any other label or brand.
- If produced by an outside supplier, that supplier must meet the OEM's qualification requirements which are typically based on both the suppliers' basic industry certifications (e.g., WS9000) plus their demonstrated track record regarding technical, production, delivery and support capabilities to consistently provide products to the OEMs specifications.
- Regardless of source, OEM parts are produced on OEM owned tooling to OEM original design and engineering specifications, and as such, OEMs have full control and responsibility for the production parts reaching the marketplace.

a. Do these Taiwanese manufacturers produce OEM and aftermarket crash parts in the same facilities? How do car companies enforce their own standards in such cases?

- GM does not source any collision parts from CAPA participant companies, **No automobile manufacturer selling or marketing vehicles in this country uses a "taiwan" manufacturer to produce fenders, hood or quarter panels.** Alliance will have to coordinate and consolidate the answer.
- Statements made by CAPA and Keystone that their manufacturers produce both aftermarket parts and OEM parts would like you to believe the practice is widespread, and are obviously stated to suggest that the parts are the same. However, when pressed, they must admit that they do not imply that the parts are the same - so why say it? Also, lets remember, the same manufacturer CAPA uses produced, and still produce, the non-certified ultra low quality parts that CAPA so nobly claims to protect consumers from. I doubt CAO would say that since the non-certified parts are produced by the same manufacturers, in the same facilities, on the same tools, with the same materials, that the non-certified parts are the same quality as the CAPA parts.
- Any manufacturer, Taiwanese or otherwise, will make a part to their customers' requirements. The aftermarket manufacturers' customers are aftermarket distributors (e.g., Keystone), CAPA and the insurance companies . All three institutions drive the manufacturers' to reduce cost to achieve significant price advantages vs. original OEM parts.
- While manufacturer's employee skill base, equipment and management determine its quality potential, there is no requirement that the manufacturer produce a part to their maximum potential if the customer is unwilling to pay at that level. Tooling and process shortcuts, material substitutions and design changes are regularly undertaken to reach cost targets and to fit equipment and labor attributes. These changes assure the part is not

equivalent to the OEM part, and may very frequently compromise quality in order to reduce costs.

- While the OEMs may have a slightly different systems, they are similar to the industry standard ***Production Part Approval Process*** adopted by GM, Ford and Chrysler. This is a rigorous and costly process to assure that each and every part is released to the market only after the manufacturing source proves and warrants that it can and will consistently produce the part to original design and engineering requirements at full volume production rates.

4. Overall, how do car company standards compare to the certification standards of the Certified Automotive Parts Association (CAPA) regarding how frequently parts are tested?

- OEMs control the original part design, tooling and actual production parts, and OEMs are fully responsible for every part reaching the marketplace. OEM parts are rigorously controlled in production to original design and engineering specifications according to a detailed inspection and test routine approved and validated for each specific part. As such, production is continuously monitored to specifications, with OEM's retaining full control and authority over the actual production.
- CAPA neither certifies nor is responsible for the production parts carrying its seal. CAPA only certifies a few select "sample" parts (i.e., not production parts) submitted by the manufacturer for approval. CAPA does not have authority over production, and explicitly disclaims any responsibility for their manufacturers' production parts.
- CAPA's attempt to validate post "certification" production parts is limited to fit rather than a full evaluation for any deviations from the "certified sample." WE are unable to determine if there is a defined discipline to the CAPA post "sample certification" process such as required frequency, methodology, etc. The post sample "certification" efforts do not appear to require evaluation for design, construction and production consistency deviations from the "certified sample".
- See the attached for a simple comparison between "certification" and OEM validation.

5. What percentage of OEM service parts are crash parts that can pass the standards for use on an assembly line? How is this determined? Should OEM crash parts also be certified by an independent third-party Certifiers ?

- This statement is absolutely untrue.
- OEM collision parts are produced to the same standards, with the same tooling, as original production parts.

6. Regarding the American Insurance Association's (AIA) proposed amendment, which would deem that crash parts guaranteed by an insurer were also suitable replacement parts, what kind of guarantee would an insurer offer? What certification standards would an insurance company use? What recourse would a policyholder have for a crash part guarantee by an insurer that no longer exists?

- This question is best answered by the insurance industry. The (AIA?) testified at the February NCOIL meeting to this specific question. At that hearing, the response indicated

that the insurance industry would not adopt warranty standards. Instead, each insurance company would decide its own warranty policy as a matter of its marketing strategy.

- We would anticipate that there would be no available consumer recourse to a defunct insurance company.
- Additional considerations for recourse are for subsequent owners of a vehicle, and third party claimants who don't have a contract with the insurance company paying for repairs. In both cases, it could be expected that their recourse is severely limited or non-existent if the "Model Act" is passed and aftermarket parts are declared as suitable for an insurance company to discharge its contractual obligations.

7. Would insurance companies have any specific objections to acting as the warrantor of last resort?

N/A

8. What would be the specific Pro's and Con's of uniform notification that would allow policyholders to select either OEM, certified aftermarket or uncertified aftermarket crash parts at the time of repair ?

- The alliance supports full consumer disclosure and consent regarding replacement parts. Accordingly, disclosure must be factual, truthful and not misleading. Disclosures based on facts, and not on marketing claims (i.g., "functionally equivalent to OEM") would not discriminate. Such a disclosure would characterize OEM parts as equal in design, material, construction and production specifications to the parts originally installed on the vehicle. "Certified" Aftermarket parts would be described as facsimiles of OEM parts in which differences from OEM parts in materials, design, construction and/or production specifications exist.

9. What, Specifically, is the insurance industry's ability to offer consumers "menu options"

N/A

10. What is the specific significance of CAPA's recent American National Standards Institute (ANSI) certification?

N/A

11. Would the proposed "Model Act", in any way, absolve CAPA of liability associated with its certification of aftermarket crash par

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- The "Model Act" requires the State's to choose and regulate the Aftermarket Crash Parts Certifiers. States would have to establish a new and costly bureaucracy to implement, study and police the certification process. This would put the burden of certification and the potential liability of these parts on the State.

- Chris G your comments re: legal “uphill battle for consumers”
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