



Putting a dent in auto repair costs

USING AFTER-MARKET AUTO REPLACEMENT PARTS SAVES THE INSURANCE INDUSTRY \$400 MILLION ANNUALLY AND HELPS TO CONTAIN INSURANCE COSTS. BUT CAR MAKERS ARE NOT PLEASED AT THE REDUCED PROFIT AND ARE PRESSING FOR REGULATORY ASSISTANCE.

by Sylvia Alston

IF TWO STORES sell products that are identical in appearance, quality and durability, but one retailer routinely charges 30 percent to 50 percent more than the other, most consumers will patronize the less expensive establishment. That's what healthy competition is all about.

Such dollars-and-cents logic also is what motivates the Kemper National Insurance Companies and other insurers to advocate the use of competitively priced, independently produced automobile replacement parts, whenever possible, in repairing covered damage.

"What we're specifically concerned with are the sheet-metal hoods, fenders, door panels and other components that are most frequently damaged in auto accidents," said Kemper National Material Damage Claim Manager Gary Turner.

"Replacing such after-market parts with competitive equipment has resulted in substantial savings to consumers and insurers — without sacrificing safety or aesthetics — since car repair costs play a major role in determining auto collision premiums." It is estimated that specifying independently produced parts saves consumers and

insurers nearly \$400 million annually in auto repair costs.

But this same practice also has put a real dent in auto maker profits, chipping away at what once was a virtual monopoly in an \$8 billion-a-year market. In an attempt to regain that monopoly, car makers have conducted an extensive media campaign against independently produced crash parts.

"Faced with some healthy competition, the auto makers have tried to turn a purely economic issue into an emotional one by claiming that any parts not made by them are inferior or

unsafe," Turner said. "But they're wrong on both counts."

Parts must meet CAPA requirements

To ensure the quality of replacement parts used in making car repairs, Kemper National and other insurers actively support the Certified Automotive Parts Association. CAPA establishes standards for competitive auto replacement parts to ensure that they are equivalent in fit, finish and corrosion resistance to the original equipment manufacturers' parts.

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In addition, CAPA contracts with ENTELA Laboratories, an independent facility based in Grand Rapids, Mich., to conduct the testing, inspection and compliance aspects of the association's certification program.

"In test after test, CAPA-certified parts met or exceeded the original auto maker's standards for fit, finish and corrosion resistance," Turner said. "In fact, such parts often are warranted by their manufacturers for longer periods than original auto makers warrant their own parts."

Structural safety not affected

Neither is safety a credible issue for independently produced replacement parts, Turner said. He cited extensive testing conducted by the Insurance Institute for Highway Safety, which proves that independently manufactured hoods, fenders, door panels and other non-integral crash parts in no way reduce the safety of the repaired vehicle.

For example, in tests of a 1987 Ford Escort fitted with an independently produced hood, the car easily met federal standards requiring that exterior auto parts not intrude into the windshield, or into a specific zone in front of it, in 30-mph crash tests.

As for door panels, fenders and other replacement parts, Insurance Institute for Highway Safety experts stress that these are bolted-on cosmetic parts that cover the car like a skin. They serve no structural safety function.

The evidence is quite clear," Turner said. "When it comes to replacing the parts of autos most frequently damaged in car crashes, the only substantive difference between the original car makers' equipment and that produced by competing firms is price."

Competition helps cut costs

Research by the Alliance of American Insurers proves the point. An annual study by the Alliance that highlights the high costs of completely restoring different vehicles with original equipment also shows how competition has compelled original equipment manufacturers to bring prices down to compete for crash replacement parts business.

For example, a Chevrolet Camaro fender cost \$207 in 1985, but now sells for \$167, largely due to competition from independent manufacturers that offer the fender for as little as \$147. Similarly, a Plymouth Voyager hood that cost \$249 in 1987 has been reduced to \$210 in 1991.

Even more telling: the Ford Motor Company last winter announced that it would cut the prices of 200 replacement parts by an average of 14 percent. However, the price reductions only applied to certain "threatened" parts — those for which competitive alternatives exist.

Meanwhile, the cost of parts that don't have independent competition has continued to rise. For example, a

Ford-produced trunk lid for one Escort model cost \$270 in 1990, versus \$207 in 1983.

However, as more competitive parts become available, prices are expected to move down, rather than up, ultimately saving consumers and insurers as much as \$800 million to \$1.4 billion per year.

House bill could restore monopoly

But those savings could be threatened by an industrial design bill, H.R. 1790, recently re-introduced in the U.S. House of Representatives. Among other things, H.R. 1790 would hand auto makers a federally sanctioned monopoly, giving them exclusive rights to make, have made, sell, distribute or import replacement crash parts. Hearings on the legislation are expected to be held this fall.

To highlight industry concerns regarding the economic costs associated with passage of the industrial design bill, Kemper National President and Chief Executive Officer Jerry Maatman, along with top management from Allstate Insurance Company and State Farm Insurance Company, visited Washington, D.C., to call on key members of the Bush Administration and Congress.

Said Turner: "Competition is critical to choice. Independently produced parts offer consumers and insurers lower-priced, high-quality alternatives to original equipment, while also compelling auto makers to reduce their prices to compete for the business. Together, those factors help keep insurance costs — and premiums — under control." ♦

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