Joint Comments of the American Insurance Association, the National Association of Mutual Insurance Companies and the Property Casualty Insurers Association of America
US Department of Commerce
Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Automobiles, Including Cars, SUVs, Vans and Light trucks, and Automotive Parts

Since their early days, the development of the U.S. automotive industry and the automobile insurance industry have been closely linked. Automobile insurers have provided a highly competitive market for insurance coverage for over a century, providing protection against the risk of damage or loss of use for vehicles that represent one of the most significant expenditures by a household or business. The ability to purchase insurance in a competitive marketplace helps facilitate the purchase of automotive industry products and keeps both industries healthy and growing.

As the Department of Commerce undertakes its investigation under Section 232 of the Trade Expansion Act of 1962 on the effects of importation of automobiles and automotive parts, the American Insurance Association (AIA), the National Association of Mutual Insurance Companies (NAMIC), and the Property Casualty Insurers Association of America (PCI) would like to comment on an additional "relevant factor" not specifically addressed in the request for comments: the unintended impact of potential automotive parts tariffs on the cost of auto insurance repair claims.

Unlike commodity products such as steel and aluminum that may be subject to the Section 232 tariffs, auto parts are fabricated products that are often engineered to be paired with a specific vehicle and for a specific purpose. Disruptions to the supply chain for these parts are likely to adversely impact consumers who require access to these imported parts to repair their vehicles. These consumers would simply not be able to turn to a domestic source as consumers of commodity steel and aluminum would be. In economic terms, the inability to substitute domestic parts for foreign parts implies that the demand for these parts is highly inelastic. Consequently, virtually the entire "incidence" of any tariff will be borne directly by the consumer. Disruption to the supply chain for replacement auto parts would also significantly impair the ability of automobile insurers to fulfill their contractual obligation to their policyholders to repair their damaged vehicles, resulting in delays and increased costs.

The property damage component of auto insurance typically covers the cost of repairing or replacing damaged vehicles. The cost of repairing vehicles is the primary driver of what vehicle owners pay for the property damage coverage under their auto policy. Each year, approximately 15 percent of drivers are involved in accidents resulting in damage to one or more vehicles. The cost of repairs has increased significantly in recent years, as vehicles have become more complex in both technology and materials. In 2017, 31 individual countries each exported more than $100 million in automotive parts to the United States[1]. While the country of origin will vary depending on the part and the repair, any increase in the cost of parts will also increase the cost of repairs. Again, this cost increase could ultimately be passed on to consumers in the form of higher insurance premiums. The imposition of tariffs could likely lead to the filing of hundreds, if not thousands, of requests for rate increases by insurers with insurance regulators across all fifty states.

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[1] Center for Automotive Research, NAFTA Briefing: Review of current NAFTA proposals and potential impacts on the North American automotive industry, April 2018

Based on data from the U.S. Bureau of Economic Analysis, we estimate that 60 percent of auto parts used in the U.S. are imported. In 2017, 9.5 parts were replaced in the average repair, accounting for 39.7 percent of the total repair cost[2]. We estimate that 10.9% of all auto repair claims costs are represented by imported repair parts. Based on this data, we estimate that a 25 percent tariff on imported repair parts, all other factors remaining static, could increase auto repair claims costs by 2.7%. This increase could subsequently be passed on to consumers in the form of an additional $3.4 billion in personal auto insurance premiums alone. There would also be an impact on repairs paid for under commercial auto insurance, which could impose significant additional costs on businesses that operate vehicles as well.

Consumers that pay for their own repairs out of pocket would bear these costs directly or might make the dangerous choice to forgo repairs, which could also lead to more rapid deterioration and depreciation of their vehicles. Higher repair costs driven by tariffs could also mean an increased likelihood of a vehicle being declared a total loss, which is when the cost to repair the vehicle exceeds a substantial portion of the fair market value of the vehicle. This leaves the vehicle owner either to replace the vehicle, pay off a loan that may exceed the value of the vehicle, or seek financing for the purchase of a replacement vehicle, all of which depletes savings.

Collison repair facilities also benefit from a competitive market for replacement repair parts. More competitive pricing for parts means more vehicles can be repaired, while the increased cost on parts as the result of a tariff also increases the likelihood of a total loss and a lost opportunity for the repair shop. It should also be noted that motor vehicle theft rates could well rise, as many stolen vehicles are sold for their parts.

Should the Administration impose restrictions on imports, we urge the Administration to establish a process through which interested domestic parties can petition for product exemptions in a timely and transparent manner. Furthermore, we recommend that the Administration exempt auto part exports from certain closely-allied markets from the tariffs, particularly those that supply substantial percentages of U.S. auto part imports[3]. Doing so would not only support U.S. industry, but also demonstrate our close ties to those markets.

While not commenting on the broader strategy of the Administration, on behalf of our member companies and their policyholders, we urge the Department of Commerce to consider this unintended consequence of the imposition of tariffs, quotas or other adjustments on the importation of automotive repair parts.

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[2] CCC Information Services, Crash Course 2018.

[3]According to Center for Automotive Research,85 percent of imported metal stamped parts come from Canada, Taiwan, Mexico, South Korea and China, Metal stamped parts are the type most commonly used in collision repai. Source: NAFTA Briefing: Review of current NAFTA proposals and potential impacts on the North American automotive industry, April 2018