

**Report Title:**

Motor Vehicle Insurance; Repairs

**Description:**

Prohibits motor vehicle insurers from owning motor vehicle repair shops. Grandfathers insurers already owning shops as of 7/1/04.

THE SENATE

TWENTY-SECOND LEGISLATURE,  
2004

STATE OF HAWAII

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**S.B. NO.** <sup>2531</sup>

# A BILL FOR AN ACT

RELATING TO MOTOR VEHICLE INSURANCE.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF  
HAWAII:**

SECTION 1. Chapter 431, Hawaii Revised Statutes, is amended by adding a new part to article 10C to be appropriately designated and to read as follows:

**"Part . INSURER INTERESTS IN REPAIR FACILITIES**

**§431:10C-A Definitions.** Unless otherwise specified, the following words shall mean as follows:

"Arm's length transaction" means the standard of conduct under which two parties having substantially equal bargaining power, each acting in its own interest, would negotiate or carry out a particular transaction.

"Claims center" means a location designated by an insurer where a claims adjuster, employee, or agent of the insurer performs an initial damage estimate on a vehicle under the terms of an insurance policy.

"Favored facility agreement" means an agreement between an insurer and a repair facility under which the insurer agrees to recommend, directly or indirectly, to its policyholders or other beneficiaries under the insurer's policies, that the policyholder or other beneficiary obtain repairs at that repair facility or in any other way agrees to influence its policyholders or other beneficiaries under the insurer's policies to obtain repairs at that repair facility.

"Repair facility" means "repair provider" under part III.

"Support services" means basic services, provided nonspecifically, that are provided internally and to each affiliate or subsidiary, by an insurer, its parent company, or a separate affiliate created to provide basic corporate support. The term does not include a service related to the operation of a repair facility if that service would have no value or minimal value to any other type of business.

"Tied repair facility" means a repair facility in which an insurer owns an interest.

**§431:10C-B Insurer interests.** (a) Except as provided by this section, an insurer may not own or acquire an interest in a repair facility.

(b) An insurer that owns an interest in a tied repair facility that was open for business, or on which construction had commenced, on July 1, 2004, may maintain that ownership interest and may operate that facility.

(c) An insurer may relocate a tied repair facility described by subsection (b), but may not obtain an ownership interest in any additional facility not described by subsection (b).

(d) Subsections (b) and (c) apply to an insurer only if the insurer and its tied repair facility are otherwise in compliance with this part.

**§431:10C-C Favored facility agreement presumed.** An insurer is presumed to have a favored facility agreement with a repair facility in which it owns an interest.

**§431:10C-D Contractual conditions.** (a) An insurer that owns an interest in a repair facility may use only one favored facility agreement.

(b) Except as otherwise provided by this subsection, the terms under which the insurer enters into a favored facility agreement must be identical for all repair facilities, including a tied repair facility. An insurer may vary the terms as necessary to implement technical differences required by geographical factors or other legitimate business factors.

(c) Except as provided by subsection (d), an insurer may not cancel a favored facility agreement until the expiration of the thirtieth day after the date on which the insurer provides notice to the repair facility of the insurer's intent to cancel the agreement. The insurer shall include with the notice a statement explaining the reason for the cancellation of the agreement.

(d) An insurer may summarily cancel a favored facility agreement with a repair facility if the insurer, a policyholder of the insurer, or another beneficiary under the insurer's policy establishes reasonable grounds to believe that the repair facility is fraudulent in its dealings with the insurer or the policyholder or other beneficiaries under the insurer's policy.

**§431:10C-E Notice.** (a) An insurer that owns an interest in a repair facility shall post the following notice in each of its tied repair facilities:

"THIS REPAIR FACILITY IS OWNED IN WHOLE OR IN PART BY (NAME OF INSURER). YOU ARE HEREBY NOTIFIED THAT YOU ARE ENTITLED TO SEEK REPAIRS AT ANY REPAIR FACILITY OF YOUR CHOICE."

(b) The notice required by subsection (a) must be posted prominently in a location in which it is likely to be seen and read by a customer of the repair facility.

**§431:10C-F Prohibitions.** An insurer may not:

- (1) Condition the provision of a product, service, insurance policy renewal, pricing, or other benefit on the purchase of any good or service from its tied repair facilities;
- (2) Share information with its tied repair facilities that is not made available on identical terms and conditions to other repair facilities with which the insurer has entered into a favored facility agreement;
- (3) Engage in a joint marketing program with its tied repair facilities;
- (4) Provide its tied repair facilities a recommendation, referral, description, advantage, or access to its policyholders or other beneficiaries under its insurance policies that is not provided on identical terms to other repair facilities with which the insurer has entered into a favored facility agreement;
- (5) Provide a tied repair facility access to the insurer's products or services on terms and conditions different from those under which the insurer provides access to the same products or services to another repair facility with which the insurer has entered into a favored facility agreement;
- (6) Allow a tied repair facility to use the insurer's name, trademark, tradename, brand, or logo in a manner different than that allowed for any other favored facility;
- (7) Subsidize the business activities or operating expenses of a tied repair facility;

(8) Directly or indirectly require a policyholder of the insurer or other beneficiary under the insurer's policy to obtain a damage estimate on a vehicle covered by the insurance policy at a tied repair facility;

(9) Authorize or allow a person representing the insurer, whether an employee or an independent contractor, to recommend to a policyholder or other beneficiary under the insurance policy that the policyholder or other beneficiary obtain repairs at a tied repair facility, except to the same extent that the person recommends other repair facilities with whom the insurer has entered into a favored facility agreement;

(10) Require a policyholder or beneficiary to use a claims center located on the premises of a tied repair facility;

(11) Enter into a favored facility agreement exclusively with its tied repair facilities;

(12) Retaliate or discriminate against a person who:

(A) Files an action as provided by this chapter; or

(B) Assists or participates in any manner in an investigation, judicial proceeding, or other action brought or maintained as provided by this chapter; or

(13) Include earnings or losses of a tied repair facility in a rate filing made under part II.

**§431:10C-G Conflict of interest prohibited.** Except as otherwise provided by this part, an agreement between an insurer and its tied repair facility shall be negotiated and executed as an arm's length transaction.

**§431:10C-H Support services.** (a) Notwithstanding this part, and except as provided by subsection (b), an insurer may provide support services to its tied repair facilities if those services:

- (1) Are priced at a level that is fair and reasonable to both the insurer and the tied repair facility; and
- (2) Do not directly or indirectly confer a competitive advantage to the tied repair facility.

(b) Notwithstanding subsection (a), an agreement by an insurer to provide support services to its tied repair facility may not create the potential for confusion among the policyholders of the insurer, other beneficiaries of an insurance policy issued by the insurer, or other parties.

**§431:10C-I Action to compel compliance; disciplinary action.**

(a) A person, including a repair facility, aggrieved by a violation of this part by an insurer may bring an action for injunctive or other appropriate relief to compel the insurer to comply with this part.

(b) In an action brought under this section, in addition to other appropriate relief, the court may impose a civil penalty as provided by this section.

(c) A civil penalty imposed under this section may not be less than \$1,000 or more than \$5,000 per violation. Each day during which a violation occurs is a separate violation.

(d) The amount of a civil penalty under this section is based on the seriousness of the violation and shall reflect the following factors:

- (1) The nature, circumstances, extent, and gravity of the act or omission that constitutes the violation;

- (2) The economic harm caused by the violation;
  - (3) The history of previous violations;
  - (4) The need to deter future violations by the person charged with a violation;
  - (5) Efforts, if any, made to correct the violation; and
  - (6) Any other factors the court considers appropriate to implement the remedial intent of this part.
- (e) A civil penalty collected under this section shall be deposited to the credit of the compliance resolution fund under section 26-9(o).
- (f) A plaintiff who prevails in an action under this section is entitled to recover reasonable attorney's fees and court costs.
- (g) If a court finds that an action brought under this section was groundless, brought in bad faith, or brought for the purpose of harassment, the court may award reasonable attorney's fees to the prevailing defendant.

**§431:10C-J Antitrust enforcement.** This part does not confer immunity from an antitrust law of this State or the United States. A sanction or penalty imposed in an action brought under this part is in addition to other relief granted on the basis of the violation of an antitrust law of this State or the United States.

**§431:10C-K Exclusivity.** Unless otherwise specifically provided by this part, this part provides the exclusive authority and rules applicable to the regulation of the relations between an insurer and a tied repair facility."

SECTION 2. In codifying the new sections added by section 1 of this Act, the revisor of statutes shall substitute appropriate section numbers for the letters used in designating the new sections in this Act.

SECTION 3. This Act shall take effect on July 1, 2004.

INTRODUCED BY: \_\_\_\_\_