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## COMPETITIVE AUTO REPLACEMENT PARTS

### ISSUE

For most of the era since the invention of the automobile, consumers had only one source for replacement parts, the automakers. A monopoly was created overnight for the supply of these repair parts. Where there is a monopoly, customers pay more for replacement parts and prices for original manufacturer parts (O.E.M.), have continued to rise much faster than the overall rate of inflation. Generic auto parts are, by definition, sheet metal components of automobiles such as hoods, fenders and doors. Generic auto parts are not maintenance or "hard" parts such as brakes, batteries, oil filters and spark plugs.

- Profitability for the auto manufacturers of collision parts was as high as 700 percent to 800 percent.<sup>1</sup>
- The cost of a \$23,000 1999 Toyota Camry LE, when using O.E.M. parts, inflates to over \$101,355.<sup>55!2</sup>

The Certified Automotive Parts Association (CAPA) was founded in 1987, to test and certify the quality and functionality of non-O.E.M. parts.

- While CAPA was founded by the insurance industry (as was Underwriters Laboratories), industry funding has steadily declined over the years.
- Consumer groups, collision repairers and parts distributors have had the most influential role in shaping CAPA policy in recent years.
- CAPA has the support of many consumer groups, including the Consumer Federation of America, Ralph Nader's Public Citizen and Consumer's Union.

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- CAPA's executive Director, Jack Gillis, serves as part time Director of Public Affairs for the Consumer Federation of America (CFA) on a consulting basis.<sup>3</sup> (While CFA supports the goals of CAPA, it does not participate formally in the organization or endorse all of its activities.)
- Examination of customer satisfaction statistics on competitive parts shows that there is a pointed lack of evidence to back the allegations of inferiority of like kind and quality replacement parts.
- The Certified Automotive Parts Association (CAPA) has released its complaint record for 2000, receiving complaints on only 0.04 percent of the more than 1.4 million parts that it certified. In investigating the complaints, CAPA confirmed that some of the parts were not even CAPA certified parts, were duplicate complaints, or were invalid in some other way. The number of valid complaints was even lower than the number of total complaints. This gives the organization a record of quality that is unrivaled in any industry.

Consumer Reports, in spite of its past sensational headlines regarding quality competitive replacement parts, had this to say in a recent recommendation to consumers:

- We support the goals of CAPA.
- We applaud the changes they are making in the program; and • We suggest that CAPA expand its program to cover bumpers.

## CHALLENGES

When quality competitive replacement parts arrived in the marketplace in the late 1970s, automakers responded to the challenge. Their prices for parts that have competition are now more affordable but they also responded with efforts to call into question the quality of competitive replacement parts. For years the auto industry has tried to pass laws in state legislatures to ban or restrict the use of competitive replacement parts. Later, consumer interest groups joined the bandwagon and began to criticize quality competitive replacement parts.

- Critics allege that quality competitive replacement parts are inferior and even dangerous in some cases, even though insurers guarantee quality and customer satisfaction.
- The criticism of competitive parts led to recent class-action lawsuits against insurance companies and

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called for the elimination of the use of quality competitive parts. State courts in Arizona, Florida, Illinois, Indiana, Massachusetts, Pennsylvania, Tennessee and Texas have rejected "diminished value" related to the use of quality competitive auto parts as a basis for class action lawsuits. The rulings have found that while insurance companies have a contractual duty to restore damaged cars to pre-accident condition, they have no obligation for "diminished value," which loosely refers to the difference between the value of the vehicle before and after it was involved in an accident.

- If car repairs are restricted to using only OEM parts, a monopoly will reemerge overnight for the supply of these repair parts. These actions will inevitably increase the cost of repairs and drive up the cost of insurance premiums.
- The primary factor holding down the higher cost of OEM parts is the price competition from like kind and quality competitive replacement auto parts, especially those achieving the Certified Automobile Parts Association (CAPA) certification.

## SOLUTIONS

- Consumers would be better served if the issue of competitive parts is solved in the marketplace, not the courtroom.
- Like kind and quality replacement parts can be encouraged as an alternative to more costly O.E.M. parts, thus providing healthy market competition in automobile repair.

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