



U.S. Department of Transportation

National Highway Traffic Safety Administration

DEPARTMENT OF TRANSPORTATION
Memorandum

2019 NOV 22 P 3:54

DOCKET OPERATIONS

Subject: Electronic Motor Vehicle Transactions Systems:
Summary of Public Comments

Date: 11/13/2019

From: Jonathan Morrison
Chief Counsel

Reply to
Attn of:

To: Docket No. NHTSA-2019-0092

In its recent final rule on odometer disclosure requirements, NHTSA finalized provisions that will allow for State adoption of electronic odometer disclosure systems without having to petition the agency for approval. 84 FR 52664. NHTSA believes that, with the promulgation of the final rule, all Federal disclosure requirements related to vehicle transactions may now be satisfied through electronic disclosures, which should reduce unnecessary transaction costs and may provide additional benefits as well, though the agency did not provide a quantification of those potential benefits in the final rule.¹ In a separate request for comment (RFC), NHTSA sought feedback on the nature and scope of these potential benefits for States, consumers, and other stakeholders such as dealers and insurance companies; any interest or plans among States

¹ The agency quantified the provision in the final rule requiring transactions involving vehicles aged 11 to 20 years include an odometer disclosure, which would be phased in over ten years. This effect was estimated to be minimal (i.e., only 15 seconds per transaction) because vehicles exempt from the disclosure requirement still would have the word “exempt” written on the title during the transfer of ownership. Thus, the only additional cost for the rule would be the labor cost to change the disclosure from “exempt” to the actual mileage, as there would be no additional costs for recordkeeping or processing. Applied to the 10.4 million transactions per year that will eventually be covered by the new requirement, this led to total annual costs of up to \$5.4 million.

in moving towards paperless systems; and what resources and guidance may be needed to assist States to transition to purely electronic systems. 84 FR 51090.

In response to this request, NHTSA received comments from the following organizations and individuals:

- American Association of Motor Vehicle Administrators (AAMVA)
- Arizona Department of Transportation: Motor Vehicle Division (ADT)
- American Financial Services Association (AFSA)
- Anna Anonymous
- American Property Casualty Insurance Association (APCIA)
- Copart
- Jose Arguello
- National Auto Auction Association (NAAA)
- National Automobile Dealers Association (NADA)
- NAFA Fleet Management Association (NAFA)
- National Association of Mutual Insurance Companies (NAMIC)
- National Independent Automobile Dealers Association (NIADA)
- Pennsylvania Department of Transportation (PDOT)
- Virginia Department of Motor Vehicles (VDMV)
- Vitu

NHTSA has determined that portions of comments made by PDOT and AAMVA concerning the timing requirement for older vehicle disclosures, portions of VDMV's comments concerning the harmonization of electronic odometer disclosure requirements, and portions of NAMIC's comments concerning the applicability of the disclosure program to total loss claims, are outside the scope of this request for comments, as they deal with the substance of the final rule. NHTSA will consider these comments separately from this summary.

All the comments NHTSA received provide general support for the electronic odometer disclosure final rule. Further, many of the comments highlighted the potential benefits of moving to electronic transactions for different industries and types of transactions. For example,

NADA suggested that the implementation of electronic odometer disclosures would result in cost savings and other benefits for dealerships, consumers, and a variety of other entities including, but not limited to, State motor vehicle associations, motor vehicle auctions, insurance companies, and commercial fleets, leading to \$724 million in total cost savings per year for their members.² In addition to the NADA comments, two other commenters discussed savings associated with vehicles sales. Vitu, a technology service provider, stated that the rule would save dealers \$1.3 to \$2.7 billion based on the number of transactions that we cited in the request for comment. NIADA, which represents the used motor vehicle industry, stated that their members would save \$266,400 each annually on average on transaction costs. Regarding the vehicle insurance industry, APCIA estimated that electronic transactions could lead to savings of up \$363 million per year for total loss insurance claims by reducing shipping and rental costs and vehicle depreciation, while simultaneously leading to productivity gains. The agency received two comments regarding potential savings associated with transactions in vehicle auctions. NAAA claimed that its members would save \$4.7 million per day in interest charges, \$22.9 million in title shipping costs per year, and \$8.2 million in labor costs per year. Copart explained that fully electronic transactions could lead to significant savings in the auction industry, estimating, that, if a third of the two million transactions they processed a year were to be fully electronic, their customers would save \$12,157,200, based on an estimated reduction in shipping costs and in

² NADA noted “these estimated cost savings are conservative [and] do not include . . . incidental costs such as records management and printing. In addition, these estimated cost savings are only for the franchised dealership members of NADA and do not include the savings that will necessarily be experienced by other interested stakeholders including MVAs, auctions, insurance companies, lenders, lessors, and commercial/government fleets.” See public comment at <https://www.regulations.gov/document?D=NHTSA-2019-0092-0012>.

depreciation. Other commenters, including AAMVA, AFSA, NAFA, and NAMIC, and agreed that the final rule would result in cost savings, but did not include quantified estimates.

To assist in putting these potential cost savings in a slightly more unified context, we harmonized certain potential savings contained in the comments from NADA and APCIA into a single, unified analysis. As explained in greater detail in the Appendix, this preliminary estimate shows that moving to electronic transactions could save approximately \$457.9 million per year, just for these transactions. The estimate further shows that, if the final rule on odometer disclosure sped up the adoption of electronic transactions by five years, that action alone could yield annualized cost savings of at least \$94.8 million net of the costs estimated in the final rule. These potential cost savings likely significantly understate the actual potential savings of electronic transactions for two reasons. First, we did not include significant categories of savings identified by NADA and APCIA, such as depreciation, interest, and, for NADA, vehicles being held due to liens. Second, we did not include the significant estimates from other commenters simply because they were not as amenable to harmonizing into one analysis, and, thus, the agency believes that they also represent significant additional sources of costs savings.

NHTSA also received comments regarding best practices for the implementation of electronic vehicle transactions. ADOT suggested that NHTSA should maintain the States' flexibility to move forward with implementation according to their own needs, and urged NHTSA to support AAMVA in its efforts to operate and improve the National Motor Vehicle Title Information System (NMVTIS) through which States and industry share title and vehicle information. For its part, AAMVA also emphasized the need to maintain State flexibility, and encouraged NHTSA to communicate considerably and timely with States throughout the

implementation process. AAMVA also emphasized the importance of NHTSA's role in educating stakeholders as to the effects of the final rule. APCIA expressed that it had already been working closely with AAMVA and individual State departments of motor vehicles to implement electronic motor vehicle titling systems, and that it would be happy to do so with any States looking to implement electronic motor vehicle titling systems following the passage of the final rule. NADA also expressed their intent to work with stakeholders to see the final rule implemented.

NHTSA appreciates the efforts of all the commenters who responded to the RFC, and thanks them for their contributions. The overwhelming weight of the comments reaffirms NHTSA's view that electronic transactions have the potential to significantly increase efficiency and provide other benefits, and the agency is committed to working with States to help implement this program.

Appendix

In this Appendix, we harmonize the cost savings estimates provided in the comments to the RFC for two types of vehicle transactions: vehicle insurance claims and vehicle sales. We explain the economic rationale for expecting cost savings, describe the key assumptions in our estimate, and summarize cost estimates derived from a spreadsheet-based model included as a supplement. We estimate moving towards electronic vehicle transactions could save the vehicle insurance and sales industries at least \$457.9 million in annualized costs. We further estimated that, if the final rule on electronic odometer disclosure could speed up adoption of electronic transactions by five years, that action could lead to \$94.8 million in annualized cost savings net of the costs estimated in the final rule. This estimate, therefore, does not include other additional potential cost savings from other comments, as discussed further in the Summary.

Economic Rationale

As explained in the RFC, electronic transactions are expected to reduce the costs of motor vehicle transactions for a variety of economic entities, including motor vehicle dealers; motor vehicle auction companies; insurance and casualty companies; banks, credit unions, and finance companies; salvage companies and junk yards; State departments of motor vehicles; consumers; and all other persons or entities required to make odometer disclosures. For example, stakeholders will no longer be required to scan hard copy documents with wet signatures to retain or manage records electronically. Moreover, reductions in postage and delivery costs, including overnight delivery, will accrue from removing the need to mail hard copy documents with wet signatures. NHTSA also anticipates that paperless transactions will reduce the time needed to complete vehicle transactions, which could lead to substantial additional cost savings.

States adopting electronic transaction systems may also see cost savings by reducing records retention and retrieval costs and eliminating the need to print titles on secure paper.

Due to these potential cost savings, States have a strong incentive to adopt electronic transaction systems, and the rule gives them the authority to adopt paperless vehicle transactions when they choose. The primary direct effect of the rule will be to remove the legal and administrative costs associated with preparing and submitting a petition to NHTSA, a barrier to adopting paperless systems.

Cost Savings for Vehicle Insurance Claims

Industry data submitted to NHTSA by APCIA suggests that the potential cost savings due to moving from a paper to an electronic disclosure system is substantial. The insurance industry processes 19 million physical damage claims per year, of which roughly 14.3 million ($19 \times [1 - 0.249]$) occur in States currently without electronic systems. Potential “total loss” claims, which account for 17.8 percent of the total, involve higher costs than other claims because the insurance company covers additional expenses like rental cars while processing claims. Thus, reducing the amount of time needed to complete the claims process can result in substantial savings.

If adopting electronic disclosures reduced processing time for “total loss” claims by two days, the agency estimates cost savings of \$129.02 per “total loss” claim. This estimate assumes daily rental car costs of \$30, and is based on APCIA estimates that an electronic system saves \$10 on shipping documents and one hour of labor for claims adjusters per claim. We also estimate that an administrative assistant will spend a half hour preparing documents, coordinating signatures, scanning signed documents for recordkeeping, and coordinating packaging and shipping.

To calculate the hourly value of time saved, we use median wage data from the Bureau of Labor Statistics.³ A “fully loaded” wage includes salary, which accounted for 68.6 percent of costs for employee compensation as of June 2019,⁴ and benefits and indirect costs, which accounted for the remaining 31.4 percent. For claims adjusters, we assume a fully loaded median wage rate of \$46.18/hour ($\$31.68/\text{hour} \times 1/0.686$). For administrative assistants, we assume a fully loaded median wage rate of \$25.67/hour ($\$17.61/\text{hour} \times 1/0.686$).

Cost Savings for Vehicle Sales

In the RFC, NHTSA estimated that there are at least 48.5 million transactions involving odometer disclosures completed annually by motor vehicle dealers and private parties that could potentially be conducted electronically. These transactions exclude transactions in the six States that already have electronic disclosure systems; NHTSA estimates that transactions in these States account for about 24.9 percent of the total number of disclosures.

To estimate savings in shipping and administrative labor costs, we use APCIA’s estimate that it spends \$10 per document to ship hard-copy documents to customers for total loss claims. This claim is below the \$14.00 estimate in data supplied by Copart, which provides online vehicle auction services. According to comments from NADA, electronic odometer disclosures would save 10 minutes (0.17 hours) of time for administrative assistants. These assumptions lead to an estimated cost savings of \$14.28 per vehicle sale.

³ Bureau of Labor Statistics (2019). “May 2018 National Occupational Employment and Wage Estimates: United States.” https://www.bls.gov/oes/current/oes_nat.htm

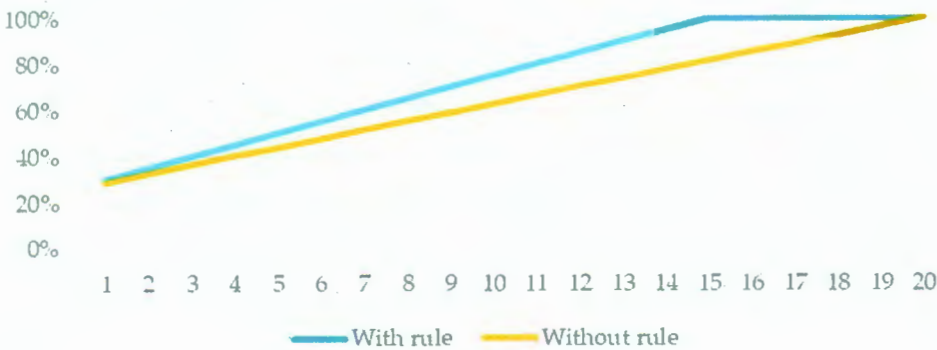
⁴ Bureau of Labor Statistics (2019). “Employer Costs for Employee Compensation – June 2019.” <https://www.bls.gov/news.release/pdf/ecec.pdf>

State Adoption of Electronic Systems

For estimating cost savings from accelerating the adoption of electronic transactions, the key uncertainty is the rate at which States will choose to adopt electronic systems in the baseline scenario (with no final rule) versus the policy scenario (with the final rule). In the absence of any information, we assume that the underlying economics will generate sufficient incentive for all States to move to electronic titling systems within 20 years. As part of that transition, States would petition for a waiver to allow for electronic odometer disclosures.

We model the baseline adoption rate as a linear phase-in over the next 20 years. During the phase-in, the percentage of registered vehicles in States with electronic odometer disclosure increases from 24.9 percent (in the six States that have already adopted the disclosure⁵) to 100 percent. Because the final rule on odometer disclosures facilitates adoption of electronic disclosures, we assume it will reduce the time for all States to achieve full electronic disclosure to 15 years; we model this adoption as a linear phase-in as well. Figure 1 illustrates the two adoption rates.

Figure 1: Vehicle coverage by year



⁵ The six States are Virginia, Wisconsin, New York, Florida, Texas, and Arizona.

While we do not have data to support the 20 and 15-year time horizon assumptions, we chose horizons that seem generous given the prevalence of electronic systems and increasing digitization in other sectors of the economy, including government. When new information on State plans to adopt electronic odometer disclosure systems becomes available, such as information provided in the response to the RFC, it is straightforward to incorporate the information and update the cost savings estimates.

Modeling the adoption of electronic systems as such suggests that States will incur similar implementation costs in the baseline and policy scenarios. This also seems prudent because the rule imposes no requirement to move to an electronic system, and States are unlikely to implement such systems unless they reasonably expect that the benefits of efficiency gains will outweigh the implementation costs. In addition, by keeping implementation costs constant between the baseline and policy scenarios, we are omitting an important source of cost savings, namely the costs of seeking and obtaining a waiver.

Total savings per year

Based upon the estimated cost savings for insurance claims and vehicle purchases and the State adoption model described above, we estimate that electronic vehicle transactions could save the vehicle insurance and sales industries at least \$457.9 million in annualized costs and that the e-odometers final rule, by accelerating this process, will save at least \$94.8 million in annualized costs net of the costs estimated in the final rule.