

UNITED STATES OF AMERICA

R

Direct Dial
(312) 353-8156

December 2, 1996

The Honorable **Ron Stephens**
Chairman, Executive Committee
Illinois House of Representatives
1004 S. Lincoln, Suite 10
O'Fallon, Illinois 62269

Dear Chairman Stephens:

The staff of the Federal Trade Commission⁽¹⁾ is pleased to respond to your request for comment on House Bill No. 3285, introduced in the current session of the Illinois legislature. The bill would repeal the present ban in Illinois on car rental firms offering a "collision damage waiver" ("CDW") option, and it would impose disclosure requirements on car rental firms and a cap on CDW charges. It would also remove Illinois' ban on holding renters liable for non-intentional loss, damage or theft.

H.B. 3285 could benefit consumers in several ways. Permitting car rental firms to offer CDW might make it easier for some consumers to rent cars, especially those who are otherwise uninsured or who rent cars in high risk locations. Permitting rental firms to hold renters liable for a greater range of losses and permitting renters to purchase CDW to cover this potential liability might also lead to somewhat lower overall rental rates. Ensuring that consumers have the information they need to make choices about liability protection is likely to enhance consumer welfare more than would restricting the choices available.

I. Interest and Experience of the Federal Trade Commission.

The Federal Trade Commission is empowered to prevent unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce.⁽²⁾ Consistent with this statutory mandate, the Commission and its staff work to identify restrictions that hinder competition and increase costs without providing countervailing benefits to consumers. The Commission and its staff have commented several times about state regulation of the car rental industry.⁽³⁾

records whose personal policy rates reflect their own driving records to pay the higher costs of being placed in the same risk pool as drivers with poor records. Thus even drivers who have their own insurance would pay, indirectly, for the protection that the rental company provides itself against renters with both good and bad driving records. Therefore consumers who already have auto insurance that covers their risk would pay an additional sum in an increased basic rental fee.

As noted, with traditional auto insurance safer drivers pay less than drivers that pose a greater risk.⁽¹⁶⁾ When this risk is instead recovered through a higher rental rate, however, there is no way to adjust price between drivers posing different levels of risk. Thus when optional CDW is banned, relatively safe drivers may subsidize relatively unsafe ones because the costs of losses must be bundled into the rental price that applies for everyone.⁽¹⁷⁾

Banning optional CDW may have led to higher basic rental rates in Illinois, if car rental companies raised rates to recover the costs of accident and theft. There is some evidence that rates are higher in Illinois and New York, two states that have banned CDW and capped renters' liability, than in other states. The difference in rates may be due to many causes, and not just the difference in treatment of renters' liability. Moreover, the increase in apparent average rates in those states is smaller than the average CDW charge, so the average total costs of renting in those states may no

Guidelines of the Task Force on Car Rental Industry Advertising and Practices (1988); and letters from Commission Staff to The Honorable James R. Thompson, Governor of Illinois (December 22, 1988) and The Honorable Thomas F. Allgood, Georgia State Senate (November 20, 1989) commenting on pending state legislation governing the sale of CDW.

4. ILCS Sec. 6-305(f).

5. H.B. 3285, Sec. 10.

6.

