

Executive Director Dan Risley's Message

Fact or Friction?

The past 18 months have been a revolving door of repairers calling to voice their concerns with the direction of the industry. They have not only called to voice their concern, but have called to ask for help. In years gone by, these calls were typically from repairers that weren't very involved and were looking for someone else to solve their problems. In recent months, the people calling aren't the "profiled repairers" I just mentioned; they are very astute collision repair facility operators. Individuals that many would consider market leaders. They are individuals who are very active locally, and in some cases nationally.

Why are so many repairers across the country seeking help? While I could create a laundry list of reasons, I am going to focus in on just a few areas that are "Fact" but often cited as "Fiction." They cover areas that should not require legislation, lawsuits, meetings or phone calls to resolve. The following are actual examples of issues SCRS has worked on in the past two months. Fortunately, several of these have already been resolved by contacting executive management, but these are the types of things that happen every day all across the country. Unfortunately, although some of these issues have been resolved, other repairers are being confronted with these same situations with the same insurers, but in a different market. SCRS should not have to get involved with these issues because they should not have existed in the first place.

Fact: The collision repair facility repaired several vehicles that required replacing the bumper. The repair facility wrote the estimates in CCC's Pathways, and identified that the bumper was being refinished off the vehicle. This results in no overlap deduction being taken. The shop took photos of the bumpers being refinished in the booth off the vehicle.

Friction: The regional manager for the insurance company sent our member a memo. The memo informed the shop that they needed to change all of their CCC Pathways' estimates to reflect the new bumper being refinished on the vehicle so that overlap applied. The shop gave the manager the photos. The manager informed them that payment would not be released until the changes were made. How can they refuse payment for labor operations that are necessary and completed? This is still unresolved!!!

Fact: The collision repair facility wrote an estimate to replace a hood and blend

the undamaged fenders. The shop took a picture of the vehicle in the booth masked. It illustrated the prepared surface on the new hood. It showed the fenders as being properly prepared (sanded, masked, etc.) for color blending purposes.

Friction: The field adjuster called the shop to inform them that they would not issue payment for the blended panels until such time that they could see primer on the fenders. Obviously, this is an example of an inexperienced field adjuster that doesn't realize primer will not be applied to the blended panels. Upon contacting regional management, the issue was resolved and the repair facility was properly paid for the work they completed.

Fact: The collision repair facility prepared an estimate including alternative parts with the vendors he currently utilizes.

Friction: The field adjuster called the shop to inform them that the parts could be sourced outside of his state for a lesser price. The shop has no relationship with these vendors. He complied and ordered the parts. One of them required C.O.D. He waited several days for the parts. Unfortunately, after waiting several days, the parts arrived and they were damaged and immediately returned. He subsequently ordered parts from his local vendor. Several days of production were lost, the vehicle owner was unhappy and the insurer had to pay a few extra days for the rental vehicle. The end result was a total waste of time and additional expense. Executive management for this insurer said that it's not their policy to mandate a repair facility to utilize a specific vendor. Why is there a disconnect with their field adjusters?

Fact: The collision repair facility prepared an estimate which included charges for seam sealer, tint, car cover and flex additive for the bumper. When the shop prepared the final bill, he included a detailed invoice for the seam sealer which was significantly higher than the flat amount this insurer allows for their direct repair facilities to charge. Incidentally, this collision repair facility does not participate on that insurer's program.

Friction: The field adjuster, as well as the regional manager, informed the repair facility that tint, car cover and flex additive are included in Audatex's .6 first panel set up for refinish. Second, they told the repair facility that the flat amount was all they would pay for seam sealer and they would need to charge the customer for the difference regardless of the documentation. After several calls with regional management and several calls with executive

management, the insurer agreed to pay the additional expense. It took several weeks to resolve this issue.

Fact: Audatex states that there are many steps/procedures included in the .6 for the first panel set up for refinish; among other labor operations, it includes the **labor (not the materials cost)** to perform one spray out panel, time to mix additional material for a flexible substrate and time to cover the vehicle, one time. We contacted Audatex, and requested their assistance. They would not detail how much time is allocated to each operation in the .6 first panel set up due to the information being proprietary.

Friction: How can a collision repair facility accurately document their time and cost to seek reimbursement for their expense when they have no idea as to the breakdown of the .6 first panel set up. How can an insurance company state that all the time and materials needed to tint the color, cover the vehicle and add an additive for a flexible substrate is included. This causes repairers and insurers to debate as to how much time is included or not included. The end result was that the field adjuster and repair facility negotiated an amount based upon their own opinion as opposed to fact based information.

Fact: The collision repair facility prepares an estimate to refinish a damaged fender. The damage is towards the front of the fender. Prior to the vehicle being repaired, the insurance company reinspects the vehicle and informs the repair facility to reduce the refinish time because they are "blending within." The collision repair facility feels as if the time necessary to properly refinish this repaired panel is the same, if not more than a full refinish on a new undamaged exterior panel. The repair facility wasn't requesting more time than what the database allocated. He was refusing to reduce the refinish time the database provided on the estimate. He supported his contention by stating that the technician would need additional time to feather, prime and block the panel (which is a non included labor operation), time to blend the color and additional materials would be required to complete a proper repair. The collision repair facility does not participate in their direct repair program.

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MORE INDUSTRY MEDIA NEWS

Table 4 2004 Top Ten Average Employees per Establishment	
Maryland	8.64
California	8.11
Nevada	7.53
Colorado	7.51
Virginia	7.49
Hawaii	7.46
Arizona	7.35
Texas	6.99
Missouri	6.98
Illinois	6.90

Continued from Page 5 - U.S. Independent Collision Repair Facility Population

Looking at the data by state, Maryland is the highest paying state in the country, reporting average pay per employee of \$37,195. That figure is 17 percent above the national average in collision repair facilities. Virginia was next highest at \$36,883. The lowest average pay was recorded in West Virginia at \$22,278. That figure is not only 29.9 percent below the national average, it dropped \$590 from 2003's average pay of \$22,868 in the state.

Each year we look at these figures to see if there is any support for the shrinking shop population theory, and each year we see evidence of a stable market environment. 2004 again showed no real evidence of declines in the actual number of independent shops or the number of people employed by them, and in fact pointed to growth.

Insurers Turn in Best Underwriting Performance in 72 Years

The property/casualty insurance industry turned in its best underwriting performance since 1935, with a combined ratio of 92.4. In reporting the final industry performance for 2006, the Insurance Services Office (ISO) and the Property Casualty Insurers Association of America (PCI) showed that the industry's net income after taxes increased by \$19.5 billion to \$63.7 billion or 44.3 percent better than 2005.

The industry earned an annualized statutory rate of return on average surplus of 14.0 percent- the best result in the past 20 years.

While the steep drop in catastrophe losses from 2005 to last year is commonly cited as the primary reason for the surge in profits, the report said that too much of the industry's success in 2006 has been attributed to that decline. Strong underwriting results played a key role and were reported in virtually every key line of insurance, including those not significantly affected by catastrophic loss such as automobile insurance, workers compensation and commercial

liability. Other key factors included healthy investment returns and declining charge-offs for adverse reserve development.

The report called the industry's underwriting performance "The Crown Jewel of 2006" noting that the results were extraordinary. Last year's combined ratio of 92.4, the best since 1935, stands tied for the fifth best result since 1920.

In spite of the stellar returns, the report was quick to point out that industry margins may still fall short of those realized by Fortune 500 companies, expected to turn in an average return on equity (ROE) of about 15 percent in 2006.

The report also noted that just five years earlier, in 2001, insurers recorded their worst year ever- the first time ever that industry profitability was negative, at minus 1.2 percent on aggregate profits of negative \$7.0 billion.

The combined ratio is projected to rise to 96.8 in 2007 and 98.7 in 2008, according to an Insurance Information Institute survey. Premium growth in 2007 is predicted to come in around 1.8 percent, less than half the 2006 growth rate of 4.3 percent and negative on an inflation-adjusted basis.

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Friction: The field adjuster contacts the vehicle owner and informs the vehicle owner that they need to remove the car from the repair facility. The vehicle owner is informed that the repair facility does poor quality work and that they are going to be responsible for the additional unnecessary money the repair facility is charging. The vehicle is removed from the shop and the insurance company had to pay an administrative fee to the repair facility before removing the vehicle. The end result is slanderous comments, a confused customer, time delays and additional unnecessary expense.

Fact: The repair facility is participating on this insurers' direct repair program. Recently, the repair facility receives notice of what the insurance company will or will not pay for specific to things such flex additive, tint, freon, hazardous waste removal etc.

Friction: The insurance company informs the repair facility that they can't charge for hazardous waste removal. The insurer classified hazardous waste removal as an overhead expense. How can an insurer dictate what is or what is not an overhead expense to the repair facility? Would the repair facility have a hazardous waste expense if they didn't repair that particular vehicle? Obviously, the cost to remove the hazardous waste is borne when the repair is actually performed, thereby relegating the expense as part of that claim. We are still working with the insurance company on this issue.

These are a few examples that cause unnecessary friction. It's important to note that although these are actual examples, they are recurring problems for repairers. These weren't isolated instances. It's equally important to note that these issues aren't DRP specific. Some insurers try to force non-DRP repair facilities to follow the same "guidelines" they utilize for the repair facilities participating in their program as evidenced by a few of the examples. Legislation, lawsuits, meetings and conference calls aren't necessary to fix these situations. For years, repairers have worked with insurers to remove friction; friction that causes everyone (repairer, insurer and vehicle owner) to lose. Enough is enough, and all market segments need to step up and "do the right thing" in order to ensure a proper, cost effective and timely repair is done. **Doing the right thing shouldn't cause friction.** Unfortunately, many repair facilities "doing the right thing" are dealing with friction due to the practices of some insurers.