

Troubled Times

Insurer profits are at record highs, and body shop profits are at record lows. Steering is rampant and labor rates are being suppressed. And repairers are supposed to get along with insurers?

Part 2 of the 4-part Industry Unity series.

BY JASON STAHL

TALK TO ANY BODY SHOP OWNER TODAY AND HE OR SHE WILL TELL you that business is as bad as it's ever been. It stands to reason, then, that relations between insurers and repairers are as bad as they've ever been, too. And that perspective can also be verified by picking any repairer at random and asking for his or her thoughts on the matter.

If that isn't enough, all one needs to do is look at each party's bottom line. Insurance companies have been touting record profits for the past couple years. Meanwhile, body shops have seen their net profits reduced to single digits or nothing at all. Right or wrong, that's enough to make any repairer view insurers disdainfully.

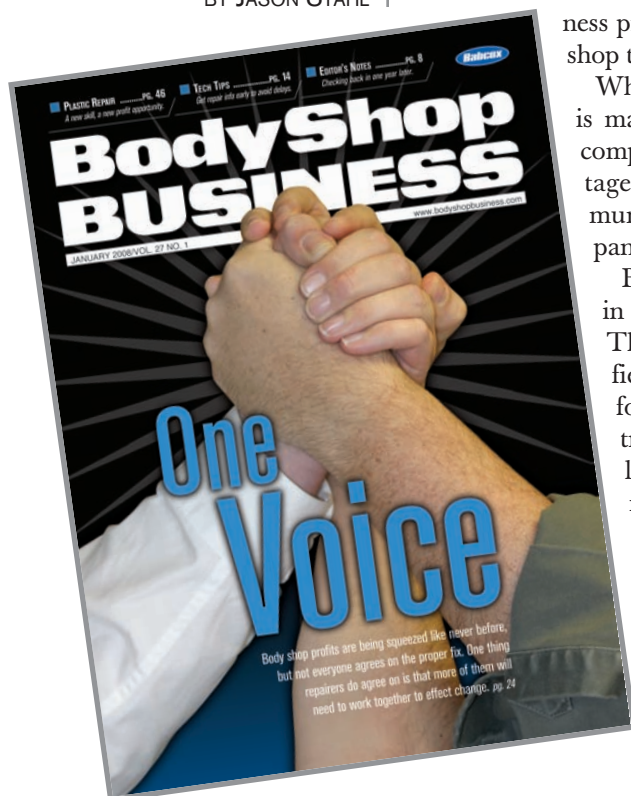
But repairers are also directing anger at themselves, feeling as though they've let insurance companies take too much control over their businesses. At the same time, they blame some, not all, insurance companies that they say use "questionable" business practices and seek out the lowest bidder versus a shop that produces a high-quality repair.

What most repairers believe is feeding all of this is market forces, which currently favor insurance companies. And insurers are leveraging this advantage, as any smart business would, to the maximum. The end result is that they're kicking the pants out of repairers in the game of business.

But some repairers believe the game is stacked in favor of insurers and thus the fight isn't fair. They argue that if there were a level playing field, insurers might not be winning the battle for the dollar. But that's probably not entirely true, as most repairers would agree they have a long way to go to catch up to the business acumen insurers display, and that there are still too many shops that fix cars instead of "running a business" that fixes cars.

Partner? Please!

IT SEEMS FEWER AND FEWER REPAIRERS ARE using the term "partner" to describe an



insurance company; in fact, because of the state the industry is in today, most bristle at the term, especially those who have been dropped from an insurer's direct-repair program despite having an established, long-term relationship with it.

"I'm disappointed and frustrated with [a former insurance 'partner'] because we had a long-term relationship with them," said Darrell Amberson, president of Lehman's

Garage in Bloomington, Minn. "I appealed to them to end a parts discount and visit a labor rate adjustment and the message was, 'You're done, no negotiation.' You would think the relationship we had with them over many years and the fact that we scored well on many of their programs would have meant something, but obviously it didn't.

"I think the key to that matter is that, in too many cases, there's a

lack of respect shown from both sides," Amberson added. "So, obviously, to improve the relationship, I think there needs to be more respect demonstrated."

Also backing up repairers' move away from viewing insurers as "partners" are findings from a recent survey conducted by an independent third party for the Society of Collision Repair Specialists (SCRS). Repairers were asked to choose one of the following descriptions for their relationships with 13 different insurance companies: business partner, customer, company I work with out of necessity, adversary and no impact (I don't do business with them). The majority of repairers surveyed (40 percent) viewed insurers as "customers," not "partners," while only 22 percent of repairers viewed insurers as "partners."

"Most repairers don't consider insurers to be their partners, as the relationship has become strained, more than any time in recent history," said SCRS Treasurer Tim Waldren. "The erosion of goodwill is due to a lot of things, but the fact that 'steering' and 'suppressed labor rates' were cited by our survey as the most pressing issues facing repairers speaks volumes."

While SCRS Executive Director Dan Risley found repairers' reluctance to call insurers "partners" encouraging, he was dismayed and disappointed that the "customer" label finished second and believes that mentality may be one of the biggest contributors to the poor state of relations between insurers and repairers.

"Collision repairers need to reassess their business and thinking," Risley said. "Their customer is the vehicle owner, and is the person we should be serving. Unfortunately, many repairers have allowed insurers to position themselves as the customer, which has significantly changed how many repairers market their business as well as operate."

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to pay the “prevailing competitive price” (PCP) in a given market region. But repairers feel this PCP has historically not reflected reality and question insurers’ methods of determining what it is. A 2006 study commissioned by the New York State Auto Collision Technician’s Association showed that, in New York state alone, auto insurance rates had increased more than 145 percent in 19 years while collision repair rates had risen by only 45 percent, or \$12 per hour.

Jerry Geisler, owner of Jerry’s Custom Paint and Collision Repair in Gresham, Ore., expressed frustration with cost containment at last month’s Collision Industry Conference.

“I believe the main thing we’re dealing with now is trying to suppress the cost of the repair. And we all agree that we want to do that repair as efficiently as possible,” said Geisler. “The increasing frustration comes from not being allowed to tear down the vehicle, find all the damage and get that thing in progress as quickly as possible. Because

Top 5 Stress Inducers

What’s creating the most tension between repairers and insurers today? A survey commissioned by the SCRS revealed the following critical issues most at fault:

1. Suppressed labor rates.
2. Lack of insurance field staff training.
3. Losing customers to steering.
4. Insurer dictating the repair.
5. Database abuse/manipulation.

we truly can achieve those short turn-around times if we’re allowed to pick the car apart and communicate electronically and via photographs.”

Geisler believes that a lot of inefficiency is created by insurers not treating non-DRP shops the same as DRP shops.

“We can do a very, very efficient repair if we’re allowed to. We get frustrated when we take in one vehicle and are allowed to repair it and turn it around in three to four days, but then the next car comes in and we have to

wait for an insurance adjuster to show up because it’s not a DRP situation,” he said. “I believe all situations could be handled like a DRP without actually being one. But it’s going to take establishing mutual trust.

“We’re smart enough to know when a vehicle is an obvious total loss and not take it apart and ruin the salvage value of that car,” Geisler added, “but I believe we’re not given enough credit for actually being able to do it because the insurance company automatically assumes that we’re going to spend more of its money than it wants us to. And that’s not a good assumption.”

Lack of trust among both parties does seem to be a big issue, as there have been well-documented cases of fraud committed by both insurers and body shops. Every time a news item appears about a DRP manager who accepted bribes from shops or a body shop owner who billed an insurer for parts that weren’t put on a vehicle, trust is eroded and it gives one side reason to look at the other and say, “See,

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you're the one doing it." At times, it feels as though "a few bad apples" have spoiled the bunch.

Interestingly, in a poll conducted on www.bodyshopbusiness.com in October 2006, a surprisingly large percentage of repairers (42 percent) responded that it wasn't possible to run a body shop without lying, cheating or stealing. Rocco Avellini, owner of Collision Repair Consulting/Wreck Check in San Pedro, Calif., said the reason was

because "shops are working at such narrow margins that partaking in these practices is the only way to survive."

Despite the disturbing mindset that this survey revealed, some repairers believe insurers engage in fraud much more often than repairers.

"I assure you, it's more than just a 'few bad apples,'" said one Illinois shop owner. "I could cite one thousand examples of fraud and deceit coming from representatives of the insurance

industry. I've got stacks and stacks of files containing articles around my own office outlining examples of just exactly what [insurers] have engaged in all these years. Even the most shady shop owner couldn't hold a single candle to that kind of blanket fraud."

Asked about his take on fraud, State Farm consultant George Avery said he does believe that a few bad apples have spoiled the bunch.

"In any area, you can point to a few bad apples who cast a shadow on the industry that isn't a reflection of the whole," Avery said. "But it's how the industry takes appropriate action to resolve the problem that counts."

Even if 100 percent of body shops were totally honest and ethical, insurers would still be wary. As National Collision Industry Alliance founder

"You would think the relationship we had with [the insurer] over many years and the fact that we scored well on many of their programs would have meant something, but obviously it didn't."

– Darrell Amberson, president, Lehman's Garage, discussing being dropped by a longtime insurance partner.

Norbert Zaenglein said in his book, "In Dangerous Hands: Automobiles, Insurance & Political Corruption in Nebraska": "Owing to its massive financial stockpiles and its own dubious reputation, the insurance industry has become a tempting target for scheming profiteers."

But Zaenglein also sides with body shops when it comes to fraud. He said, "Service providers, such as collision repair shops and glass shops who become wedged in an ever tightening vice between insurers and their profit margins, become the inevitable targets of insurer fraud."

Jerry Geisler said the trust ultimately

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comes down to the fact that insurers and repairers all work off the same estimating systems.

"Also, shops can verify everything with photographs," he said. "And I believe there's some trust already there from the proof we can establish with the electronic communication we currently have. After you've uploaded your estimate to them with pictures, a simple phone call would take away most of any questions they have."

Lou DiLisio, president of Automotive Industry Consulting, Inc., perhaps put it best when he said, "There's always blame on both sides. Nobody's ever squeaky clean."

No-Show No-Go

STATE FARM WAS THE ONLY INSURER that showed up at an insurer roundtable last month held by the Washington Metropolitan Auto Body Association. GEICO and Nationwide had

committed to attend but didn't show, which did nothing to improve relations between repairers and insurers.

The argument could be made that, with shops desperate for work and not in a position to pick and choose what insurer they want to work with, insurers have nothing to lose by pulling no-shows at events like the roundtable. But Avery disagreed.

"State Farm sees value in communicating with repairers, and when you do that, you can't help but get feedback, which is in our customers' best interest," Avery said. "There were two or three tidbits of information I got from that roundtable that I was able to carry back with me. Plus, I got a chance to tell my story."

State Farm was the most popular "partner" among repairers in the SCRS survey, with nearly 55 percent of repairers voting the insurer as such.

Insurance companies have been touting record profits for the past couple years. Meanwhile, body shops have seen their net profits reduced to single digits or nothing at all. Right or wrong, that's enough to make any repairer view insurers disdainfully.

While Avery was encouraged by that, he's not naive enough to think that all is well between repairers and insurers.

"I get feedback in the hallways about what carriers shops don't like and which ones they do," he said. "But the sense is that repairers are skeptical of insurance companies, and basically that's due to performance and history. One guy hit the nail on the head when he said a fella that gets snake-bit enough times is suspicious of any movement in the grass."

In the same survey, AIG was the

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least popular “partner” among repairers, with only 8 percent of repairers willing to call them that. It’s important to note that AIG did not rank the highest as an “adversary” (Progressive did). But despite AIG’s poor ranking as a “partner,” Kenneth William Garrett, AIG’s Southwest Regional Manager, disavowed any knowledge of bad relations between AIG and repairers.

“We run our DRPs the same way we have since the beginning. We don’t

ask for discounts and we pay the local market rate, so there is no tension that I’m aware of,” Garrett said.

In regard to other insurers, however, Garrett did admit to seeing some strain.

“I have some shops that have great relationships with other carriers and marginal relationships with others,” he said. “But as far as AIG goes, we have some great relationships with a lot of repairers and even non-DRPs out there and I think it’s

because of our leadership and management.”

Control Out the Window

INDUSTRY CONSULTANT DiLisio cites the control body shops have given up as the reason tensions between them and insurers is so high, but he blames the shops.

“The main cause is that the shops forgot how to market,” DiLisio said. “They relied on DRP relationships and the influx of work from companies and because of that, some companies are now abusing the system. They’re dictating above and beyond the repair guides or repair times allowed, and also dictating procedures, payment methodologies and payment amounts.”

Equally frustrating, DiLisio said, is what he perceives as a lack of qualified and experienced personnel who deal with shops on a daily basis.

“In a lot of cases, the people who are dictating pricing and procedures are not repair savvy,” he said. “They don’t know how the cars need to be fixed and it causes a lot of concern in the industry on how things are done.


“The people who understood the business and grew up in it are gone,” DiLisio added. “There are a lot of bean counters and businesspeople who are managing collision claims who don’t know anything about them. That’s not a knock on them; business is business, they’re out there to make a profit. But at some point you have to wake up and join the real world. You can make all the rules and regulations you want, but if you don’t apply them the right way, that’s when you have a volcano and that’s where we’re headed. I’ve never seen the industry in as bad a state as it is today.”

But again, it’s not every insurer that’s guilty of hiring people who have limited knowledge of collision repair. There are a good number of repairers who have jumped to the insurance side and insurance people who have jumped to the repair side, using their knowledge and experience to their advantage. But insurance personnel ignorant of repair processes and shop business dealings is scary no matter how big or small the number.

“[Inexperienced employees] can be found in any type of field,” said AIG’s


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Garrett. "My dad had a shop and I've seen repairers go to the insurance side and insurers go to the repair side. But like anything else, there is experience and lack of experience in both shops and insurance companies."

While the SCRS survey did not indicate how widespread repairers feel inexperience is on the insurance side, it did show that repairers rank it as having the second-highest impact on their business next to suppressed labor rates.

Conclusion

SOME INSURERS REFUSED TO COMMENT for this article. One, Nationwide, sent this comment: "We continue to find a favorable relationship with collision repair facilities as we jointly service our customers that have covered accident losses."


It seems like most are in denial about the current state of insurer-repairer relations. The reality, however, is that as long as the scales remain so unfavorably tipped to one side, there will exist a high level of tension.

What repairers find most disagreeable is some insurers' outright refusal to pay for certain procedures they deem necessary in the proper repair of a vehicle. Also disagreeable are a lack of communication and refusal to consider rate increases or other requests.

"There are those [insurers] that are less inclined to want to negotiate, and that causes a great deal of the friction we're seeing in the industry right now," said Darrell Amberson. "In too many cases, there are too many insurers that just want to be in the driver's seat and almost treat the repairer as a whipping boy. So we should say no or, in some cases, end a relationship. You hate to see it come to that, but the repairer needs to have some courage and the insurer should respond respectfully and ensure more of an interchange of information rather than dictating terms."

Indeed, open communication can facilitate respect, even if what is communicated is not what repairers want to hear.

"Our approach has been to communicate and demonstrate our thought process because we've found that, while repairers sometimes disagreed with us, they understood why we did what we did," said State Farm's Avery. "We realized we were a lot better off when we said, 'We disagree but we understand your thinking.'"

Done with negotiating, some repairers have turned to legislation as a means of creating a more level playing field. Part III of our Industry Unity series will examine repairers' successful and not-so-successful legislative efforts, as well as take an in-depth look at departments of insurance and what their real purpose is. 

Writer Jason Stahl is editor of BodyShop Business.

Comments?

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