

MAXIMIZING THE CAPABILITIES OF CORPORATE-OWNED AND MANAGED NETWORK COLLISION REPAIR ORGANIZATIONS

“The Next Generation”

The following represents a collaborative effort between Rollie Benjamin, CEO and President, ABRA Auto Body and Glass, and Vincent Romans, CEO and President of The Romans Group LLC. Both individuals bring their years of varied experience and perspective from working within the collision repair and property and casualty insurance industries.

In a recent article by Vincent Romans titled Direct Repair/Preferred Provider Programs, Minimizing Insurance Company Potential to Vertically Integrate Collision Repair Organizations, it was stated that if insurers' direct repair/preferred provider program needs are met through the current nationwide system of a wide selection of quality collision repair operators, then the chances that they will move to vertically integrate their businesses to include wholly-owned collision repair operations and services could be minimized or avoided in the future.

It is suggested that insurance companies who fully utilize and leverage the growing infrastructures, human assets, and manufacturing processes and procedures of corporate-owned multi-shop operators (MSO's) and multi-market network collision repair operators will have their corporate and field management auto physical damage repair goals and objectives met. Additionally, this will help foster a stronger market alliance between insurance companies and collision repair operators. This type of marketplace cooperation and business leveraging of each other's business competencies should further minimize or eliminate the need for insurers to consider vertically integrating their businesses to include ownership of collision repair facilities such as Allstate did with the Sterling acquisition.

This paper presents a position on how insurance companies with direct repair and preferred provider programs can better maximize and leverage the operating capabilities of corporate-owned MSO's to achieve insurer goals and objectives while allowing the repairer to produce an optimum quality repair that satisfies insurers, repairers, and consumers. While the primary focus is on corporate-owned MSO's and multiple-market collision repair network organizations, the information very often pertains to, and has application for, other types of forward-thinking collision repair operators and their respective insurance company DRP relationships.

It also identifies ways to improve how insurers and repair organizations do business together from the collision repairer's perspective. As we all know, friction between insurers and repairers is costly to all parties. For example, complicated and burdensome insurer rules cause repairer personnel turnover which is costly to both the insurer and repairer.

Corporate-managed MSO's offer many advantages to insurers; however, too many insurers attempt to work with corporate-managed networks in a manner similar to how they work with their single-unit operators. This traditional DRP management approach

and methodology does not allow either party to fully capitalize on the benefits derived from the corporate repairer's current operating models, including employed manufacturing and Theory of Constraint principles, in ways that will help insurers and repairers optimize performance relative to their respective business goals and objectives.

The following chart reflects key business and DRP program goals and objectives of both insurers and repairers. Some of these goals and objectives are aligned while others are somewhat divergent. One significant opportunity is for insurance companies and repairers to work on a collaborative basis to minimize their differences and to better align their respective goals and objectives.

This comparison of goals and objectives is followed by a review of what insurers can leverage for the management of their DRP/Preferred Provider programs based on corporate and managed collision repair organizations' automotive services knowledge, experience, management skills, and vehicle repair competencies today.

<u>INSURANCE COMPANY</u>	<u>REPAIR ORGANIZATION</u>
<u>Network Coverage - Single Point of Contact</u>	
Single point of contact at the repair organization across multiple units and broad, single- and multi-geographic market coverage.	Single point of contact at their corporate, regional, and local market levels across a growing market footprint.
<u>Growth and Expansion</u>	
Work with a repair organization that has a consistent growth and expansion strategy with actual facility improvement and expansion under way or recently completed.	Implement ongoing facility maintenance, improvement, and market expansion strategies that include existing repair facility upgrades, enhancements, and building retrofits as well as existing repair facility acquisitions and new Greenfield development.
<u>Quality Repair Standards</u>	
A measured and balanced approach to consistent, high-quality repairs where the vehicle is repaired to standards that meet safety requirements, consumer needs, and insurance company repair program benchmarks.	Quality repairs that are measured to performance levels and that meet safety requirements, consumer needs, insurance company repair program benchmarks, and repairer standards where the top-performing repairers are rewarded with additional volume and other insurance company DRP program benefits and opportunities. To date, very few insurance companies have provided the additional volume to reinforce top performing repairers.

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Performance

Quality and technical vehicle repair benchmarks and performance outcomes that are measured and ranked both through insurance company field inspectors and through web-enabled software that pushes information, or where data can be manually or automatically extracted, between collision repair providers and a central data depository for analysis and reporting.

Self-managed measurement of their quality repair outcomes through both quality team manufacturing processes including self-imposed and DRP guideline metrics that are reviewed on a collaborative basis and utilized in a supportive manner with insurance company personnel to maintain and improve performance.

Estimating and Repair Order Development

Depending upon the DRP parameters, insurance companies and repairers should write estimates and repair orders consistent with DRP guidelines and requirements. Estimate development can be done by the insurance company independent of the repair provider, in conjunction with the repair estimator, or independently by the repair estimator. Estimates would then be processed through a manual desk review or an electronic estimate audit process.

Independently and without insurance personnel involvement, write a repair plan consistent with DRP guidelines and requirements. Ideally, under first repair methodology, the estimate and repair order would be delivered after the completed repair, and then primarily for billing purposes only. The repairer wants to include his professional judgment and experience as to the scope and cost of repairing a vehicle to industry standards. The estimate and repair order may differ with the insurance company's view of "complete and correct vehicle repair." Repairer would provide self-imposed and self-managed estimate and repair order auditing.

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Work Flow Scheduling

Their insured's vehicles should be repaired as a priority with optimal cycle time and quality repair performance. Ideally, vehicles would be dismantled immediately upon arrival, an estimate and repair order would be completed, and the vehicle would be repaired with few to no supplements.

The repairer wants to improve work flow and cycle time through a consistent flow of vehicle repairs throughout the week that can be scheduled as part of the repairer's defined manufacturing process. This process would balance the repairer's and the insurance company's repair priorities, current in-process repairs, facility capacity and utilization, and available operating shifts. As a result, the repairer will run more efficiently with less production disruption, providing optimal cycle time and vehicle quality repair performance while managing repairer adjustment expense (RAE).

High CSI with Expense Management

Maintain consistent, high-quality repairs with high CSI, verified through a third-party, in order to retain insureds while concurrently reducing vehicle severity and maintaining or reducing loss adjustment expense (LAE) without jeopardizing market management performance.

Produce consistent, high-quality repairs with high CSI. Manage the delicate balance between an insurance company's severity control requirements and the repairer's view of how a vehicle should ultimately be repaired. Concurrently, maintain and/or reduce repair adjustment expense (RAE) in conjunction with the trend for shifting the administrative burden from an insurance company to a collision repair facility which is sometimes associated with DRP participation.

Verified Trust

The insurer wants ongoing, full access to collision repair facilities by its field personnel in order to inspect and adjust the estimate and for quality repairs and fraud detection. Closely manage work billed and not performed (WBNP).

Perform self-inspections for vehicle quality and fraud detection with few to no insurance company personnel involved. Manage to avoid work billed and not performed (WBNP). Any insurance company field inspection activity would be scheduled to minimize repair facility repair disruption and to maintain cycle time.

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Total Loss Management

Minimize or reduce the number of total losses by repairing the vehicle using repair procedures and parts that manage severity to where the repair is cost justified based on a realistic and acceptable vehicle actual cash value

A collaborative, pro-active total loss management approach where fewer vehicles are totaled and more are repaired. A centralized approach to total loss analysis, management, and vehicle repair.

Employee Training and Development

Repair organization employees who are consistently trained and developed to insurance industry, collision repair industry, and insurance company DRP standards. Maintain required and preferred collision repair industry and insurance company DRP program certifications.

Employees are part of an ongoing training, development and mentoring program that integrates their organizations, collision repair industry, insurance industry, and DRP program standards and requirements. Repairers prefer to work with insurance companies who are willing to participate and collaborate in employee training and consensus building.

Call Centers: Load Leveling

Have the option to rely on and/or leverage as needed a repair organization's call center for a managed care approach to warm insured transfer and claim assignment, higher capture and closing ratios, and load leveling.

Provide a call center that provides a managed care approach for scheduling and claim assignment resulting in higher capture and closing ratios, load leveling, and improved vehicle repair manufacturing and work flow processing.

Partnering

Work with collision repair organizations that meet the broadest degree of insurance company DRP program requirements and maintain a flexible working relationship.

Work with insurance companies who act as partners in progress rather than companies who manage their providers as vendors.

We have examined the similarities and differences in insurance company and corporate MSO repair organizations. Corporate-owned and managed collision repair MSO's help insurers reach their goals and objectives by providing many of the following business and corporate DRP elements on an integrated basis both within the repair organization and in conjunction with the insurance company.

Network Maintenance and Expansion

Provide a single point of contact at their corporate, regional, and local market levels across a growing marketplace footprint. Repairer implementation of ongoing facility maintenance, improvement, and market expansion strategies that include existing repair facility upgrades, enhancements, and building retrofits as well as existing repair facility acquisitions and new Greenfield development.

Severity Management

Many insurers audit vehicle estimates line item by line item with in-person desk reviews and electronic audits. Also, insurance companies maintain that they better manage and reduce severity based on field inspections of estimates and vehicles.

Repairers can guarantee a minimum level of severity performance in meeting or exceeding agreed-upon metrics and goals regarding the drivers of severity such as alternative parts, repair versus replace, etc. Additionally, severity-related items such as the mix of damaged vehicles, drive-in claims, and claimant-paid versus insurer-paid repairs should be considered by the insurer in severity management determination.

The repair organization can implement its own severity management process and procedures; the insurer would then verify results with a reduced number of field inspections and estimate audits. Determination of acceptable parameters regarding a range of acceptable severity given the vehicle type, DRP guidelines, and operational circumstances should be mutually agreed upon. If the parameters are not met, an agreed-upon financial or other consequence would be realized by the repairer. If severity parameters are in line or are exceeded, some financial or other reward can be established for the repairer. These parameters and consequences help accomplish the ultimate goal of severity management and control on more of a collaborative basis.

Quality Assurance and CSI

The repairer is responsible for having a quality assurance process which will deliver the desired outcomes based on achieving agreed-upon performance metrics. This process would place the quality review responsibility with the repairer and would only require the insurer to verify, with a limited number of inspections and ongoing, third-party provided CSI, that the process is effective. It is important that the insurer and repairer agree on acceptable repair quality and operating parameters in the process.

Loss Adjustment Expense (LAE)

There are frequently high field and administrative costs associated with processing collision repair transactions for the insurer. One of the primary goals of DRP's is to reduce these costs. However, the insurer has not necessarily reduced much of its loss adjustment expense and, in some cases, there has been an overall increase in insurance company loss adjustment expense. One reason is that during slower repair cycle periods, rather than managing a reduction in loss adjustment expense, some insurers maintain staff by keeping them engaged in various field activities related to

managing the repair process and controlling cycle time and overall severity as well as non-vehicle-repair operations.

Repair organizations have reluctantly accepted the burden of some insurance company loss adjustment expenses through implied and directed cost shifting requirements associated with DRP participation. This has resulted in an increase in the repairer's adjustment expense (RAE).

The repairer can help in reducing an insurance company's loss adjustment expense through its established manufacturing production process and workflow, self-imposed quality assurance, self-managed performance metrics, and severity management initiatives.

Work Flow and Cycle Time

The repairer will manage work flow and cycle time through scheduling repairs that balance both the insurance company's and repairer's priorities. Repairer scheduling of all repair activities such as writing customer estimates and work orders, vehicle breakdown, damage analysis, vehicle repair, and process audits at all critical points will minimize work flow disruption and improve cycle time. Web-enabled vehicle status technology software can be used by both the insurer and repairer to determine when and if repair facility visits are necessary by insurance company personnel. The repairer would communicate available capacity and current facility utilization frequently with insurance company personnel in order to coordinate a smooth transfer of damaged and repaired vehicles.

Performance and Quality Reporting

The repairer would provide ongoing and timely communication regarding the entire repair process, performance, and the insured's experience. Quality repairs would be measured against performance levels that meet safety requirements, consumer needs, and insurance company repair program benchmarks. The repairer would provide self-managed measurement of their quality repair outcomes through both quality team manufacturing processes and self-imposed and DRP guideline metrics. Results would be reviewed on a collaborative basis with insurance company personnel to maintain and improve performance. Repairers would adhere to internal standard operating procedures that support an integrated approach to accomplishing the insurance company's required operations practices and DRP implementation and maintenance requirements.

Reporting

The repairer would deliver to the insurer a system of internal and external reporting and audits that assures the insurer that they receive an excellent outcome when comparing themselves to industry benchmarks and other collision repairers. Through this information repairers can help insurers to focus on repair costs and the vehicle throughput process, and to better achieve the desired aggregate performance metrics.

Insurance companies frequently want their own format and metrics for reporting which may cause the repairer much effort in applying application software and reporting methodologies to extract and present information. Repairers will work with insurance companies to attempt to standardize their reporting metrics and formats. Some potential areas for report standardization would be:

- Cycle time
- CSI questionnaire and metrics
- Estimate accuracy
- Re-inspection repair quality
- Capture rate
- Average estimate hours to repair days
- Parts usage
- Drivers of severity
- Vehicle mix

Total Loss Processing

Insurers and repairers both would like to reduce the high costs of total loss processing. In order to reduce the significant cost to repairers when processing potential total loss vehicles, an evaluation center could be developed which will greatly assist insurers in reducing the number of total losses while reducing cycle time in the entire process. The repairer provides for a central location where all border-line repairable vehicles are sent to be inspected by a repair evaluation specialist.

The evaluation center would have an on-site disassembly staff to help make repair decisions, and the insurance company would collaborate with the repair facility in its total loss evaluation process. This collaboration would help to facilitate reducing the number of total losses for the insurance company while increasing the number of vehicles available for repair. It would also allow a consensus to develop with regard to the viability of repairing a vehicle versus totaling it. A single point of contact and a total loss reduction focus at the evaluation center streamlines the entire process. In addition, the repair facility will load-balance "saved" vehicles to the center which can repair the vehicle in the timeliest manner.

Employee Training and Development

Repairers will provide and maintain ongoing training, development and mentoring programs that integrate their organizations, the collision repair industry, the insurance industry, and DRP program standards and requirements. Repairers prefer to work with insurance companies who are willing to participate and collaborate in training and consensus building.

Conflict Resolution

Repairers would offer a process, including key individuals, which would be identified and implemented to manage conflict resolution. This approach will better ensure that as issues arise they are quickly addressed and resolved. An escalation-type program could

also be considered where unresolved issues at one level would migrate to the next with appropriate personnel involvement along the way.

Insurer/Repairer Advisory Council

Repairers would participate in an advisory council consisting of leadership from insurance companies and several repair organizations. This will better ensure open communication between insurers and repair organizations which should lead to continual process and program improvement for insurers, repairers, and consumers.

Summary

Insurance companies who work closely with corporate MSO repair organizations to leverage and integrate their established infrastructures, repair procedures and processes, personnel, and automotive services expertise will have a competitive edge in their marketplace. Those insurance companies who do not take advantage of these repairers' competencies will be less likely to achieve their optimum targeted performance metrics and vehicle repair results.