



SOUTH CAROLINA H4042 HARMS CONSUMERS AND POTENTIALLY INCREASES COSTS

Executive Summary

South Carolina H4042 proposes to restrict third-party administrators (TPAs) on insurance claims from referring or steering an insured's motor vehicle glass repair business to itself or an affiliate, or providing relevant information that would help claimants decide where to get their vehicles fixed. In effect, this eliminates any entity with a modest 10 percent interest in a glass repair facility from serving as a third party administrator. H4042 would be harmful to consumers by limiting the options available to insurers in processing glass claims and its potential to increase repair costs may translate into higher premiums.

TPAs are firms that act on behalf of insurance companies to perform all types of claims processing and other administrative services. Some TPAs have expertise in one type of claim; by focusing their strengths on one area, they help companies provide even better service to their customers as well as reduce costs for this particular type of claim. They also bring their expertise to bear in verifying legitimate claims as well as detecting and resisting fraudulent ones. Unfortunately, detecting fraud in glass claims has become an important issue because of the aggressive solicitation methods practiced by a small number of glass repair firms.

For many years now, some insurance companies have chosen to use TPAs to provide a smoother and more satisfactory glass claims experience for their customers.¹ Glass TPAs administer claims that are handled by both an affiliated network of providers and non-network providers called a direct repair program (DRP).

TPAs and direct repair programs (DRPs) are beneficial as they enable consumers to make better decisions on where to have their vehicles repaired. The claims settlement process within the TPA's network of affiliates is usually completed more quickly and is more streamlined since the work is done by qualified and reputable repair shops that meet the TPA's criteria. It is important to note that the vehicle owner still retains control in selecting the repair options and authorizing the repairs, as required by the law in South Carolina and most states.

This PCI analysis focuses on glass claims, examining industrywide loss data between network providers and non-network providers, and states that allow glass shop referrals versus states that do not allow referrals. Comparisons are also made studying all vehicle damage losses in states that prohibit referrals versus states that do not prohibit referrals.

¹ A survey conducted by J.D. Power and Associates found that people who take their vehicles to "network providers" are more satisfied than those who use a repair facility without a referral or recommendation. These shops want to gain market share; hence they strive to provide high quality repairs at reduced costs and give their networks a competitive edge that benefits consumers.

Using industrywide data for the period 2009-2011, highlights in this report including findings specific to South Carolina are as follows:

- Nationally, the cost of glass replacement claims averages 15 percent less when handled by network providers; this translates into a savings of about \$55 per claim when TPA-affiliated providers are involved.
- In South Carolina, the average cost of all glass repair and replacement claims is 14 percent lower when handled by providers within a network than providers outside a network.
- Not only does it cost \$32 less to have a windshield or window replaced by a network provider in South Carolina, but the cost of these claims increased more slowly when they are involved (2.0% from 2009 to 2011) as opposed to non-network providers (5.6% from 2009 to 2011).
- The average cost of a glass claim for the group of states that do not allow referrals is 20 percent (or \$42) higher than the group of states that do allow referrals.
- The preceding results on glass claims are supported by examining overall vehicle damage (property damage liability, collision and comprehensive excluding theft) claims. In this case, the average overall damage claim cost for the group of states that prohibit restrict glass shop recommendations (i.e., they have anti-steering laws) is 18 percent (about \$400) higher than the group of states that do not restrict glass shop recommendations.

In conclusion, industry figures show that TPAs and DRPs that permit referrals help to keep the cost of glass and other vehicle damage claims lower than would otherwise be the case. If H4042 is adopted and glass TPA networks – with their expert knowledge of glass claims, experience and ability to provide excellent customer service – are no longer allowed in this state, then damage repair costs may likely rise, adversely affecting South Carolina’s drivers.

Glass TPAs Benefit Consumers

Some auto insurers use glass TPAs to process auto windshield or window repair or replacement claims on their behalf. TPAs are staffed with knowledgeable and experienced personnel and state-of-the-art technology connected to glass claims processing. Because glass TPAs specialize in one area, they are able to provide very high quality services on a cost effective basis.

Opponents of glass TPAs say that some of these providers may have an ownership interest in some of the glass repair facilities in their network so they should not be permitted to handle glass claims. This goes well beyond restrictive “anti-steering” laws which prevent insurers or their representatives from providing information on repair options

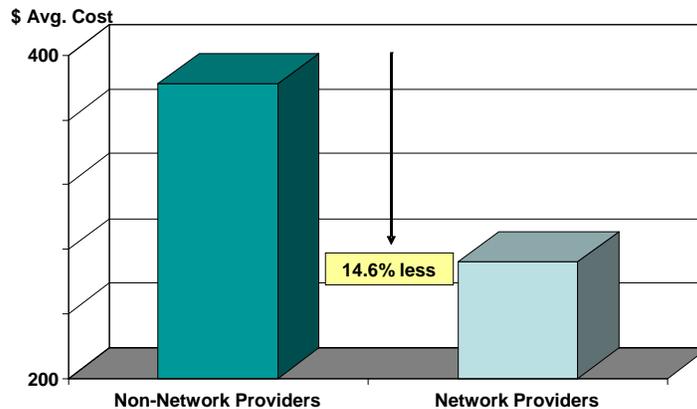
to consumers. Critics of network providers propose to block access to the expertise that TPAs have regarding glass claims that has benefited consumers for decades, whether they chose to use network facilities or not.

Most states including South Carolina have laws that preserve the consumers' right to choose where their vehicle is repaired but still allow insurers and, by extension, their TPAs to provide information and make referrals. Having these options available to consumers reduces the hassle and time in gathering repair estimates from different – and potentially unknown – shops on one's own. TPAs can better control the quality of the work and the entire repair process. In this way, there is a greater likelihood for quality repairs at reasonable prices, comprehensive guarantees and a satisfactory claims experience.

A Cost Comparison: Network vs. Non-Network Glass Repairs

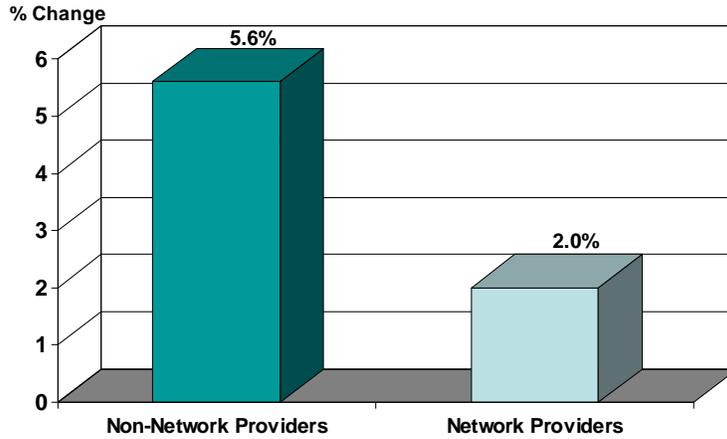
Based on industrywide data, glass claims handled by network providers are found to cost less than glass claims handled by non-network providers. The lower costs are most likely attributable to lower repair and parts costs and fewer labor hours per claim in states that permit TPAs than in states that do not permit TPAs. For example, glass replacement claims using network facilities nationwide are on average 15 percent (or \$55) less than comparable claims using non-network facilities.

Network Providers Result in Lower Glass Replacement Claims Than Non-Network Providers



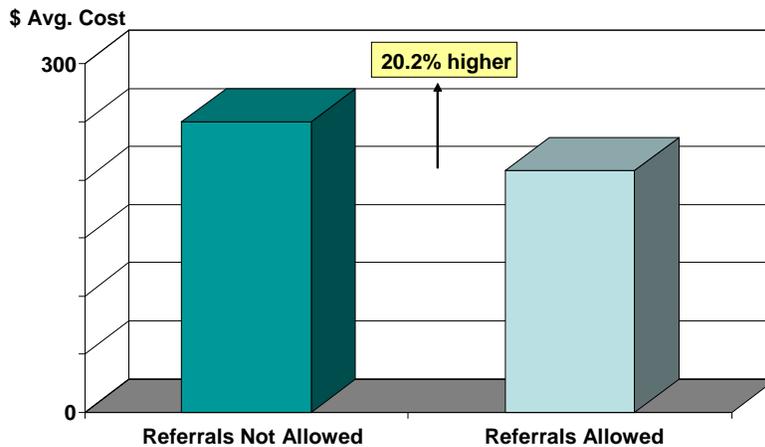
In South Carolina, the average cost of a glass claim (for a repair or replacement) handled by a network facility is 14 percent (or \$46) lower than the average cost of a glass claim handled by a non-network facility. More specifically, replacing a windshield by a network provider is 9 percent less than what it would cost to replace a windshield by a non-network provider. Not only do network-administered glass claims cost less in this state, but these costs are found to increase at a slower rate than the cost of claims administered by non-network facilities (5.6% - non-network vs. 2.0% - network from 2009 to 2011).

**SC Glass Replacement Claim Cost
Grew Almost Three Times as Fast for
Non-Network Providers than Network Providers
(2009 to 2011)**



Anti-Steering Laws Result in More Expensive Glass Repairs and Replacement
Seven states (California, Indiana, Massachusetts New Jersey, New York, Oklahoma and Rhode Island²) currently have a restrictive form of glass “anti-steering” law, whereby referrals are not permitted by TPAs or insurers. On average, glass repair and replacement costs in the states that restrict glass shop referrals are found to be 20 percent (or \$42) higher than in the states that do not restrict glass shop referrals.

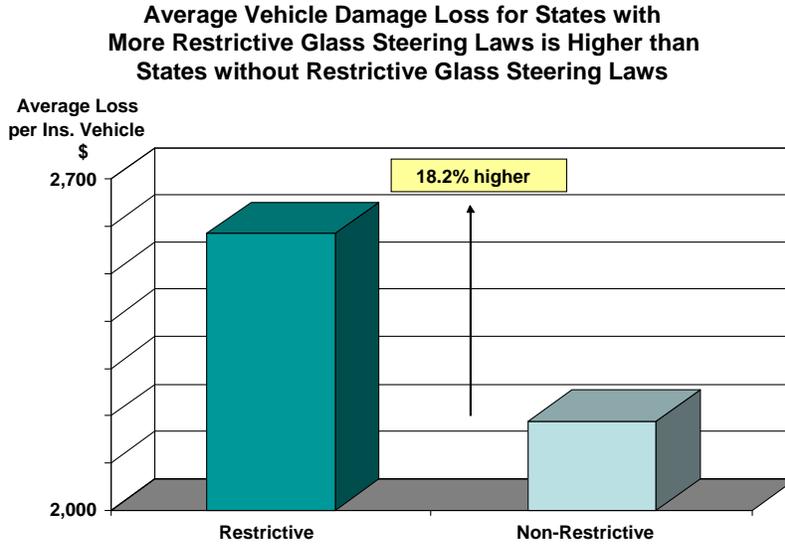
**More Restrictive States Have Higher
Glass Repair/Replacement Costs**



² Some states have recently relaxed their “anti-steering” laws in terms of providing certain information to consumers. In California, insurers and TPAs cannot provide a referral without a specific request, but insurers are now allowed to explain their program upfront. In Rhode Island, referrals are not allowed, but after PCI challenged a steering regulation, the insurance department amended it to allow discussion of repair options.

The Use of Direct Repair Programs Also Results in Lower Overall Claim Costs

The overall claim costs for property damage liability, collision and comprehensive (excluding theft) coverages were also examined, comparing states that do not allow referrals and states that do allow referrals. This comparison further supports the importance of being able to use TPAs and their affiliated network providers in terms of lowering costs for consumers. In this case, the average vehicle damage loss of the more restrictive states is found to be 18 percent (or \$400) higher than all other states comprising the less restrictive group.



PCI is a trade association consisting of more than 1,000 insurers of all sizes and types. Its members represent 38.3 percent of the total general insurance business and 44.0 percent of the total personal auto business in the nation. In South Carolina, PCI members represent 33.0 percent of the personal auto market.