



OFFICE OF
INSURANCE COMMISSIONER

June 22, 2018

The Honorable Steve Kirby
Chair, Business & Financial Services
437B Legislative Building
PO Box 40600
Olympia, WA 98504

Dear Representative Kirby:

This letter is a follow-up to our previous letter dated August 30, 2017 on the subject of your request to the OIC to consider rulemaking on steering by auto insurance companies to certain auto repair shops.

We have carefully evaluated your request, and took action to determine if carriers are attempting to unreasonably influence or steer a consumer to utilize one repair facility over another. We reviewed all past consumer complaints related to auto repair, and conducted follow up surveys with them. We also conducted a survey of private passenger auto insurers in Washington. And we reviewed additional materials provided on your behalf by Mr. Jerry Butler, a facility owner.

Our survey found that 82% of carriers writing private passenger auto business in Washington do utilize a preferred service center network. However, a clear majority of both first and third party claims were repaired by repair facilities that were not a part of the carriers' preferred service center network. From this, we infer that consumers are aware of their right to choose independent facilities, and routinely select that option. And, there does not appear to be a significant financial incentive to select preferred service centers. For example, we found that the average labor rate paid to preferred service centers is only \$1.34 per hour less than the rate paid to a non-preferred service center. I have included the complete survey report as an attachment for your information.

The results of our efforts to investigate the issue of consumer steering did not reveal sufficient facts to support a rule-making identifying this as an unfair practice. As a result, we will not move forward with a rule-making on that topic.

The materials your constituent, Mr. Butler, provided to our office in support of your petition present a different issue. This material focuses on the potential consumer consequences of

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substandard repairs. Given the potential impact on consumer safety and property value, we have determined to evaluate this issue further. We anticipate completing our research into this issue in approximately 3 months. We will keep you apprised of our review and our determination.

Thank you so much for submitting this petition. We share your concern that Washington consumers receive the full value of their insurance contracts, and are provided with appropriate services. If you have any questions or concerns related to this decision, please do not hesitate to contact me.

Sincerely,



Candice Myrum
Policy and Rules Manager
Policy & Legislative Affairs
Washington State Office of the Insurance Commissioner
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Insurance Building, Olympia, WA 98504-0258

Enclosed

CC: Deputy Insurance Commissioner Gellermann
Legislative Director Johns-Brown

January 17, 2018

Consumer Repair Shop Survey Results

Consumer Protection was tasked with conducting a survey with consumers to determine whether they have a choice in selecting their repair shop. We obtained contact information for consumers that had filed complaints with the Office of the Insurance Commissioner (OIC) involving vehicle repairs through our SIMBA database. We identified 185 consumers that were sent invitations to complete the survey. The survey began on 12/11/2017 and closed on 1/11/2018. Out of the 185 surveys sent, 17% of the consumers responded (32 total responses).

The search criteria used in SIMBA consisted of first-party insureds, individual private passenger, collision, and only complaints reported to the National Association of Insurance Commissioners (NAIC). The date range was 12/04/2016 to 12/04/2017.

We used the Insurance Consumer Advocate Network's definition of steering to guide our data collection. The term "is defined as the practice of insurance companies directing first-party insureds and/or third-party claimants to or away from specific repair facilities or providers."

The survey consisted of three questions:

1. What was the name of your insurance company that processed your car repair claim? Type your response below:
2. How did you choose a repair shop?
 - a. A friend or family member recommended the repair shop I used.
 - b. I chose a repair shop on a list provided to me by the insurance company.
 - c. I chose a repair shop that I used in the past.
 - d. If none of the above, please indicate how you chose the repair shop
3. Were you satisfied with the quality of the repairs made by the repair shop on your car?
 - a. Yes.
 - b. If not, please explain below why you were dissatisfied.

Results:

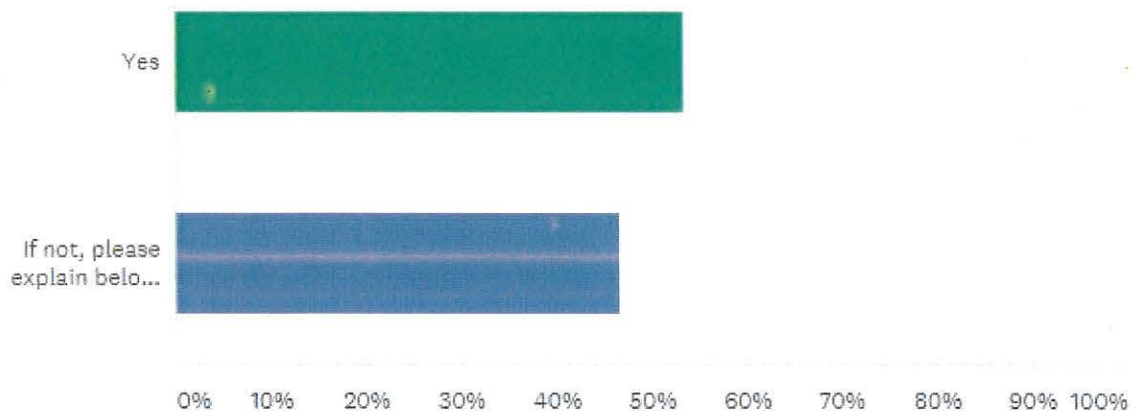
Of the 185 total invitations, we received 32 total responses with the following breakdown by carrier

1. What was the name of your insurance company that processed your car repair claim? Type your response below:
 - 5 – GEICO
 - 5 – American Family
 - 3 – State Farm
 - 2 – Safeco
 - 2 – Allstate

- 1 – Hartford
 - 1 – Metlife
 - 1 – Ameriprise
 - 1 – Nationwide
 - 1 – USAA
 - 1 – Liberty Mutual
 - 1 – Good 2 Go (Omni Insurance)
 - 1 – 21st Insurance
 - 1 – Bristol West
 - 1 – Grange
 - 1 – Dairyland
 - 4 – Insurer not named
2. How did you choose a repair shop? 28 answered & 4 skipped.
- A friend or family member recommended the repair shop I used. **Responses: 3 or 10.71%**
 - I chose a repair shop on a list provided to me by the insurance company. **Responses 6 or 21.43%**
 - I chose a repair shop that I used in the past. **Responses 4 or 14.29%**
 - If none of the above, please indicate below how you chose the repair shop. **Responses 15 or 53.57%**



3. Were you satisfied with the quality of the repairs made by the repair shop on your car? 30 answered & 2 skipped.
- Yes. **Responses: 16 or 53.33%**
 - If not, please explain below why you were dissatisfied. **Responses: 14 or 46.67%**



Analysis:

Of the 28 consumers that responded to question 2, it appears that 18 chose their repair shop without the influence of the insurer while 10 had some influence by the insurer. Sixty-four percent had no influence from the insurer and thirty-eight percent had some influence by the insurer.

Of the 14 consumers that responded 'no' for question 3, it appears that three of those consumers chose the shop without influence from the insurer. Five did not identify how they chose the repair shop, or no repairs were completed. Six chose the shop with influence from the insurer.

Of the 10 consumers that had some influence by the insurer, six were not satisfied with the repairs, while three were satisfied with the repairs. There were no repairs completed for one consumer since the vehicle was determined to be a total loss.

Conclusion:

Based upon the data obtained from the survey, it does not appear a trend has been established to substantiate that insurers are steering consumers.

Completed by: Andy Swokowski – Consumer Protection

January 29, 2018

Private Passenger Claims Processing Data Survey

Market Conduct Oversight conducted a survey of all Private Passenger Auto insurers in Washington to determine if carriers were attempting to unreasonably influence (commonly known as steering) consumers to utilize one repair facility over another. An inquiry was run through the National Association of Insurance Commissioners (NAIC) online Financial Statement database to determine which companies reported Private Passenger Auto premium on their 2017 quarterly financial reports. A total of 282 companies reported Private Passenger Auto premium for Washington State during 2017. For the purpose of this survey Private Passenger Auto meant a policy issued to cover a privately owned passenger vehicle not used for commercial purposes and excluded motorcycles, RVs, campers and trailers.

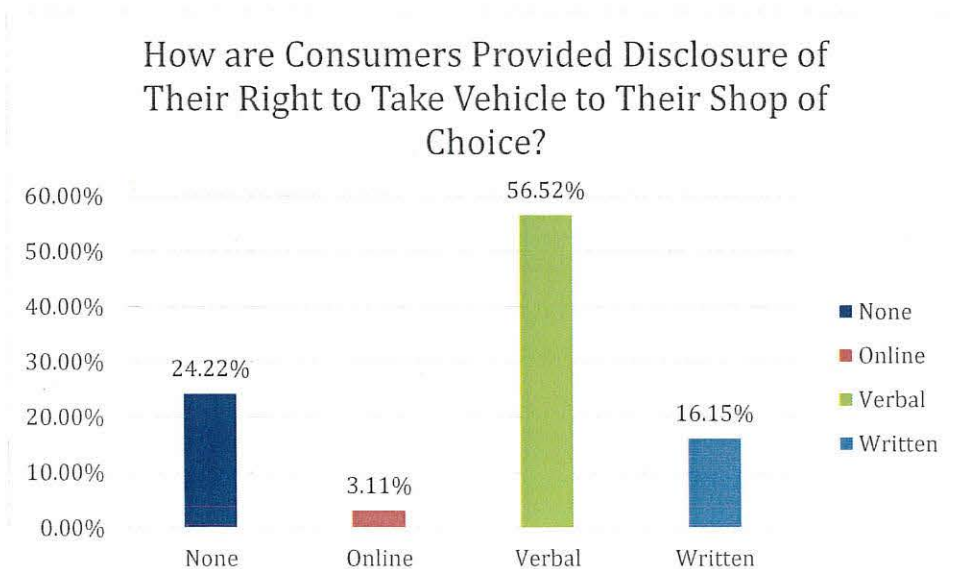
On 12/8/2017 an email notice was mailed to the Market Conduct contact, per the NAIC Company Contacts database, for each company. Attached to the email was a letter explaining the data survey with Market Conduct Oversight's contact information in case the companies had any questions, a sample Excel data template and a blank data template for the companies to report their information on. The companies were given until 12/31/2017 to provide the requested data.

The data survey consisted of the following questions:

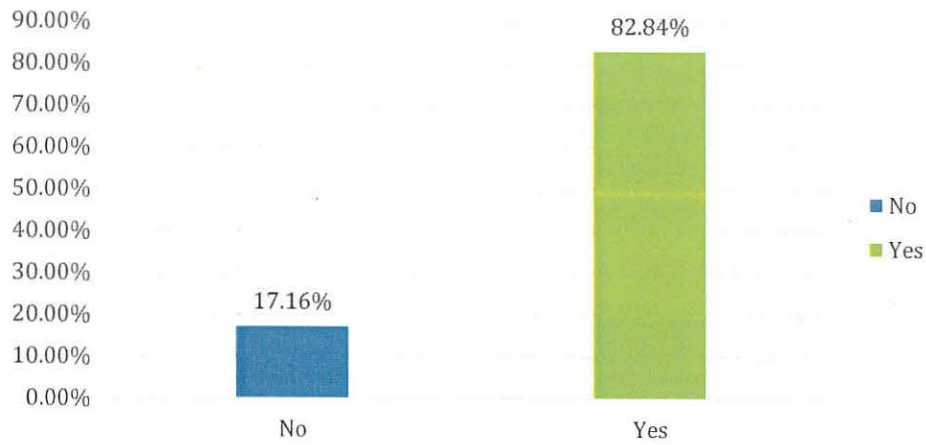
- What disclosure material is provided to consumers at the filing of an automobile claim that explains which repair shops they can take their vehicle to?
- Does your Company offer preferred service centers where consumers can take their vehicle?
- If so, how many preferred service centers are located in WA State?
- If a consumer opts to take their vehicle to a repair shop not on the Company's preferred service center list, what is the impact to the claimant?
- What are the benefits to the Company for utilizing preferred service centers?
- What is your Company's claims estimate process?
- How are claim supplements processed?
- Is your Company's claims processing the same for 1st and 3rd parties? Explain the differences.
- How many 1st party claims were processed in 2017 from a preferred service center? 3rd party claims?
- How many 1st party claims were processed in 2017 where the consumer did not use a preferred service center? 3rd party claims?

- Provide a breakdown of hourly rates paid to body shops. Preferred service centers vs non-preferred.

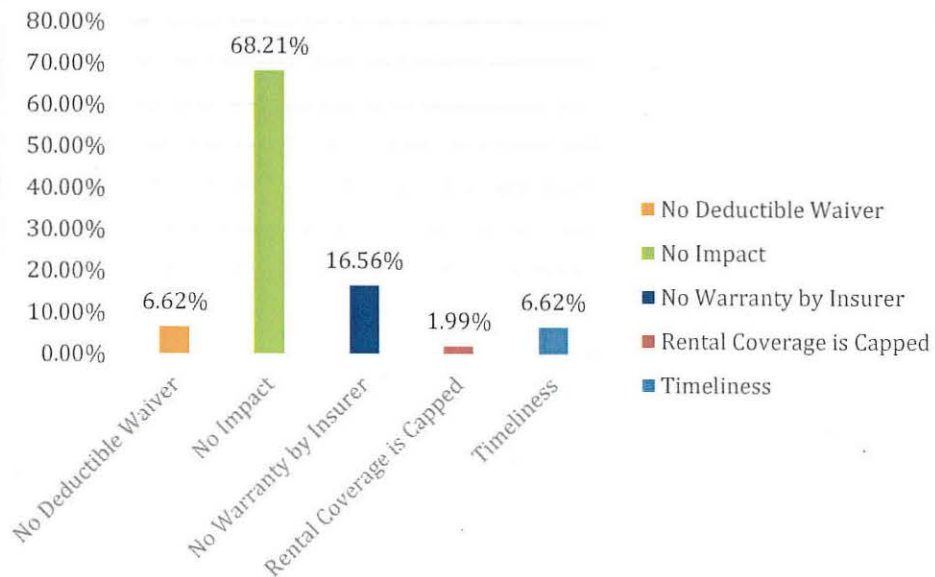
As of 1/19/2018 a total of 174 companies responded to the data survey and submitted the requested information. A total of 4 companies requested exemptions since the premium they reported under Private Passenger Auto was for motorcycle only business or mobile home business. Market Conduct Oversight kept a working copy of the Excel data template and entered each company's data into it. From there the data was aggregated for each question which allowed certain assumptions to be made regarding whether or not the carriers are exerting unreasonable influence on consumers and their choice of repair shops.



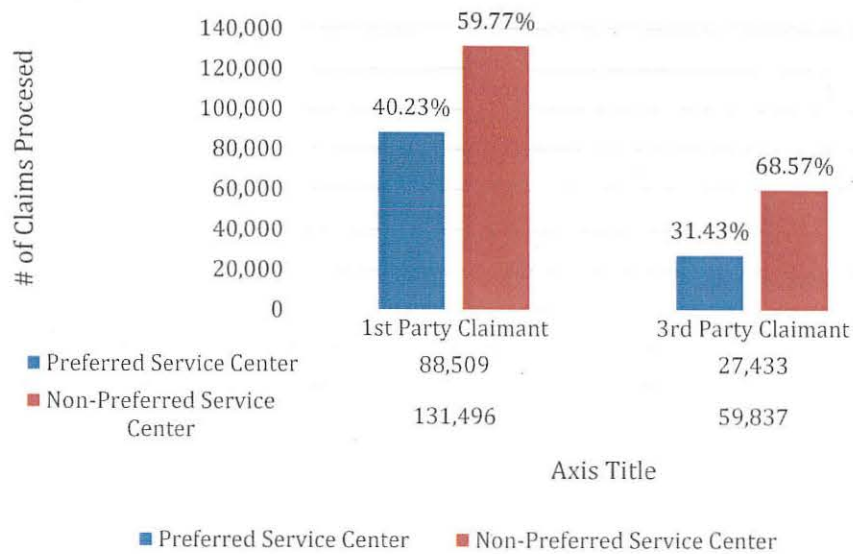
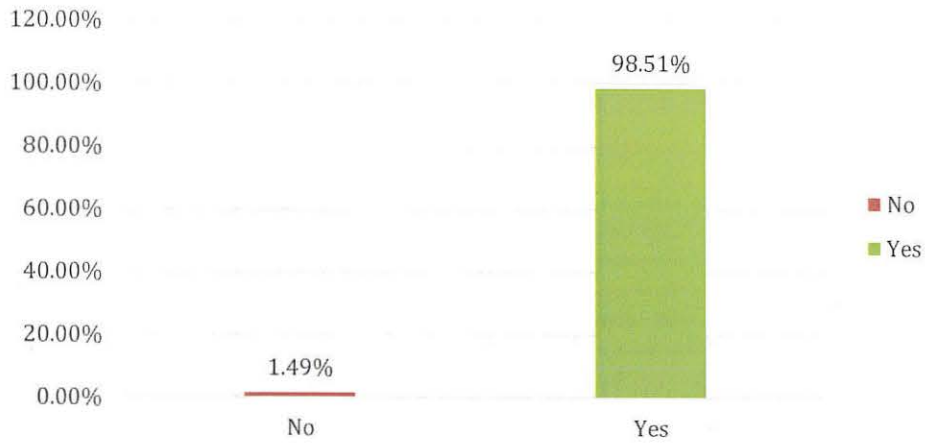
Does your Company Offer Preferred Service Centers in WA?



Impact on Consumer for using a Non-Preferred Repair Facility



Is your Company's Claims Processing the Same for 1st and 3rd Parties?



Analysis:

A large majority of carriers (82%) writing Private Passenger Auto business in Washington utilize a preferred service center network. It stands to reason that if a carrier was going to steer a consumer to a specific shop it would be to one that is a part of their preferred network. The data shows that the vast majority of both 1st and 3rd party claims were repaired by repair facilities with that are not part of the carriers' preferred service center networks. Additionally, the data illustrates that the carriers do not have any economic incentive to steer consumers to their preferred service centers since the average labor rate paid to these repair facilities is only a \$1.34 less than the labor rate paid to non-preferred repair facilities.

A few carriers (6.62%) offer a deductible waiver to 1st party claimants who utilize a preferred service center for their vehicle repairs. This could be construed as steering since it incentivizes the consumer to use a particular shop. The carriers offering a deductible waiver have filed and received approval to do so through the OIC's Rates and Forms Division. Since the deductible waivers are part of the carriers' approved form & rate filings the practice is allowed and would not be considered steering as defined in this data survey.

Conclusion:

The results of this data survey do not support the assertion that insurance carriers are steering consumers to repair facilities that are part of the carriers' preferred service center networks or that they are limiting or denying payment on claims when consumers choose a non-preferred repair facility.

