

**Government Employees Insurance Company (GE)  
GEICO General Insurance Company (GG)  
GEICO Indemnity Company (GI)  
GEICO Advantage Insurance Company (GV)  
GEICO Choice Insurance Company (GH)  
GEICO Secure Insurance Company (GS)  
GEICO County Mutual Insurance Company (GM)  
GEICO Texas County Mutual Insurance Company (GT)**

**Response Memorandum**

The following has been prepared in response to the objection dated June 27, 2022 regarding filing number GECC-133271173.

**Objection 1**

**Applies To:**

- [A54TXA, 12-21, Endorsement/Amendment/Conditions, Automobile Policy Amendment Texas \(Form\)](#)

**Comment:**

We recognize that you answered many of these questions in an earlier filing. We need a record of them for this filing, and want to give you the opportunity to update your answers.

1. Why does GEICO need to limit appraisals to only total loss claims?
  - a. What problem are you trying to solve?
  - b. How does this change benefit GEICO?
  - c. How does this change benefit consumers?
2. How does this change impact policyholders with repair disputes?
3. How many appraisals have been completed on vehicles with total loss claims in the last three years? How many appraisals were invoked by policyholders?
4. How many appraisals have been completed on repaired vehicles in the last three years? How many appraisals were invoked by policyholders?
5. Please provide data about those appraisals in the last three years (offer, demand, ultimate settlement). Please give separate data for repairs and total loss vehicles.
6. How many complaints about physical damage (first party) loss settlements has GEICO received in the last three years?
7. How many of those complaints were about repair settlements?
8. How much does it cost GEICO on average per appraisal?
  - a. How much does it cost the insured?
  - b. How many appraisals in the last three years required an umpire?
9. Is there a difference in the cost of appraisals for total loss and repair disputes? If so, what is it?
10. Who are the appraisers used by GEICO? What are their qualifications?
11. If the right to appraisal is limited to total loss disputes, explain in detail how GEICO will handle repair amount disputes.
12. Over the last three years, how many first-party claimants used each of the following dispute resolution avenues?
  - a. small claims court
  - b. mediation

- c. district court
- d. public adjuster

13. How many first party claims has GEICO had over the last three years?

- a. How many were for repairs?
- b. How many were for total losses?

14. Has this endorsement been approved or accepted in any other state? Were there any states that rejected, disapproved, or approved with changes to the endorsement?

15. Please provide the most frequent examples of "parties other than the consumer working beyond the intended scope of the appraisal clause to circumvent other contractual agreements and exclusions" mentioned in GEICO's response to OPIC's November 18, 2021, inquiry on State Tracking #S696365.

16. Please submit a rate filing or explain why one is not needed.

### **GEICO Response:**

GEICO is seeking to amend the state promulgated appraisal clause language in the private passenger automobile insurance contract to apply only to total loss claims in response to recent developments in the Texas insurance marketplace. The historic appraisal clause language is poorly suited to protect the interests of the public as well as the interest of the insurance industry considering continuing changes involving invocation of appraisal in the insurance context.

To be clear, GEICO is seeking to amend the appraisal clause in its policy forms to copy the appraisal clause functionality adopted by its major competitor, State Farm, in 2016. State Farm filed a change to its appraisal process to only apply to total loss claims on 4/30/2014 under SERFF Filing No. SFMA-129506241 and was approved for use in Texas effective 2/14/2016.

TDI questioned State Farm concerning the scope of the applicability of the appraisal clause in that filing. The TDI question and State Farm's answer are as follows:

- d. It appears that appraisal applies only to a total loss. Explain what options an insured has to dispute the amount of loss in a situation other than total loss.

*Appraisal does only apply to a total loss. Appraisals cost between \$150 and \$750, depending upon the rarity of the vehicle and whether the appraiser has to travel to inspect it. As an alternative, an insured may work with the repair shop and State Farm to determine the amount of a loss that is repairable. Should State Farm determine that appraisal is a reasonable way to resolve the dispute it may agree to such; however, the policy does not obligate State Farm to submit to appraisal if the insured requests such and the car is not a total loss. And, the insured may file suit to resolve the issue.*

The limitation of appraisal to total loss claims which is the subject of the GEICO filing is already applicable to roughly 14.29% of the private passenger insurance policyholders in the state of Texas according to the most recent TDI data.

GEICO seeks to implement the same appraisal clause procedure employed by State Farm to address marketplace issues that have arisen due to improper, unexpected and unforeseeable activity by automobile repair facilities and public adjusters and in response to the dramatic and punitive changes to the use of appraisal clauses in automobile insurance embodied in HB 2534 (87R-2021).

Since the State Farm appraisal clause procedure has been previously reviewed by the Texas Department of Insurance and approved for the use by one of GEICO's major competitors in the Texas insurance marketplace, it is GEICO's position that equitable principles of fair play and equal justice dictate that the Texas Department of Insurance approve this same appraisal clause procedure for use by GEICO in its Texas automobile insurance contracts.

## 1. Why does GEICO need to limit appraisals to only total loss claims?

### a. What problem are you trying to solve?

### b. How does this change benefit GEICO?

### c. How does this change benefit consumers?

- 1.a. **Fairness:** Our filing is intended to ensure fairness and equity in the Texas insurance industry in light of a major competitor having an approved appraisal procedure that GEICO would also like to implement.  
**Unintended Consequence:** Our filing is intended to reduce the abuse of the appraisal process that is being initiated by third-parties.  
**Reduce Costs:** Our filing is intended to reduce the opportunity for repair facilities to unnecessarily inflate repair costs.  
**Protect Consumers:** Our filing is intended to protect consumers from the out-of-pocket costs they may incur from an unnecessary use of the appraisal process.
- 1.b. Expedite settlement and prevent needless and unwarranted delays that result in unnecessary expenses that impact consumers.
- 1.c. Alleviate out of pocket expenses for our insured such as appraisal costs, umpire costs, unnecessary storage fees and potential rental costs due to delays arising from the unintended use of the appraisal process. As noted in detail below, third parties such as repair facilities and appraisers can profit at the expense of the consumer.

There has been a growing environment of abuse of the appraisal process that is being initiated by third parties purportedly on behalf of the insured. Typically, the insured is asked by a repair facility to sign documentation at the time of repair authorization (before repairs even started and sometimes before the vehicle arrives at the shop) approving the invocation of the appraisal clause per the shop's request and the insured is generally unaware of the shop's intention or pursuit of additional fees/costs or why these would be necessary to complete their repairs.

The current clause is open to abuse and is typically initiated by repair facilities to unnecessarily inflate repair costs. These shops and their appraisers/umpires typically do not work within the guidelines of the policy contract when it comes to repair disputes and therefore attempt to circumvent policy limits and exclusions such as the limit of liability in respect to parts of like kind and quality, responsibility for prevailing competitive repair costs (i.e. Prevailing labor rates and operation costs for the area) and other concerns such as unendorsed aftermarket additions and/or modifications. These parties also pursue other frivolous, non-standard charges such as "administrative" and estimating fees, excessive storage costs and other add-ons fees not typically interpreted as falling under the appraisal process.

Due to the exclusions and limits of liability set forth in the policy contract these expenses can be passed on to policyholders. The typical repair authorization documents that the customer is ultimately responsible for all repair costs. The current clause emboldens shops that are pursuing these undue charges to initiate the appraisal process at a significantly increasing rate. These additional costs are typically non-customary processes and/or charges that are not clearly defined and offer no benefit to the policy holder.

Our experience finds that these appraisal companies are typically not offering an independent, unbiased perspective of the repair process, requirements, fee and costs. Commonly the appraisers merely copy the repair shop's repair estimate. These appraisers often refuse to negotiate forcing the appraiser for the insurance company to either agree with their position or incur the cost of the umpire. Often an umpires "settlement" suggestion is made regardless of the policy terms noted above and it only takes one of the two appraisers to agree for that to be binding.

The proposed change in the appraisal procedure will benefit consumers by reducing the potential for inflated repair costs and reducing the consumer's exposure to out-of-pocket expenses associated with appraisal.

(The counts and totals we have provided below represent our best efforts at calculating these numbers based on a manual review.)

## **2. How does this change impact policyholders with repair disputes?**

- (1) Prevent unnecessary delays in the claim's settlement and repair process
- (2) Prevents unnecessary additional expenses for the policyholder
- (3) Maintains consistency in the claims handling process

Often, disputes that result in appraisal on repairable claims are not escalated by the consumer, but rather by the shop operating under an assignment from the consumer. A typical dispute actually escalated by a consumer on a repairable claim deals with unrelated prior damage, repair versus replace determination or parts usage within the estimate. These disputes are typically settled through negotiation and properly educating our customers concerning repair processes and policy terms, and if needed our dispute escalation process wherein a member of management works to reach an amicable settlement directly with our policy holder.

The change to the appraisal process, as is already set out in the approved State Farm policy, will ensure that policyholders are not taken advantage of by third parties desiring to inflate repair costs. GEICO has and will continue to negotiate fairly and consistently with repair facilities to reach amicable agreed prices for costs and services necessary for repairs within the terms of the policy contract.

## **3. How many appraisals have been completed on vehicles with total loss claims in the last three years? How many appraisals were invoked by policyholders?**

We appreciate your question. This data is not readily available and requires a manual audit. In an effort to answer your question in the most expedient fashion, we reviewed one year's worth of claims with payments made to independent appraisers. Our review indicated payments made for 56 appraisals were completed on vehicles with total loss claims. Of these, fifty (90%) of the appraisals were invoked by policyholders.

## **4. How many appraisals have been completed on repaired vehicles in the last three years? How many appraisals were invoked by policyholders?**

We appreciate your question. This data is not readily available and requires a manual audit. In an effort to answer your question in the most expedient fashion, we reviewed one year's worth of claims with payments made to independent appraisers. Our review indicated payments made for 20 appraisals were completed on repaired vehicles. Of these, sixteen (80%) of the appraisals were invoked by policyholders.

## **5. Please provide data about those appraisals in the last three years (offer, demand, ultimate settlement). Please give separate data for repairs and total loss vehicles**

We appreciate your question. This data is not readily available and requires a manual audit. In an effort to answer your question in the most expedient fashion, we reviewed one year's worth of claims with payments made to independent appraisers. Our review indicated the following:

### Repairs:

Average offer: \$5,217.39  
Average demand: \$11,377.66  
Average settlement: \$9,496.42

### Total Loss:

Average offer: \$18,146.74  
Average demand: \$22,503.16  
Average settlement: \$21,351.91

## **6. How many complaints about physical damage (first party) loss settlements has GEICO received in the last three years?**

Over the course of the last three years, we have received 142 complaints from our policyholders related to the damages of their vehicle either on a partial loss or total loss settlement.

## **7. How many of those complaints were about repair settlements?**

A breakdown of the complaints filed by our policyholders can be found below:

June 28, 2019- June 28, 2022

TX Complaints to DOI from our policyholders in these categories:

Estimate: Estimate amount 30

Estimate: Estimate quality 21

Repair Issues: Labor rate 4

Repair Issues: OEM vs. LKQ 7

Repair Issues: Repair quality 26

Total Loss Settlement: COVID-19 1

Total Loss Settlement: Total Loss Settlement Offer 53

Total 142

## **8. How much does it cost GEICO on average per appraisal?**

These costs vary based on distance to the vehicle, hours billed, number of inspections and other factors such as the complexity of the claim and are determined on a case by case basis. We have records ranging from \$350 to \$1,700+ depending upon the details noted above.

### **a. How much does it cost the insured?**

We appreciate your question. Unfortunately, this data is not provided to GEICO by our policy holders. It is important to note that we have seen a trend of these shops paying the appraisers directly.

### **b. How many appraisals in the last three years required an umpire?**

We appreciate your question. This data is not readily available and requires a manual audit. In an effort to answer your question in the most expedient fashion, we reviewed one year's worth of claims with payments made to independent appraisers. Our review indicated 12 instances where an umpire was required.

## **9. Is there a difference in the cost of appraisals for total loss and repair disputes? If so, what is it?**

These costs vary based on distance to the vehicle, hours billed, number of inspections and other factors such as the complexity of the claim and are determined on a case by case basis.

## **10. Who are the appraisers used by GEICO? What are their qualifications?**

Entities we have utilized for appraisals includes but is not limited to: SCA, PDA, Frontier, and Pinnacle. Based on our information they are Texas licensed public adjusters experienced in property and auto estimating.

## **11. If the right to appraisal is limited to total loss disputes, explain in detail how GEICO will handle repair amount disputes.**

Often, disputes that result in appraisal on repairable claims are not escalated by the consumer, but rather by the shop operating under an assignment from the consumer. The typical consumer escalated repair dispute involves unrelated prior damage, repair versus replace determination or parts usage within the estimate. These disputes are typically settled through negotiation and properly educating our customers and their chosen repair facility concerning repair processes and policy terms, and if needed our dispute escalation process wherein a member of management works to reach an amicable settlement directly with our policy holder and/or their selected repair facility.

Most repair facilities operate in a professional and customer centric manner and negotiate amicably and professionally with insurance companies to return our mutual customers' vehicles to pre-loss condition. Upon approval of the amended policy language those repair facilities using the appraisal clause to

unnecessarily inflate repair costs will negotiate with GEICO to come to an agreement.

**12. Over the last three years, how many first-party claimants used each of the following dispute resolution avenues?**

- a. small claims court
- b. mediation
- c. district court
- d. public adjuster

We appreciate your question. Unfortunately, this data is not readily available and would require an arduous manual audit to compile.

**13. How many first party claims has GEICO had over the last three years?**

According to our internal reporting, we have had 622,137 first-party inspections in Texas over the timeframe of 6/2019 through 5/2022

**a. How many were for repairs?**

Partial loss: 481,897

**b. How many were for total losses?**

Total loss: 140,240

**14. Has this endorsement been approved or accepted in any other state? Were there any states that rejected, disapproved, or approved with changes to the endorsement?**

The Texas Department of Insurance has previously approved an appraisal procedure applicable only to total loss claims for State Farm under SERFF No. SFMA-129506241

As of this time, GEICO has not filed this endorsement in other states.

**15. Please provide the most frequent examples of “parties other than the consumer working beyond the intended scope of the appraisal clause to circumvent other contractual agreements and exclusions” mentioned in GEICO’s response to OPIC’s November 18, 2021, inquiry on State Tracking #S696365.16.**

There has been a growing environment of abuse of the appraisal process that is being initiated by third parties purportedly on behalf of the insured. Typically, the insured is asked by a repair facility to sign documentation at the time of repair authorization (before repairs even started and sometimes before the vehicle arrives at the shop) approving the invocation of the appraisal clause per the shop’s request and the insured is generally unaware of the shop’s intention or pursuit of additional fees/costs or why these would be necessary to complete their repairs.

The current clause is open to abuse and is typically initiated by repair facilities to unnecessarily inflate repair costs. These shops and their appraisers/umpires typically do not work within the guidelines of the policy contract when it comes to repair disputes and therefore attempt to circumvent policy limits and exclusions such as the limit of liability in respect to parts of like kind and quality, responsibility for prevailing competitive repair costs (i.e. Prevailing labor rates and operation costs for the area) and other concerns such as unendorsed aftermarket additions and/or modifications. These parties also pursue other frivolous, non-standard charges such as “administrative” and estimating fees, excessive storage costs and other add-ons fees not typically interpreted as falling under the appraisal process.

Due to the exclusions and limits of liability set forth in the policy contract these expenses can be passed on to policyholders. The typical repair authorization documents that the customer is ultimately responsible for all repair costs. The current clause emboldens shops that are pursuing these undue charges to initiate the appraisal process at a significantly increasing rate. These additional costs are typically non-customary processes and/or charges that are not clearly defined and offer no benefit to the policy holder.

Our experience finds that these appraisal companies are typically not offering an independent, unbiased perspective of the repair process, requirements, fee and costs. Commonly the appraisers merely copy the repair shop's repair estimate. These appraisers often refuse to negotiate forcing the appraiser for the insurance company to either agree with their position or incur the cost of the umpire. Often an umpire's "settlement" suggestion is made regardless of the policy terms noted above and it only takes one of the two appraisers to agree for that to be binding.

The proposed change in the appraisal procedure will benefit consumers by reducing the potential for inflated repair costs and reducing the consumer's exposure to out-of-pocket expenses associated with appraisal.

**16. Please submit a rate filing or explain why one is not needed.**

As reflected in question #8, appraisals cost between \$350 - \$1,700+ depending on a number of different factors. As an alternative, an insured may work with the repair shop and GEICO to determine the amount of a loss that is repairable. Should GEICO determine an appraisal is a reasonable way to resolve the dispute it may agree to such; however, the policy does not obligate GEICO to submit to appraisal if the insured requests such and the car is not a total loss. The insured may file suit to resolve the issue. Our rates are prospective and will be monitored to reflect any changes in severity trends to ensure they remain adequate, are not excessive, and reflect actual experience as we continue to see rapid increases in inflation and physical damage costs.