



# SOCIETY OF COLLISION REPAIR SPECIALISTS

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December 20, 2011

O-1224

Adam Belz  
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Mr. Belz,

On behalf of the Society of Collision Repair Specialists (SCRS) and our membership, we would like to thank you for bringing the issue of collision repair pricing into attention in your article entitled [Auto body shops say they, not insurers, should set costs](#). Since 1982, the SCRS has been the largest national trade association solely dedicated to serving the hardworking collision repair facilities across North America, and proudly representing over 6,000 collision repair businesses and 58,500 specialized professionals who work to repair collision-damaged vehicles.

Your story was constructed around the premise that “repair shops say if they don’t charge what insurance companies decide are fair prices, they lose business.” Mr. Luedke from State Farm Insurance confirmed that point when stating “If [the shop] wants to collect the difference from the customer, [they] can, or [they’re] free not to do the repair.” Further research on this topic would demonstrate that property and casualty insurance carriers have become increasingly involved in activities that extend beyond the business of insurance, while interjecting themselves into collision repair business activities. You reinforced this involvement with the statement that “insurance company officials counter that they deal with thousands of vehicle repairs each year and figure out who can do the best work for the lowest cost. That, they say, saves money for consumers.”

The business of insurance ultimately boils down to the carrier undertaking a contractual obligation to compensate their policy holder for a loss relating to a subject as a result of designated hazards, and indemnify them from any further loss or liability. The responsibility to compensate for fair and reasonable costs of the loss is significantly different than defining what is fair and reasonable. Insurers operating in today’s environment have exhaustively used the argument that they are essentially entitled to shape the “competitive” practices within the auto repair marketplace and determine their acceptable and uniform hourly rate for the “prevailing competitive price,” in the name of ‘saving the consumer money’ by avoiding higher premiums. In fact, when looking at statistics presented in the 2011 Q4 Mitchell Industry Trends Report, it becomes quite evident that average gross collision appraisal values have remained stagnant comparing the first and third quarters of 2009, 2010 and 2011. Research further back would even prove that the average appraisal value has remained flat for at least the last 7 to 8 years; meanwhile consumer auto insurance premium costs continue to rise. Even data generated by the U.S. Bureau of Labor Statistics demonstrates that the consumer price for bodywork continues to lag behind the consumer price of auto insurance. Doesn’t this seem to contradict the argument that the insurance industry’s pressure over repair facility pricing has any relativity to premium pricing and saving the consumer money? Do these practices simply serve to

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further expand the margins of profit enjoyed by these carriers? Keep in mind, the Insurance Information Institute recently reported that private auto insurance is the most profitable line of insurance coverage in the United States.

Insurers have essentially made the determination that every repair business is created equal, by only paying one pre-determined rate to each motor vehicle repair shop within a market. In fact, many times different property and casualty insurance companies require the repair shops to charge the same rate as the other carriers, which may be even less expensive than a posted door rate charged to a customer off the street. The rate established by the carrier is clearly intended as a control mechanism to minimize their payout of loss settlement dollars, rather than the impression they project of determining prevailing and reasonable prices in the marketplace. In the rare event that an insurer actually conducts an official survey, the accuracy of the survey results is still suspect. As stated by Judge James G. Bertoli, one carrier's survey in question "from a statistical standpoint would get a first year college student a flunking grade." The court case (*Wilkins v. Delross and Mason v. Ellis*) heard before the Superior Court of California in Sonoma County which featured this statement, also succinctly addressed the definition of reasonable charges; in that "a reasonable charge implies a range of charges. If the charge falls within that range, it will be deemed to be reasonable."

The insurance industry's approach to establishing a singular prevailing labor rate charge for all businesses within a market fails to recognize the existence of reasonable variance between competitive businesses; illustrating a lack of competition within the marketplace, thanks to insurer influence over market pricing. The very notion that insurers are "saving" consumers' money by keeping premiums down, while requiring those same consumers to reach into their own pockets for necessary, reasonable and common charges, or to assume the cost of fighting the company to pay for what they owe, is absurd.

In Palm Beach County, Florida, there are shops which currently face a scenario in which a carrier is imposing a self determined discount of 10% on all domestic OEM replacement parts. This company has decided to adopt a market-specific policy which either requires their policyholders and claimants alike to reach into their pocket to absorb 10% of the cost for their domestic replacement parts, or requires the collision repair small business performing the repair to take a 10% loss on those parts so that the carrier can increase profitability. When challenged by a local repair facility who explained his "customers that own and insure American vehicles are infuriated when I have to explain that they owe additional monies on top of their deductible because they drive a domestic vehicle," the carrier simply responded "We rely on our experienced staff to let us know when accepted prices cannot be reached... When we are unable to reach an agreed price, we have been able to resolve those matters through the appraisal clause in the policy." Often these types of concessions are found through structured agreements carriers enter into with repair facilities - referred to a Direct Repair Programs (DRP) - but to hold repair facilities and vehicle owners to such an arbitrary mandate outside of that business paradigm is unexplainable.

The DRP is a situation in which the repair shop agrees to terms in exchange for the carrier's referral of business. The difficulty, as touched on in your article, is that the repair business is put into an uncomfortable position where they essentially become beholden to two potentially divergent interests; the vehicle owner who has interest in the condition, safety and performance of their property and the insurance carrier who has interest in the financial outcome of the repair. When the repair shop has entered into both the DRP contract with the carrier, and an authorization to repair contract with the vehicle owner, it is not necessarily as simple as insurers "promoting poor quality work" as indicated in your article. It becomes a question of who has more influence over the repair facility's decision making in the repair process, and whose interest drives those decisions. Certainly the carriers have positioned themselves to have much more involvement in the decision making process of repairs than they care to let on; if you are a shop on a program and you are determined to be "non-competitive" or more expensive than other shops in the market, despite having a higher caliber of training, equipment, capacity or craftsmanship, you could stand to lose all the business that carrier has been directing through your doors. For many repairers the loss of volume which they depend on is a risk they can't afford to take. This provides carriers further leverage to exert over other non-DRP shops, in their attempt to further define marketplace pricing practices.

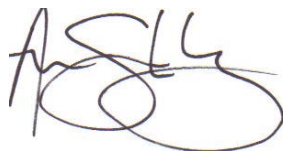
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While this only touches on the dynamics of the relationship between the repair facility, consumer and insurer, it hopefully elaborates more on the insurance industry's grasp over both repair market pricing and practices. The question is not IF insurance carriers directly impact collision repair market pricing, but rather IF their approach and purpose is

appropriate. Are we really talking about saving consumer's money, or are we talking about increasing insurance company profits at the expense of their policyholders and the small businesses who serve them?

If our organization can be of assistance in the future with additional information on this or other topics, we ask that you please contact us with the information listed both above and below.

Thank you for the opportunity, and for your coverage of this very important issue,

A handwritten signature in black ink, appearing to read 'ASLL' with a large, stylized flourish underneath.

Aaron Schulenburg  
SCRS Executive Director

