

MINUTES

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

August 19-20, 1993

Room 514-S -- Statehouse

Room 526-S -- Statehouse

Members Present

Representative Bill Bryant, Chairperson
Representative Barbara Allen, Vice-Chairperson
Representative Carol Dawson
Representative Melvin Minor
Representative Kenneth King
Representative Susan Wagle
Representative Tom Bruns
Representative Sabrina Standifer
Representative Phil Kline
Representative Delbert Crabb
Representative Ruby Gilbert
Representative Steve Wiard
Representative Melvin Neufeld
Representative Ray Cox
Representative Vernon Correll
Representative J. G. Novak
Representative Galen Weiland

RECEIVED
OCT 28 1993
Legislative
Administrative Services

Staff Present

William Wolff, Kansas Legislative Research Department
Bruce Kinzie, Revisor of Statutes Office
Nikki Feuerborn, Secretary

Others Present

Darrell Crossman, Kansas Independent Glass Dealers Association, Wichita
Glenda Eck, Kansas Independent Glass Dealers Association, Salina
Carter Collier, Sigma Distributing, Wichita
Gary Henton, Farm Bureau Mutual Insurance Company, Inc., Manhattan
Lee Wright, Farmers Group, Overland Park
Paul Frank, Farmers Group, Overland Park
Bill Sneed, State Farm, Topeka
Donald Booth, Safelite, Boulder, Colorado

Scott Reinecke, Kansas Independent Glass Dealers Association, Greensburg
Curtis Lee, Glass Service Center, El Dorado

Morning and Afternoon Sessions, August 19, 1993
Morning Session, August 20, 1993

The House Committee on Financial Institutions and Insurance met on August 19 through the morning session of August 20 with the Joint Committee on Health Care Decisions for the 1990s. The subject of that meeting was the so-called "freedom of choice" proposal for pharmacists. The subject had been heard by the House Committee in the 1993 Sessions as it deliberated H.B. 2117. While that measure did not pass the House of Representatives, the provisions of the bill were amended into S.B. 84 in the Senate Committee on Public Health and Welfare, where the measure resides for possible further consideration in the 1994 Session.

At the end of the 1993 Session, the Chairman of the House Committee on Financial Institutions and Insurance recommended that the issue of managed care, challenged by "freedom of choice" legislation, should be referred to the Joint Committee for further consideration of its impact, if any, on managed care systems being discussed so prominently as part of health care reform. The Chairperson of the Joint Committee, in consultation with the House Committee Chairman, scheduled a meeting of the two committees to review the issue.

Since the issue is part of the broader discussion of health care and health care reform, see the Minutes of the Joint Committee on Health Care Decisions for the 1990s, August 19-20, 1993, on file with the Division of Legislative Administrative Services.

August 20, 1993
Afternoon Session

The meeting was called to order at 1:35 p.m. by Chairperson Bryant. William Wolff, Legislative Research Department, presented a background memorandum on the issue of auto glass repair and replacement from the perspective of legislation enacted in the 23 other states which have addressed the issue (Attachment 1).

The Chairperson introduced Darrell Crossman, President of the Kansas Independent Glass Dealers Association. Mr. Crossman stated his opposition to insurance companies using networks for the following reasons:

1. The consumer has a basic right to purchase goods and services from providers of their choice. Controlling the market is in violation of the Sherman Act of 1890.

2. The Robinson-Patman Act of 1936 makes it unlawful for a seller to discriminate in price between different purchasers of goods of like quality and grade in order to lessen the competition or to create a monopoly.
3. Oligopolies or shared monopolies acting in concert may violate Section II of the Sherman Act.
4. The apparent trend of networking companies who either boycott certain independent dealers who will not agree to their pricing schedules, or who highly recommend only certain companies to their policyholders may fall under state and federal anti-trust laws.

Mr. Crossman concluded by reviewing the inadequacy of reimbursement received from networking companies for windshield replacement by noting that some networks allow only \$10 for urethane used in the installation when, in actuality, two tubes at \$7.95 are required (Attachment 2).

Glenda Eck, of Mr. Windshield in Salina, stated that Farm Bureau has informed her that her business must become part of the networking system known as USA Glass as of August 1 if she wishes to continue doing business for Farm Bureau policyholders. She presented a pricing comparison sheet which disclosed that independent glass shops are losing significant dollars by having to deal with glass networks (Attachment 3). She noted that many of the companies doing business within the network known as USA Glass are owned by USA Glass and can buy products for much less than the individually owned businesses since the network stores manufacture and retail their own glass. They also require Electronic Data Interchange (EDI) billing and request that the policyholder not be shown the bill. The ultimate plan, she concluded, is to drive independents out of business by undercutting the prices and making it difficult to compete.

The question of using substandard or inferior glass was discussed. Ms. Eck recalled that at the time she worked for Safelite, three out of every eight windshields were returned due to defect. She explained that good glass went to wholesale shops and poor quality glass was sent to the independent retail shops.

Carter Collier of Wichita, responding to a Committee members request, stated that "market value" means a discount off retail of between 50-65 percent.

Gary Henton, Claims Manager, Farm Bureau Mutual Insurance Company, Inc., explained Farm Bureau's use of networks or "fast track" claims adjusting. He stated that Farm Bureau joined the network to save administrative costs, postage, phone calls, labor from manual data input, etc., (Attachment 4). For Farm Bureau, it costs between \$5 and \$6 to issue a check. Mr. Henton said that all billings and payments are made through a third party billing system and Farm Bureau is not involved in the determination of the dollar allowance arrangements between the network and the repair shops nor is the company informed of the actual amount of payment the network makes to auto glass shops. Farm Bureau policyholders are now allowed to use the auto glass repair shop of their choice if they wish to pay the difference between what Farm Bureau pays through the third party billing system and the charge of the independent glass shop. Mr. Henton said Farm Bureau has no agreement with the third party billing system about the quality of glass used and, at times, the insurance company has to replace the windshields if they are unacceptable after warranty is outdated.

Lee Wright, of Farmers Insurance Group of Companies, reviewed Farmers' "Fasglass" program which was designed to improve customer service, lower administrative expense on glass claims, and significantly improve productivity. He described the process which provides four major benefits to customers:

1. improved service through immediate contact;
2. guaranteed repairs from national auto glass companies or affiliate shops whenever needed;
3. repairs or replacements are done quickly; and
4. all auto window glass is included in this program (Attachment 5).

Paul Frank, also representing Farmers Insurance Group, stated that "fair market value" is determined by averaging the costs or repair or replacement in the area.

Bill Sneed, State Farm Insurance, stated that State Farm does not use a networking system but rather a glass facility "reference" program. He indicated that shops provide a bottom line price for repair work in different categories. The company then uses that information to determine who among the shops is competitive and those shops make the "reference" list (Attachment 6). State Farm policyholders choose the facility they want to repair or replace the damaged glass. If a policyholder chooses a glass shop that is not on the competitive reference list, the claim is forwarded to a State Farm claim office and State Farm will gather bids and pay the lower of the competitive bids. This process, Mr. Sneed concluded, promotes a competitive market for the customer.

Donald Booth, Safelite Glass Corporation, stated that glass loss does not represent a high percentage of insurance claims dollars, but they are numerous and the EDI billing system saves insurance companies millions of dollars a year as they handle the glass claims. In response to comments made prior to his testimony, he explained that there are built-in audits in the system to assure that the proper windshield is used for the auto model, that the correct adhesive is used, and that no extra parts are added on to the bill. Responding further on an observation that glass companies avoid paying taxes on business they do through networks, Mr. Booth commented that Safelite pays Kansas tax on all jobs performed in Kansas with the proper sales tax remittances to counties and cities.

Having heard all conferees listed on the agenda, the Chairman asked for comments from any other interested party in the audience. Donald Crossman offered his definition of a "fair market price" as the cheapest price the network can get. He added that the quality of glass is determined by federal regulations on a quantity of glass presented for inspection and not on individual windshields manufactured from that glass.

Scott Reinecke, Greensburg, stated that as an owner and operator of an independent glass shop, he would not use Safelite glass due to improper curvature. Many of his competitors consider it unfit for use.

Carter Collier, Sigma Distributing of Wichita, said that almost every network (third party billing) had its own retail outlets and therefore could subcontract at a lower rate than the independent shops. It was noted in this regard that auto body shops in rural Kansas towns also do

glass replacement, but that their labor rates are higher and their losses greater from being "forced" to join networks. There is a lingering concern among small auto body repair shops that, if insurance companies find networks satisfactory for glass work, the next step will be to create networks for actual body repair work.

Curtis Lee, El Dorado, questioned the quality of Safelite glass and stated that overhead expenses can be responsible for the differences in costs between and among glass repair shops. If all independent glass dealers are run out of business, he believes that the costs to the consumer will be greatly increased. He remarked that elected officials are chosen by the people of Kansas to represent them and that they should support the citizens in their right to choose the shop to make glass repairs or replacements.

There being no further comments, the Chairperson closed the hearing on auto glass repair. In discussion, the Chairperson explained that it was not his intention to introduce legislation on the basis of the hearing just concluded, unless members felt strongly in favor of drafting such legislation. The members concurred in not drafting legislation but requested that staff continue monitoring events in Kansas and in other states and be prepared to provide the members with an update on the glass repair controversy upon request of the members.

The meeting was adjourned.

Prepared by William G. Wolff

Approved by Committee on:

October 18, 1993

(Date)

MEMORANDUM

Kansas Legislative Research Department

300 S.W. 10th Avenue
Room 545-N – Statehouse
Topeka, Kansas 66612-1504
Telephone (913) 296-3181 FAX (913) 296-3824

August 12, 1993

To: House Committee on Financial Institutions and Insurance
From: William G. Wolff, Principal Analyst
Re: Auto Glass Repair and Replacement

STATES REGULATING AUTO GLASS REPAIR AND REPLACEMENT*

<u>State</u>	<u>Date</u>
California ²	1993
Colorado ³	1992
Connecticut ⁴	1992
Illinois ^{2,3}	1992
Kentucky ³	1992
Louisiana ^{1,5}	1991/1993
Maine	1979
Maryland ³	1992
Massachusetts	1982
Minnesota ^{1,2,3}	1991/1992
Mississippi	1989/1992
Montana ^{3,5}	1993
Nebraska ^{1,2}	1992
New Hampshire	1982
New York	1983
North Carolina ²	1991
Oklahoma ³	1993
Pennsylvania	1973
South Dakota	1992
Texas ^{2,3}	1991/1992
Vermont ^{1,2,3}	1992
Virginia ³	1992
West Virginia ^{2,3}	1992
Wisconsin	1992

¹ Violates the state's unfair trade or claims practice act.

² Insurer may suggest/recommend a repair shop or provide a list of shops, but may be required to disclose that insurer has right to choose any shop.

³ Prohibits use of coercion, intimidation, or threat to use a particular vendor of glass products or repair shop.

⁴ Insurer and insured may agree to an exclusive repair provision in the contract.

⁵ Prohibits the use of third-party billing entities.

⁶ While the insured may choose repair shop, the insurer generally is not required to pay more for the repair than the lowest price available in the market area.

* Information provided by: The National Glass Association, National Automotive Glass Consultants, and the Washington Metropolitan Auto Body Association

House FD & D
August 20, 1993
Attachment 1

The Kansas Independent Glass Dealers Association

*Darrell Crossman
House Financial Institutions
& Insurance
Aug. 20, 1993
Attachment 2*

August 20th, 1993

Mr. Wolfe, Ladies and Gentlemen of the Distinguished Committee;

I am against Insurance Companies using networks for the following reasons.

One of the most basic American privileges is the right to choose where to purchase goods and services. It is a basic fundamental value of free enterprise. Consumers should be allowed to do business within their local communities. This basically is what the Sherman Act of 1890 stated. In Section II it states "That every person who shall monopolize or attempt to combine or conspire with any other person or person's, to monopolize any part of the Free Trade or Commerce among the several states shall be guilty of a felony." It goes on to say, "When two or more sellers act in concert in refusing to sell to a particular buyer, or class of buyers a much different situation is presented, due to the vast majority of such refusals being inherently anti-competitive in nature." The elimination of a competitor by these conspirators, (a so called boycott), is almost always found by the courts to violate Section I of the Sherman Act.

The U.S. Supreme Court has ruled that monopolization of commerce exists only when the evidence establishes that the defendant firms has reached such size that it "Has The Power To Control The Price" of the specified commodity or possesses the power to "Exclude Competitors From The Market Place."

The Robinson - Patman Act of 1936 was enacted to clarify the Sherman Act, making it unlawful for a seller to discriminate in price between different purchasers of goods of like grade and quality, where the effect of such discrimination may be of such a substantial nature so as to lessen the competitor or tend to create a monopoly.

Page Two

OLIGOPOLIES - means shared monopolies. A small number of firms control most of the industries total output. If two or more companies in oligopolies industries act in concert in any material way their chance of violating Section II of the Sherman Act is very high.

It is the opinion of the Kansas Independent Glass Dealers Association that the apparent trend of networking companies is Oligopolies and that Insurance Companies are venturing into "Group Boycott" by "Highly Recommending Their Preferred Provider", implying that other competitors are not a worthy company to do business with. This also could be construed as defamation. The McCarran - Ferguson Act of 1948 does not effect the glass shops relationship with the insurance companies. The exemption only relates to the insurance companies and their policy holders. Therefore the relationship between the glass industry, (seller), and the insurance company, (buyer), falls under state and federal anti-trust laws.

On the opening day of the 103rd congress, Congressman Jack Brooks , a Democrat from Texas, renewed efforts to protect American Consumer and Business from price fixing and other anti- competitive abuses by the insurance industry, by introducing legislation (HR 9/5430) so as to scale back the industries anti-trust exemptions. Similar legislation was approved by the House Judiciary Committee in the previous two Congresses.

"The \$500 Billion impact of the insurance industry, has a profound economic influence, reaching into every corner of modern life", said Congressman Brooks, chairman of both Judiciary Committee and its subcommittee on Economic and Commercial Law. It is not only vital to how American families protect their health and their property; it is also a financial cornerstone for American business investment and risk management.

He went on to say, "There is no justification for extending this industries special interest privilege to engage in price fixing conspiracies and other anti-competitive abuses that are strictly prohibitive through out the rest of the American economy". My bill would modify, but not repeal the Anti-trust exemption which insurers have enjoyed since 1945 under the McCarran - Fergerson Act.

ECONOMIC FACTORS

1. When insurance companies are allowed to direct or control where auto glass services are performed, the market place is not free to operate as intended. Artificial tampering would ultimately raise the price of contracted work by removing competition.

Page Four

2. When insurance companies contract with large networks, most of which are not in Kansas, we lose TAX REVENUES, JOBS and BUSINESSES. In state taxes alone, Kansas will loose a MINIMUM of \$100,000 per year. These taxes are lost to other states. Those states benefit from Kansas dollars, dollars that we need at home so as to help our state.

Auto glass is a structural component of todays automobiles and improper installation can result in injuries during a crash. How a windshield is installed is more important than the engine running, in my opinion. Skilled technicians are required for this work, and you are not going to be able to hire a "Rum Drum" type individual off the streets and still accomplish this work correctly, yet the networks and insurance companies seem to strive for the cheapest price. These companies rarely survey quality or police it. They direct their business on price alone. Consumer value is not price alone!!

The insurance companies continue to recommend only to the vendors who will agree to the unrealistic price demanded by the insurance companies and advise their insureds that if they want to use another vendor then they will have to "Pay More". In most cases, when prices are compared, the independent glass dealer is competitive and in some cases lower than the networks.

LOOKING AHEAD

In the future the competition (independent glass dealers) will be eliminated leaving four or five national chains. These chains are currently selling their services for a very minimal mark up as they continue to consume the market place - until such time that there is no longer any competition. The latest trend is for a network to bid on another networks block of business. For example, Safelight, (2nd largest retail / network / manufacturer) has now been given USA Glas Network's (largest network) block of business in some major cities. The block of business appears to be in exchange for windshields sold to USA Glas for a low price. After they gain control of the market it is logical to assume they will raise prices to recoup their losses.

Twenty-three states have already passed legislation clarifying the consumer has the right to choose what automotive glass replacement company they use. Several of those states are in the process of going back to the legislature for the second or third time due to the lack of enforcement from their Attorney General or Insurance Commissioners office. Insurance companies continue to find ways to get around the existing laws, therefore leaving the glass dealers in a position to try and strengthen their existing law so it is enforceable.

Ten more states are currently in the legislative process and have fairly strong bills introduced in their legislature.

The Kansas Independent Glass Dealers Association strongly believe in what I have shared with you today.

What the Insurance companies and the networking groups are proposing is WRONG!! Please take an immediate stand against such monopolization. DO NOT ALLOW FREEDOM OF CHOICE TO BE SUPPRESSED IN THE STATE OF KANSAS!!

The Kansas Independent Glass Association strongly recommends to the legislature that K.S.A. 40-2404 be amended so as to include our proposal regarding Referrals and Networks, (a copy is attached for your review). It is both our opinion and conscious that unless such a law is passed in an expedient manner, the livelihoods of hundreds of independent Kansas Glass businessmen and their families will be at stake. Our great State of Kansas can not afford either that loss nor the ever increasing economic loss which will be created when Kansas taxes are circumvented to other states.

Honorable members of the Legislature, ...the hour is now! I implore you; protect our state from the harm that will be created if we allow big business to exterminate the very fibers that have held our state together since its formation. We must not allow the independent business man or business woman to be unfairly and unscrupulously forced out of the marketplace. We must never allow ourselves to forget the meaning of such words as Competition, Fairness, Competitiveness, Choice and Independence.

Thank You For Hearing Me Today.

PROPOSED LEGISLATION

K.S.A. 40-2404. Unfair methods of competition or unfair and deceptive acts or practices. The following are hereby defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

16. *Referrals and Networks.*

(a) No insurer shall require that an automobile be repaired at a specific repair shop; or direct, suggest or recommend that an automobile be repaired at a specific repair shop, unless (i) such referral is expressly requested by the claimant and (ii) the claimant has been informed in writing of the right to select the repair facility.

(b) All insurers shall fully and promptly pay the cost of automobile glass replacement or repair services or products from any automobile glass company or location, less any applicable deductible amount payable by the insured according to the terms of the insurance policy, at no less than the prevailing market price charged by other automobile glass companies or locations providing comparable services or products in the same geographic area within the state.

(c) It shall be an unfair method of competition and unfair or deceptive act or practice for any insurer to establish a contract or agreement with any company to manage, handle, or arrange insurance repair work or to act as an agent for the insurer in any manner, where the company sets a price which must be met by a repair shop as a condition of doing claims repair work for the insurer, and then retains a percentage of the claim paid by the insurer.

	SHOP TO ALLSTATE	SHOP TO NETWORK	NETWORK TO ALLSTATE	SHOP COSTS
windshields W1005S	222.78	109.97	213.60	128.14
W1099S	248.43	124.76	240.72	141.21
W848S	185.60	88.26	173.81	109.30
W1026S	327.00	171.90	327.15	180.50
W1159S	431.25	234.45	441.83	232.63
W1066S	196.03	92.72	181.98	115.26
FW580S	333.53	175.82	334.33	183.76
FW501T	229.78	113.57	220.20	158.44
TOTALS	2174.40	1111.45	2133.62	1249.24
DIFFERENCES		1062.95	1022.17	
		40.78		

MOLDINGS ARE NOT INCLUDED IN ABOVE PRICES.

INDEPENDENT GLASS SHOPS ARE LOSING \$1062.95 ON THESE 8 POPULAR WINDSHIELDS BY BILLING TO USA GLASS NETWORK INSTEAD OF DIRECT BILLING TO ALLSTATE.

USA GLASS NETWORK IS MAKING \$1022.17 OR AN AVERAGE OF \$127.77 PER WINDSHIELD FOR DOING THIRD PARTY BILLING SERVICES ONLY.

INDEPENDENT GLASS SHOPS ARE BILLING USA GLAS NETWORK \$1111.45 OR AN AVERAGE OF \$138.93 PER WINDSHIELD FOR DOING THE ACTUAL GLASS REPLACEMENT. THE INDEPENDENT GLASS SHOPS ACTUAL COST FOR THESE WINDSHIELDS IS \$1249.24 BASED ON A 75% DISCOUNT FROM THE WHOLESALE ON THE WINDSHIELDS, \$11.00 PER TUBE OF URETHANE (2 TUBES AVERAGE PER WINDSHIELD REPLACEMENT) AND \$7.50 PER HOUR FOR INSTALLER WAGES. THIS AMOUNTS TO A \$17.22 LOSS PER WINDSHIELD WITHOUT FIGURING IN DAILY OPERATING EXPENSES WHICH AMOUNTS TO APPROXIMATELY \$400.00 PER DAY.

IS IT NOT TRUE THAT IN TODAY'S SOCIETY THAT PROFIT IS THE BOTTOM LINE FOR DOING BUSINESS? THEN TELL US WHY WE AS INDEPENDENT GLASS SHOPS SHOULD TAKE A LOSS OF \$17.22 PER WINDSHIELD IN ORDER TO MAINTAIN A SHARE OF THE MARKET. AN INCREASED MARKET SHARE OF THIS NATURE DOES NOT INCREASE PROFITS BUT RATHER OUR LOSSES.

*DAILY OPERATING EXPENSES ARE BASED ON THOSE OF MR. WINDSHIELD
SALINA, KANSAS

Glenda Eck

Isd Committee
Attachment 3
8-20-93

P r i c i n g

HARMON GLASS NETWORK PRICING

Domestic/Foreign Windshields	65 % Off NAGS
Domestic Tempered	52% Off NAGS
Foreign Tempered	50% Off NAGS
Flat Labor Rate	\$15.00 Flat
All Kits (butyl and urethane)	\$3.00

WINDSHIELD REPAIRS

1st Repair	\$30.00
2nd Repair	No Charge

These prices are based on our nationwide averages and reflect the new NAGS price conversion.

A referral fee may be added to any job total under the deductible amount.

3-2 ~~3-2~~

**A U T O
G L A S S
F A S T T R A C K
C L A I M S**

**THE FARM BUREAU MUTUAL INSURANCE
COMPANY, INC.**

MANHATTAN, KANSAS

Kause P.D.
Attachment 4
Aug. 20, 1993

THE FARM BUREAU MUTUAL INSURANCE CO., INC.
MANHATTAN, KANSAS
REPORT ON GLASS NETWORKS
AUGUST 19, 1993

Farm Bureau Mutual Insurance Company has been using glass networks with their Auto Glass Fast Track Claims System since mid April 1993. We initially selected five networks to give consumers a choice and started on a trial basis in two counties and have now expanded the usage state wide on a voluntary basis. We would like to increase the usage of the electronic auto glass system and have requested Farm Bureau agents use the electronic system when submitting a vehicle glass claim.

Before the networks we reviewed our glass claims and found considerable discrepancy between shops in the cost of glass, labor, kits and the total bottom line cost. Two different shops installing a windshield in the same make, model of vehicle could have widely varying prices. Some of the networks offered to check our invoices on claims already paid to determine if we were being charged fairly on our glass replacements. At least two different samples of 100 to 200 invoices were pulled from all different areas of the state on claims already paid. The results indicated an overpayment on average of \$78.00 per claim on one survey and \$53.00 on the second survey in excess of what the networks would have charged for the same claims. In past years we have processed 25,000 to 30,000 glass claims annually. If a saving of \$50.00 per claim can be realized on 25,000 claims the saving is substantial.

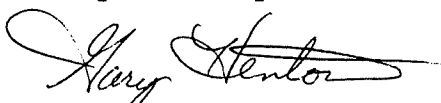
Farm Bureau Mutual Insurance Company has waived the deductible for glass repair for several years on our auto policies. Insurance companies do this trying to encourage glass repair because it is much less expensive to repair glass than replace. Average cost of repairing a glass is approximately \$50.00 to \$65.00 per repair versus \$275.00 to \$300.00 for replacement. Before the networks Farm Bureau averaged 15% to 18% of our total glass claims being repairs. Since using the networks we have increased the repair portion of our glass claims. One network is repairing over 40% of the claims handled by them. Other networks are repairing over 33% of the claims assigned to them. Again if an insurance company can increase the number of repairs on glass versus replacement the saving is substantial, and the networks are improving our repair versus replacement ratio.

The networks also offer electronic billing of glass claims. Each networks bills Farm Bureau Mutual twice monthly for all the glass claims processed through their network. They also electronically update our computer system to properly charge the policy account for each glass loss. This claims administration allows Farm Bureau Mutual to issue two checks per month to each network instead of a check for each claim or 25,000 to 30,000 checks annually. The mail service was used to notify the company of glass losses prior to Auto Glass Fast Track system. Doing this task electronically increases promptness of service and reduces the manual process of entering the information into the computer system. Reduced postage costs and claims administration expense again result in substantial saving.

We initially chose five different networks to handle our Fast Track Auto Glass. We have since added a repair service and an independent billing service to our Auto Glass Fast Track system. The consumer has considerable choice. Each of the networks came in with their own pricing for their service, and their service does vary. Service by the networks is prompt and available nearly everywhere within the United States. They also guarantee their work. Most of the networks are made up of independent shops that we have done business with through the years. We requested the networks contact shops to improve their coverage within Kansas and we also suggested that the shops contact the networks to participate in the Auto Glass Fast Track process.

In summary, insurance is mandatory in Kansas and Farm Bureau Mutual has an obligation to its policyholders and consumers to operate as efficiently and effectively as possible. What is paid out in claims or expenses is ultimately requested back in premium charges or rate increases. We do not feel we can continue to increase rates or add to the upward spiral of insurance costs if an alternative is available. The glass networks, or E.D.I. handling of auto glass claims is such an alternative. Yes, it is a change in procedure brought about by technology changes, market changes, and consumer demands. We cannot continue to do business the same way as we always have or we will be left behind. Proper use of new ideas and technology is a necessity.

Respectfully submitted,


Gary Henton, CPCU
Claims Manager



FARMERS INSURANCE GROUP OF COMPANIES

Managed Insurance Programs for Automobile Glass Repair and Replacement

Testimony by Lee Wright

Legislative Representative for The Farmers Insurance Group of Companies

Mr. Chairman and members of the Committee. My name is Lee Wright and I represent The Farmers Insurance Group of Companies. Thank you for this opportunity to appear.

In 1993, Farmers implemented a new program that automates our automobile glass claim process. This program uses a 1-800-number for filing the notice of claim, and then automates the electronic billing, auditing and payment of glass claims. Farmers calls this new system Fasglas.

Farmers' Fasglas Program was designed to improve customer service, lower the administration expense on glass claims and significantly improve productivity. It also provides Farmers customers with nationwide glass shop accessibility on automobile glass claims.

Here's how our Fasglas Glass Mechanization Program works:

An insured calls their agent to report a damaged windshield. The agent will verify coverage then tell the insured a Farmers Glass representative will call to schedule an appointment within the next 30 minutes.

The Farmers agent will then call the 1-800 phone number to access Fasglas. The Farmers glass representative will ask for basic information, including a phone number where the insured customer can be reached during the next 30 minutes. The Farmers glass representative will then contact the customer and coordinate the appointment for repairs or replacement.

ice repairs are completed by the local glass facility, processing of invoices and loss information will be processed through electronic computer links. It is practically a paperless system.

The four national glass vendors used are companies that manufacture, wholesale and retail glass nationwide. Each own their own local glass shops which are properly licensed and certified. Their work is guaranteed.

In addition, many glass shops that are independently owned are affiliated with these national vendors through network systems. These are shops located in small towns across our operating territory. Many of them already belong to several of these networks.

While we encourage the use of the new Farmers Glass Program, if a customer chooses not to use it, they may do so. They may designate the glass shop of their choice for replacement or repairs. Farmers will pay the fair market value for the services rendered by the facility selected by the insured.

The Fasglas Program provides four major benefits for our customers:

- Improved service through immediate contact
- Guaranteed repairs from national auto glass companies or affiliate shops whenever needed
- Repairs or replacements are done quickly
- All auto window glass is included in this program

Thank you, Mr. Chairman. That concludes my testimony and I would be happy to answer any questions.

Kansas House of Representatives

Committee on Financial Institutions and Insurance

Statement
of the
State Farm Insurance Companies

"Managed Insurance Programs for Auto Glass Repair and Replacement"

August 20, 1993

*House File
Attachment 6
August 20, 1993*

The State Farm Insurance Companies are pleased to submit the following comments regarding State Farm's Glass Facility Reference Program. State Farm's program in Kansas is part of our nationwide effort to manage the cost of automobile repair to keep the cost of automobile insurance affordable for our policyholders.

The cost of repair and replacement of automobile glass has a significant effect on the cost of providing auto insurance to consumers in Kansas and across the country. Since State Farm implemented its Glass Facility Reference Program in 1990, our average glass claim cost has decreased from a high of \$223 in 1990, to \$198 as of the end of 1992. This is a reversal of a trend of substantial increases over several years. In 1988, our average glass claim cost in Kansas increased 3.6 percent, in 1989 the increase was 9.2 percent, and in 1990 the increase was 9.3 percent, moving from an average cost of \$174 in 198⁷8 to \$223 in 1990. With the implementation of our glass reference program in Kansas, the average glass claim cost decreased 2.2 percent in 1991, to \$218, and decreased 9.2 percent in 1992. The trends have been similar countrywide.

State Farm's glass reference program is designed to provide policyholders with quality repairs and service at a competitive price. Our policyholders choose the facility they want to repair

or replace the damaged glass.

State Farm claim representatives survey all glass providers in an area and ask them to provide us with a price list. As part of our survey, glass facilities are asked to warrant their work and to promise to use industry standards in installation. State Farm uses the information provided by the glass providers to determine who among the shops is competitive in four categories: domestic windshields, domestic tempered glass, foreign windshields, and foreign tempered glass.

The competitive prices are determined by requesting the shops to provide a bottom line price for repair of a domestic windshield and domestic tempered glass (this year for a Ford Taurus), and the bottom line price for foreign windshields and foreign tempered glass (this year for a Honda Accord). Separate glass reference lists are prepared for each of these categories because the price variations are substantial. A glass facility may qualify as competitive on one or all of these lists, depending on the results of this survey.

In the event of a loss, State Farm policyholders may choose any glass facility they desire. The loss is reported to a State Farm agent, and if the shop selected by the policyholder is on the reference list, the shop will be paid directly by State Farm. If our policyholder chooses a shop that is not on the reference

list, the claim is referred to a State Farm claim office, which will obtain competitive bids. State Farm will pay the lower of the competitive bids for repair or replacement of the glass.

State Farm's goal is to assure that our policyholder is receiving the best possible competitive price for the repair or replacement of the glass while preserving their freedom to choose the glass repair facility that suits their needs. Our survey is intended to promote a competitive market for the benefit of the consumer.

Although weather patterns have resulted in larger numbers of glass claims in Kansas over the last few years, the implementation of our Glass Facility Reference Program has resulted in modest stabilizing of one aspect of the cost of providing auto insurance in Kansas, even as other factors push costs higher.

We would be happy to answer any questions regarding this program for members of the committee. Thank you for the opportunity to provide our comments.