

Approved: _____

Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson William Bryant at 3:30 p.m. on March 17, 1994 in Room 527-S of the Capitol.

All members were present except: Representative Henry Helgersen, Excused
Representative Phil Kline, Excused

Committee staff present: William Wolff, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Darrell Crossman, KS Ind. Glass Dealers Association
Curtis Lill, El Dorado
Jerry L. Garrison, Hays
Lee Wright, Farmers Insurance Group
Albert Lollar, SAFELITE AutoGlass
Gary Henton, Farm Bureau
Gary Spickard, Windshields of America
Mary Jo Prigge, USA Glass

Others attending: See attached list

HEARING ON HB 3062: Motor vehicle insurance, glass replacement certain acts prohibited

Would make illegal the use of glass networks, whereby insurance companies automate the automobile glass claim process. Currently, when a person needs a broken windshield fixed, he can call his insurance company, who will refer him to one of its glass network's members to fix the windshield. Insurance companies can lower the cost of glass replacement for the company by using a glass network, which negotiates the price of glass replacement with network members (glass replacement shops). Theoretically, the use of glass networks means savings to the insurance company, which means controlling claims cost and reducing potential rate increases. Customers retain the option of selecting the glass repair facility of their choice, but the insurance company will recommend the use of one of its network members.

Many independent glass shops are opposed to glass networks. They feel they lose money on "network" jobs because the cost to the dealer for replacement of a windshield is more than the amount the network will reimburse the glass shop. Nevertheless, most independent glass shops feel they must be a member of a network, or they will never get any glass replacement business.

The bill would prohibit insurance companies from requiring an insured to use a particular dealer for glass replacement. It would also make it unlawful for an insurance company to establish an agreement with anyone to act as a glass broker for the insurance company, under which the glass broker sets a price that must be met by a glass repair shop as a condition for doing glass replacement for the insurance company.

Darrell Crossman, President of Kansas Independent Glass Dealers Association, reminded Committee members of the various acts which have been passed by the federal government which prevent interference in free enterprise (Attachment 1). He described the glass network system as oligopolies which means shared monopolies. Economic factors faced by independent glass dealers in dealing with insurance networks are as follows:

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.
2. Kansans lose tax revenues, jobs and businesses to glass networks whose headquarters are located outside the state.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
Room 527-S Statehouse, at 3:30 p.m. on March 17, 1994.

3. When prices are compared, the independent glass dealer is competitive and in some cases lower than the networks.

Curtis Lill, owner and operator of Glass Shop in El Dorado, described the experiences of a customer who had been told by Farm Bureau he had to use a glass company which belonged to a network billing system (Attachment 2).

Jerry Garrison, Advantage Glass Plus of Hays, expressed concern for loss of income and the probable demise of the independent glass dealers (Attachment 3). The legality of insurance companies using glass networks has been challenged in almost every state in the United States with a large percentage ruling networks to be illegal.

Harold Wilber of Harold's Auto Glass in Belleville, Kansas, presented written testimony only (Attachment 4).

Lee Wright, Farmers Insurance Group of Companies, appeared in opposition to the bill (Attachment 5). Their program called FASGLAS automates the glass claim process. It is designed to improve customer service, lower the administration expense on glass claims, and significantly improve productivity. It was implemented due to inconsistent pricing in their operating territories and the program has averaged savings of at least \$50 per glass replacement invoice. Customers do have the option of selecting a glass repair or replacement facility of their choice and Farmers will pay the fair market value for the services obtained by the customer. Many independent shops are affiliated with FASGLAS and are encouraged to join. There is no fee to join the network. A survey taken from 300 customers showed extremely positive responses.

Mary Jo Prigge, Vice-President of Operations of USA Glass, stated their company owns only 93 glass shops nationwide so they are dependent on independent glass shop owners. When customers call in for service, they are put on a conference call with the network and the dealer due to their technologically advanced network. They are tied into insurance companies systems so they can quickly verify coverage, do cross-checking for correct pricing, make sure they have the correct pricing and right parts on the right automobile, check labor prices and the applicability to the situation. All claims are transmitted electronically and calls are returned within 12 minutes. Oral disclosures are required. They offer 24 hour service, 365 days a year. A nationwide guarantee is assured as long as the customer owns the vehicle.

One-half million dollars is paid in sales tax every year to the State of Kansas. The customers are not charged the sales tax as it is billed by the parent company to the insurance companies in the state and then paid to the sales tax division in Kansas. Insurance companies are not privy to pricing information between the network system and the glass dealer nor are the glass dealers privy to information regarding payment between the network and the insurance company.

Gary Spickard, Windshields of America, said they have 135 retail stores in the United States and 600 worldwide. All the networks are different and contracts vary from shop to shop. Some have a flat fee charged for all windshields and some have pricing negotiation available. He reiterated statements of other opponents of the bill regarding substantial savings on billings, customer service, and auditing.

Albert Lollar, Account Manager of SAFELITE AutoGlass, offered testimony supporting his statement that enactment of the bill into law will run contrary to the interests of consumers by protecting local glass shops from so-called "out-of-state" competition (Attachment 6). It would prohibit insurance companies from taking actions needed to contain costs. He did note that the bill was supported by competitors and not the general public who benefit from these cost saving measures but lowered insurance premiums and fast competent service. SAFELITE has 298 employees in Kansas and local and state taxes are paid in Kansas.

Gary Henton, Farm Bureau Mutual Insurance Company, Inc., reviewed the favorable experience they have had with the five networking systems they use (Attachment 7). They plan to increase the usage of the electronic billing system but will continue to process glass claims on a cash settlement basis. They joined the networking system in an effort to control discrepancy in pricing and to lower administrative costs such as postage, the cost of cutting more than 25,000 checks. At this point they have saved approximately \$50 per claim on 25,000 claims. Since joining the network their percentage of glass repair has increased considerably rather than using the much more costly full replacement alternative.

ACTION ON SB 568: Repeal of requirement of stock value for certain companies

Representative Cox moved for the favorable passage of the bill and that it be placed on the Consent Calendar. Motion was seconded by Representative Crabb. Motion carried.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
Room 527-S Statehouse, at 3:30 p.m. on March 17, 1994.

ACTION ON SB 569: Life insurance risk-based capital requirements

Representative Allen moved for the favorable passage of the bill. Representative Bruns seconded the motion. The motion carried.

ACTION ON SB 680: Exemption from continuing education requirements for real estate brokers and salespersons licensed 10 or more years and 80 or more years of age

Representative Correll moved to pass the bill out favorably. Motion was seconded by Representative Gilbert. Representative Neufeld issued a substitute motion to table the bill. The motion was seconded by Representative Minor. The motion carried on a 6-5 ballot.

The meeting adjourned at 5:00 p.m. The next meeting is scheduled for March 21, 1994.

GUEST LIST

COMMITTEE: _____

DATE: 5-17-94

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Bill Sneed	Topeka	State Farm
DEBRA WOZNIAK	Bloomington IL	: statefarm
Mary Jo Prigge	Chicago IL	USA-GLASS
GARY SPICKARD	Dallas, TX	WINDSHIELDS AMERICA
Lee WRIGHT	Overland Park, Ks.	Farmers Ins. Group
DAVE HANSON	Topeka	Ks Assoc PXC Ins.
Roger Fawcett	"	Ks Gov Consulting
Gary Henton	Manhattan	Kansas Farm Bureau
Albert D. Lollar	Topeka	SAFELITE GLASS
Dick Brock	Topeka	Ins Dept
Tom Burgess	"	Kansas Ins. Glass Dealer
KAREN FRANCE	"	Ks Assoc. of REALTORS
Vic Cochran	El Dorado Ks	Ks IN. Glass Dealer
Glenda M. Eck	Salina, Ks	Mc Windshield
Charles Garrison	Coffeyville, KS	BURKHART AUTO GLASS
Shirley GARRISON	Coffeyville, KS	BURKHART GLASS
ERIC Showalter	Topeka KS	MIRROR Image Inc.
Jerry L. Garrison	Hays, Ks.	Advantage Glass Plus
Chris Lee	El Dorado KS	Glass Service Center
Curtis Lill	El Dorado, Ks	Glass Service Center
Lee Manley	Augusta, Kc.	LEE'S GLASS

Ladies and Gentlemen of the Distinguished Committee;

My name is Darrell Crossman and I am president of the K.I.G.D.A. We are 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 is basically 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 firm 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. It makes 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.

James F. D. D.
attachment 1
3-17-94

PAGE 2

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 throughout 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.

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. This does not include the city taxes that the cities will lose. 23 states have issued a certificate of resale to the USA GLASS NETWORK. This should certainly help the state of Illinois.

PAGE 4

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. With the liabilities we face you are not going to be able to hire a "Rum Dumb" type of 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, ladies and gentlemen, is not price alone!!

3. The insurance companies continue to recommend only to the vendors who will agree to the unrealistic price demanded by the networking 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.

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Joe Kellman of Globe Glass stated in an interview with the US Glass Magazine, "We lose money on thousands of individual jobs." If he loses money do you think the glass company that does the work lost money? Mr. Kellman went on to say that they also lose money on every glass repair. If he loses money on every repair does the glass company that does the work make money?

Twenty-four states have already passed legislation clarifying that 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.

Every state in the Union is fighting this monopoly. The Insurance Commissioner in the state of Maine just fined a New England insurance company \$40,000.00 for this very thing. Louisiana department of insurance cited Allstate Insurance last June for the very same thing. As of this date it is not known if Allstate has responded to these charges.

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!!

PAGE 6

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. It is our opinion 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!

TAX

To All Kansas Network Members,

The state of Kansas has issued a sales tax I.D. number for USA-GLAS. Beginning April 2, 1993 **you are not to charge sales tax when billing USA-GLAS**. For your records, attached is a copy of our Certificate of Resale referencing the following USA-GLAS tax I.D. number:

115-5153 Q

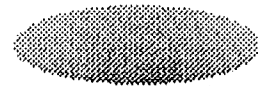
SAME # AS GLOBE

If you have any questions, please contact your Network Relations Representative at 1-800-456-7014.

Thank you

USA-GLAS management

U



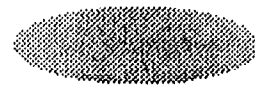
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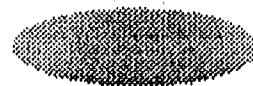
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CERTIFICATE OF RESALE

TO:

NAME OF VENDOR

The undersigned hereby certifies that all tangible personal property hereafter purchased by him is for the purpose of resale and assumes liability for payment of Retailer's Occupation Tax, Service Occupation Tax, or Use Tax with respect to receipts from the resale of this property to users or consumers.

This certificate shall be considered a part of each order which we shall give, unless such an order otherwise specifies.

Purchaser's Name:

GLOBE GLASS & MIRROR

Address of Purchaser:

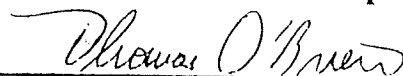
1880 W. FULLERTON

City: CHICAGO

State: ILLINOIS

Zip: 60614

SIGNATURE OF PURCHASER



(Or Authorized Agent)

Tom O'Brien - President of USA-GLAS Inc.

CERTIFICATE OF REGISTRATION NUMBER OF PURCHASER, SEE BELOW

USA-GLAS NETWORK Resale Certificate Numbers

<u>State</u>	<u>Number</u>	<u>State</u>	<u>Number</u>
Arizona	07 439123-D	Minnesota	3878209
Arkansas	132966-76-001	Missouri	11065711
California	OHA 99126980	Nevada	0-194348-03-05
Colorado	07-23277-000	New York	36-3711715
Connecticut	6929541-000	Ohio	99-026175
Florida	78-00-064778-18	Pennsylvania	99-583-196
Georgia	175-26-31420-4	Tennessee	2363711715-001-7
Hawaii	10463679	Texas	1-36-3711715-4
Illinois	1091-7888	Virginia	000078829-5
Indiana	0005257468	Washington	601-365-692
Kansas	<u>115-5153 Q</u>	Wisconsin	UT17419 (after
Michigan	36-2259711		6/11/92)
			0145216 (before
			6/11/92)

d 03/18/93

Maine Fines Insurance Company \$40K

Maine Bureau of Insurance recently fined a regional New England insurance company \$40,000 for violating the newly enacted law outlawing third party billing. This particular insurance company operates in a three state region and was using a network to arrange their auto glass replacement claims.

Maine was the third state to enact such a bill, Louisiana first, Montana second. The bill reads: Sec. 1. 24-A M.R.S.A. §2164-C **An insurer, domestic or foreign, or its agent or employee, may not require, directly or indirectly, that appraisals or repairs to motor vehicle glass be made or not be made in a specified place of business.**

A domestic or foreign insurer or its agent or employee may not contract with any person to act as its agent for purposes of managing, handling or arranging repair or replacement of motor vehicle glass when that person is compensated by payment of a portion of the difference between the list price of the product or services provided and the amount paid to the person providing repair and replacement service.

Congratulations Maine on your victory!



National Automotive Glass Consultants Update

Vol. 3 No. 1

NAGC UPDATE

January 1994

Louisiana Summons Allstate

On June 15, 1993, C. Noel Wertz, Senior Attorney for the Louisiana Department of Insurance sent a NOTICE OF HEARING to John McLaughlin, Allstate Insurance. The letter stated:

The records of the Louisiana Department of Insurance indicate that Allstate Insurance Company, may be in violation of the provisions of LSA-R.S. 22:1 et seq. More specifically, it is alleged, upon information and belief, that Allstate is engaging in a pattern of business practices which is in violation of the provisions of LSA-R. S. 22:1214.1, to wit:

I. Allstate has entered into an arrangement with Globe Glass & Mirror Company/USA-Glas Network, whereby USA-Glas, on behalf of Allstate, makes arrangements with glass repair shops to do repair work on vehicles insured by Allstate.

II. As a condition of doing business with the Allstate/USA-Glas network, the glass repair shop must meet the price set by USA-Glas, which is referred to as a "discount."

III. The "discount" which must be agreed to by the glass repair shop to assure participation in the network, is a discount in favor of USA-Glas, not the consumer.

IV. It is further alleged, upon information and belief, that USA-Glas retains, as consideration for its agreement with Allstate, a percentage of the claim paid by Allstate for the glass repair work.

Therefore, under the authority of LSA-R.S.22:1 et seq., specifically R.S. 22:1216, and the Louisiana Administrative Procedures Act, R.S. 49:951 et seq., you are hereby summoned to appear at an adjudicatory hearing on July 27, 1993 at 10:00 a.m., at our offices.

The purpose of this hearing is to determine whether you have committed the violations shown above. You are advised that in the event evidence and testimony submitted at the hearing indicate that you have committed these violations, the Department of Insurance may issue a Cease and Desist Order against you and recommend fines and penalties. Each violation of R.S... is punishable by a fine of up to \$10,000 dollars, or if willful, \$50,000 dollars.

The letter goes on to notify them of their

rights, one being the right to postpone the hearing until a later date for preparation. Allstate chose that right and as yet the date has not been finalized.

This summons is a direct counterdiction to the statement Bill Tortorello made at the National Glass Association's recent auto conference, as a panelist during a seminar. Last month NAGC wrote an article entitled "South Dakota Retains an Economist" and within that article was the following paragraph: They had a panel of five individuals responding to questions from the attendees. The main topic was networks. Former employee of Allstate, Bill Tortorello, recently named "President" of Globe Group (USA-Glas Network), **boldly stated that USA-Glas Network had no problem operating in states** (Louisiana, Montana, and Maine) that had enacted third party legislation. (Outlawing a third party billing process.) He went on to say the only state that USA-Glas had a problem was South Dakota but that Allstate was suing the State and didn't think that would be a problem in the future.

Mr. Tortorello must not have been aware of the June 1993 memo. It is encouraging to know that our efforts are not all in vain and that justice does prevail.

Louisiana glass dealers have been working very hard to strengthen their right to choose laws. They were the first to enact a law that illegalized third party billing within their state. Other states soon followed suit modeling their law. In 1992 they had the following law enacted.

22:1214.1 **Prohibited agreements for performing repair work**

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.

AUTOMOTIVE GLASS REPLACEMENT INSURANCE REFERRAL REFORM LAWS

STATES THAT HAVE PASSED LAWS

Colorado
Connecticut
Illinois
Kentucky
Louisiana
Maryland
Maine
Massachusetts
Minnesota
Mississippi
Montana
Nebraska
New Hampshire
New York
North Carolina
Oklahoma
Pennsylvania
South Dakota
Texas
Vermont
Virginia
West Virginia
Wisconsin

STATES THAT HAVE INTRODUCED BILLS

Arizona
Idaho
Indiana
Iowa
Michigan
Missouri
New Jersey
Ohio
Rhode Island
South Carolina
Tennessee

STATES THAT HAVE NOT INTRODUCED BILLS

Alabama
Alaska
Arkansas
California
Delaware
Florida
Georgia
Hawaii
Kansas
Nevada
New Mexico
North Dakota
Oregon
Utah
Washington
Wyoming

Twenty-three states have 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 states are currently in the legislative process and have fairly strong bills introduced in their legislature.

Published by National Automotive Glass Consultants, 4301 Beard Ave. N., Minneapolis, MN 55422 (612)533-1799. Revised 3/93

My name is Curtis Lill, my wife and I operate a Glass Shop in El Dorado, Ks. We are present today to explain that we feel the free enterprise system is becoming jeopardized by Glass Networks.

I have a customer present here today to testify that he was told TWO different times that he could not take his auto which needed a windshield to our business because we did not belong to a Glass Network or Quest, a billing service which stipulates the price to use their services (billing the insurance company).

I would like to introduce Delbert Wiebe who will tell his side of the story to what happened to him concerning this situation.

In Kansas, it is the customers choice to do business where he chooses, but there seems to be nothing to enforce this law. Thank you!

James F. D.
Attachment 2

3-17-94

Delbert Wiebe
Whitewater, Ks.

Our 86' New Yorker and also our 84' Ford pickup needed the windshields replaced.

By phone I contacted Farm Bureau, my insurance company, at Newton, Ks. office, 283-2090 concerning having the windshields replaced.

This took place October 21, 93' for the pickup, and for the car December 22, 93'.

I told Farm Bureau I would like to take the vehicles to a Glass Service Center in El Dorado owned by Curtis and Amy Lill, well recommended owners.

I personally know Curtis and Amy, very fine people, excellent workmanship.

Farm Bureau then told me, no, I would have to go to a glass company that belonged to Glass Network or Quest Billing Service.

I told Farm Bureau my policy says nothing concerning where to go or not to go.

They still insisted I had to go to a glass company belonging to a Network Billing system.

Delbert Wiebe

Delbert Wiebe

Rep. Bill Bryant - Chairman

Committee Members of Financial Institutions +
Insurance

Dear Bill + Members,

In the past year, a lot of changes have taken place in the auto glass industry, which I feel have been very damaging to the independent auto glass shops.

The use of glass networks by the insurance industry has cost the independent glass shops a considerable amount of money and, in my opinion, it has also cost the State of Kansas. Directly, it has cost our state sales tax revenues, by allowing out of state vendors to have sales tax exemption, thereby not allowing our state to collect sales tax on auto glass replacement sales.

Indirectly, our state is affected by corporate and individual income taxes. When profits are allowed to flow out of the state of Kansas through Network administrative costs, the Kansas independent glass dealers have less corporate or personal income to pay taxes on. *House RD*
on attachment 3
3-17-94

I must ask "why should we send our profits out of state?"

I feel another cause for concern is that if we continue to let net-working in the glass, or any other industry, to continue to operate, the results will most surely be the elimination of many small independent businesses who, along with their employees, pay income tax.

The legality of insurance companies using glass networks has been challenged in almost every state in the United States. A large percentage ruled that networks were not legal.

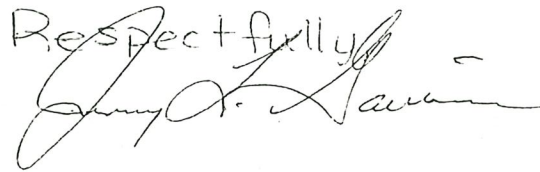
It is in my opinion that networks take away the insured or policy holder's freedom of choice. It also takes away the independent glass shop's chance to offer their goods and services. In my opinion, the major glass networks, (Safelite - USA Glass), are trying to do no more than create a monopoly on the auto glass industry. Safelite has been given a block of USA Glass Network's business in exchange for windshields at a very low price.

3-2

I feel if things go on as they are

now, we will see the demise of the independent glass dealer, then, the glass networks will turn around and raise their prices, as they have been known to do in disaster and storm situations.

In closing, I ask you, the committee, to support me and the Kansas Independent Glass Dealers Assoc. on House Bill #3062. Thank you for the time to hear our concerns.

Respectfully,


Jerry L. Garrison
Advantage Glass Plus
4310 Vine
Hays, KS 67601

Member KIGDA

Attachment

March 16, 1994

Representative Bill Bryant
Chairperson Financial
Institutions & Insurance Committee

Dear Bill,

In the past few months much has been said about the quality of glass some of the networks use. Much has been said about the amount of money the networks cost the independent glass shops. The legality of the use of glass networks by insurance companies has been challenged.

But in my opinion the thing that matters most is the loss of freedom of choice. That freedom has been lost not only to the policyholders but also to the independent glass shops to offer our goods and services to those same people our customers.

It is very important to some people where their cars are repaired. They either have a preferred shop where they have had work performed in the past or a shop that has been recommended to them by a satisfied customer of that shop. When insurance companies use glass networks that choice is either lost or made extremely difficult at best.

I know that a lot of information will be presented about quality, price and bottom lines. Not just for insurance companies but for independent glass shops as well. All of these are very

Have Ford
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important for various reasons, but none as important as everyone's freedom of choice. Please help the Kansas Independent Glass Dealers Association in our effort to maintain this freedom for all of us.

In closing I would like to thank you and your committee for your consideration of this very important issue.

Sincerely
Harold Willer
Harold's Auto Glass
Belleville, Ks
Member K.I.G.D. A.

HOUSE BILL 3062

HOUSE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE

MARCH 17, 1994

*Testimony by Lee Wright
The Farmers Insurance Group of Companies*

Thank you Mr. Chairman and members of the committee. My name is Lee Wright and I represent the Farmers Insurance Group of Companies. We appreciate this opportunity to appear in opposition to HB3062.

My company has implemented a program which automates the automobile glass claim process. The program is called FASGLAS. It is designed to improve customer service, lower the administration expense on glass claims, and significantly improve productivity.

Passage of HB3062 would severely restrict or eliminate the use of this program.

One of the major reasons Farmers felt it necessary to go to the FASGLAS system was because of inconsistent pricing in our operating territories.

Since the implementation of FASGLAS in March of 1993, our Mission Region, which services Kansas, Missouri and Iowa, had 38% of our glass claims go through FASGLAS. As a result, an average savings of over \$50 per glass replacement invoice was realized.

My company is committed to keeping our customers rates affordable. Programs like FASGLAS can be a tool to help control claims cost and reduce potential rate increases while improving customer service through technological innovations.

*House FD&D
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We also want the committee to understand our customers retain the option of selecting a glass repair or replacement facility of their choice. If they choose a shop not on the FASGLAS system Farmers will pay the fair market value for the services rendered by the facility selected by the insured.

The committee should also be aware there are a considerable number of individually owned glass shops in Kansas which are affiliated with FASGLAS. While the lists are kept confidential for competitive purposes, I would be happy to show any committee member the lists on an individual basis at the conclusion of the hearing.

We continue to encourage independent quality shops who want to affiliate to contact one or all of the four vendors in the FASGLAS system.

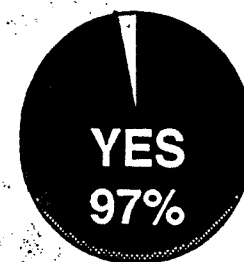
Finally Mr. Chairman, I have attached to my testimony a policyholder satisfaction survey taken from 300 of our customers in our operating territory. As you can see the response to this program has been exemplary.

Mr. Chairman, that concludes my remarks and we would request your committee find HB3062 unfavorable for passage.

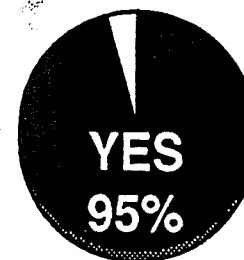
POLICYHOLDER SATISFACTION

A total of 300 Farmers policyholders representing all three zones (Western-105, Mid-West-153 & California-42) were surveyed to measure the level of satisfaction with the **FASGLAS** program. Here are the results:

In your opinion, was the actual work done in a fast and convenient manner?



Were you satisfied with the quality of the workmanship?



Your glass claim was processed through a new system called **FASGLAS**. This program was designed so you, the customer, would only have to make one phone call. Do you feel that this convenience is an added benefit to the Farmers customer?



Would you recommend that your agent continues to offer this service to their insureds?



Thursday, March 17, 1994

Kansas House Financial Institutions and Insurance Committee

SAFELITE AutoGlass

Albert Lollar
Account Manager
Topeka, Kansas

I am here today to address House Bill No. 3062 and answer any questions you might have in regard to auto glass replacement and repair services in Kansas.

If enacted into law, this bill may effectively prevent insurance companies from maximizing customer service, providing efficient claims handling, and obtaining competitive prices by referring insureds requiring automobile glass repairs or replacements to a particular glass company. Policyholders benefit from referral arrangements in several ways. Insurance companies are able to recommend qualified glass companies who provide dependable, quality service that is guaranteed. The insurance companies are able to negotiate favorable prices, thus reducing the cost of claims and helping to keep premiums lower. Finally, single, large-volume vendors are able to provide electronic billing and auditing of bills, thus increasing the efficiency and accuracy of claims processing.

In truth, enactment of this bill into law will run contrary to the interests of consumers by protecting local glass shops from so-called "out-of-state" competition and prohibiting insurance companies from taking actions needed to contain costs. Even uninsured individuals needing automobile glass repairs or replacements benefit from price competition, and protectionist legislation will harm those consumers as well. It is interesting to note that consumers are not introducing or supporting this type of legislation - - our competitors are.

Insurers, state legislators, and insurance regulators are under increasing pressure from the public to control, and, wherever possible, to reduce, automobile insurance premiums. Concern over the cost of automobile insurance has risen to the political forefront in a number of states. One way insurers can proactively control or reduce premiums is to reduce loss payments and related administrative expenses. This is why it is so important to let the insurance companies play a role in making sure that the insureds of this state are given the information needed to make informed choices. With the competitive climate in today's economy, insurance companies have been forced to find a way of handling their auto glass claims in order to hold down the costs associated with those premiums as low as possible for their insureds. Many insurance companies are beginning to realize their goals by negotiation "National" deals with glass companies. The reaction of those glass companies that are not competitive has been to seek legislation that dictates to insurance companies how they will conduct their business regardless of the costs involved.

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Insurance companies must be free to seek out and enter into relationships with providers of automobile replacement glass who are capable of performing consistent high quality work at hundreds of locations (directly or through a referral system) and providing administrative services through the use of state-of-the-art information processing technology, thereby reducing the cost of glass repairs or replacements and significantly reducing administrative expenses. Further, by dealing with such providers, insurers are able to ensure compliance with federal safety standards, thereby reducing their exposure to less costly by unsafe installation techniques or materials. Insurance affordability affects every driving member of the population. Legislation prohibiting the efficiencies available only through providers such as Safelite would only benefit the providers of less efficient, more costly service.

Safelite and others like it substantially further the best interests of policyholders, the insurance industry, and the insurance marketplace in the state of Kansas, and do not pose a threat to those glass installers who are willing and able to satisfy the administrative efficiency, low cost, service, and safety standards demanded by the insurance industry and an informed public. The real purpose of this bill is to maintain an environment of higher costs in which quality control and compliance with federal safety standards are often ignored. It is surprising that anyone would feel threatened by any system designed to make the public aware of the most efficient and qualified providers of products and services. This bill, if enacted into law, will only serve as a legislative shield for uncompetitive participants in the market.

If an insurer is aware of an accessible, experienced, and cost-effective repair facility, the insurer should be allowed to advise its insureds of the availability of that repair facility's products and services. Anything else will only put the interest of less efficient glass shops above the interests of the insureds, the insurance companies, and the public at large.

Some of you may not realize - SAFELITE AutoGlass was originated in Wichita, Kansas as a single, one location glass replacement facility. Today there is a windshield manufacturing plant and wholesale distribution center in Wichita along with four retail installation centers. SAFELITE has 14 retail installation centers throughout Kansas located in Topeka, Lawrence, Chanute, Kansas City, Overland Park, Salina, Hays, Hutchinson and Wichita.

I appreciate your time and allowing me to appear here today and would be happy to answer any questions. If any member of the committee needs any additional information, please do not hesitate to contact me. I can be reached by contacting either our Topeka Glass Replacement Centers or my Topeka home phone number is (913) 266-5758.

**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

*House F&D
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THE FARM BUREAU MUTUAL INSURANCE CO., INC.

MANHATTAN, KANSAS

REPORT ON FAST TRACK GLASS SYSTEM

March 17, 1994

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 then expanded the usage statewide. 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. We will, however, process glass claims on a cash settlement if the insured so desires.

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 and model of vehicle could have widely varying prices. Some of the networks offered to check our invoices on claims 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 paid. The results indicated an overpayment on average of \$78.00 per claim on the 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 up to 25,000 glass claims. If a savings of \$50.00 per claim can be realized the savings 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 versus replace glass. Average cost of repairing a glass is approximately \$50.00 to \$75.00 per repair versus \$250.00 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. We currently average around 40% of glass claims as repairs. Again, if an insurance company can increase the number of repairs of glass versus replacements the savings is substantial, and the networks are improving our repair versus replacement ratio.

The networks also offer electronic billing of glass claims. Each network 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 up to 25,000 checks annually. The mail service was used to notify the Company of glass losses prior to the 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 results in substantial savings.

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 Fast Track Auto Glass system. Each of the networks came in with their own pricing for their service, and their service and pricing does vary. Service by the networks is prompt and available nearly everywhere within the United States and they also guarantee their work. Most of the networks are made up of independent shops that we have done business with over the years. We asked the networks to contact shops to improve their coverage within Kansas and we also encouraged shops to contact the networks to participate in the Fast Track Auto Glass 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 increase rates or add to the upward spiral of insurance costs if an alternative is available. The glass networks, or electronic billing of auto glass claims is such an alternative. In 1993, on a limited operation of our Fast Track Auto Glass system, we estimate our savings at \$750,000 in reduced claims costs and handling expense. Yes, it is a change in procedure brought about by technology changes, market changes, and consumer demands, but necessary to help control consumer costs and operate efficiently.

Respectfully submitted,


Gary Henton, CPCU
Claims Manager