

Survey is to find prices, not set them

By G. Robert Mecherle

Quite often body shops charge insurance companies with price fixing. The argument is that regardless of whether it is price fixing (insurance companies acting in concert) or price setting (insurance company acting alone) it is still the insurance companies' determination of what they will pay on a claim that in effect determines the price for the job. Therefore, insurance companies are guilty of at least price setting, if not price fixing. In the case of State Farm, our auto damage policy, which involves a survey of all shops in the area to determine their charges, has been viewed as coercive. Somehow the act of asking a shop what his charges are is intimidating so that the shop is forced into giving us unrealistic prices.

I would like to explain the reasoning behind our shop survey since that appears to be the focal point of misconceptions about State Farm's claim handling policy. State Farm's growth sprang from the rural area where we use the competitive estimate system. As our business grew, especially in cities, we moved to our service center concept. Our policyholders like this one-stop claim service for driveable cars, but, of course, it required that we write our own estimates. In order to know the prices to write our estimates, we needed to ask the shops what their prices were. This was and is the only purpose for our garage surveys. Its purpose is not to set prices but to find out what they are.

Naturally, early on, we discovered some shops charges more than others and the question arose as to how to handle this. At what price do we write our estimates? Do we write at the price of the highest-priced shop in the area? This does not make economic sense for the rest of our policyholders who are

paying the bill. Do we write the lowest rates available? Although this may seem to be the most economical it also seemed to be the shortsighted way because the lowest price probably would not produce enough shops to handle our business. Therefore, we decided to write the rates charged by a substantial number of shops in the area. Generally this is interpreted to mean what most shops in the service center's geographic area charge. This would produce enough shops to handle our repair business and still encourage competition. If the customer wants to go to a higher-priced shop, he can do so and pay the difference. For we do not tell the customer where to get his car fixed.

We want to be very exact in our surveys and that is why we survey virtually all the shops in an area and that is why we ask them to submit their charges to us in writing. If there is even any question about the accuracy of our surveys, we have the backup material to prove what the shops in the area told us they are charging. We stand ready to submit these results to any insurance commissioner who demands them. Legally we do not feel we can give them to any other insurance company or body shop association due to antitrust implications.

I strongly believe that body shops and the insurance companies are in the same boat. We both have the same client coming to each of us from the same loss situation and we are both dealing with his second most prized material possession – his automobile. To the extent that either one of us starts lawsuits or otherwise works against the other, all he is doing is poking holes in the other fellow's half of the boat. I discovered long ago you don't sink one-half a boat – you sink

the whole thing. We should be sitting down talking with each other to reinforce the relationship that fosters the needed cooperation which will keep the whole ship afloat.

Make no mistake about it, the insurance industry wants and needs independent body shop. To stay in business we know you must make a profit. We do not think it very profitable to be adversaries. It is profitable to cooperate to give our mutual customer fast, reliable, economic repairs, and the only way we can do that is to sit down together at the local level and discuss our differences in a problem solving environment rather than a courtroom environment.

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