



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Insurance Department Guidelines Concerning Labor Rates January 29, 2007

I. SCOPE AND METHODOLOGY

The Insurance Department (the "Department") is offering guidance to insurance companies on certain factors that it considers to be "Best Practices" used by insurance companies when determining Labor Rates. To be clear, the Department has no statutory or regulatory authority to regulate Labor Rates. These guidelines are being issued in response to requests to advise insurers and auto body repair shops on what the Department considers to be the "best practices" with regard to the setting of Labor Rates.

The Consumer Services Division performed a survey of the Property & Casualty companies with the largest shares of the automobile insurance market in Connecticut regarding what is often termed "prevailing rate," "reasonable and customary rate," or "market rate." The purpose of the survey was to determine how the sampled companies arrived at their auto body Labor Rates. The results showed that while the Labor Rate was similar from company to company, the factors considered by insurance companies in determining these rates varied greatly.

For purposes of this Administrative Guidance, the term "Labor Rate" will be used to encompass the terms "prevailing rate," "reasonable and customary rate," "market rate" and any other terms used to represent the price of a repair which is negotiated by an auto body repair shop and an insurance company for auto physical damage claims. The Insurance Department studied the methodology used by the surveyed insurers to establish the Labor Rate when negotiating an agreed repair price with auto body shops following a covered automobile accident.

II. "BEST PRACTICES"

Taking into account the responses to the survey, the Department has compiled criteria for determining what it considers to be "best practices" when establishing a prevailing Labor Rate. Therefore, when determining what the prevailing labor rate is, the Department strongly encourages that the following criteria be included in that determination:

- 1) **Geographic location** - Insurers should consider the costs of doing business in a particular geographic area. Several companies use the same Labor Rate throughout the state regardless of geographic location where the vehicle is repaired. Such practices ignore the economic reality that the cost of doing business varies greatly within Connecticut.

- 2) **Type of Repair Shop** – Relying solely on the Labor Rates paid to direct repairs shops is not a true indication of the Labor Rate in the marketplace. There should be a distinction between the Labor Rate that is determined as a result of contractual arrangements with Direct Repair shops compared with Non-Direct Repair shops that are relevant in the marketplace overall.
- 3) **Timeframe** – Methodology for determining Labor Rate should be reviewed on a regular basis.
- 4) **Data Source** – The data used in determining Labor Rates should be established by the insurer based, in part, on a random sample of repair shops in a geographic area to be determined by the insurer, as well as claims paid.
- 5) **Individual Claims** – On individual claims, negotiations deviating from the established Labor Rate should take into account additional factors including the type of vehicle being repaired, the equipment of a specific shop, and accreditation of repair personnel.

Upon request by the Department, we expect all companies to provide written documentation of their Labor Rate methodology.

Please note, as with any type of enforcement action taken by the Department, the facts and circumstances of a particular matter are of paramount importance when determining whether a violation of the insurance laws has occurred. In other words, no enforcement action will be commenced by this Department based upon a deviation from these guidelines alone. As with all enforcement actions, there must be some alleged violation of the insurance laws before one can be commenced.

There will undoubtedly be occasions where the consumer and the insurer will have a good faith dispute over the costs associated with a particular repair in circumstances where liability and coverage are not in dispute. In these instances, the parties should continue to bring these disputes to the attention of the Consumer Services Division. If mediation by the Insurance Department does not result in a successful resolution of the dispute, the matter may be eligible for the Department's newly reconfigured arbitration program. For more information on this program go to <http://www.ct.gov/cid/lib/cid/bullc15.pdf>.