Undertaking # 32

Referring to Volume I, Gartner Program Evaluation, page 13, provide a further elaboration of the term "fair allocation approach" in regards to Loss of Use. Specifically pertaining to what and between who.

RESPONSE:

This is an approach which allocates risk and incentives regarding the Loss of Use costs of a claim appropriately among those that have the ability to manage those items. Only the Repair Shops have control over the duration of the repair. This approach provides for a sum to be provided to the Repair Shop based on a fair expected duration for a repair and a fair daily rate (based on demonstrable and agreed upon data). The Repair Shop will be rewarded by retaining additional revenue to their bottom line if they can complete the repair faster than the expected duration, and it will be penalized by having to pay additional costs to the rental agency if the repair takes longer than expected.

The following is from MPI's Physical Damage Architectural Vision documented as an outcome of the Physical Damage Replacement Revisioning Program:

> "MPI has traditionally managed loss of use (alternative transportation or rental car) coverage through direct management of every element of the claim. While logical on the surface, it does not align to put the onus and incentive of control on the parties who are best positioned to manage the duration of the loss. Car rental agencies, who are the primary recipients of the revenue generated from this loss, have no control over the loss. Customers, who are the beneficiaries of the service, have no control over the loss either except to harass the shops to repair faster; however, they have no incentive to do so. Repair shops, on the other hand, which are in control of the duration of repair, have little to no part in the process other than to report in delays. There is no mechanism to incent them to manage the duration more aggressively. The result is that MPI has to spend significantly

higher levels of effort to manage the loss experience while also injecting a degree of antagonism in the process.
Instead, the vision is to revise the structure of the process such that repair shops are provided a fixed level of funding for this part of the loss and asked to manage within that envelope with the expectation that if they manage better, they can keep the excess and alternatively, if they manage poorly, they will be responsible for any shortfalls. With this structure, the party most able to control the extent of the loss has now been made directly responsible to not only manage it but manage it aggressively based on the incentive system embedded in the paradigm.

Obviously, a flat fee for the loss is too abstract. So the system needs to be based on a metric that informs on the duration of the repair. Such a metric is the labour time on the repair adjusted by touchtime. The labour time provides the magnitude for the repair. Touchtime, or the average number of labour hours a shop spends on a single claim per day, informs on the number of days required to perform the repair. Setting the rate of compensation to a fair rate per day with the day defined as touchtime, creates an allocation basis that is readily manageable by the shops. By improving the touchtime, the shop will be able to improve its financial impact from managing this component. As touchtime is a metric that drives efficiency and profitability on wide number of repair shop financial drivers, shops have an existing incentive to improve that metric and MPI will only be "piggy-backing" and reinforcing an existing incentive."