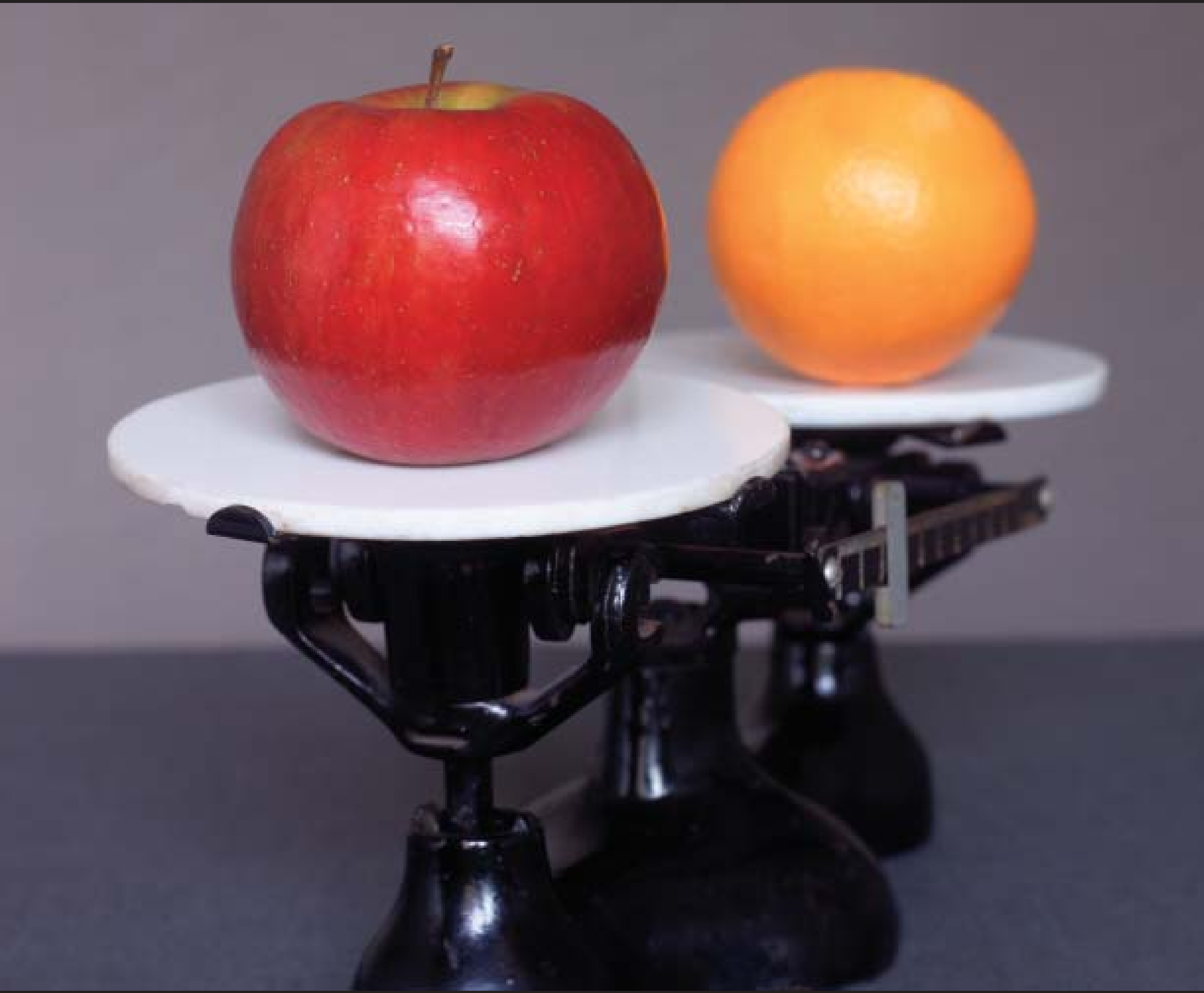
cccUpFront

WINTER 2005

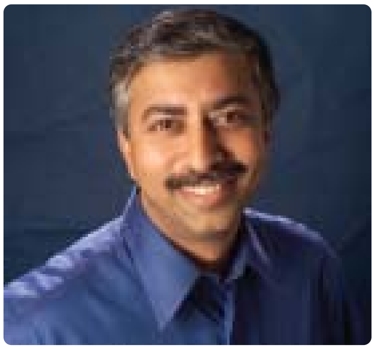


The Importance of Accessing Electronic Information

Lines of Convergence | Grange Insurance Affirms the Need for Speed | What's Driving Salvage Returns? | Marketing Tactics

industry insights

BY GITHESH RAMAMURTHY



Happy 2005!

With a new year comes fresh perspective. Over the holiday period, most of us reflect and take stock of our situations, inevitably making resolutions for betterment in the coming months.

As I reflected on 2004, I thought about how our lives have changed. Yes, things are quicker—immediate even—given the propensity of utilizing advanced technology. But as advanced as we get, there will always be the need for clear and concise communication.

Communication is a staple—ranking right up there on the list with food, water and shelter; without it, it would be hard to register our own existence. Who'd you talk to today? Did they have the information you were looking for? Did you get that information to the people who need to know it? It's hard to imagine a day without communication.

Our industry, regardless of how technologically advanced it is and will become, will always be reliant on actively engaged participants initiating communication on the most basic of levels. That is what we're touching on here in *CCC UpFront*, with the focus on direct repair programs (DRP).

We hope the following articles will perpetuate what seems to be some positive momentum in the DRP discipline and highlight the important role that communication plays in the process.

Here's wishing you success in the coming months.

Warmly,

Githesh Ramamurthy
Chairman and CEO

cccUpFront

WINTER 2005

Editorial Offices
CCC Information Services Inc.
444 Merchandise Mart
Chicago, Illinois 60654-1005
312.222.4636

Please address all editorial questions to:
Executive Editor, *CCC UpFront*
e-mail: cccupfront@cccis.com

introduction

BY JIM DICKENS

Welcome to the 2005 Winter edition of *CCC UpFront*.

In our last edition, we discussed numerous safety efforts and the industry impact and relevance each brings to the table. When you go back and re-read what we'd discussed in the last edition, so much progress has already been made. In my article, "Thinking Inside the Box," I wrote about the emergence of event data recorder (EDR) 'black box' technology and its role in the industry. This issue has engendered a lot of discussion and is one to keep an eye on. But this is to be expected, since safety is one of the many factors driving the leading edge of technology.

In this edition, we take a look at another key industry driver, albeit something of a more universal factor—electronic communication. To say it's hard to solve a communication problem is an understatement. And what better example to illustrate the need for communication than the direct repair program (DRP) process; multiple parties linked together constructing the proverbial ladder rungs needed to complete the process from accident to repair to claim resolution.

Upon starting the development of this edition, we initially planned to have multiple articles about the DRP communication process—each targeting the perspective of a key participant. After speaking with many of our sources, however, it was clear that participants in the repair process have strikingly similar concerns, questions and answers. To write several articles would be redundant. What resulted is a feature article by CCC vice president of growth strategy and alliances Eric Messerschmidt, that comes at DRPs from all angles. I think you'll find it very interesting.

Another one of the intriguing aspects we look at in this issue is legislative action as it relates to DRPs. Our director of regulatory affairs, Mike Barber, takes a look at some of the crucial state-by-state DRP legislation.

This issue also marks my last as the executive editor of *CCC UpFront*. I will hand the reins over to Carole Comstock, CCC's vice president of marketing and product management. Carole brings a lot of energy and ideas, and is an excellent addition to the publication's editorial development. I will, however, remain actively involved as part of the editorial team and its operations.

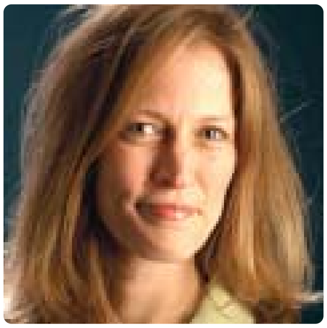
I'll close with my usual request that you share any questions or comments with us at cccupfront@cccis.com.

Thanks and the best of New Years to you.

Best regards,

Jim Dickens
Editor-in-Chief

what's inside



BY SUSANNA GOTSCH

Electronic Communication Yielding Multiple Benefits

Industry publications frequently discuss the timesaving aspects of electronic communication. In fact, it's highlighted to great effect here on page 7, illustrating its effect on the direct repair program process. Recent events have highlighted another integral benefit of using electronic communication—utilizing CCC's claims database to address industry concerns, such as recalls.

We utilize data captured in our vehicle claims data warehouse to help facilitate communication between the automobile insurance and collision repair industries. We have been capturing data from vehicle appraisals and total loss valuations for many years, including detailed claim, vehicle, customer, parts, labor, cycle time and claims cost information. From this data, we can quickly retrieve all pertinent claims information on specific vehicles where there may have been, for example, a recall or a price discrepancy.

The year 2004 serves as an excellent model to validate the data's importance. In 2004, National Highway Traffic Safety Administration (NHTSA) data revealed a huge surge in the number of vehicle recalls for the year; 598 recalls involving a record 30.6 million U.S. cars and trucks.

Prior to last year, the record number of recalls was 541, which impacted 24.6 million vehicles in 2000.[i] As automakers race to introduce more new models each year that incorporate more bells, whistles and electronic gizmos to entice new customers, the number of recalls is growing.

CCC DATABASE STATISTICS

Calendar Year	Total Loss Valuation Count	Vehicle Appraisal Count	TOTAL
1995	1,444,463		1,444,463
1996	1,467,418		1,467,418
1997	1,647,928	4,243,936	5,891,864
1998	1,726,556	5,505,456	7,232,0121
1999	1,749,208	6,129,238	7,878,446
2000	1,741,481	6,696,994	8,438,4751
2001	1,691,278	6,815,076	8,506,354
2002	1,560,677	7,052,930	8,613,6071
2003	1,445,904	6,826,190	8,272,094
2004	1,518,622	6,914,207	8,432,829
TOTAL	**15,993,535**	**50,184,027**	**66,177,562**

Another factor driving recalls is the Transportation Recall, Enhancement, Accountability and Documentation (TREAD) Act, a federal law that was passed in 2000 in response to the Ford/Firestone tire issue, which calls for automakers to more proactively report problems as they are reported or revealed. With NHTSA serving as the rulemaking authority for the law, the TREAD Act requires automakers to report on 24 different categories, including air bags, brakes, electrical system, engine and cooling system, exterior lighting, fuel systems, latching, powertrain, seats, steering, structure, suspension and wheels.

There are two ways CCC's data can provide a benefit to its customers. The first is that we're constantly working to proactively provide customers with information on vehicle recalls. For example, when the NHTSA recall database is updated monthly, the pertinent information on affected vehicles is incorporated into each total loss valuation response and the vehicle tab within CCC Pathways® collision estimating. With that recall information in hand, the adjuster/appraiser can determine whether the recall played a role in an accident.

Secondly, we can provide customers with a monthly detailed listing of their claims that have already taken place, including: the vehicle owner's name and contact information; vehicle information down to year, make, model, body style, door style, engine and color, and; related claims information such as coverage, policy and claim numbers, claim office and appraiser information.

At that point, customers can review their claim files to help determine whether the recall in question may have contributed to the cause of loss in some manner. These claims can then be sent to a subrogation unit for further follow-up.

The following are some examples of recent recalls/parts issues:

a) CCC pulled 995 vehicle appraisals featuring 2001-2003 Hyundai Elantra's with aftermarket hood replacements (recall on outsourced Yih Sheng Auto Parts Ind. Co. hoods made between December 2003 and May 2004 with potentially faulty latch assemblies).[ii]

b) More than 11,000 vehicle appraisals on '96-'04 Ford Taurus and '99-'04 Pontiac Grand Am models with aftermarket headlamps from Keystone Automotive (in response to Keystone's voluntary suspension of the sale of its aftermarket headlamps for these models) were pulled by CCC.[iii]

c) CCC was able to find more than 56,000 vehicle appraisals on 2002-2004 Chrysler minivans with V-6 engines with primary or secondary impact points designated some type of burn (in response to the recall in August 2004 by Chrysler).[iv]

A more recent example is a situation where CCC was able to identify, address and rectify parts pricing discrepancies in our data for the 2002-2005 Dodge Ram 1500. Since the issue came to the fore just 24 hours after mailing our monthly CCC Pathways data CD, we proactively contacted customers and made them aware that we had implemented dedicated telephone and e-mail lines for quick response to any needs they may have had.

We were in many cases able to reach customers prior to receipt of the update CD. Additionally, we continue to run weekly data audits looking for estimates created for this vehicle and will proactively notify the creator of these estimates and assist them in implementing the corrective action if the discrepancy exists.

Susanna Gotsch is director of analysis and reporting at CCC Information Service Inc. and author of Crash Course.

i "Carmakers Staggered by Record '04 Recalls." Source: The Detroit News, January 4, 2005. nadaheadlines@nada.org.
ii "Yih Sheng Recalls Aftermarket Hoods for Possible Latch Failure." CollisionWeek, Monday, January 10, 2005.
iii Keystone Suspends Sale of Two Aftermarket Headlamps." CollisionWeek, Friday, October 15, 2004.
iv "Chrysler to Recall 831,000 Minivans." Source: The Associated Press, nadaheadlines@nada.org, August 5, 2004.

BY MIKE BARBER

Activities on the Legal Front

DRP AND INSURER-OWNED SHOP ACTIVITY HAS SPAWNED legislation in a number of states that includes anti-steering and shop ownership provisions. Some have passed and some have failed. Some have gotten altered during the process, and others have faced legal challenges once they become law.

Anti-steering legislation varies from state to state. Some states allow recommendations provided the insurer gives notice to the vehicle owner that the owner may still choose the repair facility; some allow insurer recommendations only when asked; and some prohibit recommendations altogether.

When an insurer owns or has an interest in a repair facility, some legislation requires disclosure of that interest to a vehicle owner. Other laws outright prohibit ownership of repair facilities by insurers. Texas passed such legislation in September 2003, and similar bills have been introduced in a number of other states subsequent to that time.

Texas House Bill 1131 amended Title 14 of the Texas Occupations Code by adding Chapter 2306, "Dealing with Insurer Interests in Repair Facilities." The law prohibits an insurer from owning or acquiring an interest in a repair facility unless that facility was open for business or construction had commenced on April 15, 2003. The law also requires that certain notices be posted in those repair facilities that remain insurer owned and prohibits certain other practices.

This legislation has resulted in litigation challenging the law's legality, which has yet to be concluded. The outcome may influence efforts in other states to enact legislation concerning insurer ownership of repair facilities, though there is some thought that such ownership is not likely to become widespread regardless of the outcome of the litigation. Anti-ownership bills that resemble the Texas law have been introduced in Arizona, Hawaii, Iowa, Michigan, Minnesota, Missouri and New York in the past few years. Indiana 2005 Senate Bill 271 and Washington State 2005 House Bill 1620 are recent proposals that would prohibit insurer ownership and require divestiture of any such interest.

Some owners of repairer facilities believe that insurer ownership of repair facilities is in conflict with the consumers' right to choose where they have their vehicles fixed. On the other hand, some insurers believe they should not be denied the choice of serving their customers by providing their own repair facilities that help control the cost of repairs and the ultimate cost of insurance.

In addition to the developments described above with respect to repair facility ownership, the following anti-steering laws have been enacted in the various states since July 1, 2003.

- *Arizona House Bill 2468* — *Effective 08/25/04*
- *California Senate Bill 551* — *Effective 01/01/04*
- *Colorado House Bill 1253* — *Effective 04/01/03*
- *Michigan House Bill 4127* — *Effective 07/08/04*
- *Nevada Assembly Bill 367* — *Effective 10/01/03*
- *North Carolina House Bill 986* — *Effective 01/01/04*
- *Texas House Bill 1131* — *Effective 09/01/03*
- *Virginia House Bill 2267* — *Effective 07/01/03*

Similar anti-steering bills were introduced in the 2003/2004 legislative sessions of a number of states, including Nebraska and Pennsylvania. This year, Oregon 2005 Senate Bill 210 would require repair shops to disclose any DRP relationship with insurers.

This article is not intended as legal advice. Readers should seek specific legal advice before acting with respect to the subject mentioned here.

Mike Barber is director of regulatory affairs at CCC Information Services Inc. For questions on anti-steering bills, please contact Mike Barber at mbarber@cccis.com.

BY ERIC MESSERSCHMIDT

Lines of Convergence. Direct Repair Program Participants Seem to Be Finding Common Ground

IT'S EASY TO FIND DIALOGUE AND SUBSEQUENT ASSENTING OR dissenting opinion on direct repair programs (DRPs); it's on the pages of industry trade publications, subject lines of weekly e-mail newsletters and serves as a topic for countless association meetings.

Perhaps the reason the conversation is growing is because DRPs are touching more repair facilities than ever before. Four years ago, it was estimated that 1/3 of all U.S. repair facilities were involved in at least one DRP relationship.[i] According to the editor of *Automotive Body Repair News (ABRN),* the number of repair facilities involved in a DRP today stands at nearly 75 percent.

International Autobody Congress and Exposition (NACE) Chairman Vernon Crump said the aforementioned statistics shouldn't be a surprise, since numerous seminars at the 2004 NACE event in Las Vegas addressed the importance of DRPs and maintaining a strong repair facility-insurer relationship. "If you see who registered to attend the show and what themes the seminars were covering," said Crump, "there's no doubt DRPs are here to stay, and that shops have become active participants in the process."

So what is the reason for DRP growth in the industry? Who—or what—is driving future developments? In trying to get a handle on the topic, *CCC UpFront* talked with representatives from the insurance and repair industries, as well as gathered valuable insight from industry associations, global marketing firms and nationally recognized publications.

Quite frankly, we were initially concerned that this article would simply repeat the same conclusions of several past articles—that repair facilities were wary of an overbearing influence from insurers, and insurers were speculative about the billing practices of repair facilities. However, based on our research, we were encouraged to see that some fairly new concepts have emerged.

What follows is dialogue aimed at the decisions, economics and influences existing within the DRP marketplace and what the future may look like.

How Did We Get Here?

Direct repair programs have been in place since 1984.[ii] Over the past two decades, insurance companies and repair facilities have worked together to develop and fine tune a more efficient process. Initially, DRPs were commonly referred to as direct appraisal/approval programs or DAPs. They relied heavily on fax and manual methods of communication.

In the early 90's, as technology evolved, the electronic DRP began to emerge. The burgeoning use of the Internet fueled rapid improvement in communication—and the industry adopted it with open arms. Today, 95 percent of repair facilities nationwide are online (with nearly half of those being broadband connections).[iii]

This avenue of communication gave estimators and adjusters the opportunity to write, read and edit estimates electronically, avoiding manual re-writes and unnecessary cost. Repair facilities began to see the twofold benefit of a steady, heavier stream of business and quicker payment. Insurance companies were able to service their customers in a much quicker fashion— translating into increased customer satisfaction.

Nationwide Insurance's associate vice president of material damage technical claims, Terry Fortner, believes perspective can get lost when looking at the evolution of the claims process. When he began with Nationwide in 1977, Fortner said it was common in the industry for it to take about 11days after an accident before an estimate was even written. "Today, the industry is moving toward a cycle time of 10 days (from start to finish)," remarked Fortner, adding that cutting cycle time is "the biggest win-win in the industry. No one loses."

John Arnold, owner of Arnold's Body Shop in Davenport, Iowa, said there were many aspects he had to consider when making his DRP decision—key among them being the commitment to communicate electronically.

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Lines of Convergence (cont'd)

"Initially, it seemed (to repair facilities) DRP relationships were invented to reduce the claims processing costs for insurance carriers by transferring some of the claims functions to the body shop," said Arnold. "It increased the fixed overhead costs of body shops that began to participate in such programs. From expenditures for different software systems to additional non-direct staff, the shops' costs initially went up."

DRPs as a Business Decision

While Arnold's comments may seem negative, he eventually decided to join a DRP because the cost concern has been offset by the potential increase in his repair facility's volume. In fact, U.S. statistics show that DRP programs boost a shop's traffic by an average of 20 percent—during a time when statistics reveal shrinking industry repair volume[iv].

Michael Willins, editor-in-chief at *ABRN*, said repair facilities must be aware of the positive aspects in having a DRP relationship. "Obviously (repair facilities) believe such arrangements make business sense, otherwise they wouldn't have made the decision to enter into such agreements," said Willins. "As shops gain familiarity with these programs and realize some success from them, those adversarial barriers logically will decline. In business today, partnerships are a necessity. And that's what a DRP arrangement can be—a partnership."

> "*In business today, partnerships are a necessity. And that's what a DRP arrangement can be—a partnership.*"

Just like repair facilities, insurance companies complete a thorough analysis before beginning a DRP. Florida-based Kemper Auto and Home (KAH) recently completed that analysis, rolling out its national Clear Choice Claims Service program a little more than a year ago. According to Chuck Williams, material damage claims specialist for KAH, there were a couple of unique drivers that he noticed during the decision-making process. "We found in many instances that it was our customers asking us if we had a preferred shop list, since a lot of the carriers they had in the past were presenting them with that scenario," said Williams.

Another key factor was logistics. KAH needed to find a way to efficiently manage a DRP network in light of its claims volume (approximately 100,000 claims per year) and broad territory. Implementing technology, such as electronic file sharing that included crucial information such as digital images, allowed them to cover territory that would have been otherwise impossible.

"I think, realistically, it was the technology that allowed us the ability to manage the program," added Williams. "We didn't have the presence—without the technology—to go out and effectively manage a DRP on our own."

Who, What is Driving Business?

While the importance of DRPs is illustrated through data, industry experts have some interpretations to the question of why DRPs exist. KAH's Williams highlighted the fact that technology allows them to cover an otherwise impossible territory. Another key reason is the state of the economy.

Jeremy Bowler, director of research projects at J.D. Power and Associates, said today's overall economic view charts a rough course for smaller facilities looking to survive without a DRP.

"When all things are said and done, it's becoming more and more difficult for an individual shop (without a DRP) to compete," said Bowler. "It seems that you have to consolidate your mix of business to be able to justify expenses, such as aluminum welding technology, training or whatever it might be…. These are a few in a number of different forces I think that are reducing the one-man shop or the single shop."

Insurance companies share the same set of concerns when it comes to driving business. Simply put, it is important for an insurance company to understand its place in a given geographic market and have sustainable DRP business model to support that market.

Discussing KAH's recent exploration and entry into the marketplace, Williams said KAH is cognizant of the number of DRPs it has in a given area so an economic balance exists. In a handful of cases, a turnabout existed where KAH pursued a particular repair facility. If the scenario sets up where a KAH customer makes a conscious decision to use a facility that isn't in their DRP network, Williams said KAH makes note of that.

"If one of the reasons our customer doesn't select (the DRP repair facility), we ask them why they're not selecting it," said Williams. "We track that and try to build that information into our system. So, if 10 people in Chicago in a given month want to go to one certain facility and that facility's business is not in our program, maybe it's a place that we need to take a look at."

Balancing Act

In addition to the nationally compiled analytics of J.D. Power, both the repair facility owner and insurance company see the ability to balance customer service with superior business acumen as something that can either ensure a businesses' sustainability or seal its fate.

"For the collision repair business (as a whole), the last few fiscal quarters have been ones of low net profit, or none at all," said Arnold. "There are many market factors affecting this poor performance that are out of the realm of control of the entrepreneur. Survival has become a simultaneous, strong balance between increasing net profit and customer retention. Balancing or fitting together these two goals are a daily phenomenon. Businesses concentrating too heavily on one or the other will not survive. DRP relationships fall into this paradigm of balancing dollars and customer service."

Actively engaged in the customer process, Arnold has gotten to the point where he updates and posts his customer service index (CSI) ratings for the last two months, as well as the year, on his Web site. Those numbers are important to him as a business owner, as he can share them with his walk-in customers just as readily as he shares them with the "several insurance companies" of which he maintains a DRP relationship. They, too, are looking for strong CSI numbers to ensure their customers' happiness.

Nationwide, according to Fortner, also pays very close attention to CSI numbers. "Our program is much more than simply a collection of body shops, in that we have certain performance criteria that we require of the shops in the Blue Ribbon Repair Service," said Fortner. "We monitor CSI and inspect the quality of work. We look at the performance from an appraisal standpoint."

J.D. Powers' numbers lend credence to this customer satisfaction message. On Dec. 20, 2004, J.D. Power released its 2004 Collision Repair Satisfaction Study. Further emphasizing the desire to capitalize on satisfaction ratings, Erie Insurance rightly touted the fact that they'd received the highest marks in a nationally distributed press release the next day.

The Importance of Satisfaction

Bowler said the J.D. Power survey asks the customer to characterize how they set about choosing where to take their car, and ultimately, where they ended up taking it. Adds Bowler: "We also try to understand what were the messages around that decision… was there a guarantee message from the insurer? Was there a kind of implied message suggesting that if you don't go with one of these (repair facilities) you're going to have to get three different quotes?"

ABRN's Willins adds: "Today's vehicle owners want their vehicles fixed, quickly and correctly. They also need to feel comfortable with their choice of repair facilities. As a result, it is imperative for shop owners to gain the trust of vehicle owners—through improvements in services, via marketing efforts, maybe by adopting new types of services (such as mechanical repairs) that allow shops to form stronger, more lasting relationships with their customers.

"Insurers make note of those shops that meet and exceed the vehicle owners' expectations, and those are the shops that are going to grow their DRP business. So, the customer will continue to play a pivotal role in this process."

The Future

Arnold believes repair facilities and insurance companies who find the balance between profitability and retention will remain. "In the last two years, a purge has begun in both industries," stated Arnold. "Less prepared and skilled insurance companies and shops have gone away, either through closure or by being purchased because neither group has been able to balance profit versus retention. DRP relationships having this balance will survive."

Another influencer, albeit infrequently discussed, are OE manufacturers. Crump believes a bellwether for the U.S. market remains the activities taking place in the European collision repair market. As a member of International Bodyshop Industry Symposium (IBIS) board, Crump said the changing fuel economy standards in Europe has resulted in advanced vehicle construction techniques designed to lower total vehicle weight.

"If you look at the vehicles being constructed to meet fuel standards in Europe, a majority of them are based on aluminum structure platforms," said Crump. "The result is for shops having to make substantial investments in advanced machinery and repairer education. The CAFE (Corporate Average Fuel Economy) standards, which will soon be raised here in the U.S., will have the same effect. The shops able to survive this change will tend to be the larger, multi-DRP variety."

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Marketing Tactics

So, do repair facilities use a different tack when marketing to walk-in customers as opposed to an insurer's direct repair program (DRP) customers? John Arnold of Arnold's Body Shop in Davenport, Iowa, said employing different marketing tactics ultimately misses the entire point.

"I spend the majority of our marketing dollars on the vehicle owner... determining our core customer, finding the most effective and efficient method to reach them (without advertising for your competitors) and figuring how to wisely spend the dollars," said Arnold. "Quality repairs and customer service mean client retention for both the shop and the insurance carrier. Verified by a strong CSI rating from a third-party firm, the keys to retention—quality and service—are the 'givens' or precursors to having a successful marketing program."

Terry Fortner, associate vice president of material damage technical claims at Nationwide Insurance, concurs with Arnold's comments, adding that the best way to maintain a solid relationship between the repair facility and the insurer is simple—performance. "Live up to the expectations set forth between you and the insurers you have contracted to do business with."

The other key ingredient to a solid DRP/insurer relationship, according to Fortner, is the ability to communicate. "Is there good communication between the decision-maker at the collision repair facility and the quality control point person for the insurer? How often are you receiving feedback, as well as asking for it? Are you providing feedback?" added Fortner.

Arnold also believes there is a critical distinction between marketing a traditional product or service and marketing a repair facility. "Because of the return frequency of our clients, the marketing modus operandi is a 'top-of-mind' campaign," added Arnold. "We don't offer sale items, discounts or daily specials like the grocery or stand-alone large-box merchandisers. We remind the customer of our presence when we are needed."

feature (cont'd)

Fortner agrees. "You have certain controls mandated by some of the OEMs now with the aluminum inter-structure vehicles, basically requiring that a vehicle is to be repaired by approved shops. For example, if you have an Audi 8-series and Audi is saying that it requires a certain type of equipment, then it's going to go there. As the OEMs become more focused on customer retention, I think that will have an influence on DRP growth—or lack thereof."

About ABRN

Automotive Body Repair News is a monthly trade publication serving the collision repair industry. The editorial content is aimed primarily at the collision repair shop owner and his or her technicians. Mainly independent or franchise collision repair shops and new or used car dealers with body shops represent this market. In addition, *ABRN* reaches ancillary collision repair establishments such as fleet facilities performing collision repair, specialists in frame or structural repairs and wholesalers or warehouse/distributors specializing in paint, body repair and equipment lines.

About J.D. Power and Associates

J.D. Power and Associates is an ISO 9001:2000 registered global marketing information services firm that helps businesses and consumers make better decisions through credible, meaningful and easily accessible customer-based information. Headquartered in Westlake Village, California, the firm has five U.S. offices and international offices in London, Tokyo, Singapore, Sydney and Toronto.

About Arnold's Body Shop

Operating for the last 35 years, Arnold's Body Shop in Davenport, Iowa, is owned and operated by second-generation owner John Arnold. Arnold's is a 27,000 square foot facility operating with a staff of 28. Go online at www.arnoldsbodyshop.com for additional information.

About Nationwide

Nationwide is one of the largest insurance and financial services companies in the world, with more than $148 billion in statutory assets. Nationwide consists of three core businesses: domestic property and casualty insurance, life insurance and retirement savings and asset management.

About Kemper Auto and Home

Kemper Auto and Home, A Unitrin Company, specializes in the sale of personal line auto and homeowner insurance through a network of leading independent agents. Kemper Auto and Home has been a part of the Unitrin (NYSE: UTR) group of companies since June 2002. Unitrin and its subsidiaries have an "A" (Excellent) rating from A. M. Best, the leading insurance industry rating authority. Unitrin's subsidiaries are engaged in three businesses: property and casualty insurance, life and health insurance and consumer finance.

Eric Messerschmidt is vice president of growth strategy and alliances at CCC Information Services Inc.

i - "The Changing Face of DRPs," Charles Baker, Collision Repair Industry INSIGHT, Dec. 2001

ii - "DRPs," Bob MacCargar, BodyShop Business, September, 2004

iii - 2003 Crash Course, Susanna Gotsch, CCC Information Services

iv - "DRPs: Strictly a Business Decision," Andy Batchelor, Bodyshop Business, May 2003

Grange Affirms the Need for Speed

Speed. It's an advantage on the track, the playing field and just about any other place where competition exists. Ohio-based Grange Insurance believes speed is one of the key components to maintaining a competitive advantage in the automotive claims marketplace, and is constantly researching ways to improve the process for its 125,000 customers in Ohio and nine other states.

In its pursuit of efficiency, Grange has consistently turned to technology for ways to speed up its claims process. Grange was one of the first carriers to utilize our CCC Pathways® Appraisal Solution and Total Loss® software solutions. The company recently asked its technology team to formulate a plan to target inefficiencies associated with the transfer of claims-related information between the field and the home office.

"We'd have people fill out the claim and send it through our system," said services assistant vice president David Wagar. "Sometimes it required a phone call to make sure the adjustor got it. At night (the adjusters) would download their assignments. Then they'd go out the next day and look at them. The next night, they'd upload the information and send (the assignments) back—so we had a lot of people handling claims and electronically moving it from place to place. We knew we could do better."

To combat those inefficiencies, Grange implemented CCC Pathways' Wireless Direct solution and CCC Autoverse® Claim Management. Combining CCC Autoverse—a Web-based open solution providing a single location to receive, review and dispatch claims files—with Wireless Direct's ability to access and exchange real-time claim information at any location allowed field adjusters to streamline their file transfer process.

"A process that used to require three people passing file information multiple times was cut down to two people: the adjustor and the appraiser (transferring information) one time," said Wagar.
Grange also had to be sure to choose a wireless network provider that could physically reach its employee base. "We did a lot of research on whether or not our appraisers would (physically be able to) get the signal," said Wagar. Grange, their selected wireless service provider, and CCC worked together and were able to successfully integrate the different software components. The rollout was completed to its entire adjustor base in July of 2004.

The only problem that occurred during rollout was when the service provider upgraded its operating system just prior to installation, which created an incompatibility between the two systems. Grange was able to get all three parties together, rectify the matter in a few hours. According to Wagar and Grange senior project manager Butch Knowlton, these solutions helped the company quickly realize efficiency gains.

"As a result of that meeting, we're still working with CCC and (the service provider)… so that any future versions or updates from the provider are going to be immediately compatible and will have already been tested in a real environment," said Knowlton.

Grange also selected CCC Autoverse Claim Management to increase the benefit of two-way wireless communication by giving employees—and independent appraisers, if needed—access to an electronic claim folder over a secure network. Since CCC Autoverse uses technology based on the Collision Industry Electronic Commerce Association's (CIECA) EMS open standards, it gave Grange the ability to exchange claims information with virtually all of its repair facility partners. "When we get back the assignment," said Wagar, "it automatically drops into our electronic claim file. It goes right into the actual claim and then proactively notifies the inside adjustor that the estimate is back. We had the equivalent of six to eight people continuously checking for estimates and moving them into a claim file. Now we are reallocating these people to other more valuable job duties."

Another concern during an installation and rollout process is training. This, however, was not the case for Grange. "There isn't really any training, because they're basically doing what they'd been doing before (using CCC Pathways)," said Knowlton. "It's really just a difference of clicking on your laptop and letting it know whether you're operating from a LAN line or a wireless connection." Having a system that utilizes familiar products eliminates time loss and cost incurred for training purposes.

So, how fast are claims now being turned around at Grange? "Our staff can now turn around estimates more than twice as fast as before. Our speed is about 84 percent of the industry average," said Knowlton. "We've heard several examples (from our appraisers) of turnarounds going from a couple of days to three hours."

Adds Wagar: "Service is always at the top of the list, but when it comes to claims, it's all about speed. Speed, service and accurate indemnity payments are really at the top of the things that we look at and want to deliver to our customers."

About Grange Insurance
Grange Insurance offers a wide range of insurance products, not only for vehicles but also to protect homes and businesses. Grange also provides security through life insurance and other financial products. Grange Insurance is located in Columbus, Ohio and serves \ten states, including Ohio, Georgia, Illinois, Indiana, Kentucky, Michigan and Tennessee and to customers in Iowa, Minnesota and Wisconsin through its affiliation partner, Integrity Insurance of Appleton, Wisconsin.

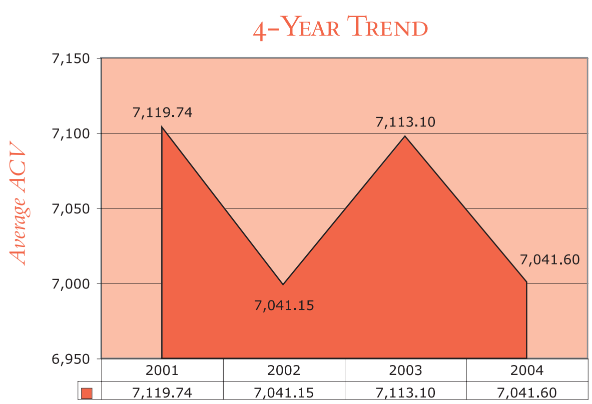
guest perspective

BY TOM KONTOS

What's Driving Your Salvage Returns?

Over the past 18 months, vehicle salvage re-marketers have seen substantial improvements to recoveries from the previous five years. Drivers effecting vehicle salvage values can be attributed to two broad categories. The first is direct economic influences that have an impact on the value of every salvage vehicle being re-marketed. These include: title branding (what you can do with the salvage vehicle); the demand for recycled vehicle parts; insurance claims practices governing when to total loss a vehicle; geographic supply and demand, and; underwriting practices of insurers (standard v. non-standard lines). However, there are also strong outside economic influences beyond the control of claims departments and salvage auctions, which also determine a significant portion of recoveries. What follows is data illustrating some of those influences.

Actual Cash Value (ACV) Trends



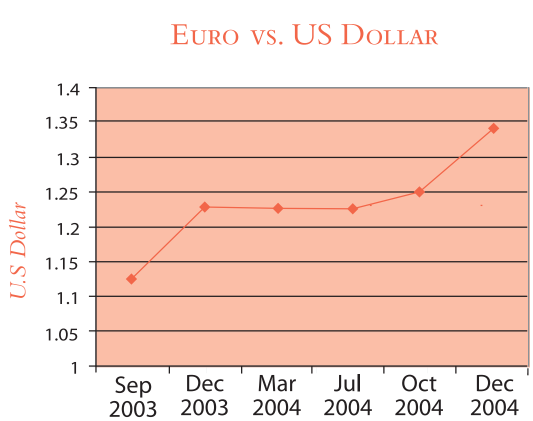
	2001	2002	2003	2004
■	7,119.74	7,041.15	7,113.10	7,041.60

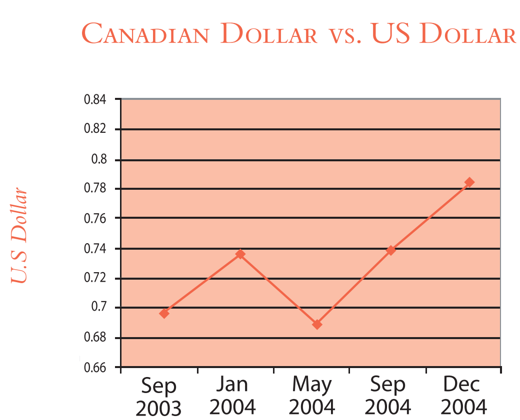
Source: ADESA Impact Performance Results

Any time your denominator decreases, the percentage will increase—even if your numerator stays the same (gross sales price divided by the ACV). Over the course of the last few years, there has been a trend towards lower average cash values (ACV's), which has helped increase the gross recovery percentage (at left).

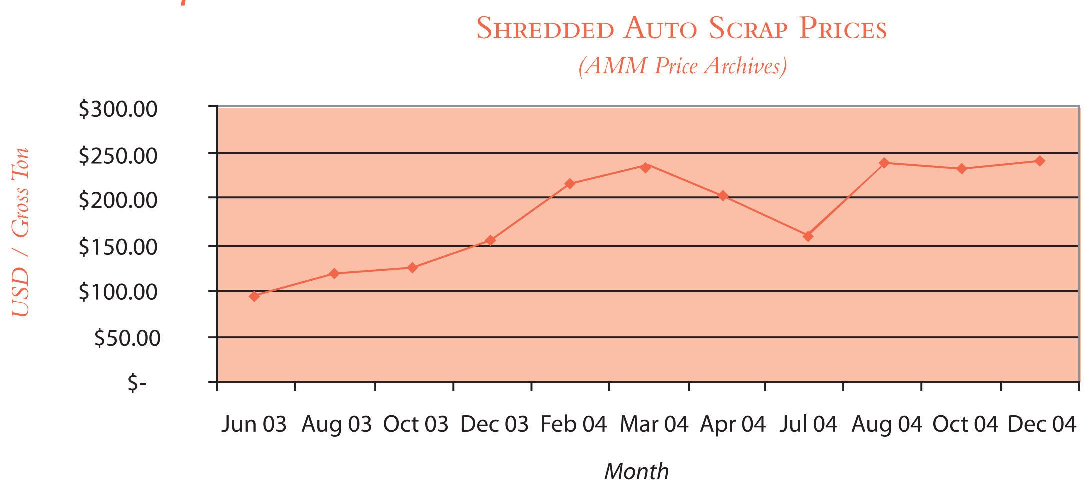
Another factor that has been a cause for improvement is the international salvage buyer. Improved purchasing power, as we've seen in recent months, has enabled foreign buyers to be more competitive and export more vehicles (below).

Increased Purchasing Power of Foreign Salvage Buyers





Increased Value of Scrap Metal



Another positive economic influence was the staggering 18-month-long recovery in scrap steel (above). Foreign scrap steel buyers, most notably led by China, have driven the price of scrap steel up dramatically over the all-time lows that were reached a couple of years ago.

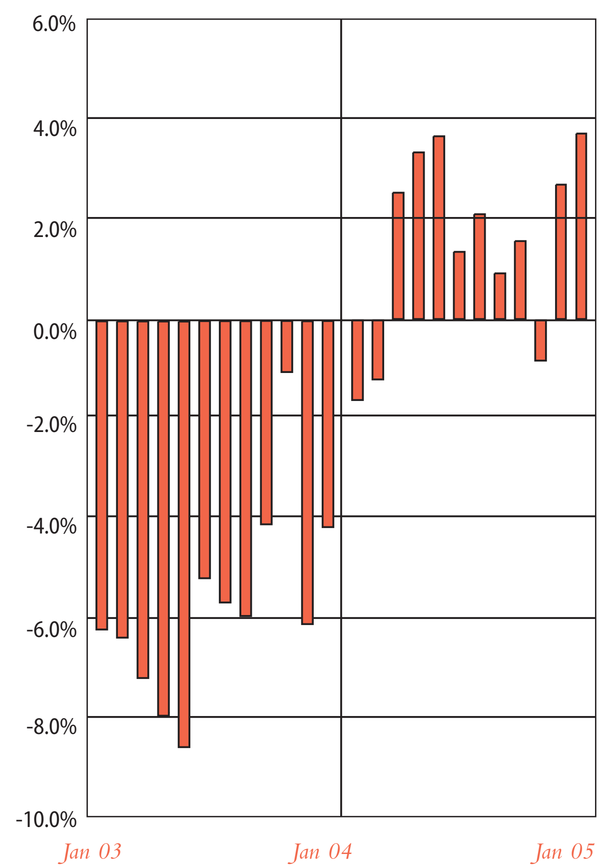
The increase in wholesale vehicle prices (right) make it more cost effective to "re-build" salvage vehicles, while simultaneously improving demand for recycled parts from people opting to "repair" instead of "replace" due to cost.

Conclusion

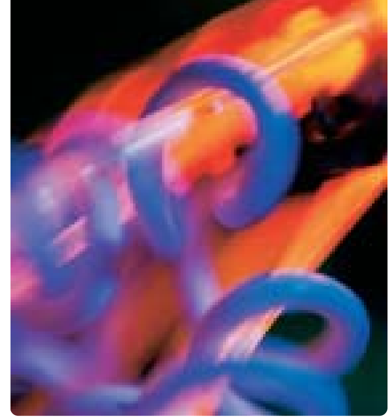
Over the past 18 months we have seen more fluctuation in these outside economic influences than the direct influences and attribute the majority of these gains to them. Some of these outside economic influences include increasing scrap prices, currency depreciation and increasing wholesale car prices.

Tom Kontos is Vice President of Industry Relations & Analytical Services with ADESA, Inc. ADESA Impact, formerly Auto Placement Center Inc. [APC], is a subsidiary of ADESA Corporation headquartered in Indianapolis, Indiana, a unique and diversified multi-services company. ADESA operates 55 wholesale vehicle auctions and six commercial truck sales in the U.S. and Canada. ADESA Impact is also headquartered in Indianapolis, Indiana and operates 16 total loss vehicle auctions in the U.S. In addition to its auction and transportation business, ADESA Impact provides total loss vehicle claim services such as appraisals, inspections, evaluations, titling and settlement administration to its clients.

Increase in Wholesale Value of Used Vehicles



CCC Newswire



Product News

CCC PATHWAYS®
Estimating Solution

CCC Launched Industry's Only Integrated Estimating Solution CCC Pathways® Estimating Solution version 4.2 at NACE

Running a collision repair facility got much easier following NACE. With the introduction of CCC Pathways Estimating Solution version 4.2 at the industry's largest tradeshow, repairers now no longer need multiple software products to write an estimate, conduct a self-audit and manage their business.

Version 4.2 of CCC Pathways Estimating utilizes many of CCC's market-proven applications, including shop management functionality and CCC Accumark™, the company's next generation audit and reinspection product suite. By leveraging these solutions and integrating them into CCC Pathways, users are getting single-point access to industry-tested and adopted solutions. Version 4.2 also incorporates Chief® vehicle specification data, providing users with access to comprehensive vehicle specification and measurement information. *For more information on CCC Pathways 4.2 please call 800.523.8924.*

CCC SUBROGATE™
Auto Solution

CCC Launched Pilot Program for CCC Subrogate™ Auto Solution to Help the Efficient Exchange of Information Among Insurance Carriers

Subrogation, which accounts for 3.5 million automotive claims each year, remains a cumbersome and timely manual process. To begin combating inefficiencies, CCC introduced a pilot program for its electronic subrogation product, CCC Subrogate Auto Solution in October.

The pilot program will enable two national insurance companies—which represent 21 percent of the industry's automotive claims volume - to create, send and respond to one another's subrogation demands using CCC's Web-based solution. Once the pilot is complete, CCC will make CCC Subrogate Auto Solution available to the industry to assist insurers in similar functions, as well as tracking, reporting, and managing the overall workflow of their subrogation claims. *For more information on CCC Subrogate Auto Solution please call 3122.229.2625.*

People

John D. Collins Joins CCC Board of Directors

In October, CCC named John D. Collins to its board of directors and to serve on the Board's Audit Committee. Collins fills a vacancy created when CCC recently increased the size of the board of directors from seven to eight members.

Collins, 66, brings 44 years of auditing experience to CCC, with more than forty of those years in the employ of KPMG, LLP (formerly Peat Marwick Mitchell & Co.). Most recently Collins held the position of senior audit partner at KPMG's New York office. At present he is a member of the board of trustees and chairman of the finance committee at LeMoyne College in Syracuse, New York.

CCC Information Services Group, Inc. names Andrew Balbirer Chief Financial Officer

CCC named Andrew G. Balbirer to serve as executive vice president and chief financial officer, effective January 31, 2005. Balbirer succeeds David L. Harbert, the company's interim chief financial officer.

Balbirer, with more than 20 years of senior leadership experience in the consumer packaged goods and marketing services industries, most recently served as chief financial officer of Information Resources, Incorporated, a provider of content and analytic services to consumer packaged goods manufacturers and retailers.

Recognitions

Githesh Ramamurthy Recognized as Leader in Technology by KPMG LLP

Githesh Ramamurthy, Chairman and CEO of CCC was a 2004 recipient of KPMG LLP's prestigious Illinois High Tech Award. Ramamurthy received recognition from the Big Four audit, tax and advisory firm for helping to lead CCC's innovative application of technology.

The 2004 Illinois High Tech Awards finalists were selected because of their outstanding demonstration of achievement along with measurable business results. Factors that were considered with respect to each nominee included: risk, innovation, growth, competition, profitability and employment.

Fred Loya Insurance Signs Contract with CCC

Leading Texas automotive insurance carrier Fred Loya Insurance has completed implementation of CCC Autoverse® Claim Management. Loya chose the Web-based solution from CCC Information Services Inc. for its ease of use and integration with two other CCC products it has been using—CCC Pathways® Appraisal Solution and CCC Valuescope® Claim Services.

Accessible through more than 140 Texas locations and growing, El Paso-based Fred Loya Insurance selected CCC Autoverse—in combination with CCC's estimating and total loss products—to create a single-platform solution. By using one integrated offering from CCC, the carrier can now address multiple steps in the automotive claims process, from first notification and dispatch to repair and total loss settlement. This has enabled them to achieve efficiencies in their workflow not realized previously.

Keep an Eye Out for 2004 *Crash Course*

The 2004 version of CCC Information Services' report, *Crash Course*, an annual report on factors driving auto collision repair and total loss costs, will soon be available. Authored by Susanna Gotsch, the report is based on analysis of information derived from CCC's data warehouse.

It's these numbers that give CCC a unique vantage point on the state of the automotive claims industry.

For example:
- More than 1.5 million claims-related transactions every day
- 350 insurance companies
- 21,000 repair facilities
- More than 40 million claims-worth of data.

To find out more about the 2004 Crash Course, visit www.cccis.com.

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