TECHNOLOGY AND THE EMERGENCE OF THE THIRD PARTY ADMINISTRATOR

The next chapter in the “Narrowing the Divide” debate

By Jonathan Miko
Over the past year, I have read with great interest the series of articles in this magazine concerning the rise of Third Party Evaluators (TPEs) in the insurance restoration industry as a proposed response to the changes caused by the increasing use of TPAs (Larsen: RIA Expert Evaluators Trump TPAs, C&R Magazine, March 2017). The impression one gets from the series is that TPAs are driving changes in the insurance restoration industry. In fact, it is changes in the insurance industry that are increasing the role of the TPA. These factors include the increased use of technology, the centralization of the claims handling process, and the development of industry-wide guidelines and standards that lead to reduced loss adjustment expense (LAE) while providing better outcomes for the customer.

THE GOOD OLD DAYS

In the not-too-distant past, most residential property claims were handled by a local adjuster who would personally visit the property. In some cases, the adjuster would leave behind a paper check with the insured, who then was on their own to locate and hire a contractor to perform the repairs. In other cases, the adjuster might meet with a local restoration contractor at the insured’s home and write an estimate on the spot using pencil and paper. While this process did work well for individual claims, it was highly inefficient and subject to many variables. Adjusters spent almost as much time driving from loss to loss or managing the repair process as they did performing their job of adjusting claims. Insureds often were unable to locate anyone to perform the repairs, let alone a reputable, high-quality professional. The time it took from the First Notice of Loss (FNOL) to the completion of repairs often was measured in months, and in some cases years.1

TECHNOLOGY

With the evolution of new technologies, insurance companies have found ways to increase efficiency and improve cycle times. Software companies have developed estimating tools that have been adopted by both carriers and contractors alike, allowing the use of a common platform to speed the estimate creation and approval process. The increasing use of drones, virtual collaboration technology, and smartphones and tablets allows adjusters to perform their duties from centralized offices without the need to spend significant time on the road. This greatly improves efficiency, standardizes quality and lowers loss adjustment expense for the carrier. This ultimately benefits the insureds by helping the carrier control premium cost.

Standardization across the industry has increased the quality and professionalism of the restoration contractor while moving business away from disreputable operators and increasing trust between carriers and contractors. The development of the ANSI/IICRC S500 Standard and Reference Guide for Professional Water Damage Restoration is just one example of the restoration industry leading the way in developing standards and guidelines for how services should be performed to ensure the best possible outcomes.

As technology created dependable processes to increase efficiency and lower expenses, it also created a need to manage these new processes to ensure they work smoothly. After all, the role of the adjuster is to adjust the loss and pay the claim, while the role of the restoration contractor is to perform mitigation services and repairs. This is where the TPA steps in.

TPA/CARRIER RELATIONSHIP

Typically, an insurance carrier will require the TPA to make its network contractors available to handle assignments from the carrier at the election of the insured. As part of that work, the TPA will help the carrier ensure compliance with estimating platforms, monitor background checks of network contractors and their employees, and make sure the network contractor licenses remain current. TPAs also help carriers monitor

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1. The time it takes between two parts of the claims handling process is referred to as a “cycle time.” A cycle time might refer to any part of the process, such as from site visit to estimate completion, or the entire process, such as from FNOL to completion of repairs.

contractor compliance with applicable industry standards, such as those set forth by the IICRC, as many carriers now require water mitigation contractors to comply with IICRC S500-2015 standards in performing their work.

Contrary to popular belief, the TPAs performance is not judged by how much money they save the carrier. Rather, they are judged on how they comply with Service Level Agreements (SLAs). These SLAs typically measure metrics such as contact times with insureds, response time to a property, how quickly and accurately an estimate is prepared, and how long it takes to complete repairs. To the carrier, these represent the kinds of things that provide a higher quality of service to the insured. As stated above, adjustments continue to manage the scope of the loss, the TPA manages the process and the contractor manages the work.

TPA/CONTRACTOR RELATIONSHIP

TPAs are increasingly becoming a significant source of work for contractors who want to include insurance restoration work in their portfolio. A typical TPA/contractor arrangement is non-exclusive. At Alacrity Services, for example, we encourage contractors to be part of multiple networks. This allows them to get as much insurance restoration work as possible while determining whether a particular network business model works better for them. TPAs often enter into arrangements with material and equipment suppliers that can provide preferred pricing based on the affiliation with the TPA. As part of the network, contractors are alerted to stay compliant with credentialing requirements as well as state contracting law requirements. TPAs typically collect a fee directly from the network contractors only for work the contractor performs and is paid for. If the network contractor is not paid, neither is the TPA. This provides an incentive to the TPA to not just recruit a large number of contractors or provide a high volume of leads, but also to keep the contractors on the program busy with a steady stream of opportunities to perform actual mitigation and repairs.

Alacrity Services deploys Regional Field Managers (RFMs) who communicate with the adjusters and contractors, and, where necessary, the insureds, to make sure that the process goes smoothly and the insured is satisfied with the repair process. Located in strategic locations throughout the country, RFMs answer contractor questions about insurer requirements for estimates and communication, work with the contractors in their area to meet the SLA requirements, and provide guidance and a local point of contact for restoration contractors on the program.

TPA/INSURED RELATIONSHIPS

Perhaps the biggest beneficiary of the TPAs involvement in insurance restoration is the insured. The services of the TPA are provided without any additional cost to the insured while providing the insured benefits from the TPAs involvement in several different ways. The insured gets access to reputable, professional contractors who have been credentialed ahead of time by the TPA. The insured has peace of mind knowing that all contractors have been subjected to both an initial and ongoing background check, screening and credentialing process, which includes confirmation of mandated insurance coverages and confirmation of all required state and local licenses. The insured also benefits from the TPAs involvement in helping the contractor adhere to the carrier’s requirements, which allows the job to proceed with minimal delays. Once the job is completed, several TPAs, including Alacrity Services, back the work of the contractor with a warranty. All of this comes at no cost to the insured.

SUMMARY

Rather than taking the view that the rise of the TPA has led to changes in the restoration industry, a better view is that the rise of the TPA is a natural consequence of the forces of change already at work. The impact of technology on insurance restoration work cannot be understated. The insurance industry as a whole faces fundamental changes brought on by these technological advances and the increased competition it fosters. Customers demand a more expedient and efficient claims handling process, and TPAs play a valuable role in helping deliver a more reliable, accurate and efficient process between the carrier, contractor and insured. Experience has taught us that the restoration contractors who can best adapt to these changes and embrace the TPA model will be in the best position to succeed.

Jonathan Miko joined Alacrity Services in 2004 and became president in May of 2013, when Alacrity was acquired by Lowe’s (NYSE: LOW). Alacrity Services has been an RIA member since 2012. Prior to joining Alacrity Services, Jon was an attorney in private practice, specializing in insurance claims litigation and coverage analysis. Since 1998, he has worked extensively in the insurance industry as an attorney, manager and business executive. Jon is a former member of the board and past secretary of RIA, is a regular speaker at industry events, and works on issues involving managed contractor networks.

3. https://www.resolvebylowes.com/faq#our-contractors