Auto Physical Damage

Episode 12: Balancing Act: Managing Rising Costs without Compromising Safety

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Auto claim costs continue to grow—requiring an even greater focus on expenses. In this episode, Ryan Smith, vice president of claims and salvage operations at Saskatchewan Government Insurance Corporation (SGI), shares how his organization is successfully balancing this cost increase with its commitment to high-quality collision repairs by prioritizing safety, ingenuity and industry collaboration.

Ryan Mandell: Welcome back everybody to the Mitchell Collision Podcast. I'm your host Ryan Mandell and today with us on the program we have Ryan Smith, who is the vice president of, is it claims and salvage, at SGI? Ryan, am I getting that right?

Ryan Smith: You got it right.

Ryan Mandell: Excellent. So SGI is the Saskatchewan Government Insurance Corporation, obviously based in the province of Saskatchewan and a long time Mitchell client of ours. And what SGI is, is a Crown corporation, which is a little bit different than your typical insurance company. So maybe Ryan, start us off by telling us a little bit about what SGI does. What is a Crown corporation for the folks on that are listening that aren't familiar with that. And, you know, what are the differences between the way you're organized and a typical insurance company.

Ryan Smith: Sure. So there are some things that make us unique. Being a Crown corporation, the government is our primary shareholder ultimately. And in Saskatchewan we're the compulsory insurer. We're also the administrator of the Traffic Safety Act. We're the registry for drivers and we operate on a break-even basis. But we operate just like any of the private carriers outside of Saskatchewan. What that allows us to do is to return money back to Saskatchewan and pay a dividend to our shareholder. So, collectively, we're about a $2 billion book of business between the auto fund and Saskatchewan and our national book. And we're also unique in that we're, I think, the only insurer in North America that has salvage operations which, of course, are near and dear to you. We've got six locations across the province and a couple of facilities where we have production operations and we dismantle vehicles.

Ryan Mandell: That's a really interesting aspect because you all are managing your own salvage not only from an auction type of perspective, but also from the dismantling of vehicles and the selling of parts, right?

Ryan Smith: Absolutely. It's a unique opportunity particularly now as we know with some of the supply chain issues and we're certainly able to maintain what we think is a superior level of quality. And, yeah, I just think it's a really good fit right now. The realities of today have really influenced some changes we've made, you know, along the way to kind of deal with some of the supply chain stuff.

Ryan Mandell: Now with SGI being, again, a government entity—you know, you said the government is your primary shareholder and insurance in Saskatchewan is essentially mandated for citizens to purchase their insurance from SGI—that gives you a really unique relationship with customers and kind of a different level of responsibility. So how does that impact the way that you have to make decisions inside of that organization that maybe, again, wouldn't really impact a privately held insurance company?

Ryan Smith: Yeah, I think it is different in that as I mentioned being the administrator of the Traffic Safety Act and doing a lot of promotion about traffic safety, safety is in our DNA. It's just so critical and, at the same time, we aim to have among the two either the lowest or second lowest rates in Canada. And so that is quite a challenge. On a day-to-day basis, I think what differentiates us from a private carrier is that, you know, if we aren't seen as providing value to the people of Saskatchewan, that can become a political issue. And so it's really important to us that we uphold that really high safety bar. But at the same time, we're being as absolutely financially responsible as we can and we know with the pressures right now that it's increasingly a challenge.

Ryan Mandell: It's definitely challenging. I mean just the change in the complexity of the vehicles you got a lot more concerns over trying to ensure that a proper and safe repair has been done not only from a cosmetic standpoint and a structural standpoint, but now you have to worry about all this technology as well.

So how do you kind of go about trying to balance the management of expenses which, you know, you have a fiduciary duty to do but also trying to ensure that the highest quality repair work is being done.

Ryan Smith: It’s not easy. I think we're all grappling with this right now. We initiated a project in 2018 called the Safe Quality Auto Repair project and that was in response to really some awareness as we toured around the province and were just noticing.

I'll back up. We're roughly the size of Texas with a fraction of the population. I think we're about 1.2 million and so we really rely and need this viable network of repairers across the province. And so, at the same time, we can't compromise safety. In 2018, we had done some readiness surveys and had really seen that our network in some cases really hadn't kept up with some of those advancements in the tooling and the training. And so we launched a very large project where we actually even provided financial incentives to meet some of the new requirements for tooling and training.

We really encourage the OE procedures or rather the OE certifications because really they're the ones that are going to keep you current going forward. And so we beyond that, we actually even created positions both technical and claim support positions for our partners and it gets us way more involved, I think, in the safety of repairs than a typical insurer.

At the same time, I think we had to recognize that our policies and procedures weren't keeping up necessarily as well and that's really where we're trying to implement or control and have the financial oversight as you say. And so we wanted to ensure and we've set up all kinds of governance to try to prioritize emerging issues and new procedures so we can quickly form a policy position. And in doing that, we're trying to achieve rates and allowances that pay our partners fairly but without paying all the way to retail. And so it's really a challenge but, again, it has resulted in a lot more governance, which I think has helped how we interact with the industry at the same time.

Ryan Mandell: I think one of the things that I've noticed just in working with you and the rest of the folks inside of SGI and working with folks in the trade as well in Saskatchewan is the relationship seems to be extremely collaborative. And it was actually quite surprising to me the first time that I really started interacting with you all and with some folks from the trade representation at the same time because really it seems—and there's always going to be differences like any sort of relationship—but it really felt to me like you guys were very much on the same page with what you wanted to get done. Again, it seemed much more collaborative in nature whereas a lot of times I feel like it can be really adversarial between the segments of the industry. So what has allowed you to really cultivate that level of collaboration?

Ryan Smith: It's an interesting question and I would go back to 2018. We have an industry with varied partners in terms of their level and our sophistication. But we actually worked really collaboratively with the industry association. So there's a couple of associations that represent a lot of the collision partners. And right away it was clear we had the same investment in safe quality repairs and in the need to service our customers across the whole province. So we actually—with members of the association—did a tour of the whole province speaking to industry in various communities. And really from that point, again, we were so aligned in the need for safe repairs. It was sort of an anchor for our relationship.

And it's not that there's not moments of conflict, because there absolutely is. But I think there was some humility on both sides and an understanding that we've got to listen to each other and what the pain points are. I think in some cases maybe we were denying some of the pain points and I think in some cases industry was denying that, ok yeah, there’s help needed in terms of maybe interpreting some OE procedures and things like that. So I think both sides stepped up.

But, as you know, there's going to be ups and downs and we went into it and we said this at every town hall. Look, this isn't just sort of a correction, a point in time. It's a correction. But trying to get us to a place where we can continue to evolve together because as you know, these changes are not going to slow down.

Ryan Mandell: No, you're absolutely right. They're definitely not going to slow down. I think they're only going to accelerate actually in the near future.

And one of the other interesting things that you all have is your own technical research center. You know, I've had the privilege of touring that facility just recently even and it's really, again, a unique concept for an insurance carrier to have that level of involvement in the vehicles themselves. So maybe just tell us a little bit about what is the technical research center and what is the value that it provides to SGI and more broadly to the citizens of the province.

Ryan Smith: Sure. And that's an area that I'm quite proud of like many others. But we have it within the company. We have a fleet of around 250 vehicles and so one benefit of that is we're able to build and maintain a

fleet very cost effectively. The fleet are all built from total loss vehicles and often supported by some of the salvage operations where we source the parts.

So in addition to giving us a really cost-effective manner of having this fleet, it allows us really to have credibility with industry and understand some of the challenges because we're doing some of the heaviest hits. It gives us practice. We're very well versed in interpreting OE procedures. We provide assistance to the industry in that regard. It certainly allows us to test the new technology. We're able to do time studies and material studies and things like that. So I really like how it allows us to stay current and be credible and really have some of those very detailed and technical conversations with industry.

We actually have a joint technical committee where we've got members of our tech center that sit there where we talk about new and emerging issues—whether it's the paint blend, whether it's certain sectioning or, again, interpreting of the OE procedures on post-collision inspections and things like that. So it has allowed us, I think, to have more intelligent and sophisticated conversations specifically about the increasing complexity and, of course, to set appraisal policy that's appropriate from that.

Ryan Mandell: Yeah, because it's based on real life, right? It's based on what you're actually seeing in the vehicles. I mean, I'm sure having that exposure provides you a lot of visibility into things that you're able to kind of confirm what the industry is telling you in many cases by having that first-hand knowledge of it onsite that you actually get to put your hands on.

Ryan Smith: Absolutely. There are several times a year we'll have events—whether it's new technology or whether a vendor might be presenting a product—where we'll bring industry in. They might mask a car and this saves one of the time allowances for masking interior things like that. So, yeah, I think again it has allowed us to continue to be collaborative with the industry and work together.

Ryan Mandell: And one of the biggest things that we're seeing is just this growth in the need for calibration work. And, you know, all these vehicles—the sensors and the cameras and all the different components. You know these are very sensitive instruments and we're seeing that they're requiring calibration more frequently today than they have in the past. And I think there's a lot more visibility to the needs of these vehicles too.

How do you see the shops in Saskatchewan adapting to that need? Are a lot of them making the investment to do that work themselves or are you seeing that a lot are still relying on subletting that work out to a third party?

Ryan Smith: No, that's a great question. As part of the Safe Quality Auto Repair project, we have within our service agreements a minimum tooling and training requirement. And we had a lot of discussions around what really is a reasonable expectation in terms of the tooling our partners will have in house and considering how fast the technology is changing.

Do we really expect and need all our partners to buy this equipment now knowing it may be outdated very quickly because of the pace of the technology? And so where we've landed for the most part is, we are paying retail rates and so we do see a lot of sublet operations. We are seeing the emergence of some more boutique operators, if you will, non-dealers that are really specializing in calibrations and things like that. And so that's something we're going to watch very closely going forward.

If some of the technology does become more universal, of course we have to look at that in terms of the required tooling and training. That's one of the pieces as well with our review process that I wonder if it makes us different as an insurer in that, certainly, if we see a repair that doesn't have a calibration, we're going back and asking our partners to make sure that's being done at our cost.

But, again, when we're so invested in safe quality repairs, I'm not sure if that's a common thing or not. But our partners have responded really well and you've given us some great data to show that we're absolutely doing a lot more calibrations than we ever were but, again, that gives rise to the price and the cost challenge of it.

Ryan Mandell: Oh, for sure and you know it's definitely not a common practice to point out areas where you can pay more that's for sure. But the focus on safe and quality repairs, what you're doing is not only doing just what's right to protect the citizens of the province. You're also minimizing future risk and liability by doing that to ensure that these systems are brought back to pre-loss operating condition—especially as people are relying on these a lot more heavily today than they were when these technologies were in their infancy.

Ryan Smith: Absolutely.

Ryan Mandell: When you look at what the challenges are for the industry ahead, you know, we look at all this technology, we look at the change in construction of vehicles. In Saskatchewan, you're not seeing a whole lot of move towards electrification yet. But where do you see the biggest challenge that the industry as a whole—maybe not just in Saskatchewan but the broader Canadian industry and maybe even the whole North American industry—is going to face in the next three to five years.

Ryan Smith: You know, I think it's just positioning ourselves to be able to respond with the pace of change. Like obviously we're all going to struggle with rate and ensuring that we can be competitive with premiums and that we're still covering the cost of safe repairs. But really at the operational level for us, where we're trying to really bolster things is again we've created these sort of support mechanisms and these positions to help advise on how to interpret an OE procedure and what that safe repair looks like. But, again, when we look at our appraisal policy side, what do we pay? What are the compensable operations? What's the rate that we pay at? We've really bolstered that both with governance and with resourcing to make sure that we can respond quickly. We certainly don't want a partner not submitting a required procedure because we haven't maybe published a policy on what that allowance is going to be. We've created exception processes where we can escalate and make a decision quickly and, at the same time, move it over to get prioritized within the committee where we can make policies.

So I really think it's a combination of just setting ourselves up to be nimble to get those answers. Really, we're all just hoping we get to that point where all these advances in technology are going to really impact the frequency that we're all kind of really hoping happens in the reduction in the future.

Ryan Mandell: That's what they promised us. So, you know, I think it's just a matter of time. I think it's just a little bit of a longer runway than a lot of people expected because of the fact that you have a very wide-ranging car parc. You still have older vehicles that are on the road that don't have these technologies. It's going to take a little while for that to really cycle through and for you to really see the ubiquity of these technologies really start to impact frequency. I think we'll certainly get there. It's just going to take a little bit of time for that to actually manifest itself.

Ryan Smith: Absolutely. And we're certainly hearing some encouraging things about when we're testing the specific technologies and the positive benefits they're going to have. Who would have thought we'd have additional variables like distracted driving and things like that?

Ryan Mandell: Exactly.

Ryan Smith: Yeah, we're all in it together.

Ryan Mandell: Absolutely. Now SGI actually does have a segment of the business that operates outside of the province of Saskatchewan. Is that right?

Ryan Smith: That's right. We're in BC, Alberta, Manitoba and Ontario.

Ryan Mandell: So that's going to be a more competitive business, right? So are you trying to bring the same level of attention to quality in that business that you do inside of Saskatchewan? If so, is that resonating with the clientele that you're serving in those areas?

Ryan Smith: No, a really good question. Because the relationship is so unique in Saskatchewan and being compulsory and really having a lot of oversight and interaction with our collision partners in Saskatchewan, we don't necessarily have that luxury outside where we are a relatively small carrier, say, in Ontario.

But through the course of the Safe Quality Auto Repair project, I believe we were a little bit on the front end compared to other insurers. And so we did have partners in Ontario or Alberta and even some places even in California, I had shops call me kind of asking about the project and what we're doing. It has kind of morphed into very much being part of our brand. And so absolutely we seek partners in the competitive regions that have that same investment in safe repairs, tooling and training. We've got similar processes.

You know the compensation rates can be different because we look very closely at the market. But absolutely, I think we're going to continue to leverage that safety as being part of our brand.

Ryan Mandell: I think it makes perfect sense and I think it can absolutely be a market differentiator. So I know you're a car guy. Tell everybody a little bit about the project that you've been working on at home and when we're actually going to be able to see this vehicle on the road.

Ryan Smith: I'll back up. So taking this job, most of my career actually was in labor relations. I was in human resources for I think the first 12 years of my career—compensation and benefits. I'm an accountant by trade, but I've always been as you know, a car guy. I spent a lot of time in recycling yards as a youth finding parts and rebuilding cars. And so, you know, coming into this role, I thought what a dream job and it really is. But I thought what a perfect fit.

You know, I know cars. Then you get into a role like this, and you interact with people like yourself and some of the technical experts and boy is it humbling. And so I'm going to stick with the 1967 vintage Camaro I've been working on and I'm happy to say since we last talked that after this weekend, I will have a fully assembled car. I still have some shakedown things to sort through and I'm hoping it will see some shows in later or mid Fall. We'll see.

Ryan Mandell: That's fantastic. Are you going to be one of those guys that every time you take it out, you have to change all the undercarriage bolts and put brand new ones on there? I can see you kind of being like that.

Ryan Smith: That's pretty likely if it ever sees a puddle. The anxiety, I don't even want to think about it at this point. But what a great place to work in terms of access to people that are experts in the field. That can humble you and help you at the same time.

I think it's a really exciting time in the industry. It has been such a challenge. At the same time, I think that the Safe Quality Auto Repair project will be the biggest part of my legacy. It has been nice to have folks like yourself interested in how we're working with the industry. I think we take pride in the fact that we do have a good working relationship and we're achieving good things together in terms of elevating the industry and ensuring those safe repairs. So as challenging as it is and as much as we've got some heavy lifting ahead, I think it's a great place to be.

Ryan Mandell: Without a doubt. It’s definitely an exciting time to be doing what we do for a living, that’s for sure.

Well, Ryan, I just want to say thank you so much for spending time with everyone today. I really appreciate you carving out some time for this episode. And more than that, we really appreciate the partnership with SGI and all the work that we've been able to do together over the years and are looking forward to many more successful years in the future.

Ryan Smith: My pleasure, Ryan. And same back to you. Mitchell has been a great partner and really helped us in a number of ways in the Safe Quality Auto Repair project and how we work with industry. So great partnership and certainly appreciate it.

Ryan Mandell: Fantastic. Thank you so much, Ryan.

Ryan Smith: You're welcome.

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