

TPA DEFERENCE FOR CONTRACTOR'S AGREEMENTS WITH CARRIERS

Issue

A TPA attempts to override a carrier's agreement with a contractor on the price and/or scope of a restoration project.

Peer-Reviewed Position Statement

TPAs should honor price and scope agreements made between insurance carriers and network contractors.

1. THE NATURE OF CONTRACTOR/TPA RELATIONSHIP

Third party administrators (TPAs), also referred to as "managed repair networks," exist to aid in the orderly administration of property insurance claims and repairs, for the mutual benefit of the carrier, contractor, and policyholder.

Although the networks make no guarantees, contractors join these networks in hopes of increasing job volume and reducing business development expenses. They join by executing a contract, generically referred to here as a Service Level Agreement (SLA), with the TPA.

2. SERVICE LEVEL AGREEMENTS

SLAs require contractors to comply with an array of insurance company guidelines, including pricing and estimating rules.

TPAs charge contractors Network Referral Fees (NRFs) as compensation for leads, job volume, technical assistance, contractor support, communication with policyholders, and other services. The contractor is therefore a client of the TPA.

3. DUTIES OF THE TPA

As a client, the contractor is owed duties of due care and good faith by the TPA. This duty requires the TPA to exert its best efforts to help foster the contractor's success, and refrain from any action that would interfere with the contractor's ability to enjoy the benefits of a project administered by the TPA or thwart the purpose of the contractor's payment of the NRF.

4. AGREEMENTS BETWEEN CONTRACTORS AND CARRIERS

Contractors enjoy productive professional relationships with some carriers. These relationships not only benefit the contractors and the carriers, but they help expedite the resolution of claims, to the benefit of the policyholders who place their trust in the networks when they elect to allow them to refer a contractor.

SLAs typically vest carriers with the discretion to determine the amount paid to the contractor. Different TPAs provide different levels of service in the capacity of intermediary or mediator between the contractor and the carrier. However, contractors can and should discuss the price and/or scope of a project directly with the insurance adjuster, as warranted in the contractor's reasonable judgment. These discussions may lead to an agreement as to price and/or scope.

5. TPA INTERFERENCE

When a contractor reaches an agreement with an adjuster regarding the price and/or scope of a project, the TPA should honor the agreement and refrain from disrupting it. Any such disruption is a breach of the TPA's duty to its client, the contractor. Moreover, it contravenes the essence of the SLA, interferes with the contractor's rights to enjoy the benefits of the SLA, impedes the return on the contractor's investment in the NRF, and may result in negative reviews and survey scores for the TPA. Further, such interference often results in unnecessary complication and significant delay in the completion of the project, resulting in a negative experience for the policyholder.

When policyholders have negative experiences with insurance claims, it damages the public trust and confidence in the entire property claims ecosystem, to the detriment of TPAs, carriers, and contractors. It therefore behooves TPAs to show deference and respect to agreements reached between contractors and carriers.

Therefore, TPAs should honor price and scope agreements made between insurance carriers and network contractors.