

14 February 2005

Smash Repair and Insurance Inquiry
Productivity Commission
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ADDITIONAL INFORMATION FOLLOWING PUBLIC HEARINGS

Insurance Australia Group (IAG) welcomes the opportunity to provide the Productivity Commission with additional information in relation to:

- Motor vehicle theft, crime and rebirthing
- Bodily injury
- External dispute resolution
- Guarantees and warranties for smash repairs
- Rates paid for smash repair work
- Codes of conduct

Motor Vehicle Theft, Crime and Rebirthing

Probity in the smash repair industry remains a concern for IAG, despite efforts by law enforcement agencies and insurers to stem the flow of stolen spare parts into autobody repairs.

The National Motor Vehicle Theft Reduction Council (NMVTRC) estimates professional car theft in Australia costs the community \$500 million each year.

About 60 per cent of all vehicles that are stolen professionally are never recovered. The NVTRC estimates the cost of the illicit spare parts trade to be about \$300 million each year, representing a \$3 billion problem each decade.

An illicit spare parts supply of this size is supported by a domestic supply chain. Police have also linked professional theft to an international trade in spare parts.

IAG assists law enforcement agencies across Australia by exchanging data and intelligence, as well as participating in joint recovery operations to prevent motor vehicle theft and export, and expose the domestic use of stolen autobody parts in authorised smash repairs.

Car rebirthing costs Australians buying motor vehicle insurance more because the annual \$500 million professional theft bill is reflected in the cost of motor vehicle insurance.

IAG is also concerned that stolen and re-birthing parts are not used to repair its customers' vehicles.

It is for this reason, and others relating to occupational health and safety and the integrity of our retail brands, that IAG has a probity process for preferred smash repairers (or PSRs) who use its brands, as well as for its associate smash repairers (or ASRs).

As IAG submitted in its verbal evidence to the Commission, the majority of smash repair enterprises in Australia are law-abiding entities (*Transcript*, 31 January 2005, page 14). However, IAG has had, and continues to have, concerns about probity in the smash repair industry and the probity of some enterprises and individuals linked to criminal elements.

It is for this reason that IAG requires its preferred suppliers for smash repairs (and preferred suppliers in areas such as building services, jewelry and trade services) that interact with our customers to be part of our probity processes.

IAG supports national probity standards for smash repairers to, among other reasons, protect consumers, better address the illegal trade in stolen autobody parts and stymie the demand for stolen motor vehicles in smash repairs.

Bodily Injury

IAG faces significant competition in the market for the supply of motor vehicle insurance. IAG's PSR network helps control repair costs. Lower collision repair and other claims costs enhance our ability to price our premiums at competitive levels. IAG reiterates that contrary to what is submitted by some of the interested parties to the current Inquiry, IAG's PSR scheme does not seek to achieve reductions in the price of repair services at the expense of quality or safety.

IAG has no incentive to compromise quality or safety when responding to motor accident claims, which average around \$2,500, particularly when the average cost of a motor bodily injury claim is about \$75,000 (and the costs for the most seriously injured are more typically in the millions of dollars).

In addition, IAG has a proven long-standing commitment to investment in motor vehicle safety research through our Artarmon research facility in Sydney. IAG's safety research includes the following:

1. IAG was one of the first Australian organisations to pursue car companies over the design of their head restraints. Some five years ago we began to actively measure and rate head restraint effectiveness and release the results to the media. This work has led to both the Mitsubishi Magna and Holden Commodore head restraints being improved from an IAG rating of "marginal" and "poor" respectively to "good". Recently, as a participant in an international insurance research initiative, we participated in the first dynamic head restraint testing program with insurers from the US, UK, Canada and Germany.
2. IAG published the first Vehicle Reversing Visibility Study in response to public and Government concern and uncertainty about the causes of child driveway deaths. This world first study, in conjunction with the NSW Motor Accident Authority, has resulted in increased public awareness of driver and vehicle factors associated with child driveway deaths and publication of an information package for new mothers distributed to all hospitals in NSW.

3. In response to community concerns regarding "blind spots" caused by modern vehicle design, we are in the process of developing a rating system to assist car buyers in the purchase of vehicles with better all – round visibility.
4. We were the first organisation in the world to collect and publish data on vehicle design features that contribute to personal safety and reduce the likelihood of attacks particularly on women in or around their vehicles. These features include programmed lighting systems, single point central locking, panic alarms and automatic deadlocking etc.

Also, IAG supports and conducts initiatives that aim to prevent motor vehicle accidents and reduce the impact of injury through internal and externally commissioned research, partnerships with road safety stakeholders and community advocacy activities. As an example, NRMA Insurance is a partner to the national Novice Driver Development Program, which will develop, trial and evaluate a post-licence intervention for novice drivers designed to reduce their crash and injury risk. The project partners which include the Federal Government, the New South Wales and Victorian State Governments, the Federal Chamber of Automotive Industries and the RACV, have committed over \$5million to the project. This large-scale research project will have national and international relevance.

External Dispute Resolution

As IAG outlined in its representations to the Commission, IAG has developed and manages an *IAG Personal Insurance Preferred Supplier Code of Practice* that includes a dispute resolution process for its PSRs and other preferred Personal Insurance suppliers (*IAG Submission*, pages 43-44).

The Code dispute resolution process includes a three-stage escalation for an unresolved dispute lodged by a preferred supplier – including a PSR or ASR – **to the External Dispute Resolution Group**. This Group comprises a former ACCC Small Business Commissioner, Mr David Lieberman and a former NSW Minister for Small Business and Consumer Affairs, the Hon. Wendy Machin.

The Code's dispute resolution process is now being reviewed by Mr Lieberman and Ms Machin to assess how it can be improved after being in operation for one year.

The first of what will be an annual review will help to make sure that the Code and its dispute resolution component remains relevant to the market and the business circumstances of IAG and its preferred suppliers – including smash repairers.

In this way, IAG's own Code will continue to keep pace with contemporary business circumstances and the business environment, obviating the need for a prescriptive and mandatory industry Code.

Among the recommendations being considered by IAG following the review of its own Code include:

- steps to strengthen the awareness of preferred suppliers about dispute resolution and how to lodge a dispute;
- integration of the Code and its dispute resolution process into IAG preferred supplier contracts;
- word changes to better encourage suppliers to lodge complaints they may have;
- consideration to be given to allow some disputes to be lodged directly to the External Dispute Resolution Group without having to progress through efforts to resolve disputes at the operational and management levels;
- consideration of providing, under the Code, a review of the process followed that results in an enterprise not being appointed as an IAG preferred supplier; and
- that supplier representation be included to review the Code in the future.

Guarantees and Warranties For Smash Repairs

IAG companies, under the NRMA Insurance, SGIO and SGIC brands and the joint-venture IAG has with RACV, offer a lifetime guarantee on all authorised repair work by a PSR or ASR. Under the IAG Choice of Repairer option, authorised repairs by any repairer will carry a lifetime guarantee and is transferred with ownership of the vehicle.

The relevant IAG insurer is liable under the guarantee to the customer. Under the PSR and ASR Agreements the repairer is liable to IAG for defective repairs. IAG will generally seek to recover the cost of honouring the guarantee from the repairer who undertook the repairs.

If the repairer ceases to trade or refuses to fulfil its contractual obligation to IAG for rectification of repairs, IAG manages rectification at its own cost to make sure the customer receives the fulfilment of the promise under IAG's guarantee.

As outlined in its submissions to the Commission, IAG manages a robust quality assurance program as part of the performance plan arrangements it agrees with its PSRs and ASRs, which includes monitoring and auditing work quality (*IAG Submission*, page 36).

IAG assessors, conduct random audits of completed repair jobs. Different weighting is given to different aspects of the repair job, including parts, repair, remove and replace work, and paint.

IAG's quality assurance program, as well as the industry development initiatives funded by the company to help improve the skills base and strengthen management capacity of PSRs, means there is little call for rectification work for authorised repairs within IAG's PSR networks.

Clarification

At the Commission's hearing, there was some discussion about whether IAG's guarantees for authorised repairs would follow a vehicle when it is sold (*Transcript*, 31 January 2005, page 20-21). Please note that in relation to the written lifetime guarantees issues by us, we would normally honour them even if the vehicle were sold.

Rates Paid for Smash Repair Work

As IAG highlighted in its submissions and representation to the Commission, the operating dynamics of IAG's repairer models are specifically structured to promote and reward best practice repair methods. The best performing smash repairers demonstrate a desire to complete a quality repair in the most cost effective and efficient way possible. This essentially means that the most cost effective, quality driven and customer-focused repairers are rewarded with increased referrals of business. Ultimately repairers determine the cost of the repair by taking into consideration all of the above factors.

IAG's PSR agreements specify maximum hourly rates that it believes are realistic, taking into account a range of factors. Furthermore, this rate is only one part of a complex estimate process that repairers use to justify their "bottom line" costing of a job.

In the larger population areas of Queensland, Western Australia and South Australia, where IAG manages the tendering of its available smash repair work via Web-based Repair Management (WRM) arrangements, the smash repairer effectively sets their own hourly rate.

In this arrangement, it is the total cost of the total repair that is important, and normally the lowest tender wins the job. The repairer takes into account the labour component of her or his repair shop along with components such as the cost of capital, work volumes and workshop equipment levels. As part of this equation, the hourly rate, as part of the total cost of the job, is set by the repairer.

Indeed, the Commission itself acknowledged that hourly rates were only part of the process when it concluded they “need to be examined in conjunction with the broader basis of quotation and payment of which they represent only part” (*Commission Draft Report*, page 72).

IAG would support a move to a system that more transparently identified the components of the total cost of a repair. However, this would only be truly effective - especially in terms of greater clarity for consumers - if it were the case for all smash repairs and smash repairers.

We suggest that the Insurance Council of Australia and the Motor Trades Association of Australia (MTAA) investigate jointly options for arrangements that would more transparently identify components of a total repair cost that could be applied to all smash repairs and all smash repairers.

Codes of Conduct

IAG believes individual insurers are addressing issues raised by smash repairers through their own relationships and processes and the existing legislative and regulatory environment.

In particular, IAG’s *Personal Insurance Preferred Supplier Code of Practice* is a dynamic, organic framework for self-regulation of its relationship with thousands of preferred suppliers, including smash repairers (the external dispute resolution provisions of the Code have been addressed separately above). It has worked well to date and should continue to evolve and operate without the encumbrances of prescriptive codes that override any of its provisions or purview.

If an industry Code of Conduct was to be introduced, IAG believes it should be **voluntary** and not impede individual company codes. It should include a national accreditation scheme for smash repairers, including minimum standards for probity, on-site occupational health and safety standards and elements dealing with the safety of repairs.

We believe customers of smash repair services have a right to expect that businesses offering those services have the skills and standards to safely and professionally repair their vehicle - wherever in Australia they have an accident. **The need for safety and probity does not change at State or Territory borders.**

IAG supports the Commission's view that any Code of Conduct should: "avoid provisions which would unduly intrude into the normal commercial relationships between insurers and repairers — in particular, of course, any anticompetitive provisions would need to be avoided." (*Commission Draft Report*, page 114).

In particular, a Code **should not** embrace, as proposed in recent years by the VACC and the MTAA, provisions that:

- require insurers to open their commercial dealings to all smash repairers, regardless of whether those repairers are accredited or not, effectively rendering preferred smash repairer networks and the benefits they deliver, obsolete;
- require insurers to provide at least two years notice to terminate a preferred smash repairer agreement, regardless of the availability of smash repair work or an insurer's business needs;
- mandate that customers must approve smash repair quotations managed by their insurer; and
- require establishment of an onerous and expensive Code administration body that adds to the cost of manufacturing and offering motor vehicle insurance to Australian consumers.

If you require additional information please contact me directly on (02) 9292 9744.

Yours sincerely



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