



## **Inquiry into the NSW Motor Vehicle Repair Industry**

**Submission by Insurance Council of Australia to  
the Motor Vehicle Repair Industry Committee**

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## Introduction

The Insurance Council of Australia (ICA) is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers.

In making this submission we are pleased to advise members of the Select Committee on the Motor Vehicle Repair Industry that the ICA launched a consumer information initiative in November 2013. The *Understand Insurance* website<sup>1</sup> provides general information for consumers and is designed to provide practical information to help consumers find out more about insurance. This website is a work in progress, and we will continue to work with key stakeholders to identify further information that may assist consumers to better understand insurance.

The ICA is pleased to make this submission to the NSW Parliamentary inquiry (Inquiry) into the motor vehicle repair industry. In preparing this submission, the ICA Secretariat has worked with the members of the ICA's National Motor Insurance Committee that comprises insurers that underwrite motor vehicle insurance.

Our submission will provide you with our members' detailed feedback, in particular on Sections A, B and C of the Terms of Reference.

In responding to this Inquiry the ICA has also commissioned an independent report from Deloitte Access Economics *NSW Smash Repair Review* dated February 2014 (Deloitte Report) to provide an analysis of issues arising from Sections D and E of the Terms of Reference. These include the structural changes that are impacting the industry today and the effect of these changes on all stakeholders, insurance companies, smash repairers and, most importantly, the consumer.

In relation to Section D and the business practices of various sections of the industry, the ICA supports the conclusions reached in the Deloitte Report that the consumer is well served by the current motor vehicle insurance industry structure.<sup>2</sup>

In relation to Section E and any proposed alternative model of regulation, the ICA believes that the current regulatory environment is appropriate. We submit that any changes to this would need to be carefully considered in terms of the likely impact on the consumer through quality of repairs and increased premium costs, as identified in the Deloitte Report.<sup>3</sup>

The ICA submits that our members have developed their businesses to meet consumer demand and provide a wide range of products in the market to meet that demand.<sup>4</sup>

Given the high proportion of repair costs in motor vehicle premiums, ultimately it will be the consumer who will benefit from an increasingly productive and innovative market place delivering increased levels of competition, repair quality and customer service.

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<sup>1</sup> [www.understandinsurance.com.au](http://www.understandinsurance.com.au)

<sup>2</sup> Deloitte Access Economics *NSW Smash Repair Review* Report, February 2014 (Deloitte Report), piii

<sup>3</sup> Deloitte report, p42

<sup>4</sup> Deloitte report, p1

We submit that the motor insurance industry is a significant contributor to the economy in NSW. Our members paid out around \$2.7 billion in motor vehicle claims for NSW in the year ending September 2013.<sup>5</sup> Our members' motor insurance businesses are also major employers in NSW with over 2,500 employees. The head offices of many of our members are also located in NSW.

### **Motor Industry Background**

As detailed in the accompanying Deloitte Report, the motor vehicle repair industry in Australia is facing multiple challenges from a variety of economic and market conditions resulting in a process of significant, yet necessary, structural change.

There are a number of factors contributing to this situation.

Improved vehicle safety and collision avoidance technology, together with higher petrol prices and road safety initiatives such as speed cameras and drink driving campaigns, have likely been factors leading to reduced smash repair work in an industry that is highly competitive. At the same time the industry has seen rapid advances in vehicle construction and technology requiring significant investments in new equipment and staff training.

Repairers have responded to these pressures in a variety of ways. Some have invested heavily in both training and equipment, and introduced measures to improve productivity and profitability by taking advantage of economies of scale. As a result they are likely to experience increased volumes of work and significantly higher levels of productivity. Others however, appear to have had greater difficulty in meeting the challenges posed by this rapidly changing industry.

A recent independent review of the smash repair industry by IBIS World states:

*"The Smash Repairing Industry has been restructuring over the past five years and this trend will continue into the future. There are still too many repair shops ... meaning the number of companies in the industry will keep on falling."*<sup>6</sup>

In 2001/02 IBIS World reports there were 10,575 smash repair establishments in Australia, with this number reducing to 9,100 in 2010/11, a decline of 16%. It also states:

*"New South Wales has a higher number of establishments ... than would be expected compared with the total share of motor vehicles."*<sup>7</sup>

While the combination of these pressures on the smash repair industry has been significant, overseas experience in comparable markets would suggest Australia is still in the early stages of consolidation.<sup>8</sup> While acknowledging this is a difficult process of adjustment, repairers are already adapting and responding to their changing industry in a variety of ways appropriate to their own individual business circumstances. Some options for change in business practices may include:

- investing in machinery and staff to grow their business
- diversifying into other motor repair areas

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<sup>5</sup> APRA Quarterly General Insurance Performance report table 13 based on available data for the September 2013 quarter of \$673m

<sup>6</sup> IBIS World Industry Report G5323 Smash Repairing in Australia (IBIS World Report) - obtained through subscription, December 2012, p4

<sup>7</sup> IBIS World Report, p16

<sup>8</sup> IBIS World Report, p4

- identifying niche markets
- moving into areas of specialisation
- partnering with insurance companies to produce quality repairs and competitive costs through volume arrangements
- downsizing their business model

It is becoming increasingly clear however that this structural change and resulting consolidation, as discussed at length in the Deloitte Report, is not only inevitable but also necessary to ensure the long term viability of those remaining in the industry. Ultimately it will be the consumer who will benefit from an increasingly productive and innovative market place delivering increased levels of competition, repair quality and customer service.

In making this submission it should be noted that insurance companies operate in a highly competitive market, and have therefore developed a variety of policy options and business models to best satisfy their policyholders' requirements. For this reason the ICA submission is restricted to a discussion of high level matters. A number of our members will also be making more detailed individual submissions to this Inquiry in their own right.

Smash repairers are largely small business operators, and as such are today facing a number of challenges in the NSW marketplace. The Deloitte Report provides specific detail on the issues directly impacting the smash repair industry today.<sup>9</sup>

#### **A: Smash Repair Work and Whether it is Being Carried Out to Adequate Safety and Quality Standards**

The standard of smash repair work in Australia is generally of a high standard. Successive government inquiries, the most significant of these being the Productivity Commission Inquiry in 2005,<sup>10</sup> found that there was no evidence of systemic issues with the safety or quality of repairs and we believe that this remains the case today.

Insurance companies in Australia authorise approximately 2.5 million repairs annually<sup>11</sup> and account for about 76% of revenue in the smash repair industry.<sup>12</sup> Should systemic quality issues exist we submit that records of significant levels of customer complaint would be readily available through a variety of sources, however this is not the case.

As an example, the data produced by the Financial Ombudsman Service (FOS), the external dispute resolution provider for insurance company customers does not indicate that there is a significant consumer concern relating to repair quality. The FOS Annual Review indicates that 9%<sup>13</sup> of all disputes were finalised by FOS determination. Applying this same percentage to motor vehicle disputes, we assume that approximately 235<sup>14</sup> motor vehicle disputes proceeded to determination.

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<sup>9</sup> Deloitte report, section 4

<sup>10</sup> Productivity Commission Report into Motor Vehicle Insurance and Crash Repairs, 2005, p66

<sup>11</sup> Code Administration Committee Annual Report, March 2012

<sup>12</sup> IBIS World Report, p7

<sup>13</sup> FOS 2012-2013 Annual Review, p49

<sup>14</sup> Being 9% of 2614 motor vehicle disputes (motor vehicle comprehensive and motor vehicle third party fire and theft) which are 37% of all domestic insurance disputes. FOS 2012-2013 Annual Review, pp65-66

Information available on the FOS website indicates that only 3 of the reported decisions during that 12 month period dealt with quality of repair issues.<sup>15</sup> On this basis we estimate that around 1.3% of all motor vehicle insurance disputes which are finalised by FOS determination are associated with “quality of repair” issues. We believe therefore that quality of repair issues are not a major cause of FOS disputes.

Repairing collision damaged vehicles is a complex operation and smash repairers and insurance companies work together to ensure vehicles are repaired properly and in the vast majority of cases do this to the highest standard. In our members’ experience where quality issues are identified the majority of these are of a relatively minor, cosmetic nature, and do not demonstrate an industry wide issue with the safety and quality of repairs.

There are a number of compelling reasons for insurance companies to take a keen interest in the quality of repairs, and working closely with repairers ensures that repairs meet a required standard. Consumers are often better protected, in terms of repair cost and quality, by the insurance company involvement in this process.

### **Highly Competitive Insurance Market**

The Australian insurance market is a highly competitive one, with many companies offering motor vehicle insurance and there have been a number of new players entering into the market in recent years. The brand options available to consumers are extensive and there is an increasing level of competition being generated through less traditional outlets such as supermarkets. This is discussed further in Section 5 of the Deloitte Report.

The Australian Prudential Regulation Authority (APRA) in their third newsletter in 2013 commented on the competitive nature of the insurance industry in this area as follows:

*“Strong levels of competition are evident in most classes of business. In the personal lines market, the presence of various foreign insurers as well as large retail groups are having an impact as they seek to build market share, particularly in the domestic motor class of business.”<sup>16</sup>*

To be successful in such an environment insurance companies must look for ways to deliver the highest levels of customer service, at a competitive cost. As detailed in the Deloitte Report, repair cost is a significant contributor to overall premium costs, with Deloitte actuaries estimating repairs make up 40-45% of the insurance premium cost. A 10% increase in repair costs would therefore add around 4% to the price of motor vehicle insurance.<sup>17</sup> Therefore insurers have a legitimate responsibility to ensure these costs are carefully managed in the interest of their customers and shareholders. At the same time they must ensure customers’ expectations are met in terms of safety and quality of repairs, in order to protect their brand reputation and market share.

Insurance companies seek to provide their customers with a high quality end to end claims experience. As detailed in the Deloitte Report, competition between repairers, leading to innovation and new repair models, is providing insurance companies with a variety of options for achieving this. We believe that any insurance company condoning or encouraging poor quality repairs would be at a significant disadvantage in this highly competitive market in addition to being in breach of the Code of Practice as discussed below.

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<sup>15</sup> Based on a search of domestic insurance decisions where quality of repair is an issue

<sup>16</sup> APRA Insight Issue 3 2013, p8 available at <http://www.apra.gov.au/Insight/Documents/Insight-Issue-3-2013.pdf>

<sup>17</sup> Deloitte Report, p43

## Regulatory Environment

In addition to the competitive marketplace in which they operate insurance companies are subject to a robust self-regulatory regime specifically targeted at ensuring an appropriate balance is maintained between repair cost management and repair quality.

ICA members are all signatories to the General Insurance Code of Practice (Code of Practice). The Code of Practice contains a provision directly addressing the issue of warranty in relation to the quality of smash repairs authorised by the insurer. Clause 3.14 of this code provides:

*“Where we have selected and directly authorised a repairer; we will:*

- a) accept responsibility for the quality of workmanship and materials;*
- b) Handle any complaint about the quality or timeliness of the work or conduct of the repairers as part of our complaints handling process.”*

In addition many insurance companies are also signatories to the Motor Vehicle Insurance and Repair Industry Code of Conduct (MVIRI Code), an industry Code, mandated under the Fair Trading Act in NSW, requiring all insurance companies to subscribe to its provisions. The MVIRI Code states:

*“Insurers and Repairers agree they have a responsibility to ensure vehicle repairs are authorised and carried out in a professional manner and to ensure the safety, structural integrity, presentation and utility of the vehicle are restored.”<sup>18</sup>*

The MVIRI Code also specifies training obligations for assessors engaged by insurance companies which involve all insurers making significant financial outlays annually, through I-CAR and other industry training bodies. This ensures that their assessors keep up to date with the latest in manufacturer technology in order that vehicles are properly repaired.

In addition, many insurance companies also provide their policyholders with a Lifetime Guarantee on repairs. The MVIRI Code specifically excludes smash repairers from responsibility for such warranties beyond a three year term for workmanship and the term of manufacturers' warranty for parts or paint,<sup>19</sup> while the consumer enjoys the peace of mind provided by such guarantees.

## Industry Innovation Driving Quality Outcomes

Unlike the insurance industry, the smash repair industry is not highly regulated and barriers to entry are low as detailed in the IBIS World Report:

*“Apart from requiring the necessary trade skills and capital requirements, there are few regulatory barriers to entry into this industry.”<sup>20</sup>*

The existing New South Wales licensing system sets entry level requirement for operating a smash repair business. However these do not specify the equipment, training and levels of expertise that are necessary to repair today's late model vehicles. Further they do not set quality standards to ensure repairers are carrying out repairs to the required standard.

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<sup>18</sup> Motor Vehicle Insurance and Repair Industry Code of Conduct (MVIRI Code), Principles of the Code, p 7

<sup>19</sup> MVIRI Code, Repair Warranties, p17

<sup>20</sup> IBIS World Report, p9

In response to the structural changes facing the industry, innovative and forward thinking repairers have made significant investments in cutting edge equipment and sophisticated repair management systems to create a point of differentiation with other repairers. Many repairers have looked beyond the traditional methods of operation and now offer the market new and improved options for delivering quality repairs at a highly competitive price, in a significantly reduced time frame. Insurance companies can take advantage of these new market offerings by choosing to work with repairers, or groups of repairers, who offer high levels of quality and service and can therefore most effectively satisfy their customers' expectations.

As a result insurance companies today have developed a variety of repair models, preferred supplier arrangements and other initiatives to engage with repairers in order to ensure the safety and quality of repairs. Individual insurance companies will provide further details on the consumer benefits of these arrangements in their own submissions to this Inquiry. At their essence however they all seek to take advantage of the unprecedented variety of repair model options available in the marketplace, choosing those which best suits their requirements in order to deliver the highest standards of customer service.

### **Summary**

Insurers and repairers share a joint responsibility to ensure repairs are carried out to the required standard. For the reasons outlined insurance companies take this responsibility seriously and work with repairers who are able to deliver the required level of quality in a timely and cost effective manner, to the ultimate benefit of the consumer.

## **B: Motor Vehicle Insurance and Repair Industry Code of Conduct – Governance Structure, Dispute Resolution Mechanisms and Effectiveness in Regulating the Relationship between Repairers and Insurers – and in the Interest of Consumers.**

It is important in any evaluation of the effectiveness of the MVIRI Code to take into account the origins of this code, and the basis on which it was established.

The MVIRI Code came into effect in 2006, resulting directly from the recommendations of the 2005 Productivity Commission Inquiry into the smash repair and insurance industries. This Inquiry sought to improve the relationship between insurers and repairers, in order to provide the consumer with a more efficient and competitive industry. While supporting most of the Commission's recommendations, including a call for the development of a voluntary industry code, the Federal Government also specified what items should, and what should not, be addressed by the code.

In essence the MVIRI Code was intended to specify standards of fair-trading, process and transparency in the relationship between insurers and repairers. Importantly, it was not intended to interfere with the commercial relationship between the parties or to in any way reduce competition within this industry sector.

A Code Implementation Task Force made up of repairer and insurer representatives worked over many months to agree on the provisions of the MVIRI Code, in line with the government's specifications. The task force worked under the auspices of Office of Small

Business to ensure the MVIRI Code met the best practice governance and dispute resolution provisions set down in the ACCC guidelines.<sup>21</sup> The Preamble<sup>22</sup> and Principles of the MVIRI Code<sup>23</sup> provide an important context for the code.

The finally agreed content of the MVIRI Code was therefore the result of a complex process of negotiation and compromise. While accepting that the MVIRI Code would not, and should not, address all areas of dispute between the parties it was agreed the MVIRI Code, in its final form, did provide insurers and repairers with improved certainty, transparency and accountability in their daily dealing with each other.

While the MVIRI Code is an industry code, rather than a consumer code, all industry parties agree the Code has done much to improve the relationship between repairers and insurers in line with its intended purpose and principles, with the consumer being the ultimate beneficiary of these improvements.

### **Governance**

The MVIRI Code continues to operate in accordance with the governance provisions set down for voluntary industry codes of conduct. The Code Administration Committee (CAC) meets at a minimum quarterly since its inception to fulfil its obligations as detailed in the MVIRI Code.<sup>24</sup> While the MVIRI Code is voluntary in all States, other than NSW, it enjoys strong industry support with all major insurance companies, and repairer trade associations in Australia currently signatories.

The CAC produces a publicly available annual report discussing the operation of the MVIRI Code and matters of compliance and dispute resolution. The MVIRI Code also provides for an external, independent review of the MVIRI Code every three years. The six CAC Annual Reports are available on the Code Website,<sup>25</sup> which also contains readily accessible information on all aspects of the MVIRI Code.

The Insurance Council believes the MVIRI Code is meeting all governance requirements, with the role of the CAC, and the cooperative and mutually respectful working relationship between insurance and repairer representatives on this body, contributing greatly to this process.

That is not to say however that improvements cannot, or should not, be made where appropriate. Over time, and in response to changing market conditions, it is important to ensure the MVIRI Code continues to remain relevant if it is to retain the confidence and support of all parties.

The recently released 2013 External Review of the MVIRI Code contains a number of recommendations as to changes that may be considered by the CAC. A number of these relate to the MVIRI Code's dispute resolution provisions and ICA will participate in the CAC consideration of these recommendations.

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<sup>21</sup> ACCC Guidelines for non-prescribed voluntary Codes of Conduct available at <http://www.accc.gov.au/publications/guidelines-for-developing-effective-voluntary-industry-codes-of-conduct>

<sup>22</sup> MVIRI Code, Preamble, p5

<sup>23</sup> MVIRI Code, Principles of the Code, p7

<sup>24</sup> MVIRI Code, Administration, p23

<sup>25</sup> [www.abrcode.com.au](http://www.abrcode.com.au)

### **Dispute Resolution**

In its current form the MVIRI Code provides all repairers with access to cost effective dispute resolution mechanism involving an Internal (IDR) and External (EDR) dispute resolution mechanisms in order to resolve matters of dispute arising under the provisions of the MVIRI Code. Details of these dispute resolution options are available on the MVIRI Code website, and have been widely promoted throughout the industry.

Each insurance company is required, under the MVIRI Code, to provide repairers with a contact point for matters of disputes, and specific time frames have been established for dealing with such matters.<sup>26</sup> The vast majority of disputes are resolved at this level, requiring no further action. Should a repairer not be happy with the outcome of the internal review the matter can be taken further, through the MVIRI Code's EDR provisions<sup>27</sup> providing for independent mediation to assist the parties to resolve the dispute.

The number and outcome of EDR disputes are reported in the CAC Annual Review of the MVIRI Code and by any measure are small when considered in the context of the number of repairs authorised by insurance companies each year. In the last reporting year 50 EDR disputes were reported by Association of Dispute Resolvers (LEADR), 13 were successfully resolved, 15 were not resolved and 22 were withdrawn.<sup>28</sup>

The ICA submits that the existence of the MVIRI Code has eliminated many areas of dispute, and has allowed for matters to be resolved between the parties without the need for more formal and expensive dispute resolution. We believe that this may go some way to account for the small number of official disputes.

### **Effectiveness**

The Insurance Council believes the MVIRI Code has been successful in regulating the relationship between repairers and insurance companies as evidenced by the strong support it enjoys from industry parties, and the robust governance and dispute resolution mechanisms that underpin it.

When the MVIRI Code was introduced in 2006 it is fair to say that historically certain areas of dispute had not always been well managed between the smash repair industry and insurers. This did not allow the parties to openly discuss and resolve issues.

We believe that the MVIRI Code has successfully addressed a number of these issues and where disputes arise there are avenues available to address them. However, and most importantly, the MVIRI Code also recognises as a matter of principle the rights of both repairers and insurers to freely structure their business relationships "for the purpose of promoting an efficient and competitive industry."<sup>29</sup>

These fundamental principles remain pivotal in providing for an appropriate balance between industry self-regulation and an innovative, sustainable and competitive industry sector. It is acknowledged, and has been since its inception, that the MVIRI Code cannot address all issues of dispute between the parties, and this should not be seen as evidence of any failing or lack of effectiveness on the part of the MVIRI Code.

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<sup>26</sup> MVIRI Code, Section 10, p20

<sup>27</sup> MVIRI Code, Section 11, p21

<sup>28</sup> Code Administration Committee (CAC) Annual Report, May 2013

<sup>29</sup> MVIRI Code, Preamble, p5

The MVIRI Code is a dynamic document, with regular reviews of its operation providing the CAC with the opportunity to address any areas of improvement that may be possible, without impinging on previously discussed matters of competition and normal commercial relationships. The Insurance Council believes this is the most effective way for such issues to be addressed and will continue to participate in this process.

## **C: Consumer Choice – Consumer Protection and Consumer Knowledge in Respect of Contracts and Repairs under Insurance Policies**

### **Protection and Knowledge**

As we have discussed, the insurance industry is competitive and consumers can choose between a significant variety of insurance companies and the type of insurance cover they wish to purchase, with a wide variety of policy options and benefits available. There are many levels of protection for consumers in respect to repairs carried out under insurance policies.

The Insurance Industry is heavily regulated with insurance contracts and arrangements between customers and insurers governed by the Australian Prudential Regulation Authority, the *Insurance Contracts Act 1984*, the *Corporations Act 2001* and the *Australian Securities and Investments Commission Act 2001*. In NSW insurers are also bound by the *Fair Trading Act 1987* in relation to smash repairs.

Furthermore, consumers have access to a range of warranties under Australian Consumer Law, including provisions relating to services being provided with due care and skill, being fit for the specified purpose and being completed within a reasonable time when they are the direct customer of the smash repairer.<sup>30</sup>

The Code of Practice operates together with the many laws governing the financial integrity and conduct of the general insurance industry, providing protection for consumers when buying insurance and making a claim. Consumers are provided with clear and easily accessible information so they can make an informed choice when entering into an insurance contract, and are further protected to ensure their insurance company delivers on these undertakings throughout the claims process including time frames for claims acceptance and dispute resolution.

Should a consumer have a complaint with an insurance company the Code of Practice provides a two-step dispute resolution process involving IDR by the insurer and an EDR process provided by FOS. The EDR process is provided at no cost to the consumer and FOS's decision is binding on the insurers only. It does not affect the consumer's right to pursue legal action should they wish.

Consumers are also protected by the involvement of the insurance industry in combatting insurance fraud. As recent media reports have highlighted fraudulent claims, and staged accidents, can add significantly to premium costs for all consumers.<sup>31</sup> ICA members have advised that they are vigilant in attempting to identify such activities, and reducing the level of fraudulent claims, resulting from the activities of a small proportion of smash repairers

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<sup>30</sup> Australian Consumer Law, Sections 60,61 and 62 respectively

<sup>31</sup> Examples include <http://www.dailytelegraph.com.au/news/nsw/luxury-cars-used-in-staged-crashes-to-scam-insurance-companies/story-fni0cx12-1226773735711> and <http://smh.drive.com.au/motor-news/three-on-charges-over-alleged-36m-scam-with-smash-repair-bills-20130908-2te2a.html>

and tow truck operators.

Syndicates, as well as individuals, are active in such scams and the vehicles involved may be high priced prestige models, resulting in significant insurance claims being made. Where fraudulent activities are detected information compiled by insurance companies is passed to the police to allow for those involved to be prosecuted. While such activities are confined to a relatively small sector of the industry it must be acknowledged that undetected fraud remains a significant issue for the insurance industry today. Consumers are not well equipped to protect themselves from such scams and are therefore better protected from unnecessarily high premiums by the processes insurance companies have put in place to combat such fraud.

While our members commend the majority of the smash repair industry which is proud of the quality of their repairs there is also small number of participants whose actions affect not at fault consumers when their vehicles are damaged in an accident. Through the actions of specialised service providers, consumers may be persuaded to personally authorise repairs without fully understanding the consequences of their actions. ICA members' experience would suggest this may lead to some consumers facing additional repair costs and lengthy delays to repairs. Individual ICA members will provide further details on these arrangements in their own submissions to this Inquiry.

The ICA believes that there are a variety of existing measures providing significant consumer protections. It has never been easier for consumers to choose the insurance policy that best suits their individual needs, and to have confidence that when they make a claim they will be well protected should a problem arise. We also believe consumers are well served by the choice of repairer policy options currently available in the insurance market.

### **Choice of Repairer**

Many motor insurance companies offer consumers various options in relation to their input into the decision to choose the repairer. In the ICA's view consumers should insure with the company that offers them the level of choice that best suits their requirements.

It is important to note that many consumers do not have a preferred smash repairer and may not be experienced in the process of selecting a repairer and managing the process of repairs to their vehicle. Rather than rely on the recommendation of a tow truck operator who in our members experience, may operate on a commission basis, or a repairer they have never met prior to having an accident, these customers may be more comfortable with allowing their insurance company to manage this often complex and unfamiliar process on their behalf.<sup>32</sup>

In the ICA's view, repairer choice should be a matter for consumer choice when taking out an insurance policy, as there are many options available within the market place to suit their needs.

While uninsured vehicle owners have the right to choose where to have their car repaired, for an insured vehicle, it is the insurer that contracts with the repairer and takes ultimate responsibility for the cost and quality of the repair. While some insurance policies may extend a right for the policy holder to have some input into the decision about where the car is to be repaired, the contractual relationship underpinning the repair is between the insurer and the repairer. A vehicle owner who wishes to exercise control over the choice of

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<sup>32</sup> Deloitte Report, p39

where their car is repaired in the event of a claim is able to do this by exercising their right to choose an insurer that offers a policy that allows the policyholder to be involved in the decision as to where their car is repaired.

The MVIRI Code specifically addresses the issue of disclosure of policy conditions, and repairer choice in particular:

Under Section 9 of the MVIRI Code insurers are required to:

*“Clearly state, in unambiguous and plain language, upfront in their PDS, their policy in relation to choice of Repairer.”<sup>33</sup>*

Similar disclosure requirements are specified in relation to parts usage, sub-let repairs, guarantees and warranties in the MVIRI Code to ensure consumers are able to make an informed choice when choosing their insurance cover.

The Productivity Commission in 2005<sup>34</sup> confirmed the findings of previous Inquiries in concluding there is no evidence of consumer detriment from policies placing some restrictions on the level of consumer choice of repairer, and therefore consumer choice should not be mandated. This view was shared by the Federal Government in their response to the recommendations of the Productivity Commission.

The Motor Trades Association of NSW and its counterparts in other States have, over many years, run consumer awareness campaigns encouraging consumers to only insure with companies offering them absolute freedom to choose their own repairer. The ICA and its members have no concern with such campaigns provided there is no suggestion that to choose a policy that provides some limitation on a consumer’s right to choose the repairer will potentially, or necessarily, result in a lesser quality of repair. As discussed, we believe that such allegations cannot be substantiated, and for many consumers the prospect of not having to choose their own repairer is a policy option they may find particularly attractive.

We submit that consumers are provided with clear and easily accessible information so that they can make an informed choice when buying an insurance policy. Through this information customers are making a choice that suits their preferences. As discussed in the accompanying Deloitte Report, there is a cost associated with the provision of unrestricted choice of repairer in an insurance policy.<sup>35</sup> In the ICA’s view it would be inappropriate to add to the cost of insurance for all consumers by providing them with a policy option that may not be of value to many of them.

## **Summary**

The ICA and its members believe the consumer is well served by the existing highly competitive insurance market, with a variety of policy options available to them, allowing individuals to determine what level of repairer choice they require when making a claim. Regulations and other mechanisms exist to ensure, as far as is possible, adequate information is available to ensure an informed choice is made when taking out a policy. Further existing regulations protect consumers against any issues that may arise in the handling of a claim or the repairs associated with it.

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<sup>33</sup> MVIRI Code, Disclosure Obligations, p19

<sup>34</sup> Productivity Commission Report into Motor Vehicle Insurance and Crash Repairs, 2005

<sup>35</sup> Deloitte report, p42

## Conclusion

In the ICA's view many of the issues facing the repair industry today are not matters of fair trading or transparency, but instead relate to issues of fundamental structural change brought about by the convergence of many factors, as discussed in more detail in the accompanying Deloitte Report. Consumer demand for the lowest possible insurance premiums, as well as the highest standard of repairs and customer service have led repairers to develop a variety of repair models and other initiatives to meet these expectations, and insurance companies work with these repairers to achieve the best possible outcomes. Consumers are the direct beneficiaries of these innovations, through improved levels of customer service, a quality end-to-end claims experience and contained premium cost.

In the ICA's view it would not be appropriate to attempt to address such issues through government intervention, as structural change and market evolution are necessary to ensure the survival of a robust and highly competitive repair and insurance sector. Interference with this process could have the unintended consequence of lessening consumer access to a highly skilled, competitive and innovative industry sector.

The ICA does however recognise and support the need for some degree of regulation in the motor vehicle repair industry to protect the interests of all parties. ICA and its members would welcome the opportunity to continue to cooperate with the Office of Fair Trading to identify ways of further improving the customer experience by ensuring where concerns arise these are quickly resolved and where appropriate, repairers found not to be carrying out repairs to the required standard, take appropriate remedial action. ICA would also welcome the opportunity of increased involvement in the consultation process around licensing and other initiatives to further raise repair industry standards.

ICA believes the existing MVIRI Code provides a valuable and dynamic mechanism to address issues arising between insurance companies and smash repairers as already discussed. ICA looks forward to working with the repair industry in considering the recommendations arising from the recent External Review of the MVIRI Code. We also support the CAC's submission to this Inquiry that the NSW legislation mandating the MVIRI Code be linked automatically to the national MVIRI Code as amended from time to time. This would enable repairers and insurance companies in NSW to take full advantage of any changes made, ensuring the ongoing relevance and widespread industry support for the MVIRI Code.