

**Submission  
No 45**

## **MOTOR VEHICLE REPAIR INDUSTRY**

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**Date Received:** 14/02/2014

14 February 2014

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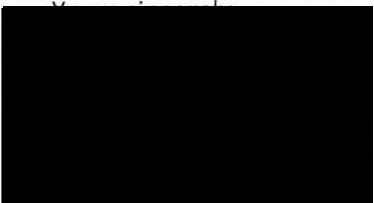
Dear Sir or Madam

**Motor vehicle repair industry (Inquiry)**

NRMA Insurance welcomes the opportunity to make a submission to the Select Committee on the motor vehicle repair industry.

Our submission is provided in two parts – the main submission which may be made public, and a confidential attachment which is for the Committee's use only.

For further inquiries please contact Damien Butler, Senior Advisor, Government and Policy on 

  
  
Roy Briggs  
Executive General Manager, Marketing, Reputation and CTP  
NRMA Insurance



# Partnering Small Business, Protecting NSW Motorists

Quality, Integrity, Safety



NRMA Insurance submission to The Select  
Committee on the Motor Vehicle Repair Industry  
February 2014



**NRMA**  
INSURANCE

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NB. Appendices are contained in a separate confidential document

# Executive Summary

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NRMA Insurance made a conscious decision five years ago to pursue a business strategy which creates long-term, equitable partnering arrangements with small business across all of our portfolios (motor, home, commercial). This partnering approach was exemplified by the assistance we were able to recently provide the people of the Blue Mountains, and the NSW Government, to arrange the removal of debris in the aftermath of the bushfires (see Appendix 1). This same commitment to partnering is used and promoted each day in all facets of our business, from glass suppliers, home contents restorers and suppliers to builders. This series of strategic partnering arrangements across the NRMA Insurance supply chain delivers a high quality product and service to our customers, while at the same time supporting and growing local and regional businesses.

We can proudly say that our Partner smash repair model is a great example of how our commitment to delivering a superior product and service offering to our customers, in true partnership with small business, works in practice. The model, in concert with the decisions we have made to improve the way we work day-to-day with the vast majority of smash repairers, has removed many of the adversarial confrontations which have beset insurer-repairer relationships over a number of years.

Moreover, the development and implementation of our Partner Repairer model started and finished with one key premise: quality outcomes for our customers. The by-product of that model is sustainable, certain and positive futures for the small business Partner Repairers in our network.

NRMA Insurance has invested significant time and resources in recent years to foster and develop a strong, professional and ethical smash repair industry in NSW. It is in everyone's interests to work together to raise quality and service levels, develop mutually beneficial business practices, enhance industry learning and skills and improve ways of working together.

Our commitment and support across the entire industry extends from simplifying our vehicle assessment processes and improving our payment systems, to consulting the MTA NSW on times and rates, retaining 'choice of repairer' for customers, implementing our Quality Framework nationally and the important work performed by the IAG Research Centre in developing and supplying information on manufacturer repair methods, to name but a few.

The truth is the majority of insurer-repairer relationships, regardless of the status of a particular repairer with a particular insurer, are positive, respectful and professional working relationships. In cases other than vertical integration, insurers and repairers interact exclusively with each other, and NRMA Insurance's approach to the wider industry recognises that.

Unfortunately, the smash repair industry continues to be held back by a relatively small group of repairers whose *real* objective, ironically, is to exploit the misfortune of customers' accidents for their own financial gain. The actions of these repairers tarnish the industry's reputation, severely inconveniencing customers and often leaving them out-of-pocket by taking cars "hostage" to extract exorbitant and unjustified towing, storage and administration fees from insurance companies.

These same repairers tie insurers up in red tape and it is the customer who is caught in the middle. Some examples in this submission reveal customers' cars being taken 'hostage' by repairers as a means of extorting ambit fees and charges from insurers, and cars sitting in shops for three months without repairs commencing.

In some circumstances NRMA Insurance will organise a hire car for the customer at our expense. While our assessors are spending days at a time negotiating the release of the customer's car they are not spending their time with other repairers and customers who are deserving of our attention. These practices not only cause stress and great expense to customers, other repairers and insurers, they adversely impact the potential cost of insurance for all NSW motorists.

Similarly in the UK, a market which operates and has issues similar to Australia, the government's Competition Commission recently found that the abuse of credit hire cars offered by repairers and paid for by insurers adds 150 – 200 million pounds to the cost of motor vehicle insurance premiums each year. The same practice occurs, and is gaining pace, in NSW and this is just the tip of the iceberg for vulnerable policyholders. As our submission details there are a raft of practices used by unscrupulous repairers, from alleged fraudulent repairs, unsubstantiated and exorbitant storage and administration fees to staged accidents and hire cars which never existed. At best, in some cases their 'smash repair' business exists only to legitimise the illegitimate and at worst it cloaks illegal activities that must be stamped out.

NRMA Insurance made a conscious decision to support the entire industry and retain the 'choice of repairer' policy for its customers. However, ironically it is this choice which sometimes leads to customers taking their car to repairers who display no real interest in performing a fast, quality, cost effective repair and any objective degree of good customer service. In these circumstances customers are seen only as a ticket to gouging the insurer at any cost.

Our own choice to recommend our Partner Repairer network to our customers is the most effective way to control quality of repairs and ensure our customers' cars are repaired quickly and safely in a professional environment.

We have included a summary of our recommendations for addressing these (and other) industry issues, as pertaining to the Inquiry's Terms of Reference, in the next section of this submission.

NRMA Insurance believes the current form of the Motor Vehicle Insurance and Repair Industry Code of Conduct, while working effectively in some areas, does not go far enough to address some of these issues. In short, we believe the Code is the appropriate instrument to regulate the industry, but it needs to be strengthened and additionally supported by dedicated resources to stamp out the poor practices and lack of professionalism which exists within a vocal minority of the industry.

While we documented our concerns and provided recommended remedies in our submission to the Code Review late last year, this Inquiry and its Terms of Reference make it an appropriate forum to reinforce this need for change at all levels.

As part of our recommendations we have highlighted the need for additional government resources to more effectively police, investigate and prosecute repairers who engage in the poor professional (and illegal) practices referred to in this submission as a serious matter of consumer protection.

It should be noted that NRMA Insurance has developed a strong working relationship with the Office of Fair Trading (OFT) over the past three years and greatly appreciates the ongoing intervention and support its personnel provide in assisting us to resolve issues of unreasonable and unethical conduct by repairers involving our customers. However, the OFT faces many competing priorities and has limited resources, and NRMA Insurance believes the current consumer protection arrangements are unsustainable and do not afford sufficient level of protection and recourse to customers or insurers.

At the same time, NRMA Insurance is the first to acknowledge there are many good repairers who aren't members of our Partner network in NSW. These repairers run highly professional shops and are good business people, however the Australian insurance industry cannot feed enough work to every repairer in a market where there is a substantial oversupply of smash repairers for the declining number of repairs available.

In the end our decision to implement a repair model which supports and forms meaningful partnering arrangements with highly skilled small businesses was designed to protect our customers from being exposed to the type of repairer described, and highlighted in detail, in this submission. The Partner network allows us to more tightly monitor and control the quality of repairs.

We also acknowledge that no one repairer, network or insurer will ever be perfect. Human error is inevitable in any business or industry, which is why we developed and rolled out nationally our Quality Framework, the only program of its kind in the country. The program is backed by a dedicated team of Quality Assurance Auditors and Assessors, and supported by the expertise and extensive library of repair methods of our Sydney-based IAG Research Centre.

The Quality Program commenced in March 2011 and since that time has inspected more than 100,000 vehicles nationally, identifying and rectifying 2,193 quality and safety issues, 307 cases of alleged fraud and inspecting and auditing more than 2,200 smash repair premises to assess a repairer's capability to fix modern day vehicles to manufacturer's standards.

In our view the overall quality and safety of repairs in NSW – and Australia – is high, however when it comes to fixing cars, no-one in the industry can afford to be complacent. It must also be said that the fair and transparent Request for Proposal (RFP) process we undertook to select our Partner Network in NSW provided a valuable insight into the standards and level of investment made in a wide variety of repair shops. In NSW, we visited the premises of all 547 repairers who entered a submission to the RFP. This exercise demonstrated that a number of shops are not properly equipped to repair modern day vehicles, again a valuable exercise in determining the right repairers to fix our customers' cars.

It is also noteworthy to mention that the repairers referred to in this submission who engage in poor, unethical and sometimes criminal behaviour almost exclusively did not apply to be part of our network as part of the RFP, and therefore were not considered.

In conclusion, when considering the current state of the industry; the vast divide between repairers who have invested in their businesses to meet rapidly advancing standards and those who have not; the effectiveness or otherwise of the Code of Conduct; and the various repair models adopted by insurers, the biggest question which needs to be asked is - **“How are we serving and protecting the consumer?”**

We asked ourselves the same question before we chose our current path.

NRMA Insurance is now providing a level of consumer protection greater than we ever have, while at the same time supporting small business via our Partner Repairer model. Only through continued and enhanced collaboration with government and industry can we produce the quality and service outcomes that can – and must – ultimately be achieved.

And only then can the NSW motoring public have absolute confidence that they have the level of protection they expect and deserve.



# Key Recommendations

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## **Recommendation 1:**

As part of this Inquiry the Committee endorse these specific changes to the Code, to be mandated by government, to improve insurer-repairer relations and to protect customers from unscrupulous repairers who hold cars “hostage” to extract unsubstantiated and extraordinary storage fees.

This would necessitate the following changes to the Code:

### **A. Addressing repairer inducements to trap customers: proposed amendment to Insurer-Repairer relations, MVIRI Code of Conduct, section 4, page 12**

This section should be amended to stop the practice of repairers engaging in conduct designed to circumvent the entire claims process, including pressuring customers to sign separate contracts with repairers which are misleading and not binding. The amendment should read:

*“In their dealings with Insurers in relation to repairs, Repairers will:*

*Not engage in practices designed to hinder or prevent the Insurer or claimant seeking to obtain an alternative quotation, **and** not engage in practices such as waiving, contributing to, paying or discounting excesses as an inducement to Insured’s to attempt to assign their right to claim under a policy to a Repairer, or require them to sign misleading documents or contracts to appoint a Repairer as the claimant’s representative.”*

### **B. Addressing intimidating and threatening behaviour from repairers: proposed addition to Insurance-Repairer relations MVIRI Code of Conduct, section 4.1 (d), page 12**

Our Assessors have experienced intimidating and threatening behaviour from repairers while attempting to complete an assessment on repairer premises. We take these matters very seriously and believe this section of the Code should include a clause requiring repairers to act in a professional manner at all times.

To address this, the following clause should be added to the Code:

*“At all times behave toward the Insurer’s staff and representatives in a professional and courteous manner. This includes not engaging in or permitting behaviour that is offensive, harassing, threatening, inappropriate, abusive, bullying or intimidating.”*

### **C. Addressing extortion by repairers refusing to release customers’ cars until unsubstantiated and large fees are paid by insurers: proposed amendment to Storage (Code section 4.2 (e), page 12)**

This practice is regularly used as a financial ‘gouging’ tactic by some repairers who are the choice of repairer by our customers. Repairers use the fact they have possession of a customer’s vehicle to make what are, at times, exorbitant demands for rates and terms and further seek to detain the

vehicle until such time as those demands are met, while continuing to purportedly charge storage costs. An important part of the 'gouged' costs includes the repairer's need to re-coup the money they spend 'waiving a customer's excess' and enticing the customer to use the specific repairer in the first place. This act is another that is cloaked in good faith but is often the beginning of a slippery slope to extensive delays and illegitimate fees.

The amendment to this Code clause should read:

*"Insurers will not remove a motor vehicle from a Repairer's premises without informing the Repairer in advance and reimbursing the Repairer for any legitimate, reasonable towing costs (charged in compliance with applicable legislation) associated with the vehicle which have been paid for or incurred by the Repairer. The Repairer will immediately provide the Insurer with reasonable evidence of such costs on request."*

**D. The Committee endorse, and government mandate, the insertion of an appropriate clause into the Code of Conduct to address the issue of customers and insurers being exposed to secret fees, commissions and kickbacks in the industry.**

The clause should read:

*"Repairers will be transparent in all of their dealings and fully disclose, clearly and in plain language before the Claimant enters into any such dealing:*

*All costs and risks to Claimants related to the proposed dealing including commissions, discount, credits, allowances and rebates that the Repairer receives or may receive related to the proposed dealing from tow operators, hire car providers, courtesy car providers, debt recovery agents or other persons that the Claimant may ultimately be liable for.*

*Repairers must give Claimants a fair and reasonable opportunity to understand and consider the disclosure and consequences of the dealing (including obtaining advice if necessary) before committing to any such dealing*

**E. Policing alleged repairer fraud and ensuring vehicle repairs are authorised and carried out in a professional manner.**

The Committee endorse, and that government mandate, the insertion of an appropriate clause into the Code to address the issue of repairer fraud and ensuring vehicles are repaired as authorized by the insurer.

The clause should read:

*"Repairers will be transparent to Insurers in all of their dealings and make available to Insurers sufficient evidence as may be required to substantiate claims for costs in relation to parts, materials and labour. Repairers are required to provide full disclosure to Insurers of any arrangements for commissions, credits, allowances and rebates that they receive from vehicle manufacturers, dealerships, suppliers and customers."*

**Recommendation 2:**

The committee endorse, and that government mandate, a dedicated resource to investigate and prosecute offending repairers who engage in practices which defraud customers and impinge on the rights of the motoring public and insurers to have vehicles repaired in accordance with Fair Trading legislation and the stipulations of the Code of Conduct.

**Recommendation 3:**

Fair Trading NSW considers a public awareness campaign to ensure NSW motorists are not exposed to litigation as a result of credit hire scams. Such a campaign would also work to keep insurance premiums affordable for the broader motoring public given the fact our customers, and therefore NRMA Insurance, is regularly sued as a result of the scams and the costs potentially will be passed onto all policyholders (customers) in the form of higher premiums.

**Recommendation 4:**

That an insurer-led motor repair task force/council be established comprising Roads and Maritime Services, The NSW Office of Fair Trading and NSW Police to tackle the range of issues, including public education initiatives, associated with motor repairs and motor repair fraud, credit hire scams and staged accidents.

**Recommendation 5:**

Fair Trading laws, and/or the MVIRI Code of Conduct, require repairers/and or insurers who have evidence of fraudulent third party recovery claims, known as “oneies”, to disclose such cases to the Office of Fair Trading. As a deterrent to such practices a penalty provision should be considered by government to impose on any party who engages in this practice (including both insurers and repairers themselves).

**Recommendation 6:**

**A.** Government consider a “Display your licence” system where repairers are compelled to display a prominent government-issued sign in their smash repair shop to certify they are a licensed operator, to be renewed at an appropriate expiry period eg (annually or bi-annually).

**B.** An industry/government working group be formed to set safe minimum standards for the repair industry. Repairers who apply to be assessed and meet this criteria should be awarded special accreditation for a fixed period (eg 3 years).

NRMA Insurance, which has already developed its own comprehensive Quality Framework (see Appendix 2), would be a willing participant in such an exercise.

# Introduction

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NRMA Insurance is pleased to provide a response to the 2013/14 Select Committee on the Motor Vehicle Repair Industry.

As the leading general insurer in New South Wales with more than 85 years experience, NRMA Insurance is part of the largest division of Insurance Australia Group (IAG).

Within that division of IAG, the NRMA Insurance brand operates in New South Wales (NSW), Australian Capital Territory (ACT), Queensland and Tasmania. SGIO is the primary brand of that division in Western Australia, and SGIC in South Australia. IAG also has an alliance with RACV for RACV-branded motor policies in Victoria.

When our customers make an insurance claim we rely on a supply network of small businesses across Australia who share our values to help them get back on their feet. One of the most important parts of our supply chain is smash repair businesses.

More than 3 million customers trust our brand and our supply networks. Our principles of partnership and trusted relationships also extend to our preferred building network that were successfully utilised by the NSW Government following devastating bushfires in the Blue Mountains in late 2013 to enhance the recovery process.

We remain committed to small business and supporting an independent and sustainable smash repair industry.

The smash repair business network we recommend to our customers is known as the NRMA Insurance Partner Repairer Network. This team, built of independent small businesses who share our values of integrity, quality and focus on ensuring a great outcome for our customers, was established via an open, fair and rigorous Request for Proposal (RFP) process that every repairer in NSW had the opportunity to take part in.

Fundamental structural change within the smash repair industry continues at a rapid rate, driven by changes in technology and consumer demand. NSW motorists are choosing to drive cars with increasingly complex safety features, technology, design and manufacturing materials. This affects industry sustainability given there are elements of the smash repair industry that are at best challenged, and at worst unable to safely repair modern day vehicles to manufacturers' standards.

Equally, the evolution in the industry is providing opportunities, competitive advantage and new growth for progressive smash repair businesses that have responded positively to change. NRMA Insurance is proud to contribute to this opportunity for renewed growth and sustainability in the smash repair industry through its professional and mutually beneficial partnering arrangements it has formed with its Partner repairers. It should be noted, however, that NRMA Insurance has a finite number of repairs available to support a portion of repairers, but not enough to sustain the entire industry.

As a further demonstration of our commitment to support, and not overrun, small business, we continue to work on a daily basis with the majority of repairers in NSW through our stated policy of offering all customers choice of repairer.

However, despite the unique merits of our model and choice policy, demand and supply forces and new vehicle technology will continue to shape and change the smash repair industry for years to come.

Australia, like other parts of the world, particularly the UK, has for many years faced the challenge of an oversupply of repairers and an ever-dwindling number of vehicles to repair. It is estimated there are over 4,000 repairers nationally competing for approximately 1 million repairs per annum – or on average, 5 repairs a week for each repairer.

These volumes are unable to sustain the current size of the industry. The development of safer cars with “crash avoidance” technology, stronger road safety initiatives, the emergence of larger high volume/ low impact repair shops and the advent of some insurers owning their own repair businesses will continue to place lower demand on the market relative to the available supply of repairers.

Our submission to this Inquiry is aimed at informing government on the positive and negative factors influencing insurer-repairer relationships; our strategy to support small business for the mutual benefit of repairers and our own business; and, perhaps most importantly, how these relationships can continue to be improved for the benefit and protection of the most important stakeholder of all – the customer.

# Our Model

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## **Better insurer-repairer relationships through partnering with independent, small businesses in the smash repair industry**

Five years ago IAG'S Direct Insurance, the division behind the NRMA Insurance brand, evaluated a number of strategic options to enable it to remain competitive in an increasingly crowded and price-driven comprehensive motor vehicle insurance market.

Among the options was to follow the path of IAG's major competitor and own and operate smash repair shops. This option was quickly dismissed based on two key factors: the first outcome-based, the second on a commitment to supporting the sustainability of an industry upon which NRMA Insurance has relied for over 85 years.

NRMA Insurance quickly concluded that its strengths lie in knowing insurance exceptionally well and having a long-standing history of being there when people need us most. While we employ highly qualified and trained Assessors to ensure cars are repaired to a high standard we are not the experts in the profession of repairing modern day motor vehicles and believe that task should be placed in the hands of highly skilled and innovative business people who dedicate their career to performing quality repairs and delivering great customer service.

*It is through partnering arrangements with high-performing, motivated small businesses that we can deliver on our promise to our customers: getting them back on the road as fast as possible with a quality, safe repair carried out to manufacturer's standards.*

In turn, these partnering arrangements offer sustainability and certainty to an industry which is being impacted by an historical (and global) oversupply of smash repairers for the dwindling work available, and increasing pressures on repairers to invest in technology and equipment to keep pace with the evolution of new breeds of motor vehicles.

In making this decision we recognised at the time that Insurance Manufacturers of Australia Pty Limited (IMA), a joint venture between Insurance Australia Group (IAG) and RACV Group (RACV), owned and operated two smash repair facilities located in the suburbs of Cheltenham and Vermont in Melbourne. At that time Victoria was the only state in which IMA had ownership of smash repair facilities.

In line with our stated future business strategy to support and foster a sustainable, independent smash repair industry in Australia, IMA announced in late 2012 its decision to divest these operations and not be an owner and operator of smash repair businesses in the future. This was based on the premise that the best way to enhance the quality of repairs and service provided to RACV Members was to work closely with the best smash repairers who truly want to partner with us.

The decision was also recognition of the increasing investment requirements of owning and operating modern smash repair facilities. Both Accident Repair Centres (ARCs) required substantial equipment and technology upgrades – they were conventional repair shops operating in a new era of ‘unconventional’, modernised repair shops. Unfortunately this is the case with a significant number of smash repair shops operating today.

## **Repairing vehicles to a standard: Our unique Quality Program and selecting the right repairers for our network**

The foundation of the Partner Repairer model was our National Repair Quality Framework which was launched by NRMA Insurance in March 2011, some 16 months before the new model was introduced in NSW. (More information on our Quality Program and how it protects customers – and the NSW motoring public generally - is detailed in later sections of this submission.)

*It was our view that quality - and more importantly, repairing vehicles to manufacturers’ standards – must be the platform of any repairer network.* It was in this context we initiated an RFP process open to every repairer in NSW to provide smash repairs for customers’ cars in metropolitan areas of NSW. The approach was designed to ask repairers how they wanted to work with us, and moreover to give us the opportunity to assess each participating repairer’s capability to deliver high quality repairs consistent with manufacturer’s standards. At the time it was made clear that any repairer who chose not to participate in the RFP would not be considered for a position in our new network.

As a result all repairers who lodged a submission to the RFP (547 of the estimated 1,200 repairers in the geographic areas of NSW that were included in the RFP) received visits to their premises by our evaluation team. The purpose of the visits were two-fold: it gave repairers an opportunity to showcase their businesses and supplement the information they had provided in their written submissions; and secondly, it gave our team an opportunity to critically assess first-hand the customer service and quality processes of the repairer, and the technology, equipment and resources each repairer could offer to correctly (and safely) repair our customers’ cars.

Repairers were then rated on these attributes, as well as their desire to have a strategic relationship with NRMA Insurance, and our geographical need for the number of Partner repairers required in each area based on the volume of repairs available. A short-list of candidates was formed and it was only at this stage that commercial discussions were held with the short-listed repairers.

Successful RFP repairers were requested to state their preference on the length of the contract they would be offered (typically 3 – 5 years) given the different circumstances and conditions relating to each repair business. All successful repairers requested a 5-year contract term as it allowed them to plan and invest in their business with a greater level of certainty.

Our network has been formed to recognise the need for specialisation: some repairers submitted proposals to only undertake repairs for driveable repairs, others wanted towed high damage repairs, while some wanted to specialise in the prestige segment. Where possible we established relationships with our Partners that aligned to segment specialisation they wanted.

The commercial arrangements subsequently formed with our Partner Repairers are no different to those arrangements than any business would form with its preferred suppliers. We have no knowledge of any insurer-repairer relationship which is based on a “fixed cost” for repairs model,

and we do not operate such a model. *NRMA Insurance and its Partner Repairers mutually agreed a variety of commercial contracts tailored to each repairer on terms proposed by the repairers themselves.*

Smash repairers already need to comply with a multitude of regulations and 'red-tape'. Our new streamlined Partner process removes any conflict between the insurer and repairer around individual quotes through the establishment of long-term, sustainable business relationships; reduces the administrative burden on a repairer; and gives them more time to place greater focus on what they do best - fixing cars and caring for our mutual customer.

## **Delivering initiatives to assist small business in NSW**

NRMA Insurance's new model has produced significant benefits for not just our Partner repairers, but the majority of repairers we deal with on a day-to-day basis.

For all repairers we authorise to carry out repairs we have streamlined our quoting system and invoicing practices, including providing repairers with access to our online repair management system.

Our industry-leading quality standards have driven improvements in workshop standards, even among repairers who were unsuccessful in joining our Partner network.

For our Partners we have delivered:

- Growth opportunities through networking and knowledge sharing;
- Powerful marketing through their ability to link their business with a nationally recognised and trusted brand;
- Tangible contracts that can potentially be used to secure finance from institutions;
- A state-of-the-art workshop booking system;
- Support through technical data gathered by our Research Centre via our relationships with manufacturers;
- Dedicated Relationship Managers and Customer Relations specialists to assist with business issues that they encounter each day;
- Transport options for customers, including taxi and hire cars to and from their repair shops; and
- Modern workshop management practices to help repairers work out ways to best utilise their premises and make them more profitable.



## Improving industry relationships

Five years ago we made a conscious decision to work more closely together with industry and support a sustainable, independent smash repair industry for the future. We have achieved many of the goals we set at the beginning of this process and we look forward to continuing our work with government and industry to lead positive evolution and development in the smash repair industry.

We can support independent smash repair shops through our business partnering arrangements, but no one insurance company can support an entire industry.

*Our small business partnerships apply the same principles government uses when selecting preferred suppliers: no insurer or government department can have a strong working relationship with every individual supplier in the market, nor should they be expected to.*

Since the last NSW Government review into the smash repair industry and insurance, we have undertaken a range of initiatives that have improved relationships between repairers and insurers and ultimately benefited NSW motorists.

Importantly, our work has gone above and beyond implementing the insurer-specific recommendations of the 2005 Staysafe Committee Report. Since that time we have announced:

- the introduction of New Times and Rates (NTAR) in 2007
- the cessation of on-line tendering in NSW in consultation with MTA NSW;
- the retention of the 'choice of repairer' policy for customers;
- a clearly documented Parts Policy, which is freely accessible on our website;
- a commitment to working with the Office of Fair Trading NSW as part of our enforcement of our industry leading quality and safety audit program;
- our membership of the National Skills Council Advisory Committee (Vehicle Body);
- the introduction of an industry-first, nationally endorsed Assessor certification (Certificate IV Loss Assessor) for our assessing teams and becoming the only insurer in Australia to be accredited "Gold Class" by I-CAR Australia;
- sponsorship of the development of the MTA NSW E-Learning Portal, a vital program aimed at providing on-line resources to apprentices in the industry to address the skills shortage through enhancing the completion rate of apprenticeships.
- sponsorship of the Future Leaders of the Industry Award, developed by National Collision Repairer and sponsored by NRMA Insurance, recognises outstanding apprentices in the auto body repair industry and provides recipients with funding for additional training and development.
- our commitment to not be an owner of smash repair facilities; and
- the launch of the only dedicated and highly resourced Quality Program in the Australian insurance industry.

Our joint announcement with the MTA NSW addressing some of the aforementioned initiatives can be found at Appendix 3.

## Leading the industry on New Times and Rates (NTAR)

NRMA Insurance is a leading advocate in the development of industry-wide realistic times and rates. This aims to address on-going friction between repairers and insurers and we have invested significant resource and effort into developing New Times and Rates in consultation with Repairer Representative Organisations such as the MTA NSW. As part of this collaboration we implemented a mutually beneficial solution in consultation with MTA NSW to “Funny Time Funny Money” in 2007. Our introduction of NTAR meant we were the first insurer to deliver a ‘realistic times’ solution which is still widely accepted, liked by industry and working today.

This on-going work in relation to times has involved our IAG Research Centre using video recordings of actual repair work being carried out under timed conditions and is invaluable in helping to resolve potential disputes between repairers and insurers. To our knowledge, we are the only insurer in Australia to have made this commitment.

## ‘Choice of repairer’

Our strategy to partner with industry leading smash repairers for the benefit of the customer, and for both our respective businesses, means we work more closely with some smash repairers than others.

However, the fact that one in four of our customers’ cars are repaired outside our network through our “choice of repairer” policy for customers means we work with most repairers on a regular basis.

At the time of determining the criteria for our Partner Repairer Network, we were alarmed at the inconsistent customer experience that sometimes involved poor quality repairs, and alleged fraud.

Within the repair industry there are a small number of repairers who believe we should authorise *all* repairs, and therefore provide a customer a lifetime guarantee of the quality of repairs, regardless of our ability to monitor and stand-by the quality of repair work they deliver.

*When our customers make an insurance claim we proudly and unashamedly promote our Partner Repairers’ services because **we know** they have the skills, technology, equipment and resources to deliver a high quality repair to manufacturers’ standards.*

More often than not though our customers require, and ask for, recommendations for a quality smash repairer that is in a convenient location and we have a responsibility to ensure our customers are in an informed position when they choose their repairer.

Our standard National Call Centre scripts used to ensure our customers are informed about our Partner Repairers and the benefits of using our network were developed in consultation with industry stakeholders including MTA NSW (copy of the script supplied at Appendix 4).

It has been claimed by some in the repair industry that the standard scripts our staff use to communicate with a customer at the time of a claim are misleading. In reality, *we are extremely limited to what we can say to a customer and there are many instances where customers have asked us why we didn't tell them about a particular repairer's history of poor quality repairs and/or unscrupulous behaviour once they had fallen victim to it.*

Below is a summary of the repairer complaints, the number of breaches of the code and total claims volumes for the period from July 2013 to December 2013 for our Call Centre.

Month	Motor Claim Volumes	Repairer Complaints	Breaches of Code
July	27729	12	3
August	27568	12	1
September	27213	2	0
October	34713	6	0
November	38086	2	0
December	29751	4	1

The statistics overwhelmingly demonstrate adherence to the scripts and an extremely low level of complaints and breaches for claim volumes of 185,060 calls (complaints represent 0.021% of all calls, breaches 0.003%).

In summary, by making a recommendation to customers on a suitable repairer for their vehicle, which is based on our vast knowledge of the repair industry and the audits undertaken on repairers, *we provide a level of consumer protection that would otherwise not be afforded.*

## Our Genuine Parts Policy

Parts are a critical element of the supply chain. Parts supply and availability can also be a major cause in the delay of a repair. NRMA Insurance has developed strong relationships with Original Equipment Manufacturers (OEMs) over a number of years, particularly in relation to vehicle design and safety via our Research Centre, as well as sourcing manufacturers' repair methods for repairers.

When it comes to parts, NRMA Insurance's parts criteria predominately recommends genuine OEM parts for vehicles less than three years old. This policy is based on our commitment to quality and safety.

Replacement parts typically include items such as grilles, radiators, head lamps, tail lamps, impact (bumper) beams, panels, doors, fascias, spoilers, mouldings, trim and wheels.

These are supplied by various motor vehicle parts suppliers including authorised OEM dealers; independent genuine parts importers; independent after-market ("non-genuine") parts importers and distributors; and used and exchange parts suppliers (for example dismantlers, recyclers and refurbishers).

In relation to replacement parts our policies currently state that repairs will take place using new (OEM or genuine) parts or quality non-mechanical re-useable parts.

*As of February 2014 the policy states non-mechanical re-useable parts or non-genuine parts should only be used when this:*

- *is consistent with the age and condition of the vehicle;*
- *does not affect the safety and structural integrity of the vehicle;*
- *complies with the vehicle manufacturer's specifications and applicable Australian Design Rules;*
- *does not adversely affect the post repair appearance of the vehicle; and*
- *does not void or affect the warranty provided by the vehicle manufacturer.*

**Generally, we do not authorise the use of re-useable parts for the repair of any motor vehicle that is less than three years old.**

Currently, repairers conducting repair work authorised by us have autonomy to order, procure and fit the necessary parts in accordance with the above guidelines.

There are some circumstances where we may specify to a repairer that a particular type of part be fitted (for example, new genuine parts in newer cars) before issuing an authority to proceed with repairs. However, once we have assessed a proposed repairer quote and issued an authority to proceed, the sourcing of the replacement parts specified and their installation lies with the repairer.

## **Consumers' views on parts**

In December 2013 NRMA Insurance conducted a consumer insights survey which asked customers and non-customers about the use of aftermarket (or non-genuine) parts.

*Approximately 40 percent of respondents said they would consider switching insurers if the insurer's policy was to use aftermarket, or non-genuine, parts.*

One in three of those surveyed said the use of aftermarket parts compromised the quality and safety of the vehicle, and a further 33 percent were unsure.

The results also revealed:

- Most insurance customers are sceptical about the inherent variations in quality and potential safety risks of using "aftermarket" parts in their car repairs;
- Most feel it is better to be "safe than sorry" and would prefer genuine parts; and
- Education around the subject of aftermarket parts could help customers make more informed decisions about their car repairs and/or choice of insurer.

NRMA Insurance intends to conduct a more in-depth survey on this issue in 2014.

## What our customers think of our Partner model

It is common for our customers to write to us and tell of their experience following a visit to our Partner repairers, similar to these examples below:

### Example 1

From: [name suppressed]  
Sent: Tuesday, 30 October 2012 1:32 PM  
To: Teleclaims  
Subject: An experience worthy of mention (ref: [claim number withheld])

Dear Sir/ Madam.

I am taking time out of my rather hectic day to formally commend the services of the repair centre you referred me to for my Holden Captiva which was damaged in a rear end collision by an NRMA driver at fault. My ref: is CPNCR11/11041.

The repairs were undertaken by [redacted] NSW and I had numerous dealings with a number of staff with Jason personally handling the last few interactions. The staff in the workshop politely directed me to the office door on first arrival and my experiences from this point on were nothing short of best of class. The receptionist, Jason and the floor manager (sorry the name escapes me at present) proceeded to phone me at least twice a week and the time to completion was always communicated to me to allow me to organise myself accordingly. When I hinted that I may be in need of my car urgently the receptionist briskly phoned me back to confirm that she could arrange a courtesy car within hours - quite rare from my experiences of other repairers.

Unknown to my wife who picked up the car there was a pre-existing engine noise (rattling) which when she drove the car home proceeded to worsen tremendously possibly due to the sediment and sludge already present in my engine sitting idle, I was not in the area but phoned [redacted] on the off chance they could help or if they did any front end work by any chance. Within twenty minutes Jason and a team member drove to meet my wife on busy City Road until I arrived shortly after, upon inspecting the engine myself I confirmed to Jason this was not accident related, apologised for inconveniencing him and thanked him for travelling out of his way to assist. I knew the engine needed an oil top up so Jason offered to remain with the car until I returned in the event I needed to arrange a tow truck and to ensure my wife and I were sorted for transport. This level of service at 630PM on a Wednesday evening goes above and beyond anything I have seen across many industries.

I have since fixed the car with an engine clean and all is well. Jason has followed up today with a follow up phone call to see if all is well and this prompted me to phone NRMA to get this email address to pass on my commendation. Well done NRMA for being aligned to a brilliant provider in [redacted] trust I am not the first or the last to sing their praises. As you may see on your system, the original accident happened 12 months ago, it took me this long to fix it with my heavy workload and commitments hence taking an hour out of my day now to write to thank you for your help is a significant event for me. Please pass on my thanks to the [redacted] team.

I can be contacted on XXXXXXXXXXXX if you have any specific enquiries or comments.

Kind Regards

[name suppressed]

## Example 2

From: {name suppressed@hotmail.com]  
>> To: theteam@nrma.com.au  
>> Subject: NRMA Insurance Compliment  
>> Sent: 07/03/2013 14:42  
>> Online form

This is an auto generated e-mail, please do not reply.

"Hi There,

I just wanted to email to say how impressed and grateful I am for the service I have recently received from NRMA. My husband was in a minor car accident last Thursday night, and I contacted your team to put in the claim (claim number XXXXXX) The lady I spoke with was extremely pleasant, and having called at approx 6pm, I was surprised when she said she could have my car booked in to be assessed the next morning at 8:30am.

We took the car to [redacted] who were also very helpful, and were told repairs could start Monday, so we returned the car back Friday evening, ready for Monday. By Tuesday afternoon, only 2 and a half working days after the accident, I received a message to say the car had been repaired and was ready to be picked up! Both my husband and I are completely blown away by the service we have received, and are very grateful.

I am currently 8 months pregnant, so the timing of the accident was awful, and having this sorted so quickly, just took the stress and worry off my back, so thank you again. I have many policies with NRMA, and will continue to be a loyal customer, as I have never had a bad experience, and this has more the exceeded any expectations I had.

Thank you again,

{name suppressed}"

Copies of the original correspondence from these customers and other examples are attached at Appendix 5.

# MVIRI Code of Conduct

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## The role and effect of the Code

The Code was introduced at a time when relationships between insurers and repairers required significant improvement and the Code was viewed as a major way forward.

In terms of measuring the effectiveness of the Code in regulating relationships between repairers and insurers, it has been one important pathway to improved relationships in an environment of consistent industry change. It remains relevant despite this environment of change.

We continue to support the industry Code of Conduct, although the reality of our modern and mature business partnerships with our own Partner network makes the Code redundant in terms of the majority of our business dealings with the industry on a day-to-day basis.

Our approach which is based on trust, respect and mutual reward ultimately is of greatest benefit to the interests of the consumer who, rather than becoming a victim of Code-based disputes, is able to have their car quickly and safely repaired in an environment where the customer comes first.

However, outside of our model we acknowledge the Code has an important role to play.

NRMA Insurance submitted an extensive response to the MVIRI Code of Conduct Review 2013.

*NRMA Insurance does not view the role of the Code of Conduct, nor is its purpose, to seek to affect the nature or pace of fundamental structural change within the smash repair industry.* This change continues at a rapid rate, driven by changes in technology and consumer demand, not at the hands of most insurers (with the exception of those insurers who vertically integrate).

A Code cannot remove the pressures these market “supply and demand” factors place on repairers’ abilities to run sustainable businesses, nor can the Code and its Principles provide a single solution to addressing all issues and challenges within the industry.

Generally, NRMA Insurance believes the Code of Conduct is working reasonably effectively. NRMA Insurance is committed to the Code, in the same way we are committed to supporting an independent and sustainable smash repair industry. There are, however, areas of the Code that could be significantly improved for the benefit of repairers, insurers and ultimately the general motoring public.

In that context, NRMA Insurance strongly believes that any proposed amendments to the Code must not impede or restrict the fair, reasonable and mutually beneficial commercial relationships which exist between individual insurers and repairers. This was a fundamental principle of the Code’s establishment.

Of equal importance, changes should not be made to the Code that remove the competitive advantage some smash repairers have built through investment, innovation and collaboration with the insurance industry or other partners such as motor vehicle manufacturers.

## **The role of the Code in serving consumer interests**

As a business-to-business Code (insurer to repairer/repairer to insurer), the current Code could be greatly improved to better serve consumer interests.

In fact, in a number of interactions we have with repairers who are not part of our network the consumer's best interests appear to be ignored or forgotten. Often our customers experience considerable and avoidable delays over disputes where the Code is abused as a tool to delay repairs and pressure customers and insurers to authorise work or pay large fees to have cars released from the smash repair shop in question.

Given there is not enough repair work to sustain the industry, some repairers are looking to the Code to resolve industry issues specifically excluded from the intent of the Code - in particular, the notion that repair work should spread evenly among all repairers.

*Spreading work evenly to all repairers does not serve the interests of the NSW motoring public. To do so would not only remove the competitive advantage some smash repairers have built through investment, innovation and collaboration with insurers, it would mean repairers not equipped to repair a modern day vehicle or with poor quality records and behavioural issues, would be fixing our customers' cars.*

Played out at an accident scene any attempt to spread work evenly would result in a 'race to the bottom' as industry tow truck drivers incentivised by kick-backs fight one another to 'capture' a vehicle and deliver it to a repair shop with which they have a business connection or financial arrangement.

## **Best practice dispute resolution**

Best practice dispute resolution procedures provide adequate dispute resolution for more than one party.

While the current Code offers solutions to issues affecting repairers, it provides limited opportunities for insurers to resolve issues with repairers where we believe a repairer has not acted within the spirit of the Code.

We believe the Dispute Resolution remedies provided by the Code should allow equal access for Insurers to resolve disputes with repairers.

Similarly dispute resolution procedures provide no protection for consumers who are undertaking repairs without the assistance of an insurer (non-insurance repairs). We detail the risk to consumers undertaking these repairs on page 42.



## Education and understanding

For any code to be effective it must firstly be understood by those who use it.

Considering the Code has now been in place since 2006, the experiences of NRMA Insurance and the nature of the disputes we receive clearly show the level of both understanding and awareness of the Code of Conduct among industry participants is particularly low and requires improvement.

Increasing knowledge of the Code, including its intent to improve the relationship between repairers and insurers and not interfere in commercial arrangements, will increase its standing in the industry. The opportunity exists to audit overall industry understanding of the Code and to pilot targeted training and education programs.

In preparing such an education campaign consideration should also be given to consumer understanding of the Code and the limited mechanisms in place to inform and protect consumers for non-insurer related repairs.

## Recommendations to improve the Code

As part of the Code Review, NRMA Insurance has proposed a number of recommendations to the Code Administrative Committee (CAC), namely that:

- A comprehensive education/awareness raising campaign be implemented aimed at helping all stakeholders – particularly policyholders - better understand the Code and their rights under the Code;
- No change to the Code be considered that interferes with the commercial relationship between individual insurers and repairers, other than as provided in the current Code and in accordance with its principles;
- The CAC consider opportunities to increase repairer transparency in their dealings with insurers;
- Dispute resolution remedies available to repairers should be accorded to insurers to allow adequate resolution mechanisms for both parties; and
- Updates to the Code be considered to protect insurers' staff and their representatives from threatening and offensive behaviour from repairers.

Greater detail about these recommendations and the rationale for them can be found in our submission to the 2013 Code Review (see Appendix 6).

**Recommendation:** As part of this Inquiry the Committee endorse these specific changes to the Code, to be mandated by government, to improve insurer-repairer relations and to protect customers from unscrupulous repairers who hold cars “hostage” to extract unsubstantiated and extraordinary storage fees.

This would necessitate the following changes to the Code:

### **1. Repairer inducements to trap customers: proposed amendment to Insurer-Repairer relations (Code section 4, page 12).**

This section should be amended to stop the practice of repairers engaging in conduct designed to circumvent the entire claims process, including pressuring customers to sign separate contracts with repairers which are misleading and not binding. The amendment should read:

*“In their dealings with Insurers in relation to repairs, Repairers will:*

*Not engage in practices designed to hinder or prevent the Insurer or claimant seeking to obtain an alternative quotation, **and** not engage in practices such as waiving, contributing to, paying or discounting excesses as an inducement to Insured’s to attempt to assign their right to claim under a policy to a Repairer, or require them to sign misleading documents or contracts to appoint a Repairer as the claimant’s representative.”*

## **2. Intimidating and threatening behaviour from repairers: proposed addition to Insurance-Repairer relations (Code section 4.1 (d), page 12)**

Our Assessors have experienced intimidating and threatening behaviour from repairers while attempting to complete an assessment on repairer premises. We take these matters very seriously and believe this section of the Code should include a clause requiring repairers to act in a professional manner at all times.

To address this, the following clause should be added to the Code:

*“At all times behave toward the Insurer’s staff and representatives in a professional and courteous manner. This includes not engaging in or permitting behaviour that is offensive, harassing, threatening, inappropriate, abusive, bullying or intimidating.”*

## **3. Extortion by repairers refusing to release customers’ cars until unsubstantiated and large fees are paid by insurers: proposed amendment to Storage (Code section 4.2 (e), page 12)**

This practice is regularly used as a financial ‘gouging’ tactic by some repairers who are the choice of repairer by our customers. Repairers use the fact they have possession of a customer’s vehicle to make what are, at times, exorbitant demands for rates and terms and further seek to detain the vehicle until such time as those demands are met, while continuing to purportedly charge storage costs. An important part of the ‘gouged’ costs includes the repairer’s need to re-coup the money they spend ‘waiving a customer’s excess’ and enticing the customer to use the specific repairer in the first place. This act is another that is cloaked in good faith but is often the beginning of a slippery slope to extensive delays and illegitimate fees.

The amendment to this Code clause should read:

*“Insurers will not remove a motor vehicle from a Repairer’s premises without informing the Repairer in advance and reimbursing the Repairer for any legitimate, reasonable towing costs (charged in compliance with applicable legislation) associated with the vehicle which have been paid for or incurred by the Repairer. The Repairer will immediately provide the Insurer with reasonable evidence of such costs on request.”*

A case study illustrating the issues identified in the aforementioned points 1 – 3 is attached at Appendix 7.

#### **4. The role of the Code in deterring industry ‘kickbacks’ and secret commissions**

The principles of the Code state that: “Insurers and Repairers agree to observe high standards of honesty, integrity and good faith in conducting their business with each other and in the provision of services to claimants”. However, we are of the view that the absence of clauses within the Code to specifically address “honesty, integrity and good faith” detracts from the Principles of the Code.

The majority of Repairers and Insurers act with values such as honesty, integrity and good faith as a means for conducting day-to-day business. However, there remain instances where the conduct of some Repairers (and related entities) is not aligned to such values.

These instances include where a Repairer maintains a relationship based on commissions, fees and rebates with towing, hire car and other service providers. Such relationships, where there isn’t complete transparency, potentially encourage business practices that lack honesty, integrity and good faith. This lack of transparency has a negative impact on customers through increased exposure to undisclosed costs and litigation.

Consider, for example, the case of a member of the public who is involved in a motor vehicle accident and is deemed to be not-at-fault and the vehicle is not driveable. The Repairer, at this stage, may offer the Claimant a hire vehicle and directs the individual to a third party hire car company that provides hire car services on credit. Such credit is provided on the basis that the credit hire operator is able to recover the costs for the hire vehicle from the at-fault party’s insurer.

The Repairer then schedules work on the vehicle to be repaired, and in some instances the time required to repair the vehicle may require the Claimant to be in possession of the hire car for an extended period. At the conclusion of the repair period, the Repairer will submit a tax invoice to the at-fault Insurer for payment. The Insurer may then question “fair and reasonable” expenses, including the time duration required for the hire car and refuse to pay the full quantum on the grounds of unfair and unreasonable time delays that cannot be substantiated. *This may result in the Repairer or their recovery agent pursuing the customer for any outstanding amounts owing, which generally ranges from several hundred to several thousand dollars.*

It is within such practices (like the one outlined above) that unsuspecting customers are not fully informed of their obligations and exposure. Claimants are subsequently exposed to litigation through the court system as Repairers or their recovery agents pursue debt recovery action either on their behalf or against the claimant. In many instances this behaviour not only impacts the at-fault party but the not-at-fault party also, as the balance of any unpaid hire car fees are sought directly from the not-at-fault party or their insurer. Further, in some cases, depending on the type of vehicle on hire and the length of time hired, the hire car costs far exceed the repair costs for a vehicle. Further information on this topic and the extent and cost of this problem is contained on page 36 of this submission.

Although this behaviour is not directly conducted by relevant Repairers, it begins with those repairers in that the referral to third party service providers comes from the Repairers themselves.

Commonly there is a mistaken belief that the repairer is providing an added customer service to the claimant. Further, such referrals are provided by the Repairer with an incentive of a fee provided for each referral given to these third party providers. In many instances this fee arrangement is said to be a fee provided for either storing or detailing the vehicle upon its return.

The Code should play an important role in addressing the gap in having Repairers required to provide full disclosure, to claimants, of a) the Repairer's interests in hire car transactions, and b) the risks to the claimant in accepting hire car arrangements.

**Recommendation:** The Committee endorse, and government mandate, the insertion of an appropriate clause into the Code to address the issue of customers and insurers being exposed to secret fees, commissions and kickbacks in the industry.

The clause should read:

*“Repairers will be transparent in all of their dealings and fully disclose, clearly and in plain language before the Claimant enters into any such dealing:*

*All costs and risks to Claimants related to the proposed dealing including commissions, discount, credits, allowances and rebates that the Repairer receives or may receive related to the proposed dealing from tow operators, hire car providers, courtesy car providers, debt recovery agents or other persons that the Claimant may ultimately be liable for.*

*Repairers must give Claimants a fair and reasonable opportunity to understand and consider the disclosure and consequences of the dealing (including obtaining advice if necessary) before committing to any such dealing.”*

## **5. Policing fraud and ensuring vehicle repairs are authorised and carried out in a professional manner**

Section 1.3(c) of the Principles of the Code states that: “Repairers will carry out repairs with the objective of fulfilling their obligations to the Insurer under provisions of applicable contracts of repair.” On a whole, the Code does work effectively in ensuring qualified and licensed Repairers are professional and committed toward this objective.

However, there remains widespread disparity within the objectives of some equally qualified and licensed Repairers. It has been widely cited that there is a need for greater levels of transparency in the Insurance and Smash Repair industry. *While the Code has, in our view, encouraged Insurers to provide greater levels of transparency, it is deficient on the part of Repairers.* Insurers are, in many cases, left in a position of trust in regard to understanding the extent of repair work actually carried out on a customer's vehicle, the parts fitted and labour hours incurred.

In the absence of a substantive mechanism to address this NRMA Insurance developed its own. In March 2011 we introduced our 10 Point Repair Quality plan to promote high quality and safe repairs and to monitor instances where the standard of repair was not acceptable.

Since that time we have uncovered 304 cases of alleged fraud, totalling \$205,915.84. In one repair example alone, we identified alleged fraud totalling \$10,120.07. It was also found, during the course of an audit process that a number of Repairers will quote an Insurer for a new Original Equipment Manufacturer (OEM)/Vehicle Manufacturer (VM) part, order that part from the Dealership and be invoiced for it. However, upon receipt of the part, it would be returned to the Dealership, a credit received and the Repairer would repair the damaged part at a significantly reduced cost, whilst continuing to invoice the Insurer for the New OEM/VM part. Upon request by the Insurer for proof that the New OEM/VM part was procured and fitted, the Repairer provides a copy of the relevant Dealership invoice and claims that it was fitted, when in a number of cases it has not.

*Anecdotally, dealers have advised us that they currently experience a parts return rate of approximately 14%, but believe the legitimate rate should be closer to approximately 5%. This is consistent with the alleged fraudulent practices we have uncovered during our routine audits of repairer invoices.* The examples and practices outlined herein are specifically aimed at defrauding the Insurer, and ultimately the public, and are unlawful.

The problems associated with the lack of transparency seem to stem from the lack of disclosure of all relevant details and levels of financial interest that the Repairer and its associated entities may have within a particular customer transaction.

The clauses of the Code operate in a manner that does not serve the interests of the consumer so far as they do not require Repairers to substantiate financial claims, nor do they provide for greater transparency.

**Recommendation:** The Committee endorse, and that government mandate, the insertion of an appropriate clause into the Code to address the issue of repairer fraud and ensuring vehicles are repaired as authorized by the insurer.

The clause should read:

*“Repairers will be transparent to Insurers in all of their dealings and make available to Insurers sufficient evidence as may be required to substantiate claims for costs in relation to parts, materials and labour. Repairers are required to provide full disclosure to Insurers of any arrangements for commissions, credits, allowances and rebates that they receive from vehicle manufacturers, dealerships, suppliers and customers.”*

# Protecting NSW Motorists

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## **Increasing Consumer Protection: The NRMA Insurance Partner Repairer Network**

Our Partner Repairer Network has been in operation in NSW since July 2012 and is built around repairers who share our values for quality, safety, integrity and excellent customer service. It is a national model now operational in South Australia, Victoria and Western Australia with plans for Queensland to introduce the Partner network from June 2014. We see this model as a benchmark of large and small business working collaboratively to provide a quality service to customers.

NRMA Insurance invested almost 12 months and personally inspected and evaluated 547 repair shops in NSW to determine the best repairers for our customers' needs from those repairers who responded. Through an open and transparent Request for Proposal (RFP) process every business had the opportunity to make a submission to partner with us.

This process also demonstrated to us that a number of repairers have not invested in their businesses over time and therefore do not have the correct equipment, technology or training to repair cars in today's world.

Consequently we have formed long-term partnerships with a network of leading independent Partner Repairers who are experts in their field and have invested in new technology to repair cars safely and to the manufacturer's standard for our customers. Our partnering arrangements include five year contracts and certainty of work volumes that mean our partners can continue to invest in ever changing technological requirements.

*These Partner repairers are supported by dedicated Relationship Managers and Assessors who are readily accessible to assist repairers with complex repair issues, monitor the quality of repairs and work with our Partners to deliver a high level of service for our customers. Our Assessors visit our Partner Repairer shops every day to perform this role.*

What we have achieved through extensive consultation with the industry over the past five years has created a unique customer proposition which is founded on quality, safe repairs.

Ultimately, this benefits and protects the broader NSW community through a reduction of unsafe vehicles on our roads.

## Maintaining the integrity of the Partner Network and the protection of NSW motorists

Ensuring the integrity of our model is underpinned by our continual assessment of the repairers we work with. This is based on five equally weighted measures:

- There are two customer measures based on the timely repair of the vehicle and customer satisfaction.
- There are two quality measures including a quality rating and an assessment of the numbers of vehicles that require additional work on completion of the repair (rectification percentage).
- As is the case for any commercial partnership there is also one financial target measure.

Appointment to the NRMA Insurance Partner Repairer Network comes with the continual expectation to meet the key measures agreed to as part of the business partnership.

When measures are not met, particularly in regard to quality and safe repairs, action is taken via our Quality Framework. This involves developing performance plans for repairers (this occurs not only with Partners, but repairers not in our Partner network) to coach and guide repairers on best practice repair methods. Warnings are also issued in more serious, repeat breaches, and in serious cases or systemic poor performance this may result in suspension or relegation from our network. This process of course also affords other small businesses, who may have initially been unsuccessful in responding to our RFP, an opportunity to be appointed to our network should we have a need for a new repairer to join.

It is through continual process improvement, day-to-day performance management and the establishment and enforcement of robust standards can we ensure confidence in recommending our Partner Repairer network. *Our overall commitment is to work together with all repairers who want to work with us, both Partner and non-Partner.*

### NRMA Insurance Assessors: the frontline of protecting consumers

When it comes to serving consumer interests, our frontline Assessing workforce lead the industry in skills and experience.

Our Assessing staff are dedicated to working with repairers to help ensure the best quality outcome for our customers, while specific quality assurance roles, supported by ongoing training and development, provide dedicated resources to improving repair quality. The Quality Inspection process, including documentation, forms, procedures and targets, is aligned nationally. A dedicated Quality Assurance Auditor (QAA) role was introduced in NSW/ACT in June 2010 and has been expanded nationally.

At the time of recruitment, all assessor candidates must come from the automotive industry and a) be appropriately trained and have appropriate technical experience, or b) have successfully completed an approved assessor's course, or c) have not less than five (5) years experience as an insurance (motor) assessor.

Upon joining our assessing team as an employee, a candidate completes a five (5) week full-time assessor's course to confirm their knowledge and skills as an assessor, whilst training them in our internal systems, processes and procedures.

As part of our ongoing commitment to training and development of our assessing teams we are working in collaboration with the Institute of Automotive Mechanical Engineers (IAME) and Auto Skills Australia. As a result our motor assessors are progressively being awarded the Certificate IV in Motor Vehicle Assessing qualification.

We also conduct extensive training with the assistance of various manufacturers and industry specialists. During the past three financial years, we provided approximately 2,400 days training for our staff.

This training included the following subjects:

- Manufacturer specifications (provided by manufacturers);
- Paint technologies, applications, rectifications, tooling;
- Plastics and panel bonding;
- Hybrid Electric and Electric vehicles;
- Steels, Structural Components and Technology;
- Compliance to revised Written-Off Vehicle Register (WOVR) legislation; and
- Attendance at trade shows.

As a result of our training programs NRMA Insurance is the first insurer in Australia to attain I-CAR Gold Insurer Status. I-CAR are an international automotive collision repair specialist training organisation that develop and deliver training programs that enable people employed in the industry to undertake ongoing professional development.

To qualify for I-CAR Gold Insurer status the Insurer must have a minimum of 60 percent of their assessors attain and maintain I-CAR Individual Platinum Status. Individual Platinum status is achieved by the assessor attaining 10 Professional Development points by successfully completing I-CAR approved courses (usually 10 courses) and maintaining this by attaining two Professional development points each year.

There are of course assessors who are not employees, contractors or agents of an insurer who may provide assessing services. These include those engaged directly by repairers.

We fully support a continued focus on professional qualifications within our own motor assessing workforce. In the interests of the consumer we believe it appropriate to extend the standards for assessor training and qualifications to all assessors including those who are Repairer quoting/estimating staff and those that aren't appointed by an Insurer.



## Our Quality Program

The National Repair Quality Framework was launched by NRMA Insurance in March 2011 and is unmatched in the industry. We now inspect on average almost 4,000 vehicles per month and report on quality, safety and alleged fraudulent repairs, as well as conducting audits on smash repair premises and equipment.

Since launching our quality program in March 2011, we have performed more than 100,000 quality inspections of repaired vehicles nationally (approximately 75,000 in NSW) and more than 2,200 audits of repairer premises and equipment, demonstrating our ongoing commitment to monitor, assess and ultimately set the quality benchmark for new industry standards.

Quality Inspections are performed on at least 10 per cent of all repairs we authorise, regardless of whether a repairer is a Partner or non-Partner repairer. In our Partner network we are currently inspecting on average 30 per cent of the repairs completed.

*Our Assessing staff dedicate their time to working with repairers to help ensure the best quality outcome for our customers, while dedicated Quality Assurance roles, supported by ongoing training and development, provide additional resources to continuously monitor and improve repair quality.*

When poor quality repairs are identified, these issues are validated, discussed with the repairer, and our performance management criteria is applied. In serious cases we may issue warnings, or even cease authorising repairs with a particular repairer or termination.

Our 10 Point Repair Quality Plan allows us to deliver high quality and safe repairs to our customers in a real, practical and measurable way.

1. Lifetime guarantees on the workmanship of authorised repairs for the life of the vehicle
2. Random Motor Assessor Quality Inspections
3. Additional independent inspections by our Quality Assurance Auditors
4. Management of the end-to-end repair process by our dedicated Repairer Performance Consultants
5. Annual increases in inspections of vehicles
6. The use of genuine parts as part of our Parts Guidelines
7. In-house Assessor training including 6 and 12 monthly exams, manufacturer training and ICAR (new technologies) & PPG (paint finish) training
8. Smash Repairer Premises & Equipment audits
9. Performance Management Guidelines for our Partner Repairers
10. Regular reporting (and action) on safety, quality and alleged fraud breaches

## Quality Results & Fraud Detection

IAG Direct Insurance released an industry-first national Quality Annual Report into the smash repair industry in October last year (see Appendix 8). The report reveals important data on industry standards compiled as part of our unique smash repair quality inspection program.

A subsequent Half Year Quality Report (July 2013 – December 2013) was published in February 2014 (see Appendix 9).

Analysis of our data reveals that from the program's inception in March 2011 to 31 December 2013 we identified:

- 2,193 quality issues nationally, 1,087 of those in NSW
- More than 300 cases of alleged fraudulent repairs nationally (226 in NSW); and
- A substantial disparity between the quality standards of Partner Repairers and non-Partner Repairers (see Appendix 10).

The reports highlight our collaboration with industry to raise the standards by enforcing our rigorous Quality Program nationally. *It also demonstrates that the Quality Program has been highly successful in protecting customers from poor quality and dangerous repairs by identifying many problems before repaired vehicles are returned to the customer.*

The quality program is underpinned by NRMA Insurance's market-leading position on the insistence of the use of genuine manufacturer parts and the skills of our Assessors who boast the highest level of training of any Australian insurance company.

## The role of the Office of Fair Trading

NRMA Insurance has developed a good working relationship with the Office of Fair Trading over the past three years. During this time we have referred to the OFT a number of cases of poor repairer quality, alleged fraud and situations where repairers refuse to release customers' vehicles.

Through the growth of this relationship it is clear that the OFT has many competing priorities and limited resources. As a result NRMA Insurance engages or requests the help of the OFT in only the most serious of matters, and once all 'beyond reasonable' avenues of settlement have been pursued and exhausted.

The current situation is not ideal as a deterrent to the type of repairer behaviour outlined in this submission, and it is not conducive to an "early intervention" approach, which in many cases would possibly resolve issues far more quickly and cause considerably less inconvenience and stress for our customers.

Moreover, as a means of protection and recourse for the general motoring public it is not sustainable. The fact that many repairers have not invested in their businesses and re-engineered their operations to survive and prosper in a market of considerable change and declining numbers of repairs would suggest that the types and volume of desperate and illegal practices we bring to the attention of the Committee are likely to get worse before they get better.

NRMA Insurance believes dedicated government resources need to be assigned to the smash repair industry (and perhaps the mechanical repair industry) to police and enforce professional industry practices and protect the rights of customers. NRMA Insurance has taken its own actions to protect customers via our unique Quality Program and the professionalism and quality standards afforded to policyholders through our Partner Repairer network, but insurers cannot do this work alone.

**Recommendation:** The committee endorse, and that government mandate, a dedicated resource to investigate and prosecute offending repairers who engage in practices which defraud customers and impinge on the rights of the motoring public and insurers to have vehicles repaired in accordance with Fair Trading legislation and the stipulations of the Code of Conduct.

## When 'choice of repairer' works against the customer

As previously explained NRMA Insurance cannot feasibly or reasonably work in a contractual commercial partnership with every repairer and as a result there are many quality smash repairers not in our network whom customers choose to fix their car and receive a positive experience.

There are, however, too many instances – as documented in Appendix 7 of this submission – where the repairer behaviour creates a shocking customer experience. The reality is there remains an element of the smash repair industry NSW motorists must be protected from. The problems our customers can face are best brought to life by a retraction letter recently sent by a customer to the CEO of NRMA Insurance following an earlier complaint.

Dear Mr Cornish,

I am writing in relation to a letter I sent you on the 28th April, 2013. In this letter I described several issues I had with how the NRMA dealt with two at no fault claims I had made.

I would like to retract my comments and claims. The reason for this is that as time has progressed and upon having my car inspected by the NRMA assessing section I have realised that the repairer, <repairer name removed> has been extremely dishonest. They told me many stories about how the NRMA conducted business with them and how they were being victimised because they were not on the NRMA preferred list.

The owner told me how he was looking after me with parts that the NRMA were rejecting. He assured me that he was looking after me despite the NRMA's stand. He led me to believe that parts and labour were being rejected as the NRMA were using this situation to put him in his place.

Many stories of victimisation were put forward to me. They were most convincing. Foolishly I believed these stories. This is when I wrote to you. <NRMA Insurance Staff Member name>, relationship manager, examined the car recently. To my dismay two repairs that had been claimed had not been repaired appropriately. Some repairs had not been done at all despite <repairer name removed> being given a second chance to rectify their errors whilst other repairs had been completed very haphazardly and certainly not to any standard.

<NRMA Insurance Staff Member name>, who demonstrated outstanding professionalism helped me to get my car repaired and completed appropriately elsewhere. Even though he didn't have to do this as I chose the non-preferred repairer in the first place, <NRMA Insurance Staff Member name> took the time and sorted out all problems with both the old and new repairer for me.

<NRMA Insurance Staff Member name>, has restored my faith in the NRMA and this is why I remain with the company as a loyal member of forty years.

I apologise for any inconvenience I may have caused and I thank you for the quick response I received when I sent my original letter. Please be assured that in the future I will only choose the preferred repairers.

Yours sincerely,

<customer name removed>

Full copies of the original complaint letter and the subsequent retraction letter are included in Appendix 11 of this submission.

Experiences of NRMA Insurance customers such as the example shown are unfortunately not unique and involve a range of deceptive and misleading business practices from offending repairers. For those customers whose vehicle is not driveable after an accident these practices start at the scene of the accident where a customer is naturally already in a vulnerable position and they are 'captured' by a tow truck driver aligned with a repairer who is not part of our network.

Some customers naturally believe they can trust *all* repairers, however sometimes this trust causes significant inconvenience and stress and leaves their vehicle at the mercy of the repairer.

A recent case study of an elderly NRMA Insurance customer being duped by a repairer and having his \$42,000 Lexus returned by the repairer in pieces is attached at Appendix 12. Also included is the action being taken by interstate Consumer Protection authorities to address similar practices.

***Business practices of some repairers: Circumventing an insurance process designed to protect the consumer***

*Where a repairer maintains a relationship based on commissions, kickbacks, fees and rebates with towing, hire car and other service providers it is ultimately the NSW motorist who suffers.* In such relationships, there is a complete lack of transparency and integrity. The customer is generally an unsuspecting victim who at best may be seriously inconvenienced by the experience, or at worst tricked into taking personal responsibility for excessive and unjustified fees and expenses.

In these circumstances repairers directly engage with customers to circumvent the insurer's ordinary process. This behaviour is clear in instances where repairers engage with our customer seeking signed authorities, or more commonly, assignments following the completion of repairs. Such inducement (if customers have any idea what they are signing) is provided under the guise of promises to waive excess, or other such monetary incentives. This behaviour has become so emboldened that repairers go to the extent of advertising such monetary incentives or inducements (see Appendix 13). This tactic usually precedes the repairer attempting to claim excessive and unjustified repair costs for work quoted, or even in some cases exorbitant quotes for work already performed by the repairer but not authorised by the insurer.

This process, disguised under a cloak of 'good faith' and far from being in the interest of the consumer, leads the customer to circumvent the entire claims process designed to protect them. What follows, where a repairer with vested interest stands between a customer and the insurer can ultimately be in contravention of the customer's contract with the insurer. These practices are becoming more prevalent in NSW and leave the customer vulnerable to breaching clauses of their insurance contract and potentially liable for the entire claim debt.

It is common for repairers directly engaged in such practices to also engage in intimidating and threatening behaviour toward insurance staff. This intimidating behaviour can, and has extended to, customers.

While we attempt to have a mature and safe working relationship with every smash repairer, there are instances where we identify poor quality or alleged fraudulent repairs, or where we fear for the safety of our staff and customers attending the repairer's premises. In these circumstances we make the decision not to authorise work with a repairer and this may include not attending their premises to ensure our staff are protected. These are not decisions we take lightly, however they are decisions forced upon us to ensure we can protect our staff as they go about their day's work.

### ***Repairers inducing customers to sign onerous and invalid contracts***

As alluded to in the previous section, some repairers are increasingly pressuring customers to sign quasi contracts which they then use to justify a range of behaviours constructed to extract unreasonable and unjustified fees from insurers. These "contracts" are usually presented to the customer under the guise of a "Customer Information Form" or similar (see Appendix 13).

The repairer then asserts that this signed "contract" entitles them to claim storage costs and other fees, and then uses the "contract" as a means of holding the car for as long as possible despite the fact they are not authorised by the insurer to carry out the repair work. *The customer is technically liable for such an agreement, but it is the insurance company who is held to ransom by the repairer until such fees are paid, which regularly run into the thousands of dollars.*

Customers are blindsided by such a tactic, and in the majority of cases quite innocently believe they are obliged to sign such forms and are doing the right thing. The reality is very different. The Product Disclosure Statement (PDS) which the customer has agreed to as part of his/her contract with the insurance company is *the* prevailing agreement/contract in any interaction between the customer and a repairer. The agreement with the repairer is not recognised, however where the repairer has the vehicle captive and the customer quickly realises the mistake they have made the insurer is in the unenviable position of trying to secure the vehicle. What results is a 'hostage' situation where the repairer preys on the customer's stress and the inconvenience being caused to extract a maximum ransom from the insurer to have the car released.

An example of this tactic is attached at Appendix 14. Recommendations to eliminate this practice are addressed in the suggested changes to the Code of Conduct in this document.

## Repairers & Credit Hire Car Operators: Defrauding Consumers and Insurers

The insurance and motor vehicle repair industry operate under a business-to-business code of conduct. The principles of the Code of Conduct state that: “Insurers and Repairers agree to observe high standards of honesty, integrity and good faith in conducting their business with each other and in the provision of services to motorists” (MVIRI code of Conduct, 2006, P.7).

It is NRMA Insurance’s view that the majority of Repairers and Insurers act in accordance with these values in the conduct of day-to-day business. However, there continue to be too many instances where some repairers (and related entities) outside of our Partner network derive substantial and illegitimate commissions and fees from the provision of hire car services to customers. This practice, involving the use of a hire car offered on ‘credit’ (also known as demurrage’ cars), often results in customers being exposed to undisclosed costs and litigation, as well as placing pressure on the cost of insurance premiums.

We understand the hire car scam offered by non-Partner Repairers to operate like this:

1. The motorist has an accident which is not their fault;
2. the Motorist has their vehicle taken to a non-Partner Repairer, often under the influence of a Tow Truck driver who ‘captures’ the customer at the scene of the accident;
3. the Motorist is either uninsured or does not have a hire car option in their insurance policy (there are only a small number of claims where the Motorist is insured and does have a hire car option as part of their insurance policy);
4. the repairer suggests they obtain a hire car from a credit hire operator “at no charge”;
5. the repairer arranges for the credit hire car to be provided;
6. either the repairer or a representative of the credit hire operator deals with the Motorist to have them execute:
  - a. a rental agreement, and
  - b. a mandate and authority to act.
7. the Motorist uses the credit hire car for the relevant period of time their car is off the road in repairs;
8. the Motorist returns the hire car; and
9. the credit hire operator then makes the demand for the cost of hiring the credit hire car upon the insurer of the at-fault driver, or the Motorist, via a solicitor.

It is within such practices (like the scenario outlined) that unsuspecting motorists are not fully informed by the repairer of their obligations and exposure. Motorists are subsequently exposed to litigation through the court system as repairers or their recovery agents pursue debt recovery action either on their behalf or against the motorist.

The below is a summary from a statement by a consumer who, following a car accident, entered into a hire car arrangement with a Repairer on the understanding that she would not be liable for the Credit Hire Car costs, only to find to her surprise she was liable.

### The repairer said:

***‘It’s a demurrage car. The NRMA gives you a car of equal value if you are not at fault. It’s just sitting there. It’s brand new. It’s beautiful. All you’ve got to do is say you need it for work.’***

### The customer replied:

- *"I did not at first agree to take the demurrage car. The repairer appeared very eager for me to take the demurrage car. He appeared to be getting a bit annoyed that I did not want to take it. From the way he pressed me to take it he appeared more concerned about getting me into a demurrage car than he was about the repair work to my car.*
- *After I returned the car to the repairer, I did not expect to hear any more about it. Some time later I received a letter telling me that I owed almost \$18,000 for car rental and to agree to the appointment of a solicitor.*
- *At some point after I received the letter I received a phone call from a female person. She said words to the following effect:*
  - ***"Someone's going to pay for this one way or another. We can do this the hard way or the easy way."***
- *I received a phone call from a man identifying himself to be a solicitor. In the course of the conversation he said words to the following effect:*
  - ***"Car claims are all I do. It's my sole business. I win nine out of ten times. It won't cost you anything."***
- *I received a phone call from the repairer which included a conversation to the following effect:*
  - ***Why don't you just sign it (to appoint the solicitor). It's a demurrage car. Just sign it.***
- *I said: It's \$18,000. I could buy myself a new car for that. I'm not going to sue the NRMA."*

*"At no point prior to the February letter did anyone ever say anything to me that caused me to think I might in any circumstances have to have to pay for the use of the other car, or that I might have to agree to legal proceedings [against NRMA Insurance] in order to avoid paying for the use of the other car. That was not my understanding at the time when I collected the other car, and signed the documents on the clipboard [which were represented to our customer as only agreeing that there was no damage to the car]."*

*"If anyone had told me that I might in any circumstances have to pay for the use of the other car, or that I might have to start legal proceedings to avoid doing so, I would definitely said that I did not want the other car."*

The customer's transcript of evidence can be found at Appendix 15. There is often a mistaken belief that the repairer is providing an added customer service to the motorist, when in fact a third party hire car operator is the supplier. Referrals are provided by the repairer with an incentive of a fee provided for each referral given to these third party providers. In many instances this fee arrangement is attempted to be legitimised by the third party provider and the Repairer as a fee provided for either storing or detailing the vehicle upon its return.



It is not just the repairers who are engaging in alleged fraudulent or otherwise deceptive behaviour. NRMA Insurance is aware of a number of instances where invoices have been rendered by Credit Hire Car operators for vehicles allegedly provided on credit hire to consumers. However, upon subsequent investigation the vehicle allegedly hired either belongs to another individual or is otherwise a deregistered vehicle.

In some cases, depending on the type of vehicle on hire and the length of time hired, the hire car costs far exceed the repair costs for a vehicle. The extent of this problem is such that NRMA Insurance was exposed to approximately 3,500 claims of this nature incurring \$8.32 million in costs in the 2012/13 fiscal year. In addition, motorists (the general motoring public) are being needlessly exposed to litigation and excessive costs through these dishonest practices.

The Credit Hire Car problem in NSW is best identified by Magistrate Milazzo, a South Australian Magistrate who adopted an external perspective of the NSW market. In Magistrate Milazzo's decision of *Carapetis v Lawrie* she made the following observations of the Credit Hire Car operation:

*"The documents do not record the real agreement between the parties. They are an attempt to clothe the transaction between the Doctor and the hire company with a cloak of commercial reality so that the hire company can exploit the plaintiff's claim for general damages and profit itself from that claim to the unfair detriment of the defendant's insurer."*

Further she identified that this behaviour was being encouraged by the courts in her observation:

*"the Court in NSW appears to have allowed inflated claims for general damages divorced from commercial reality."*

NRMA Insurance believes this deceptive and alleged fraudulent behaviour could be largely curtailed by compelling Repairers to provide full and prominent disclosure to Motorists of a) the Repairer's financial interest/benefit in hire car transactions, and b) the risks to the Motorist in accepting hire car arrangements from a Repairer.

It is our view that this disclosure and transparency from Repairers should be extended to include all costs and risks to Motorists relating to commissions, credits, allowances and rebates that the Repairer receives or may receive from tow operators, courtesy car providers, debt recovery agents or any other persons.

This would give members of the public a fair and reasonable opportunity to understand and consider the proposed arrangements and any consequences of entering into such a deal.

The full impact of this scam has been experienced in the UK where the UK Office of Fair Trading (OFT) recently surmised that motor vehicle repairs were unnecessarily high for all drivers.

In addition, an investigation by the UK's Competition Commission late last year found the extra cost to insurers of credit hire cars over "direct" hire cars was hurting consumers to the tune of 200m pounds in additional policy costs each year.

While the reach of these scams in Australia is not yet at the level experienced in the UK, if we are to ensure a 'fair go' for the NSW motoring public then government must act quickly to eradicate these practices.

**Recommendation:** Fair Trading NSW considers a public awareness campaign to ensure NSW motorists are not exposed to litigation as a result of credit hire scams. Such a campaign would also work to keep insurance premiums affordable for the broader motoring public given the fact our customers, and therefore NRMA Insurance, can and has been sued as a result of the scams and the costs potentially place pressure on the cost of premiums.

## **Staged accidents: criminal & fraudulent activity endangering NSW motorists**

When it comes to insurance scams involving the unscrupulous business practices of some smash repairers, nothing is more serious than staged accidents. In addition to pushing up prices for consumers, there is evidence suggesting fatalities and serious injuries have resulted from suspected staged collisions.

Those involved in the collisions claim injury as a result, and may make large injury claims that can also impact the price NSW motorists pay for Compulsory Third Party insurance (CTP).

It is suspected a large network of staged collisions is in operation which has led to fatalities and a number of claims for injury. The scale of this network is unknown but no doubt there is unnecessary pressure placed on NSW emergency services, already dealing with a range of community safety concerns.

Given the far-reaching unscrupulous networks involved in the scams, addressing the issue may be beyond the remit of this Committee. However, smash repair businesses are commonly part of the scam.

Typically, a staged accident involves buying a damaged luxury car cheaply at auction, patching it up just enough to get it roadworthy and then insuring it for more than the vehicle is worth and a great deal more than has been spent at auction.

The issue is best exemplified by a recently reported case involving a luxury vehicle. In just 11 months a Maserati Quattroporte was hit eight times by different vehicles, causing more than \$260,000 of damage (see Daily Telegraph media article, Appendix 16).

Each time the accident was said to be the fault of the other driver.

Police alleged the luxury car is one of three at the centre of an insurance scam in which the owners claimed for damage done in staged accidents in Burwood, NSW.

Another Maserati, a Granturismo, and a Mercedes SLK were also used in the alleged scam, which made a total of 18 claims totalling more than \$500,000 from 11 insurance companies over a similar 12-month period.

Thankfully, in this case, NSW Police and insurance investigators joined forces in a six-month operation which resulted in the arrest of two men and a woman last year.

The alleged scheme involves a driver running into one of the three cars, which is then towed to a smash repair business. A claim is then submitted to the company which insures the at-fault car.

The drivers of the at-fault vehicles were also said to be involved in the scam.

In each instance the repair work was allegedly carried out at B and T Collisions in Burwood. The owner of this smash repair shop is one of the men charged. The three cars were also registered to the owner of this repair shop.

*It is important to note this repairer applied to be part of the NRMA Insurance Partner repairer network when our RFP was undertaken. Following receipt of their application and a visit to the repairer's premises they were deemed unsuitable for our network.*

NRMA insurance trusts that this Committee will make recommendations to Government that look at stamping out such practices. This action could be assisted by improved collaboration between government branches including NSW Police, NSW Ambulance, Workcover and the Motor Accidents Authority and the insurance industry.

**Recommendation:**

- Establishing an insurer led and government-backed task force/council made up of Roads and Maritime Services, The NSW Office of Fair Trading and NSW Police (and NSW insurers) to tackle the range of issues, including:
  - public education initiatives associated with motor repairs
  - motor repair fraud
  - credit hire scams and,
  - staged accidents.

## **Unethical practices of competing insurers: making NSW motorists pay more for their insurance**

When it comes to the business practices of insurers, the area of “third party recoveries”, also known in the industry as ‘oneies’, is another area that should be considered by the Committee.

Essentially, the practice is unethically structured around a competing insurer using repairs NRMA Insurance is liable to pay as insurer of the at-fault party for as either a revenue stream, or to subsidise the repairs this competitor ultimately pays for where their customer is at-fault.

An example of this behaviour, which is detrimental to the consumer, is demonstrated in the following scenario.

‘Party A’ is liable to pay the cost of repairs to ‘Party B’ following an accident where the liability rests with Party A (eg a NRMA Insurance insured vehicle is at fault in an accident with a competitor’s insured vehicle).

Party B (competitor) obtains a repair quote for which Party A (NRMA Insurance) is liable, and the insurer of Party B (competitor), through a pre-arranged agreement with the repairer, authorises a repair cost which is likely to be higher than if Party B (competitor) was liable. The insurer for Party A may not be in a position to challenge the amount or the work undertaken, particularly where the work has commenced or there is no evidence supporting the final amount for which Party A is liable.

If, on a regular basis, multiple 'Party B' type quotes are inflated (relative to other quotes normally obtained by the same repairer) this may serve as an inducement to lower the cost of repairs that the insurer of Party B is liable for, benefiting Party B's insurer with a lower cost of repairs overall.

Such practice is not endorsed by NRMA Insurance and can ultimately affect the price that NRMA Insurance customers pay for their insurance.

*In contrast, the Partner Repairer model adopted by NRMA Insurance actually passes on the benefits of its repair model efficiencies and productivity to other insurers.*

**Recommendation:** Fair Trading laws, and/or the MVIRI Code of Conduct, require repairers/and or insurers who have evidence of this practice to disclose such cases to the Office of Fair Trading.

As a deterrent to such practices a penalty provision should be considered by government to penalise any party who engages in this practice (including both insurers and repairers themselves).

## **Licensing and non-insurance repairs**

In the state of NSW licences are required for motor vehicle repair work. Licensing is valuable in that it provides a consumer protection framework which affords the general public the opportunity to deal with someone who has appropriate qualifications for the service delivered, as well as providing a mechanism for regulators to enforce compliance and remove unfit persons from the licensing system.

NRMA Insurance is also aware of instances in recent times where repairers have only obtained a new licence after being threatened of being exposed by their industry body.

*Licensing, however, acts only as a minimum standard - it does not provide a guarantee to consumers that they will receive industry best practice quality and customer service.*

This point is important because in the motor vehicle repair sector, there are two streams of repair:

- I. Repairs authorised and managed by insurers; or
- II. Repairs authorised and managed by a consumer.

### **i) Insurance Repairs**

For insurance motor vehicle repairs, licensing will only be able to provide a minimum standard, not a quality standard and a guarantee of an excellent customer outcome.

Licences are only a signifier that the repairer has identified themselves with Fair Trading as having obtained a trade certificate at some point in the past. It does not signify how up-to-date the qualifications are, the ability, standard of the workshop and tools and how much value a repairer places on operating under the relevant workplace safety, environmental and other regulations.

Hence, the fact a repairer has a licence is only one consideration as to whether we will recommend our customers to use that repairer, authorise their work and provide a lifetime guarantee on the repair.

While licensing and regulatory regimes the NSW Government has in place are vital, the NRMA Insurance Quality Framework for motor vehicle repairs referred to previously provides a further important “check and balance” mechanism for managing and delivering quality repairs to customers’ cars.

## **ii) Non Insurance Repairs**

Non-insurance repairs describe where the customer deals directly with the repairer without an insurer providing a recommendation, guarantee or inspection of work performed. NRMA Insurance believes in these circumstances licences provide a consumer with some level of confidence that the repairer of their choice has the requisite knowledge and endorsement of the Regulator, and is able to deliver a safe repair of the damaged vehicle.

Licensing can only provide a minimum standard: it is our view that enabling repairers to invest in new equipment, expertise and develop greater efficiencies in their businesses will over time provide the best quality and customer satisfaction outcomes. It is this premise on which our own Partner network is based.

*Regulation therefore needs to be targeted toward setting a safe minimum standard. A licensing system in itself cannot be used as an endorsement of a repair shop’s quality:* many other factors such as staff training and skills, new equipment and technology and the quality processes and systems employed by smash repair shop owners contribute to overall standards.

Insurers cannot “regulate” every repair however they have become, in effect, regulators of the repair industry. Even then there are limits to what they can do without the benefit of supporting legislation and enforcement. Perhaps, as an alternative or complementary to legislation, there should be a Code of Conduct regulating repairers and consumers (insured and uninsured).

The uninsured in our communities do not have the benefit of protection by insurers. They deserve this protection.

*A “display your licence” system is currently in operation in Western Australia which requires all licensed repairers must display a Licensed Vehicle Repairer sign in their place or places of business to which the licence applies.*

NRMA Insurance also notes the valuable work being performed in Western Australia by the Consumer Protection agency in relation to unlicensed operators being in breach of the Australian Consumer Law. As a result two partners in a smash repair business were fined a total of \$34,000 for operating without a licence and for misleading consumers.

**Recommendation:**

a) Government consider a “Display Your Licence” system where repairers are compelled to display a prominent sign in their smash repair shop to certify they are a licensed operator, the class of work they are licensed to perform and their licence number, to be possibly renewed on an annual/bi-annual basis and issued through an appropriate government agency eg Fair Trading.

b) An industry/government working group be formed to set safe minimum standards for the repair industry. Repairers who apply to be assessed and meet this criteria are awarded special accreditation for a fixed period (eg 3 years). NRMA Insurance, which has already developed a Quality Framework, would be willing to participate in such an exercise.

## The IAG Research Centre

NRMA Insurance’s commitment to quality repairs and staff training goes beyond ensuring assessors are adequately trained. We own and operate the ‘IAG Research Centre’ which is the only insurance-based research centre in Australia and its contribution to vehicle safety, anti-theft, security and crash repair research is widely recognised internationally.

One of the most important roles of the Research Centre is providing technical training and information to Assessors. This function is critical given that in recent years cars are becoming more complex and difficult to repair without the right skills and equipment. In addition, the Research Centre is involved in a number of operational road safety activities including setting technical standards for repairs, distributing manufacturer’s preferred repair methods and operating an assessor and repairer help desk, aimed at ensuring that cars we repair maintain their crash safety performance.

In recognition of the outstanding contribution the Centre makes to motor vehicle design, safety and innovation we have representation on the ANCAP Technical Committee and ANCAP Council and is the only insurer to be invited to be an ANCAP member.

Over the 23 years that the Research Centre has been in existence, it has actively been engaged in physical safety research including driver distractions and vehicle visibility. In fact, the Research Centre is widely regarded as an expert in vehicle reversing visibility, having developed the world’s first rear visibility rating system in 2004 and published every year since. The Centre is also the provider of the head restraint ratings that are now part of the ANCAP 5 star requirement.

The Research Centre is also a member and Chair of the international association of insurance research centres, RCAR. RCAR’s road safety activities include testing head restraints and promoting better head restraint design in cars, promoting and testing primary safety systems such as ESC (Electronic Stability Control), AEB (Autonomous Emergency Braking) and car-to-car communication systems. It is RCAR’s head restraint rating system that has been adopted by ANCAP.

We remain the only insurer to be invited to participate in the NSW Road Minister’s Road Safety Advisory Council.