

MOTOR VEHICLE REPAIR INDUSTRY

Name: Mr Rob Stokes MP
Position: Member for Pittwater
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Rob Stokes

Pittwater MP

Select Committee on the motor vehicle repair industry
Parliament House
Macquarie St
Sydney NSW 2000

Dear Committee Manager,

Thank you for the opportunity to make a submission to this inquiry on behalf of the Pittwater community.

With more than 6 million registered motor vehicles in NSW, the motor vehicle repair industry is a large and significant component of the NSW economy. The total value of the motor vehicle smash repair industry, together with automotive services and maintenance is estimated at more than \$5.5 billion, and employs tens of thousands of people. There are many businesses, families and individuals in my community of Pittwater who work in this industry and who are eager to ensure that it is protected and that the high standards they employ in their businesses are upheld throughout the State.

An effective motor vehicle repair industry will provide the best possible results to motorists through ensuring the delivery of the highest quality repairs at the lowest possible cost. Competition, choice and diversity are important features of an effective motor vehicle repair industry in driving down the cost of repairs and creating incentives for repairers to perform at the highest possible standards.

I have been informed, however, that the existence of effective competition in the industry is facing significant challenges, and that the interests of motorists are being forgotten in a drive for efficiency by major players that is undermining transparency and repair quality.

I understand that insurance companies of all sizes have sought to establish networked smash repairer schemes and preferred smash repairer agreements to control and manage costs in order to increase their market share within the industry.

Apart from the obvious financial implications that this type of set-up has for independent businesses, there is growing concern over the quality of vehicle repairs being completed and the messages being conveyed to the next generation of vehicle repairers who are currently completing their apprenticeships within an overly centralised and anti-competitive climate.

In 2005 a report into the smash repair and insurance industry by the Productivity Commission found that repairers obtain around three-quarters of their income from insurance work and that many repairers feel exposed to the major insurers' market power. The report also found that repairers believe that insurers, through unfairly seeking cost reductions, are causing harm to the repair industry.¹

Many local repairers in Pittwater believe that businesses operating independently from insurer networks are increasingly disadvantaged and that it is everyday motorists who are finding themselves at the wrong end of badly skewed and increasingly uncompetitive arrangements.

¹ See Australian Government Productivity Commission, *Smash Repair & Insurance* (August 2005).

These repairers believe that the arrangements being established by insurers are enabling them to persuade, or even force, their policyholders to engage specific approved repairers, are influencing pricing in the industry and are controlling the promotion of third party demurrage services.

A real concern is that the vertical integration of insurance, assessment and repairs in the one business is undermining effective choice of repairer. A fundamental ingredient of effective competition in the smash repair industry is the right of a motorist to choose their own repairer. Choice is important because many motorists have established a real confidence in the ability and workmanship of a particular repairer, and the system should operate to provide a free market where good repairers in a local community are rewarded with custom based on their reputation and local standing.

I am advised, however, that some insurers offer additional benefits to customers that select the insurer's preferred repairer, others impose hurdles such as the need to obtain multiple quotations. I am further advised that some insurers obfuscate a customer's freedom to choose their own repairer when discussing an insurance claim. In fact, I understand that where a customer indicates a choice other than a preferred repairer there are instances where they are informed that repairs may not be authorised, that guarantees may not be offered and that extended assessment periods may apply.

One alarming example I have been told about is that of a local repairer who had a lady in his office who was trying to lodge a claim with her repairer over the phone and was being actively persuaded to search around for other repairers who may do the work cheaper. Despite telling the insurance assessor repeatedly—on five occasions—that she had chosen her smash repairer due to the business locality and good reputation, the coercion that was applied to her to go bargain hunting on the assessor's behalf was completely over the top. This is despite her policy stating that she had a choice of her own repairer. This example points to plain dishonest activity by the insurance company. Unfortunately, I have received far too many examples of this happening. Luckily, on this occasion the lady was savvy enough to hold firm on the fact that she wanted a local, reputable repairer to do her repairs and did not want to go hunting around for lower prices.

Choice of repairer should mean choice of repairer—that is what reputable smash repairers are screaming out for—to ensure that quality standards within the industry are upheld. Unfortunately, almost all smash repairers are able to recount examples of horror repair jobs they have seen or heard about, where cars had been repaired inadequately and costs had clearly been cut. While the repairer may have received the money and the insurer is happy with the money that was saved, the whole episode is to the detriment of the vehicle and the safety of its passengers. Fortunately, the industry is lucky to have enough reputable and honest smash repairers, including those in my community, who are doing the right thing and sticking up for their customers and the safety of all drivers on our roads.

Furthermore, I understand a practice is now emerging whereby insurers insert a clause in their contracts with repairers that their own employees, contractors and agents must be permitted to enter business premises to carry out a particular aspect of repairs. To many this is a bridge too far and raises questions surrounding how repairs can keep on top of, and guarantee, quality and safety standards.

Concerns have deepened further, however, as major insurance groups have begun establishing and operating their own smash repair businesses. The real danger with this situation, particularly for those customers that have "no choice" policies, is that insurance companies are gaining complete control over the entire vehicle repair process. Effectively, what we are now seeing with these totally integrated organisations is employees of the one insurance group assessing, quoting, repairing and carrying out the quality inspection of their own work. As Lord Acton's famous dictum states, "Power tends to corrupt, and absolute power corrupts absolutely".

I have been contacted by motorists who have exposed the obvious holes, safety concerns and lack of appeal mechanisms in a set-up such as this. I applaud the operators in the Pittwater business community and all those throughout NSW who have put up their hands to register their concerns.

One email I received from a motorist who was attempting to address ongoing issues with inadequate and faulty repairs to her vehicle because of the set-up created by these one-stop-shop operations stated that:

There is no power of authority to protect the interests of consumers. Cars carrying lives should be the top priority. There needs to be change so persons like myself don't suffer the undue stress of being absolutely powerless.

I have also recently been made aware of an alarming example where a major insurer is putting undue pressure on an individual to pay an unrealistic amount to repair a vehicle that has very little actual market value.

This situation has arisen because the vehicle in question is insured for an agreed value far greater, almost five times, than its actual market value. This means that instead of the individual being able to settle with the owner's insurer for the vehicle's actual value – the inflated value means the insurer has not declared the vehicle a loss and has quoted for repairs to be undertaken which exceed the vehicle's market value – by almost three times.

This person has correctly pointed out that should the major insurer be dealing with another insurer, and not a private individual, there is no chance the other insurer would be paying any more than the actual market value for the vehicle. This example points to a serious flaw in the system and one that is clearly being unfairly used by major insurers when dealing with private individuals.

The northern beaches smash repair industry has contracted by a third over recent years, from 60 businesses to 40. This is a real problem for young people trying to get an apprenticeship in this industry locally.

Of course, the insurance industry points to research, such as that conducted by IBIS World in its 2011 report "Smash Repairing in Australia", that there are too many repair shops for too few motor vehicles, and that the exit of inefficient small owner-operators will improve the profitability of the industry.² Insurers point to the fact that over the past decade the motor vehicle industry has become far more complex, with only six manufacturers operating in Australia in 1990—more than 40 are operating today—making repairs more complicated. This is all true, but it does not mean that all smaller smash repairers should be forced out of business or that centralisation of repairs will improve outcomes for claimants. Insurers need to ensure that a drive for efficiency does not come at the cost of quality service and choice. The issue of choice raises a real problem, which has been explained to me, with insurer adherence to the Code of Conduct for Smash Repairers.

There is merit in the idea that vehicle repair operators should be able to seek assistance with contractual issues they face with insurers under an arrangement similar to that being put in a place by NSW Fair Trading between motor vehicle dealers and manufacturers – in consultation with the newly established NSW Small Business Commissioner.

There is also merit in extending the legal requirement for insurers to advise Fair Trading about any fraudulent activity or poor-quality repairs that they become aware of, including when the insurer has a financial interest in the repair shop in question, to consumers.

² IBISWorld, *Smash Repairing in Australia* (January 2012).

Repairers I have spoken to are of the strong opinion that consumers need to receive this information from an independent source and they cannot rely on insurer recommendations. I was staggered to learn recently that insurers who have proven concerns about the quality of repairs done by a particular repair business do not share this information with their customers, but rather cash settle their claims. They do not give customers information that is absolutely relevant to their choice of repairer.

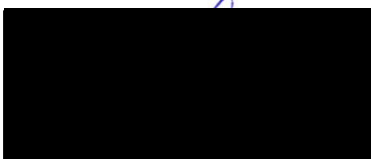
If I withheld relevant information when taking out insurance, it would vitiate the contract and void my insurance. Surely insurers should treat policyholders in the way they expect to be treated in return. Furthermore, there is also a strong belief amongst Pittwater's repairers that Assessor licensing should be introduced to ensure that all players in the industry are competent and uphold the highest quality standards.

Others matters of concern in the motor insurance industry have also been raised with me, including the difficulties and concerns associated with online tendering, where the cheapest quote wins the work. Not only does this present uncertainty to customers surrounding where their vehicles are to be repaired and a sense of loss of control over the issue; I understand it has also led to concerns amongst repairers about some operators significantly reducing costs to win tendering work and then inflating quotes on other work in order to recoup any profits lost on the jobs for which they have tendered. For repairers throughout Pittwater who operate honestly and try to develop strong relationships with their customers and generate good reputations, the whole process surrounding tendering can clearly be disheartening.

Whilst these local repairers, and many of their customers who I have spoken to, are supportive of recent changes introduced as part of the *Motor Dealers and Repairers Act 2013*, there are still increasing imbalances in the relationship between insurers, repairs and customers which need to be addressed. This is not only to ensure consumer confidence, value, ethical behaviour and high standards in the industry, but most importantly to ensure safety on our roads.

Thank you for your consideration of this important issue.

Yours sincerely,



ROB STOKES MP
MEMBER FOR PITTWATER