



6 September 2019

Parliamentary Officer
Economic & Finance Committee
Parliament House
North Terrace
Adelaide SA 5000

Submitted by email: EFC.Assembly@parliament.sa.gov.au

Insurance Australia Group Limited (**IAG**) welcomes the opportunity to make a submission to the Economic and Finance Committee's Inquiry into the Motor Vehicle Insurance and Repair Industry in South Australia.

IAG is the parent company of a general insurance group with controlled operations in Australia and New Zealand. Our businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (in Australia); and NZI, State, AMI and Lumley Insurance (in New Zealand).

With more than 8.5 million customers and information on the majority of motor vehicles and domestic residences in our markets, we use our leadership position to understand and provide world-leading customer experiences, making communities safer and more resilient for the future. IAG authorises repairs on approximately 400,000 motor vehicles annually.

Our purpose is to "make your world a safer place". We recognise that our role extends beyond transferring risk and paying claims. Our purpose drives our business to work collaboratively with communities to understand, reduce and avoid risk, and to build resilience and preparedness. This results in better outcomes for the community and means fewer claims and lower costs for our business.

We work collaboratively with government, industry bodies and Australian and international organisations on a range of topics and issues that relate to our customers, our people and the community. These include climate change, disaster response and resilience, and diversity, inclusion and belonging.

If you have any questions or require any further information please do not hesitate to contact

[REDACTED] on [REDACTED] or
[REDACTED].

Yours sincerely

Steven Fitzpatrick
Executive General Manager



On 3 July 2019, the Economic and Finance Committee resolved to inquire into, and report on the motor vehicle insurance and repair industry in South Australia, with regard to:

- 1) *whether insurers and repairers respectively authorise and carry out repairs with the objective of restoring safety, structural integrity, presentation and utility of the vehicle, complying with relevant Australian law and fulfilling their obligations to the policy holder;***

At IAG, our purpose is to make your world a safer place. Our purpose is underpinned by our belief that we can make tomorrow safer than it is today for people who count on us. We are the only insurer in the southern hemisphere that has a dedicated Research Centre¹ to help make our roads safer.

Safe repairs are of critical importance to IAG and closely connected to our purpose. The most fundamental expectation of our partner smash repairers (**PSRs**) and non-partner repairers is that any repair work they do adheres to our high quality standards and does not result in our customers' vehicles being unsafe to drive.

We impose strict contractual requirements on all PSRs and non-partner repairers that all repair work be performed in accordance with:

- documented manufacturers' technical specifications (including those supplied by other industry recognised agencies or authorities recognised by us)
- any lawful mandatory specifications and standards
- our Quality Repair Criteria.²

We also require the use of parts that:

- comply with the manufacturer's specifications
- conform with all relevant national standards set out in the *Motor Vehicle Standards Act 1989* (Cth), any published Australian Design Rules and standards published by Standards Australia
- comply with our Parts Guidelines³
- do not compromise the safety or repair integrity of the vehicle
- do not void or affect any warranty provided by the manufacturer of the customer's vehicle.

Over the years, insurers have been criticised in relation to their PSR arrangements with claims they are just looking for opportunities to cut costs and that this leads to poor quality, and sometimes unsafe, repairs. In IAG's experience, this is not the case.

1 The IAG Research Centre works with the automotive industry to carry out the physical testing and data analysis to help reduce the cost of comprehensive car insurance. It also advises consumers on car safety issues and provides technical information for the smash repair industry. For more information, please visit: <https://www.iagresearch.com.au>.

2 Our Quality Repair Criteria is available at http://www.repairernetwork.com.au/sgic/sites/sgic-smash/files/uploaded_files/Repair%20Criteria_0.pdf (accessed on 6 September 2019).

3 In general, we authorise the use of new OEM parts within the first 3 years of a vehicle's compliance date (when available and subject to limited exceptions). Our Parts Guidelines is available at http://www.repairernetwork.com.au/sgic/sites/sgic-smash/files/uploaded_files/IAG_Parts_Guidelines_0.pdf (accessed on 6 September 2019).



We note that a number of public inquiries have found no evidence of safety issues resulting from PSR arrangements, including:

- In 2005, the Productivity Commission found there was no evidence to indicate a systemic or industry-wide problem in relation to safety of repairs undertaken by PSRs⁴
- In 2014, the New South Wales Inquiry acknowledged that PSR arrangements “can assist customers in having their vehicles repaired in a timely and efficient manner” and that “[w]hile the Committee has received anecdotal evidence from repairers about contractual arrangements of preferred repairer schemes potentially resulting in poor quality repairs the Committee does not consider preferred repairer schemes in themselves to be the cause of poor quality repairs. In relation to this, the Committee specifically acknowledges NRMA’s submission... that recommending ‘preferred repairers’ to their customers ‘is the most effective way to control quality of repairs...’”⁵
- In 2018, the Western Australian Economics and Industry Standing Committee found that “evidence gathered by the Committee indicates that the pressures the smash repair companies work under has not led to a drop in the standard of repairs being completed in Western Australia, particularly the safety of repairs.”⁶

Further, in an independent report commissioned by IAG, it was noted that “[t]here are very few reported cases of a poor quality of repair having contributed to an injury or fatality.”⁷

IAG has developed a deep understanding around quality of repairs and recognises that sub-standard repairs may risk the safety of our customers and will reduce consumer confidence in our products. For this reason, we only accept high-quality repairs and we remove sub-standard repairers from our PSR network by actively implementing performance management measures. We also recognise that defective repairs will simply mean that we will have to arrange for a repairer to fix the vehicle again, which adds time to the claims settlement process and results in an unhappy customer.

IAG believes PSR arrangements ultimately raise consumer value because:

- insurers manage the repair process and work with the PSR on the customers’ behalf from start to finish
- insurers are generally in a better position than consumers to evaluate smash repair services (including assessing the quality of repairs and identifying any defective repairs).

4 Smash Repair and Insurance, [Productivity Commission Inquiry Report](#) No. 34, 17 March 2005 (**Productivity Commission Report**) in response to the Smash Repair and Insurance Public [Inquiry](#) (**Productivity Commission Inquiry**).

5 The Select Committee on the Motor Vehicle Repair Industry (**New South Wales Inquiry**) [Report](#) 1/55, July 2014, pages 25-26 (**New South Wales Inquiry Report**).

6 Western Australia’s Smash Repair Industry: Structural Challenges, Economics and Industry Standing Committee November 2018, [Report 4](#) (**Western Australian Inquiry Report**) in response to the [Inquiry](#) into WA’s Automotive Smash Repair Industry (**Western Australian Inquiry**), page 35.

7 Dr Richard Tooth and Dr James Swansson, A review of smash repair industry trends, 25 July 2019, page 36 (annexed to this submission and marked ‘A’).



Reputation is also an important concern for PSRs and this incentivises them to complete repairs to an appropriate standard. From the PSRs' perspective, sub-standard repairs may result in additional costs in the form of rectification repairs. More importantly, poor repair quality may negatively impact the potential for further business from insurers. Attracting business from insurers (and maintaining existing commercial arrangements) requires an attractive offering in terms of price, quality of repair and customer service.

IAG is proud to partner with highly skilled and motivated PSRs in South Australia who share our commitment to quality, safety and great customer service.

Each year, IAG releases its Quality Report – the insurance industry's only report that provides annual data on motor and property repair standards. The Quality Report provides an insight into the monitoring, assessment and quality repair standards across IAG's nation-wide motor and property repair network.⁸

The 2017/18 IAG Quality Audit Report notes that IAG completed over 54,000 quality inspections across its motor brands, representing 12.3% of all authorised repairs. The number of quality issues⁹ identified were small – quality issues were identified in approximately 4% of inspections and potential safety issues¹⁰ were identified in very few cases. In South Australia, we completed 3,322 quality inspections across our motor brands, representing 12.7% of all authorised repairs. Again, the number of quality issues identified were small – quality issues were identified in approximately 6.8% of inspections. IAG leads the industry in conducting these inspections.

IAG is also focused to ensure our assessors and partners continue to build their knowledge, keep up-to-date with new technology and are suitably trained. We believe education and training has led to significant benefits in terms of improvements to quality and productivity. Our people are the most highly trained in the country. Our assessors have industry experience / qualifications and possess the most current industry certification, being Cert IV in Vehicle Loss Assessing.¹¹ For the sixth consecutive year, we have also achieved an I-CAR¹² Gold Class for Insurance.¹³ To achieve the I-CAR Gold Class for Insurance, 60% of our assessing staff must achieve Platinum certification. As at the date of publication of the 2017/18 IAG Quality Audit Report, IAG had over 90% of its assessing staff accredited at the Platinum status.¹⁴

8 The 2017/18 IAG Quality Report can be found at:

<https://www.iag.com.au/sites/default/files/Documents/Announcements/IAG-Quality-Report-2017-18.pdf>

9 Quality issue (as distinct from a safety issue – see below) means a repair issue requiring slight or minimal rework through to poor repair potentially compromising the pre-accident condition of the vehicle.

10 Safety issue means a significant rework/rectification required due to poor repair potentially compromising the safety of the vehicle therefore not meeting our quality and safety standards.

11 <https://training.gov.au/Training/Details/AUR40514>

12 <http://i-car.com.au>

13 2017/18 IAG Quality Report, page 7.

14 To achieve Platinum certification, each assessor must obtain and maintain Individual Platinum certification. Platinum certification is achieved by completing 10 courses initially and then a minimum of two courses annually to maintain the certification. Refer to the 2017/18 IAG Quality Report, page 7.



2) *the 2017 Motor Vehicle Insurance and Repair Industry Code of Conduct (the Code), its governance structure, the application of the Code's dispute resolution process, in particular the overall effectiveness of the dispute resolution mechanisms in regulating the relationship between collision repairers and insurers and in protecting consumer interests;*

IAG (through various brands, including SGIC, SGIO, NRMA Insurance, CGU and RACV¹⁵) is a signatory to the 2017 Motor Vehicle Insurance and Repair Industry Code of Conduct (**Code**) which was introduced in 2006 in response to a recommendation (Recommendation 6.1) from the Productivity Commission Inquiry.

In NSW, the *Fair Trading Act 1987* provides that the Code is mandatory for all insurers and repairers. The Code is voluntary in all other jurisdictions. IAG supports the introduction of a mandated code in South Australia.

The Code was amended¹⁶ in 2017 in response to a recommendation made by the Executive Counsel Australia (which conducted an external review of the Code) in December 2013 to establish an arbitration process¹⁷ for disputes. The New South Wales Inquiry supported this recommendation.¹⁸

The process for resolving disputes is as follows:

- Where issues cannot be resolved between repairers and insurers, the matter can be brought before the insurer's internal dispute resolution (**IDR**) mechanism
- If the dispute cannot be resolved via the IDR process, the parties can access the first stage of the Code's external dispute resolution (**EDR**) mechanism, being 'mediation'
- Where the parties are still unable to come to a resolution, they can access the second stage of the EDR mechanism, being 'expert determination' (where an independent party is appointed to issue a final and binding order).

In the 13 years of the Code's operation, IAG has received 62 IDR and three EDR dispute notifications from smash repairers in South Australia.

In the reporting period from 1 September 2017 to 31 August 2018, there were 343 IDR and 17 EDR notifications nationally.¹⁹

The number of EDR disputes is small relative to the number of authorised repairs undertaken each year, which reflects the effectiveness of the Code in regulating the relationship between repairers and insurers and facilitating resolution of disagreements without the need to go through an external dispute resolution process. This is consistent with the Western Australian Inquiry finding (Finding 9) that "[t]he updated national Motor Vehicle Insurance and Repair Industry Code of Conduct is managed by representatives from both insurers and smash repair

¹⁵ IAG is licensed to use the 'RACV' trade mark.

¹⁶ Other amendments to the Code included requiring insurers to include a page reference in the PDS's table of contents to their 'Choice of Repairer Policy' and 'Parts Policy'.

¹⁷ The amendment includes a new expert determination process, as opposed to an arbitration process as recommended by Executive Counsel Australia.

¹⁸ New South Wales Inquiry [Report](#), page 98 (Finding 6).

¹⁹ Code Administration Committee, [Annual Report 2018](#).



industries and is now accepted as a fairer and more transparent process for resolving and reducing conflict between the two key stakeholder industries than previous versions.”²⁰

In Western Australia, it was reported that, for the period 1 July 2016 to 11 June 2018, the Western Australian Small Business Commissioner did not deal with any disputes between a smash repair business and insurance company originating from the (amended) Code.²¹

The Western Australian Inquiry also found that:

- “[t]he recently amended Motor Vehicle Insurance and Repair Industry Code of Conduct is acknowledged by both insurers and smash repair businesses as a positive initiative”²²
- “Australian Consumer Law and the national Motor Vehicle Insurance and Repair Industry Code of Conduct provide considerable protections to customers whose cars have been involved in an accident, including to choose their own repairer if their policy allows.”²³

There have been suggestions that smash repairers are reluctant to lodge a dispute for fear of losing work. We do not agree with this view. We believe the Code provides both repairers and insurers with access to cost-effective dispute resolution mechanisms with the aim of resolving disputes in an efficient and fair manner.

We also promote the availability of the dispute resolution options throughout the industry and we have not under any circumstances:

- discouraged repairers from accessing these options
- discriminated against repairers that access these options.

3) *consumer choice, consumer protection and consumer knowledge in respect of contracts and repairs under insurance policies in general, but with particular regard to choice of repairer, cash settlements, transparency and fairness in assessment of non-partnered repairer estimates and the efficacy and safety of web-based assessments;*

IAG has a PSR network comprising 24 smash repair businesses in South Australia who share our commitment to quality and great customer service. We partner with repairers we know and trust and work closely with them to ensure they have the skills, technology, equipment and resources to deliver high quality repairs for our customers. Using our PSR network means we can provide a seamless experience for our customers. As we outline below, while we have a PSR network in South Australia, customer choice is built into policies for which a premium is paid and customers are able to choose a repairer of their choice.

²⁰ Western Australian Inquiry [Report](#), page 27.

²¹ Ibid, page 37.

²² Ibid, page 37 (Finding 12).

²³ Ibid, page 40 (Finding 13). This was also supported by the Department of Mines, Industry Regulation and Safety – Consumer Protection which stated that that “that general legislative protections coupled with protections offered under the Code of Conduct in respect of misleading and deceptive conduct are adequate to deal with issues of concern in relation to insurer conduct.”



As noted earlier, insurers have been criticised in relation to their PSR arrangements with claims they are just looking for opportunities to cut costs and that this leads to poor quality (and sometimes unsafe) repairs. For this reason, repairers have argued that consumers should be given greater freedom to choose their own repairers.

While choice allows consumers to use the repairer that they consider most suitable to their needs, it can also be difficult for consumers to make an informed decision. A consumer may not be familiar with motor vehicle repairs and the quality of repairs is not easily ascertainable without specialised knowledge. It is difficult for a layperson to identify the fault in a vehicle, understand the scope and nature of work required for repair, and recognise faulty repairs until well after the event.

Many consumers do not have a preferred repairer as they do not have accidents often. As a result, many consumers welcome (and rely on) assistance from their insurer to find a smash repairer for them and to manage their claim from start to finish.

In its response to the Productivity Commission Inquiry, the Australian Consumers' Association²⁴ (**ACA**) stated "most consumers do not have a preferred repairer... Most consumers are happy, in fact prefer, to let their insurer manage the repair". Further, "[w]hen non-choice of repairer first appeared in the consumer motor insurance market ACA research indicated some considerable dissatisfaction with the insurer that introduced that policy. More recent research indicates that this is no longer an issue for most consumers in assessing satisfaction with their insurer."²⁵

Similarly, the New South Wales Inquiry acknowledged that "many consumers do not have the knowledge to choose a repairer when involved in an accident and are greatly assisted by insurers recommending a repairer."²⁶

An Australia-wide survey undertaken by Newspoll Market & Social Research in 2013 found that 69% of drivers preferred their insurer to manage the repair process and work with the smash repairer on their behalf from start to finish.²⁷ For these individuals, such arrangements may in fact be considered part of the value of having motor vehicle insurance.

The Productivity Commission Inquiry lists increased repair prices as one of the potential costs of requiring insurers to offer choice to consumers.²⁸ This is because there are efficiencies which arise from having pre-existing arrangements with PSRs under which more favourable rates are negotiated in return for the insurer guaranteeing greater scale. A greater number of vehicles processed for the same insurer will create scale efficiencies and greater gains from lower administrative costs.

Of course, some consumers will have their own preferred repairers and value the ability to choose them. The fact that both choice of repairer and limited-choice insurance products are available in the market suggests that consumers value both types of products. Those who

²⁴ Now known as CHOICE.

²⁵ ACA [Submission](#), page 2.

²⁶ New South Wales Inquiry [Report](#), page 25.

²⁷ Deloitte Access Economics, [NSW Smash Repair Review](#), February 2014, page iii.

²⁸ Productivity Commission Inquiry [Report](#), page XXV.



value choice can purchase products²⁹ that allow them to choose a repairer; those who are indifferent or prefer to have their insurer manage the whole repair process can buy products that enable their insurers to select a repairer and manage the repair process from start to finish.

The Productivity Commission found that “consumers have restricted, but reasonable, choice of repairer” and “[c]onsumer choice of repairer should not be mandated – in particular, ‘anti-steering’ measures should not be introduced.”³⁰

Smash repairers have in the past alleged that some insurers misrepresent available choice, or exert undue pressure not to exercise choice, especially when a claim is being made. However, the Code specifically prevents insurers from misrepresenting choice options and engaging in inappropriate steering behaviours.

As noted earlier, the Code requires insurers to publish in their PDS their “Choice of Repairer Policy with an unambiguous identifier and page reference in the PDS’s table of contents, and which sets out its Choice of Repairer Policy clearly and in plain language at the page referenced.”³¹ In addition, signatories to the Code are prohibited from making “misleading or deceptive statements about the quality, capability or timeliness of a Repairer or group of Repairers.”³² IAG adheres to these obligations and takes them seriously.

In South Australia, a majority of our IAG policyholders have customer choice of repairer built into the policy for which a premium is paid and customers may nominate any repairer to fix their vehicle provided they have the necessary licences to undertake the repairs – this is clearly specified in the PDS provided to our customers. In these circumstances, if our policyholder elects to choose their own repairer, we will respect that choice by either authorising that repairer³³ or, if we are unable to agree, cash settling, as described below.

Where our policyholder elects their own repairer and the repairer is qualified to carry out those repairs, we will work with that repairer to negotiate the reasonable cost of repair.³⁴ In general, we will use our preferred estimation methodology New Times and Rates (**NTAR**)³⁵ model in assessing a quote provided by the repairer. Our NTAR model allows for quoting in realistic times and rates as opposed to the outdated practice of quoting in ‘funny time, funny money’ (**FTFM**).³⁶ The New South Wales Inquiry found FTFM to be a confusing quoting method that lacks transparency.³⁷ Similarly, the Western Australian Inquiry found the use of

29 Some policies (e.g. NRMA Car Insurance) include a ‘choice of repairer’ option which requires the payment of an additional premium.

30 Productivity Commission [Report](#), page XXVI.

31 MVIRI [Code](#), page 14 (see sub-clause 9.1).

32 Ibid (see sub-clause 9.3(a)).

33 There may be instances where we cannot authorise repairs. Generally, they include: (a) Where the repairer does not have the correct tools and/or equipment to perform the repair work, (b) Where we have concerns about: (1) the structural integrity of the vehicle, and/or (2) whether the repairs can be performed to documented manufacturers’ technical specifications, and/or (c) Where it is uneconomic to authorise repairs (i.e. the vehicle is a total loss).

34 We may also determine the method of repair which is a right that exists under the Code.

35 Times are publicly available and can be found at <https://www.ntar.com.au/>.

36 See pages 48 to 51 in the New South Wales Inquiry [Report](#) for an explanation of the ‘funny time, funny money’ quoting model.

37 New South Wales Inquiry [Report](#), page 109.



FTFM to be unhelpful.³⁸

If the repairer's original quote is reasonable when assessed under our NTAR model, we will authorise repairs and provide our policyholder with a lifetime guarantee on the workmanship of repairs. If we believe the quote is unreasonable based on our assessment under NTAR, we will obtain another quote and attempt to negotiate with the repairer based on the alternate quote. If we are not able to reach agreement on the cost of repairs and our policyholder still wishes to use that repairer, we will generally seek to cash settle³⁹ our policyholder for the amount set out in the alternate quote.

4) *the business practices of insurers and repairers, including the effect of lessening competition through vertical integration into the market, the transparency of those business practices and implications for consumers*

The smash repair industry in Australia, as well as overseas, is facing significant structural challenges. These challenges are largely being driven by automotive technology, which is driving complexity but also reducing accidents, as well as changing demands and expectations from customers. It is within this challenging environment that insurers and repairers find themselves. Accordingly, insurers and repairers alike have had to adopt new techniques, skills and invest in new technology to enhance their service offering and improve the customer experience.

There has been a decrease in demand for smash repair services as safer cars require fewer repairs. At the same time, more complex cars (e.g. electronic components, advanced driver-assistance systems (ADAS)), require new repair techniques, more complex (and expensive) equipment and higher-skilled workers to repair. This has created challenges for the industry as a whole, particularly for smaller smash repairers who require increasing amounts of capital to compete. It has also led to the development of new business models such as production line style large high-volume repair shops undertaking low-value repairs.

Ultimately, smash repairers that are unable or unwilling to address these challenges through innovation, improved efficiencies and quality will struggle to remain competitive in this changing environment. Smash repairers compete against each other and that competition between smash repairers is very important to drive efficiency for the benefit of South Australian consumers.

Increased competition in the smash repair market has resulted in lower repair costs. The primary benefit of this competitive environment for customers is that by better management of repair costs, insurance companies are better able to maintain competitive premiums.

At IAG, we are constantly looking at options and solutions to meet the challenges of an ever-evolving industry and to remain competitive. At present, we are innovating our existing repair model to enhance our service offering and respond to the changing needs and expectations of our customers. This includes a direct investment in the industry in New South Wales, Queensland and Victoria. As part of this process, we are seeking to deliver real change in

³⁸ Western Australian Inquiry [Report](#), page 48 (Finding 19).

³⁹ There are also other circumstances where we may be required to cash settle our policyholder: (a) Where we discover old or unrelated damage, or (b) The vehicle is in poor condition.



how our customers experience the motor claims repair process from the moment they lodge a claim, to when they pick up their motor vehicle. Our focus is on customer convenience and getting motor vehicles back on the road as quickly as possible, with a quality repair.

Importantly, repairers both within and outside of our PSR network will continue to play an integral role by providing quality, safe repairs for our customers. Our desire to partner with small businesses has not changed. We believe our complementary strengths will generate new and innovative partnership opportunities.

5) *any other related matters.*

In support of our submission, we have annexed (marked 'A') an independent report commissioned by IAG entitled 'A review of smash repair industry trends'. In their report, Dr Richard Tooth and Dr James Swansson provide an analysis of the demand for, and supply of, smash repair services in Australia and explain how this has shifted over time with the advent of newer technologies and productivity improvements facilitated by PSR arrangements.



Annexure A

An independent report commissioned by IAG

A review of smash repair industry trends

Dr Richard Tooth, Dr James Swansson

25 July 2019



About Sapere Research Group Limited

Sapere Research Group is one of the largest expert consulting firms in Australasia and a leader in provision of independent economic, forensic accounting and public policy services. Sapere provides independent expert testimony, strategic advisory services, data analytics and other advice to Australasia's private sector corporate clients, major law firms, government agencies, and regulatory bodies.

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Glossary

2005 PC Inquiry	Productivity Commission inquiry into Smash Repair and Insurance (March 2005)
2014 NSW Inquiry	NSW Select Committee on the Motor Vehicle Repair Industry
2018 WA Inquiry	Economics and Industry Standing Committee into Western Australia's Smash Repair Industry
ABR	Automotive Business Research
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACL	Australian Consumer Law
ADAS	Advanced Driver Assistance Systems, a range of crash avoidance technologies
AISC	Australian Industry and Skills Committee
APRA	Australian Prudential Regulation Authority
ATO	Australian Tax Office
Babcox US Industry Survey	Biannual profile survey of the US smash repair industry conducted by (US) BodyShop Business magazine
BITRE	Bureau of Infrastructure, Transport and Regional Economics
the Code	Motor Vehicle Insurance and Repair Industry Code of Conduct
CPI	Consumer Price Index
CTP	Compulsory Third Party
DRP	Direct Repair Program—a US term akin to preferred repairer network
Heads of Agreement	The 2014 'Agreement on Access to Service and Repair Information for Motor Vehicles'
I-CAR	Inter-Industry Conference on Auto Collision Repair
ICA	Insurance Council of Australia
ISA	Insurance Statistics Australia
MAAS	Mobility as a service



MTAA	Motor Traders Association of Australia
OECD	Organisation for Economic Cooperation and Development
OEM	Original equipment manufacturer
PC	Productivity Commission
PDS	Product disclosure statement—a document that contains information about a financial product
PSR	Preferred smash repairer
PRN	Preferred Repairer Network
RWOV	Repairable written off vehicle—a damaged vehicle that is uneconomic to repair
SMART	Small-to-medium area repair techniques
SWOV	Statutory written off vehicle—a damaged vehicle that cannot be safely repaired and is and is barred from re-registration for on road use
TPP	Third party property
Trend Tracker	A UK organisation that provides automotive industry research https://www.Trend Tracker.co.uk/
VACC	Victorian Automobile Chamber of Commerce

Key points

The smash repair industry in Australia has been going through a long period of transition from a cottage industry to one involving greater levels of investment and specialisation.

Demand for smash repair

- In Australia there has been relatively strong and stable growth in demand for repair based on growth in the vehicle fleet and a steady claims frequency
- The increasing complexity of modern vehicles, including new materials and designs, advanced driver assistance systems (ADAS) and other electronics is having an increasingly significant impact on the smash repair industry
- ADAS has not yet had a noticeable impact on reducing collisions but it is expected to do so in the future as the penetration into the vehicle fleet increases

Supply of smash repair services

- The greater complexity of vehicles is leading to higher repair costs, particularly on parts and technical services (e.g. calibration). Over time this may reverse as ADAS leads to less severe crashes and efficiencies are gained in repair
- Productivity improvements and the need to invest in equipment and training have led to consolidation and increased specialisation. It appears likely this trend will continue
- The increased use of technology is driving a need for new skills and training. A lack of skilled-labour is increasingly a significant issue in Australia and overseas

Insurer-repairer relationships

- In Australia and overseas there is a history of tension between insurers and repairers, largely because insurers, and not customers, pay for the repair
- The increased use of preferred repairer networks is largely positive for consumers. There are options for customers who wish to maintain their choice of repairer
- Insurers, through closer relationships with repairers, have been able to generate efficiencies and provide improved services at a lower cost
- There does not appear to be a rationale for further regulation of quality. Insurers provide life-time guarantees and have strong incentives to invest in ensuring quality
- Preferred repairer networks hurt repairers outside the network and hasten the industry transition; however, this does not reflect a market failure

Other developments

- Efficiencies are being achieved through formation of repairer groups including company-owned networks, franchises and membership groups
- Increased vehicle complexity is leading to greater involvement of manufacturers into after-market services, including smash repair. The prices paid for parts and the access to technical information appear likely to continue to be important issues for the repair industry. An underlying issue is that there is limited pressure on manufacturers to keep repair costs to a minimum because car buyers lack information on repair costs.

Summary

This research paper examines the trends and challenges facing the motor vehicle smash repair industry in Australia. It is based on analysis of public data sources, discussions with some industry participants and includes consideration of developments in the United Kingdom (UK) and the United States (US).

Demand and supply for smash repair services

Demand

The demand for smash repair is determined by the volume of vehicles and the frequency of crashes. There has been a continual upward trend in the number of vehicles and vehicle kilometres driven, which, combined with a steady claims-frequency, has led to a steady growth (a little over 2 per cent per annum) in collision-repair claims. The number of road-fatalities has been falling; however, this is not a good indicator of the number of repairs. The number of hospitalised-injuries from road-crashes, which is an indicator of serious crashes, has been growing by around 2 per cent annually.

Market participants expect that increased penetration of advanced driver assistance systems (ADAS) into the vehicle fleet will eventually result in fewer and less severe crashes and consequently a lower-demand for smash repair. However, due to the age of the vehicle fleet this benefit may take some time to become noticeable. There is some evidence from the UK, where the vehicle-age is lower, that ADAS is contributing to a reduced claims frequency.

The increased technology in vehicles is also increasing the complexity and cost of repair. The average claims size (in real terms) was reasonably constant up until 2014, after which it has grown at around 3 per cent per year. This recent increase may relate to the increased complexity of vehicles being repaired and consequently may reflect a longer-term trend.

Supply

The repair industry is in the process of transition. Historically, it has been characterised as a 'cottage' industry that consisted of many small single-establishment owner-operators employing limited technology. Most smash repairers were generalists, fixing any type of damage, on any vehicle for any customer. The smash repair industry today is more diverse. Repairers have become more specialised around the types of repair, vehicles and source of business.

Technology has had a significant impact on the crash-repair process. Modern bodyshops have significantly more technology to support the repair process, including IT systems (bodyshop management systems and quoting systems) and equipment used in undertaking the repair. The increased investment in technology has enabled repair shops to undertake a greater volume of work and increase their returns to scale and volume.

The increasing complexity of modern vehicles has implications for the cost and process of repair. Modern vehicles include new materials that are being used to improve fuel efficiency (including greater use of aluminium and composites) and electronic systems for safety and

customer convenience. These vehicles and components are more expensive and complex to repair. Of concern, ADAS tend to be placed on the exterior of vehicles where damage is more likely.

There is evidence from the UK (where the vehicle-age is significantly lower) that increased vehicle complexity is contributing to increased spending on parts, higher average costs of repair and a higher frequency of vehicles being written off. The trend in write-offs may reverse if, as expected, ADAS results in reduced severity of crashes and repairers become more efficient in repairing ADAS.

The increasing complexity of the vehicles being damaged is driving repairers to invest more in equipment, technology and training. This appears likely to lead to further specialisation by smash-repairers, including by type of repair (e.g. low-impact vs structural repairs) and type of vehicle (e.g. some focussing on electric/hybrid vehicles). This may lead to damaged vehicles being moved greater distances for repair.

The increased complexity of vehicles and repair processes is also contributing to a skilled-labour issue, both for the established workforce and new labour coming into the industry. The cost and availability of skilled labour appears is a prominent issue in Australia, UK and the US and significant shortages in Australia are forecast. Some raise the concern the industry faces an image problem with the young, who are unaware of the workplace improvements that have taken place. These are not new problems and both industry and government have existing programs in place focused on training requirements

The number of repairers has been falling in Australia, the UK and the US. However, industry consolidation appears to have been less significant in Australia due to the relatively strong and steady growth in demand for vehicles and smash repair services. Further productivity improvements and the need for repairers to invest appears likely to lead to further consolidation, particularly, if as is expected, ADAS results in fewer crashes.

Industry structure

Insurer-repairer relationships

The industry has a history of tension between insurers, repairers and other parties. A key contributing factor is that most customers (the insured drivers and the other not-at-fault parties) do not pay for the repair, which means that insurers and repairers have had to negotiate over the repair cost. Furthermore, it can be difficult for customers to assess the scope of works required and quality of repair. Insurers have attempted several alternative business models; some with limited success.

In recent times, there has been increased integration of insurers and repairers using preferred repairer networks (PRNs), which in, in some cases, incorporates joint-ventures and direct ownership. Such integration has generated benefits relating to volume management, the assessment/quote process and administrative costs. The benefits include improved customer service and lower repair costs, which reduces the pressure on premium increases and has led to insurers offering reduced premiums to customers who opt to use the insurer's repair network.



Repairers appear to have largely benefited from participating in PRNs; in part to the detriment of other repairers who may experience lower volume of work. Critics of PRNs raise the concern that it leads to poorer quality. However, this risk appears small. Perceptions of poor quality are a significant risk to the reputation of insurers. To manage the risk, insurers offer lifetime guarantee on repairs and actively invest in managing quality. Recent government inquiries (in 2014 and 2018) did not find evidence of quality issues associated with PRNs.

Manufacturer-approved repairers

As motor vehicles become more complex the role of manufacturers in the repair process is becoming more important. Some manufacturers have established a repairer network of manufacturer-approved (i.e. 'badged') repairers that work on their vehicles. To gain a manufacturer's approval a repairer will typically be required to invest in training, agree to use the manufacturer's parts, follow manufacturer-approved repair procedures and potentially use manufacturer-specific equipment. In return, manufacturer-approved repairers benefit from additional volume of work and greater negotiating power.

The number of 'badged' repairers appears to be expanding. Historically they have only been associated with prestige brands; however, they are common with all mainstream brands in the UK. Holden Australia is current building a network of certified collision repairers.

Other developments

There are increasing benefits to repairers from being part of a network in terms of marketing, purchasing arrangements and advice. This has resulted in the formation of multi-site enterprises, franchise relationships and network-groups. It appears likely that more establishments will enter into some group network arrangement.

Accident management companies help customers following an accident by managing the organisation of repair, alternative transport and processing of the claim. They are a prominent feature of the UK smash repair industry but currently have a much lesser presence in Australia. The increased use of accident management companies is a threat to insurers and repairers in competing for not-at-fault customers. Concerns have also been raised of an increasing use of credit-hire businesses in providing replacement vehicles to not-at-fault drivers and charging the at-fault party high rates for car-hire.

Industry challenges and concerns

Repair quality and service

The quality of repair is an ongoing source of tension. There is (at least) a perception of a risk that repair quality will be compromised in the interests of reducing the cost of the repair.

As insurers take more responsibility for selecting their repairers and managing the claims process, they bear a greater risk to their reputation should there be an issue with poor quality or service. Some parties have called for further regulation of quality. However, we expect that this would unlikely be in the public interest. There are costs to regulation and the

benefits appear to be very small given existing quality controls (e.g. lifetime guarantees) and the insurers' incentives for ensuring quality in preserving their reputation.

Availability and affordability of information and parts

The availability and affordability of information and parts to complete a repair is becoming an increasingly important issue as vehicles become more complex. To repair a vehicle to a required standard, repairers need to access technical and diagnostic repair information that is developed by the vehicle manufacturer. The volume and complexity of this information is expanding with the increased complexity of the vehicles.

A related concern is that vehicle manufacturers and their authorised dealers discount new car prices to maximise sales of aftermarket services on which they earn higher margins. To help address concerns, the Government is intending to establish a mandatory code of conduct for sharing and accessing vehicle service and repair information. However, this may not fully address the issue. An underlying issue is that, due to a lack of information on the cost-of-repair (and therefore insurance) at the time of the new car purchase, there is little pressure on manufacturers to keep repair costs to a minimum. In contrast, in the UK (for example) consumers have access to information that conveys the relative cost of repairing and insuring a vehicle.

Regulating consumer choice of repairer

In some US jurisdictions the consumer's right to a 'choice of repairer' is mandated. There have been frequent requests for similar regulation in Australia. However, such regulation does not appear to be in the public interest. As noted above, closer repairer-insurer relationships appear to provide benefits for customers. Consumers can choose an insurance policy (or opt for a policy option) that gives them the freedom to choose their repairer. There does not appear to be any issue with transparency. In effect, regulation would prevent consumers from obtaining a lower premium by opting to use the insurer's preferred repair network.

Market power of insurers

Some parties have raised concerns that there is an imbalance in the market power between insurers and smash repairers and that prices received by repairers are unsustainably low. However, it is in the insurance industry's interest that there is a competitive smash repair market in which repairers expect to earn a normal profit. Furthermore, the concerns raised are consistent with a normal working competitive market and do not appear to be reflective of a market failure.

1. Introduction and context

The motor vehicle smash repair industry in Australia and overseas has been going through significant change. Modern vehicles are increasingly complex in design and include a broader range of materials and technologies, some of which may reduce the likelihood of a collision. Advances in technology are also driving changes in the management of, and processes associated with, repairing vehicles.

These developments are in turn driving changes in the industry structure and conduct, including the nature of repairers and the relationships between repairers, insurers and manufacturers. The structural changes in the market stimulate interest in government intervention by policy makers and regulators. Since 2005 when the Productivity Commission undertook a review of 'Smash Repair and Insurance' there have been multiple government reviews, some of which are in direct response to industry developments.

Further change and regulatory interest appears inevitable, particularly with improvements in crash-avoidance technology, greater vehicle complexity and improved repairer technologies and processes.

To help better understand the future developments and support informed discussion, IAG commissioned us to produce an independent and objective report that discusses the trends, issues and implications of the changes in the smash repair industry¹ in Australia.²

The report is based on analysis of a range of public data sources and discussions with some industry participants and experts. We also examined the smash repair industry and developments elsewhere; in particular the United Kingdom (UK) and the United States (US). Most trends and issues are not unique to Australia and there is substantial useful public information on the industries in these countries. An examination of developments in other countries can help to inform how the industry may develop here in Australia.

The rest of the paper is structured as follows:

- The following chapter provides a background on the smash repair industry in Australia
- Chapter 3 examines trends in the demand for, and supply of, smash repair services
- Chapter 4 examines the industry structure and challenges
- Chapter 5 concludes.

¹ The focus of this study is on the repair of passenger vehicles, which constitute the bulk of repairs.

² This report has been prepared for IAG for supporting informed discussion. It is based on limited available information and should not be relied upon by others for other uses and we accept no duty of care to any other person or entity.

2. Background

2.1 Overview of the smash repair industry

The smash repair industry consists of organisations directly involved³ in repairing damaged vehicles⁴ and a range of other organisations that are involved in related processes. For the purposes of this review the organisations of interest include:

- repairers
- motor-vehicle insurers
- vehicle manufacturers (who also supply parts and other services)
- other suppliers to the industry including education and training providers, tools and equipment supply and related industry services, and
- providers of complementary services including tow-truck operators and accident management companies.

The role of each organisation-type is reasonably well defined; however, there is some blurring of scope. For example, there are cases of insurers vertically integrating into motor vehicle repair and parts supply, repairers owning or developing close partnerships with tow-truck operators and manufacturers establishing repair networks and providing motor vehicle insurance.

2.1.1 Repairers

Historically the smash repair industry has been described as a cottage industry—consisting of single-establishment owner-occupied firms employing a few employees and limited technology.⁵ Most smash repairers were generalists, fixing any type of damage, on any vehicle for any customer.

The smash repair industry today is more diverse. Repairers have become more specialised around the types of repair, vehicles and source of business. Repairers today include:⁶

- Establishments that specialise in non-structural repairs such as minor dints and bumper-bar damage that can be turned around quickly. Such repairers use innovative technologies known as ‘small, medium area repair technology’ (SMART).⁷

³ Smash repairers may also generate revenue from other activities such as vehicle upgrades (e.g. rustproofing and undercoating, car detailing).

⁴ IBIS (2018) describes the industry as including Automotive body repair, Automotive trimming and interior repair, Panel-beating (motor body repairing) and smash repair, Automotive rustproofing and undercoating and Automotive spray painting and car detailing

⁵ See for example, McDonagh (2011, p. 51)

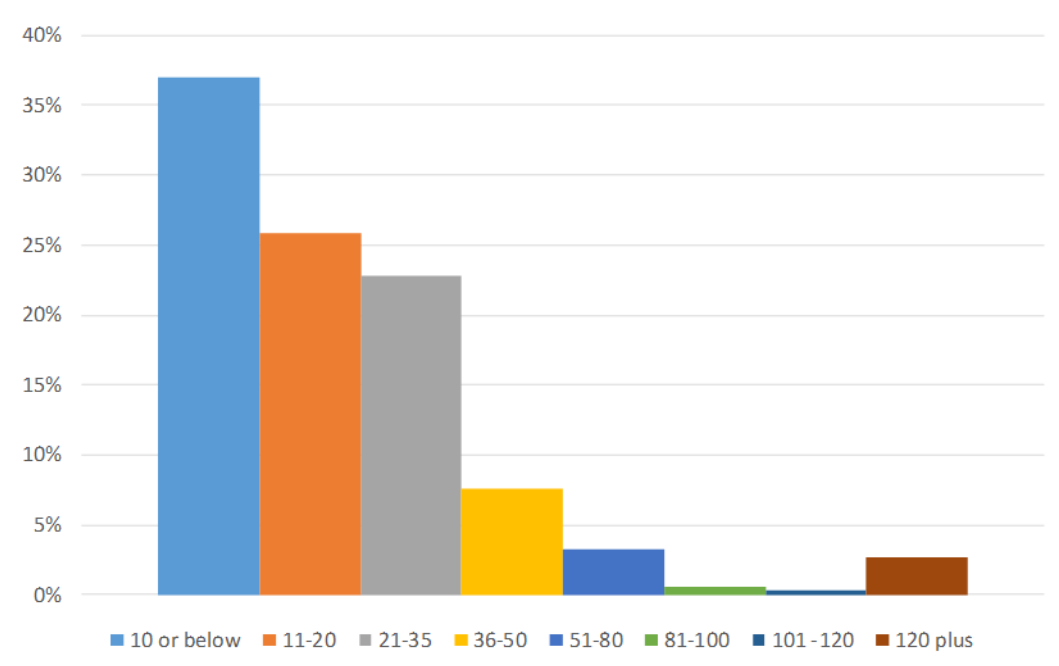
⁶ This categorisation has been adapted from McDonagh (2011, pp. 153–159), Deloitte Access Economics (2014) and other sources.

⁷ An example is the Capital SMART group of repair centres. Suncorp (2018) state that these ‘SMART’ centres are using innovative technologies, digital capabilities and processes to complete a high volume of repairs at fast turnaround times. SMART centres are able to carry out repairs to driveable vehicles at a rate of 50-70% faster than the industry average.’

- Establishments that specialise in more complex repairs and require specialised equipment.
- Manufacturer-approved repairers—repairers badged as having the endorsement to repair a manufacturer’s vehicles (as a result of agreements relating to training, procedures and use of parts and equipment). Such relationships are most common with prestige marques.
- Repairers who specialise in insurance-related work. An advantage for these repairers is that they do not need to market their services to the community.
- Mobile repairers—repairers who use SMART to undertake low-cost repairs at the customer’s location. Much of this work will not be claimed under insurance.

Repairers today vary significantly in size. Most shops repair less than 20 vehicles per week while some shops repair more than 100 per week (see Figure 1 below). The shops repairing larger volumes are likely to include those focussed on non-structural repairs and/or businesses that have formed strong relationships with insurers and/or manufacturers.

Figure 1: Vehicles repaired per week from a 2018 industry survey



Source: Australasian Paint & Panel (2018), based on a survey of 341 Australian repairers.

2.1.2 Motor vehicle insurers

The smash repair industry is closely tied to the insurance industry. The vast majority of a smash repairer’s business will typically stem from insurer referrals and/or be paid for by an



insurer.⁸ From the insurer's perspective, smash-repair costs generally represent in-excess of 60 per cent of motor vehicle insurance premiums.⁹

In Australia, vehicles may be privately insured or insured under a fleet policy.¹⁰ Most privately insured vehicles are covered by a comprehensive motor insurance policy which covers the cost of damage to the owner's vehicle and any property damage to third-parties. Around 12 per cent of those privately insured opt for a third-party property (TPP) policy that covers property damage to other parties but not to their own vehicle.¹¹ In contrast to most other developed countries, third-party bodily injury is—due to regulation—covered separately. This regulation dampens the incentives insurers have for reducing the crash risk among their policyholders.¹²

In most regions, consumers can choose from a plethora of brands. However, the main providers—IAG and Suncorp—own multiple brands¹³ and consequently the market is often described as concentrated. The market shares can vary substantially by region. In Western Australia (WA), the major insurer is RAC Insurance (a subsidiary of RAC WA).

Despite the high concentration, there appears to be healthy competition. There are few barriers to entry and there is evidence of new players entering the market. As summarised by Treasury.¹⁴

The level of concentration does not in itself indicate that competition in these submarkets is uncontested. On the contrary, reports suggest that insurers in these markets are competing vigorously for business, evidenced by the plethora of advertisements by insurance providers during prime time media slots.

2.1.3 Other groups

Vehicle manufacturers play an important role in the smash repair industry. Vehicle design can have a significant influence on the cost of repair. Manufacturers also have influence over the repair through the supply of original equipment manufacturer (OEM) parts, provision of information and specification of the procedures and equipment used in the repair of their vehicles.

⁸ The MTA NSW (2014) estimated 'that over 90% of the supply of smash repair work to the market is controlled by insurance companies'

⁹ Source: Insurance Stats Australia.

¹⁰ Robinson (2017) estimates that around 12% of vehicles are uninsured (of which 1-2% are unregistered and uninsured).

¹¹ Source: ISA data for 2018. TPP policies include policies TPP only policies that also cover the policyholder's vehicle from the loss due to fire or theft.

¹² In Australia and New Zealand insurers' CTP (compulsory third party) scheme regulations separate liability for bodily injury claims from property damage claims. See Tooth (2017) for a discussion.

¹³ IAG's brands include SGIO, Coles, CGU, Lumley and WFI and it has a 70% shareholding in a joint venture that issues RACV Insurance. Suncorp's brands include AAMI, Apia, Bingle, Essentials by AAI, GIO, Shannons, and Vero.

¹⁴ Treasury (2014). A similar view was expressed by APRA (2017).

Other suppliers to the industry include:

- Dealers, which are typically aligned to vehicle manufacturers and may be suppliers of parts and services (such as calibration and scanning)
- Other businesses providing contract services to repairers (e.g. detailing and cleaning, contract paint services, scanning services)
- Other parts suppliers e.g. suppliers of generic and recycled parts.¹⁵
- Education and training providers including vocational education and training (VET) qualification providers and post-qualification providers, notably the Inter-Industry Conference on Auto Collision Repair (I-CAR)¹⁶
- Suppliers of equipment, systems and supplies.

There are also providers of complementary services including:

- Tow-truck operators who transport damaged vehicles to repairers
- Accident management and credit-hire companies which provide claims-management services to customers involved in an accident. Credit-hire companies provide the vehicle owner with a replacement vehicle. Accident management companies also select the repairer and manage the claim (on behalf of the owner)
- Hire-car operators who provide cars to customers involved in an accident while their vehicle is being repaired.

2.2 The repair process

2.2.1 Overview

The smash repair process describes how following a crash, a customer's needs are served so that their vehicle is repaired (or written off as a total loss). The typical post-collision process is illustrated in Figure 2.

While the repair process begins with the crash, it is important to recognise that the choice of vehicle and insurance are important in influencing the process. The choice of vehicle is important in several ways. It can affect the likelihood of a crash due to use of crash prevention technologies.¹⁷ The cost of repair also depends significantly on the vehicle, generally increasing with more expensive brands and greater use of technology in the vehicle. The cost of repair (of similar damage on a similarly sized and priced vehicle) can also vary significantly by brand due to the vehicle's design.¹⁸

¹⁵ Parts may include manufacturer-parts (which may be OEM branded), generic parts, and recycled ("aftermarket" or salvaged) parts.

¹⁶ See <http://i-car.com.au/the-i-car-vision/>

¹⁷ The choice of vehicle is also correlated with driver behaviour. Higher risk drivers (e.g. the young) tend to drive older and cheaper-to-repair vehicles. Potentially there may be a direct causation; drivers may be more cautious with an expensive vehicle and less cautious driving a vehicle with collision avoidance technologies.

¹⁸ The IAG Research Centre conducts 'bumper tests' to assess the costs of undertaking repairs on different vehicles. They found the cost may vary by a factor of more than five depending on the vehicle make. See www.iagresearch.com.au/car/costs

Figure 2: Repair process overview



The choice of insurer and the type and level of policy cover can also have a significant influence on the smash repair process. Some insurance policies limit the customer's choice of repairer and, regardless, the insurer can influence the customer's choice by providing a recommendation. The insurer's assessor reviews and authorises the repairer's quote. The depth of their involvement may depend on the insurer's relationship with the repairer.

When the vehicle is driveable the vehicle owner will generally take the vehicle to a repair shop to obtain a quote. The vehicle owner may select the repairer based on the insurer's recommendation (if they have contacted them first) or other factors (e.g. location, repairer's reputation or specialisation). Insurers may require customers to organise more than one quote, in which case the insurer may select the repairer from the chosen quotes.

When a tow-truck operator is involved, generally because the vehicle is not driveable, the tow-truck operator (who may have been organised by the insurer) may select the repairer.

A vehicle owner may choose to use the services of an accident management (or credit-hire) company. These are primarily used by not-at-fault drivers, who may recover the costs from the at-fault party. The management company bears the costs of providing their services and then recovers those costs from the at-fault party.

With minor exception an insurer's assessor will review the damage and approve the process of repair and the quote. During the process of repair revisions to the quote may be required.

In some cases, the damage to a vehicle may be too severe to be safely and/or economically repaired and consequently the vehicle is written-off as a total loss. This may be because it is structurally unsound or because it is uneconomic to repair.

2.2.2 Management of the repair process

The process of selecting the repairer has been a key matter of interest in reviews of the smash-repair industry.

Traditionally the customer selected the repairer and the repairer managed the claim lodgement with the insurer. Repairers prepared quotes based on ‘units’ of work for particular repair operations and a dollar rate.¹⁹ In the 1980’s the ‘two-quote’ model was introduced (first by AAMI), whereby—by way of contract conditions—an insurer was able to seek bids for the repair work and direct the repair accordingly. Variants of this model are still used today.

The extent to which a consumer can choose the repairer is specified in the policy’s product disclosure statement (PDS). Some specify that the insurer will choose the repairer, others that customer may select their repairer and others offer the choice of repairer as an option (for an additional fee). Where a customer chooses the repairer, the insurer typically reserves the right to obtain another quote to assess whether the original quote is reasonable.²⁰

The PDS will also specify the insurer’s parts policy, including the extent to which ‘genuine’ parts (i.e. OEM supplied parts) or other parts are used in the repair.

Alternative methods of managing the repair process have been tried. In the 2000s the increased use of web and digital technology enabled other methods by which an insurer could influence the choice of repair. In July 2005 IAG commenced a new scheme for motor vehicle smash repairs in parts of New South Wales marketed under the NRMA Insurance and CGU brands. Under the scheme, an IAG assessor placed a written description detailing observable damage to a motor vehicle, and electronic images of the damage, on a dedicated website and allowed approved smash repairers to engage in competitive bidding for an allocation to carry out repairs. The scheme was contentious and, following a NSW Government inquiry, IAG moved to a different process.

2.2.3 Governance of the industry

Legislation and codes

The relationship between repairers and their customers is governed by Australian Consumer Law (ACL), which sets out a range of protections including those relating to unfair contract terms, consumer guarantees, sales practices, unfair business practices (e.g. false or misleading representations) and product safety. The ACL is administered by the Australian Competition and Consumer Commission (ACCC) and state and territory consumer protection agencies

¹⁹ The traditional approach is often referred to as ‘funny time, funny money’, which reflects the view that neither of the industry-established unit times or rates is realistic.

²⁰ This explained in Allianz’s submission to the 2014 NSW Inquiry. They (pp. 5–6) state: *In common parlance, Allianz policies are said to offer ‘choice of repairer’, although [...], this does not provide the policyholder with an unfettered ability to direct Allianz to have the vehicle repaired wherever they wish. For example, if the policyholder’s nominated repairer quotes a price that Allianz suspects is not a competitive one, we can “require a second quotation from a repairer chosen by us” to assist us in determining the “reasonable cost” of repairing the vehicle.*



and is enforced by all Australian courts and tribunals, including the courts and tribunals of the States and Territories.

The relationship between motor vehicle insurers and their customers is regulated by the Commonwealth through the *Insurance Contracts Act 1984*, the *Corporations Act 2001*, and the *Australian Securities and Investments Commission Act 2001*.

The relationship between insurers and repairers is governed by the Motor Vehicle Insurance and Repair Industry Code of Conduct (the Code).²¹ The Code is mandatory in New South Wales and voluntary in other jurisdictions across Australia. The Code:

- aims to promote transparent, informed, effective and cooperative relationships between smash repairers and insurance companies
- specifies standards of fair trading, process and transparency in their relationships
- provides for efficient and fair dispute resolution processes for the industry.

The Code is administered by the industry's Code Administration Committee (CAC) which comprises three members from the Motor Traders Association of Australia (MTAA) and three from the Insurance Council of Australia (ICA).

Inquiries

The smash repair industry has attracted significant attention by government bodies, which has culminated in a number of inquiries. Notable inquiries in the last 15 years have included (by year of completion):

- 2005 PC Inquiry—Productivity Commission (PC) inquiry into 'Smash Repair and Insurance' (March 2005)
- 2006 STAYSAFE Committee—An inquiry into 'The Crash Testing of Repaired Motor Vehicles: Further report of an inquiry into motor vehicle smash repairs under the Insurance Australia Group (NRMA Insurance) Preferred Repairer Scheme, and its implications for roadworthiness, crashworthiness, and road safety'
- 2014 NSW Inquiry—NSW Select Committee on the 'Motor Vehicle Repair Industry'
- 2015 Senate Economics References: 'Future of Australia's automotive industry'
- 2017 Senate Economics References Committee inquiry into "Australia's General Insurance Industry"
- 2017 ACCC Inquiry—An inquiry into the 'New car retailing industry' including consideration of repairs and other aftermarket services
- 2018 WA Inquiry—Economics and Industry Standing Committee into "Western Australia's Smash Repair Industry".

²¹ <https://www.abrcode.com.au/>

3. Demand and supply

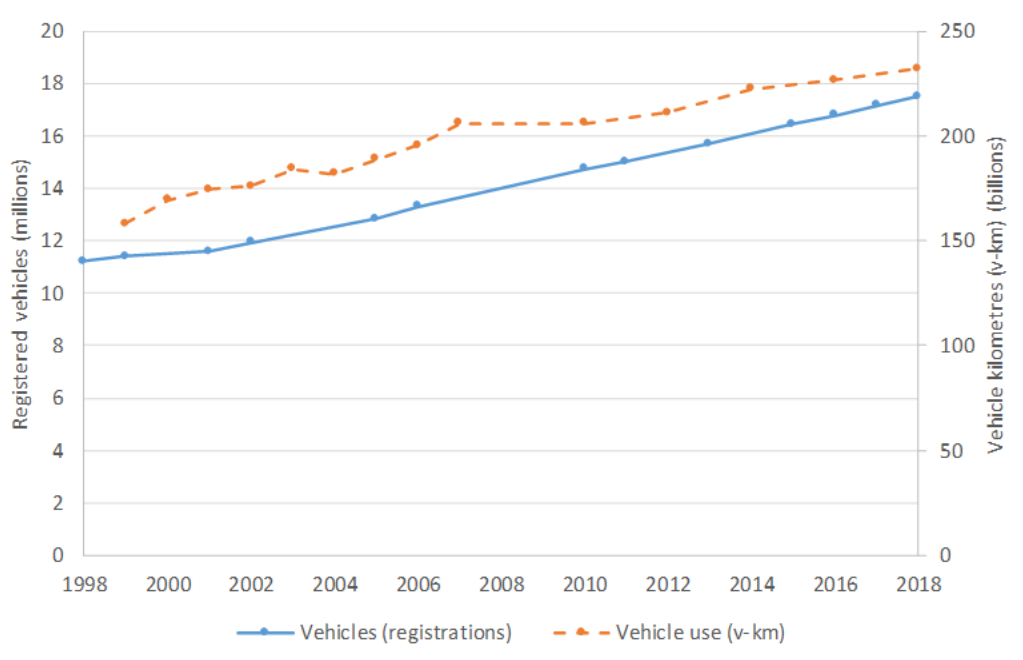
3.1 The demand

The demand for smash repair services is largely a product of the number of vehicles and their usage and the frequency of collisions.

3.1.1 Vehicles and vehicle use

The change in the number and use of the Australian light vehicles is shown in Figure 3. Over the last 20 years, the size of the vehicle fleet has been growing steadily at a rate of around 2.3 per cent per annum. The use of these vehicles, in terms of total vehicle kilometres (v-km) travelled, has also been grown steadily but at a slightly lower (2.0%) rate.²²

Figure 3: Growth in number and use of Australian light vehicles, 1999-2018



Source: ABS Motor Vehicle Census (ABS 2018a) and Survey of Motor Vehicle Use (ABS 2018b)

The frequency and number of collisions and consequently repairs are not known with any certainty as not all collisions are reported to police.²³

²² Changes in traffic congestion may also be a factor. Congestion slows down traffic, which reduces the frequency of serious crashes; however, congestion may increase the frequency of light crashes. Congestion (by most measures) in Australia has been deteriorating. See Australian Automobile Association (2018).

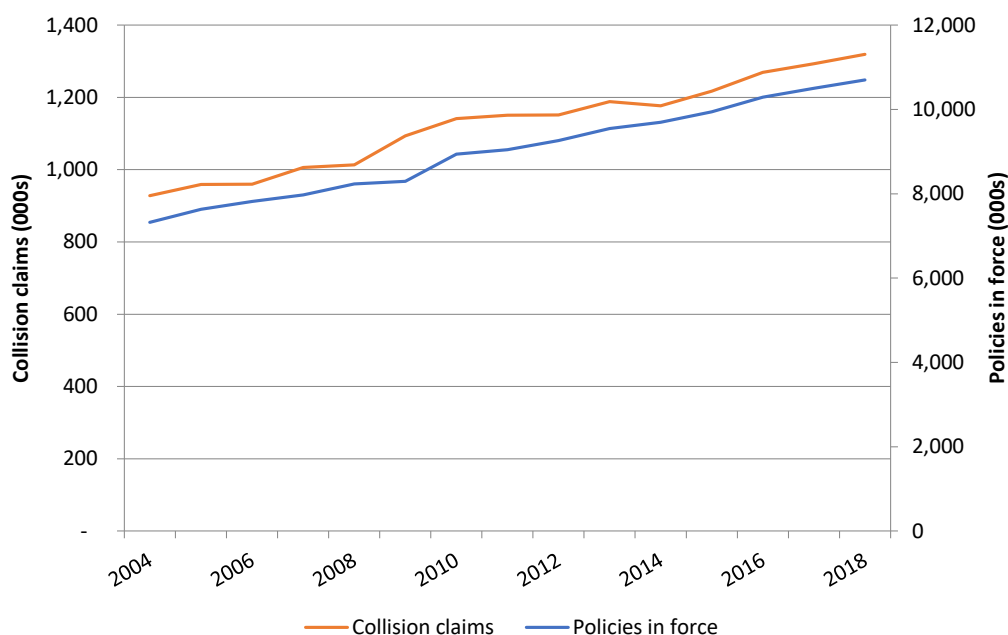
²³ Repairs can also be a result of hail and other falling objects and other incidents (e.g. damage caused by shopping trolleys) that are not a result of a moving vehicle.



Data on insurance policies and claims is a useful source.²⁴ In 2018, Australian insurers reported around 1.4 million claims relating to motor vehicles covered under a comprehensive or third-party policy.²⁵ The vast majority of these (96%) of claims relate to comprehensive motor insurance policies. This number excludes claims made under fleet policies. The number of claims also differs to the number of repairs because: a proportion of damaged vehicles will be written-off; some claims may involve damage to more than one vehicle and some repairs that are privately funded.

The number of insurance claims has been growing at a similar steady rate to the number of registered vehicles and insurance policies (see Figure 4 below).²⁶

Figure 4: Trend in claims and policies in force (comprehensive insurance)



Source: Insurance Stats Australia (ISA)²⁷

Figure 5 below shows the trend in claims frequency and size for motor-vehicle insurance in Australia. The insurance claims frequency has not varied materially over the last 15 years.

The average claims size (in real terms) was reasonably constant up until 2014, after which it has grown at around 3% per year. This recent increase may relate to the increased complexity of vehicles being repaired and consequently may reflect a longer-term trend.

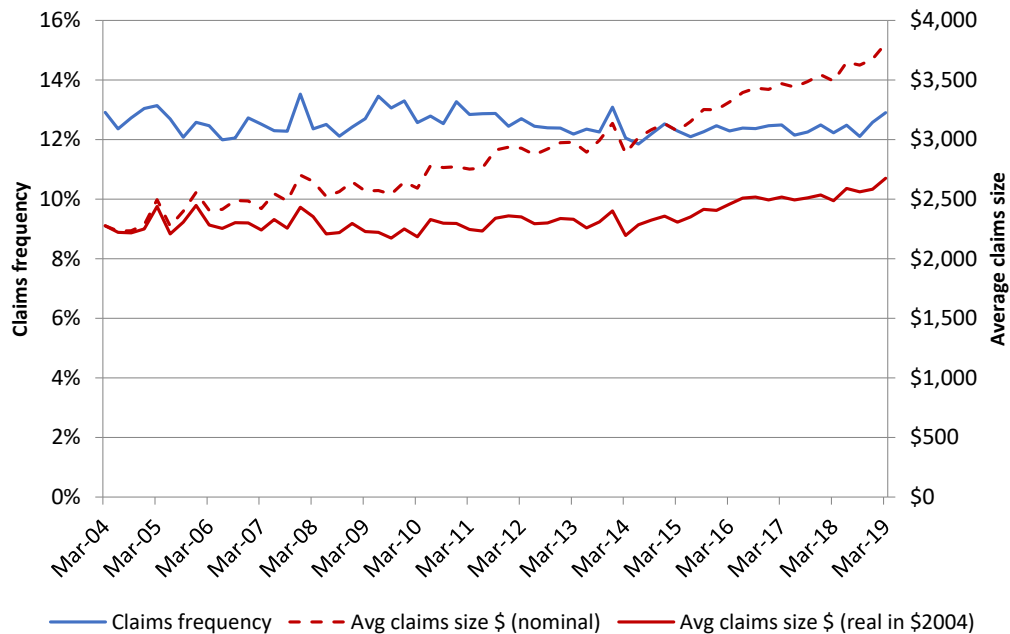
²⁴ Insurance data is available from Insurance Statistics Australia (ISA), a voluntary association whose members include most insurers in Australia. See www.insurancestats.com.au

²⁵ These policies accounted for 84 per cent of the registered vehicle fleet. The remainder of vehicles may be covered under a fleet policy or may be uninsured.

²⁶ The rate of growth in the number of comprehensive insurance policies (2.7%) is slightly higher than that of the growth in vehicles (2.3%). There appears to be an increasing proportion of vehicles insured and an increasing proportion of vehicles insured under a comprehensive insurance policy.

²⁷ Data is for 'Collision and other causes of loss or damage'. This excludes windscreen, theft and major events. Vehicles insured under fleet policies and goods carrying vehicles are not included.

Figure 5: Trends in motor vehicle insurance claims frequency and size

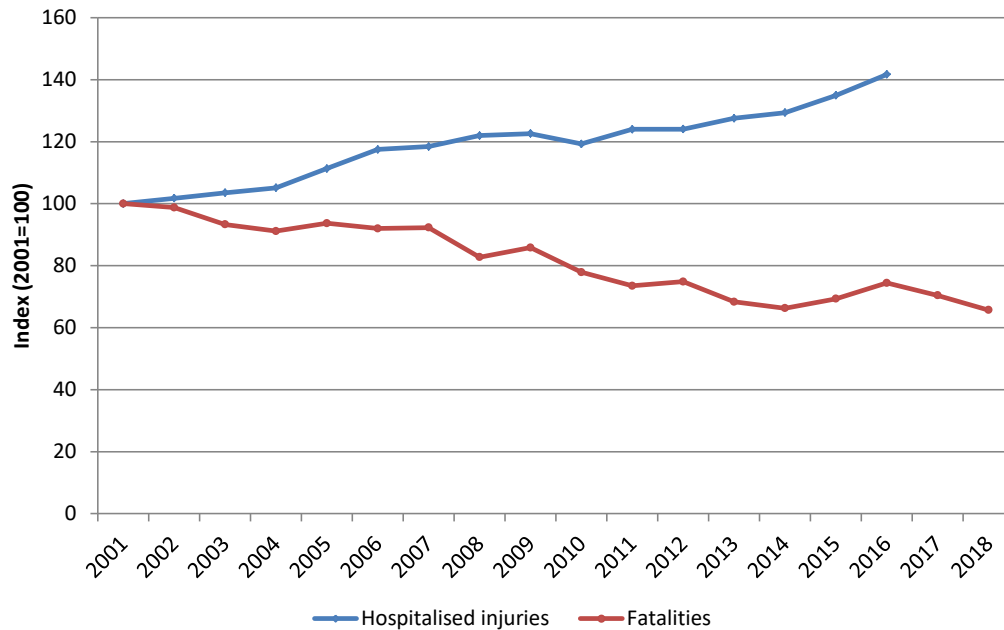


Source: Insurance Stats Australia (ISA)²⁸

The trend in motor collision claims does not align with the trend in the number of road-fatalities, which has been falling in Australia and most developed countries. Road-fatalities appear to be a poor proxy indicator of motor-vehicle accidents as much of the reduction in road-fatalities can be attributed to improvements in preventing a fatality following a crash. The trend in hospitalised injuries appears to be a more relevant indicator. Figure 6 below shows trends in fatalities and hospitalised injuries in Australia since 2001. As highlighted in the figure, the number of hospitalised injuries has been growing (at around 2% per annum, which is similar to the rate of growth in vehicles and claims) despite the number of fatalities falling (by a similar rate).

²⁸ Notes: 1. Excludes vehicles insured under third-party and fleet policies and goods-carrying vehicles. 'Claims size' is cost of repairs, replacement of vehicle and replacement vehicle costs. It excludes consideration of recoveries including the policyholder's excess. 2. Data is for 'Collision and other causes of loss or damage'. This excludes windscreen, theft and major events. 3. "\$ real" is adjusted using the ABS 'Consumer Price Index: All groups CPI; Australia' series.

Figure 6: Trends in hospitalised injuries and fatalities from road crashes



Source: BITRE Hospitalised Injury, Australian Road Deaths Database.

3.1.2 The impact of the changing vehicle fleet

Modern vehicles are increasingly being fitted with a range of crash avoidance technologies (referred to as Advanced Driver Assistance Systems, ADAS). These include warning systems (e.g. Lane Departure Warning, LDW) and autonomous systems (e.g. Autonomous Emergency braking, AEB). There is substantial evidence that such technologies have a benefit in reducing the likelihood and severity of a crash. For example, Doyle et al (2015) uses claims data on to estimate that AEB reduces the vehicle damage claims frequency by 6 to 8 per cent and claims cost by 10–15%.²⁹ A recent study by the German Association of Insurers estimates that actively braking parking assistants could avoid 63 per cent of parking and manoeuvring claims.³⁰

²⁹ Tooth (2017), provides a summary of much of the research.

³⁰ As reported in the January 2019 RCAR newsletter. www.rcar.org/Newsletters/2019_jan_newsletter.pdf

Table 1: Advanced driver assistance systems

	ADAS	Description
Warning Systems	Blind-Spot Monitor	Detects other vehicles located to the driver's side and rear and provides warnings to the driver
	Headway Monitoring Warning	Assists the driver in keeping a safe driving distance from the vehicle ahead
	Forward Collision Warning	Alerts the driver of an imminent rear-end collision with the vehicle ahead
	Lane Departure Warning	Alerts the driver if the vehicle has unintentionally deviated from the road towards the lane boundary or marking
	Overtaking assistant	Monitors the road ahead and assists the driver as to safety of an overtaking manoeuvre
	Pedestrian Collision Warning	Alerts the driver to the danger of an impending collision with a pedestrian (or cyclist) ahead
Auto-nomous systems	Adaptive Cruise Control	A cruise control system that automatically adjusts the vehicle speed to maintain a safe distance from vehicles ahead
	Autonomous Emergency braking	A system that acts independently to the driver to improve or apply braking in a critical situation
	Lane Departure Prevention	Directly modulates vehicle trajectory using various modalities, including steering or selective braking of the vehicle's wheels.

Source: Tooth (2017).

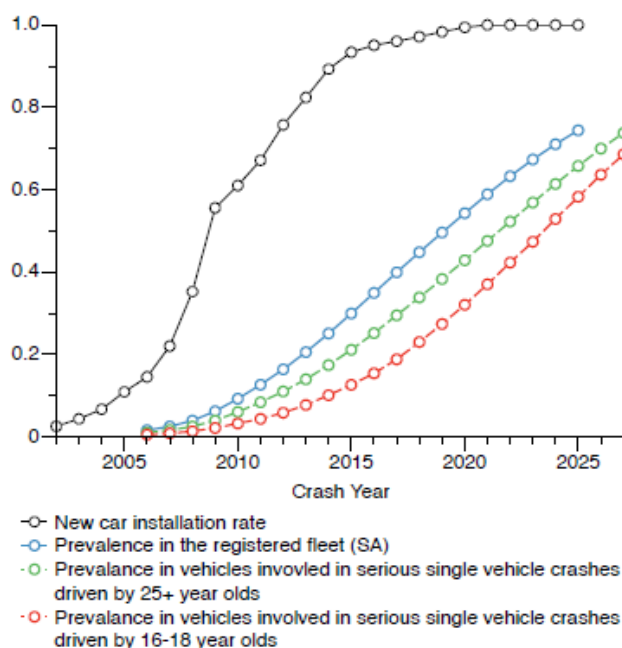
Industry participants expect that such safety technologies will reduce the frequency and severity of crashes and consequently the frequency and severity of repairs.³¹ However, there appears little evidence of this occurring in the current data.

³¹ In the Paint and Panel (2018) survey, relatively more respondents agreed with the statement that 'Automotive safety technology will mean far fewer accidents and much less volume in five years time'.

In part, this may be due to delays in the penetration of ADAS into the vehicle fleet. The average vehicle age tends to be around 10 years for private passenger motor vehicles³². Furthermore; the drivers of new vehicles tend to be lower risk. Young people, and others who are high-risk, tend to drive older vehicles that are poorer in terms of safety than the mature, lower-risk drivers.

These two effects are reflected in the penetration of electronic stability control (ESC) (see Figure 7 below). It took around 12 years from when ESC reached 50 per cent of new sales to when ESC reached 50 per cent penetration into the vehicle fleet and another 3-5 years before it reached similar penetration into the fleet of vehicles involved in collisions.

Figure 7: New car installation rates and penetration rates for ESC



Source: Anderson et al. (2012, p. 9).

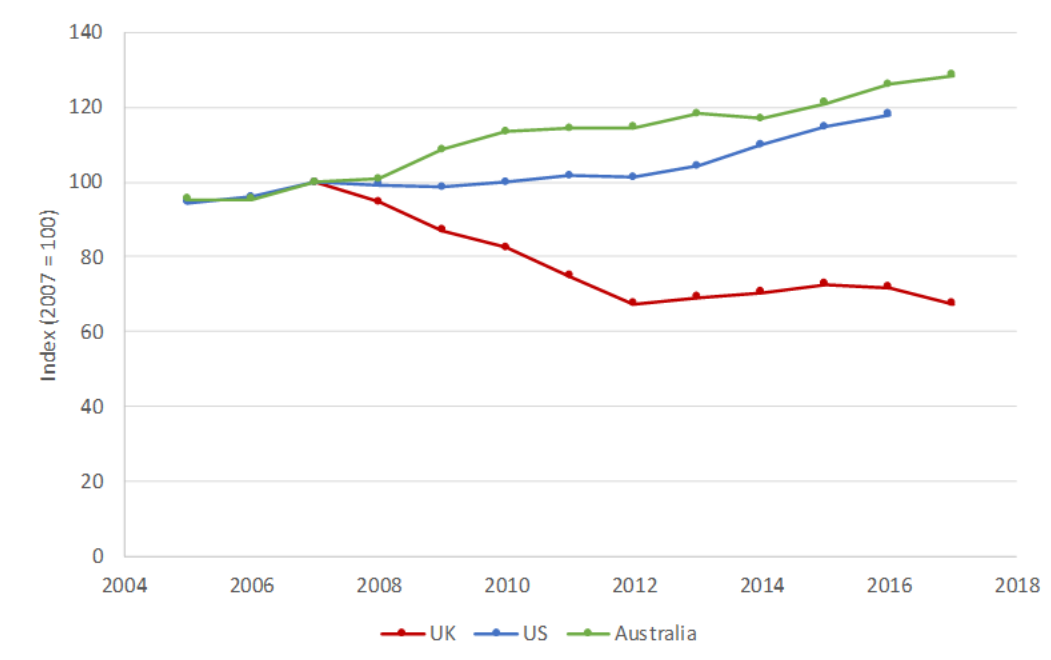
3.1.3 International comparisons and discussion

A comparison of the trends with the US and the UK is useful in determining how claims in Australia may change in the future.

Figure 8 compares the trend in Australian insurance claims with that of the UK and the US. As highlighted by the figure, the Australian experience has not followed that of the UK (where claims have fallen) and US (where claims numbers have risen more slowly).

³² The average age for motorcycles is 10 years, 16 years for heavy vehicles and 11 to 12 years for most other categories including buses, light-trucks and articulated-trucks. Source ABS (2018b).

Figure 8: Trends in number of motor vehicle insurance claims (Australia, UK, US)



Source: ISA (Australia) Trend Tracker Ltd (UK), Auto Care Association (US).³³

The difference in trends in claims may be explained by several factors. Since 2007, the number in and usage of the Australian light vehicle fleet has grown faster in Australia than in the UK and the US (see Figure 9 below). The sharp reduction of growth in the UK and US can in part be attributed to the effect of global financial crisis which more significantly affected the UK and the US.

Another potential reason for the difference in the UK relates to higher penetration of collision avoidance technologies. The average age of vehicles in the UK (and other parts of Europe)³⁴ is substantially lower than the average in Australia and US³⁵ and consequently, we might expect the effect of new vehicles on claims frequency be more prominent in UK. This is of interest as it may reflect what occurs in Australia in the future.

Other factors which may explain the fall in claims in the UK include an increase in motor insurance premiums and excesses payments, which in turn has resulted in a reduction of insurance funded-repairs, and congestion charging and its impact on congestion related accidents.³⁶

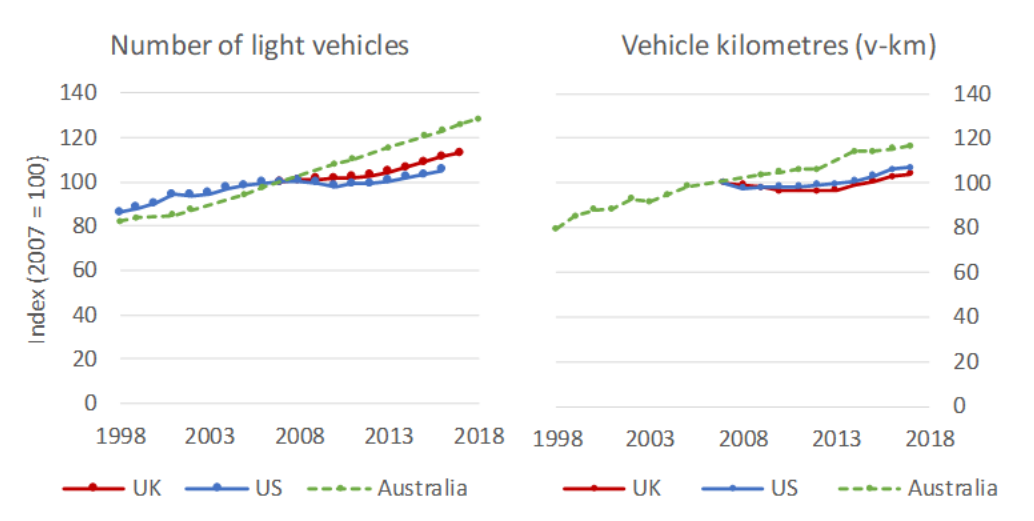
³³ Australia data matches that in Figure 4. US data combines counts of paid claims for automotive collisions (own vehicle) and automotive property damage (other vehicle). UK data combines counts of private, fleet and business vehicles.

³⁴ See <https://www.eea.europa.eu/data-and-maps/indicators/average-age-of-the-vehicle-fleet/average-age-of-the-vehicle-8>.

³⁵ <https://www.bts.gov/content/average-age-automobiles-and-trucks-operation-united-states>

³⁶ See for example, Green, C. P., Heywood, J. S., & Navarro, M. (2016). Traffic accidents and the London congestion charge. *Journal of public economics*, 133, 11-22.

Figure 9: Trends in the number and use of light vehicles (UK, US and Australia)



Source: ABS (2018a, 2018b), US Bureau of Transportation Statistics, UK Trend Tracker Ltd, UK Department of Transport.³⁷

It is of course difficult to forecast future demand for smash repairs. The Commonwealth Government's most recent forecast (conducted in 2015) is for continued growth in vehicle use on the back of population growth and some increase in the vehicle-use per person.³⁸ Accordingly it is possible that the demand for smash repair services may continue to grow for some time. Industry revenue may also increase as result of an increasing average cost of repair.

It seems inevitable that at some point, greater penetration and improvements in ADAS will lead to a fall in collision frequency and consequently the demand for smash repairs. Nevertheless, such a reduction may be limited. Improvements in collision avoidance technology can lead to drivers taking less care. Furthermore, the new technologies do not prevent damage caused by other factors such as hail. The ADAS should also contribute to reducing the average severity of damage and consequently the average cost of repair. However, this effect may be more than offset in the short-term by the higher costs associated with repairing vehicles with ADAS.

The size of the vehicle fleet could also fall as people shift away from vehicle ownership and towards mobility-as-a-service (MAAS), whereby they acquire transport (e.g. Uber, public transport) on as-needs basis. Such a shift could result in higher vehicle use but reduced collisions as a result of reduced high-risk driving.

³⁷ The data definitions and methods of collection and reporting vary by jurisdiction. Australian ABS and UK Department of Transport and Trend Tracker data combine passenger and light commercial vehicles. US Bureau of Transportation Statistics change classification from "Passenger cars" and "Other 2-axle 4-tire vehicles" up to 2006 to short and long wheel base "Light duty vehicle" categories from 2007 and warn about comparisons between the two periods.

³⁸ See BITRE (2018).

3.2 Supply of crash repair

3.2.1 Productivity and scale economies

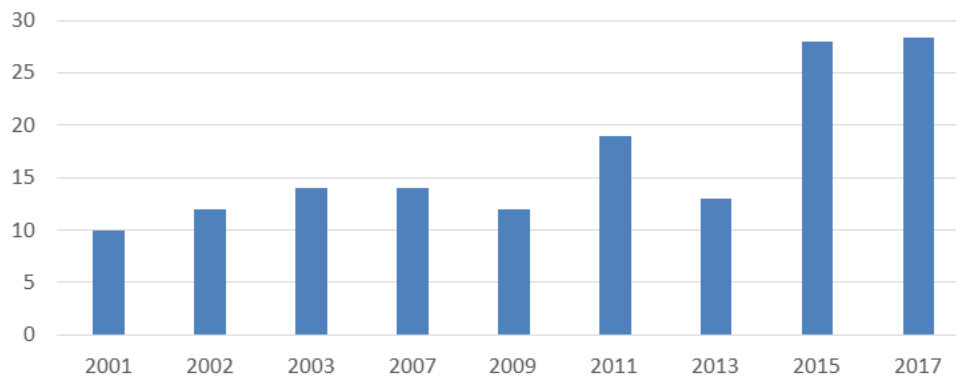
Technology advances have had a positive impact on the productivity of repair shops. Key advances have included increased use of:

- information systems to undertake quotes, order parts and manage the repair process³⁹
- equipment used in the process of repair.

These advances have enabled repair shops that have invested to undertake a greater volume of work. The cost of investing in systems, equipment and associated training are significant.⁴⁰ However, the investments have enabled repairers to undertake more work, which in turn has enabled repairers to fund further invest in systems and equipment to improve productivity. The increased investment in technology has also increased the returns to scale and volume. As a consequence, some repairers are operating for longer hours (e.g. by employing staff to do an extra half-shift).

Historically, repairers would complete less than 10 jobs per week. Today many shops will complete over 10 jobs per day (as reflected in Figure 1 on page 3). The increased productivity and economies of scale of bodyshops is reflected in some bodyshop surveys. A long-running US survey, the average size of the bodyshops surveyed has increased significantly in the last 25 years in terms of product area, revenue and number of technicians employed.⁴¹ A different US survey highlights increasing weekly repair volumes (see Figure 10 below).

Figure 10: Average jobs per week—respondents to a US bodyshop survey



Source: Babcox (2017) industry survey.

³⁹ In the 1990s most quotes were prepared by hand. McDonagh (2011, p. 148).

⁴⁰ The VACCC (2004) estimated that the cost of setting up a fully compliant and properly equipped crash repair shop was in the order of \$750,000. They noted some of the equipment required included Jigging and measuring equipment, welding equipment, panel straightening tools, pulling equipment, hoists and paint booths/ovens.

⁴¹ Collision Repair Education Foundation / I-CAR (2017).

3.2.2 The increasing complexity of repair

The increasing complexity of modern vehicles has implications for the cost and process of repair. Modern vehicles include new materials that are being used to improve fuel efficiency (including greater use of aluminium and composites) and electronic systems for safety and customer convenience.⁴²

A vehicle's ADAS does not prevent other vehicles colliding with the vehicle and while the fleet includes a mix of advanced and low-technologies, collisions involving advanced vehicles will occur. Of concern, ADAS systems tend to be placed on the exterior of vehicles where damage is more likely. Figure 11 depicts an info-graphic showing the potential *additional* ADAS repair costs based on a 2018 US study. Of note, the study found that 'the repair bill for a minor front or rear collision on a car with ADAS can [be] almost two and half times the repair cost for a vehicle without these systems'.⁴³

Figure 11: Impact of ADAS on repair costs (in US dollars, 2018)



Source: American Automobile Association (2018).

⁴² Suncorp (2014, p. 26) summarised: *Modern cars are increasingly complex with new materials introduced to improve fuel efficiency. New electronics improve road safety. Today's new car can have up to 11 different types/grades of steel and 50–70 electronic systems, such as adaptive cruise control, side airbags, and automated reverse parking.*

⁴³ American Automobile Association (2018).

The presence of such technology increases the cost of repairs because of more expensive parts and more complex processes. It also increases the complexity of the repair by increasing the burden on repairers to use processes specific to the vehicle.

Currently the complex repairs are a small percentage of all repairs undertaken to motor vehicles following accidents.⁴⁴ Close to half of respondents to the 2018 Paint & Panel survey felt that 'Keeping up with changes in vehicle technology - equipment and training' was not an issue for their business in the next 12 months.

However, this appears likely to change. In a recent UK survey of repairers (where the average fleet age is younger)⁴⁵ '28.7% stated they had refused repairs due to the technology and repair techniques required.' The survey also reports that the majority of these respondents believe the frequency of this had increased.

In response to the changing complexity, repairers are investing in equipment and training.

Dealing with the on-board systems provides a challenge. A modern car has on-board computer systems that operate the ADAS.⁴⁶ Vehicles equipped with such features require a pre-and post-repair scan of the on-board systems. Such vehicles will store "fault codes" in the computer when they are involved in a collision. A pre-scan of these fault-codes conducted prior to repair can identify issues that might be damaged or need to be recalibrated.

The scanning and recalibration of such equipment poses a challenge for some repairers who may not have the necessary equipment. The 2017 US Babcock survey reported that:

- 25% of respondents do not perform pre/post-repair scans
- most (64%) conducted scans in house but only 18% conducted the calibrations in-house (with the remainder being outsourced to a dealer or other party).

Replacement/write-offs

The trend towards higher technology components within common impact zones and novel materials (including aluminium bodies or plastic components) may increase the likelihood of cars being written off following a major collision as being uneconomic to repair.⁴⁷ This

⁴⁴ MTA's submission to the 2018 WA Inquiry.

⁴⁵ Trend Tracker (2019, p. 106).

⁴⁶ These include Adaptive Cruise Control, Lane Change Assist, Vehicle Stability, Collision Avoidance, Blind Spot Detection, Back Up Cameras, Front and Rear Radar, Side Impact Pre-Tensioners, Heads Up Display and Self-Parking. See Table 1 on page 13 and <https://oriellycc.com/what-is-a-pre-and-post-repair-scan-and-why-does-my-auto-body-repair-need-it/>

⁴⁷ Australian states regulate the re-registration of written-off vehicles to protect consumers from inadequately repaired and potentially unsafe vehicles, including a national register of all written-off vehicles to control re-registration of these vehicles in one of two categories. Vehicles that are so extensive damage that no repair is considered safe, including some automatic categories, will be classified as statutory written-off vehicles (SWOV). By national agreement a SWOV cannot be re-registered. It can be sold only for spare parts or scrap metal. A repairable written-off vehicle (RWOV) may technically be capable of being repaired to roadworthy standards but has been assessed as a total loss, that is uneconomic to repair. A third party may purchase a RWOV to repair with cheaper methods and recycled or after-market parts not available to the insured/insurer.



potentially underpins two trends, both decreasing the number of repairs that are undertaken and increasing the availability of recycled parts.

There is some evidence for this from the UK where the average vehicle is younger. Over fifteen years to 2017, the UK has seen a doubling of the number of written off vehicles in repairable categories, including nearly quadrupling the number of written off vehicles in the repairable non-structural category.⁴⁸ Over the same period the number of UK statutory write-offs has been relatively constant.

This trend may reverse if, as expected, ADAS results in reduced severity of crashes and as repairers become more efficient.

Parts

The increasing complexity of vehicles is also expected to have implications for the costs of parts. The cost of repair is typically segmented in labour parts, paint and materials plus additional items. There is no accurate data on the mix of costs in Australia.⁴⁹

However, there is evidence that the cost-mix of these components is changing in the UK. In the UK the percentage of cost on parts rose from 38% to 42% over the 5 years from 2012 to 2017. Trend Tracker (2019, p. 70) attributes the increase primarily to the complexity of vehicle including the increasing use of mixed materials and intelligent electronic systems and predicts this trend to continue.

A related implication of the increased complexity of vehicles is that there will be an increase in pressure to use OEM parts instead of salvaged or aftermarket parts to ensure effective replacement. This would add to cost pressures and increase the market power of the suppliers of OEM parts.

Specialisation

The increasing complexity of repair processes and the need to invest in equipment, technology and training appears likely to drive further specialisation by smash-repairers. Specialisation seems increasingly likely with regards to the:

- type of repair — with increased focus by some establishments on low-impact repairs and some more focussed on structural repairs
- type of vehicle — for example, some repairers will specialise on electric vehicles (which have safety implications for repairers) and some on vehicles with particular materials (e.g. aluminium).

⁴⁸ Source: Trend Tracker (2019, p. 163). The UK regulations include two repairable categories for vehicles that have sustained repairable 'structural damage' and repairable 'non-structural damage' during an accident. It is unclear but probable that the repairable 'structural damage' category would be an automatic statutory written-off vehicle in Australian regulations.

⁴⁹ In Australia, the Productivity Commission (2005, p. 58) estimated the parts equate to an average of some 50 to 60 per cent of the cost of repair. The ACCC (2017, p. 13) noted anecdotal evidence that suggests 'parts prices in Australia are rising relative to the cost of new cars, and that Australia has high parts prices relative to some overseas jurisdictions'.

It is possible there will be increased specialisation with regards to vehicle manufacturer. However, based on the international experience, this appears less likely. Repairers in the UK and US hold multiple badges.

Increasingly newer vehicles may be limited in where they can be repaired. This is a particularly significant issue for Australia because of its relatively low population density and the relatively high diversity of vehicle brands. A key risk for vehicle owners and insurers is that it will be difficult and/or costly to repair vehicles outside of major centres. An implication of greater specialisation is that damaged vehicles may be moved greater distances for repair.

3.2.3 Labour and skills

A shortage of qualified technicians is a key issue in the UK, US and Australia. For example:

- Australia: in the Australasian Paint & Panel (2018) survey, 'Skilled Labour shortage' was, on average, rated the largest threat to businesses in the next 12 months
- US: the 2018 US State of the Industry report highlights that the 'collision repair industry continues to struggle to find qualified technicians, and
- UK: in a UK survey, over 35 per cent of respondents listed skilled labour shortage as the greatest threat for bodyshop businesses.⁵⁰

There are issues both with the number and skills of the workforce.

Consistent with the estimates on the demand for smash repair, the number of people employed in the industry (and each subcategory) has not changed substantially over the last 20 years and the forecast employment for panel beaters is reasonably stable over the years to 2023 (see Figure 12 below).⁵¹ However (as reflected in Figure 13) fewer people are entering the industry. Apprentice and trainee commencements and completions have fallen between 2010 and 2017. In 2017 there were just under 1,500 commencements and about 700 completions.⁵²

Based on trends such as these, the Australian Industry and Skills Committee (AISC) has reported projected staff shortages including 2,653 Vehicle Spray Painters and 2,634 Panel Beaters.⁵³

Anecdotally, the looming shortage has been attributed to several factors including:

- a 'misplaced' view by young people that repair industry work is 'dirty'
- a perception that there is limited future, and

⁵⁰ Trend Tracker (2019, p. 101).

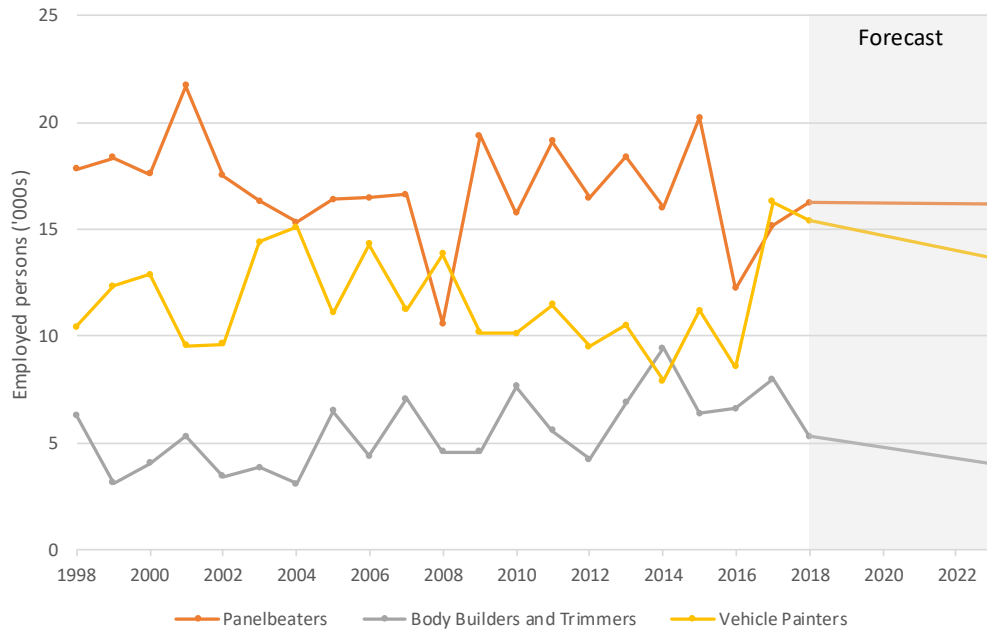
⁵¹ Based on the ABS 2016 Census of Population and Housing, there were 36,161 people employed in the Automotive Body, Paint and Interior Repair industry class. The main occupational categories include the skill sub-categories Panelbeaters, Vehicle Body Builders and Trimmers, and Vehicle Painters. Associated labourer categories include Motor Vehicle Parts and Accessories Fitters and Car Detailers employ approximately 30,000 people.

⁵² In 2017, there were around 5,500 program enrolments, with 51 per cent in automotive body repair technology qualifications and 38 per cent in automotive refinishing technology.

⁵³ <https://nationalindustryinsights.aisc.net.au/industries/automotive/automotive-vehicle-body-repair>

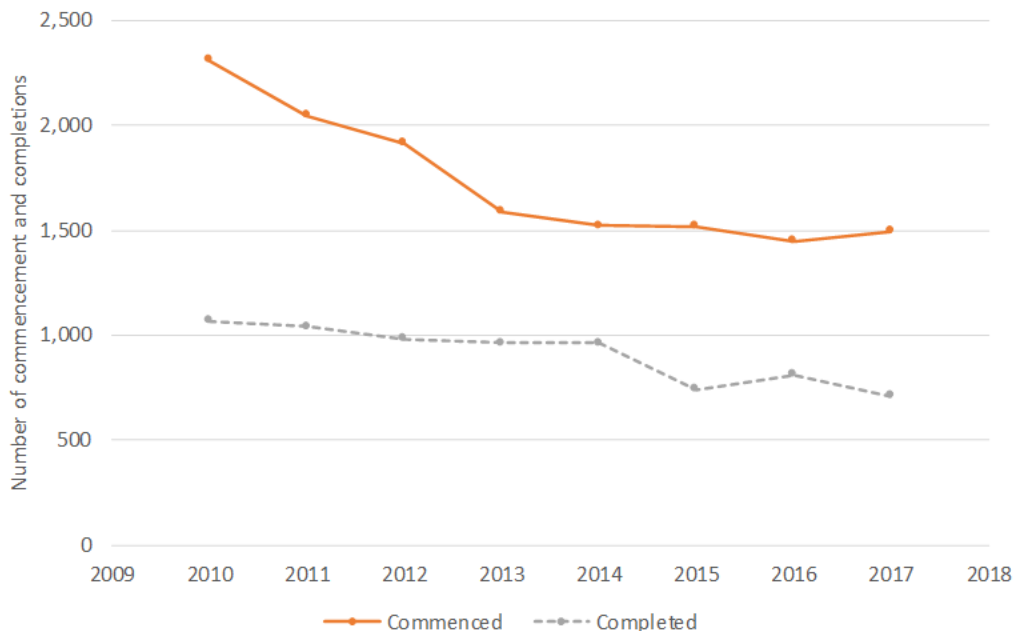
- the increased preference for university education.

Figure 12: Employment in automotive body repair, 1998 to 2018 and forecast



Source: ABS Labour Market Information Portal (projections) (<http://lmip.gov.au/>).

Figure 13: Apprentice and trainee commencement and completions



Source: Australian Industry and Skills Committee (www.aisc.net.au).

The increased complexity of vehicles and repair processes is also resulting in an increased need for more qualified technicians with in-depth knowledge of the vehicle, its systems and the repair processes. This in turn requires better training on skills and equipment on all aspects of repairs. Examples include: how to disconnect and re-establish electrical systems prior to making repairs; overcoming issues in refinishing that arise from sensors embedded in panels; and knowing how to access and follow OEM requirements.⁵⁴

Such training needs is an issue for both existing workforce and the new labour coming through into the market.

A shortage of skilled staff is not a new issue, and industries have mobilised internationally to lift workforce capabilities:

- The Inter-Industry Conference on Auto Collision Repair (I-CAR) is an international not-for-profit organization based in USA since 1979 and located in Australia since 2006.⁵⁵ I-CAR develops and delivers technical training programs to professionals in all areas of the collision industry. The Australian program focuses on providing post-qualification skills enhancement, education, training and information to the entire industry.
- The Australian Industry and Skills Committee (AISC) was established by the COAG Industry and Skills Council in May 2015 to give industry a formal role in approving national vocational education and training (VET) packages for implementation.⁵⁶ Currently the Automotive Vehicle Body Repair Industry Reference Committee has a program to update VET qualifications to address the challenges of advanced automotive materials and equipment, interconnected and interdependent systems; OEM requirements and changing consumer preferences.

Professional recognition programs have been developed, such as I-CAR's Gold Class for both collision repair shops and insurance assessors. These programs seek to embed learning and knowledge as business assets to be managed and developed to improve repair shop productivity, marketability and profitability. I-CAR's evaluation of impact of role-relevant education and training found significant benefits in terms of quality and productivity.⁵⁷

⁵⁴ The technical needs is reflected in the comments by Andrew Hooker from Thatcham Research (UK) '...your apprentice of today looking to be working in the industry in 10 15 years' time will probably be closer to an aerospace apprentice in terms of handling these type of materials and the right diagnosis and repair processes...' from Bodyshop of the Future: Thatcham Research (Available at <https://www.youtube.com/watch?v=MCwcH3rGS5w>).

⁵⁵ I-CAR represents a collaboration across the six segments of the collision repair Inter-Industry - collision repair, insurance, OEMs, education and training providers, tools and equipment supply and related industry services.

⁵⁶ <https://www.aisc.net.au/content/about-aisc>

⁵⁷ Source: I-CAR (2015). Identified improvements include a 14% improvement in the average cycle time (the time taken to complete safe and quality repairs), a 34% improved touch time (the hours a technician worked on a vehicle), an 11% decrease in supplementary necessary repairs overlooked in the estimate, a 5% rise in customer satisfaction scores, and an 11% decrease in length of vehicle rental (compared to industry wide average).



Increasingly accreditation systems like I-CAR's Gold Class are becoming the standard recommended or required by insurers and manufacturers in their preferred repairer relationships.

3.2.4 The number of bodyshops

There is no definitive source as to the number of repairers in Australia. The relevant Australian Bureau of Statistics (ABS) data is on the number of businesses (as opposed to establishments) and includes suppliers to the industry and other related organisations. The Productivity Commission (PC) estimated that there were around 5000–5100 smash repairers in 2005 based on ABS data and information provided by industry associations.⁵⁸ Based on analysis of a 2016 directory of repairers we estimate the current number establishments (including mobile repairers)⁵⁹ to be in the order of 4800.⁶⁰

The trend in the number of *businesses* from the ABS data is provided in Figure 14 below alongside trends in the number of establishments in the UK and the US. As shown in the left-hand-side graph, since 2008 there has been negligible change in Australia and significant falls in the UK and the US. Trend Tracker (2019) forecasts that the number of UK bodyshops will continue to decline. On a per-vehicle basis, the number of businesses in Australia has fallen but at a slower rate than that in the UK. The Productivity Commission estimated that in 2005 Australia had a relatively large number of shops per vehicle relative to the US and the UK. It appears likely that this discrepancy still exists.

The reduction in repairers in the US and the UK is consistent with a period of excess capacity because of low, or negative, growth in the repair volumes and increased productivity of bodyshops. These factors, plus an increased need to invest in training and equipment, has led smaller repairers to exit. The fall in number of repairers in the UK has led to an expectation that there may be insufficient repair-shop capacity in the future, which is expected to put pressure on rates and bodyshop operators to extend their facilities.⁶¹

Due to the developments discussed in this report, more repairers may be exiting the industry. This concern is reflected in a recent industry survey⁶² in which over 60 per cent of those surveyed agreed to the statement 'I used to love the industry but it is getting too hard to make a profit'. Over 40% reported being very concerned that in the next 12 months that 'My business suffering from larger entities consolidating the industry'. Similar sentiments are reflected in surveys that have been conducted in the US.⁶³

⁵⁸ Productivity Commission (2005, pp. 20–21).

⁵⁹ Consistent with the approach to measurement in the UK we have attempted to estimate the number of 'primary' bodyshop; that is the number of repairers (establishments) who primary business is motor vehicle repair. We have attempted to measure establishments as opposed to enterprises.

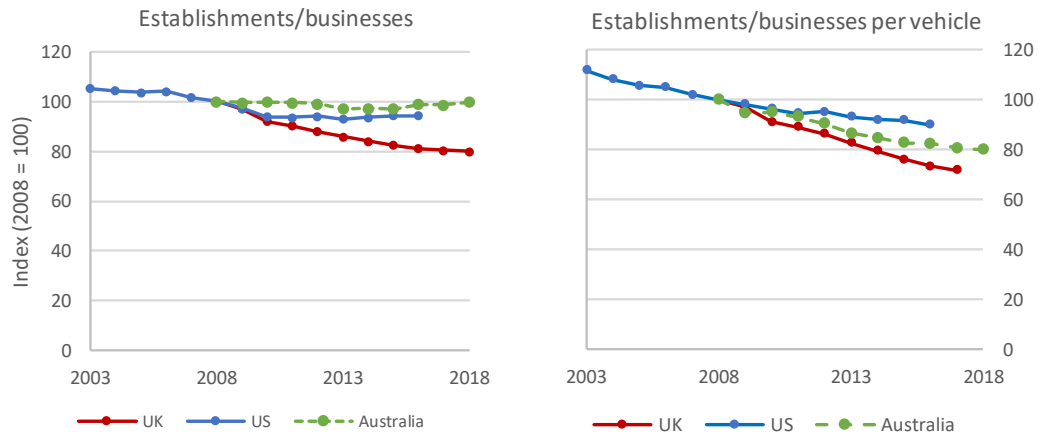
⁶⁰ We received other anecdotal evidence that the industry has continued to rationalise and the number of primary repairers is less than 4000.

⁶¹ Trend Tracker (p. 179).

⁶² Australasian Paint & Panel (2018) survey.

⁶³ Babcox (2017) survey.

Figure 14: Trends in repair establishments (UK, US) and businesses (Australia)



Source: ABS (2018c) (Australia), Trend Tracker (UK), Auto Care Association (US).⁶⁴

⁶⁴ UK data counts shops “where the primary business is repairing accident damaged vehicles for insurance, accident management (claims solutions providers) and fleet companies. This excludes garages capable of minor repairs. US data counts shops “specializing in collision repair” including independent shops and dealerships operated collision repair shops. Australia data counts ‘Automotive Body, Paint and Interior Repair’ businesses (based on ATO data) not shops. 96% of these businesses have 1-19 employees, suggesting they are likely to be one shop site. The per-vehicle data is derived from the data presented in Figure 9.

4. Industry structure and challenges

4.1 Industry structure

4.1.1 Insurer-repairer relations

The relationship between insurers and repairers is a matter of continual attention in the smash repair industry in Australia and around the world.

The industry has a history of tension between insurers, repairers and other parties. This can be explained by a combination of factors. In most cases an insurer, rather than the vehicle owner, pays for the cost of the repair. This leads to insurers and repairers having to negotiate over the repair cost and process.

It is expensive, and can be difficult, for an insurer to move a vehicle once it reaches a repairer's premises. Consequently, once they have a vehicle in their possession, a repairer's power in negotiating with an insurer increases significantly and they may expect to make a healthy margin on repairing the vehicle. This situation is reflected in reports of commissions paid by repairers to tow-trucks operators for work they bring to the repairer.⁶⁵ Concern for the high margins on repair, gives insurers the incentive to negotiate hard on the scope of works of repair and has reportedly led to some poor practices.

A high margin on each repair does not necessarily lead to high industry profits. The smash repair industry is a competitive industry with minimal barriers to entry. When firms make excess profits, new firms are encouraged to enter the market to compete for the available jobs, which drives down the profitability.

Quality is another potential source of tension. The quality of repair is difficult for the customer to assess. Tensions can arise between the insurer, who is seeking to reduce the cost, and the repairer, who is seeking to increase the size of the job. Once the repairer's quote (which details the scope of works and cost of the job) has been accepted, the repairer's has incentives to minimize the effort and cost in undertaking the repair.

In summary these conditions naturally lead to a market characterised by:

- excess capacity, with many repairers competing over a limited number of jobs
- strong competition for jobs, with commissions paid to tow-truck operators and others for securing work
- difficult negotiations between insurers and repairers over the cost of each job
- disputes over the quality of the work and the pressure to cut corners.

⁶⁵ The Insurance Commission of Western Australia (ICWA 2018, p. 3) provides some evidence. "It is understood that some towing operators refer to themselves as 'Crash Chasers'. The operators use social media and the internet to advertise for work. The Insurance Commission has seen advertisements offering payment of a \$200 spotter fee to the public and those insured who 'call-in crashes'. The Crash Chasers' practice is to 'sit-off on freeways or close by, and monitor crash communications.'"

Insurers have attempted several alternative business models to change the market and secure a cost advantage over competitors.

Creating competition in bidding for work

A common approach of insurers is to attempt to introduce competition between repairers to bid on work. These attempts have included the two-quote model, first introduced by AAMI, and IAG's failed web-based allocation model.

A commonly raised concern with creating competition for a job is that it encourages repairers to cut-corners to reduce the repair cost and win the quote. The attempts to introduce competition have created controversy and led to multiple inquiries.

IAG's attempt at a web-based repair management system led to the NSW STAYSAFE Committee conducting an inquiry into the Preferred Repairer Scheme operated by NRMA Insurance and IAG and the associated safety risks.⁶⁶ The report (released in June 2006) concluded 'that the web-based repair management system introduced by Insurance Australia Group was an unsafe system in its current form and operation.' Although IAG disputed the findings, it shifted away from the system.

Preferred repairer networks

An approach adopted by insurers to manage the cost and quality of repair is to select a limited number of repairers to be part of a preferred repair network (PRN). To be eligible to be included in a PRN a repairer may be required to undertake some quality assessment, use processes to simplify administration and—in return for the promise of a greater work volume—charge a lower cost for repairs.⁶⁷

Insurers can require customers to use their PRN when this is specified in the insurance contract. When customers are allowed to choose their repairer, they may still choose a PRN repairer on the basis of the insurer's recommendation.

Many customers may prefer to take the advice of the insurer in selecting a repairer as they have little knowledge of which repairer to choose.⁶⁸ Customers opting for the insurer's selection may also benefit from an improved claims service due to better integration of systems and processes. Customers opting to use the insurer's PRN may have their vehicle

⁶⁶ STAYSAFE refers to a NSW Joint Standing Committee on Road Safety, which monitors, investigates and reports on road safety in New South Wales. The inquiry's term of reference was 'The STAYSAFE Committee is to conduct an inquiry into motor vehicle smash repairs under the Preferred Repairer Scheme operated by NRMA Insurance and IAG, and the risk to safety arising from: (1) Repairers quoting for jobs by inspecting photos of damaged vehicles rather than physically inspecting the damaged vehicle. (2) Financial penalties if damage is later uncovered that was not apparent through the internet photographs, possibly leading to cost cutting and unsafe repair practices. (3) Use of second-hand vehicle parts, further compromising safety. (4) The NRMA Insurance and IAG employing unqualified smash repair assessors to photograph and help administer vehicles for repair.'
<https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2033>

⁶⁷ In effect, rather than competing on individual jobs, repairers compete to be part of a preferred repairer network.

⁶⁸ Most consumers do not have the experience and expertise to compare smash repairers and their quotations. For these consumers there are benefits to relying on insurer recommendations.



repaired sooner, experience less paperwork, experience a simpler booking process (because the insurer is able to check availability of repairers within their network) and receive more frequent information from their insurer on the progress of the work.

From the insurer's perspective a key benefit, is that using the PRN can generate efficiency gains, which ultimately leads to lower costs. Efficiency benefits include improvements in:⁶⁹

- volume management because of:
 - more steady volume of work and revenue—which enables the repairer to increase their investment in systems, training and equipment to further improve efficiency
 - better management of volume (e.g. selection of vehicles)—which improves the efficiency of the repair process
 - reduced marketing costs by the repairer. By sourcing work via an insurer, a repairer can reduce spending on advertising to customers. This also enables the repairer to locate in a less prominent but more affordable and appropriate location
- the assessment /quote process as result of:
 - greater trust between the assessor and the repairer, which can reduce the cost, of and time taken in, negotiation
 - improved quoting and faster process due to the repairer being allowed to dismantle the vehicle prior to the assessment
- administration. Reduce administrative costs and improved customer service can come from improved integration of systems between the insurer and the repairer.

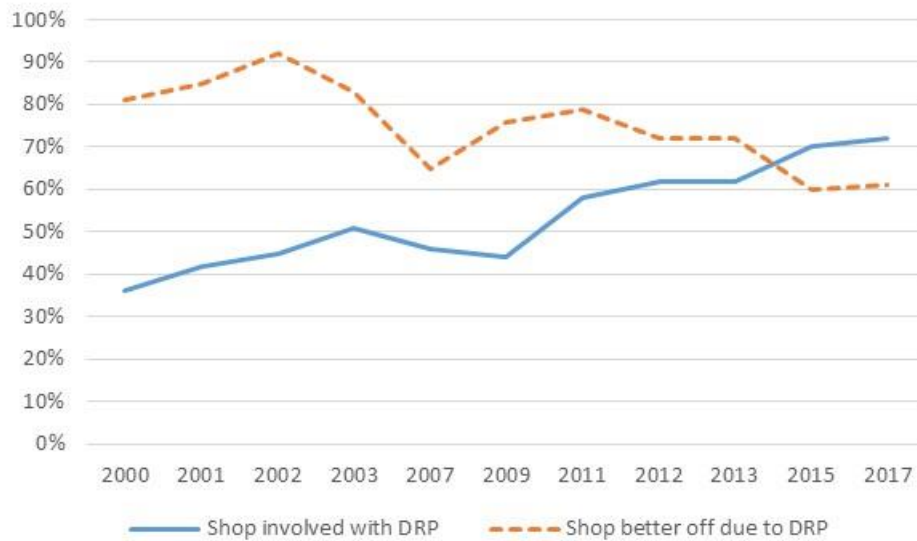
The efficiency benefits are significant enough to warrant insurers offering substantially cheaper premiums to customers who commit to using their PRN. This has increased the ability of insurer's to direct jobs to their PRN, which in-turn can drive greater efficiencies.

Given these benefits it is not surprising to see greater use of PRNs. Figure 15 shows the participation of repairers in the US equivalent of a PRN, known as Direct Repair Program (DRP), based on an annual survey of US repairers. As illustrated in the figure, survey respondents reported being better off due to their participation in DRPs⁷⁰ and participation has grown steadily since 2000. The downward trend in shops reporting they are 'better off due to DRP' may reflect that as participation in DRPs has increased, the relative benefit to those in the DRPs has diminished.

⁶⁹ NRMA Insurance (2014, p. 4).

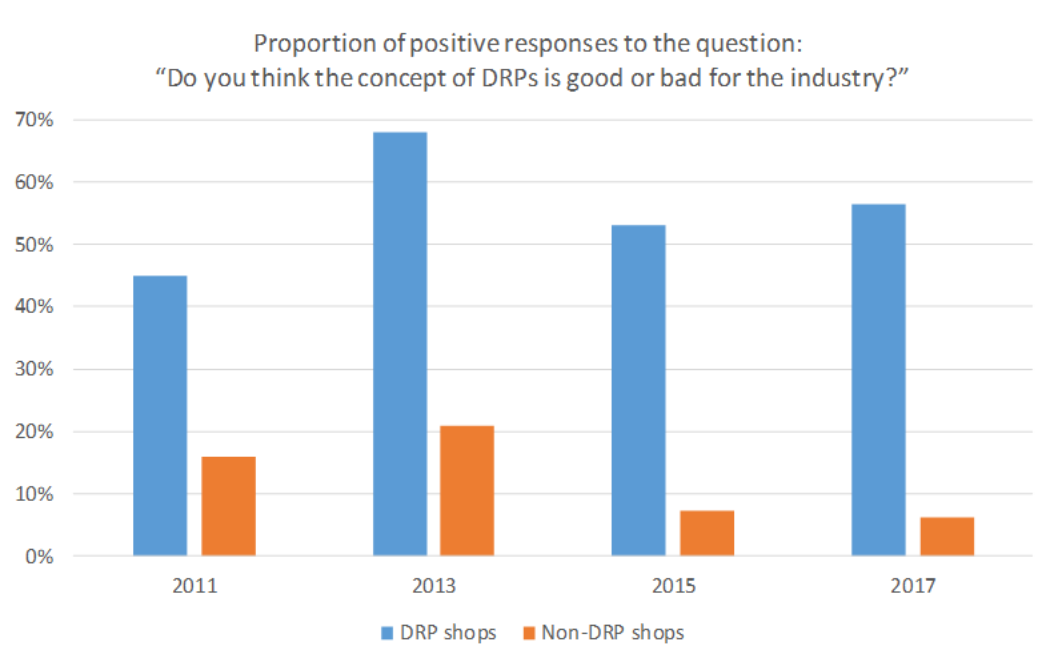
⁷⁰ In the same survey, more repairers reported an increase (34%) than a decrease (24%) in profit margins since DRP affiliation.

Figure 15: Percentage US shops involved in DRPs and reporting better off, 2000-2017



Source: Babcox (2017) industry profile survey.

Figure 16: US body shop owner perceptions of Direct Repair Programs



Source: Babcox (2017) industry profile survey and prior surveys.⁷¹

The additional volume of work directed to the PRN comes at the expense of work for repairers outside of the PRN. This shift in volume is particularly significant in a time where

⁷¹ The answer format changed between 2013 and 2015 from a binary (good/bad) response to a four-point Likert scale (excellent/good/fair/poor) with a 'not sure' opt-out. This chart shows the percentage of definitively good responses (excellent/good) as a proportion all definite responses (i.e. excluding 'not sure').



the volume of repair work is not growing sufficiently to compensate for the shift in volume. Consequently, it is not surprising that repairers not participating in a PRN perceive PRNs negatively. Figure 16 reports the perceptions of US repairers of DRPs. Repairers participating in DRPs have tended to view DRP programs as positive, whereas very-few non-participants have.

Critics of PRNs/DRPs raise the concern that it leads to poorer quality. Under the PRN model repairers obtain volume through relationships with insurers and become less reliant on their reputation with customers. This has led to complaints (most significantly from repairers outside of the PRN)⁷² that the PRN model leads to pressure on PRN repairers to cut corners on quality.⁷³

Perceptions of poor quality are a significant risk for insurers. Whether directing a customer to a PRN by contract or recommending the PRN, insurers are choosing the repairer on behalf of their customers. Poor perceptions of the quality of repair or service would damage the insurer's reputation and reduce an insurers' ability to influence the choice of repair.

In recognition of this risk insurers have actively worked to reduce the risk of perceptions of poor quality. These actions include:

- offering a lifetime guarantee on repairs
- investing in training of assessing staff⁷⁴
- imposing standards on repairers in the network relating to training, procedures and parts⁷⁵
- undertaking quality and process assessments of repairers
- using technology to record the repair process
- undertaking independent quality audits,⁷⁶ and
- advertising of the above activities to customers.

As a result, the residual quality risk appears very small. Of note, IAG's most recent quality audit found a quality issue in approximately 4 per cent of inspections and potential safety

⁷² See for example, the Australian Automotive Repairers Group's submission to the 2014 NSW Inquiry, which states "Network repairers are spoon fed work and therefore have no motivation to repair vehicles to a standard and quality pursuant to the Code nor offer high levels of service. Instead their sole motivation is to produce cheap repairs to satisfy the insurer to ensure that a thriving relationship exists and continues."

⁷³ There is some—albeit limited evidence for this. The US Babcox 2017 survey asked respondents "Do you feel DRPs hamper your ability to properly repair a vehicle?" Some (28%) respondents agreed with the statement but significantly more (42%) respondents disagreed. A submission to the 2018 WA Inquiry reported anecdotal concerns of 'pressure from insurers to keep repair costs low resulting in quality and unsafe repairs'.

⁷⁴ For example, IAG advertise that currently has over 90% of its assessing staff accredited at the I-CAR Platinum status.

⁷⁵ For example, I-CAR Gold Class Collision status, <http://i-car.com.au/gold-class-collision/>

⁷⁶ In 2011, IAG (initially under the NRMA brand) began a quality program. IAG recently released its sixth Quality Report. In 2017-18 over quality inspections were undertaken on over 12% of authorised repairs. The Institute of Automotive Mechanical Engineers (2018) noted that IAG was the only insurer proactively carries out these quality inspections for post repaired vehicles.

issues in only 0.07 per cent of inspections.⁷⁷ The issue of a PRN's effect on repair quality was a key focus of the 2014 NSW Inquiry and 2018 WA Inquiry. Both inquiries did not find evidence of quality being an issue.⁷⁸

Third-party damage

By requirement of contract, insurers can ensure that customers seeking a first-party claim use repairers in their PRN. However, insurers have less control over who repairs vehicles that come from third-party damage claims; that is, claims of damage caused by their policy-holders. Third-party claimants are not bound by any contract with the insurer to have their vehicle repaired at the insurer's PRN.

Under common law a consumer has the right to claim 'reasonable' damages against the at-fault party and has discretion to choose where the vehicle is repaired. In such situations the chosen repairer has significantly more negotiating power with the insurer and can charge a higher cost of repair.

Third-party claims are less common than first-party claims because of the frequency of single-vehicle crashes in which there is no third-party claimant. However, a potential risk for insurers is that the third-party claims will have a higher-than-average mix of complex repairs because a vehicle with collision avoidance technology is less likely to be the vehicle at fault.

As the insurer has less control over where a third-party claimant vehicle is repaired, the vehicle is less likely to be sent to the insurers PRN and—all else being equal—the insurer may expect to pay more for the repair.⁷⁹ Due to the potential cost-reductions, the insurer has an incentive to encourage third-party claimants to use their PRN.⁸⁰

The insurer may still have some influence on third-party claims. A not-at-fault driver may choose to approach their own insurer to manage the claim,⁸¹ which in a proportion of cases will be the same insurer of the party causing the crash.⁸² In some cases the not-at-fault driver may choose to contact the at-fault driver's insurance company to manage the claim.

Given the above we might expect that insurers attempt to entice third-party claimants to use their PRN even if that involves some additional cost. So long as there is no deceptive conduct, there does not appear any reason to think this is to the detriment of consumers. Rather, over the longer-term it should contribute to a more efficient smash repair industry.

⁷⁷ See <https://www.iag.com.au/iag-quality-report-2017-18>

⁷⁸ The 2018 WA Inquiry concluded "The evidence gathered by the Committee indicates that the pressures the smash repair companies work under has not led to a drop in the standard of repairs being completed in Western Australia, particularly the safety of repairs." WA EISC (2018) Finding 11 in Section 3.2.

⁷⁹ This is common elsewhere. This is also the case in the UK; see Trend Tracker (2019). p. 67).

⁸⁰ Even if the cases where the insurer's vehicle is not-at-fault, the insurer may prefer the vehicle to use their PRN as this contributes to the volumes managed by the PRN.

⁸¹ This might be particularly the case when it is not clear which party is at fault.

⁸² Consequently, in regions where an insurer has a significant proportion of the market, the insurer has a larger incentive to ensure that the perceived quality of the PRN network is high and there is value to relying on the insurer to manage the claim.



4.1.2 Manufacturer-approved repairers

As motor vehicles become complex the role of manufacturers in the repair process is becoming more important. The greater complexity is increasing the need for repairers to use manufacturers' specific equipment and procedures.

Some manufacturers have established a repairer network of manufacturer-approved ('badged') repairers that work on their vehicles. To gain a manufacturer's approval a repairer will typically be required to invest in training (which may be manufacturer specific), agree to use OEM parts, follow manufacturer-approved repair procedures and potentially use manufacturer-specific equipment. In return, manufacturer-approved repairers benefit from additional volume of work and greater negotiating power.⁸³

The key benefit to customers is the peace of mind that the vehicle is being repaired to the appropriate quality. The manufacturer benefits by increasing its margin (from parts and other services) and ensuring a greater customer experience with the manufacturer's brand.

Badged repairers have historically only been associated with prestige brands. However, the approach is becoming more common among mainstream brands. In the UK, the manufacturers of the most popular vehicles (e.g. Ford, Volkswagen, Vauxhall and Nissan) have a large network of manufacturer-approved repairers⁸⁴ and we received anecdotal evidence these are likely to expand. In the UK and US, dealership-owned bodyshops are also common. In the US they comprise 15 per cent of bodyshops and are more frequently used on newer vehicles.⁸⁵

In Australia, Holden is current building a network of certified collision repairers with the aim to 'ensure the maintenance and integrity of acceptable repair standards regarding the repair and refinishing of Holden vehicles.'⁸⁶ Participation in the network is open to all repairers who meet the criteria, and repairers in the network are required to remain open to repairing other vehicle makes as Holden cannot guarantee volume.⁸⁷

⁸³ Trend Tracker (2019, p. 179) reports on the UK market. 'The complexity of repair techniques combined with limited capacity for certain types of repair, prestige marques in particular, means the 'manufacturer approved' bodyshop operator has a stronger negotiating position and doesn't see the need to discount, if it isn't appropriate to do so.'

⁸⁴ For example, Nissan is recorded as having 160 approved sites. In the UK around 30% on average of manufacture approved repairers are aligned to dealerships.

⁸⁵ Source: Auto Care (2018, p. 24).

⁸⁶ <https://www.holdentradeclub.com.au/CollisionRepairNetwork>

⁸⁷ Costs to the repairer include a membership fee of \$4,000 per year.

4.1.3 Other developments

Repairers are being part of groups

Traditionally many repairers were single-establishment businesses that operated largely independent of other repairers. Increasingly repairers are organised in groups of establishments that share common features or processes.

There are a range of benefits to repair establishments of being part of a broader group. These include shared:

- purchasing, through improved negotiating supplier discounts
- marketing to customers and other parties e.g. insurers
- materials, information and advice
- workload and resources (e.g. referrals of work).

There are several different models of establishment groups including:

- multi-establishment enterprises (e.g. AMA Group⁸⁸), whereby a single organisation owns multiple repairers
- franchises (e.g. Fix Auto⁸⁹), whereby the repairers own their own establishments but operate under a common brand
- membership groups (e.g. Car Craft⁹⁰), whereby independent repairers (with different branding) voluntarily join a group. In this model, the repairers pay a membership fee and adhere to some quality and service standards but will be largely free to operate the business as they see fit
- the manufacturer-approved repair networks and PRNs, which may also convey some group benefits.

The significance of the benefit of group membership appears to be increasing and consequently it appears likely that more establishments will enter into some group network arrangement.⁹¹

The shift to multi-firm establishments in the US is reflected in US employment data illustrated in Figure 17 below. While the total workforce has been largely stable, there has been a shift in employment from small firms (<20 employees) to larger firms. The proportion employed by the ~60 largest firms with more than 500 employees has doubled in this time. Correspondingly, the number of establishments operated by these large firms has also doubled.

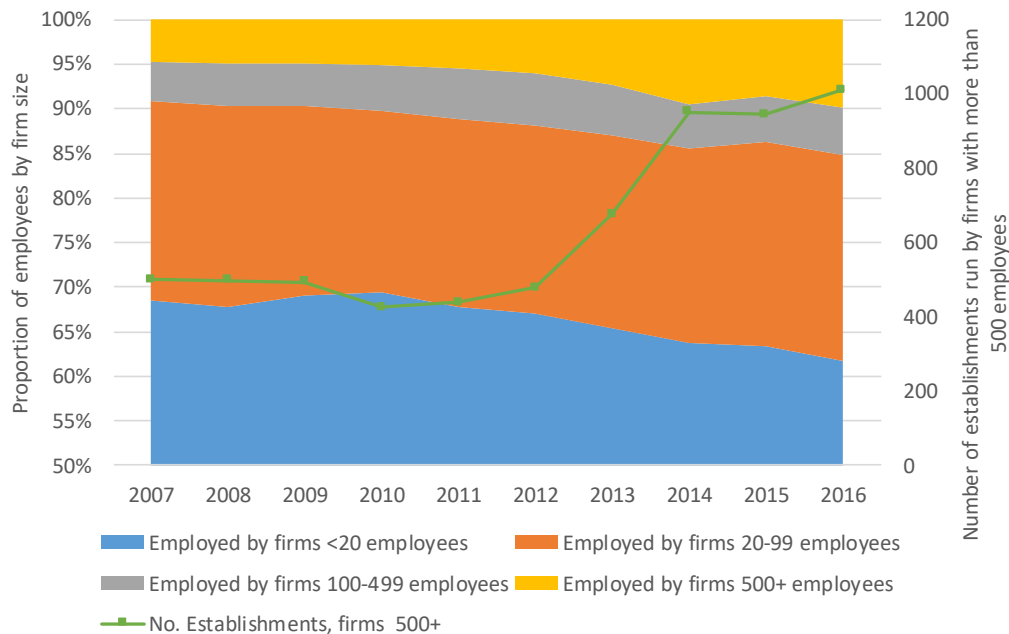
⁸⁸ The AMA Group is a publicly listed company that operates a chain of vehicle repair centres in Australia. <https://amagroupltd.com/gemini-aus/>

⁸⁹ <https://fixauto.com/au/en>. Fix Auto prepares for upcoming implementation and launch of first national franchise network.

⁹⁰ www.carcraftgroup.com.au

⁹¹ At the time of writing Collision Services Industries (CSI)—a proposed combination of 11 smash repair businesses with 23 operating sites—was looking to list as a public company. See Australasian Paint & Panel (2019).

Figure 17: Changing industry structure in the US



Source: US Statistics of US Businesses.

Use of accident management and credit-hire companies

Accident management companies help customers following an accident by managing the organisation of repair, alternative transport and processing of the claim. Credit-hire companies focus on the provision of a replacement vehicle. These services are predominantly for those who are not-at-fault and therefore may recover the cost of the service from the at-fault party. Accident management companies are a prominent feature of the smash repair industry in the UK, where they account for around one-quarter of the source of work for repairers.⁹²

Accident management companies have less presence in the Australian market. In effect, this service is currently provided by both insurers to their policyholders who contact them for assistance and by some repairers who advertise themselves as offering a full claims management service. However, there are also some independent accident management services coming into the market.⁹³ The entry of such companies poses a threat to both insurers and repairers by competing for the not-at-fault customers.

The ICA has raised concerns with the increased use of credit-hire companies. They note that the 'daily hire rate provided through credit-hire businesses is usually significantly higher than rates provided by other hire car operators' and that this can lead to at-fault drivers being faced with 'the threat of litigation for exorbitant replacement vehicle costs'.⁹⁴

⁹² Trend Tracker (2019, p. 110). Insurers accounted for 42%, retail 14%, fleet 9% and other 10%.

⁹³ For example, <http://aamcommercial.com.au/>

⁹⁴ ICA (2018, p. 10).

4.2 Industry challenges and concerns

4.2.1 Repair quality and service

The quality of repair is an ongoing source of tension. It is difficult for customers to assess quality for less visible repairs and consequently there is at least a perception of a risk that repair quality will be compromised in the interests of reducing the cost of the repair.

A supplier's reputation can provide a strong incentive to maintain a high quality of repair and service. Repairers must maintain a reputation with insurers and customers.⁹⁵ An insurer's reputation for managing claims is important in retaining and attracting customers for motor insurance and other products they offer.

We expect that the effectiveness of reputation as means of ensuring quality of repair and service will have increased over time; in part, due to higher customer expectations and greater use of social media.

There are reasons to expect that a shift to greater insurer involvement would also have a positive effect. While the importance of a repairer's reputation with customers may diminish as they become more reliant on insurers for work, their reputation with insurers becomes more important. As insurers take more responsibility for selecting their repairers and managing the claims process, they bear a greater risk to their reputation should there be an issue with poor quality or service. The potential damage to an insurer's brand arising from a safety issue appears extremely large. The actions of insurers to address quality concerns, as discussed in section 4.1.1, is consistent with this risk.

Some parties have called for further regulation of quality, including regulations for:

- mandatory digital recording of repairs that require structural work⁹⁶
- random auditing of processes for all repairs of a structural nature⁹⁷
- licensed motor-vehicle assessors to review and approve the proposed method of repair.⁹⁸

There are costs to such regulation. Most salient are the additional costs to insurers and repairers in complying with any regulation. Over time these costs would be passed through to consumers. There are also additional less-salient costs. Regulation can hinder innovation. Due to the fixed-cost nature of compliance, such regulations can benefit large players to the expense of competition.

⁹⁵ Anecdotal evidence of the importance of a repairer's reputation can be found in WA EISC (2018, pp. 32–33). There is limited empirical evidence on the importance of reputation for automobile repairs. Schneider (2007) conducted a field study and found evidence to suggest that concerns for reputation did not influence the quality of service undertaken by auto repairers (i.e. mechanics).

⁹⁶ NSW Select Committee (2014, Recommendation 2).

⁹⁷ NSW Select Committee (2014, Recommendation 3).

⁹⁸ NSW Select Committee (2014, Recommendation 7).



The benefits of any additional regulation of quality appear to be very small given existing quality controls (e.g. lifetime guarantees) and the insurers incentives for ensuring quality in preserving their reputation. A frequently cited concern⁹⁹ is that poor repair practices risk compromising repairs of a structural or safety nature, leading to higher safety risk. However, the risk appears minor (if not negligible). There are very few reported cases of a poor quality of repair having contributed to an injury or fatality.¹⁰⁰

Considering the above, our expectation is that such additional regulation would unlikely be in the public interest; that is, an independent/objective analysis would most likely conclude that the benefits of such regulation would not exceed the costs.

4.2.2 Availability and affordability of information and parts

The availability and affordability of information and parts to complete a repair is becoming an increasingly important issue as vehicles become more complex. To repair a vehicle to a required standard, repairers need to access technical and diagnostic repair information that is developed by the vehicle manufacturer. The volume of and complexity of this information is expanding with the increased complexity of the vehicles.

Manufacturers of vehicles generally distribute this information exclusively to their dealership networks, unless they make it available to independent repairers.

In a 2017 review the Australian Competition and Consumer Commission (ACCC) found that—despite a Heads of Agreement¹⁰¹ between associations representing manufacturers and repairers—independent repairers continued to face barriers to accessing information.¹⁰² In 2017 the ACCC recommended that:¹⁰³

A mandatory scheme should be introduced for car manufacturers to share technical information with independent repairers, on commercially fair and reasonable terms. The mandatory scheme should provide independent repairers with access to the same technical information which car manufacturers make available to their authorised dealers and preferred repairer networks, including environmental, safety and security-related information (if it is made available to dealers).

In response to the ACCC inquiry, the Government has stated its intention (subject to consultation) to establish a mandatory code of conduct under the *Competition and Consumer*

⁹⁹ For example, NSW Select Committee (2014, p. 31).

¹⁰⁰ There are cases, but these appear to be very rare. A frequently cited example occurred in the US in 2013; A roof repair that did not follow manufacture guidelines was found to have contributed to a couple being severely burned. <https://www.motor1.com/news/182878/couple-burned-crash-awarded-42m/>

¹⁰¹ The agreement —*Agreement on Access to Service and Repair Information for Motor Vehicles*—was signed in 2014 by key industry associations to ensure fair access to repair information and safe and professional repair of vehicles.

¹⁰² The ACCC (2017, p. 10) noted that ‘Independent repairers may be able to obtain technical information from sources other than the car manufacturer in Australia; however, the information is commonly incomplete, not applicable to Australian models, or offers no security of ongoing supply.’

¹⁰³ ACCC (2017) Recommendation 4.1.

Act 2010 (CCA) that would specify minimum standards of conduct for parties sharing and accessing vehicle service and repair information. A mandatory scheme appears to be welcome by some stakeholders, but concern has been raised as to the extent it will be effective.¹⁰⁴

It appears that the need for a proposed code reflects a more fundamental issue that the ACCC identified in its review. The ACCC¹⁰⁵ noted that car manufacturers and their authorised dealers discount new car prices to maximise sales of aftermarket services on which they earn higher margins. This strategy reflects that there is substantially more competition in the sale of new cars than there is for the sale of OEM parts, information and aftermarket services.¹⁰⁶

An underlying contributing issue is that, due to a lack of information, a customer purchasing a new vehicle may pay little consideration to the cost of repair and thus insuring a vehicle.¹⁰⁷ In some other car markets, cars are publicly rated for insurance risk, which applies a level of market competition regarding the cost of insurance. For example, in the UK, Thatcham Research (Thatcham) administers a 'Group Rating' advisory system designed to provide insurers with the relative risk of private cars and light commercial vehicles.¹⁰⁸ Thatcham determines a vehicle's rating based on the cost of times and parts to return a vehicle to its pre-accident condition as well as other factors that affect the cost of claims, including the replacement cost and the safety and security features. The Group Rating provides information to consumers as to the cost of insuring a vehicle and consequently places pressure on manufacturers to minimise the cost of repair.¹⁰⁹

4.2.3 Regulating consumer choice of repairer

In some jurisdictions in the US, there are regulations that prevent insurers from influencing the customers towards preferred repairers and/or having special arrangements with such

¹⁰⁴ The VACC has raised the concern that the proposed mandated code lacks penalties in case of a failure to comply. <https://vacc.com.au/News/Blog-Details/ArtMID/851/ArticleID/1632/Coalition-releases-weak-repair-info-consultation-paper>

¹⁰⁵ ACCC (2017) — New Car Retailing Industry: A market study by the ACCC, December 2017.

¹⁰⁶ The ACCC noted that the majority of consumers take their new cars to manufacturer authorised dealers for repairs and service, in part, because the result of a mistaken belief that the manufacturer's warranty requires them to only use an authorised dealer.

¹⁰⁷ The IAG Research Centre publishes some information on repair costs; however, this is limited.

¹⁰⁸ See <https://www.thatcham.org/what-we-do/insurance-group-rating/the-group-rating-system/>. The system was developed by Association of British Insurer's (ABI) as a service to its members.

¹⁰⁹ The Group Rating is a common feature in car reviews. See for example: <https://www.carmagazine.co.uk/car-news/first-official-pictures/volkswagen/vw-golf-gti-priced-from-25845-in-uk/>



repairers.¹¹⁰ Similar regulation was considered in a draft bill submitted to NSW parliament in 2006¹¹¹ and there have been frequent requests for such regulation in Australia.

In the US, the insurance industry has strongly opposed such regulation. In a public-policy paper the National Association of Mutual Insurance Companies (NAIMC)¹¹² argues that the use of preferred networks 'serve to enhance consumer welfare' and urges policy makers to carefully consider the economic consequences of any regulation and in particular the effect on consumer welfare.

The same arguments appear applicable to Australia. As discussed in the previous sub-section, preferred networks appear to be a means of driving efficiencies and improved service to the benefit of consumers and quality does not appear to be a material issue.

Furthermore, consumers can choose an insurance policy that gives them the freedom to choose their repairer. In many cases insurers provide 'choice of repairer' as an option for an additional premium, which helps to highlight the cost of having the option. There does not appear any issue with transparency as the policy regarding 'choice of repairer' is clearly identified the PDS and often a highlighted feature in comparison websites. Regulating against consumer choice would prevent consumers from obtaining a lower premium by opting to use the insurer's PRN.

4.2.4 Market power of insurers

The Western Australian Review on Structural Challenges in the Smash Repair Industry (2018) included a focus on the 'imbalance between the large insurers and the smaller smash repairers' and a recommendation to encourage the ACCC to "undertake in-depth inquiry into possible anticompetitive conduct and misuse of power in Australia's smash repair industry."

Some of the concerns that have been raised include that:

- there is unequal bargaining power when agreeing the scope of repairs to vehicles
- the introduction of fixed prices for various forms of repair, 'unfairly' drives average costs unsustainably low
- insurers are forcing prices below the costs faced by repairers.

¹¹⁰ For example, in 2017, laws in California, were strengthened to making it illegal "for insurers to require repairs at a certain shop or suggest a customer go somewhere else once they've selected a shop except under the conditions described in Insurance Code" <https://www.repairerdrivennews.com/2016/12/14/new-anti-steering-regulations-approved-in-calif-take-effect-jan-1-auto-insurers-must-comply-by-march-12/>

¹¹¹ Motor Vehicle Repairs (Anti-steering) Bill. see <https://www.parliament.nsw.gov.au/bills/Pages/bill-details.aspx?pk=2435>

¹¹² Powell et al. (2010). The authors argue that: "Robust competition in the U.S. automobile insurance market has created strong incentives for insurers to find ways to both reduce the price of insurance for consumers and to ensure that their customers experience a high level of satisfaction with the vehicle repair process and outcome. The practice of utilizing DRPs and aftermarket parts for insured auto repairs is best understood as a cost-saving, quality-enhancing innovation by firms seeking to attract and retain customers in a highly competitive environment."

It is not surprising that there are reports of prices offered to some repairers that are below the costs they face. In a competitive market, prices will tend towards the price charged by the lowest-cost suppliers (having regard to their capacity, location etc).

Some have raised the concern that corners are being cut to enable lower prices to be charged. However—as discussed above—quality does not appear to be a material issue. Rather, the price reductions are consistent with some repairers being able to charge lower prices as result of greater and more stable volume coupled with their investments in systems, training and equipment.

In a competitive motor vehicle insurance market, cost savings are passed on to the benefit of consumers. Consumers, who are happy to pay more to use a particular repairer can do so and there appears no issue with transparency.

As earlier discussed, the diversion of repair work to an insurers repair network is to the detriment of other repairers outside the network. Given the volume of insurance work it is not surprising that some repairers feel they are in a position of poor bargaining power.

However, this does not appear to be a result of insurer market power or any other market failure. The ability of insurers to achieve cost savings through use of a repairer network depends, in part, on the volume of work they can generate for their preferred repairers. While greater market share is correlated with greater volume of work, it is not their market share *per se* that is important. That is, an insurer with a small market share should be able to obtain such benefits so long as they have the volume of work that they can allocate to their repairer network.

If prices are below the costs faced by some repairers, then we would expect these repairers to exit the market. This is consistent with a normal working competitive market. It is in the insurance industry's interest that there is a competitive smash repair market in which repairers expect to earn a normal profit. This is the case regardless of the concentration of insurance industry.

Some market participants can suffer as a market transitions. However, it is worth noting that the industry has been transitioning for some time. The issues raised are similar to issues raised 15 years ago in submissions to the PC's review of the smash repair industry.¹¹³

In effect, the issue appears to be that there has been excess capacity in the industry for some time. This issue has been exacerbated by significant advances in the productivity and output of some repairers, in part enabled by their ability to obtain greater volumes through their relationships with insurers. The improvements in productivity do not appear to have been matched with an increase in the quantity of repair work.

¹¹³ See, in particular, VACC (2004).

5. Conclusion

This report has examined trends and issues in the Australian smash repair industry based on publicly available information and consideration of developments in the UK and US.

The smash repair industry has been going through a long period of transition. Many of the matters discussed in this paper—including rising complexity, repairer over-capacity, declining repairer returns, skilled-labour shortages and increasing reliance of repairers on insurers—were raised in the 2005 PC review. The trends and issues discussed in the paper are also not unique to Australia, with these mirroring, or following, developments in the UK and US.

The industry transition appears likely to have been less severe in Australia due to the relatively strong and steady growth in demand for vehicles and smash repair services. The motor vehicle insurance claims frequency has been reasonably stable; however, consistent with the UK experience and industry expectation, this may decline over time as the penetration of collision avoidance technologies in the vehicle fleet increases.

The increased complexity of vehicles has implications for the cost and process of repair. It is expected to drive increased investment by repairers in training and equipment and may lead to repairers rejecting some work. Based on the UK experience—where the average vehicle age is lower—it seems likely the cost of parts and the number of written-off vehicles (in the short-term) will increase. The cost and availability of skilled labour appears to be a prominent issue in Australia, UK and the US; however, this does not appear to be a new development or one that is related to any failure in the market.

The industry structure has continued to evolve. In Australia, as in the US, there has been increased use of preferred repairer networks. From a customer perspective, this appears to be a largely positive trend. Insurers through their closer relationships with repairers have been able to provide improved services at a lower cost and—driven by the concern for their reputation—have invested significantly in ensuring that repairs are to an appropriate quality standard. The insurance market is providing options for customers who wish to maintain their choice of repairer.

There appears little reason for further regulatory intervention. The diversion of work to preferred repairer networks hurts repairers outside of the network and this, coupled with pressure to further invest, may lead to some repairers exiting the market. However; such a result would not reflect a market failure.

The increased complexity of vehicles and demands for greater customer service appears likely to give rise to increased involvement by, and power of, vehicle manufacturers and an increase in manufacturer-aligned repairers. The cost of OEM parts and access to technical information appear likely to be continuing important issues. An underlying issue is that—due to a lack of information on the cost-of-repair (and therefore insurance) at the time of the new car purchase—there is little pressure on manufacturers to keep repair costs to a minimum. In contrast, UK consumers have access to information (a Group Rating) that identifies the relative cost of repairing and insuring a vehicle.

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