



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO SMASH REPAIR AND INSURANCE

MR R. FITZGERALD, Presiding Commissioner
MR C. RENDALL, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON MONDAY, 31 JANUARY 2005 AT 9.00 AM

MR FITZGERALD: Good morning everybody. Firstly, I might say it's good to be here in every sense of the word, following my recent heart surgery. So I'm pleased to be back to the inquiry. I'll just start with a formal statement of introduction, and then we'll have our first presentation from IAG.

Firstly, welcome to the first day of the public hearings for our inquiry into the relationship between the small repairer and insurance industries. As you're aware, we didn't have any public hearings prior to the draft, but now we have hearings here and in Melbourne later in the week. I'm Robert Fitzgerald, the presiding commissioner for the inquiry, and on my left is Curt Rendall, who has been appointed as an associate commissioner for the inquiry, and we've had the opportunity to meet with many of you previously.

Before going on, let me just say that during the day there may be some filming of these proceedings, either by news crews or others. The arrangement we have is that those crews can in fact film the proceedings, but not sound record the presentations or our comments. If any participants object to being filmed, then they should indicate so, and we will ensure that will not happen. But there will be no sound recording of the proceedings other than the formal statement.

Let me just apologise formally for the inconvenience that has been caused by rescheduling the hearings and the delay in the inquiry. I am pleased to report that I am recovering reasonably well. I'm sure the smash repair inquiry didn't cause my sudden lapse into illness. But as a consequence of that, the inquiry deadline has been delayed through to 31 March.

The purpose of the hearings is to provide those with an interest in the inquiry the opportunity to comment on the commission's draft report, and do so in a public manner and on the record. We will conduct the inquiry or the hearings as informally as possible, but I would remind you that the Commissioner's Act does require people to be truthful in their remarks. A transcript will be made of the proceedings, and will be placed on the commission's web site as soon as possible.

While I acknowledge and appreciate the efforts of those people who have attended today to observe those who are participating and observing the proceedings, it is not possible to allow comments from the floor during the day. However, at the conclusion of the proceedings today, those who haven't presented and who wish to do so will be invited to make a presentation at the end of the day.

What we would propose is that those that are presenting during the day would make a relatively short introductory statement of key issues. We have received submissions from most of those presenting - that is, additional submissions in relation to the draft report - but you are at liberty to make whatever comments you

would like. After those presentations both Curt and myself will raise some questions, and we can have some dialogue about the submissions and your comments.

Just a couple of reminders. The first is that the written submissions in relation to the draft report are required to be to the commission by 11 February, and the report will go to the government, in particular the treasurer, on or before 31 March of this year.

Again, I want to express our thanks to the staff, and for all of those who have assisted in any way in the inquiry thus far. We also thank all of those that have made the many submissions to this inquiry previously. As you would be aware, many of those submissions were confidential and many of those that have made submissions won't be publicly presenting at these hearings. Nevertheless their contributions have been valued and taken into account.

MR FITZGERALD: So with those opening remarks, we'll get under way with the first participants, and I would invite Rick Jackson and Paul Pemberton from IAG. Just for the record, if you could state your name and position in the organisation.

MR JACKSON: I'm Rick Jackson. I'm the CEO for personal insurance for Insurance Australia Group.

MR PEMBERTON: I'm Paul Pemberton. I'm head of the personal insurance manufacturing division.

MR FITZGERALD: Rick or Paul, over to you.

MR JACKSON: Thanks, commissioners. Firstly, we'd like to thank the commission for giving us the chance to actually comment today, and also take submissions. From our first reading of the draft we believe it's been a very thorough process. We'd like to start by just highlighting some of the preliminary findings that we think are relevant, and then make a couple of comments that would illuminate our position around those.

In particular, we note that the Victorian government has also, after its own economic inquiry, come to the conclusion there does not appear to be a case for government intervention to protect consumers with regard to preferred repairers. Whilst that report is not publicly available yet, we believe it will be during the time of these proceedings. What was very positive about that was that it supported other economic findings totally independently of that, which came to the same conclusion.

We're also pleased to note that the commissioner's preliminary findings found

that there was no clear evidence of systemic safety issues related to preferred smash repair arrangements. That was of particular concern to IAG, as we believe it was a furphy that was designed to create fear in the population, and it also didn't make economic and rational sense, given that we're looking to sustain customers. It also didn't relate to the fact that we're the largest bodily injury insurer in Australia, and therefore have the best statistics around road accidents and bodily injury, and in fact are the major contributor to research in this area, and also to supporting Careflight for over 10 years.

It would not be in our economic interests on one hand to be supporting an unsafe behaviour where the claims for bodily injuries are somewhere around four to five times higher than car repair. So even at an economic level, if one were to believe that, at an ethical level we found it quite repugnant and we did provide to the commission, as other studies have from overseas, to show that the majority of repairs - around 97 per cent - are cosmetic, and that the testing on those around safety have clearly shown that they make little or no difference, and that in terms of mechanical repairs we use OEM parts.

There is also little evidence to suggest - and we're glad that the commission highlighted this - that the current arrangements in relation to time frames for quoting are creating problems in the commercial interactions. IAG were concerned about this a long time ago, not just around our relationship with repairers, but also small business. So we've taken the step of having our repair times actually audited, audited quarterly by KPMG, and placed on our web site. We believe it's an important thing for large businesses to be held accountable by an independent body, for our customers and the community to actually see whether we're paying.

We pay electronically now - and again, the commission has access to those details, and we're prepared to provide them today - but we're paying terms less than 30 days for the majority of our payments, and not just to the repair industry. I might add that IAG is a major purchaser of goods ranging from household goods, building repairs, jewellery and so on, and we think it's fairly important. We would actually encourage other insurers in fact to publish their payment times, and the peak motor repair bodies may in fact like to adopt that as an activity, given their influence to lots of small businesses as well. Most importantly, the commission's findings supported those of the previous senate inquiry and a number of others that there is no evidence, and we'd like to see that furphy once and for all put to bed.

The other issues that we found are important was that there was no justification to regulate minimum terms of payments on insurers, that these should be matters for negotiation between insurers and repairers, as they are between suppliers and buyers in most industries. In particular, we were concerned that some of the thrust from various sectors was to move to an anti-competitive position that would actually

disadvantage consumers in the overall economy.

Choice of repairer should not be mandated, again another finding that we would agree with. Quite clearly your report shows there is a huge choice between insurers. It is a highly competitive industry and there are a range of choices. IAG has in fact specified a choice of repairer in the product up-front, so the consumer is able to make that choice at the time of purchase, and in fact able to change that choice each year on renewal. We believe that is quite a transparent way to go.

Mandating that would merely take competition out of the insurance industry, and reduce the choices that we believe consumers have. In fact, I believe in your earlier appendix it actually shows the different choices quite clearly. It was a very useful piece of market research for us to use in terms of our advertising campaigns. We'd like to say thank you for that.

The other issues that we thought were quite pertinent was that the existing internal customer dispute resolution systems of the individual insurers appear to be working well. IAG in fact has two independent commissioners that sit on a panel that looks at our disputes, and we also have an independent dispute resolution for suppliers. We have published that on our web site. To date we have only had a few small businesses use that, and I have to say it's for all small business. We've met with the MTW in New South Wales recently and given them information on how they can support their members in using that resolution and we would continue to do that. Again, we have published those results for people to find.

We think it's important to actually have an independent body to do that, but we think it's important to have independent bodies that fit the competitive stance that an individual repairer insurer takes, because there are different models of insurance being offered. We also acknowledge that small business needs a venue to actually deal with large business and we would encourage other insurers - in fact other large businesses - to create some form of dispute resolution with some independent panel, as we have, advising management. I have to say we've had very few of those in the last 12 months.

On balance we have been found to have handled it the right way, but I have to say, when we do it badly, we do it very badly. In one case of one supplier, I started with a letter of apology. However, it was one in half a million repairs. The other issues that we found are significant was that there was no evidence of any significant deficiencies in the procedures for resolving disputes as a result therein, and we would pride ourselves on that. To give you context for that, we do over half a million claims a year within IAG, between motor, home and contents, and the number of disputes we've had are less than .01 of a per cent.

On consumer choice, IAG also welcomes the commission's findings that consumers do enjoy reasonable choice of smash repairs and that the consumer choice should not be mandated. We think consumers are key in this discussion. It was interesting to note that the Australian Consumers Association also independently found that consumers are well serviced by insurers at this stage, and in particular we draw attention to their statement that most consumers are happy, in fact prefer, to let their insurer manage the repair.

Other economic research that has been commissioned shows that consumers on their own are not in a position to judge whether there is fair value happening, and in fact can be disadvantaged by having to operate their own. In fact the insurer operates as their agent in terms of arranging a fair price value and quality of repair. This is particularly relevant, given that a number of repairers may not be in business within two or three years and the guarantees that we offer are there for a long period of time.

I would also now like to take the commission to the issue of rates paid for smash repair work, probably the oldest chestnut in the entire industry. "Funny money, funny times." We believe the issue is a moot issue, that the overall cost of repair - which includes procurement of parts, the efficiency of the repairer and the overall end price - is the real issue that we wish to buy on. We certainly support the notion that the ICA and the Motor Trades body should try and negotiate to work to a situation where we could get rid of "funny money, funny times" and have a consistent whole-of-price approach, but if that were to occur, we believe it has to occur with all those in the repair industry. It can't just be those that are in a body of the MTA or the VACC.

There are a number of very fine repairers who do not belong to either, and we don't believe that any recommendation should take them out of play in a competitive market. They've made a choice to operate on their own and that should be supported. We will move further forward in terms of our approach, in terms of looking at whole-of-cost, and we've written to the commission in December outlining some further strategies that will occur later on, which should actually then allow all appropriate repairers to be able to submit their best possible quote for work that's being done.

"Funny money, funny times" is a very interesting thing, because it's "funny money, funny times" in different states depending on who is "funny" and who is "times". We also believe that there is a need for some national certification around repairers and we think that's perhaps been a little underdone in the inquiry. If you look within Australia, there is only one area where there is any true certification. That's in New South Wales. In other states it varies. There are actually members of the criminal classes who are able to set up repair shops in some states.

If we're truly on about cleaning up the relationship, then we believe as minimum with the code of conduct there ought to be minimum federal probity, both around quality of repairs, occ health and safety, but also around whether a business is viable and also around whether there are criminal connections, given that there is rebirthing of motor vehicles to the tune of half a billion a year. We believe that's fair proof of the economic level of support. But also part of the safety issue that IAG has it that we do not wish to send our customers or our staff to anywhere where there are people who have been involved in criminal activity. We don't believe it's reasonable that, just because somebody can repair a car, they automatically get access to customers.

To give you a comparison, if you're a small local tax accountant wanting to offer financial advice these days, you would have to undergo a federal police check to do that, but if you were the repairer in the same area, that would not be a requirement. I find it quite amazing that we think it's reasonable for one small business but not the other, and we would be recommending that the commission look to some form of probity. We wouldn't be recommending that at a state level because the history of states trying to work collectively is such that it will create loopholes and we think there is a federal approach required.

In relation to the issue of code of conduct, IAG believes that individual insurers are addressing the areas quite well. We don't wish to speak for other insurers but we believe that the fact that we have a published code is something that people should look at. We also have published severance arrangements, including timing for actually taking on and getting rid of contracts. But in the event that a code is required, we would be prepared to support a voluntary code tied tot he national accreditation scheme for smash repairers, which would include minimum standards for probity, occ health and safety, safety and also criminality and business viability.

We believe our customers have a right to expect that those services to that level, that they are consistent nationally. It should not be a case of cross one border and suddenly you get a better service than you get in another state, particularly if you live in Albury or Wodonga. We think it's time for a country of 20 million people to be consistent in it. We believe the voluntary code would be much more effective than a mandatory code, in that it will actually still allow each individual repairer and insurer to negotiate effectively and to allow the industry not to become anti-competitive. We note the ACCC was concerned about some aspects of previously mooted codes that clearly showed them to be anti-competitive and not in the interests of the customer and we believe voluntary codes will not actually have that problem and more likely gain the support and commitment of its members and the industry leaders.

The other issue with mandatory codes, of course, is the compliance burdens. The insurance industry at the moment has compliance issues with the ACCC, ASIC, APRA, the Tax Office and I think anybody else who wishes to get involved, all of which gets passed onto the consumer. I guess one of the final messages is that it needs to be related around that issue, that any increase in costs, be they claims costs or administrative costs, are passed directly onto the consumer, that it is not something that is passed onto the insurer and rests there. So any mandate will actually then become a cost to the mums and dads of Australia.

The other issue around voluntary codes of conduct is they avoid the black-and-white prescriptive nature of mandatory codes, which are far more easily got round than go into the spirit of things, and they can provide the industry with flexibility to move time, as the dynamics of the market change. We agree with the commission that the case for an industry-wide code of conduct needs to be considered in the broad benefit cost framework. We believe that any code that comes in that actually works against consumers would be retrograde, and we don't believe a code should be set up so that it actually protects inefficient repairers from competitive market forces, just as we don't believe any insurers over time should have been protected from those market forces, nor have they been in the last 10 years.

IAG supports the view that the commission has, that the conduct of the code should avoid provisions which unduly intrude into the normal commercial relationship between insurers and repairers, and in particular, of course, any anti-competitive provisions would need to be avoided. We support that fully. In particular, a code should not embrace, as proposed in recent years by the VACC and the MTA, provisions that require: insurers to open their commercial dealings to all smash repairers, regardless of whether those repairers are accredited or not, effectively rendering preferred smash repairer networks and the benefits they deliver obsolete - there is clear economic and safety evidence that PSRs has helped consumers, as the Victorian inquiry has now found; require insurers to provide at least two years' notice to terminate a preferred smash repairer agreement, regardless of the availability of the work or the insurance business needs. The market moves far too quickly.

We have in IAG a series of breach notices and we take a considerable period of time. Clearly one day's notice is not reasonable as well, and that two years is an awful long time in this market. You can actually have, as we've seen in recent years, suddenly three years of dry weather and we just don't have the number of repairs we had before. That is the context that we're here in, that we just have less repairs overall, so in some areas we just do not have the work or the need.

Lastly, we don't believe that it should mandate customers must approve smash

repair quotations managed by their insurer, despite the insurers, the commission has noted, being the policy holder's agent for procuring and managing smash repair services. Most policy holders do not wish to take on the risk nor do they have the knowledge to do so. Legally, as has been tested, the requirement is on us contractually to make good to the customer, and in some cases by cash or other repairs, and therefore we are liable for that and are liable for getting the most competitive quote, both around quality and price.

Subject to the commission's final report and the federal government's response to it, IAG is willing to discuss the principal scope, content and implementation issues associated with developing a national voluntary code of conduct. and we're happy to answer any questions related to both our submissions and also my introduction. Thank you.

MR FITZGERALD: Thanks, Rick.

MR PEMBERTON: Just a final comment, commissioner, thank you. I think it's easy to paint insurers as the ogres in all of this, but let me just point out our attitude towards the whole relationship with smash repairers, and Rick has covered most of the points, but it's in our economic and consumer interest to have a very healthy relationship, and we go out of our way to do that. We've set up voluntary preferred supplier networks where we actually meet with them periodically with representatives from all the regions around Australia, consult with them, talk about changes, and get their views on how we should implement those changes before we go ahead with them.

So it's very important for us to have those people on side, for them to be operationally successful and sustainable, and a lot of the things that we do - our investment in the industry, our training, the amount of money we commit to auto body scholarships, sponsorship of trainees - is aimed at that, and so we have a genuine interest in these people prospering, and that's something that we spend a lot of time doing. Thank you.

MR FITZGERALD: Good, thanks very much. We might just run through a few things, but we'll raise questions as well. Can I just go back, I suppose, since at the time that our draft was coming out IAG was introducing the new two-tier policy with consumer choice as one option and no choice as the other option; you might have another name for that. It's now in the marketplace, and we've seen some reaction from smash repairers and generally. I was wondering if you can give us any indications of how that's been received in the marketplace and also by repairers at this stage.

MR JACKSON: As we said to both the commission at the time and the Australian

Financial Review, we believe that over 90 per cent of our customers were very happy with the preferred schemes, but there were some that wanted choice. The initial three months show that over 95 per cent of our customers are choosing a preferred product; just less than 5 per cent are choosing to have that choice, and are happy to choose to have that choice. There's clearly no coercion. Some repairers have reacted on the myth of what it is rather than the reality, so we've had to actually provide some information, but to date there hasn't been a significant shift from what already existed; what really has happened is we're much more transparent about the fact that there is a higher cost to tailoring things and dealing with different repairers, and reflecting that in the price of the policy.

I note that it was actually something that was asked for in a roundtable. We found it quite interesting that the roundtable suggested this occur, and when we put it in place then we had criticism from some of those who actually suggested that it occur, but to date the consumers have overwhelmingly voted with their feet. We're not anticipating a significant shift in business, I have to say, because it's about where it was going anyway. It's just that it's much clearer about who's buying what and who's not cross-subsidising who, and that's essentially what's happening is we removed the cross-subsidisation between the two.

MR PEMBERTON: Commissioner, it also takes a little while to work its way through, as you'd appreciate, because it's a 12th of the 12th of the 12th. On renewal this comes into effect.

MR JACKSON: I mean it will be 18 months before we see the full impact from whoa to go. It will be 12 months' worth through, and then six months until the end group, but that's about what it is.

MR RENDALL: If I can just ask - - -

MR FITZGERALD: Yes, sure.

MR RENDALL: On the sale or transfer of a business, I note in your supplementary submission, you would be willing to enter into sort of trial arrangements to look at that type of a thing, so if somebody sells their business - - -

MR JACKSON: Yes, we would. I mean quite obviously we attach our brand to preferred businesses, and some significant damage can be done by the behaviour of who the person is, but clearly some repairers want to build equity into the business they've built as well. We acknowledge that, so we're prepared to look at some form of transitional trial. Obviously there needs to be some acceptance criteria. If somebody says, "I've just got a great purchaser and the guy is the head of the Bandidos," then we're not interested in actually having the association, for obvious

reasons, and then for a period where we would actually then run it and see how they went, and if they could operate the business as well as the previous PSR with the conditions we had, there would be no reason, other than if the market need died, but that would be normal with our PSRs anyway.

So we're quite happy to look at that, but it's not an open slather, go out and say, "Here it is, and away you go," and that's no different than McDonalds or a number of other places where the brand is lent to somebody under certain criteria and you can sell it with their approval. So we're looking to do that now.

MR PEMBERTON: We're happy to change that, and I think one of the issues of course is that a lot of the time we have an agreement with our repairers where that's spelt out. One of our issues has been that the sale takes place and then we hear about it later. I think it's a question of communication, and we're very happy to extend that issue.

MR JACKSON: We've had circumstance where repairers have said to a new buyer, "Don't worry, I'm such and such for IAG, one of the brands, and therefore your income stream will be X." We've found out about the deal afterwards and the quality and even the certification wasn't correct and therefore we weren't prepared to prefer business. That creates all sorts of problems in terms of what's been said and what our obligations are. Provided that we're able to have some criteria and consulted up-front, then there shouldn't be an issue.

MR RENDALL: But it just seems to me if the insurers don't accept something like this, this industry is going to die because the transition of these businesses - I mean the average age of owners of small businesses in Australia today are all 50-55 years of age, and they're not going to have anyone to sell them to.

MR JACKSON: We think it's perfectly reasonable, but we would need those safeguards in, and we're moving on it right now. So we will have that in the market probably before the government is finished looking at the submission unless they move on 1 April to deal with that. We think it's a reasonable suggestion.

MR FITZGERALD: One of the issues that came up but the commission decided not to pursue it was actual tenure; that is, the period of time for these contracts. You've referred to McDonalds. As you know, those McDonalds' agreements are 15 or 20-year agreements, and obviously on sale are subject to approval by the franchisor. Have you got any views about whether or not time frames or time arrangements for PSRs is appropriate? We haven't recommended - - -

MR JACKSON: There's two parts to that. My example of McDonalds was to do with the brand, not franchise. There's been some confusion in the industry where

they believe that somebody has been referring to some franchise agreement with the customer, not the other way around.

MR FITZGERALD: We should be very clear that the commission understands fully that these PSRs are not franchises in the technical sense of those words.

MR JACKSON: There's a number of issues around whether you lock things in. You could have an agreement in an area where, let's say, it was five years, and two years down the track there's just no work because you suddenly don't have the storms that you have in that area, the population shifts, a whole pile of other things. So you would have a mute contract because there wouldn't be work to actually direct anyway.

MR PEMBERTON: The nature of the contracts also requires competition anyhow, so it's not just putting a price up. We have a competitive system, two types, but a competitive system nevertheless underpinning the whole allocation of work around Australia, and so unless you meet your business plan and you are competitive, you don't get any work anyhow. So the contract can be 10 years, but if you're not competitive, you're not competitive.

MR RENDALL: It's a week-by-week, month-by-month situation.

MR JACKSON: At the end of the day if someone new sets up - and we've had this in rural communities - somebody new has come in with better equipment et cetera et cetera et cetera, and they're able to offer a much better quality at a better price, they ought to have the right to actually compete for that work. We've actually had people who have had a long relationship say, "Because we've had a long relationship you shouldn't go there." It's clearly in breach of all sorts of legislation, but it also just doesn't make sense. It's the reverse, it's locking out new players entering the market. So I think there's a combination there between the transition of those wanting to exit and those wanting to come in, and there's a different form of capital coming in now than there was 10 years ago.

MR RENDALL: The regions must be a particular problem though. They must blow everybody's theories apart, do they, in certain - you know, the more remote areas just makes it difficult to have any set of rules or guidelines to work with.

MR PEMBERTON: Most of the guidelines that we have are common across the whole industry. I think, to get to your point, in some towns there is only one smash repairer.

MR RENDALL: That's the sort of thing I'm getting at.

MR PEMBERTON: I know, and you deal with that smash repairer whether you're AAMI, whether you're IAG, and that's part of rural life in Australia.

MR JACKSON: We have had - and do have - some rural communities where we've had fraud or other activity, and when that's occurred we actually tow vehicles elsewhere at our cost because we won't support unethical criminal activity, and we've not relisted that repairer and will not.

MR RENDALL: Because if I live in the bush and own a car and ring you and get a policy, you won't deny me a policy because I happen to live - - -

MR JACKSON: We probably of all the insurers are the one that has the most penetration in rural Australia, and our PSR scheme supports rural Australia more than big models that tend to be city based.

MR PEMBERTON: Plus our other brands, CGU and the intermediary space is particularly strong in the rural areas.

MR FITZGERALD: You've mentioned a couple of times - and just then - the issue about probity, criminality and the industry, and you've linked that in a number of ways, both the PSR being a way by which that can be dealt with, and of course you've just called for a national certification of repairers again to deal in some part with that. I was just wondering - and I understand we've received certain confidential submissions in relation to these issues - but to what extent do you believe the level of criminality is a significant issue currently in this industry, compared to a decade or two decades ago? It's not clear to us in that work that this is becoming an increasing problem. In fact, the reverse may be the case.

Clearly there are some elements of it, and that's become clear. But if one was to move to a national certification of repairers based largely, not exclusively, on this issue, one would need to have some sense as to whether this is an increasing problem or it's being dealt with effectively through the PSRs or other arrangements.

MR JACKSON: The answer to that question would depend on whether you're just looking at the issues directly related to the industry, such as car rebirthing, parts et cetera. We could provide the latest data from the Theft Reduction Council, but we're still talking an industry of half a billion plus per annum. For that to exist, somebody with a repair capability has to exist. In some states it's more than others, and largely, that's population and opportunity. I'd have to say New South Wales is probably still the capital of that activity at the moment in Australia.

But there are other connections that then, therefore, go with that; which is the black money that then happens where there's direct funding of other activities such as

drug relationships. We haven't provided that but can do. The last issue is, we just don't want our brands associated with somebody that may be involved in that. The other issue is whether the business is being well run, whether it is safe. Should our staff go there? Is it an unsafe place? Our occupational health and safety requirements are that we are not to send staff to somewhere that's unsafe.

In Victoria, if they were to die, we would actually be gaoled for industrial manslaughter. So it is not just a case of rebirthing, and our belief is that there is a long way to go on that. I was actually speaking to the commissioner of New South Wales recently, the commissioner of police, and he certainly doesn't have a view that it's fixed to a level not to worry about. The problem is that it's policed individually in different states, and organised crime actually operates federally. So we had situations, and still do, of cars being stolen in one state and rebirthed in another.

MR PEMBERTON: Commissioner, to your exact point about what's the evidence, in terms of our own theft experience, opportunistic theft, small level theft, is on the decline, as reflected by the National Theft Council numbers. But on the flip side, professional theft, the rebirthing part, is actually growing quite strongly.

MR JACKSON: So high performance vehicles, prestige vehicles, BMWs, Mercedes, are being exported as well as rebirthed within Australia, and that is the professional theft, not the 17-year-old that's hot-wired an old model car to drive home and set fire to it. The stats don't show that. There's clearly a need, and it's not reasonable anyway. I don't believe it's reasonable to have any customer to go somewhere where somebody - in the last 12 months, we had 127 applications for PSR in one of our states. 25 of those actually had significant criminal records.

Half hadn't told us, but our research found it. We're not talking about shoplifting, we're talking about such things as grievous bodily harm, fraud, assault, et cetera. These are not reasonable things, and whilst they're only a small percentage of the repair industry, and 99 per cent of repairers are great, they still exist. A large number of the processes that are in place are to actually protect you from that 2 or 3 per cent which is significant damage. If we can get some way of getting rid of that, then that opens things up to fairer competition.

MR RENDALL: Would that national certification that you speak of assist in that?

MR JACKSON: We don't believe anyone that's actually got a criminal record that's associated with fraud, rebirthing, the violent crimes, should be associated with this industry. If you've smoked a bit of marijuana somewhere at 16, it's not the same thing as if you're prepared to run an organised crime ring. We believe it's about selecting, quite clearly, and we're also not saying for the rest of your life. But at the moment there are no controls.

MR FITZGERALD: You've mentioned the PSR arrangements. In your most recent submission, you've indicated that you've agreed to improve the transparency in relation to your PSR arrangements. Can you just give us some flavour as to the key elements of that, and the timetable for that implementation?

MR PEMBERTON: Commissioner, specifically, are you talking about our recent advice in December to you, the more recent advice?

MR FITZGERALD: Yes, 14 December.

MR PEMBERTON: Sure. I think this goes back to the point about the cost of repairs and the transparency, and there's been a history of the lack of transparency around "funny times, funny moneys". In actual fact, a lot of the heat around the reason that we're sitting here today is because there's almost a natural climate of conflict created by the old traditional methods of assessing - assessor goes to the shop, visits, and in many ways their job was to cut 15 per cent off.

You'd go there, you'd look at something and you'd say, "What about this, this and this?" So that was always a cause of heat. I think the new methods that we've evolved, and that others have evolved, in the industry go more towards total price, and a competitive position on total price means that, generally speaking, if you're a well-qualified, quality repairer you'll get the job if you have a lower price.

So essentially, we've rolled out around Australia an Internet bidding system. We call it WRM; that's our acronym for it. But essentially what it means is the preferred smash repairs have the opportunity to quote on the Web for a job and that gives them the ability to get the job if they're, generally speaking, the lowest quote. That system is not in New South Wales yet, but it's in South Australia, WA, and Queensland and will be rolled out in this new calendar year across the rest of Australia. So essentially, that's what we're referring to.

MR JACKSON: That will allow all repairers who have got through probity and the appropriate checks to then compete with each other. The only issue of transparency that we often get asked about, and we've declined, is - I had one recently, "I think I'm better than he is down the road. Tell me what he gets. How much are his repairs?" and we just won't release commercial in confidence, because clearly there's a relationship with this repairer and it's not to be released. That would never be released. It would be inappropriate.

MR PEMBERTON: The underpinnings of this system also have two very good features. Not only is it transparent and openly competitive, but the response time in terms of getting the job started is electronic, and because it's all electronic it also

means everybody is connected in terms of payment, so the payment - we have an average four days payment time - so all our PSRs are electronically connected. So the spread of this method to most of our work will enhance those two aspects as well.

MR RENDALL: Can they from digital photographs really prepare a quote? Only since I started this inquiry, my two cars have both been in bingles, so I've had wonderful first-hand experience of going into smash repairers. In both cases, two different insurers and they've just handled it. But to look at the damage and to properly assess what is really there from a photograph, I would have thought that might have been a bit tricky.

MR JACKSON: As insurers, we've been trusting repairers in New South Wales and Victoria to do that for the last three years, where they in fact take the video footage and submit the quote to us and we look at it; and we've been happy, and we've done random checks as to the quality of that. 99 per cent of repairers are very honest and know their trade.

We've done the reverse with the bidding model in the other states and, again, we've found that they've been very accurate. We also do a significant number of random checks, both during and after, so we have quality control over the issue. I think we've had one issue where somebody decided to use some plastic wrap to do things and they're no longer a supplier of ours.

MR PEMBERTON: There can be difficulties, but the vast majority of them are okay. The average cost of repair is just over \$2000, so you're talking about a front or a back-end bingle. When you've got a serious thing, it's a different exercise.

MR RENDALL: Different, sure.

MR FITZGERALD: If you're moving to that system, it's a wholly competitive system, and you, implicitly, by that have moved away from "funny time, funny money"?

MR PEMBERTON: Yes, indeed.

MR FITZGERALD: I presume the quote is on quality as well as other issues, but given that the competitive quote is coming from reliable repairers, that quote will be given on a whole of costs basis, rather than any formula. So whatever formula the individual repairer uses to come to the bottom line, that's their business.

MR JACKSON: They know what their overhead is in terms of fixed costs, variable costs.

MR FITZGERALD: So how much of your business within 12 months will be based on that system of whole of costs and total competitive quoting?

MR PEMBERTON: Probably about 80 per cent, predominantly rural areas excluded.

MR FITZGERALD: All right. The other issue of transparency was, in your submission on page 5 you indicated that, in relation to the PSR arrangements themselves, or the contracts, you were going to undertake some improvements in relation to transparency about publication of certain material, maintenance of a register and so on. I think I'm right?

MR PEMBERTON: Yes.

MR FITZGERALD: What's the time line for that, and the main thrust of those changes?

MR PEMBERTON: Soon is the answer, without being glib. But we have a contract rollover issue - a bit like renewal of insurance policies - and as we roll contracts we will be doing that.

MR FITZGERALD: The actual PSR arrangements themselves, can I just understand the dispute resolution procedures that you currently have in place. Are they only restricted to PSR arrangements, or are they also available to non-preferred repairers? You don't use non-preferred repairers very much at all in your system, because you've got the two levels, preferred and associated.

MR PEMBERTON: Preferred and ASRs account for something like 98 per cent of our work, and yes, that system is only available to the 98 per cent, what's outside is not.

MR FITZGERALD: Given that's a very small number, and therefore perhaps not so relevant to yourself, is there any advantage in extending the dispute resolution procedures to the non-preferred repairers that are used, or is there no value in that?

MR PEMBERTON: I suppose, commissioner, fundamentally there's probably no reason not to, it's just that it hasn't really come on the radar.

MR JACKSON: It's interesting to note, because - and I need to make the point - it's for all suppliers, because it would be ludicrous to have a dispute resolution for repairers, and then we'll have the jewellers one, and then we'll have all the rest of it. So this is for all of our suppliers, this dispute resolution; a similar process. What was interesting to note is that we've actually had people who were not PSRs, but had been

doing business for us for a long time, albeit one or two jobs every so often. Because of that relationship we still actually said, "Look, if you don't like the answer you've been given by management internally, here's the people you can go to.

So we've already started to include non-PSRs. In all instances, however, we've said, "Start with your local manager, and work your way through," and quite often it gets resolved long before it gets to dispute. Those that have, the independent body looks at it and so on. So it wouldn't be much for us to do that. The issue gets down to pragmatics about, does everyone that hangs up a shingle that wants to become a supplier suddenly get to go through a process of saying, "Why am I not a supplier?" and whether that's manageable and economic or not. We've got some guidance on how you do that. Then the last issue of we don't have a business need; some region where somebody sets up another shop, and we don't have the need.

MR PEMBERTON: It was suggested to us by some repairers that, because of some of the issues you've raised, generally there should be an external review for somebody who wanted to be a PSR, but was not able to be. We haven't found in favour of that,. Do you have any comments about whether or not it's fair or appropriate for a repairer who is not eligible or not accepted as a PSR to swim against that, or have that reviewed externally?

MR JACKSON: There's some illogic to the statement. Firstly, if we don't have a business need it doesn't matter what review we do, we don't have the need for a PSR there, and in some cases we've had people say, "I want to be a PSR," and we've said, "Thanks." So an independent review would do very little other than be administratively expensive. Then we've had situations where don't believe they had the right qualifications, the training, or the workshop was not of the size standard and so on that we wanted, and we genuinely say that. A review of that would be that it doesn't have the waiting area for customers that we like our customers to experience and so on. That's true.

Then the last issue. In some cases we don't believe the probity is appropriate, and we won't be moving on that. There are some repairers where, either because of their disposition or some other past issue, an independent review is not going to cause us to do business with them. Fundamentally, at the end of the day, we're a buyer of services and that proposition is that we ought to be told who can sell to us.

It's a most amazing industry. I came from hospitality. You would actually supply to the customer, and if they wanted what you supplied, then you got the work, and if you didn't, you didn't have a body to go and say, "That's unfair. The hotel down the road is doing better" - improve what's going on. I also need to point out, how many PSRs and ASRs in Australia would we have?

MR PEMBERTON: We have about 850 PSRs and about 1300 ASRs.

MR JACKSON: So we believe that we already work with a significant part of the industry so the consumer and the industry has significant choice. We are talking around the margins. Again a central standard and federal certification would make life a lot easier around this issue.

MR RENDALL: On the question of guarantees and warranties for smash repair work, in the preliminary report we said that a repairer should only be required to guarantee the work it actually performs, and then only for an agreed reasonable time. You've made some comment in your submission but can you just perhaps elaborate a little bit on what you say there. Because it was our preliminary view that it should be the insurer, not the repairer, that actually accepts responsibility for quality and safety, which you do in terms of the relationship with the customer and you.

It falls back to you. But where you've got parts that have a one-year warranty and yet the repairer is required to give a lifetime guarantee on the thing and things like that, is it because the market demands that every insurer has that as part of their policy, that when my little car is binged I need to get a lifetime warranty from you guys?

MR PEMBERTON: I think the issue, commissioner, goes back to what we want our customer to have. We accept the liability that we have offer a lifetime guarantee on the repair. I'll come back to the repairer side of it in a second, but the primary and final responsibility rests with us. The issue really is, is the repairer going to be around to sustain it, so that's why we have a genuine liability and we stick to that liability. The issue of how we can change that to appear more reasonable, I think we make the point about parts. It's unreasonable to expect anybody to offer a guarantee over and above the warranty. We accept that.

What is the remaining point, I think, out of all that, the logical point, is what is the reasonable time for a repairer to guarantee a repair. I haven't quite got the answer for you, I'm afraid, but yes, there is some discussion about how we can change that. But it's still we are going to offer a lifetime guarantee on the repair. That's our responsibility.

MR JACKSON: Having said that, it would be unreasonable for there not to be an onus on the suppliers to give a reason, and it's a standard and some people do better than others. I note that Mitsubishi at the moment are offering five years on everything and ten years on drive train as a competitive advantage versus other motor manufacturers. Clearly they believe there is a competitive advantage. So we need to do that. Commissioner, you've just had two repairs. How would you have felt if your insurer had said, "I'd love to actually give you a lifetime guarantee on this but

the best I can do is six months"? I'd suggest that you might take that repair and go somewhere else. So our lifetime guarantee, which is binding legally on us, will stay.

We're happy to look at the parts issue, because we think that's reasonable, but we're also going to then look to competitive quality. Why should we not look for a long period of time that those repairs should last? The industry can't on one hand say it's concerned about safety but then on the other want to walk away from guarantees around repairs.

MR FITZGERALD: One of the specific issues which may or may not arise - I suspect it doesn't in your competitive quoting arrangements - where a repairer would view that a particular method of repair was appropriate, they would say that the insurance companies would disagree with that, pressure them to do it a different way. They would ultimately accept that job. Their view was that if the insurance company specifies the methodology, particularly contrary to what the repairer thought was appropriate, then in fact they should bear the responsibility.

In your new web based quoting, you will specify a scope of work. Apart from just the photo, you specify a scope of work or not?

MR PEMBERTON: We do currently. It's certainly something under review and were finding that, because there is a fair amount of creativity in the various ways in which you can properly repair a car that that may be long-term counterproductive, so we're moving away from that.

MR JACKSON: Having said that, some repairers can perfectly do plastic repairs that are very good and others can't. so we believe that there should be some form of mandation to cause those that are least competitive to have the high-jump bar lowered. Because this issue is about some people there are doing better quality for the price than others, and we ought to be able actually to pick that. We do have the liability. I might note that in America, State Farm ended up with a billion dollar law suit, which they lost as a result of specifying that all of their repairs would be done only with OEM parts. Not all their repairers fitted OEM parts, and somebody with a lawyer found that and then therefore there was a class action suit brought against them.

This is an extremely complex area where you can't just say it will be, because not all accidents are the same, as you will have found, Curt.

MR RENDALL: I find it interesting that when I sell the car the guarantee should go with the vehicle. Mind you, I wouldn't be in a hurry probably to tell a purchaser that I've been in a bingle. Is that the reason that those guarantees don't - - -

MR PEMBERTON: No, it's the legal relationship we have with you as a consumer that underpins the whole thing. So you sell the car. You might then sell it to somebody who doesn't have any insurance. So our relationship is with you as an insurer. That's our concern.

MR JACKSON: New vehicle warranties are the same.

MR RENDALL: So the guarantee elapses effectively.

MR JACKSON: You could have a three-year warranty and then sell the car, and I don't believe it actually moves on to the second owner.

MR FITZGERALD: I'm not sure that most people would understand that. I tend to think they think it's the life of the car rather than the life of the relationship with you as an insurer. Be that as it may, the issue, from our point of view, your undertaking to the consumer, how that impacts on your relationship with the repairer. So that's just the area that we want to look at.

Just moving on, if I can, the issue about codes and what have you - codes of conduct and so on - we note your comments and concerns about that. We were of the view fairly strongly so, in the report, that an industry-wide code of conduct would be appropriate. I just want to make a point that seems to have been missed by some, that does not preclude - in fact, it would support corporate codes also, coexisting. The way in which industry codes operate is there is that code, and then using that as a base, individual organisations have their own codes, so they are not mutually exclusive, but they shouldn't be in conflict either, so I just make that point.

You've made the point that you believe if there is to be an industry code, then there should be a voluntary code, rather than a mandatory code, but can you just talk to me about precisely your view about an industry code, generally, where you now currently sit in relation to whether or not that is appropriate, or not.

MR JACKSON: We would support, we believe, and we have to be quite fair, that from our point of view in terms of what we've got happening and from what we've seen, and we can't comment for other insurers that things are working very well, in terms of the consumer and the industry overall, clearly you've brought out the report around safety and there's a number of reports which actually show safety has been improved by PSR schemes.

Certainly the repair industry is more efficient and there's been a global change which is the other issue and we've seen it elsewhere, so we don't believe there is a need for a code, and we believe there's a risk that the consumer and the economy would be worse off.

Having said that, if there were to be a code, then we would look to participate in the voluntary code. We believe that code should be around the principles of how insurers would act with - in fact, we would be pushing for how they would act with small business, because the problem with just having a repairer code, is we end up with, what about all the builders we deal with. We have 50 per cent of the building market and they are small businesses which at the moment, don't seem to have a problem.

So rather than create an administrative nightmare, we would rather get a code that says, "Right, insurers agree to have these principles, and we will do these things." Within that, we would support each insurer having some sort of independent body that people could go to, once they've been through an escalation. That is not the same thing as a centralised bureaucracy I might add, which I don't think is going to work in anyone's favour. We also believe that the results of those things should be published. How many disputes were there, was the resolution. So that consumers can make up their mind about whether big business is a good citizen or not, in terms of how that works, how it's resolved.

Now, many of those things the insurance industry have done through the IEC, albeit a central body. But if you look at the principles as an internal dispute mechanism, there are ways of resolving things beforehand. There is, finally, an independent arbiter that is on the side of the consumer. The difference here is there is a commercial relationship versus a consumer relationship, so we believe that big business ought to, as insurers are, have an industry wide code. Then each within that developed set of procedures and processes to deal with it, in terms of their own competitive model, because they are different as you rightly pointed out.

To go with a centralised model would in fact, take that competitive ability out. Would reduce choice to consumers and also homogenise the industry, which over the longer term is actually not in the interest of the economy or the repair industry, I would suggest.

MR FITZGERALD: We're just about out of time. Are there any other questions?

MR RENDALL: No.

MR FITZGERALD: I just want to go back to ask you, this National Certification of Repairers. You've indicated that you see that, in one sense, would assist in this issue of probity, criminality and so on. But, one of the things that's become clear to us is that in many senses - as you say, it would also deal in some sense with quality and so on and so forth. But, some would say to us that the PSR arrangements themselves are now starting to achieve what a certification process would otherwise

have done. So the need for such a national approach may not be so great?

MR JACKSON: The fundamental reason for this inquiry is why does PSR exist, and in our view it existed because of a market failure by the industry, both economically and also in terms of self management. So we'd agree with you that we believe preferred schemes have had that impact.

All that we're saying is if you are then looking to adopt a federal code of conduct, then this is a chance to also deal with quality standards, training standards, registration. We don't believe that the industry has demonstrated on a state by state basis that it's able to actually deal with it. There are industry members who would say, "Yes, we know so and so is no good, but they are a member and we can't deal with it."

So either we have to support the fact that the insurers are standing in there, in terms of looking for those qualities, or if we are saying we don't want, we want something else, then we need to have a way to substitute that. I would prefer the PSR did that, but the point we're making is that there are a number of things that would need to be addressed if there was a change to a code.

MR FITZGERALD: If you went to a national certification of repairers, do you believe that that would reduce the need for, or the use of PSRs? Because obviously PSRs have other stated benefits.

MR JACKSON: It would make it easier, because there are some steps that you wouldn't be doing in the first instance, but all insurers, at the end of the day, it's like, "I've got a particular store I like to buy my goods from, you don't." But they may have the same standards. There is an accountancy standard in Australia, but you may choose a different accountant to me, so there will always be a choice, but the buyer chooses for whatever reason. We will have more repairers in one area than another insurer, so I think there is going to be that.

The other issue is that the PSR scheme allows us to get closer relationships with fewer repairers, where we can do things like invest into training, invest into the latest techniques and so on, and we are interested in that investment.. We've put in over \$10 million into various forms of training back in the industry. We would seek to continue to do that because we think it's good for us and good for the industry. So we're not seeking, "Bad luck, no investments, it's just whoever gets the best price." We think that's retrograde.

MR FITZGERALD: At the end of the day, you think the PSR schemes would be as large as they currently are, in addition to, a national certification?

MR PEMBERTON: I think the national authorisation would remove some of the issues, but nevertheless, there's a whole bunch of other things. There are people that we want to do business with because they are good businessmen. That doesn't get reflected in the code and so that would continue. So I think we would have PSRs ongoing.

MR FITZGERALD: The flipside of that again, some of the repairer groups have indicated that assessors would in fact be subject to some sort of, not necessarily certification, but some sort of scrutiny, and they've made that fairly strongly. The commission didn't come out in favour of that, as it didn't come out in favour of a national approach for repairers. But have you got a particular view on that?

MR JACKSON: Well only to say that IAG has the highest number of staff in Australia that are certified at level three and four, in the certificate for insurance financial services, and in fact we're the first insurer there, so we've already moved on that area.

We also have very, very strict criteria in terms of selection of our assessors and ongoing training, and there are some assessors that, have left us and moved to other companies that we've since inquired, who are no longer with us, the moment we do. Whether there needs to be a standard around that.

MR PEMBERTON: Also, I think, just to reiterate the training, we have a special centre in Artarmon, attached to, allied to our technical centre, which is set up for our global, technical training. So that's there and we take it seriously, firstly.

Secondly, I think to go to the import of the point, and underpinning the rollout of our new systems is, it becomes a different sort of skill. We're training much more to adapt to this new one than jump in the car and go on site. So you can see that, I think, that comment coming has reflected a bit of the history of what it used to be, rather than what it is becoming.

MR JACKSON: I'm not sure many people know, but our Artarmon centre actually does - there are two centres. Our motorist centre does research, global research, for car manufacturers. We are the only one in the southern hemisphere. We train our assessors through there. So there are models such as the SAAB three years ago, was redesigned because of our work. We are one of only five insurers in the world that does that, and we put our assessors through there, for motor.

For home, we in fact, have a home where they go through and we can change whether it's water damaged, or the roof has come off and so on. Again, there are only two or three insurers in the world that do that, and we share the information with them. So our assessors are constantly going through what are the new building

materials, how does this work, et cetera. In fact, we put them into the house to recognise damage.

Should that be mandated for other insurers? I think you are then starting to get into competitive advantage, and we think that investment is worthwhile.

MR FITZGERALD: Thank you very much. Thanks Rick, thanks Paul. We now have our next participants from Allianz. Thank you very much. Thanks Rick, Thanks Paul. There's tea and coffee outside all the time, so if you want to do that. We will have a small break some time in the morning, but not a very long one.

MR FITZGERALD: If I could just ask you to introduce yourselves, your name and position within Allianz, for the record.

MR SCOFIELD: Nicholas Scofield, general manager, Corporate Affairs.

MR DEAN: Keith Dean, national manager for motor assessing.

MS LAMBERT: Jenny Lambert, general manager, claims operations.

MR FITZGERALD: Over to you, who's leading off.

MR SCOFIELD: Thanks very much for the opportunity to come and give our feedback on the draft report. The first thing we'd like to say is - it's easier to focus on bits of the report you don't agree with, and there are some of those. In general, we congratulate the commission on a good report. We've had the ACCC now, 15 months or so ago. There's been a lot of issues around in the industry; accusations about late payments, accusations about compromising safety through repairer schemes, policy proposals to mandate choice, to open preferred schemes to all comers, introducing anti-steering legislation. We're happy to see that the commission seems to have either rejected or put to bed many of those.

We'd like to think that they might all go away, but I suspect it's probably a vain hope on our part, that that will happen. I guess, at least to a point, about the relationship between the two industries, it's never been what you'd call excellent. I suspect just the commercial and competitive tension that exists between the two sectors will mean that there will always be some degree of tension. Certainly while either repairer bodies continue to advance accusations and policy proposals that we think are bad, or we don't agree with, I suspect that tension will continue.

Following the ACCC's report in late 2003, Allianz moved to introduce a corporate code, in particular for repairers that weren't part of our preferred network. We have quite detailed service level agreements for preferred repairers, but we saw that as a gap. We moved quickly to do that, and we note that many of the proposed contents of the commission's code were addressed in that code. Things like transparency in regard to repairer choice, responsibility for guarantees, use of parts, payment terms, independent external dispute resolution. In our service level agreements with preferred repairers, other issues that the commission has also identified; responsibility for quality and safety and appeal mechanisms on termination or non-renewal of contracts are contained in them.

I guess we'd say we've always been a supporter of codes as a way of addressing issues between the two sectors. We've particularly been a supporter of corporate codes, because we regard most of the points of friction between insurers and

repairers are generally down within the administrative contractual and commercial interactions that arise between repairers and insurers, due to their particular ways of doing business.- so the way their preferred schemes work, the way repairers are required to tender or quote or price their work.

We've always taken the view that only corporate codes can delve down into that level of detail, identify issues, and put in mechanisms to address them. While a high level industry code is probably fine in terms of ensuring a consistency and a comprehensiveness across the industry in terms of corporate codes or procedures, I guess what we'd say is that corporate codes on their own, we think would be effective. An industry-wide code pitched at high level principles, on its own, would probably be ineffective. The combination of the two of course will be effective, and as I say, may bring some consistency and comprehensiveness to the particular issues that insurers address.

On the issue of "funny time, funny money", we're not sure whether the commission has over-analysed it or under-analysed it. To be honest, I suspect, I would say, we don't think it's been analysed at all. There are some assertions that have been made, in particular, the sort of implication that "funny time, funny money" has caused a price squeeze on repairers. The report states that 70 per cent of the industry use "funny time, funny money". I think we disagree with that. I think we'd say its not a question of whether "funny time, funny money" somehow fits in to the process, or is a part of the process, it's a question of what it's used for.

So, in the case of IAG, for example, I think their submission on the draft report and the remarks that were made today indicate that the approach is really around competitive tendering, if you like, with the bottom line price approach. It may not be on a car-by-car basis, in the sense like AAMI's approach. It may be that repairers are in a sense competing against themselves, either over time in relation to their previous average repair costs, and how that impacts their status in the PSR scheme, or relative to other repairers.

Average repair costs, again over time, not on a car-by-car basis. What we would argue is that "funny time, funny money" as it's used by Allianz, which is essentially a negotiation tool, is probably restricted to ourselves and I think, Suncorp. So in a sense the minority of the industry uses "funny time, funny money" to actually arrive at a price. When you offer an unrestricted choice of repairer, the repairer knows they're going to do the repair - either the customer has chosen them to do it, or we've chosen them to do it. They're in a sense negotiating from the position of a monopolist.

We use "funny time, funny money" as a long standing and a sort of well understood negotiation tool, but it's a simple one that contains a fixed unit rate and

we use the term unit rate internally - we don't like the term "hourly rate" because I think anyone with any sense can see that it's not an hourly rate - it has no relationship to what you would fair hourly rates in other trades or occupations. It's simply a unit rate which is known and fixed, and then there's a multiple of that rate

In our case, the assessor and the repairer negotiate around the size of that multiple to come up with what they think is a fair price for a particular part of the repair. The commission's report said they wanted more flexibility or that "funny time, funny money" wasn't flexible. We would argue that it's quite flexible, due to the ability to negotiate that multiple. All things being equal, the multiples will be higher in a sense the price will be higher in an inner metropolitan repair shop than it will be in an outer metropolitan or a regional repair shop, reflecting different overheads - rent and wages in particular.

MR RENDALL: If you have occasion where, you know, I choose X and X as my repairer, and I'm insured with you guys, and you just cannot agree - you say that monopolistic position - I've chosen him/her to do my work. You've then got to negotiate a price with my chosen one, and you just cannot agree, you can't even get close, and hence what happens in your case?

MR SCOFIELD: Essentially, we agree.

MR RENDALL: For the work?

MR SCOFIELD: It virtually never happens, and it never really happens for that reason. We agree. We can't go out and advertise to the world that we offer unrestricted choice and then start ringing up customers and saying, "Sorry, we don't like your choice. They're charging us too much." We know repairers who charge an arm and a leg. They stand out against other repairers to a significant degree. We hope and pray not all our insurers to want to send their cars there. But that's essentially our model. It's one where we deal with the repairer that the consumers chose if they've expressed the choice and agreement is reached.

MS LAMBERT: I think there's a subtle difference as well. The negotiation is initially built around determining the correct method of repair and what is required to put that vehicle back to, say, pre-accident condition. The cost of that is the outcome of those discussions. So the negotiation is not specifically around the dollar rate; the negotiation is around the correct method of repair. The outcome of that negotiation determines the cost that we will pay. We believe that that model is the reason as to why there are - I couldn't tell you the last time we have had a dispute as such, let alone a complaint. We approach that on the basis of working with the repair industry as opposed to working against it. That is a subtle difference, I think, that has been lost in relation to the "funny time, funny money" deception.

MR RENDALL: It might be not pure accounting or impure cost accounting that - we're ending up with this final price for a job, however you calculate it or the other person calculates it. Although, it must still be difficult to teach the young ones coming through how this system functions.

MR SCOFIELD: They don't have to be re-educated because they are young and they're being introduced to that system.

MR DEAN: The process has been in existence since 1972, so I think there's been some learning processes there. But if I can also add, too, in our managed repair process we don't ask for a quote up-front, a total quote, because we dismantle the car and we look at the repairs as it goes and negotiate that as it goes. That's part of the process that we have. For that reason, we get very little issue, I think.

MR SCOFIELD: I'll just, if you like, turn to one particular comment that the commission made that we found, I guess, particularly offensive and seemingly based on very little analysis. That was that statement that said:

The implication of Allianz's comments is that "funny time, funny money" inherently acts to depress the bottom line; that is, it may be systematically generating quotes that understate the true cost of repair.

I think the comment that was referred to there was one on the previous page that said:

Allianz said that in its experience average repair costs are considerably higher in countries that have adopted a "real time, real money" approach.

I guess the first comment we'd make is, what's meant by "bottom line"? What's meant by "real cost of repair"? These terms aren't defined. In the absence of any definition or substantive analysis to support the statement, to us, they're really just jargon. In terms of that comment about average repair costs being higher in countries that have adopted "real time, real money", we provided analyses to the commission that showed a couple of things. The first thing was that "real time, real money" produces higher prices, but only because it encourages the use of more expensive replacement parts, rather than less expensive repair of a part where that's appropriate. We also provided analyses that showed that the repairer is actually better off.

We don't really make any apologies for the way "funny time, funny money" works in the sense that it provides more funny hours, if you like, to repair than it does to just simply remove, buy an overpriced OEM part and stick it on. There are

more hours of work involved for the repairer so there's more work, and they get more money because of the more generous times allowed.

In terms of the bottom line, if it's the repairer's bottom line that's being referred to there, we would argue that, on a direct comparison - and we do that in our submission - that the bottom line of a repairer is enhanced by "funny time, funny money" to the extent that "real time, real money" would see them just doing less hours of work and getting less money for it.

In terms of the real cost of repair, or the "true cost" as it's referred to by the commission, we're just not sure what that means. If we presume that the commission thinks that competitive tendering is able to arrive at a true cost, then, to the extent that costs are lowered by repairing rather than replacing parts, then competitive tendering will produce that behaviour, just in the same way the "funny time, funny money" produces that behaviour of repairing rather than replacing. So, we'd like to see a little bit more analysis or evidence to support some of the conclusions of the commission. There are a few others that we could go into more detail in in later on.

In terms of the commission's proposed alternative, the commission has said that times and hourly rates should reflect realistic times and rates, and that this would differ from the standardised "real time, real money" suggested by some repairers. I'm not quite sure if there's a difference between realistic times and real times, or whether the commission intended to imply that there was one.

There's an emphasis there on standardised times. Just taking that point, if the commission is in a sense saying they don't like standardised times - and they made the comment that they would like to see different rates develop for different shops to reflect their costs - I guess we would say that we would find an approach like that, whether they were funny rates or real rates, to be fairly complex and unwieldy. There's 5000 repairers there. Because we offer unrestricted choice, we could be dealing with any one of them. The idea that you would negotiate different costs or different rates to reflect the different cost of each of those shops to us is just mind boggling, to tell you the truth.

The commission also talks about - that these rates be adjusted over time, I guess implying some sort of indexation to reflect inflation or whatever. Again, we would take that to mean that we would have to negotiate 5000 different indexation rates, because to automatically index everyone doesn't really seem to provide a mechanism whereby insurers, or, in this case, us, can share in any productivity gains, and the productivity gains would differ from repair to repairer, depending on the scale and timing of any investments they make in productivity-improving practices or equipment. Again, we're just not particularly attracted to that, I'd have to say.

Having said all that, we do recognise that "funny time, funny money" is not particularly transparent, albeit for people outside the industry that aren't experienced in its use. It possibly doesn't meet modern benchmarks or standards of transparency. In that sense, Allianz would be prepared to enter into discussion with repairers on potential alternatives.

I don't know that we could guarantee that we could develop ones that didn't have an adverse impact on our repair costs, and I guess in that sense there's the potential that if it all became too hard, the option of moving back - and I say "back" because we came into a two-quote system in Allianz and we moved away from it because we felt that competitive quoting created tension between repairers and us and tension between repairs and other repairers, and we didn't like it. But if we're in a sense forced to move away from a negotiation model that we think works, and works fairly for both sides, and the alternatives are uncertain or are known to produce worse outcomes, the option of going back to some sort of competitive tendering would have to be considered.

Unfortunately with that would come a reconsideration of providing unrestricted choice because we've always seen the two concepts as incompatible. We don't think it's possible to provide unrestricted choice in a competitive tendering environment because you cannot guarantee that your consumers preferred repairer will put in the lowest quote, and so if competitive tendering is going to mean anything, you can't guarantee that they'll get their choice, but as I say we'd certainly be prepared to sit down with repairers and look at alternatives. I'd have to say individual repairers we deal with don't seem to be as opposed to "funny time, funny money" as what seems to come across in the representations of their representative organisations.

Given that it is a complex issue and whatever happens won't be changed overnight, the alternatives won't be identified let alone implemented overnight, we don't think it really lends itself to simple recommendations like it should be abandoned or that it should be proscribed in a code because I think the only outcome of proscribing "funny time, funny money" in a code, we think, would be to delay the development and implementation of a code. While many of the other issues could be worked out fairly quickly, this one would take probably years, just to the extent that it would certainly take more than 12 months, and you might develop something but whether you could implement it in another 12 months is probably a different story, and we'd hate to see a code delayed for that long just to pick up this issue.

I mean the other alternatives would be that we would sign up to a code and be just in breach of it the next day which would be undesirable, or it would prevent us from participating in a code for that reason. So we would prefer that it not be proscribed in a code, but that a process be put in place to discuss with repairers alternatives to it, and I'll leave it at that.

MR FITZGERALD: Any other comments? Thanks very much for that. I want to thank Allianz both in the discussions we had and in their original submission and their subsequent submission in trying to clarify for us "funny time, funny money" and how it operates. I want to make a couple of things. We do acknowledge that their whole-of-cost approach lends itself easily to a competitive environment. We've heard that from AIG and others. We understand that. We understand that where you have a situation where you as an insurer dealing with a sole repairer that that environment is quite different, has a different dynamic, and as a consequence of that "funny time, funny money", as you say using it in terms of units and multiples rather than hours and costs, has an attraction in terms of management, but I suppose a couple of things were clear.

Apart from Allianz and a few of your own repairers, almost universally repairers that we spoke to, and their associations, and in some senses a number of the other insurance players, did not hold the view that "funny time, funny money" was an appropriate system to operate today, so we've reflected that in the report as we've indicated. So I suppose the question for us is, yes, it's more manageable if you have a particular system, but the fundamental principle is that a supplier of services, a repairer, should be in fact providing a price that's based on the amount of time they spend doing a job and the amount that costs them to do it. That does assume that the repairer does understand their genuine costs of operations and what have you. We know that some don't, but we also know that some do.

So it is a quantum leap from taking that very simple proposition that a supplier of a service should quote based on what they spend and how much it costs them, and that should be the basis of that quote, and "funny time, funny money" does everything other than that. So I appreciate the differences, but I suspect we still need to have further dialogue around some of the comments we've made and some of the analysis that we've come to, to make sure that we don't have adverse comments. But one central issue, can I just clarify your position in relation to - acknowledging that it would be more difficult for you because of the way you operate in terms of your repairer relationships, the bottom line, do you believe that if "funny time, funny money" was replaced by a system where the supplier of the service quoted their true time and their true costs, that the overall average cost of repairs would go up, or would it remain the same, or would it go down over time?

MR SCOFIELD: I think we'd argue it would go up because that is our overseas experience. We send our assessors to places like Germany, and they just sit there and watch their counterparts ticking replace, replace, replace, replace because there's no incentive on the repairer to repair it, and if they're getting the same money for every hour worked, they'll always replace in general because of the uncertainties with repair work. I mean there are uncertainties about it. You can do a paint job and find

that it's bubbled, or you can panel beat a big ding and the filler sags and things have to be redone, so there's just a tendency to avoid that uncertainty and just replace it.

MR RENDALL: In Germany are labour rates higher than here? I would imagine they are.

MR SCOFIELD: They are. It's a "real time, real money" sort of environment.

MR RENDALL: Presumably if the parts are coming in without various duties and the like that we enjoy here - don't enjoy here - is it simpler to bolt on the new?

MR SCOFIELD: I don't know if the duties are - - -

MR RENDALL: Just the cost of parts.

MR SCOFIELD: Yes, that's right, it's just the cost of the parts. I mean even if the repairer did exactly the same amount of work and they were happy enough because the number of hours were the same, which is unlikely in a remove-replace operation compared to repairing given that you have to remove often and replace the part before and after repairing it, it's just the extra cost of the new part, and particularly in parts it would mean that the average repair costs would rise significantly.

MR RENDALL: But a factor here you as the insurer, notwithstanding that you give unrestricted repairer of choice, you can still specify the methodology or approve the methodology for the repairer of that car, so if as a company you determine that in fact it should be a repair rather than a remove and replace, that's within your province. So you actually still control the methodology or approving the methodology for the repair. So whilst there may or may not be an incentive to replace rather than repair, you as the insurer ultimately have the ability to say, "No, we want these repairs." So I would have thought that to some extent that moderates that trend to which you've referred, or am I missing something?

MR SCOFIELD: I'll let my colleagues comment, and I would say it could in part moderate, but the only point I'd make first is that the level of control you're talking about is possibly not an accurate description of the process of negotiation that takes place between assessors and repairers under our particular model.

MR DEAN: The panel industry here is unique, or in the world is unique, where we're trying to estimate how long it will take to repair something in advance of doing it, and that's an impossibility; no-one can do that. You cannot estimate accurately how long it will take to repair something in advance of doing it. So anything you do in advance of the repair is funny, whatever the process is, whether you are looking at realistic rates or whatever.

So once a rate goes up to 60 or 80 dollars or something like that, which you could probably loosely say is realistic, then the hours are also funny. I mean, you will not get anybody estimating accurately in advance exactly how long it will take to fix. So, it will be funny. So, those funny hours over a period of time blows out the repair cost to a point where it's more economical to put a new part on it, in terms of labour.

MR SCOFIELD: So, I guess what we're saying is that it's quite easy to say, let's have a real rate. We could go and look at mechanics or some other trade and say, "Okay, well, \$90 an hour is a real rate." But it's impossible, as Keith said, to work out in advance a real time and in that sort of environment, we are more than convinced that we would end up being the loser.

MR FITZGERALD: Yet in a competitive environment, once the quote is accepted, whilst you can in fact revisit that insurer and repairer's office, and we do if the job is substantially different to that which is anticipated, our understanding from a number of insurance companies is that there is not a huge variation between an original quote and a final quote. There is in some jobs, massively different, and perhaps we need just to look at that a little bit further. So I'm just wondering, whilst what you say makes some sense to me as an inexperienced person, competitive quoting really does force repairers to actually predetermine, to the best of their ability, what the hours will be, even though there is the ability to come back at some stage.

MR SCOFIELD: I think when quotes are reopened in the context that you're referring to, insurers will re-open quotes because of the discovery of damage that wasn't initially seen in a digital photograph, for example, or the determination that a part that was initially thought could be repaired couldn't be, and that a replacement was required. I don't know that competitive quoting insurers re-open quotes because repairers come along and say, "Oh well, it's going to take me a little bit longer than I thought."

MR FITZGERALD: Well, I'm sure that they don't re-open them on that basis too often.

MS LAMBERT: I think in relation to real time and real money as well. In the European market, it's supported by tools such as Eurotax and Outertex, which are based on manufacturers times for dismantling and replacing of parts, etcetera. Outertex spent three years and 5 million dollars investment in Australia back in late 99 and at the end of three years walked away from the Australia market because the repair industry could not support the change from what was then "funny time, funny money" to "real time, real money". This is all built around (indistinct) times

and manufacturers' times to bringing in labour rates around the 60 to 80-dollar mark. So you had a company that was prepared to come and offer an alternative to the industry and the industry couldn't support it because the change was too big.

But it is very much built around bolt on/bolt off and in our continual analysis of repair costs, where we break it down into major components, whilst our average repair cost has gone down, that is purely as a result of the reduction in the componentry of the parts and an increase in the repair times. That repair time, we argue, gives more money to repairers as opposed to money to the manufacturers and the dealerships that supply the parts to the repairers, albeit that there are mark-ups in relation to that.

Our main concern is that the all-up quoting model or the competitive quoting model, which works well for some of our competitors, if we have to go down that path that means that the model that we have found to be the most successful for our portion of the business, which is our managed repair process, is not built around getting a quote at the time that the vehicle was there. It's about building the quote that determines the ultimate price throughout that process, and our concern is that we may be forced into a more homogenised industry approach as opposed to what we believe is a competitive approach at the present moment.

MR SCOFIELD: If I can just add, the commission was disparaging about the issue of standardised times and rates. The way these sort of electronic or manual based systems of "real time, real money" that incorporate repair times as well as remove and replace times, is essentially that. The times become standardised, and if the times become standardised, the rates will become standardised. I mean, no insurer in that environment would pay higher rates than their competitor. It would only, given the standardisation of times, result in a higher average repair cost to their competitors.

MR FITZGERALD: As you know, our report didn't endorse standardised times and standardised rates. While I do acknowledge that there is a potential (indistinct) to develop because at the end of the day, whether it's "funny time, funny money" which becomes standardised anyway or it's standardised times and they're easier to manage and therefore people gravitate to those, from our point of view they also create distortions and transparency issues and all those other issues still remain. So we didn't recommend standardised times or rates but we do recognise there's always that potential to drift down that path.

MR SCOFIELD: If I could add one point to what you just said, something to the effect of "funny time, funny rates" which become standardised anyway, we wouldn't - - -

MR FITZGERALD: Some are.

MR SCOFIELD: Well, the rates are but the times aren't, and so we would not agree that the times are standardised. In fact what we'd say is that they're non-standard in the sense, as I referred to before, that when you've got the same rate, higher times or multiples are used to reflect the high costs of repairers in different cost areas. The commission had made points they refer to, in favour of flexibility. We would argue that "funny time, funny money" used in that environment provides that flexibility, whether competitive quoting, especially over the Internet or something. Where you've got inner city high cost repairers competing with outer metropolitan repairers with lower overheads is flexible, from a repairer's point of view, is another question.

MS LAMBERT: But having said all that, as Nicholas said, we are more than prepared to work with the industry to look at alternatives and options to replace the "funny time, funny money" but as we've said, leaving that within the code, we're either in breach of the code from day one, we don't sign up to the voluntary code or the code gets delayed while this issue is sorted out.

MR FITZGERALD: Sure, we take on board that point. Just moving away from "funny time, funny money", which is a complex area, and I don't think any of us in the commission pretend to claim expertise in it so we're willing to take advice from all quarters of it until the final report comes out. Just in relation to the code of conduct, you've take a view that would welcome and maybe that's too strong a term, but at least supported an industry wide code with the proviso that individual corporate codes remain and do most of the work.

Can you just explain to me what you believe could or should not be in an industry wide code. I don't mean in detail, but we've made certain recommendations or thoughts really, more than recommendations, about what could or might not be in the industry wide code. Do you have any particular strong views about any of those issues?

MR SCOFIELD: I think other than, "funny time, funny money", obviously we think you've probably got about the right balance, if you like, in terms of what could be in there. The only exception I guess would be payment times. I think the commission said that they shouldn't be in there. If it comes to something like 30 days as a standard, we have that in our corporate code. I would think that other insurers either have it in their corporate code or pay within that time anyway and we wouldn't see any problem with putting that as a feature of a corporate code. We think in terms of the rest of the content the commission's proposed, we think that you've identified the key issues that should or could be addressed in an industry-wide code.

MR FITZGERALD: If I'm correct, you take the view that, notwithstanding that, an industry-wide code is probably still a bit hollow, and the real work has to be done through the corporates. Are those your words, or may be your words?

MR SCOFIELD: They were our words. They may have been a bit unfair, but I guess it reflects my introductory remarks, in that we would say that an industry-wide code pitched at that sort of high level, if it was not supported by corporate codes that did all the work, it would be hollow. It's never been our view that repairers do not have any legitimate concerns. We've spoken to repairers and they've expressed concerns that we regard as being legitimate ones.

So it's a question of addressing them. We never thought they could be addressed by high-level principles, but they could only be addressed by corporate codes that really were tailored around identifying what parts of our process result in dispute and tension; and either putting in place measures that minimise the chance of that happening or, at the very least, provide for dispute resolution when those concerns do occur.

MR RENDALL: Taking that on board, how long should be given, do you think, for the putting together of a voluntary code? What's a reasonable amount of time that might - - -

MR SCOFIELD: I would have thought it could be done over the balance of 2005. I'd probably be getting concerned if it was dragging on a lot longer than that.

MS LAMBERT: I suggest about six months.

MR RENDALL: Six months.

MR FITZGERALD: The PSR arrangements generally that you've got in place, we haven't heard a lot about the issues about transparency and how they operate in terms of their procedures. But can I just ask this question, the issue about when a person is rejected as a PSR, or their ability to apply and then be assessed on that - as I indicated to IAG, some people have said to us that where somebody applies to become a PSR and they're rejected, there should be some sort of right of review or even appeal, but certainly review. Do you have any particular views about that area? We haven't recommended that.

MR SCOFIELD: I got the impression when you discussed the issue of IAG that it seemed to be coming from the point of view that the schemes are, in a sense, open to all comers and that anyone can come along and say "Okay, I'm applying and you've rejected me. Where can I go and complain?"

When we need to add new participants to our scheme, we identify based on location and all those other factors and our past experience with repairers, people that we, in a sense, invite to become a member. I think if we were to invite someone to apply, so to speak, and then subsequently it went off the rails and we didn't accept them, in those circumstances there could be dispute resolution made available.

But certainly not in the sense that anyone can apply, because we have a very limited network, because the size of our network is essentially determined by the amount of volume our consumers choose to put elsewhere, if you like. So 130, I think it is, so that leaves another 4870 or whatever who could put their hands up and apply, and I don't think we'd want a process that would allow - - -

MR FITZGERALD: Some might say that if you, for example, identified that there was a business need for an increased number of PSRs in a particular region or area, that the most effective way would be to perhaps advertise that and make it a competitive approach, still with all of your normal criteria in place, rather than a less transparent invitation only approach. The Commission hasn't put a view on that, but I just put that to you, that if you're wanting to get the best PSR repairers out there, a more open approach when you require them would be a way forward.

MS LAMBERT: That may well be something that we look at. We've only had our network of repairers for two years, when we went away from the two quote model, and on that basis to get that up and running, yes, it was an invitation basis. If we had a need where we were required to significantly increase that, yes, that open process may be something that is considered for more transparency.

But I think that needs to be balanced with the fact that, because of our business model, we are already dealing with the majority of repairers in an area anyway, and because of that, that assessment capability is an ongoing and continual process. So it may not be something that is totally required in relation to our business model.

MR RENDALL: Because your insureds or insurer - - -

MS LAMBERT: Insureds, yes.

MR RENDALL: They are Australia-wide?

MS LAMBERT: Yes, they are, but the majority of our business is down the eastern seaboard and into South Australia, and our network is predominantly capital city based with some regional centres. So 60 per cent of our customers select their own repairer.

MR FITZGERALD: Just on the issue that was raised - and you may not have a view about this - that IAG put this morning, of a national registration or certification of repairers arrangements. Do you have a particular view about that? You may not, but it's up to you.

MS LAMBERT: Yes, I can see some value in it, in that bringing some consistency to assessment and capability within that industry, but I wouldn't say it was a strong view.

MR SCOFIELD: I'd say as a general principle, we don't really support regulation when it's not necessary, and in our experience 99 per cent of repairers are good. But of course these sort of things are put in place to try and exclude that other 1 per cent. I guess the only comment I'd make is that there are no panacea to these problems and that we can read every day in the newspaper about certified or licensed professionals, lawyers or accountants or whatever, being involved in illegal activities. So I wouldn't see it as necessarily the be all and end all answer to the problems that were being identified as the reason for proposing it.

MS LAMBERT: I think it would be ludicrous to think that in those states where repairers are licensed compared to those who aren't, that there is a different level of activity that is inappropriate.

MR FITZGERALD: A question that Curt raised in the last session was just about warranties, lifetime guarantees and warranties. Could you just explain to me, your position is, as I understand it - I'll ask you to just explain your position. Who bears the lifetime guarantee? Is it your company, or do you pass it on to the repairer directly?

MR SCOFIELD: It's not lifetime in the sense that it lasts until the insured sells their vehicle. I must say, I was a little bit confused following the discussion with IAG about whether their "lifetime" means that as well. But - - -

MR FITZGERALD: I think it did mean it terminated upon the sale of the vehicle.

MR SCOFIELD: But in terms of the other issues - - -

MR DEAN: I think that was in keeping with our discussion with the repair industry generally, that's been an accepted model for many, many years.

MR FITZGERALD: Sorry, could I just clarify your model. Your model is a bit different from the other insurers.

MR SCOFIELD: In terms of - the responsibility for the guarantee is - - -

MS LAMBERT: The repairer for the workmanship and for the life of the guarantee offered by the manufacturer, and Allianz picks up the rest. So - - -

MR FITZGERALD: Just say that again for me.

MS LAMBERT: The manufacturers guarantee on the parts, and the workmanship with the repairer, and any other guarantee is with Allianz over and above that. So it's not a guarantee on the parts for longer than manufacturer's guarantee which I think was the commission's issue.

MR FITZGERALD: Yes, one of the issues.

MR RENDALL: And that's what's given to me and the insurer. My car is repaired. The manufacturer - - -

MS LAMBERT: Guarantee on repairs for the life of the ownership of the - - -

MR RENDALL: But on the parts issue or on the or on the - it's for the - just the guarantee provided by the manufacturer of that part in your guarantee to the consumer?

MS LAMBERT: No, to the consumer it is the guarantee on the repairs for the length of time that you own that vehicle in relation to the portion accepted by the repairer, it's in line with the commission's thoughts on that process. So 100 per cent of that is not passed back to the repair industry.

MR FITZGERALD: I just want to go back a bit. From the customer's point of view, the guarantee is not a complete whole life guarantee, or is it?

MS LAMBERT: For the time that they own the vehicle?

MR FITZGERALD: Yes.

MS LAMBERT: Yes.

MR FITZGERALD: Sorry. I mean the word "life" is a confusing term but nevertheless be that as it may - - -

MS LAMBERT: Life of ownership.

MR FITZGERALD: For the life of ownership. But the repairer only picks up the normal warranty that's given by the manufacturer in relation to the parts.

MS LAMBERT: Yes.

MR FITZGERALD: And for the repair work they actually do.

MS LAMBERT: The actual workmanship.

MR FITZGERALD: For a period of time or - - -

MS LAMBERT: No, for the same guarantee that we pick up because the workmanship is the exposure. I couldn't actually ever recall a claim.

MR FITZGERALD: It's minuscule.

MR FITZGERALD: We're just about out of time. We might take a five-minute break.

MR FITZGERALD: Okay, over to Suncorp. If you can give your name and position within the organisation.

MR JEFFCOAT: Thank you, commissioner. My name is Tim Jeffcoat. I am the national manager for motor assessment for the Suncorp Group, which encompasses the GIO brand.

MR FITZGERALD: Good. Over to you.

MR JEFFCOAT: I've got a short statement to read. I'll get under way now. Firstly, Suncorp would like to commend the commission on what is, overall, a balanced report. On the whole, Suncorp supports the commission's preliminary findings. Suncorp's general feedback and views on the report are represented in the submission by its industry body, the Insurance Council of Australia, the ICA. As a result, this submission today is brief. Below, I set out some specific comments on the commission's preliminary findings. I'd also like to reiterate today some of the key points that Suncorp raised in its initial submission.

(1) Industry rationalisation. Suncorp welcomes the commission's acknowledgment that, due to a range of factors, ongoing rationalisation in the smash repair industry can be expected. Suncorp believes it is critical that any initiatives which are ultimately introduced in response to the commission's findings must be framed within this context. In particular, there is a need to avoid any misplaced attempt to maintain a status quo which would be at odds with the fundamental principles of competition and increasing productivity.

(2) PSR tenure on sale or transfer of business. Suncorp agrees in principle with the commission's recommendation that PSR status should be extended for a short trial period on sale or transfer of a business. However, as you've heard today, Suncorp supports the cautionary points raised by the IAG in their December response to the commission's draft report - that's on page 7 of their December draft.

(3) "Funny Time, Funny Money". Suncorp reiterates its view outlined in its submission that it supports the concept of reviewing the cost structure for smash repairs, provided the review is undertaken across all cost factors, including parts, labour and paint. Suncorp would like to stress to the commission the complexities involved in dismantling the "funny time, funny money" system, as we've heard pretty much in detail this morning.

There are high risks for all parties, including repairers. Therefore any move to dismantle the system must be done very carefully and will take considerable time to do properly. Suncorp would like the commission to acknowledge this point and to support a process which allows sufficient time to ensure that all parties' interests are

protected. Suncorp supports the industry's views on this topic outlined in the ICA's submission.

(4) Code of conduct. Suncorp notes that one of the most important recommendations made by the commission is the establishment of an industry code. Suncorp also notes the commission's preliminary view that, if insurers and repairers cannot agree on a code, it should be mandated under the Trade Practices Act. However, Suncorp would like to reiterate its view, outlined in its submission, that its first preference continues to be for individual insurers to retain the ability to create their own codes of conduct.

Suncorp notes the commission's proviso that an industry-wide code should not prevent individual insurers developing their own codes consistent with building on the industry-wide code. However, this is based on the premise that a benchmark industry code is first created. Suncorp believes that there would be no incentive for insurers to develop their own codes in addition to an industry code. Importantly, the opportunity for individual insurer codes to target specific issues relevant to their relationship with repairers would be lost. In addition, insurers would be required to implement compliance measures to deal with matters which may not be an issue for their company.

While the commission notes that the compliance costs of a code could be quite small, any code necessarily requires the development of robust systems to achieve, monitor, report on and maintain evidence of compliance. The costs should therefore not be underestimated. The opportunity cost also needs to be considered.

Funding arrangements for central administration of an industry code and a dispute resolution scheme also need to be determined. While a user - in this case, a loser - pays, arrangement for dispute resolution is a possible solution. There are also fixed costs which need to be funded. Nevertheless, Suncorp will publicly commit to working towards development of an industry-wide code through its industry body.

(5) Dispute resolution. Suncorp welcomes the commission's preliminary finding, 6.1, that the existing internal and external dispute resolution systems are working adequately. Suncorp would also like to point out to the commission that, in addition to the dispute resolution requirements contained in the insurance code of practice, it is now a regulatory requirement under the Corporations Act for all Australian Financial Services licensees to have internal dispute resolution processes which meet ASIC standards and membership of an ASIC approved external dispute resolution scheme.

In conclusion, Suncorp supports the commission's findings on the whole. Suncorp will commit to contributing to the development of a voluntary industry code

addressing the matters recommended by the commission. Suncorp refers the commission to the ICA's submission for its views on other specific matters.

MR FITZGERALD: Thank you, Tim. In relation to the code of conduct, our understanding is that, of the four largest insurers, Suncorp is the only one that doesn't yet have a corporate code of practice. Is that still the case?

MR JEFFCOAT: That's correct.

MR FITZGERALD: Could you outline, is there a particular reason why that might be the case.

MR JEFFCOAT: The very simple reason is that we don't have disputes with our recommended and/or unrecommended repairers - let me rephrase that. We obviously do have disputes, but they are fairly small by nature and they are fairly easily resolved generally to every party's satisfaction. We would have no problem, though, publicly committing to actually developing a corporate code.

MR FITZGERALD: If we were to proceed or the industry were to proceed down a code of conduct, we've made certain recommendations - not so much recommendations but highlighted certain things that could be in an industry code. Do you have a particular view on any of those particular issues or not at this stage?

MR JEFFCOAT: Commissioner, further to I think Allianz's view, the report covers off most of the things that we would think should be in there. Obviously we would be fairly cautious about any discussions around funny time, funny money, and, as I've said in my submission today, it's very complex and I think it has got a fair bit of coverage this morning.

MR FITZGERALD: Let's go to funny time, funny money if I might, just briefly, given the complexity of - can you just tell me Suncorp's method of operation and its use of funny time, funny money. To what extent do you use that as a basis for - - -

MR JEFFCOAT: We use the MTA times. Our relationship with both our recommended and our non-recommended repairs is very, very strong. We don't profess to be the experts at methods of repair. We have an open dialogue with both recommended and non-recommended repairers. If the method of repair end or the time of repair or the quantity of materials used needs to change, we're quite happy to have open dialogue about that. In my time, in my role, I've had no complaints coming across my desk about discussion that have needed to be escalated. Obviously, there's fairly generous discussions about, "I need an extra hour here," or, "I need this type of material there," but, generally, it's sorted out at the assessor level.

MR FITZGERALD: So the majority of your claims are deal with on a competitive or a non-competitive basis for tendering?

MR JEFFCOAT: The way that our method of running a business runs is we have 15 motor vehicle assessing centres: seven in Queensland, four in New South Wales, four in Victoria. 60 per cent of our work is directed via that process, and also via some reasonable recommended process. We have dissimilar problems to the IAGs and the Allianz of this world; we don't have the issues around fairly animated discussions about times and methods of repair.

MR FITZGERALD: I know we've dealt with it and we've had discussions, but just to clarify it for the purposes of this hearing, once that car comes to the assessment centre, what's the method by which a repair is chosen?

MR JEFFCOAT: The customer always has a choice, first and foremost, but we do offer the services of a recommended repairer based on location. The customer is given a choice. From there, the vehicle is towed from the - whether it's drivable or not - the vehicle is towed from the motor vehicle assessing centre to the customer's repairer of choice. As I've said, 60 per cent of those times, it's a recommended repairer.

MR FITZGERALD: Are there any restrictions on that as distinct from Allianz, which has an unrestricted policy?

MR JEFFCOAT: No restrictions.

MR FITZGERALD: In terms of the reopening rates, when you've actually negotiated a price for a particular job, do you have any indications of how many times you'll reopen?

MR JEFFCOAT: I don't have the figures to hand, but they would be small in the extreme, I think. There wouldn't be too many. Once again, the assessors that report to me have instructions about open dialogue. There is a standing perception, I think, amongst some people that assessors are back in the 70s, with due respect to people older than myself in the room, but I know that my assessors are happy to engage repairers, either recommended or not, in a dialogue that says, "Why has this been reopened? What is the rationale?" We're able to deal with that on a case-by-case basis.

MR FITZGERALD: Some of the submissions we received were indicating that assessors were part of the problem and that there needed to be some sort of accreditation or certification for assessors, and that there was a growing concern that assessors are becoming less experienced than the actual repairer of cars and so on

and so forth. Do you have a particular view about the quality of assessors, both in your own company and generally?

MR JEFFCOAT: Generally I can't comment. I don't know enough about the actual - I can suppose, but this is not the environment to suppose in. I can talk on behalf of Suncorp. Our assessors go through a rigorous selection process and I think you've heard the other two major insurers before me today say that. We train them constantly and engage them in dialogue. They're updated with methods of repair. But it is true that, with the changing rates of technology the smash repairers are fast becoming much more obviously adept at the different techniques. I'm not a smash repairer by trade but I'm sure that you've had submissions that have actually said that the changing pace of technology means that in some cases, I'm sure, across Australia and across the world, there's a lack of knowledge there.

As far as my assessors go, I would say that that's not the case. I would say that they're up to date with the methods of repair, and in any case, where there is a new technique that comes through - and they come through every day - there's a fairly clear line of communication through the Suncorp Group to get that new information across.

MR FITZGERALD: Would you support some sort of further national approach to accrediting assessors?

MR JEFFCOAT: We don't have that in place at the moment, but as with anything, we're quite happy to look at a positive recommendation in that regard.

MR FITZGERALD: Just on the other thing I've asked the other three companies about, this notion that IAG put up this morning, which is in relation to a national accreditation or certification of repairers, would Suncorp have a view on that approach at this stage or not?

MR JEFFCOAT: We wouldn't violently oppose it, but I'd really want to see it articulated quite clearly about what's involved. I do take on board Nicholas's comment earlier about having that in place anyway and there still being things that fall through the cracks. So there are pluses and minuses. I'm sorry to sound like I'm sitting on the fence, but I think at this stage, our view would be that we would happily review anything that was put before us without agreeing one way or the other.

MR RENDALL: I might get at the issue of tenure perhaps. You said this morning basically that a recommendation, you'd happily look at that, although you refer to IAG - and I'm sorry, I haven't had a chance to read that. I did read it a little earlier - but with their subject to's, you have no violent objection to.

MR JEFFCOAT: No. This is around the - - -

MR RENDALL: The sale of business.

MR JEFFCOAT: Yes, the same thing. The core thing is, we're quite happy to look at any trial or any development of a new approach to actually securing tenure of business across to a new owner, subject to some conditions which are very similar to IAG's. We have concerns around probity issues and that's just a normal business approach. It's not brought about for any other reason than that. Does that answer your question?

MR RENDALL: I think so.

MR FITZGERALD: And the current arrangements with PSRs, your PSR arrangements, do they terminate automatically on the transfer of business?

MR JEFFCOAT: At the moment, there's no guarantee that it transfers across. There are several instances recently where on the Sunshine Coast we have transferred ownership across, based on an examination of that business and an understanding of the reason of or the sale, which I won't go into here, but they were fairly robust reasons, personal reasons, and the new owner, we went through a few basic checks and to date the quality of the business coming out of there is the same. It was a case-by-case basis. We don't have any firm policy at the moment on automatically transferring and/or cancelling the tenure of a business, but we're quite happy with most things at Suncorp to look at it on a case-by-case basis.

Having said that though, with one of the commission's statement, we're quite happy to look at any recommendation and examine and/or implement a policy or a process which would look at securing tenure across to a new owner, subject to conditions.

MR FITZGERALD: Just going to the other end of that transaction, in terms of one of the criticisms that we've received throughout the inquiry has been in relation to transparency of becoming a PSR, both in terms of being able to apply to become one and then what happens with the decision. Suncorp's approach to that particular part of the transaction?

MR JEFFCOAT: We don't consistently review our PSRs in terms of pulling everyone's sign down. Generally, that has only happened twice in Suncorp's history: firstly, when we merged in 1996; and then secondly, in 2000, when we bought the GIO and we found it necessary to review the relationships with repairers. The process is fairly rigorous and it's obviously commercially sensitive, but it outlines a

number of things that we look at, right from the financials of a business right through to the equipment and the staffing and the customer service ethics et cetera.

We don't have any standard process in place that we consistently look at every day. The transparency of it is there because we actually communicate quite clearly with everyone that's invited to apply and/or tender for that business. Generally it's the existing contracted suppliers of a company that we would purchase, and as you've heard this morning, we've only done it twice: once, when we merged in '96; and then when we bought the GIO. There would be the odd request in a locale, to take up on your point earlier, I think, Robert.

Say in Townsville we might have a need, through a volume reason, to put on another repairer. Recently we were going to do that in a certain area of the north coast in New South Wales. We didn't go through with it, but we were going to have the approach where we would rent out a local town hall, have the information that we required on a CD-ROM, give it to everyone that attends. It would be publicly invited and then we would go through our process of sifting and sorting and getting down to a final list.

In terms of the people that missed out on that process, we would clearly explain the reasons why they missed out and then go from there, which is normal business practice. That hasn't been proceeded with, but that was the intent, to go through with that, and that was prior to the commission actually sitting. It's inconsistent in terms of our review, but in terms of our approach to it, it's very transparent.

MR FITZGERALD: In terms of tenure, we talked about on sale and transfer, and I raised earlier this morning the issue that has come up, but we haven't recommended; that is, that the agreements should be time framed or what have you, have a term or a tenure associated with them. Most of them don't, as you've indicated. It's case by case as to what happens on sale. Do you have a particular view about - - -

MR JEFFCOAT: I would stay with what our existing view is, I think. If you put tenure in, I think to either parties' detriment, it may well actually not work out to be the best thing. There may be changes in work volumes for whatever reason, We don't have crystal balls but with some of our recommended repairers in the south-east corner, the Suncorp recommended repairers, different levels of repairers have different years in terms of contracts. We are recently about to renegotiate with some of those repairers as their contracts come up for renewal. So unless there's anything that's very negative in terms of their performance - and I can say at this stage there's not - it would be a due process where the contracts would be rolled over.

MR RENDALL: So the contracts then are, what, 12-month contracts?

MR JEFFCOAT: Some are 12 months, some are three years, some are five years. The reasons for that are historical, before my appointment to the role, but I think you get that in most businesses, commissioner.

MR FITZGERALD: Just clarifying that, does that mean that all your PSRs are all on either 12-month, three-year or five-year rollovers?

MR JEFFCOAT: Yes, some are. Some regional one are not on any contract at all, but obviously there are one or two repairers in the town and they get the volume as is available.

MR FITZGERALD: Just in relation to an issue we've raised this morning, warranties and guarantees, lifetime guarantees and what have you. You've heard the discussion and I was wanting to know how Suncorp deals with the issue of lifetime guarantees, if you offer them and who bears the risk associated with them.

MR JEFFCOAT: We do We offer them and we bear the risk. The repairer that obviously repairs the vehicle, we've heard this morning discussions around repairs warranties on parts and that is true for Suncorp. At the end of the day, the buck stops with us. In the very small number of cases where rework is required - as a matter of fact I don't think I've seen one for 18 months - but where some rework is required, we would go back to the original repairer and ask them to have another go at fixing it, for whatever reason. That's not to disregard their abilities or skills. It might have been just one of those things that happened, and that happens in mechanical things. Things start to bubble up and fall off and loosen.

If the repairer that has tried to repair that vehicle fails to satisfy the customer, who is the most important person in the process, we would go to another repairer, generally a recommended repairer, to try and get them to fix that vehicle.

MR FITZGERALD: And who bears that cost.

MR JEFFCOAT: We do.

MR FITZGERALD: Would you then seek the reimbursement from the original repairer?

MR JEFFCOAT: We would.

MR FITZGERALD: Do you want to clarify: you're giving a lifetime - whatever that means - guarantee or warranty to the customer insured. In terms of the repairer, what are you requiring of them, that they warrant only for the life of the

manufacturer proposed.

MR JEFFCOAT: Yes, not anything else.

MR FITZGERALD: And in relation to anything else?

MR JEFFCOAT: We bear that.

MR FITZGERALD: In terms of the repairer, what are you requiring of them., that they warrant the part only for the life that the manufacturer proposed, in relation to everything else?

MR JEFFCOAT: Yes, we bear that.

MR FITZGERALD: In terms of poor workmanship, you must require the repairer to bear that.

MR JEFFCOAT: If there was poor workmanship, we would go back and have a discussion. Once again - and in the last 18 months there hasn't been one - we'd go back and talk to them and say, "Look, you know, that guard or whatever it might be, is just not correctly repaired." I can tell you that the repairers would then say, without any coercion from us, they would say, "I'll fix it." They would fix it and we'd be on our way. In the event that they didn't, we would then seek another repairer to try and fix that vehicle, and we would be in discussions with the customer the whole way along.

MR FITZGERALD: What do you put down your low rework rate to? If you haven't had it for 18 months, I would suggest it's very low.

MR JEFFCOAT: Several hundred thousand motor vehicle claims, and I've been in this role for 18 months and I haven't seen one, so it's zero. I have heard though in the past, there are jobs around paintwork, bumper bars, where things happen and the preparation on them is not quite right, and 18 months down the track you've got problems.

MR FITZGERALD: Plastic.

MR JEFFCOAT: Plastic, yes.

MR FITZGERALD: The dispute resolution procedures, if I can just come to that, you've mentioned in your submission this morning that you now have to be a member of an ASIC approved external dispute resolution scheme. I'm not familiar with what that scheme is, but would in fact that scheme in any way deal with the

issues we're talking about, or is that a scheme that sits only for investors in the company?

MR JEFFCOAT: If you've generally got a dispute - my understanding of it - you can go through that process.

MR FITZGERALD: As a customer?

MR JEFFCOAT: As a customer.

MR FITZGERALD: But it wouldn't pick up a repairer? I don't know.

MR JEFFCOAT: I'm not sure. No.

MR FITZGERALD: All right. We'll have to follow through the dispute resolution procedures. We talked about a corporate code at the present time. Do you have in place any formal dispute resolution procedure, or is it simply a matter of a negotiation?

MR JEFFCOAT: It's simply a matter of a negotiation. As I said, we have minor disputes now and again with recommended and non-recommended repairers, as I'm sure they do with us. They are sorted out very, very quickly, generally to each party's satisfaction. My basic premise of running my business is to make sure that, as best as possible, everyone is satisfied with the outcomes of those negotiations. We don't have anything that's officially set up, because we don't need to have one. We've got a very, very strong relationship with the smash repair industry.

MR FITZGERALD: Going back a little bit to the assessment centre, we heard from various repairers - and I hesitate to say it was relationship to Suncorp because it may not have been - that at the time of tendering there can be a preference given to PRS, preferred suppliers, rather than non-preferred suppliers. You indicated before about 60 per cent of your work goes to PRS.

MR JEFFCOAT: That's right.

MR FITZGERALD: How do those disputes arise, or do you feel that they're just not there, that the repairers - if they believe that the tendering process is unfairly advantaged, one over another, is there a way by which that can be dealt with?

MR JEFFCOAT: It would be dealt with by me, as the national manager. I think that there would be a very, very small number, less than five, that I've seen in the last 18 months where a non-recommended repairer has actually quoted for and won a job. The only reason we would ever invite another repairer - one of our recommendeds

to actually quote on that job, is if the other repairer has tendered us a quote that we don't think is reasonable. There's several that spring to mind where we've actually done that in the last several months.

Unfortunately, that's not of our doing. It is of the doing of the repairer that actually quotes the job in the first place, with ridiculously high hours and rates of repair. So, there would be less than five that have happened over the couple of months, but when that happens, that's usually sorted out. The hierarchy of my business is that I have my assessors on the ground, I have regional managers that manage those assessors, and they have control of several motor vehicle assessing centres. They generally handle that dispute, to everyone's satisfaction. If it does come to me, I'll be made aware of it and I'll adjudicate on it from there.

MR FITZGERALD: Your over-arching comment this morning was about industry rationalisation. Does Suncorp have a view as to where the industry will be in the foreseeable future? I mean, you've cleared, and we've made the point in the report that it is clear, that there will be fewer repairers into the future, but we're not able to assess what that will be.

MR JEFFCOAT: Let me say for the record that when I actually heard myself say that this morning, it sounds like we welcome the fact that the industry is compressing. We don't. It's a fact of life that it is. So we're not happy about it. We'd like it to be a bit bigger and we'd like everyone to make a very big profit, but the fact of life is that it's not. I don't have a view. I don't have a crystal ball on where it's going, but year by year it contracts, and that's all I have to say on that one.

MR RENDALL: I'm doing my bit. I've had two accidents in the last (indistinct).

MR FITZGERALD: I'm avoiding you all. Having said that, while nobody has a crystal ball in this area, what do you think will be the main determiner of that rationalisation? We've heard various statistics in relation to whether or not the actual number of repair jobs per repairer is in fact declining, and there is some conflicting evidence about those sorts of issues. Why do you think the rationalisation will continue. What will be the main driver, from your point of view?

MR JEFFCOAT: I think it will continue because from what I see there are still some people in the smash repair industry that have not moved and/or changed with the times. I think at some point there will be a break-even point where that will even out, and I think that almost like water finding its own level, I think that will be what happens. It will be through a process of natural selection that the most efficient, best located and strongest repairers will survive. Unfortunately, that's my personal view. That's a view that comes from a fair bit of training and exposure to the business background. I've seen it happen many times.

MR FITZGERALD: In terms of the PSR arrangements generally, and in relation to Suncorp, the view put was that had increased the likelihood of that further rationalisation occurring. Do you believe it's impacted?

MR JEFFCOAT: The fact that PSR networks exist, commissioner? Yes, I think so. I think that the model that most major insurers have is that they channel more volume of work to a smaller group of repairers, and that group of repairers shares in the benefits of that. Obviously that would affect smaller shops. That doesn't mean that Suncorp absolutely excludes dealings with those smaller shops. It's just that the amount of volume that ten years ago that smaller shop got is going to be different. Not only are the smash repairers contracting but also you've seen over the last few years insurance companies are also consolidating, and I think we've just about reached the end of that, thankfully. I think. I hope.

MR FITZGERALD: A rider to that: the cost of getting into a repair shop has increased dramatically, and some of the issues around tenure of PSRs and those sorts of things are related to that. To what extent do you think that this increased capital commitment by repairers needs to be recognised in the relationships with the insurers? Or do you think that's a matter for them?

MR JEFFCOAT: We recognise it. We understand the incredible amount of capital to commence a new shop, and notwithstanding the fact that if you're running a shop, it's a tremendous amount of capital to keep that shop running, and to be updated with repair techniques, and welding machines, et cetera.

We recognise it, but it is not of our doing. In terms of different materials that are being used to produce motor vehicles these days, motor vehicle manufacturers produce those - the smash repairers that I speak to tell me that they get rather frustrated because of the minute detail about where different componentry is put. When we are going through the PSR business and actually offering tenure to different groups and companies, it's part of doing business, from a Suncorp perspective, but we do understand that it takes a lot of time and money to set up a new business.

MR FITZGERALD: Well, thank you very much for that. Your submission is terrific, thanks Tim.

MR FITZGERALD: If MTA New South Wales is ready, we might be able to give them a bit more time.

MR ROLFE: My name is Ian Rolfe. I'm with the Motor Traders Association of New South Wales. I'm division manager of the body repair division. We have a customer here today, Susanne.

MS RUSSELL: Susanne Russell.

MR COLI: My name is Greg Coli, currently consultant to the automotive industry. At the moment consulting to the MTA of New South Wales.

MR FITZGERALD: Good. Over to you Ian or whoever is leading off.

MR ROLFE: Thank you very much, Robert. The question earlier was whether or not Robert got the lifetime warranty with the operation. Unfortunately the medical profession, unlike the motor industry, tend to be able to get rid of their mistakes a lot easier than what we can. I might just in the opening paragraph touch on the key points. In the main the association was happy with the results. They weren't that dissimilar from the 95 results or the 96 results of the original productivity commission.

A number of issues that we did look to were in fact in regard to a couple of new initiatives from some of the insurers (1) being the potential now for the lack of consumer choice. We look seriously at the application to the ACCC and IAG have commented this morning that there was some dialogue between the association themselves in around about mid December just prior to the Christmas break. We welcome the opportunity to try and reopen those channels of communication. That has been so.

They're lacking now for a good number of years. Whether that is as a result of the productivity commission inquiry into the industry or whether we're trying to heal old wounds, I'm not sure. I'm optimistic. I believe it's we're trying to heal the old wounds so that we can open up the dialogue again. It is necessary for this industry if we are going to go forward as an industry, to have open channels of communication - there's no doubt whatsoever in regard to that.

I found it a little ironic I guess that in the midst of an inquiry where in essence the Treasurer has suggested that the relationship between insurers and repairers be closely examined, to see if we can't resolve the concerns and problems that are there - now the company is steering clients, for want of a better word, through a two-tiered policy arrangement. I would have thought at the end of the day it may have been better to have waited till the outcome of the final report from the

commission before introducing anything which was in fact going to probably again create problems in the relationship between the two parties.

In dealing with the application itself there were two main points that were raised as to the reasons for it. One was for the belief that the consumers who elected to go to repairers, say PSRs where they were directed by the insurer, were then seen to be subsidising consumers who elected to exercise their freedom of choice. I find that a little ironic in that at the end of the day the insurer controls the cost of the repair whether it be to a PSR, an ASR or as they're currently known, unknown repairers. We'd prefer to call them independent repairers because they've elected for whatever reason not to be part of the system. If the insurer controls the cost, I find it difficult to understand how the cost could be higher going to other than a preferred repairer. There may be an answer to that, I'm not sure but I can't see where it comes into the equation.

The other reason was the comment by way of making a commitment for the national program being their competition in the marketplace and that was another reason it was alluded to in their submission to the ACCC. Again, I'd find it difficult if the ACCC gave exemptions to allow commercial advantage that wouldn't be the role of the ACCC. Again, they're determinations that they will make. We have in fact put an objection forward along those grounds, as have a number of other groups.

I guess the other issue which comes about - and we talk about the steering of clients and whether there is in fact an advantage to the consumer at the end of the day. A little later Susanne may wish to comment on the fact that the direction that her son was given in regard to repairs was not necessarily one of their liking and the end result has been somewhat confusing and probably total dissatisfaction from the consumer's perspective.

The points that were raised in regard to the original inquiry pre-Christmas, there are a number there where in fact we've heard from different insurers this morning that have said that in some instances the majority of concerns have probably been addressed. If we look at the payment times, our understanding would be in the main that the payment periods have been brought up to speed. Again, for whatever reason the point is they are no longer the concern that they were pre-Christmas at least in the circles that we're dealing with with New South Wales repairers.

Rationalisation, which is another issue - insurers tend to say that, "Yes, the industry will rationalise." It may very well come to pass. There are obviously less accidents occurring in the marketplace for a raft of reasons, government intervention, safer roads, lower road speeds, drink driving control and so on. However, the rationalisation should not necessarily be left up to a party, being the insurers. Market forces should genuinely determine the final outcome as to what the market can bear.

Other sectors of other industries - it's market forces that generally determine the outcomes.

The problem that we see as an association with one party controlling the rationalisation, reduction of available repairers in the marketplace would tend in the main to give those parties greater control over the people that they're dealing with, being the repairers in the first instance and to a degree the consumers as well, the insureds. Again, we come back to the two-tiered policy arrangement. The consumer in essence is penalised if they want to exercise their God-given right to have a choice of where they go with a couple of the insurance companies, not all but some.

If we look at the rationalisation generally, the technological change of motor vehicles in the last 10 to 15 years and particularly in the last five years will obviously reduce the ability for every repairer to stay up to speed firstly with capital investment and secondly with the technological ability to be able to repair those vehicles back to the pre-accident manufacturers' minimum requirement. Nobody has mentioned the manufacturers' minimum requirement this morning.

Again, with the technology, the materials currently being used to construct motor vehicles, repair techniques have changed dramatically in the last five year and 10 years. If we look at the types of steels being used again, the advent of additional plastics, all to do with reducing the vehicle weight to meet emission control standards, the ability of repairers firstly to bring those vehicles back to the manufacturers' minimum requirements is being hampered. It's being hampered across the board.

The manufacturers themselves are not being overly helpful, let me say. We've been in touch with a number of manufacturers and their groups to ascertain how we could acquire information to then disseminate throughout the industry nationally. To date we've not had a great deal of joy. There are some who have given some lip service to the fact that, "Yes, we may be able to provide some information," but their intellectual property concerns tend to override what we'd class as common sense; that is, to be able to provide that technical data to all sectors of the industry.

It's strange though, that when you look at, again, preferred repairer networks, BMW, in their submission to the commission, outlined a couple of their concerns. One of the main ones was they believed the integrity of the vehicle suffered under the current regime. Hence, they were introducing their own repairer networks.

Why? Because they wanted to provide the technical data, the procedures, the methodology, to insure that their badged product came into the market, or came back into the marketplace, in the same condition to the same standard that was originally manufactured. Mercedes have done the same thing for the same sorts of reasons. It

seems ironic, I guess, where we then say we'll have a open market where we don't allow that information to come in.

With Subaru putting in a notice to the ACCC in regard to wanting to open up a repair network, I found it totally ironic that one of the major insurers would come out and object to that very fact, that they didn't want them to have a preferred network. It just didn't make a lot of sense. The same company has had a network in place for probably six or seven years, and yet they're objecting to another company, a manufacturer, wanting to introduce exactly the same system. It totally lost me.

Those couple of issues aside, if we look further into the key points, the choice of repairer - we've not surveyed consumers, mainly because we don't have access to the same database that the insurers have. I tend to feel that consumers that are disgruntled, for whatever reason, with an insurer will not necessarily come out and make a public statement.

They will, however, change insurance companies. They will vote with their feet, to use a common word. The market share that the insurers, through rationalisation, now enjoy - and we have one of the majors with better than 50, 60 per cent of the market through rationalisation - again, is effectively reducing the choice to the consumer. By that I mean an unfettered choice. Other insurers, of course, don't have in their current policies these types of arrangements.

When we talk about the policies, particularly if we look at the product disclosure statements that are now coming out with some of the newer policies, you almost need to be a Philadelphia lawyer and have the patience of Job to follow it. It is a complex, lengthy document, probably half an inch thick, and not exciting reading. That being the case, the average consumer will open the front cover and say, "I'll take it because of the price," nothing to do with what's in the disclosure document.

The ACCC some time ago tried to encourage insurers to have plain English, simple, open policies and product disclosure documents. I've got to be honest, the current IAG document would leave me cold if I had to make that comparison. It's that thick - very, very difficult to understand and read. So the consumers really don't take that much interest in the document. They look at price. No consumer ever insures, as Curt would have insured, "I am not going to have an accident."

You do not think you're going to have an accident at the time you take out insurance. It's against your human nature. It's purely and simply there as an emergency process. What I do find a little strange - and there were a couple of comments made, and I'm not particularly picking on Allianz - but we were talking about the "real time, real money" scenario. It's something the association has been

pushing now, probably for 18 months.

We're moving into the marketplace and running commentary and introductory seminars in regard to that. In one breath, we have Allianz saying the cost of repairs will go down. In other words, the repairer will make less money on a "real time, real money" scenario than they will on the current "funny time, funny money" system. I would find it strange that any insurer would not jump at the chance to take on a program that saved them money.

Again, it doesn't make commercial commonsense to me. Unfortunately, I'm probably a bit of a pessimist, by way of I don't believe insurance companies are benevolent people in the marketplace. They're commercial entities, like repairers. I think the reality is, if the system proved to be cost-effective, then the insurer would probably jump at it at the first chance. Again, that's just my attitude in regard to that, I suppose.

When we look at the proposal to introduce tendering - and we experienced back in 1997 in Wollongong, when a tendering centre was opened by the then NRMA. It was going to be, I guess, the way of the future as far as NRMA were concerned. There was, over a period of, say, eight to 12 months, a very strong public reaction against it because it was a very dictatorial system.

When it was originally introduced, both repairers and consumers were told, "There is no choice. You will do as we determine because we actually have x percentage of the market shares, so consequently this is what you will do." It proved, in a lot of ways, that it was discriminatory by way of how work was allocated. Although it was supposedly on an even-handed tendering system, it didn't work out that way.

The amount of rectification work that came into effect after the introduction - I think initially there were very good repairs being done. Then I think, because the fact that the pressure was on the price reduced the bottom line to be competitive - to coin the phrase that everybody tends to want to run with today - rectification work started to come back into the marketplace in a fairly substantial way.

Again we've heard this morning that there's a belief that there isn't much substandard or unsafe work being done. I don't think we're seeing much of it. I'd be surprised - although, BMW and Mercedes say they believe that the structural integrity of their vehicles is being affected, hence the reason they wanted to introduce their own repair networks to maintain that minimum standard.

I think the exercise in 97 demonstrated that there were - and even today I think - vehicles still coming back out of that system which were done for price alone.

They were not necessarily done for the returning of the vehicle back to its pre-accident condition, and that posed a major problem for a number of repairers, and repairers did go out of business as a result of that type of work.

I think that will probably happen in the future. To what degree is very, very difficult to ascertain. It's a bit like with rationalisation - how many repairers will be a satisfactory number to satisfy the requirements of the marketplace? Again, I don't think anybody can put a number on it, but I don't think it should be the insurers that determine that outcome. I think the industry, like all free enterprise, should be able to determine its own level based on market forces.

MR RENDALL: Can I just ask you on that point with Mercedes and BMW doing that, and I think you mentioned Subaru are wanting to do the same thing.

MR ROLFE: Subaru has put an application in as well.

MR RENDALL: What is the real reason they're doing it? Is there a real, underlying reason they're doing that?

MR ROLFE: I think there are probably a couple of reasons. I think one is definitely the badging of the product, and that information has come from other manufacturers, not just those three. We have, in fact, been in contact with other manufacturers and they have concerns with the reputation of their badged product in the marketplace. Again, if you take a vehicle and it's repaired - lifetime warranty or otherwise, and it's questionable as to what is a lifetime, are we talking about cradle to the grave, or are we talking about whilst an owner has it, or are we talking about the life of the produced that's supplied, the parts that are fitted, and so on.

What came about through one of our discussions was the fact that the manufacturers' representatives were saying that they had fears - whether they're founded or not, I don't know, I suspect they are - that the product coming back into the marketplace, which ultimately will end up as a second-hand motor vehicle somewhere in the food chain. I think the car part currently is around about nine or 10 years old, and I think it's IAG stats, from memory, that confirm that.

MR RENDALL: Sorry, when you said "the carpark"?

MR ROLFE: We're talking about the age of used vehicles in the marketplace, somewhere around nine or 10 years. If the average owner possesses a vehicle for only, say, three to four or five years maximum, that vehicle becomes a second-hand vehicle down the food path. If you sold your motor vehicle tomorrow, you are not about to tell the potential purchaser that was involved in an accident because that gives the bargaining power back to the purchaser, but you aren't going to do it, and

no consumer will. I mean you can put a lifetime warranty, an MTA, run a lifetime warranty by way of our gold warranty through our members. There are very few consumers that I would be aware of that would volunteer the information, "This vehicle had \$10,000 worth of damage but it's been repaired and it's got a lifetime warranty." That will not happen.

MR RENDALL: Are we likely to see more of these manufacturers doing this?

MR ROLFE: I think so, and the other reason I think with manufacturers too will be the fact that with the advent of, after market, used parts, more repairs for argument's sake being performed on motor vehicles as opposed to the replacement with OEM being the original equipment manufacturer's parts, I could see them introducing those networks for a very specific reason; one would have to be for the sale of their own componentry, the other one is for the badging, and I think commercial commonsense will dictate that.

MR FITZGERALD: But just take that point, it's been put to us that - and again BMW and Mercedes and Subaru aren't here, but it's been put to us that one of the reasons they may be doing it is in fact to increase the level of sale of their own brand of parts, as you say, componentry rather than what's occurring in the general repair place which is greater concentration on repair rather than R and R. Could that be the case because then actually there's a fair degree of profitability in the sale of OEM parts?

MR COLI: In relation to that, if I may, with these manufacturers now getting involved and having these concerns and raising their own preferred network, it's not only as is the belief of the insurers, and that's what they've tried to portray for the sale of their OEM parts, Ian alluded to it in saying that ultimately it's their badged product that's on the road. As a consumer, most of us are aware that if we buy a motor vehicle, and have an issue with this motor vehicle, we blame the motor vehicle, not the previous repair, or in some cases non-genuine after-market parts that have been fitted to this motor vehicle. We look at it as a consumer as being a BMW or a Mercedes or a Falcon or a Commodore.

The cost or the lack of cost or expense in technology today, filtering down to the mum's and dad's market, the manufacturers are concerned that being that most of these contracts or agreements between insurers and repairers are for the most part the control of costs by the insurers in process and method that their vehicles aren't being repaired correctly because of lack of training or lack of investment in capital equipment in the industry. So the manufacturers have taken it upon themselves to say, "We will badge people who will repair our cars in a proper and correct manner." Whether that increases the cost of repair in my opinion is irrelevant because - and it was pleasing to see this morning most of the discussions that we've got away about

the consumer and the cost to the consumer but let's talk about the industry as a whole.

These manufacturers have said enough is enough because they've had cars come back which they have a warranty on, and the manufacturers are putting a warranty on, and in doing so they've found that they've been poorly repaired for one reason or another, and evidence for that can be provided, if necessary, to the commission.

MR FITZGERALD: Let's just assume for a moment that manufacturers decide that they want to go down their own preferred repair schemes, what do you think the impact of that will be for repairers generally? Is it just one preferred repair scheme versus another, or do you think this brings about a fundamental change for good or otherwise for repairers?

MR ROLFE: If I might just answer that. I think one of the things - and it hasn't really been raised at this stage - I can see down the track tiering of repairers. It was introduced in 97 in Wollongong with NRMA where they structured their tendering system based on the expertise, if you like, or whom they believed to have the expertise to repair either a Mercedes or a Commodore or a Hyundai, and I'm not being derogatory to anybody that happens to own a Hyundai or a Merc for that matter. But at the end of the day they tiered the repairers based on their prerequisite knowledge of the skill and the equipment that they believed those repairers had in place.

That wasn't how it originally started. It originally started with everybody being on the same level which posed some very, very big problems by way of some of the repair work where there was no doubt the repairer didn't have the skill to perform that quality of work that was necessary. That very well may be another answer, and I could see it coming into place. If you take vehicles such as the later model Jaguars, very, very few repairers could repair the latest Jaguars to the appropriate standard. The manufacturers have problems providing the information, let alone the repairer using that information to bring that vehicle back to its pre-accident condition.

Some vehicles such as the simple ones, BA Falcon, they have a rail across the front which is mounted in front of the air bag sensor. If it's damaged in any way, it cannot be repaired, it is a throwaway item. We will get - and the industry is seeing it anyway, with more and more componentry being replacement componentry as opposed to repairable componentry.

MR RENDALL: The new Toyota Prius, the technology that's in those things must be just bolt-on stuff, is it, that sort of thing?

MR ROLFE: There's also the technical aspect of it. One of the repairers rang last week and asked how he could find out information on how to disconnect the battery bank. He'd rung his dealer. The dealer said, "Ring Toyota's customer service department." The girl that he spoke to said, "Just disconnect it." End of story, so he rang me and I gave him a contact for somebody else who said, "No, that's not the appropriate method to disconnect the system in that. You've got to follow a procedure, not just disconnect it." But they're the sorts of problems that the industry are facing now, and they will become greater in the future, there's no doubt, and that will to a degree bring about rationalisation whether we like it or not.

It's not just what happens in the marketplace by way of government intervention through police and all the rest of it. It will come about because of the technological advancement. Supposedly somewhere down the track - and I don't know when, and I've only ever heard it mentioned once - a product called Strong Paint is supposed to be going to be used in the marketplace, and in essence what the manufacturers supposedly will do is roll the steel material that they currently have much thinner and rely on the coating to retain some of the strength. The application of products like that are going to be an absolute nightmare; talk about retraining of the industry, it will be a constant exercise, and I think that's reality.

MR FITZGERALD: Are there other points you want to make, Ian, because we want to be able to ask some questions but Susanne and Greg may want to make some comments too. We've got plenty of time, so I'm not trying to push you at this stage, whether you've got other comments, particular points you want to make now.

MR ROLFE: In regard to?

MR FITZGERALD: Anything.

MR ROLFE: I think Greg might have a couple he'd like to raise.

MR FITZGERALD: Greg and then Susanne and then we'll open it up for some dialogue.

MR COLI: Through the submissions received by the commission from predominantly insurers and the motor vehicle industry body representatives, all have just argued one point or another; one person said this, the other person said that. The most appalling thing I find from the insurers' submissions the fact that they make certain accusations and certain claims throughout their submission, those being that for the most part their schemes have been introduced to get rid of fraud or criminal activity in the industry, for the betterment of the consumer is what it's touted as being.

We've heard IAG this morning and in part a little bit from Allianz claiming things that are criminal activity et cetera, but yet no insurer has put forward in any submission or any presentation to date, unless it's part of any documents that are confidential, that an insurer, an industry representative, or in the case of New South Wales the MVIRA, have taken up, put through the criminal system and charged a repairer or a representative of a repairer or an employee of a repairer with criminal activity in relation to being a licensed motor vehicle repairer in New South Wales. IAG stated this morning that it's 1 per cent of the market that this is occurring in, so in 5000 repair shops across Australia we're talking about 50.

All this scheme and all these processes and all this division of an industry between a PSR status and an ASR status, and a truly independent individual who says, "No, I will not sign your vertical agreement for 50 repair shops," and yet, no-one has provided evidence that this is occurring. Yes, you might have a shop, but it's probably unlicensed and might make front page news in one particular area, once, as part of a criminal activity. But not necessarily were they part of any association or a licensed repair shop. No evidence of that has been brought up.

Insurers have all said about warranties and the length of warranty and who covers what, and how they cover it and where they claimed that they wear the brunt of the warranty. Well, the reality of that is that the insurer doesn't wear any warranty issues unless the repairer is no longer in business. In most cases, any losses incurred in rectifying or rework, is either given back to the original repairer, if the consumer so wishes to go back there, or if it is repaired at another repair shop, the cost is borne by the original repairer. So ultimately, the cost is borne by the repair industry.

MR RENDALL: Even on the parts?

MR COLI: Even on the parts.

MR RENDALL: Outside of manufacturer's warranty?

MR COLI: Outside of manufacturer's warranty. So what they will say with the parts and again, being as truthful as we possibly can, is, if there is a component part that is not correct or something goes wrong with it, they will say to you, "Take it up with the supplier." This could be a year down the track, 18 months down the track, and in this particular case it might be necessarily still under guarantee from the manufacturer, or the after-market, or used parts supplier.

Further to that, there are instances where cars have been four or five years old, with this lifetime warranty issue, and again, evidence can be provided if the Commission so wishes it, rather than continue to bore you with more evidence, were cars have been parked, not duly looked after by way of maintenance of paintwork,

et cetera. They've been parked out in the street, next to the ocean, or work at a chemical factory or at an airport, or something, where they might have been repaired whether it's complete respray or part respray, as far as a touch up, or accident related damage, and there will be paint fade or otherwise, and the insurer will maintain that the repairer must take this back and fix it.

There is no justification by the insurer to put the onus back on the repairer if the consumer has not maintained his vehicle, but they religiously and continuously do.

As far as claims by insurers of funny time, funny money, versus real time, real money, and the cost of repairs will go up, et cetera, et cetera. Particular claims made this morning that, Paul Pemberton clearly stated that an assessor walks in and takes off 15 per cent on a quotation. Now the funny time, funny money scenario is based on - a repairer knows how much it's going to cost to fix a specific component part. Your replacement and removal processes are in a manual, as a guide.

As far as repairing a component part, a repairer will say to himself:

"My panel beater will do it in x. I need x to make a break-even to cover my materials. I need x to make a profit, and I need to put x on top of that, because that's what the assessor is going to take out."

As far as - repairers will lose money because, they won't be repairing, they will be replacing, and they are doing this and doing that. A repairer knows what is repairable and what is not worth repairing. And it wouldn't matter what the cost of the part was. You can have a bonnet on a BMW worth 14, 15 hundred dollars, just to purchase. But being that the component is made from aluminium glued together and certain processes on this are difficult to repair, it wouldn't matter it was worth \$1400 or \$10,000. If it's not repairable, it's not repairable. It is not based on the cost of the component part, it's the repair prices.

I have not seen, as far as a dispute resolution, any insurer say that what we have is at arm's length. All dispute resolutions that insurers have are basically internal. We are fortunate in New South Wales that we have what we call a Motor Vehicle Repair Industry Authority which is now going to come under the auspice of the Office of Fair Trading.

Over the last, I believe, six or seven years, I think that's only been used on two occasions in our original submission by insurers and it is open to insurers and consumers. The insurers prefer to deal with disputes internally, because they have control as to the outcome of this dispute. They don't like being told that they are wrong, or that the repairer is right. As far as how they treat the individual at the time

of dispute, not being at arm's length, I believe it's very unfair. They impose their market strength, and the opportunity to gain further work from the insurer, as a rule. They don't like to have third parties involved to resolve this, because, having lost the control, then it gives the consumer or the repairer a mechanism where they can go ahead and revisit this particular area of dispute resolution, to obtain their objectives, and have their concerns satisfied.

As far as the code of conduct, with respect to the Commission, as Ian said, we in principle are pleased with your findings. In respect to your draft report, the findings such as the fact that there should be a serious dialogue in relation to a voluntary code of conduct, but we say a voluntary code of conduct will not suffice. As far as the Commission having recognised that there are only four major players in the automotive industry motor vehicle insurance sector. As far as the diminishing - though some insurers look at it as in part, that there is some choice available to the consumer, yes there is some choice currently still available to a consumer to take on a policy that has option for no charge, but that is diminishing.

I believe that a mandated code is what is required. I don't believe that either side of the industry would adhere to a voluntary code. As far as a voluntary code being the base and the corporate codes taking over from there, I don't think it would work either. If a mandated code is at the top and everyone's codes fit in with that jurisdiction, I think would be a fairer proposition to the industries on both sides.

MR FITZGERALD: If we did settle on a voluntary code to start with, how long do you think they would need, the industry would need to put one together?

MR COLI: I'll say, there's attempted dialogue since 1996. Even by intervention by the ACCC, how much more time is needed to be given to discuss and negotiate a document, then put the context of the document into play. I think there has been enough time given to discuss a voluntary code, with dialogue from both sides of the industry, and attempts by the repair side of the industry have been made, even with the intervention by the ACCC, and yet the insurers want to persist with their own corporate codes, and how it's beneficial to them. And of course, it's beneficial to them, because it's their code. That's why the third party needs to intervene. It would be a shame to have another commission inquiry in five years' time talking about the same thing. Ian, do you want to finish that, as far as time frame?

MR ROLFE: Time frame, and I tend to agree with Greg in some respects as far as the - I'm not convinced that either party, at the end of the day will abide by a voluntary code. I think a mandated code, as cumbersome as it may appear on the surface, is ultimately what is necessary to give the appropriate protection to the consumer. And ultimately, it's the consumer that needs to benefit from this dialogue.

Insurers and repairers are commercial entities. Both are there to be profitable. Some are, some certainly aren't, but the consumer is the prime consideration at the end of the day, because neither party can exist without the consumer. The MTAA suggested the possibility of looking at a voluntary code with dialogue and be in place by way of agreement by September of this year, with an introduction date of 1st January next year.

As I say, I'm not convinced that a voluntary code will work. Maybe it's better to bite the bullet up front; do the hard yards, get the mandatory code in place. We have other sectors of our industry that do have mandatory codes, and they work very effectively, and they are not cumbersome to police.

MR RENDALL: Which are they?

MR ROLFE: Franchising code of practice. There is a slight difference between I guess, the relationship between insurers and repairers, and particularly with these PSR agreements, or arrangements. But I think at the end of the day it's been proven that the voluntary code that was in place to look at the franchising for different sectors of our industry - it's not just our industry, I might add, franchising is a multi-industry exercise. I think at the end of the day, the government should be congratulated for actually bringing that into existence, because it really is the only thing that has worked. And I'd suggest that we're in exactly the same position.

We could all take the high moral ground, and say, "No, we won't do anything wrong." Human nature will take over that of course, and ultimately, we will probably be looking at a mandated code anyway, so why not cut out the middle-man and go straight for it?

There are some other issues very late in the piece. We touched on a situation which has arisen in New South Wales and I imagine some of the other states are going through it; and that is, with the amount of hail damage that's come into the marketplace in the probably two months or so, it has seen some directives from some insurers by way of the use of what are called PDRs, paintless dent removal businesses, to take the hail damage. We have it on good authority that a number of insurers have been using and again New South Wales is unique in that we do have a licensing regime, where in fact the insurers have used, and I guess the quaint term is backyard repairers or in other words unlicensed repairs, to bring about those repairs in direct competition to established convention, which was the conventional repair in static shops, in other words, a building.

MR RENDALL: They're a franchise, aren't they? Am I right?

MR ROLFE: Yes, most of them are franchise type arrangements. I mean the end

result is and one of the questions that was raised just recently, as late as Friday of last week, was is there any documentation in the marketplace that we're aware of that actually looks at paintless dent repairs as a legitimate method of repair, in other words, return that vehicle to the manufacturer's structural integrity. Now, obviously there would be some indentations that could be removed with paintless dent. There would be others that certainly would have an adverse affect on the vehicle as far as to access certain dents. It may be necessary to drill through structural components such as cant rails, braces and so on.

One repairer in particular raised the issue where he was competing with a paintless dent repairer and I think the cost of repairs was approximately half of what he had quoted for a conventional repair and he said, "Is it legal for this particular operator to drill through a couple of structural panels to get to the dents?" The answer to that is no way. The insurer may not be necessarily aware that that's going to occur but if we're looking at half the cost of repairs, say \$4000 as opposed to \$8000, you would probably ask some fairly serious questions as to why there is a huge difference.

MR FITZGERALD: Perhaps you might want to make some comments otherwise we will run out of time.

MS RUSSELL: I'm just a consumer.

MR FITZGERALD: Just. You are the centre of attention, so everybody tells me.

MS RUSSELL: Since my husband died three and a half years ago, I've had two incidents with insurers and before that he used to handle everything so I was there on my own, unknown. The first one was just after he'd passed away. A man ran up the back of me and gave me some details and I took the car to be repaired. He was insured with a certain company and when they contacted me they said, "You have to go to our repairer." I said, "Well, I don't want to, I want to go to the one my husband always went to because I know that's a good one." They said, "No, you have to go where we tell you." So, not knowing any better, I took my husband's Calais to the repair shop.

MR RENDALL: Sorry, this was your insurer?

MS RUSSELL: The person who hit me. So I went to the repair shop that the insurance company told me I had to go to and I just took one look at it and went, "No, I'm not leaving my car here." They said, "Well, you have to." I said, "I'm sorry but it's dirty. This is a car that my husband has looked after and I'm not going to have it repaired here. I want to go to my repairer." They again said, "No, you have to have it done here." So, after about three months of arguing, I just traded the car in.

Lost money on it, bought myself a new car and left it at that.

Then, my son had an accident six months ago and the same kind of thing happened. He said, "I want to take it to the smash repairers that my dad used to go to." They said, "No, we have to tow it now to the person that has hit you insurance's bay" - or something - "and they'll get in contact with you." So the same thing happened. He said no, he didn't want it repaired by their repairers, he wanted to take it back to where we would normally get ours done and again they said no. We have been on a terrible run since then. We put it in to where they said we had to have it done. We got it back three weeks later and done nothing but break down, stop. The repairs aren't right. We have it back to the NRMA to have an inspection on it twice. Both times it has come up poorly repaired, even things that they have refixed, we still have a problem with it.

The main problem at the moment, apart from structural things that they haven't fixed that we are still arguing about, we had a navigation and DVD system in the car. Now, he'd also bought this car new when I bought mine because my husband used to fix all our cars. We thought that if we get new cars we won't have any problems. He's had it 18 months and he's had no problems at all with it. Nothing at all the matter with the DVD navigation system. They have repaired the car, they pulled the navigation system out to repair it, they put it back in again and now there is a problem with it.

The insurance company keeps saying to us, "No, not our problem. It was installed wrong in the first place." We keep saying, "Well, it worked for 18 months without a problem. You pulled it out, you put it back in. Now it doesn't work. It cannot be when it was installed." At the moment the car still keeps breaking down and they've just said, "Tough, we want nothing more to do with it. We're not going to fix it." They said to us that Strathfield Car Radio had admitted liability, that it had been installed wrong. We've got a letter from Strathfield Car Radio saying that they never admitted liability, that they looked at the car in good faith.

To be quite honest, I went to Strathfield Car Radio in tears because the car was there and I said, "I can't take this any more." They said, "Look, we'll try and fix it but we are not accepting liability because it was taken out and put back in again." Six months later we still have all these problems and I have been bullied and literally harassed by the insurance company.

MR FITZGERALD: At any stage during the process, have people advised you that you can go to the Insurance Inquiry Centre?

MS RUSSELL: We went to an insurance ombudsman, I think it was, and they told us that we actually had to go through the insurance company's complaints section

first. I have a 58 page document that I've kept a running commentary of everything that's happened and that still hasn't been finalised either.

MR RENDALL: The other insurer wasn't doing battle for you?

MR ROLFE: It was her own insurer that's caused all this.

MS RUSSELL: Yes.

MR RENDALL: Not the insurer, the person that hit you?

MR ROLFE: Both insurers are the same company.

MS RUSSELL: We're both insured with the same company. In my case, my first one, I was insured by a different insurance company but I wasn't in any state at the time. Nobody advised me and the insurance company certainly didn't say to me, "Do you know if you don't want to come to our one, you can actually do it through your own insurance company." It wasn't until now, with Nathan's car, that I've actually realised I could have done that then. The insurance company didn't tell me, they just kept saying, "No, you have to do it here." In this last case, I can tell you I have actually been bullied by them.

At one stage when my son's car broke down, I was just out of hospital for an operation and we took his son to see the Christmas lights at Lugarno. The car broke down at 10 o'clock at night and they had it towed to the insurance company. So, I have to get up. I have been driving my son on and off for six months to work at 4 o'clock in the morning and then leaving my job at lunchtime, going back and picking him up and then driving him back home because they wouldn't always give us - we would have to fight for a rental car. This morning I took him to work at 4 o'clock in the morning and came back. I couldn't get my grandson out of the car because I have had an operation, so I sat in the car until 8 o'clock until I could take him home to his mum.

Then I came back, and I got a call from one of the people at the insurance company saying they wanted the keys to my son's car then. I said, "Look, I'm sorry, but I've been up since 4 o'clock in the morning. I really don't feel well. I can't get them over. Could you send someone to get them or wait until he comes home from work?" They said, "No, we want them now. You get them to us straightaway." So I had to drive the keys to the insurance company so that they could fix the car. I just find that to be - - -

MR RENDALL: We should have had you here first this morning. It would have been so much easier.

MS RUSSELL: That's only little bits of it.

MR FITZGERALD: But I presume at some point, given that you have been advised to go through the internal dispute resolution with the company, given the scenarios you've painted, you may well go to the next level, which is the Insurance Inquiry Centre, and what have you.

MS RUSSELL: Yes, apparently. They've got to come back to us with what they're going to offer. At the moment, I would advise my son that we just want an insurance payout, because six months of the car breaking down continually is just unreasonable, and two NRMA reports saying there's still things the matter.

MR COLI: We have provided the complete file to the commissioner.

MR FITZGERALD: Have you? That's fine. We'll have a look at that.

MS RUSSELL: There are a couple of updates since then, too.

MR FITZGERALD: Good.

MR RENDALL: The actual repairer must have some part to play, surely?

MS RUSSELL: They won't tell us who actually pulled the system out in the first place and put it back in again.

MR COLI: If you go back to the original submission by MTA NSW you will find that is the AAMI process. For the most part, the consumer will not know where the car is being repaired, because it gets dropped off to the centre and picked up from the centre.

MR FITZGERALD: Yes.

MS RUSSELL: My son actually did force that issue, because he said that he would not have any other parts on it but Ford parts. He didn't want cheaper parts put on. He went to the smash repairs place and saw his whole system pulled out, the DVD and navigation system pulled out. They have actually supplied photos saying that it had never been pulled out and that the wiring had just been pulled aside.

But in the photos, the floor where the front wheel was up under the dashboard, all the floor is flat in the photos, so it's actually been touched before the photos have been taken. They say that they didn't touch the system. But there is still structural damage to the car as well. It's not just the DVD system.

MR FITZGERALD: Thanks for that. You've given us more details on that as well. We just need to, then, in the next 25 minutes or so, just open up for some questions. It doesn't matter much where we start, but I just want to, I suppose, talk about the consumer choice issue. You've indicated that you haven't done surveys about how consumers feel about choice and what have you, but as you know we've come to a conclusion that there is sufficient choice in the market for consumers through the acquisition of varying insurance policies. Notwithstanding the concerns of MTAA and other bodies, GIO's new split policy, on the surface, provides even greater choice.

MR ROLFE: IAG's new policy.

MR FITZGERALD: Sorry, what did I say?

MR ROLFE: GIO.

MR FITZGERALD: Sorry, IAG. Sorry about that. Would the repairers concede that, in some senses, from the consumers' point of view, there is now a marketplace that does genuinely allow them to make a choice at the time of purchasing the insurance policy? If you look at the number of insurance companies in the marketplace and the number of different policies, you can buy policies which provide no choice and you can buy policies that provide unrestricted choice. It would seem, on the surface, that in fact there is a reasonable range at this time.

MR ROLFE: I think in the first instance, what needs to be recognised is - in particular with IAG - they've only applied for their exemption for a couple of their companies, not the full gambit. What will ultimately occur, of course, is that every other company under their control will end up with the same system. It's the nature of the beast, unfortunately. From an insurer's perspective, as far as the commercial reality of that, certainly it's a commercially sensible move.

From a repairer's perspective or even the consumer's perspective at the end of the day, consumers today have very little in the main to do with the purchasing of the insured product by way of face to face - or for that matter, for lodging claims - with the introduction of, again, the electronic systems. By way of electronic claims management, you can purchase your product - and most insurers today advertise the fact that you will never have to fill out a form. "Just give us the details, give us your credit card number, you're in the system."

The same applies on the other end of the spectrum. You go to lodge a claim, "Yes, what happened, Mr Jones?" That's the end of it. Consumers, I don't think, really understand what they've given away by not insisting on having that choice that

they had in the past. Again, we come back to you, Curt. You have two accidents in a short period of time. Ultimately, all you want is your vehicle back on the road. You haven't given it a great deal of concern.

Whether you had a repairer that you dealt with - and the reason I raise the issue with the electronic aspect of it today - pre the electronic system, relationships were built up between repairers and consumers, socially and economically. That has diminished over a period of time, because of the fact that the consumer is not getting the access to the repairer.

So to say that the consumer really doesn't care, I think in a lot of cases the consumer is totally unaware of what it is they will be purchasing, because if they look specifically at price, that's all they will look at. "I'll change insurance companies if, in theory, the policies are the same and I buy one \$5 cheaper than the other." I don't think the loyalty is there in the marketplace as it was and, I suppose, credit to the insurers.

They've capitalised on that, to a degree, by again, wanting to take further control of the whole exercise, whether it be the purchase of the policy, the exercising of who does the repair. Whether they're appropriate or otherwise is debatable, based on the fact that insurance companies sell policies and hope the consumers don't make claims. They don't want people to make a claim, because the money is invested. That's commercial reality.

MR FITZGERALD: IAG this morning said that most consumers perhaps don't want to have the burden of choosing a repairer, but also wouldn't have the skills to do so. There's some truth in the last comment, that many insured people really do want that burden placed back with the insurance company. They have an entitlement to buy a product that does that.

MR COLI: The reality of that statement, which is something that I was going to touch on at the end, is that the people at senior management in most insurers who put these modules together to put out to the marketplace - whether it's preferred smash repairer, a two-tier tier premium or otherwise - they themselves, in all honesty, commissioner, don't have the knowledge.

I can honestly say, through 32 years' experience in this industry that, currently, most insurers who engage individuals who are licensed motor vehicle repairers - not just mechanics, but have actually physically repaired a motor vehicle accident damage related - are probably less than 15 per cent of their employees nationally. Those individuals who have that expertise aren't in a position to come up and design these modules and identify what does make a PSR and what doesn't make a PSR.

Again, relating to the fact that the PSR networks are designed as a cost saving mechanism, rather than a consumer benefit mechanism, because - with no disrespect to the individual's ability and intelligence who comes up with these schemes - they really don't have the knowledge in repairing motor vehicles, nor have they done any training or physically say and watched a complete process of repair.

So they've decided by location, by so-called business needs, or by presentation, that this individual becomes a PSR. You know and I know that I can jump into an F1 race car. That doesn't mean I can drive it like Ayrton Senna because it's an F1. The expertise of the repair industry is to repair cars. The expertise of the insurance industry is to insure risk, or underwrite the risk by insuring the asset.

Whilst the insurers continue to believe that they are in the business of repairing cars, and they have a better knowledge of the repair industry than the consumer does, as Ian alluded to earlier - usually you'll go to the local repairer, someone you've been recommended to by a friend or work colleague and/or someone your father, mother, or husband in this case has used for many years. Now the insurers are saying, "You will use this individual." Again, based on location, presentation, not necessarily skills or qualification.

MR RENDALL: That's if you're insured with that insurer.

MR COLI: Yes, that's an insured. Where Ian stated about IAG's current application, yes, it does take up - 50 per cent of their subsidiary companies have applied for this exemption for two-tier policy. However, if the individual says, "No, I'm not paying the extra \$69," and decides to move on to another insurer, unbeknownst to them that they are one of the IAG subsidiary companies, if not this year, next year, or eventually, they would be in the same trap. There's only two, in the association's opinion, insurers that currently offer the freedom choice at no cost, unfettered, and that is Allianz and Suncorp. AAMI offer very little, if anything at all.

MR FITZGERALD: Just taking that a little bit further, would you not say that the PSR arrangements may have in fact allowed insurance companies to control quality better than previously? Whilst it's true that you may have built up a relationship with a repairer - and I think there's no doubt about that - but now we've actually got a system in place where insurance companies are able to track in a much more rigorous way the quality as well as the costs of repair being done, which, in a way, didn't exist previously when there were no PSR arrangements in place. I'm just trying to see whether you see any benefits in those arrangements coming to the consumer and/or to the industry.

MR ROLFE: Why insurers moved to preferred, recommended or whatever term you want to put, I suspect it's mainly to do with cost control more so than the safety

aspect. Is there proof in the marketplace to suggest that pre-bad shops, for argument's sake, there were huge problems with the quality of repairs? We've not seen it. It's certainly not been published saying prior to PSRs or recommended shops being brought into the marketplace that 50 per cent of all repairs that were out in the marketplace were in fact substandard. There is no proof to that effect to our knowledge. So if it's not because of a safety or a quality issue, then the next logical conclusion is to do with the control of costs.

MR RENDALL: But the control of costs is not an unreasonable commercial goal with an insurance company.

MR ROLFE: I'm not suggesting for one moment that it is. Again, if we come back to why is the insurance company in the marketplace: to sell the risk, sell the policy, collect the premium, invest, not pay out on the claims. It is not St Vincent de Insurance Company. The commercial reality is, though, the terminology of competitiveness has come into the industry probably in the last two or three years in a fairly substantial manner.

I suppose the simple argument would be, if you want to be competitive, take up swimming; if you want to be profitable, take up and built up a decent business. But competitiveness has come in there, and there is no doubt that, by applying the pressure from one repairer against another by way of, "This is the benchmark, you need to be 2 per cent, 3 per cent, 5 per cent more competitive," what they mean is 5 per cent cheaper, not more competitive. That's what annoys me probably more than anything else. They will not be honest and say, "Yes, I want you to be 5 per cent cheaper," just, "I want you to be more competitive." It sounds better. It has a better psychological impact on people than saying, "You've got to be cheaper."

MR FITZGERALD: But there is a point, isn't there, that if, in a marketplace such as this - let's assume for a moment the insurance companies were driving down the price - it gets to a point where it becomes counterproductive, and you start to lose people from the industry. That wouldn't be in the interests of consumers or insurers. What I suppose I'm putting to you, Ian: let's assume there has been a reduction in the average cost of repairs and that has put the pressure on repairers. There is a point at which a further squeeze becomes counterproductive to all elements. Therefore, the market in fact finds its own level.

I'm not suggesting it has or it has got further to go, but it is logical to say that all markets find a level. So, are we only in a period of time of adjustment, I suppose. We're at a point where we've got these new arrangements, yes, there is in fact some cost squeezing taking place, but that level will be found? Or do you see this as a spiral down to the last - - -

MR ROLFE: I think ultimately this will come back to haunt the players in the marketplace: the repairs, the consumers, the insurers. Again, if you continue to keep downward pressure on price, the end result will be - and we're experiencing it now. There's no doubt we have a dramatic downturn in engagement of young people back into our industry. The turnover by way of those that leave the industry - painters tend to leave at about age 27, panel beaters at about age 35. They're not being replaced. They're going to other sectors of other industries where there's not that continual pressure on them as tradesman. And that's a detrimental effect.

IAG have introduced their Jump Start program. I don't know how successful that may be. We've initiated a program in Newcastle as a trial with school-based trainees, again in an effort to try and reverse this trend within the industry where we're not attracting young people.

Again, if pressures are kept on industries to reduce costs to the consumer or the end user, there's also no confidence in the future. With no confidence, there will be no major capital investment in equipment and technology to keep abreast of the change that's occurring. So, yes, long term, we are going to have some major problems. Even if we turned at 180 degrees today, that wouldn't be felt back in our industry, I wouldn't think, under five years. So I think there's a lot more pain that we will be going through. Ultimately, it may come back to haunt - if you don't have sufficient people in the marketplace to perform the repairs, then one or two things happen: the costs go up dramatically - there's no doubt about that - the other one is the delay of getting vehicles repaired and back on the road.

MR FITZGERALD: If I can take up a point that Greg raised - back to the "funny time, funny money" and "real time, real money" - you had some fairly strong views about comments about "funny time, funny money". We acknowledge that the different ways the insurance companies operate impact on their view of our "funny time, funny money", but your association has been strongly opposed to "funny time, funny money" for some time and remains so. Can you just clarify again where the centre of your concern with that arrangement now rests.

MR COLI: If you can try and understand the formula where you've got a little bit from over here and a little bit from here and you put it into that and you come up at the end and tip it all out and that's what we've got left, now, comments where, if "real time, real money" comes in, the cost of repairs will go up. They will be replacing rather than repairing, more cars will be total lost et cetera, I don't believe these are factually correct, because a repair job is a repair job.

Whether you calculate 10 hours at \$30 an hour, or you calculate three hours at \$100 an hour, the ultimate bottom line is the same. If the insurers are talking about bottom line, another clarification is going to be needed, is it bottom line as a whole,

or bottom line by individual line items? Whether it's \$70 an hour and it's four hours times 70, or whether it's \$30 an hour and it's 10 hours times 30, the bottom is almost, and will almost be, within 5 per cent of itself.

MR FITZGERALD: A view that's been put to us is that if you move from the current system to a "real time, real money" system - it's not a system, but people charging whatever their costs are - that in fact will lead to more repairers moving from repair to remove and replace. You take a view that is just no so, yet that's a view that's strongly held, and Allianz has put that view today and in its submissions, with some international experience to support that view. For us, it's a point of great contention. Do you have a view about whether or not a move would in fact lead to more R and R than repair?

MR COLI: At the end of the day, we're repairing motor vehicles, whether we choose to physically repair the component part or replace the component part. What concern is it to the insurer as to what method we use, as long as it's the correct method and within the manufacturer's guidelines?

MR FITZGERALD: Could I just put it to you that it might be that if you move to more R and R the costs of the repair job will increase because of the cost of the component part. The component part is in fact the costly part.

MR COLI: The calculation on repairing a component part at the time of impact is based on the cost of buying the component part, then the additional cost of removing and replacing that component part, whether it's a weld or a bolt on panel, and then the repairer, who is the expert that's going to repair it, makes a determination whether it's more cost-effective to repair it or replace it. Either way, if he's going to repair it he's got to warrant it; if he's going to replace it with a new OEM part he's still got to warrant it.

So at the end of the day, it is still being repaired. What is the difference or the issues raised by the insurers is to the process of repair. That's up to the expert who is trained to repair a motor vehicle, whether it's at \$40 an hour "funny time, funny money" or "real time, real money". If it's repairable, it will be repaired.

MR RENDALL: They're saying it would lead to more replacement.

MR COLI: Why? If at the moment I go out to quote on, say, a replacement rear quarter panel or rearguard - it depends on your terminology - and I go out today and I look at it and I say I want \$300 to fix that. So it's 10 hours at \$30. So in six months' time, if "real time, real money" comes into play, it will be three hours at \$100. It would still be repaired except it will be repaired for the real time and real money, rather than "funny time, funny money".

MR RENDALL: But that's only if that cost of repair is going to be less than the cost of replacement.

MR COLI: But if you look at the bottom line, it's 10 hours at 30 or three hours at 100.

MR FITZGERALD: I understand that calculation. It's whether or not you get a distortion taking place from repair to R and R.

MR COLI: There will be a learning curve for both sides of the industry, to revert back to what we used to do, because this is what we used to do 30 years ago. It was a dollar value and, "This is how much I want to fix it." There was no "funny time, funny money" and that sort of thing. So it's a learning curve for both sides of the industry, and whether it means for the first couple of months that we do two comparative quotes, as "real time, real money" and "funny time, funny money", to show that the bottom lines are not that dissimilar, maybe that's something that we need to get involved and tied up with.

MR RENDALL: Would all of the different repairers be happy to disclose the fact that for one of them that \$85 is what they need and another one needs \$110 an hour to cover their costs? Is that a problem for the repairer to disclose?

MR ROLFE: Under the current regime, if you look at some of the agreements that are in the marketplace, the ASR and PSR agreements, the insurer already has access to that type of information by way of they can demand to have a look at all of those incidentals that go to make up what the charge-out rate would be, with the exception of course that they really don't know what the profit line is. It may be 10 per cent, 20 per cent, 30 per cent.

To answer your question, I don't believe that there is going to be a dramatic turnaround in the methodology. All we're doing is suggesting that we need to get away from a misleading fictitious system, which has served the industry reasonably well for 30-odd years. It's past its used-by date and, if we want to be taken seriously as an industry and we want the credibility that we're entitled to and the professional considerations, then we've got to get away from this stupid system that we currently work under. It's ironic, the same insurers engage every bother supplier of services, parts, what have you and pays "real time, real money". If they engage a mechanical repairer, 10 hours to do that job at whatever his charge-out rate is. What's the problem? It just doesn't make sense.

MR FITZGERALD: We'll be having some more thoughts about that as we go through. Could I just move to the issue of warranties and lifetime guarantees and

that. You've heard some comments this morning. We've come to a position in the report but I just want to know whether you have any specific comments about lifetime guarantees and the way it operates for consumers and for your repairers.

MR ROLFE: Qualify "lifetime", that's the first problem. If we take a paint manufacturer who supplies the product and says, "This is the method by which you have to apply that product. We'll give you a five-year warranty," I'd find it ironic if anybody suggested that then should then attract a 10-year warranty. It may be a commercial decision to attract clients but at the end of the day would that be a realistic approach? And "second-hand part" would have to be the greatest misnomer. If I fit second-hand parts, the manufacturer doesn't put a lifetime warranty on it when it's new, let alone after it's been round the block three times.

I think they're no more or less than marketing ploys and consumers, when they sell vehicles, will not tell the purchaser or potential purchaser, "This vehicle has been involved in an accident." It's not commonsense to do that. I'm going to buy your car tomorrow, Curt. You're not going to tell me you've had two prangs. You'll keep that to yourself and hope the repairs were done to the satisfaction where I won't be able to detect that that vehicle is damaged, whether you have a five-minute warranty or a five-year warranty.

MR FITZGERALD: But vis-a-vis the actual repairer? Different insurance companies have different approaches in relation to the burden or the risk that's borne by the repairer vis-a-vis the insurance company.

MR ROLFE: The repairer's warranty should be in line with what the supplier of those goods - whether it be new parts, second-hand parts - if I buy a second-hand engine, for argument's sake, I'll probably get a three-month warranty on it, or maybe a 12-month warranty, depending on how much I paid at the end of the day. If I elect, as a repairer, to get a commercial edge, for argument's sake, I might say, "No, I'll give it a two-year warranty," which is something I then put on it, as opposed to it being applied by an extra party, being the insurer, particularly if I look at a method of repair and say. if I'm putting a warranty on it, this is how I want to have that warranty by way of that's the type of repair.

The irony is - and we've heard this morning - the assessors are in essence are loss adjusters. Their prime role in the main is to reduce the cost of the claim, the payout figure. They're not generally assessing the vehicle as far as how the quote, if you like, lines up against the accident damage or the report on the accident. They go in predominantly to reduce the amount of the payout. Again, commercial reality, but if that is changed, that method of repair is changed, then whoever changes it accepts the responsibility for that change by way of they accept the warranty provisions as well.

MR RENDALL: Just with regard to what we said in the draft about the code itself, what comments do you have on that, what we have said about the code and what should be in the code?

MR FITZGERALD: The content of it.

MR ROLFE: I think in the main what you've alluded to in the code, except for a couple of very minor points which I think are the MTAA's supplementary submission, was looked on favourably by the industry, with the exception it should in fact probably be mandated as opposed to voluntary.

MR FITZGERALD: Just in relation to dispute resolution, and then we'll come to a halt, there seems to be a very great difference between the repairer industry's view of the level of disputation and the insurance companies' level of disputation. You've heard that this morning and we've heard that throughout the inquiry. We've recommended at this stage in our preliminary report that dispute resolution should be a matter for an industry-wide code and so on and so forth.

I just want to get your handle on whether or not the level of disputation that's apparent through the dispute resolution procedures that the companies are operating is a reasonable reflection of the level of disputation, or do you think it's much higher than that. But the second part is, if it is higher, why are those internal resolution dispute procedures, certainly by three of the companies, which seem reasonably appropriate, are not being accessed by repairers? So it's a two-part question. What are they reflecting, but the second thing is, why are they not being accessed if you think that the level of disputation is much higher, given that on the surface three of the companies operate reasonable schemes?

MR ROLFE: I think again there are probably two answers to each of the questions. One is the interpretation of the dispute, in the first instance. As IAG noted and Rick said in his discussion, we had a meeting with IAG in mid December. We were unaware that there was a dispute resolution process that we would be able to access, and they have actually now given us a coding where we can access that. Of course, with the Christmas break and everybody going on leave, we really haven't had an opportunity to trial that. I'm hopeful that it will in fact address the concerns.

When you talk about the number of disputes that I guess repairers have with insurers, one of the main considerations or concerns that a repairer had would be retribution by way of raising an issue. You talk about three of the insurers have dispute resolution processes which, on the surface, appear to be quite reasonable. I don't know about IAG's at this stage, because we haven't trialed it. We haven't had any feedback from members, but one of the reasons that we asked that we could be

involved in that was because of, again, evidence from members to the effect that they didn't feel comfortable putting a dispute before IAG for fear of retribution and the commercial reality that that entails.

MR ROLFE: It's ironic that some of the disputes in a lot of cases are generally both parties' fault. Management - and by that I mean the likes of Paul and Wayne Burns - would be unaware of some of the disputes that go on at a much lower level within their own organisation. For a number of reasons, again they're probably not, unless it's brought to their attention, involved in that situation. It will be interesting to see if, with a mandated or voluntary code, if the dispute resolution is in fact handled in the appropriate manner. I mean, most companies that have arrangements or agreements with suppliers, have a form of dispute resolution, whether it be for the repairer or the consumer.

Now one of the three that you've mentioned, we've pretty much got a victim of their dispute resolution process, and it's not a happy experience at this point in time. How prolific that is in the market place I don't know. If we looked at AAMI particularly, which is what we're talking about there, they have an ombudsman that in fact reports annually. I think at this stage it appears that any adverse comment that he has received has been taken on board by AAMI to try to address it. I would like to think the other insurers would do the same thing, catch up with the 21st century and progress the thing as it should be.

MR FITZGERALD: Sorry?

MR RENDALL: And report publicly, you mean?

MR ROLFE: Yes.

MR FITZGERALD: All right, we've reached 1 o'clock. Thank you very much. Thanks to all of you. My thanks to everyone for being here. This afternoon we resume again at 2 o'clock. We've got 4 participants this afternoon. So we'll resume at 2 o'clock.

(Luncheon adjournment)

MR FITZGERALD: By afternoon we normally lose everybody, but obviously not for this inquiry. Over to George from the Australian Automotive Repairers Association. if you just give your name and position within the organisation, for the record, and then we'll be under way.

MR ELMASSIAN: I'm George Elmassian, and just a liaisons officer with the AARA.

MR FITZGERALD: Over to you.

MR ELMASSIAN: Most of the points have been covered. Just one thing I'd like to talk about is this issue of probity checks and criminality. As Greg quite clearly pointed out, there's very little evidence to show the connection between motor vehicle repairers and this so-called criminal activity. It should also be pointed out that a number of individuals, who now have preferred status, at one stage or another were black-banned by the insurance companies.

What we mean by that, there were certain allegations, that these shops were suspended from doing work for some of the major insurance companies for the reason that they allegedly defrauded the insurance company, their quality wasn't right or their service wasn't right. Yet we look around now and these same shops have these preferred repairer statuses on their walls. So when I want to talk about this connection between criminality and motor vehicle repairers, I think that needs a little bit more serious consideration.

MR RENDALL: George, what about people that have been convicted of something serious, to do with either rebirthing or car rackets of some - - -

MR ELMASSIAN: Don't deal with them. It's very simple.

MR RENDALL: Yes, but are any of those preferred?

MR ELMASSIAN: The question that I'd like to know is, who are these shops that have been convicted and charged with this so-called rebirthing. Out of 5000 shops, 10 per cent or 1 per cent, it's 50 shops. Who are these people that have been charged? Who are they who have been convicted. If they're of such a small number, then it's quite easy for the insurance companies to deal with them. At the end of the day, as I think it was Mr Rick Jackson or Paul Pemberton pointed out, these individuals are professionals.

They've taken guns out of our society, but who still has the gubs? The professional criminals. So by using this to stop these individuals from operating does not mean you're going to take the professionals out of the industry. If they want

to be there, they are going to be there.

Secondly, just in relation to consumer choice, I think the comment was made that the average consumer doesn't have the skills to make this choice and that there is no incentive for policy holders to become well informed. What we say is, if consumers are not well informed and cannot make an informed decision as to where they want their vehicles to be repaired, then why is it the IAG concedes into paying its tele-claim star bonuses based on the number of policy holders it can steer away from the choice of repairer, and direct them towards PSR shops? They say that there's a very small number of these people who want to make a choice, yet they are spending hundreds of thousands of dollars trying to steer these policy holders away.

Also, what incentive does a consumer have to be well informed? That's founded on the basis that insureds want their vehicles to be put back in the condition they were in before the accident. That is sufficient incentive for any consumer to be well informed. The analysis put forward by the IAG lacked substance and coherence. If consumers generally have no idea where to acquire smash repair services, then obviously they would seek this information from their insurer. If this is a majority of the IAG's consumers and some of the other major insurance companies, then why are they spending millions of dollars on advertising, public commissions, in the courts, paying their operators in an attempt to persuade them that they do not have a choice of repairer and cannot make an informed decision?

The fact is these consumers, the very same consumers who want to have their car repaired, they get married, they have children, they buy houses, they buy land. They enter into complicated, intricate legal contracts to build a house, but when it comes to a two and half thousand dollar repair, all of a sudden these people are incapable and not informed to say, "I'd like my car repaired." So we need to take into account that the consumer is very astute. The consumer is very well informed. To say that they are not is just a myth, and in fact it's embarrassing to the consumer. The one consumer who was here earlier, she was told, "You don't have a choice," and followed the guidelines. She's probably got better sense now not to do that. She should have gone with the choice she wanted to make originally

An argument that the IAG puts forward is that charging to make a choice is an option. An individual wants to have a car repaired. Once again we'll go on the premise that most policy holders cannot make a choice of their own. If they cannot make a choice of their own and they ask the insurance company where to go to, then most of them will continue to do that. Why don't we give a discount to those people who want to make their own choice? Lack of convenience, lack of service that they will be receiving, in some cases cash settling. Why don't we do the flip side? Let's discount them by \$69.

Very few individuals are going to pay \$69 for something that may or may not happen in the future, or if it does happen, then tell them to pay it at that time. But what extra service are they actually getting? If it's medical insurance, you might get optical insurance, you might get dental. You're actually getting something for it. What are they giving you for this \$69? Your right to be indemnified? It's not a choice. It's a coercion to steer these individuals away from having the right, the sovereign right to make a decision in a democratic nation.

Just another point in terms of assessment of quotations, as Nicholas pointed out this morning, I guess one difference between Suncorp and Allianz is that assessors actually come out and talk to you and they do negotiate a price with you. So putting "funny time, funny money" to one side, at the end of the day you do actually negotiate a price and say, "It might be 30 bucks but we'll give you two hours as opposed to one." At the end of the day you come up with a bottom line that you're happy with.

This is changing now, and the way it's changing is that the argument is that it's a bottom-line figure but there is no bottom-line figure. If you put down \$10,500 to repair this car, the figure has to come from somewhere. What makes that up? Parts and labour. Labour has to have a charge to it. How do you come up with this labour charge? At the moment, it's \$30.90 an hour and that's it. So there's a bit of dispute in relation to that.

Tim from Suncorp also mentioned in relation to disputes resolution that they have subzero disputes. Pretty much in the last 18 months, he's only had a couple. I'm not sure, but possibly Allianz might be going the same, AAMI, IAG. Why is that disputes have decreased? If we go back four or five years ago, there were independent teams working for insurance companies spot-checking vehicles. They would ring the client up. They would go and inspect the vehicle. They would find something wrong with that vehicle, and then they would come and say, "Look, we've got all these problems with you." That's actually stopped now.

Especially Suncorp and Allianz, they'll allow the consumer and the repairer to deal together. IAG, on the other hand, they use this as a basis of intimidation and in some cases draconian unconscionable methods - I think once again it was Rick that said this morning - to give breach notices. If you don't like a repairer, what do you do? Let's go and check all his work. Let's find problems with his work,. Let's contact the consumer, who has never complained about the work, and let's give him breach notices and get rid of him. So okay, there are all these consumers that want their choice of repairer. How do we get rid of these repairers? They've signed contracts. Let's breach them.

That is unfair and not correct. That is why, if there is some kind of code, what

we should also be seeking is an external body, possibly funded by the repairers and by the insurance companies, where all these individuals who get their cars repaired by preferred repairers can go there free of charge and have these so-called quality inspections, and let's see if the quality is as good as it is at the moment. Because most consumers couldn't be bothered. They couldn't be bothered. We live in a very busy society. We don't have the time to ring up, put in a dispute, go to the insurance company, go back to the Insurance Council of Australia. Six months later is there a resolution? People give up.

That's it about it, actually. I don't have too much more to say, if there's anything you'd like me to answer for you.

MR FITZGERALD: Thanks, George, We've had the opportunity obviously to have discussions during the inquiry. Just a couple of matters. You mentioned about the issue of previous black-listing by insurance companies.

MR ELMASSIAN: Yes.

MR FITZGERALD: You're now saying that a number of those companies or repairers that were previously black-listed have now become PSRs.

MR ELMASSIAN: Yes.

MR FITZGERALD: Why do you think that is occurring. At the end of the day, the insurance companies would say us, rightfully, they only want the people they can work with and trust to provide and deliver good quality outcomes at a reasonable price. So why do you think that these organisations are now in the tent, whereas they were excluded from it.

MR ELMASSIAN: I guess this is the dilemma that we as repairers have, and this is why we ask for transparency in the criteria which they use in selecting these repairers, when we sit there and go, "What's he doing with a badge? You weren't dealing with them 12 months ago. All of a sudden he's got a badge. Well, what is the criteria that you're using?"

Let me put it to you the other way. If we look at this on a purely commercial basis, let the insurance companies do whatever they want. They've got shareholders. They're accountable to their shareholders. They've got fiduciary duties to their companies. Let them do whatever they want. But I don't think it's a form we've got to look at, it's the substance that we need to look at. And this is it: give us some criteria. Tell us why they have been chosen. Why another repairer hasn't been chosen. But there is no criteria so I can't answer that. I've asked that on the very highest level to the IAG executive. They haven't been able to give me an answer to

it.

MR FITZGERALD: Has your association formally put to say IAG or others that you've wanted the reasons why a smash repairer is not being accepted into their PSR scheme? And if so, how has that been handled? Have you actually represented anybody and had the reasons refused to you?

MR ELMASSIAN: What I can say is that while we haven't formally submitted written documentation to them. In relation to Suncorp and Allianz, they've always had their doors open to us. We have sat down and we've tried to discuss issues with them. We've spoken about criteria. We've spoken about how to better handle situations, how to better handle repairers. So with them it's never been a problem. I think with AAMI you can't even knock on their door and talk to them let alone send them 25 pages to read, it's not going to happen.

MR FITZGERALD: In terms of a couple of the other issues you've raised, the policy that IAG has recently introduced, the two-tier policy, you've indicated that perhaps the no choice should be discounted - a proposal. But apart from that what's your view of the two-tier system, ignoring the price differential for the moment. Do you have a particular view about those policies?

MR ELMASSIAN: Yes. I find it very difficult when the IAG continuously claim that under their preferred repairer schemes that the cost of repairs are competitive or cheaper. The difficulty I have with that - and then they talk about cross subsidisation and how the rest of the policy holders are cross subsidising for those who go to preferred repairers. What I don't understand is this: Rick sat here this morning telling us that they've got the best research centre in the southern hemisphere. He sat here telling us that their assessors have the absolute best training, that they're all accredited at level 4 or level 5 within their association.

If a car works goes before an assessor and this highly qualified assessor is assessing this job, he's been trained in the best research centre in Artarmon in the southern hemisphere, why are there two different prices for that one car? He's assessing the job. He's looking at it and he's saying, "Yes, yes, yes, yes, no." What's he doing with the other quote? Why is there this discrepancy? Until we know why that discrepancy is there, how can you possibly put a two-tier system? It's just a myth. Nobody has told us where this costing comes from. Everything we want to know is confidential. Everything - "It's within confidentiality. We can't show you how we come up with the cost."

Once again, look at the substance over the form. What are they trying to do? You want a glass of water? Here it is. If I offer it to you it's \$1. If they offer it to you it's \$1.20. Why? Because that's the way we want it. That's the way we run our

businesses. The same cup, the same water, it comes from the same bottle but I have to pay extra for that. Why? Why should a consumer in Australia have to pay more to get nothing more? Then if they do pay that \$69 is IAG saying that when they go to lodge their claim they're not going to start saying, "By the way our preferred repairers are really great. Why don't you go there?" We will assess that car quicker, they will get paid faster. They're going to start steering them any way. So it's a myth. Ask yourself, would you pay \$69 extra? Absolutely no way.

But when you have that accident and it's someone in your family or you've gone to the same repairer over the last 20 years, all of a sudden you're going to say, "Jeez, I'm now paying more to exercise my freedom of choice."

MR RENDALL: Isn't that something that the repairers wanted though or it was one of the recommendations of the repairer groups, was charging extra for choice? Under the ACCC issues paper, page 17, if anybody has got it there.

MR ELMASSIAN: Put it this way, none of my association (indistinct) any way.

MR RENDALL: All right, we'll come to that.

MR FITZGERALD: I should just say, we have seen the correspondence from the various repairer groups in relation to the IAG contracts and proposals. Undoubtedly we'll get more before the inquiry is completed. Just on that, is your association opposed to the nature of actually preferred supplier, PSR arrangements generally, as a concept?

MR ELMASSIAN: PSR? No.

MR FITZGERALD: Or do you only object to the way in which the people are able to access them and are dealt with once they're in there?

MR ELMASSIAN: I think per se you do need some kind of preferred repairer scheme or preferred repairer system. You can't avoid that. People do have accidents; they don't know where to go. However, what actually happens through these systems is that they give you a contract. They control the consumer. They control the rectification process. They control the method of repairs. The minute they start controlling all of those things they then use that as leverage against the actual repairer. Let me tell you over 40 per cent of our members are preferred repairers. They're saying, "We can't take these squeezes any more. We cannot do it any more."

They walk in every three to six months, ask for a 5 per cent decrease and if you don't get that 5 per cent decrease, the tap stops, you've got no work for the next

month. You then have no choice but just to do it at a very, very discounted rate. Then they go to the next repairer. So if PSR schemes are going to be used for those purposes, that's just an unconscionable and draconian means of controlling repairers. Individual who spent millions of dollars setting up their shops, families who have devoted their whole lives all of a sudden in the control - the four major insurance companies - and once again, I'll say two of the other insurance companies said, "Look, we see a problem in this. Let's see how we can work with you." But the other two are saying, "No, we will not work with you in any way whatsoever." So on those basis we're totally opposed to it.

MR FITZGERALD: The PSR arrangements are different as you between all of the insurance companies that are in place at the moment. You've indicated that two of the companies are reasonable to deal with and two of them are not. Why do you think that is the case? I mean I don't want a critique on each of the insurance companies. But why do you think the market has split in this way? Is it historical or is it - because at the end of the day all insurance companies are out to ensure a good return for their shareholders - and that means being cost effective in terms of the way in which claims are dealt with and so on and so forth. So at a level the motivation is identical. You're saying the method of operation of the four companies differ quite dramatically.

MR ELMASSIAN: At the moment we have discussed it with them. At the moment we've told them on numerous occasions the set-up that we have now appears to be working. We've at least got dialogue. Our problem with it is what happens five years from now. If you start saying, "We're going to do what NRMA and AAMI does," then once again, we're going to start going into problems. At the moment their culture and the environment which they're working in is, "Let's work the panel beater. We need them." They also need more market share. So, "We'll work with the repairers. We'll go out there and tell the consumer they've got their choice," and they'll work with it. Whereas you've got NRMA who's now what, 50 to 60 per cent of the market, it's just a different culture. They feel that they don't need to do that because they control so much of the market.

MR RENDALL: Have the stats in terms of market share changed very much over the last five, 10 years? I know there's been acquisitions and what have you, but say New South Wales for example, NRMA, have they grown at the expense of others? Is the consumer - I'll use the word hoodwinked, it's probably not right, by the adverts and charges off to NRMA because the brand is a hundred years old?

MR ELMASSIAN: I'm not sure of the statistics. I'm not sure of the figures. I do know NRMA is very large. It's made a lot of acquisitions. A lot of the growth hasn't been organic growth, it's been growth through takeovers and acquisitions. To be honest, I'm not sure.

MR FITZGERALD: One of the issues that repairer groups have raised in relation to AIG has been the multi-level approach they have in the preferred schemes, with the various gold and bronze and whatever-have-you arrangements. To what extent is that causing this anxiety with the AIG company, or is that not the real issue?

MR ELMASSIAN: With the representatives themselves?

MR FITZGERALD: Yes.

MR ELMASSIAN: The difficulty is the repairers are saying, "One minute we're a so-called gold repairer and within two months, we're a red repairer, then we're a silver repairer, then we're a bronze repairer." A lot of them are really getting sick and tired of it and what do you do to keep them happy? I'll just send them a little bit more work, they're so busy. So a lot of them are actually doing a lot more work and a lot of them are not making money.

MR RENDALL: No margin in the - - -

MR ELMASSIAN: I've actually spoken to a preferred repairer and he said, "I didn't know what an overdraft until two years ago. I've never worked so hard and now I've got an overdraft. I didn't even know how to get one." "Why are you doing this?" "Because I'm 55 and what do I do?" It's not right. It's the unconscionability of controlling. Grown adults, they're controlling us. It's ridiculous.

MR FITZGERALD: Just if I can turn to a couple of issues we haven't talked about, that you haven't raised in your submission, but just from your feedback, and that has been in relation to, this morning we talked about warranties, lifetime guarantees, those sorts of issues; and the second issue which we've talked about is, to some degree, the control of the methodology of repair and that. I know in our previous discussions you've raised some of those issues, but have you got any comments on those two issues?

MR ELMASSIAN: One of the problems is, when the insurance company comes to assess the car, to a large extent, in relation to parts, OEM is put to one side. Manufacturer specifications are put to one side. They adopt the method of repair. They tell you what you can and what you can't use. A year later - two years, three, five years later - there's a problem with this car. All of a sudden, what is their benchmark? OEM and manufacturers' specifications. And they will come and they'll go, "The paint thickness doesn't meet the manufacturer's specifications," or, "This part doesn't fit." Hang on, you use non-manufacturer specifications in assessing, but when it comes to punishing, all of a sudden the manufacturers' specifications are the bible. There is no benchmark.

MR FITZGERALD: Can I just clarify that. Have you actually got demonstrated examples of that, where the quote was done on an agreed basis using one type of parts and a repairer was assessed using a different benchmark? Because that seems to us, if the original quote is still available, problematic.

MR ELMASSIAN: I'm sure I can get you some without a problem. I actually know of a number of repairers who have been targeted, a number of repairers whose work has been checked and checked with a view of punishing these repairers. Once again, there are these two standards. You authorised this. All of a sudden I'm paying for what you actually authorised me to do. Admittedly some of the faults are because of workmanship, but there is also this benchmark of what is acceptable, what isn't acceptable. Yes, we can get you examples of that.

MR FITZGERALD: In terms of the warranty issue, have you any particular comments about that?

MR ELMASSIAN: I think everyone is very clear about it. The manufacturer gives three years, we give lifetime. A number of the representatives here from the insurance companies said they bear the burden. They don't. The repairer bears the burden of it. Once again they say what if a repairer goes broke. We've seen no statistics as to what that has actually cost the insurance companies. I know that HHH caused substantial damage to a large number of repairers, and that was an insurance company going broke as opposed to a repairer going broke, but we seem to have no compensation. In fact if there are any lifetime warranties or if there are any warranties with those vehicles, it's the repairer that's actually paying for it, not the insurance company, because they're not there any more.

At the end of the day, you can't have a lifetime warranty. It's absurd. It just doesn't make sense. It's just a marketing ploy. It's a gimmick which is used. People love it and, if the insurance companies want to do it, then possibly it should the pain companies say two years, manufacturers say three years. Any time after that, you take the responsibility. Don't come back to us after seven years and say that the paint has faded. This is what they're doing. After seven years, they're saying, "Well, lifetime warranty." Irrelevant of where the car is parked, who has looked after the car, whether it's been washed or polished or buffed. They don't care.

Then when a rectification occurs, do you think they'd go back to the original repairer? They've come back to you and said, "Listen, we've got a problem"? Not if they've targeted you. They'll take it to one of their repairers. They'll come up with this exorbitant cost and they'd say, "Pay for it." "What do you mean?" "Pay for it." "Why are you painting the whole car? Why aren't you blending it?" "You can't blend it. Why did you tell us to blend it for?" Suddenly, when it's for punishment

they've got one rule; when it's for cost-cutting measures, they have another rule. This needs to be transparent. Repairers need to know what is the benchmark. How far do we go?

MR FITZGERALD: At what point is the benchmark established? Is it the fact that, at the point of quoting, there's not enough clarity about the precise method of repair or is it at some other point that the problems are occurring? You're talking about rectification seven years later, so where is the problem in this or are you simply saying that in fact it's just a tool, in your words, to punish particular people?

MR ELMASSIAN: They have used it for that. There is a place for rectification. Don't get me wrong. There are some repairers out there that make errors. There are some repairers that do the wrong thing in advertently. We all do it. Put submissions together or put things together in contracts and you miss something out. Repairers do that. The problem with this benchmarking, and this is where it comes down to again - and I challenge especially individual corporations like the IAG - in respect to quality, let's open up an external public centre where every car can go.

At the end of the day, they all boast they've cut their costs by 30 and 40 per cent. Where does that cost-cutting come from? It has to come from somewhere. It can't come from parts. Parts are set. The only place it can come from is from quality. Quality is going down. In fact what we should have done is probably put a report to the paint manufacturers to see their high-quality paint and hardeners and primers, and to see how much that's decreased as opposed to their cheaper lines, because a lot of the top suppliers have now got a cheaper line of product in there, and we can't compete. "You guys get paid nothing. We can't give you the top shelf. It just isn't being used any more."

So we are forced unconscionably once again to use these cheaper methods, to use these cheaper methods, to use these cheaper products, but they expect the standard to be that of top shelf. Once again, we won't talk about different cars, but if you want to buy a Mercedes, as opposed to maybe a Hyundai, and look at the two finishes, do you expect the finish on a Hyundai to be exactly the same as a Mercedes? It's not. Just a totally different car. So why should an individual get paid less to use inferior product to produce a Mercedes Benz finish? You can't do it. Perhaps say, "Okay, look we realise you're going to use this, which means we can't give a lifetime warranty on this." These products are inferior and a lot of repairers have to use them and they do use them.

MR FITZGERALD: Can I clarify something. In relation to the paints, at the time of quotation is that actually specified as to what paint will be used or is that discretionary, up to the repairer?

MR ELMASSIAN: Discretionary, up to the repairer. They use it.

MR FITZGERALD: And the cost of the paint is actually included in the labour figure.

MR ELMASSIAN: Correct.

MR FITZGERALD: We recommend it be slightly changed.

MR ELMASSIAN: If we change the method of labour, as opposed to material, then the repairer could actually say, "I'm using this brand of material. This is what the cost is." But it's hidden away and it's said, "Well, you chose it. It's your responsibility."

MR FITZGERALD: Our report has indicated that all substantial material costs, and that includes paint, should be separately quoted as distinct from labour, because it's an absurdity to have material and labour put together in the one component. However, that's a contestable point, but we certainly think there should be a separation on paint, because at the moment some of what you say is so.

MR RENDALL: Do you think you could find some information on that, George, the paint issue, what sort of sales they're doing, the higher-end stuff and the cheaper stuff?

MR ELMASSIAN: Yes.

MR RENDALL: You also talked, George - and I didn't make a proper note of it - under the dispute resolution you made some points, which I had a brilliant question at the time but I've now lost it completely and my notes don't go far enough. What were you saying about the dispute resolution mechanisms? We've heard this morning they're owned by the insurance companies. They are really not a fair dinkum arbitration, if you like, or mediation of an issue between the right parties.

MR ELMASSIAN: If we break it up, are we talking about dispute resolution between consumers and insurance companies as opposed to repairers and insurance companies?

MR RENDALL: No, I think repairers.

MR ELMASSIAN: At the end of the day, a dispute resolution is to resolve a dispute. Once again, in some instances the insurance companies actually create the dispute themselves when they target certain repairers. When they do, what chance do you think you have of resolving a dispute? On what basis do they target

repairers? On what basis do they do these audits and safety checks, and do they do it consistently throughout all repairers or is it just non PSRs, as opposed to PSRs?

MR RENDALL: And they are targeting these people, as you say.

MR ELMASSIAN: Absolutely.

MR RENDALL: For what reason?

MR ELMASSIAN: Number 1, there could be personal clashes between the assessing manager of a certain area and individual panel shops. It's gone to the extent where one of our members actually had federal police on their premises, was dragged out in front of their family. At the end of the day it was found out that this was a directive from a major insurance company, to send federal police there. I don't know if you know about it. This is a disgrace and it's an embarrassment that things like this should happen, and I'm sure I can get you some information on that, and that would strictly be confidential.

MR RENDALL: What were the facts in that case, do you know?

MR FITZGERALD: We'll wait for the information, I think. We have a huge amount of confidential information in this inquiry. I should just make the comment that the Productivity Commission has never had an inquiry in its history. It's had so many confidential submissions, so many so that it couldn't work out quite what to do, but we've worked out a way of handling that. Thanks, George, for that. Any other final comments?

MR ELMASSIAN: Just one final comment, and I know this is between the insurance company and the smash repair industry, and generally there is this connection between smash repairers and policy holders, but I think we shouldn't discount that possibly there is - I don't know, 30 per cent of private individuals who don't go through insurance getting their vehicles repaired. This is where once again we need to look at the substance over the form. 5000 repair shops, they want of half of them to go. There's two and a half thousand dollars.

Mr Pemberton and Rick Jackson once again spoke about economies of scale and about certain economic theories., Here's a very simple economic theory: you cut down the supply of repairers, what happens to the cost to the individual who wants a private repair done on their vehicle? Goes to a shop once. What do you think that consumer, who is not going through insurance, is going to pay for it? Economic theory.

MR FITZGERALD: Just taking that point, can you just tell me what you think is

happening in relation to that. We've heard a number of versions about that. There was a view that previously non-insurance work - just take that - was in fact being subsidised by insurance work in the past. A view that has been put to us today is that in fact insurance based work is in fact being subsidised, from the repairer's point of view, by the non-insurance repair work. Is that your take on that?

MR ELMASSIAN: Yes. I think that repairers need to make money from somewhere, so they'll be encouraging a lot more people to do private repairs, as opposed to going through their insurance policies. That takes away a lot of the dilemmas of disputes and rectification and doing the work at a discounted rate. So yes, a number of shops do actually now do private work and they subsidise the cost or the lower cost of the insurance work.

MR RENDALL: Because there must be a lot of work under the premium threshold, where you have to kick in yourself.

MR ELMASSIAN: If there wasn't, it's being pushed to the consumer now, "Don't put a claim in. You're going to lose your no-claim bonus, you're going to do (a), (b), (c), (d), It's better to pay an extra \$500 out of your pocket." I think that's another reason why some of these figures are also distorted.

If I can just raise one more point in relation to the two-tier policy and paying 469 extra, what happens when a consumer has an accident and it's not their fault, and the insurance company recovers from the other party? Why has this individual, who has done nothing more than minded his own business, now been forced to pay 469 more, when if they don't go through their own insurance company, they go through another third party, they won't be paying that \$69 more?

When consumers are actually doing that, the amount of pressure and the difficulty which is imposed upon the consumer and the repairer not to go third party is really skyrocketing, as in that case, "Yes, you won't go through insurance but you have to go through our preferred repairer." As correctly stated, "Why should I not go to my consumer. It wasn't my fault. You're paying for it. I want to get it repaired. It needs to be brought back to the position I was in before the accident and you're telling me I can't have the repairer of my choice. No." So I think these are a couple of moot issues which probably need to be polished up a little bit more also.

MR FITZGERALD: Good. Thanks very much.

MR ELMASSIAN: Thank you very much.

MR FITZGERALD: Parraweena Smash Repairs. All right. If you could introduce yourself and your organisation for the purposes of the record, that would be great, Frank.

MR BOVA: My name is Frank Bova. I'm the owner, with my brother, of Parraweena Smash Repairs. This is our 20th year in business, and at the moment, we're still surviving.

MR FITZGERALD: Over to you. If you'd like to make some comments, that would be great.

MR BOVA: Over the last six, seven years, when IAG has put their preferred repairs, there has been - we're not preferred repairers. We're not preferred repairers with any insurance companies, and they've put a lot of pressure on our clients to go to their preferred repairers, and have misled them in one way saying that we're not able to give them a lifetime guarantee, and sometimes saying we're not a quality repairer.

MR RENDALL: Is that just the two, Frank, NRMA and - - -

MR BOVA: NRMA, mainly.

MR RENDALL: - - - and AAMI.

MR BOVA: With AAMI, they are on a two-quote system. They mainly want it to go into the centre, but a customer can use the driving assessment and they get a quote from a preferred repairer and then a repairer of their choice, and it's mainly based on price. The lowest price wins, and occasionally you might win, occasionally - it's all price structure with AAMI.

GIO has their recommended repairer system, but if our client comes to us and is insured with GIO, they still can use us. But still, it has to be taken to the centre and the assessor will have a look at our quotation, and they also will question the owner, whether they still want to go to a non-preferred shop. They've got their system in place, their preferred repairers, but because if our customer comes to us first they want to go to our repairers, they are virtually left to stay with.

Allianz is just, really, an assessment is booked in, Allianz will come to our workshop and negotiation between the assessor and our quotation, and that's basically it. That's how our workshop organises with the preferred repairers and with our repair system. But most of our work is our clientele, our customer base.

MR RENDALL: Are they businesses, Frank, generally, or individuals?

MR BOVA: Individuals, some are businesses. It's mainly recommendation because we've been there for so long, and your customer base grows and they just - when the customer comes to you first, you are able to explain to the customer how the systems work. We tell our customers, "The NRMA, when you ring the tele-claim girls they will try to talk you out of coming to us. They want you to go to a preferred repairer. They don't want you to go to a non-preferred." You tell the customer what situation you're in and they just state firmly that they would like to go to Parraweena Smash Repairs, and basically they are allowed to do their repairs with us. So that's basically it.

MR RENDALL: But your quotes have got to be submitted to - - -

MR BOVA: Our quotes have got to be submitted, and then we do have problems sometimes with our quotes. I think with NRMA the preferred repairer's quotations are looked at first, and we're on a list, and the preferred repairer's quotation is assessed first and then eventually the assessor will get to our quote. But lately, if we're having problems, we just ring up in the morning and say, "Look, can you assess these jobs?" and the assessor does get to them eventually. But we're treated second grade sometimes.

MR RENDALL: Second-class citizens.

MR FITZGERALD: If you can just run through a couple of things. You indicated that you're not a preferred repairer under any of the schemes. Why is that? Is that of your choice, or you've not been invited yet, if you could tell me.

MR BOVA: One, we haven't been approached. Two, I think with the NRMA you have to do a performance plan, and I didn't do it. I didn't do the performance plan because of my choice. So no insurance company hasn't come down to approach us with a preferred status. But that's my choice, because as I said, NRMA - really, to be a preferred repairer, they push you to keep the costs down, where we're using second-hand parts and it's all basically encapsulated.

If you put a time on a guard, that's, say, five hours, they want you to put down three or four. They seem, with the preferred repairers, a lot stricter on cost cutting than the non-preferred repairers. They seem to go to their repair shops more frequently and check their quotation, make sure they're keeping their costs down.

MR FITZGERALD: Some repairers that we've spoken to that are not preferred have indicated that the main reason they don't want to become a preferred repairer is to do with the level of information and intrusion into the business by insurance companies. Others have indicated that it may be because they fear that the costs will

be squeezed further.

But in your view, what are you most concerned about if you were to become a preferred smash repairer for any of the schemes? Is it that your bottom line would be reduced, although there might be increased volume, or is it the level of intrusion, or is it just that you believe that it's not an appropriate way to operate a business?

MR BOVA: To me, one, it's not an appropriate way of operating, and two, the bottom line and the profit margin will come down. In our case, even if the volume of work that - if they do send you more volume of work, you haven't got the tradespeople to do the work. We're on full capacity as it is. If they send you more volume of work, you haven't got the tradespeople to do the work.

It's a hands-on trade. To do quality work, you have to spend the time and effort to do that work of quality. If you get this massive influx of work, you just can't do it. The amount of tradesmen available is limited. I've put ads in the paper looking for tradespeople and there's no reply. So there's a shortage of tradespeople. I think that's come across because of the lack of apprenticeship, apprentices not going through the trade.

We haven't put an apprentice on for seven years, which has been our big mistake, because the kids are not interested. The kids do not want to do the trade. You'd think at the end of the year you would have young children - not children, young men - coming to see applicants for tradespeople. They're not coming. 15 years ago, they used to come, young blokes knocking at your door looking for apprenticeship. Now you're not getting them.

I think that's because there's more emphasis on going to school. Kids are coming out of school, they're doing year 11 and 12, they're 18 years old. They come to us and the wage for a first year apprentice is \$240 a week. The kids at 18 are saying, "\$240 a week? Thank you very much, I'll go and pack shelves for 500." The years go past. Kids start off, before you know, three or four years down the line, that man is a young tradesman. They're not around.

MR RENDALL: If somebody did knock on your door, would you take them on?

MR BOVA: If someone did, I think I would. But they're not coming. I said to a kid yesterday - he's 15, doing year 10 - I said to him, "When you finish school, come and join us." He said, "No, it's too hard." He's just not interested. The kids are not interested. You can see if you go to the techs and the TAFEs, they're having problems with their numbers. I think that's due to the money. There's no incentive for a person to do our trade, because it's become lowly paid.

MR FITZGERALD: If you were able to do it, what do you think would turn that around? Sorry, another question. If there is a skill shortage which everyone in the industry has indicated there now is in some way, shape or form, what will that do in terms of the way you operate a business? Will you change your quoting from doing, say, less repair and more R and R, which is quicker and sometimes easier? What will happen to your business, because many of the repairers we've spoken to have mentioned the same thing, that they cannot get skilled labour. So how does it change the nature of the work you're doing, or do you just do less volume?

MR BOVA: It would be less volume. You're saying whether you do repairs or - I think Greg Coli said it. You look at a job. The way I look at it, you look at a job and what that job warrants. As Greg said, if it's a \$1500 bonnet but it's bugged and you could spend 40 hours - that's not the correct method of doing that job. You don't want to fill it up. That bonnet deserves a new bonnet so it gets warranted.

Whether you repair something or put something new, as a tradesperson you look at a job and you see what that job warrants. Sometimes it's better to repair a panel, if you keep it original, or to keep the joins original sometimes it's better to repair it. But sometimes it's better to replace it. You look at a job individually. That's the way I operate my business. Sometimes a bumper bar could be \$1000. Yes, it can be repaired, but for the quality of the repairs you would go to a new one. That's the way it should be done. You look at what that job deserves and what it needs.

MR FITZGERALD: Can I ask a question, and you can be careful about how you answer this. In terms of the jobs that are being quoted, do you believe there would be a significant difference in the price you charge depending on which insurance company you're dealing with, not necessarily you, but generally? Is there a noticeable difference when you quote as to how you would quote depending on the company you're dealing with? I did say you could be careful about this, but - - -

MR BOVA: Allianz, GIO, we quote the same. They're the same. NRMA, because they've got their own time manuals - with GIO and Allianz we work on the MTA rate, the MTA book, so they're basically the same. We look at a job and we quote those two jobs, virtually it's exactly the same, the same way, the same method; because they have a very similar way of operating.

With NRMA, it's different because they've got an NRMA times manual, their own manual, and I just sometimes shake my head at how they come up with these times. I've put them to the test, how they come to these times. I'm sure they put their own figures in. I don't think the operation has been done. So generally their quote is a lot, lot less; where, for instance, a Falcon guard, you'd get 1.4 to paint a guard with the NRMA, and Allianz - - -

MR RENDALL: That's 1.4 hours?

MR BOVA: 1.4 hours. GIO and Allianz, it would be two and a half hours.

MR RENDALL: The job requires how much time?

MR BOVA: It's two and a half hours.

MR RENDALL: Every bit of two and a half hours.

MR BOVA: To do the job properly, and to work properly. You might be able to do it in one and a half hours, but it's not done properly. You've got to work in a safe manner. You have to work in the right conditions and you have to prepare the job and paint it. As I said, the times manual that NRMA has put out, I would like to question how they came up with their manual.

It's their times. My disapproval of it is, there's no other party to question that time. It's, "There you are, that's your times." There's no formula, there's no way how they've come to those times. AAMI's is in dollars. We don't do a lot of AAMI because it's a tender system and that goes into the centre, and it's really - I believe with the AAMI they have the repairers go in there and quote the system. I think the assessors get to know the repairers and, I'm not saying any more. I think there is a bit of favouritism there. So that's basically it on that question.

MR FITZGERALD: Just in a sense, how has your business changed over the last four or five years? How do you operate your business today differently from what you've done four or five years ago, given all the changes in this market? Where would you see the most significant change in the way you need to operate your business?

MR BOVA: We work harder to get to the customer, to get them more informed. We send letters to our customers telling them they've got their choice of repairer. We tell people who they're insured with. We really, we go out there and try to market ourselves, get to the customer first, before the insurance companies get to them.

When they ring the tele-claims, they will tell them how good their system is. But they won't tell them what negatives - they haven't got the choice of repairer, they won't say that, "You've got this choice, go there." But they don't tell them, "Go to your repairer. Which one would you prefer? Have you been to another repairer before? Have you formed a relationship with a repairer before?" It's just, "Go to our repairer."

MR RENDALL: Is it possible then, Frank, to run a business in this PSR world we all inhabit now by doing that?

MR BOVA: Yes, what - - -

MR RENDALL: Where you are out there - - -

MR BOVA: Yes.

MR RENDALL: - - - hooking your own customers, literally catching your own clients.

MR BOVA: It's a lot harder. I've had customers who have come to us regularly and when this system came out, they went to their preferred repairers. I've had friends, good friends, who have gone to preferred repairers. I've said, "Why didn't you come to me?" "I just wanted to get my car fixed. I just rang them up and they told me I've got to go there. I asked them about you. You're not a preferred repairer. I didn't think you could fix our car."

So they're just, "I just want to get my car fixed," so they went to a preferred repairer. As I said, a person sometimes gets - it's the shock of having an accident - they just want the easy way out and they just want their cars fixed, especially if they think they're in fault, they don't want to cause waves. They're just, "Can I get my car fixed?"

MR FITZGERALD: Just two last questions, from my point of view. One is, when you get a third party accident, a car, in - somebody has said to us that a third party car is costed higher than a non third party car. In other words, at an insurance company, a car has come in and it's another insurance company's car, that's costed at a different price than if it's their own. Do you know what I mean?

MR BOVA: Yes, I know what you mean, but I can't - - -

MR FITZGERALD: Does it happen?

MR BOVA: There's only one area, I think, that persons from CME, who might be next. A third-party claim that might be costed differently. But if you deal with a third party and you're dealing with the third party's - which still has to be assessed - if the assessor comes from Allianz or GIO or whatever, it's still the same hourly rate. I think there's third party companies out there that take third party claims on, that you might be able to quote higher for those companies, but generally, if your third party is with Allianz or GIO or NRMA, it's the same rate, the same way of quoting.

MR FITZGERALD: We've heard a lot about quality throughout this inquiry, about the current arrangements possibly decreasing quality. You've made some reference to the fact that if the hours allocated are too low then you're not going to be able to do the quality job that you want. How is that actually impacting you? Are you bearing the cost of doing it to the right quality, or do you think that repairers generally are being forced to cut corners in order to make the deal, or is the third possibility that we'll see more and more rectification work required years down?

MR BOVA: If you're squeezed, you know you have to make a living. You know you have to make a profit. If the price is getting cut, you will have to cut corners. You have to. In our shop we quote a job and we negotiate with the assessors. As I said, we're not a preferred repairer, so we don't get intimidated as much, because we don't have to go with the blue, the gold, the red status. We're not on a performance plan. But we're virtually quoting our jobs and then negotiation with the assessor, and we will communicate with the assessor and look at it and go over the job.

MR FITZGERALD: Any other comments, Frank, before we finish?

MR BOVA: As I said, I'd like to comment on our hourly rate. It's been 10 years without an increase, and those increases before were our superannuation came in, and I think we got 30 cents pay increase. We've been on \$30.90 for about nearly 10 years now. There haven't been any CPI increases and the workshops have worn the increases of extra equipment, the computers have come in, your order rates, wages, because of the lack of tradesmen the wages have gone up at least 20, 30 per cent over the last two years. We have worn that.

Our hourly rate hasn't moved. We're wearing this, and the only way we're surviving is that we're working hard. I've got me and my brother there, we're working 70 hours a week to survive, and we're not going to close our doors. Where are we going to go? We just wear it. There's no increase. Superannuation has gone from 3 per cent to 9 per cent. There's no committee there. It's all about cutting costs. But we've got a business to run as well. That's why we've got a tradesman shortage. Shops are closing up and most tradespeople are not going back into the field.

I think the insurance companies are worried about their profit margin, "What's happening in the next six months? What's our profit scope?" But most of the people out there, most repairers are there for the next 10 years. We've got to look past what's happening in the next financial year. A lot of them have got sons who are going through the trade. What future have they got?

You might say "funny time, funny money", all that. The funny time is only in one area, and that's in the repair area. The R and R and paint times are scheduled.

They're scheduled in the books and they're pretty close on the mark. So the "funny time, funny money" is in one area, and that's your repair times.

MR RENDALL: Because in R and R you're stuck with a 30-buck rate.

MR BOVA: \$30, but - - -

MR RENDALL: The manual.

MR BOVA: You've got the MTA times book or you've got the NRMA times book, and they're pretty on the mark. We'll leave it alone.

MR RENDALL: They're only on the mark in terms of hours, not - - -

MR BOVA: Hours.

MR RENDALL: Not dollars?

MR BOVA: No, you've got your times manuals, which is in hours, to do a procedure, whether you take a bumper bar off, or paint - - -

MR RENDALL: The rate that you multiply those hours by - - -

MR BOVA: Is the hourly rate.

MR RENDALL: Which is the \$30, and that's what hasn't kept up in R and R work.

MR BOVA: And your paintwork.

MR RENDALL: Paint, yes.

MR BOVA: But your paintwork is given in a time section. You get so much to paint a guard. That's specially allocated, so if you want to paint a guard, you just look at the times manual. As I said, the "funny time, funny money" is only in one area. That's in the repair times.

MR RENDALL: Going forward, Frank, apart from all these difficulties, as the industry changes and cars changes and more investment is required and new equipment to handle new different types of cars - would you be prepared to do that? Is there a business case in terms of investing more money?

MR BOVA: No. I wouldn't invest more money in my business at the moment, until things - we'll see which way we're going, see which way the insurance

companies are going, because if you do invest money in your business you like to get a return. At the moment, I don't think anyone is getting a return on their investment. I think that's only commonsense. If you invest money in your business you should get a return on it. At the moment, you're not getting a return on it.

MR FITZGERALD: That's fair enough. Thanks very much, Frank. We'll just have a five-minute break and then we'll have the final two participants. Just a reminder that, at the end of those two, if you haven't participated and you wish to, there will be an opportunity to do so.

MR FITZGERALD: Wales Truck Repairs. Darren, if you can just give your name and position and organisation, thanks very much.

MR WALES: My name is Darren Wales from Wales Truck Repairs, the MD of Wales Truck Repairs out in Smithfield. Firstly, I'd just like to apologise. I've come extremely unprepared. I thought it was a little bit more of a public forum where I'd sit up the back and wouldn't say much, and secondly, because I'm extremely nervous, I hate public speaking. So I'll probably be quite brief here.

We're a specialised truck repairer in the industry. We run parallel problems, I suppose you could say, towards the car industry, but we are in a bit of a unique situation where it is quite a different industry which we run. We've submitted a submission to this inquiry, or commission rather, just in relation to one particular insurance company that we have dealings with - they're actually an underwriting company.

I can't really say a hell of a lot about that at this inquiry, as only two weeks ago we've actually solved our issues. The underwriting agency approached us and have solved quite a few of those issues. There was a bit of a compromise on both behalfs. We certainly did have to sign about three or four confidentiality agreements with that particular underwriting agency. I'd prefer not to say a hell of a lot about that, but what I'd perhaps touch on is certainly some common industries.

Our submission was more of a specific nature, with certainly a specific problem. Perhaps I can talk a little bit more about it on a generic basis of the industries. One of the problems was a parts issue. This particular underwriting agency supplied their own spare parts to our industry. We'd complained about that for many a year. As I said, it was for a whole host of reasons, supply and cost and profit on those parts. They've solved the issue but it's still an issue which I feel certainly affects everyone here. The main thing that I'd like to bring up to the inquiry is the mandatory code of conduct and the dispute resolution. On dispute resolution, this issue that we had with this particular insurance company was going on for some two years.

My company spent, it was actually over \$100,000 on various legal fees, legal infighting between the two of our solicitors on commercially sensitive material that we produced to the industry to put our side of the story across and as a defence mechanism for our client base, because our client base was diminishing through this parts issue.

The dispute resolution, as you say, I certainly feel something needs to be done about that, whether it be the truck industry or the car industry. I just feel it's absolutely ludicrous what I've been through over the last two years with an issue that

I feel certainly could have been resolved a lot simpler, certainly a lot more financially beneficial to both parties; because both parties in the course went through some heckish times throughout it.

With the final outcome of it, as I said, it went to and from court. We produced a heap of corporate brochures to send to our customers. As I said, whether it be the truck industry or the car industry, perhaps an outside or a third party mandatory code of conduct or a third party dispute resolution with some authority or with some power can certainly have a look at the two sides of the cases, both ours and the insurance company, and say, "Perhaps we can resolve it like this," rather than go through the long, lengthy decisions that we had to go through.

MR RENDALL: There was nowhere for you to go?

MR WALES: Absolutely not, no. We certainly tried on many occasions, both roundtable conferences and certain compromises on both behalfs. In the end, it was actually both our companies - both the insurance company - the insurance company came to me and said, "We can't keep going on like this. We're looking like two schoolkids fighting and bickering with each other."

It was the insurance company who came to us because they actually tried quite a few of our clients - we'd produced this brochure towards them. Quite a few large clients - one with about 150 vehicles - actually wouldn't reinsure with them because of the disputes that they'd had with us. So in one instance you can say it was a little bit of a win for us, but all in all it was a loss-loss situation for both companies. Within the car industry, at this stage in time I think no insurance companies turn around and say, "Look, we will supply our own spare parts," but what's to say that the decision - or down the track they turn around and take that off the car industry, and say, "Right, we will now supply our spare parts."

If you ask every repairer in this room if that happened, not only are you eroding the profit margin - first and foremost the main decision that we made was not a monetary based decision, it was a service based decision because we actually reduced our labour rate to the insurance company, we had quite a few discussions about making the system work. We said, "Look, it's not monetary based. It is a service based thing."

We couldn't keep the service up to our clients through the inadequacies of the parts supply, but in the end it didn't happen so we decided to go our own way. So when the car industry, if an insurance company now perhaps decided to elect to supply their own parts, you're losing out on, number one, the supply to your clients - we were, anyway. You're losing out on the profitability and the profit margin on those parts. You're also losing out on the turnover on those parts.

If I want to build up my business in the next x amount of years and decide to put it on the market or what have you, or valuations towards my business for whatever reason that may come about, the value of that business is based on a profit margin and a turnover margin. Straightaway, as I think in the submission it says parts - and it's pretty accurate - is around about 50 per cent of the cost of the repair. Quite often we'll do jobs in our workshop over \$100,000, \$150,000 repair bills. You take \$75,000 off that margin, off that final bill and it erodes the turnover of your business quite substantially. If every insurance company decided to do that, we'd go from a \$10 million a year business to a \$5 million a year business, which affects the saleability or affects the valuation of your business.

Perhaps the inquiry can look at a dispute resolution or some form of contingencies where we as repairers - I'm talking to car repairers as well - perhaps have got a defence mechanism against any major decisions that insurance companies may or may not make, without any comeback. At this stage, if any of the insurance companies turn around and say, "Okay, we'll decide to supply our spare parts," that's a pretty big impact on the industry.

As I said, the first and foremost that we try to negotiate with the particular insurance company by way of reducing our labour rates - it wasn't a monetary based decision, so the main thing we based our decision on was the supply. We were actually losing clientele over it. So it wasn't monetary based. That obviously had a secondary effect with the profitability and the turnover.

As I said, I'll try and be as brief as possible. I think that's probably all we've got. Our focus in the submission is the dispute resolution. Is there some form of third party resolution, perhaps? As I said, we've now resolved it, but only on a substantially compromised basis on both behalfs, on both the insurance company and our behalf. But perhaps if we can get other people not to go through what I've been through for the last two years.

MR FITZGERALD: Thanks for that. You did give us a submission and it was quite detailed about the particular incidents, but before talking about the dispute resolution which you've just raised - the issue about the supply of parts generally and, again, not going into the absolute detail of that particular case, but just generally, was the supply of parts by the insurance company on the basis that there was an agreed margin that would be payable to you or was that in fact the source of the problem in part?

MR WALES: Pre the resolution?

MR FITZGERALD: Yes, pre the resolution.

MR WALES: What it was is, pre the resolution we'd complained about their parts supply for many years. What it was is the insurance company would supply the parts, give us a percentage mark-up on the parts but we had no control over where parts came from. So what would happen, in effect, is the insurance company made these national deals with sometimes obscure parts supply locations, because they'd get a better discount, a better deal with them.

So we had an instance once where we had to buy a part, a substantial part, for a truck, for a heavy truck, and we knew that it was available in Sydney but, because the insurance company was Queensland based, the insurance company had to order the part from the Queensland depot. They didn't have it in stock but the Sydney depot had it in stock. What happened is they shipped the cab of the truck - it was a \$30,000 cab - up to Queensland and then back to us. We're dealing with people's livelihoods in trucks, because their a tool of trade. Every day counts. This in effect took six days longer than what it should. It as ludicrous and I actually asked the CEO of this particular company did that happen, and he agreed that it did happen. It was ludicrous.

We couldn't get parts and we'd be waiting on parts for two weeks longer than what they should had we have been able to purchase those parts. Ultimately the owner of the vehicle knew that it was the insurance company's delay in supplying the parts and he was on side with us, but it was getting out in the industry that you have your truck repaired at Wales Truck Repairs and it's in there for two weeks longer than what it should, through no fault of our own. I said, "I can't keep going on with this because we're losing clients through no fault of our own." So there were a couple of instances like that that broke the camel's back, so to speak, and we elected not to deal with that for the last two years.

MR RENDALL: It's now resolved though.

MR WALES: It's now resolved, yes. As I said, we certainly can't say a hell of a lot, go into specifics, because there have been quite a few confidentiality agreements signed.

MR FITZGERALD: At what point would an alternative approach to dispute resolution have helped you? This is a two-year saga. So if there were an external dispute resolution procedure or some form of dispute resolution procedure, when would it have been prudent to have brought it into play? Because these things have a bit of a life until themselves.

MR WALES: Certainly. I believe certainly very early in the case, purely because what we've agreed upon now, two years down the track, is not that far from what it

was at the start. It got a little bit personal. Personalities came into play, I'm sure of it, and that's always a slowing-down deterrent of the resolution. So I think certainly very early in the play, had a third party arbitrator or what have you been involved in it, it could turn around and certainly, I'm sure, would have come to a very similar arrangement of what we've come to now, two years down the track.

MR FITZGERALD: You said that they had been supplying parts for some time. So it wasn't the supply of the parts itself, it was the problem in the beginning. It was, what, a changed arrangement?

MR WALES: No. The supply of the parts had been deteriorating for the last 10 years, which we had documented evidence and which we had complained about for the last 10 years. It got to a point where we were actually losing clientele, and I said, no, we've got to make a commercial decision and draw a line in the sand and say, "No, we no longer accept your parts supply." You've got that. There certainly are other factors, but that was a main factor of it, of the parts.

MR FITZGERALD: In terms of the trucking business itself generally, the relationship between the insurance companies and truck repairers, how would you characterise that? We haven't spent a lot of time in the report on that, but we've looked at your submission and spoken to other parties. But just generally, how is it characterised?

MR WALES: Other than this perhaps one instance and one dispute that we've had - and I might add this particular insurer is a dominant market force in the industry. They have a market share of about 35 per cent in Australia. So they claim to be one of the largest insurers. Other than that, other than the once instance, no, we don't find it too bad. I've been listening to some of the car reports and things like that and we suffer the same trials and tribulations as the car industry. I notice you mentioned before about spare parts and do you think that "real money, real time" is going to put more spare parts - - -

MR RENDALL: Move from repair to replacement.

MR WALES: Move from repair to replace. My answer to that is I cannot see how it can, because an insurer sends an assessor, a representative their company, out to decide on whether to repair it or whether to replace it. It's not up to us as a repairer. Ultimately it's up to that insurer. So he is the one deciding whether we get "real money, real time", "funny money", which to me has absolutely no bearing on the fact of whether to replace that or whether to repair it. We can quote whatever we want. If there's a little dent in a door and we quote to replace the door, I'm sure the insurance company is not going to allow it, when they send their designated representative of that insurance company out. He'll say, "No, repair it." So whether

the monetary value or the labour figure, it has no bearing on that whatsoever. I can't see how it can.

MR RENDALL: "Funny time, funny money" doesn't exist in the truck - - -

MR WALES: No, it doesn't. At this point it doesn't. I can't say too much into that at the moment because I believe there is one particular insurance company working towards it, yes.

MR RENDALL: Working towards introducing it?

MR WALES: "Real time for real money".

MR FITZGERALD: So you've got "funny time, funny money".

MR WALES: Yes, but the whole system of costing and things like that, ultimately it's the insurance company's representative that comes out to your shop and determines what cost it is. So for someone to say shop A is dearer than shop B, that must be because that insurance company's representative has allowed it to be dearer. If I quote \$10,000 on something and shop B quotes \$5000 on something, you would presume that the trained insurance company's representative is going to come out to our shop and not allow \$10,000. So it's a pointless argument, to me, whether one shop is dearer than another shop, because ultimately it's the insurance company's representative that determines the final price, the final outcome, and the method of repair, whether to repair or to replace.

MR FITZGERALD: Thank you very much for that, Darren, that's terrific.

MR FITZGERALD: Is David Quinn here? David, your full name and the organisations you're with, perhaps, for the record.

MR QUINN: Yes. My full name is David Edward Quinn. I'm a lawyer, a sole practitioner with a firm by the name of Quinn and Quinn Lawyers, in Sydney.

MR FITZGERALD: Thanks. David has given us a substantial submission, but if you can give us a brief introduction, that would be terrific.

MR QUINN: All right. As a lawyer, I was involved with some cases that were conducted and heard before the Local Court in the Downing Centre in Sydney over 2003 and 2004. There was a determination that was delivered in November of last year. At the time, I was assisting five plaintiffs who had their vehicles repaired by five repairers. Liability in relation to the collisions were not in issue, only the quantum of the cost of repairs.

The defendants were all represented by their insurer, which was NRMA Insurance Ltd, and there was a determination by a magistrate, Mrs Horler, who was asked to hear these five cases on the basis of test cases, to determine how disputes, in relation to what were fair and reasonable costs of repairs, were to be determined in the court system through New South Wales, predominantly in the Small Claims Division, which is claims under \$10,000.

Mrs Horler gave a determination. I made a copy available to this commission. That determination was not the subject of appeal by the NRMA and it has been adopted to date in a couple of cases. My purpose today was to give an indication, in the limited amount of time that has transpired since the determination was made, as to how the court has determined the determination of Mrs Horler and what has been the results of a couple of cases that I've known to date that have been determined in the earlier part of this month, and to make myself available to any questions, either from members of the commission or from the floor, if people want to ask me some questions.

I have published the material both in relation to the determination and also my interpretation of how the case was decided, and that's my letter of 22 December 2004 addressed to the court. I know that there have been a couple of determinations since late December involving claims for cost of repairs where liability is not in issue. The cases have been determined as against the plaintiff, which is the owner of the vehicle assisted by a repairer, on the basis that the claim for quantum of repairs wasn't adequately transparent enough to satisfy the court that the plaintiff, the owner of the, if you like, not at fault vehicle, had discharged its onus of proving to the satisfaction of the court that the cost of repairs were fair and reasonable.

I haven't produced copies of those two determinations but in both instances the defendants in those two cases that were recently determined were represented by AAMI. One of the cases, if people are interested in getting a copy of the determination - the parties' names are Hean v Thai and the proceedings number was 11333/03. I haven't brought with me the name of the other case, but if people want to contact me they can.

Essentially, the second case, which I don't have the reference for, followed the same reasoning as the case with the details I've just given to you. Essentially, the assessor in the Local Court, in determining these two cases in January - and they were both part-heard and they had been adjourned on the basis that the court was aware that the determination of Magistrate Horler in the five test cases was pending, and invited the parties after the determination was published to make submissions which then flowed.

Essentially, the assessor in the small claims division, in finding for the defendant on the basis that the plaintiff hadn't satisfied the court that the cost of repairs were fair and reasonable, relied upon the evidence predominantly from the plaintiff's loss assessor. He found that the loss assessor hadn't discharged the plaintiff's onus to the court of demonstrating what was fair and reasonable.

In that particular case, the loss assessor had adopted a practice of what's been referred to as an all-up method, where groups of labour services, such as remove and replace, repair and align, and paint and refinishing were nominated as a dollar amount for the whole grouping of each of those three labour services; as opposed to an itemisation of each of those services with reference to the time spent, by either reference to the MTA times manual or, in the absence of reference to the times manual then the time estimated by the repairer having regard to his own experience, multiplied by an hourly rate which the loss assessor gave evidence as to what that hourly rate was, which was in excess of what the insurance industry refer to as the industry standard but is really more, in my view, adequately described as an agreed rate as between insurance companies and those repairers that are prepared to do work at a certain hourly rate.

The loss assessor hadn't provided those details which the court found didn't lend itself to a sufficient level of transparency so the court could ascertain whether the cost of repairs as claimed were fair and reasonable. That was really the main point that came from the case. There were some side issues in relation to issues of independence of loss assessors, the weight that loss assessments by assessors were given on the basis of whether those assessments were made prior to or after repairs had been effected. That concerns the insurance companies.

Suffice to say that, in relation to the plaintiff - that's the not-at-fault vehicle - it

went without saying that in the vast majority of cases assessments were not conducted by the plaintiff's loss assessor after the vehicle had been repaired, to make an assessment whether the scope of works were undertaken, the parts claimed were used or that the repairs were satisfactory.

The plaintiff's loss assessor gave an assessment in the vast majority of cases prior to the repairs being undertaken, and he found that, in relation to quite a substantial number of loss assessment conducted by insurance companies, that those assessments were either done by way of what they refer to as a desktop audit, relying upon photographs without a physical inspection, or a physical inspection that was done after the repairs had been completed.

The assessment looked at issues of the scope of works undertaken to confirm whether the repairs were consistent with the accident report, to confirm that the parts used were as claimed, and that the repairs were satisfactorily completed. That's what I wanted to say, just in relation to those two cases that have been decided to date. I'm happy then to field questions in relation to that.

MR FITZGERALD: From Horler's decision, what do you think the impact of that decision is for repairers? Out of these cases that have now been heard, and you've mentioned a couple of others, from the repairer's point of view, what do you think the key message is?

MR QUINN: Just on the Horler decision, she was asked to do a task which she did, and that was to establish an authority for dealing with disputed claims in the court environment for claims under \$10,000. She made it clear that her role was to look at these claims that were otherwise clogging up the court system where parties had wanted to embark upon an endeavour of looking at the cost of repairs on an item by item basis. It was becoming extremely time-consuming and counterproductive.

She then looked and heard a lot of evidence, and she came up with a formula which I've summarised in my letter of 22 December, which I hope is on the web site. What she essentially said was this, that for a plaintiff to discharge its obligations to the court in relation to mitigation or to lessen the damages, and for those damages that are fair and reasonable, a certain series of steps had to be undertaken.

She enunciates those in her determination. But in doing so, there has to be a degree of transparency in relation to the evidence that is presented to the court or, in the absence of there being a determination, in the interests of settlement between parties in dispute as to what's fair and reasonable there is to be a series of steps taken to interchange sufficient information so that the parties can then make an informed decision as to what's fair and reasonable.

MR FITZGERALD: I noticed in your newsletter, the Quinn and Quinn newsletter, you say that she arrived at a formula based on the following key parts. She included the hourly rates charged by each of the five repairers for non-insurance or private business work that was realistic and commercially arrived at and was a reasonable rate. She concluded that the times allowed for the various services in each jobs were reasonable and necessary to effect proper repairs. In some senses, the gist of all of that is that is, were they trying to determine whether the formula that was used by the insurance companies were appropriate or whether in fact it reflected the real work being undertaken by the repairers?

MR QUINN: There was reference to some terminology that did come up during the hearing of the tests cases, which was "funny time, funny money". She didn't want to embark upon investigation of that terminology or what it stood for. In the end - and you'll see from her judgment - after the evidence was given and tested by cross-examination in relation to the plaintiffs' repairers and the plaintiffs' loss assessors and the NRMA, who only called their own internal loss assessors, that she essentially preferred the reference to the MTA times manual as being more realistic than in this particular case, because of the NRMA in-house times manual.

In the absence of times manual, she relied upon the experience of each of the five plaintiffs' repairers. She made points in her decision to point out the fact that they were men who had many years standing as repairers and had what she thought was very strong experience.

MR RENDALL: Sorry, David, why didn't she accept the NRMA times rates, times tables?

MR QUINN: She found that it was less than independent. She didn't say self-serving but she said it was on average about a two-thirds of the MTA manual allowance, and she preferred the MTA reference.

MR RENDALL: On what basis though. The MTA rates could have been equally as self-serving, could it not, for the other side of the fence?

MR QUINN: The MTA represents various members, whereas the NRMA published their manual, on my understanding, for its own use and operation.

MR RENDALL: I just wondered though why she arrived at that particular conclusion, that that was a better rate.

MR QUINN: After listening to the evidence, her preference was that it was more independent than the NRMA times manual. Where she found that there wasn't a reference in the MTA times manual for certain labour and services, such as repair,

she relied upon the experience, in these particular five cases, of the plaintiffs' repairers. That was the subject of evidence and cross-examination. The NRMA called their loss assessors and these issues were ventilated. The evidence-in-chief and cross-examination, in the end, she expresses in her determination, she preferred the evidence of the plaintiffs' repairers, in the absence of a times manual.

MR FITZGERALD: So again, what's the lesson that you draw out for insurance companies in terms of them accepting quotes and confirming quotes?

MR QUINN: For insurance companies? I think it's a misnomer for insurance companies to maintain a description that the hourly rates that they are guided by are an industry standard. She was made aware that a lot of these rates that insurance companies maintain are an industry standard and haven't been the subject of revision for many years now.

Because the scope of the exercise was to keep it relatively limited, it was decided not to call evidence from external bodies, such as the MTA, to provide indication as to how the basis upon which their material was to be regarded and how it was followed, but she did accept that all of the repairers in the five cases she heard made reference to the MTA manual and in the absence of reference they relied upon their own experience. That's the reason that she preferred that approach over the times manual published by the NRMA.

MR FITZGERALD: In the five cases, the original five cases, is my reading correct that the amount to be paid to the plaintiffs' repairers was in fact considerably higher than what the NRMA had in fact originally determined?

MR QUINN: Yes, it was higher. The end result, I did some figures in relation to the five cases and, applying her approach to it, the repairers' claims were only reduced by a factor of about 15 per cent, whereas if you applied the NRMA rate, it would have been reduced approximately by about 50 per cent.

MR FITZGERALD: Yes, okay. So the net result for the repairers was considerably different to what would have happened if the NRMA position had applied.

MR QUINN: Yes.

MR RENDALL: There's been no appeal, David?

MR QUINN: No, they haven't.

MR FITZGERALD: And they're out of time.

MR QUINN: They're out of time and the NRMA, through their solicitors, told me that they would accept the decision, that they didn't wish to appeal.

MR FITZGERALD: We've got the documentation and we'll be going through that, just in a bit more detail, but I don't have any other specific questions at this stage. Curt? It was just really to try to elicit the key features of the case as it's relevant to some of the discussions we've been having during the day, before your presentation. I just want to clarify, is your practice continuing to take on multiple clients in relation to this area, or are these matters - - -

MR QUINN: I initially was approached by a third party promoter called Claims Made Easy. Claims Made Easy and I parted company about mid 2003, but there are some repairers that have approached me to see whether I'd be interested in providing some assistance if matters required documentation and/or litigation, whether I'd be prepared to accept instructions for plaintiffs or not-at-fault parties. But I haven't promoted it. I really wanted to see the outcome of the test cases last November, to see how it was being interpreted this year.

MR FITZGERALD: The two test cases you referred to before, have we got details of that or have they just come through?

MR QUINN: They came through mid January. The one I just read onto the record, that as one of them. I have a copy which I can give you, but I don't have a reference to the second case. Apparently it was decided on similar lines to this one that I've got.

MR FITZGERALD: If you can give us a copy, that would be terrific. Thanks very much, David, that's fine.

MR FITZGERALD: We have two additional people that want to make a short presentation, as I indicated before. We might do that now. That's Greg Henson from Callaghan Collision Centre. Thanks, Greg, if you can give your name and the organisation you represent, and then it's over to you..

MR HENSON: Greg Henson from Callaghan Collision Centre at Tarren Point. Firstly, after sitting here today and listening to what everyone has had to say, these are a few of my views that I still don't understand. Firstly is obviously the major one, I believe, in the industry, is the rate to the time allowed to do the operation, why there is such a difference between insurance companies in the time of the operation that they allow, yet they have the same similar type of rate. I would like to see maybe some sort of external body go over those times and understand why there is such a vast difference, especially in the paint operations. Obviously we're on a fixed time to do any operation, whether it's a paint or an R and R operation, on the current hourly rate. So your multiples, I don't believe, equate to where they should equate to.

Then the issue was raised that there would be more parts supplied to the repair if the allowance was increased. I still tend to disagree with that because there are certain elements of any repair on a one-on-one basis that you need to take into consideration if you were to supply a new part. There is extra R and R components possibly, and extra paint operations that may need to be done, versus the repair. That is obviously always taken into consideration on the repair versus the replace. Certain opportunities aren't there on certain parts of the car, due to the plastics and the complexity of things like headlights of today. So the repair opportunity is not always there. So that's probably one of the first things I'd like to raise.

The next one is obviously the warranty process. I still can't understand how as a repairer you have to give a lifetime guarantee on the workmanship and parts that you put onto that vehicle when the manufacturer has certain criteria of warranty processes; that is, you can go from a five-year warranty to a 12-month warranty, yet we're expected to give a life warranty. Even on our products that we use, there is a lot of people that are forced to use inferior hardeners and paint products. I won't, but there are certain people that do have to use it, and I can't see how they can then back their warranty when they're squeezed into that position, to remain profitable.

Then getting back to the materials, I still can't understand why the materials and consumables are part of our rates and allowances. It's not a true reflection of the consumables and materials that you do use. When you're talking a single panel on a car, I believe when you're talking a single panel there's nowhere near enough allowance. Multiple panels do add up, but certainly not to the extent of what materials are costing today.

Frank said 10 years. I think, of my own knowledge, it's been just over nine years since we've had an increase, yet I know the product that I use, the paint that I use, has gone up 104 per cent in that time, let alone the running costs and the fixed costs of investment that I've made down there, and obviously the ongoing costs. As much as you invest in technology and equipment and there's a certain element of being more productive, in the materials and in the equipment that you use, it's still not a true reflection on the return on investment that you are forced to put in, and especially if you want a future for yourself.

The technology, the motor car is certainly not going backwards. The complexity of the car today to what it was 10 years ago requires the training and the tooling-up to be able to repair the car to its pre-accident condition, and the customer's expectation is that today. That's an extremely big part of it all.

The a subject that's come up from Wales, on parts supply. Certain insurance companies have started to do direct supplies, especially with more the sublet items, like windscreens, radiators, condensers, all that sort of thing. There's talk that other companies are looking at doing the same. Some of the companies that are doing it in other states aren't paying any handling or mark-up fee, yet they're still expected to check that part when it comes in the door, mark off the invoice and make sure that they have received the part so there's no problems later, store the parts, get rid of the waste cardboard. All that is obviously a cost that the repair trade have to absorb. So that's pretty much all I wanted to add there.

MR FITZGERALD: Just a couple of questions, if I can very briefly. You've indicated that you think it's unfair that your workmanship should be subject to a lifetime guarantee. How has that actually impacted in practice? Have you actually had cars returned to you years after, or alternatively, you being required to pay for repairs done by another repairer for rectification work?

MR HENSON: I had a car returned to me 11 years later, a Honda Civic, that was parked at Cronulla out in the weather. It came back for paint fade. They told me that, "It's at another repair shop and it will have to be rectified and resprayed." I disagreed with the outcome and I ended up to taking to more senior management level and said, "How can I be expected to give a lifetime 11-year guarantee on paintwork that I can't get out of my supplier." I said, "The best I can offer you is that I go to the supplier and if he's happy to warrant his product, then I can warrant the respray, because I'm not going to pay for it. You'll have to deal direct with the supplier on that."

Fortunately it was another like shop that uses the same type of product, and the paint supplier managed to sort it out directly with that repairer. I think that was a totally unfair decision made against me. However, I put my hands in the air and put

it down to the supplier, but if the supplier didn't take that on board, I don't know what would have happened. I think it's a pretty unfair judgment yet the manufacturer gives, I think, a three-year warranty on their paintwork.

MR RENDALL: Yes, that point you make is quite interesting, that you buy a brand new car and you get different warranties, with three to five years - Mitsubishi now - and yet you guys are required to give lifetime.

MR HENSON: In stating that, I guess there's a lot of comfort there, knowing that you're not using inferior other paint products, and I guess that's so I can back that type of guarantee and why the supplier did. There's a lot of repairers that are forced into different situations that maybe won't be as fortunate, which is obviously a scary thought.

MR FITZGERALD: One of the things we've canvassed in the report has been the unpacking between the true labour rates, or whatever labour rates you want, and the actual costs of paint in that particular component, so that they're separately quoted. If you do that, what do you think will happen in terms of the paint usage? Because we've heard that, under the current arrangements, there has been a shift to lower-cost paint, and some would say inferior quality of the paintwork. Will unpacking it make any difference, or not really, or at the end of the day, simply we approve that lower quality paint?

MR HENSON: I've been approached to use a cheaper paint to get my paint costs down. However, I don't believe that would be the right thing by the vehicle owner or my customer, and I certainly wouldn't want to go down that road. I think there's certain elements that the paint companies should be accountable for. I'm not saying they can charge any price they like for the paint, but I believe that they do a lot behind the scenes to improve our productivity gain and to try and help us to still remain profitable and use the correct type of materials. I don't know if that's answering the question that you wanted me to answer.

MR FITZGERALD: Just your last comment, in relation to parts. You've mentioned that for some companies, they're not allowing handling and other costs. In those parts that are coming into your workshop, have you got an agreement as to what mark-up you can put on those parts that you're taking, storing and putting on, or does that vary from company to company?

MR HENSON: It varies from company to company. There are more ethical companies that pay a mark-up and some that don't. Yet you're still expected to do all the footwork and groundwork and expected, when they come into your shop, to perform the task. You still have to supply the workshop space, the electricity to do the job if required, and everything else that goes with that.

MR FITZGERALD: What's the answer to that? If companies want to continue to be able to provide certain of these parts and have them fitted on site, what would you be recommending?

MR HENSON: I don't know if I should be recommending for the whole trade.

MR FITZGERALD: No, your own, just about you.

MR HENSON: I think, from my perspective, there should definitely be a handling fee (a) to make the phone call to organise to have the supply there to fit it and (b) to make sure that everything is right and ready for him when he does turn up. Either that or they give us the transparency of saying this is what they can get it done for, and give us the opportunity to maybe match that price. If we can get a better price, they're still paying the amount of money that they want to pay. They're not transparent in what they're paying.

MR RENDALL: I was just talking to Greg earlier and I'm just reading this final part of the note about the increase in hourly rate which hasn't gone up for eight years, but you say that insurers have had an increase in premiums of about 200 per cent over that time?

MR HENSON: In business insurance alone, and workers compensation insurance, it's 220-odd per cent of what my business insurance has gone up in that nine-year period.

MR RENDALL: The insurance premium on the car for the consumer, what's been the rise in that? Would you know?

MR HENSON: It varies. It's hard, depending on where they're going to underwrite, the type of vehicle, statistics they've got on the vehicle. That would be pretty hard for someone like me to comment on. But I definitely know from my own vehicles it's - I don't know the percentage, but it's much dearer than it used to be.

MR FITZGERALD: Thanks very much, Greg.

MR FITZGERALD: Michael Schumak from Maroubra Automotives? Hello, Michael.

MR SCHUMAK: How do you do.

MR FITZGERALD: Good. If you could give your name and organisation for the record.

MR SCHUMAK: Michael Schumak, Maroubra Automotive Refinishers, Hillsdale.

MR FITZGERALD: If you want to make a couple of points, that would be great.

MR SCHUMAK: Yes. I didn't really come prepared to say a lot. I'm just trying to think about what I was thinking a minute ago. In reference to what you said about the insurance premiums, when I had my vehicles insured with NRMA and I wanted to renew my insurance, I spoke to them about the increase in my insurance and was told that NRMA increase their premiums approximately 15 per cent per annum, even though the cost of the insured value goes down. So that's your answer to that question.

My submission is that the industry is being destroyed by the insurer, because they haven't given us an increase since 1996, and everything has gone up. All your labour has gone up. For \$30.90 an hour, we're expected to supply a workshop, a worker, electricity, power tools, materials, we're expected to clean the car, do the quote; and it's all absorbed in \$30.90 an hour. So it might take two hours to quote a car, the car may write off, then you lose the two hours.

If the car, when you give it to your client, is dirty and he complains, they ask you, "Why didn't you wash the car?" You don't get paid to wash the car. If you quote "wash this car" they say, "No, that's part of your goodwill." But the goodwill, when you tell them, "It's our customer," they say, "No, it's our customer. We're the insurer. They're our customer." But we wash the car for their customer and don't get paid for it.

So the whole industry is changing. As far as sublet people coming into your workshop going - like your windscreen installers and all that, 10 years ago OH and S didn't exist. Now we're all required to go to training to learn about OH and S. Technically speaking, those people shouldn't even come into your workshop unless they've got all their insurances for you and they give it to you. But the insurance industry seems to think, "We're going to send this bloke in to put a windscreen in." He uses your power, you clean the crap off the windscreen when he finishes, the residue that he does leave - they do clean some of it, yes. So there's a lot of responsibility on us, the repairer, to give the consumer a good product, and we get

nothing for it.

At the end of the day, 10 years ago, NRMA was a very good company, and then they became a public company and they seem to bring these time and motion people in, and they say, "How are we going to save money?" and they say, "Okay, look at the industry." From what I gather, these time and motion blokes come in and say, "Why are we giving these blokes two hours for one hour's work?" and they say, "It's 'funny money, funny hours.'" They've said, "If they're prepared to work for 30 bucks an hour, give them 30 bucks an hour." That's it.

The NRMA, if you remember, when they acquired CGU at the beginning, I think, of last year they said in their submission to the shareholders of CGU, "In the first year of acquiring CGU we will make for our shareholders, we will save them \$22 million just by changing the assessing methods from MTA assessing methods to NRMA assessing methods." They're going to save the shareholders \$22 million.

What they should have said, "We're going to take \$22 million out of the smash repair industry by changing the assessment methods," because how else, by changing the assessment methods do you save your shareholders \$22 million? That's what they said when they acquired CGU. The industry is terrible.

As for apprentices, how can you possibly put an apprentice on when we're getting paid \$30 an hour? I pay my tradesmen about \$30 an hour. You don't have time to train an apprentice. An apprentice needs time. You need to spend two hours a day with an apprentice. How can you say to your tradesmen, "Spend two hours with him. We're working for 30 bucks an hour, we've got to get that job out the door, but train the kid." You can't train the kid. I used to have apprentices every year. Every year I'd put a new apprentice on. But I haven't put an apprentice on for about five years.

Two of my apprentices topped the state. But you can't do it any more. You just don't have time, and that's the problem. The industry is just going backwards. Unless something is done, I think - a lot of good repairers are getting out of the trade. I've had my shop for 30 years. I started panel beating in 1965, and there's so many of my friends that are just gone, it's unbelievable. But the reason I stay there is that I'm there, my wife works for me, my son works for me, my daughter works one day a week. If I shut the shop, they're all out of work.

But in saying that, I'm lucky, I own my own property. If I didn't own my own property, I would be gone, because we're in the eastern suburbs, your land will push your rent up 5 per cent every year. You'll get a lease, your rent goes up 5 per cent, or CPI, whichever is greater. The landlords don't give a great hum about panel beaters. The rent goes up. So for the poor people that pay rent, a lot of these repairers can't

afford it. You've only go to look at the eastern suburbs, there's about five panel beaters left in the eastern suburbs, and most of them own their own property.

So the industry is gone. Unless something is done about it, unless we're paid a better rate, the industry is gone. The other stupid part is, I own a towing company. I'm very fortunate, I suppose, that I own a towing company. But when we tow a car to a panel beater from a tow truck point of view, I sympathise with the panel beater because he gives us a cheque - if I charge a panel beater \$200 to tow a car to his workshop, he has to write me a cheque, he has to make a place in his workshop in his yard or somewhere for this write-off, because it's usually a write-off.

He pays me \$200, stores the car for the NRMA or whatever. I get the \$200 and I put it in the bank. But when he says to the NRMA, "I want to put 20 per cent mark-up on that item, because I've written a cheque and I stored your car - and this all the insurance companies, not only NRMA - there's no mark-up. Why is there no mark-up? They say, "We're not going to pay your mark-up. That's just our decision."

That's how they stand over smash repairers, just to give you an idea, they won't give you a mark-up on towing. So if you try to fight it or put it on, they just cross it off. It's crap. So you're expected to do something for nothing, and I laugh about it a lot of times, because my towing company isn't a bad one, and when we get these phone calls, we go to an accident and the people say, "Take it to a PSR," a preferred smash repairer, we laugh.

These cars are off their faces and you can't drive them. Some of these smash repair shops in the eastern suburbs are very small, as big as this room, and you'd put a write-off in the corner, and you can't get a mark-up on it? That's disgusting. Yet when the windscreen guy comes in they pay you 20 per cent mark-up on that, or 10 per cent depending on what it is. You can mark it up.

Then the other thing with spare parts goes, the NRMA, they say that they will give you 10 per cent mark-up on spare parts up to \$1000. So that means if you buy a part for \$100, they give you \$10 mark-up on a second-hand part. If you buy a second-hand part that's \$1000 they give you \$100 mark-up, which is your maximum. So if that second-hand part cost you 3000, they give you \$100. It's fantastic. I think that's about all I can think of at the moment.

MR FITZGERALD: Could I just go back to the rate, and we don't want to go into it in great detail, but the argument is that the rate hasn't changed but the number of hours available to do a particular job compensates for that. When you look at it and you've got to deal with the hours and the rate. Everyone agrees that you can't just look at the rate and you can't just look at the hours and all of that. What you're

saying is the rate hasn't gone up.

We know that, it's still at 30 bucks or whatever it is. But what's happening on the other side of that equation, the time side? Some would say to us that, in fact, has been adjusted. So the rate has been held for 10 years or whatever the number of years is - not quite that long. But the hours have changed, or you've become more productive on the others.

MR SCHUMAK: The times haven't gone up. The Motor Traders Association book hasn't changed over the years. The NRMA publish their own book. They give you the book. How would you like to work for someone who says, "This is what I'm going to pay you and that's how many hours you're going to work"? That's wrong.

A friend of mine who was an insurer loss assessor with NRMA went to a meeting with the NRMA and every week the NRMA changed the goalposts. They just said, "From now on, we're going to give the smash repairers, to blend a panel" - if you paint a major panel on a metallic car, you have to blend the adjacent colour to make the colour look the same. So they said, "We're going to give them half an hour, up or down to the nearest half hour, to blend a panel." So this assessor said, "That means on a Toyota Echo" - which isn't a very big car - "if the panel beater puts a new bonnet on and he has to blend the mudguard, you're going to give him .5 of an hour to blend the mudguard." They said, "That's right."

Point 5 of an hour, if you divide it by \$30.90, is \$15. \$15? For \$15 you've got to rub the thing down, mask it up, paint it, denib it, buff it if you have to. \$15? You can't get three cups of coffee for \$15. They don't even give you any compensation. If you quote for a new mudguard or a new bumper bar on a car, these new plastic bumper bars are a problem. You quote for a new bumper bar and they give you two and half hours to paint the bumper bar. Then they say, "No, put an exchange bar on it, save us some money." So you put an exchange bar on it. These people who do these exchange bars use the cheapest primers that they possibly can. They know the panel beater is going to fix this exchange bar up.

So we get this bumper bar that's got this terrible primer on it and we have to spend about an hour extra to prepare that thing, to paint, to make it look as good as a brand new bar, because of the inferior products that they use, because we have to give it the guarantee. So if we paint a bumper bar and the paint flakes off, they just say, "Not our problem," because we're supposed to be the tradesmen. We're supposed to know how to paint a bumper bar.

MR FITZGERALD: Can I just ask this question - and we've just heard from Quinn and Quinn, and the purpose of them submitting a submission is basically that, as you heard, the Magistrates Court determined that the NRMA rates were not

realistic vis-a-vis the MTAA. Obviously we don't have an opinion on that but an easy solution is to say we'll simply increase the labour rate from \$30 to some other figure. But it strikes me it's a bigger issue than that.

MR SCHUMAK: Of course it is.

MR FITZGERALD: That in fact the whole quoting regime needs change.

MR SCHUMAK: You can increase the rate by whatever. The government can come in and say, "We'll increase the rate," but the insurance industry is just going to come back and say, "We'll reduce the hours," They'll just compensate it. What are you going to do?

MR FITZGERALD: And that's possible, and the alternative is they could, of course, increase it.

MR SCHUMAK: Yes, pigs fly.

MR FITZGERALD: What's your magic bullet to that dilemma that we're now in: where the insurance companies are rightfully trying to maintain some control on costs; you're trying to not only cover costs but make a profit. The current arrangements are at best questionable and at worst, some would say, deceptive.

MR SCHUMAK: It's very said because the industry is in a lot of turmoil and there is a number of shonky repairers out there and it's unfortunate and they hurt the ones that aren't shonky. So there's a lot of issues that need to be addressed. I don't have all the answers. I know what I need in my particular workshop and I know what a lot of my friends require in their workshops. There's no great answer. I think someone needs to look at the hourly rate to make sure that we get the hourly rate CPI, like we were getting. Prior to 1996, we were getting a bit of a CPI and it wasn't bad, but since then we've had nothing. That's what has killed this trade. The last 10 years have killed this trade. I think someone said before we need someone, like a disputes committee. We need that for sure.

I had a dispute with the NRMA about administration. I've an administration fee to unlock some gates. I've got a towing yard and I had to unlock some gates, so I charged them \$10 to do that. When I got the cheque back, the NRMA bloke said - I rang him. I said, "Look, you haven't given me the \$10." He said, "What's that for?" and I said, "Administration." He said, "Why is that?" I said, "We had to drive a kilometre down the road, unlock the yard for you, let your assessor look at the car, and then, when the other bloke came to pick the car up, down we go another kilometre, unlock it. \$5 a time I didn't think was expensive." He said, "Put it in writing and submit it and I'll run it by management." For \$10? Put it in writing? Is

he kidding? So I closed their account and now they pay COD, so that solved that problem.

MR FITZGERALD: A bit of pragmatism never hurts, it's true. Can I just go back. Just on your mark-up, and this seems to vary, you mentioned that in relation to the sublet arrangements, you were saying that you get a mark-up on some of those arrangements. It seems to vary from company to company.

MR SCHUMAK: On sublet arrangements, they're supposed to give you 20 per cent mark-up, or 10 per cent.

MR FITZGERALD: One of the insurance companies.

MR SCHUMAK: Depending on who they are. But 10 per cent is the minimum they should give you, or most of them give you, and some give me up to 20 per cent on certain items, mark-up, but nothing on towing at all. And parts, the parts' mark-up is terrible. Before the GST came in, we were getting 17 and a half per cent on list because of all this wholesale tax. I'm not an accountant, I'm a panel beater. Once all the taxes changed AAMI came to the fore and they said, "Okay, we'll give panel beaters 4 per cent," because they worked out that, if they give us 4 per cent, it worked out about where we were before the GST.

The NRMA said, "We're not going to give them anything, because we're the NRMA." So all the insurance companies said, "Well, stuff it. If they're not going to give 4 per cent, we're not going to give them 4 per cent." So in the end the only one giving us 4 per cent is AAMI, and they're a worse insurance company than NRMA. Work that out.

MR FITZGERALD: I just should remind you it's on the transcript.

MR SCHUMAK: It's only my opinion.

MR FITZGERALD: That's fine. I presume you're not a preferred supplier with NRMA or AAMI?

MR SCHUMAK: No, definitely not.

MR FITZGERALD: That's all right. It may have been short lived.

MR SCHUMAK: I don't have an issue with them.

MR RENDALL: If life was good pre 10 years ago - then I suppose a quick thumbnail - what other major items have changed? We've heard them all, but in your

words.

MR SCHUMAK: The major items that have changed, in what way?

MR RENDALL: In that 10 years, to take you from a reasonable sort of industry 10 years ago, to now, arguably in this state. What needs to change?

MR SCHUMAK: The first thing that needs to change is we have to have a reasonable hourly rate. I am not one that's particularly against a certain "funny money, funny hours", as long as the "funny money" is - I believe today's rate should be around about \$50 to \$55 an hour, and still be subbed by "funny money", because of you go to "true money, true hours", it's just so difficult, because the insurance companies aren't going to trust the repairers. It's very difficult.

You need trust between insurers and repairers and that's what you don't have and I don't know if you're ever going to get it, because you have to remember the insurance assessors are paid by the insurance companies to save them money. They're not there to spend their money. They're there to save money. They're an assessor. I don't think in 10 years I've ever seen an assessor put the times up. They don't come and say, "Geez, you missed that R and R," or, "You missed to paint that." They just tick what you've got. Then if you ring them and say later, "Listen, I missed the paint on that guard." "So you did." If you quoted to paint the mudguard, they'd soon take it off if they didn't want you to paint it. So it's very hard.

It needs to be controlled by someone, be it by the Motor Traders Association, a body of repairers and insurance representatives. It needs to be controlled by the government or someone, but it needs to be looked at or the industry is going to die.

MR RENDALL: What else? You said dispute resolution.

MR SCHUMAK: Yes, it needs that, definitely.

MR RENDALL: An independent umpire of sorts.

MR SCHUMAK: I'm sorry?

MR RENDALL: An independent umpire of sorts. What else? Anything else?

MR SCHUMAK: I don't think it would hurt to have independent assessors that contract to insurance companies, because then you're not dealing directly - if you had one assessing company that worked for Allianz and NRMA and the assessor assessed right across the board for all of them, and they all paid the same rate and the same everything, that would save some of your problems. It's like buying a Toyota off

different dealers. If there's some sort of price fixing, that they all pay us the same money, I don't think you'd have an issue. But it's just you get an assessor from NRMA that's trained by the NRMA to take money off us and then you get an assessor that's trained by another insurance company, but not as viciously, they don't take as much off you.

I got a car adjusted through this hailstorm we just had, a Hyundai, and the assessor allowed me \$2700 labour, which includes my materials, to do all the hail damage and respray the whole car, for \$2700. You can't buy a stove for that or a fridge. For \$2700, and this is labour - admittedly there was a new bonnet and whatever - but that's nothing. I had my office painted at Christmas time and it cost me \$1500 and they brush the paint on. You're kidding. We've got to paint a car in a spray booth, with all this stuff, for \$2700 labour, and supply the materials, bear in mind.

So to do the job, you've got to consider, a \$2700 job, there has to be a minimum of, say, \$700 in material. So then you get \$2000 to do the job. If you want to achieve \$400 a day out of your tradesmen, which isn't too much ask to a point, I suppose, you've got to do the job in five days. You've got to dismantle the car, do all the dents, respray the car, reassemble the car, wash it, clean it. In five days? Not possible. And give a lifetime guarantee. It's a physical impossibility, yet that's a Hyundai. If that was a BMW, you'd get 10,000. So what's the difference between a BMW and a Hyundai?

MR FITZGERALD: Just explain to me, why would you get that extra amount for a BMW?

MR SCHUMAK: Because it's a BMW, and they're owned by people with a better standing, who have all this clout. And because it's BMW, they pay more money. NRMA have a different schedule for a BMW. So to paint the roof of a BMW, you get nearly twice as much as you do to paint the roof of a Toyota. Don't ask me why, because it's the same job. It's the same guarantee, it's the same warranty. They're the same sized car. But that's how you've got to do it,.

MR FITZGERALD: Are the materials being used different, quality of the paint?

MR SCHUMAK: No, not if your fair dinkum. You can short-cut the job and do it cheaper. Obviously with a BMW they expect you to do the highest standard all the time. With a Hyundai, they seem to think, "Don't worry about it so much because it's only a Hyundai and it belongs to Joe Average down the street, but you'd better do that one," probably because it belongs to Justice What's-his-name.

There's a lot of things that come out in the trade. You've got to think of

another part of the trade. For years and years the smash repairers have told to blend panels, which means that, if we paint a car, somewhere along the way the paint has to finish. Then Lexus came out and said, "Okay, if you paint a Lexus, from now on if you repair a Lexus, if the car has a dent on a quarter panel on one side" - which is your rear guard - "you don't blend." You paint the quarter panel, the whole roof and the other quarter panel, so there is no edge. Therefore you take all the tail lights out, you take all the windscreen moulds off. To paint one little dent that big you've got to paint half the car, and a lot of money to do it.

Yet for years and years the repair industry has been subject to this blend stuff. -So of late, I've taken this Lexus stance and if I quote a car and the assessor says, just blend the quarter panel," I just give him a texta and say, "You mark where the blend is going to finish, so when it comes through in three years' time, you can wear the warranty." They go, "Just paint the roof." It's fun but that's the industry.

MR FITZGERALD: It's the industry.

MR SCHUMAK: It needs a lot of addressing.

MR FITZGERALD: Thank you very much. Thanks, Michael. Is there anybody else who would like to have a couple of minutes before we conclude? Going, going, gone. Nobody else?

I just want formally conclude this session. Firstly, I'd just like to remind you that written submissions are due by 11 February. The report will go to the government on or before 31 March. If there are issues that have come up today that you've been listening to and you want to put in further thoughts, this is the opportunity, between now and 11 February. We will certainly be going back to some of the participants that have raised issues which we haven't had time to explore in detail during the day. So this is just part of the process. We'll be in Melbourne on Thursday and we'll have participants both from the insurance and repair industries there, as we did today.

Finally, I just want to thank everybody for being here, observers and also the staff from the commission and the associations, and our transcriber. Thanks for a very interesting day. Thank you very much.

AT 4.38 PM THE INQUIRY WAS ADJOURNED

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