

**Productivity Commission inquiry into the
relationship between the smash repair
industry and the insurance industry.**

Lumley

**Submission by Lumley General Insurance
Limited ABN 24 000 036 279**

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Introduction

Lumley General Insurance Limited (Lumley) is ranked as Australia's number 1 Commercial Motor insurer (JP Morgan, 2003 General Insurance Survey) with a market share in excess of 10%.

Our client base is essentially a mix of government, semi-government, corporate, and medium and small businesses. We have a relatively minor share of the Domestic Motor Vehicle market. Annually, we handle in excess of 50,000 motor vehicle repairs as follows:

Commercial Motor Vehicles -	94%
Domestic Motor Vehicles -	6%

We pride ourselves in our reputation as a high quality claims service provider to our clients.

Executive Summary

- Lumley's primary objective is to deliver quality service to its customers at a cost effective price, consistently achieved by our ability in a free market to select preferred suppliers (be they repairers, loss adjusters, or other service suppliers);
- the Smash Repair industry will continue to rationalise due to over-supply and reduction in demand. Those that invest in modern repair technology and provide superior service will deservedly continue to enjoy a 'preferred' repairer status with individual insurers;
- ultimately, customer satisfaction in regards to both premium and service, determine whether they elect to participate in preferred repairer schemes or networks. Insurers are entitled to differentiate themselves from their competitors, based on the service provided and the service providers that they have negotiated a business relationship with;
- Lumley believes that issues between smash repairers and insurers are best dealt with between the individual companies. Dispute resolution handled by a third party will only create an adversarial situation, which is not conducive to insurers and their suppliers working together to provide customer service; and
- Lumley believes strongly that requiring collective negotiation by repairers with insurers is anti-competitive.

Motor Vehicle Claim Numbers

During the period 1 July 1999 to 30 June 2003 the insurance industry had 5,600,000 claims registered, approximately 18% of this figure relating to Commercial Motor Vehicles. Australian Prudential Regulation Authority (APRA) statistics show that total motor claims have significantly reduced since 1999, when approx 1,580,000 motor claims were lodged compared with:

2000 - 1,300,000 2001 -
1,291,000 2002 -
1,433,000

Note: Figures for 2003 have not been published by APRA however it is widely thought that claim numbers are static.

Reduction in claim numbers is attributable to a number of factors, many of which will hopefully result in further future reductions, not only from a property damage perspective but importantly in personal injuries:

- a) Increasing commitment of organisations (both government and corporate) to adopt risk management strategies.
- b) Corporate awareness of OH & S responsibilities for drivers of company vehicles.
- c) Introduction of 50km speed limits in urban areas and increased utilisation of speed cameras.
- d) Climatic conditions, eg drought reduces frequency and severity of losses due to dry road conditions.
- e) Introduction of 'chain of responsibility' legislation and 'speed limiters' into the heavy transport sector.
- f) Major upgrades of key inter-capital road systems.
- g) Heightened community awareness to the human cost of motor vehicle accidents.
- h) Commitment of major fleet insurers to introduce loss prevention strategies as a value added service to clients.

The Smash Repair Industry

The Australian Competition and Consumer Commission (ACCC) Issues Paper, September, 2003 contains the following table showing that the number of vehicles per smash repair shop in Australia is substantially less than other countries:

Country	Number of Repair shops	Total passenger vehicles	Vehicles per Repair shop
USA	53,000	130 million	2,453
UK	5,300	25 million	4,717
Australia	5,038	9.7 million	1,925

With an apparent over-supply of repairers, further rationalisation of the smash repair industry is inevitable. Whilst many repairers have demonstrated a commitment to invest in new technology and actively participate in 'preferred smash repairer' schemes, many have not done so and are therefore struggling to compete against the more modern and efficient repairers.

Preferred Repairer Networks

Preferred Repairer Networks have been in use by large fleets for many years - both by insurers and indeed self-insured organisations. Their selection criteria and its objective application, can often be forgotten.

As a market leader in Commercial Motor insurance, Lumley recognises that the selection of service providers is fundamental to maintaining service and, therefore, market share. Consequently we actively promote the use of our Repairer Network.

Being conscious of the need to ensure that selection criteria must be transparent - not only to repairers but also to clients, Lumley has adopted and documented its selection criteria, covering 5 main areas:

1. The **Business** - Does the business project a professional image? Is an OH &S officer nominated?
2. **The Workshop** - Are the latest repair methods and technology being utilised?
3. The **Premises** - Is the Reception area, clean and tidy? Is sufficient parking provided?
4. The **Personnel** - Are they courteous, friendly and committed to providing good service?
5. **Industry Accreditation and Compliance** - Do they have Quality Assurance and comply with relevant Environmental Protection Authority requirements?

Quality and timely repairs, cost effectiveness, equipment level and use of technology are weighted according to our customers needs. However, our Network is also based on geographical needs, recognising that a mutually beneficial business relationship must reflect supply and demand.

Naturally, we provide feedback where requested to unsuccessful applicants as well as suggested areas of improvement.

Each Network repairer is required to sign a Service Level Agreement detailing expected service standards and, importantly, quality of repairs.

Repair costs directly affect the cost of insurance, particularly in Commercial Motor insurance where fleet operators see a direct correlation of premiums to claims.

Having repairs performed at a Network Repairer has a number of key benefits:

- a) Reduced repair costs due to agreed discounts on retail price of parts and labour rates.
- b) Reduced repair costs due to better utilisation of repair technology.
- c) Reduced administration costs due to utilisation of remote assessing technology and ease of regular quality audits.
- d) Ability of insurer to confidently guarantee workmanship and maintenance of structural and safety integrity of repaired vehicle.
- e) Mutually agreed, measurable service standards.
- f) Close, non-adversarial, working relationships to facilitate the most viable and cost effective method of repair for each job.
- g) Repairer receives consistent workflow.

Non-Network Repairers

Whilst Lumley actively promotes the use of its repairer network, choice of repairer remains at the discretion of the customer. Those clients committed to utilising our network do so with the knowledge that undertakings between our suppliers and ourselves are in place, which will:

- reduce premiums
- minimise downtime
- facilitate cost monitoring

Rates

It is widely accepted that current labour rates do not represent real time or money. The final cost is the measure of repair cost and is dictated based on sustainability and offer and acceptance. The rates, which are negotiated by each individual insurer invariably, apply to time allowances published by the Motor Trades Association (NSW) and are accepted nationally. Whilst it is accepted that these times do not reflect real times it is also acknowledged that insurers usually allow repairers to charge full retail price on parts, thus subsidising any perceived shortfall between the fair and reasonable labour cost and the allocated labour time.

Payments to Repairers

Every endeavour is made to ensure that repairers are paid;

- weekly, in the case of Network Repairers, and
- monthly, in the case of non-Network Repairers.

Lumley

Like many other insurers, Lumley has an automated computer payments system that ensures all creditors are paid in the accounting month that invoices are raised. Naturally, delays can occur when invoices forwarded by repairers do not correspond with amounts agreed with the repairer.

The June, 2003 survey conducted by the Victorian Automobile Chamber of Commerce (VACC) gave an impression that insurers are slow to pay repairers. Given the fact that over 85% of VACC members did not participate in the survey it is difficult to recognise the data as credible. It is pertinent that the survey questionnaire was forwarded to members 'late June' and that (for reasons not disclosed) a deadline of 4 July, 2003 was imposed - it is our view that such time constraints undermine the integrity of the data being interpreted.

Second Hand Parts

Lumley believe that under no circumstances should second hand parts be used if they compromise the safety or structural integrity of the vehicle.

Used parts are only considered on vehicles, which are either out of warranty period or over 3 years old, provided they meet the Australian Design Rules and do not jeopardise the quality of repairs. They may also be used in cases where factory original parts are no longer available.

Always, the use of such parts is done in consultation with the customer.

Dispute Resolution

The general insurance industry Code of Practice, the Insurance Enquiries and Complaints scheme and existing legislative provisions already deliver the desired protection to consumers, which must be the principle objective. This includes access to individual insurers internal dispute resolution processes and the external dispute resolution scheme.

The General Insurance Code of Practice and Insurance Enquiries and Complaints (IEC Limited) Scheme are aimed at resolving disputes between consumers and insurers. The ACCC has noted that the national Insurance Enquiries and Complaints scheme can be effective in resolving disputes that may arise between consumers and insurers.

Lumley believes that it is inappropriate to extend the Insurance Enquiries and Complaints Scheme or the General Insurance Code of Practice to include complaints by or against smash repairers. This is and must remain, a matter between the individual businesses (insurer and smash repairer) with various avenues of recourse available to each - not least the repairers right to refuse to do work if the amount offered for payment, makes it uneconomic to perform the work.