

12 October 2004

Mr Robert Fitzgerald
Commissioner
Smash Repair & Insurance
PO Box 80
BELCONNEN ACT 2616

Dear Commissioner Fitzgerald,

**RE: INQUIRY INTO THE RELATIONSHIP BETWEEN THE AUSTRALIAN MOTOR
VEHICLE SMASH REPAIR AND INSURANCE INDUSTRIES**

Thank you for agreeing to accept this late submission, in light of the recent Federal Election, to the Productivity Commission's inquiry into the relationship between the Australian motor vehicle smash repair industry and the motor vehicle insurance industry.

I raised some of the issues included in the terms of reference for this inquiry in a submission to the Australian Competition and Consumer Commission in June 2002. For the Commission's information I have included a list of smash repairers in the Calare electorate who contributed to that submission, and copies of the written testimonials some of them provided.

This submission will focus on sections subsections 1(b)(i) and 1(b)(iii) of the inquiry's terms of reference, relating to payment rates, timeframes for repair work and payment delays.

1(b)(i) Rates paid by insurance companies for smash repair work

The main area of concern for motor vehicle smash repairers are the rates paid by the insurers and their estimated timeframes for the completion of various repairs.

In combination, these two factors have determined that the hourly rate paid by motor vehicle insurers for smash repair work has remained virtually static for more than a decade when compared to increases in costs associated with running a smash repair business.

Repairers in my electorate have consistently argued that the hourly rates for the various jobs involved in repairing damaged vehicles are unrealistic and have reduced their profit margins to unsustainable levels.

The hourly rates paid by motor vehicle insurance companies vary from between \$28 and \$35, according to the particular company and the work being

carried out. These rates include not only the cost of labour but the cost of materials and parts as well.

The inadequacy of these rates is evident when compared to the \$40 to \$60 per hour rate a motor mechanic is able to charge.

Inadequate Repair Times

The timeframes for each aspect of a repair job are allocated by the motor vehicle insurers also gives them considerable control over the price they pay for the completed work.

According to the repairers I have met with, the insurance companies' estimates are based on trials conducted under controlled conditions rather than workshop conditions. The result is that the time, and therefore payment, allocated to a particular job does not reflect the real time and cost to the smash repairer.

Essentially smash repairers believe they are being short changed on the hourly rate and times allotted to complete their work. This further undermines the payment they receive for insurance jobs and their profit margins.

Additional Overheads

Smash repairers are also expected to cover all their costs from the rate paid by the respective motor vehicle insurance companies, not only for parts and materials as mentioned above but also any additional overheads.

The insurers argue these costs are factored into the hourly rates for labour and painting. However, as the repairers contend, the rates do not adequately meet labour and paint costs, let alone contribute to the additional expenses of running their businesses.

The list below outlines the main areas of concern regarding additional overheads and costs that repairers are expected to absorb on insurance repair jobs:

- *Cost of replacement parts* – repairers have absorbed CPI increases in part prices with no equivalent increase in the rates paid by insurers.
- *Booth allowances* – insurers no longer contribute to painting booth costs.
- *Trade waste removal* – no longer paid for by insurers. Further, with the introduction of the 'Best Practice Sewer and Trade Waste' fee schedule introduced by the NSW State government, the cost to the repairers of dealing responsibly with their waste water and other trade waste has significantly increased, in the case of one repairer from \$255.00 annually to \$1,113.80. This is a cost to be borne solely by the repairer and cannot be passed on to the insurers.
- *Administrative costs* – increased costs associated with compliance with insurance company policies such as online assessment and associated paperwork.

- *Employee costs* – superannuation contributions and workers compensation premiums.
- *Lifetime warranty* – the insurance companies offer lifetime warranty to their clients but the smash repair actually honours the warranty and therefore the cost of any further work that is required.

Consumer issues relating to pay rates and allocated times

The cost pressures that smash repairers are under to complete insurance repair jobs certainly raise questions about the quality and safety standards of the work and whether or not the consumer is getting value for their motor vehicle insurance premiums.

1(b)(iii) Time taken by insurance companies to pay smash repairers for completed work

Since 2001, some repairers have complained of delays in payment for completed insurance repairs contributing to considerable difficulties in cash flow for those concerned.

I raised this problem in my 2002 submission to the ACCC. [REDACTED]
[REDACTED], explained to me in a letter dated 15 August 2001:

“As you could imagine there is very little margin after taking out materials, labour and running costs. Our situation in recent months has been waiting for payments for jobs ranging between \$2,000-\$20,000 running into 6-8 weeks and this situation now has become such where we have been forced to factor with AGC at a cost of 2.04% when really the profits are not there for an additional cost such as that. This is all we can do to enable us to be able to pay our staff and creditors, to keep our bank happy and have some piece of mind.”

Another repairer, [REDACTED]
[REDACTED], informed me they were advised by the *NRMA* that the payment period for online processing had been extended from 2-3 days to 21-28 days which is just not feasible for the repairer. This is despite the fact that fast payment was emphasised as the main benefit of making the capital investment to enable online assessment and processing of insurance repair jobs.

Recommendation

Since 2002 there has been little or no movement to resolve the points of difference between smash repairers and motor vehicle insurers in regard to job pricing and hourly rates.

The ACCC's September 2003 issues paper referred to this aspect of the insurer-repairer relationship at **4.7 (job pricing/hourly rates)**. The ACCC found significant differences in opinion from insurers to repairers as to how the price of a repair job is determined.

Insurer representatives suggested they do not rely on hourly rates to determine the cost of a repair but “rather accept a quote which reflects the total cost of repair taking into account all the relevant elements and costs of the repair”.¹

The repairers contend the “only way to cost out the job is to use hourly rates” and further “repairer groups have stated that when a repair job is broken into these hourly figures the job works out in most cases to be at a lesser rate than at which the repairer can sustain its labour”.²

The ACCC stated that very little detail on pricing rates had been provided to it that could support allegations of restrictive trade practices under the *Trade Practices Act*. However it did state: “[t]he systems used for estimating repair costs do not appear transparent and are a source of distrust by repairers”.³

An enforceable **mandatory** national code of conduct would contribute certainty and transparency to the relationship between insurance companies and smash repairers, especially in their financial dealings with each other.

The formulation of the code should be a bi-partisan process and its make-up unanimously agreed upon by all stakeholders. Most importantly, the code must be mandatory and enforceable.

Voluntary codes of conduct have so far proved ineffective in the horticulture industry, and in regard to franchising as noted in the ACCC’s issues paper. Some insurers have developed individual codes of conduct and believe these negate the need for an industry-wide code, voluntary or mandatory, yet dissatisfaction amongst repairers has continued to increase regardless.

I believe a mandatory and industry wide code of conduct will guarantee compliance with disclosure requirements, especially in regard to job pricing, and provide a sound basis for a system of dispute resolution that is currently missing in the relationship between these two industries.

Yours sincerely,

PETER ANDREN
Federal Member for Calare

¹ Australian Competition & Consumer Commission, “*Issues Paper: Discussion on the relationship between the Australian motor body/smash repair industry and the general insurance sector*”, September 2003; p.13.

² op. cit.; p. 14.

³ op. cit.; p. 14.