

Australian Consumers' Association

Submission to the Productivity Commission

Inquiry into Smash Repair and Insurance

December 2004

The Australian Consumers' Association (ACA) is an independent organisation which represents the interests of consumers and advocates on their behalf. ACA is funded from subscriptions and sales of information to consumers, fee-for-service laboratory testing, and accepts no grants or funding from industries.

ACA has extensive experience in consumer issues since 1960 and has studied and published on motor insurance many times recently, including carrying out surveys of consumers' views on insurance and smash repairs.

Having now studied the Commission's Draft Report of November and the submissions received by the Commission prior to that, ACA wishes to state that in general it is in favour of the findings and recommendations of the Commission as set out in that Draft Report.

There are two key issues that ACA sees in this matter and which we offer the following commentary and recommendations on – that is, choice of repairer and repair safety.

Firstly, with regard to safety, ACA believes that it is acceptable to use non-OEM parts and second hand parts in appropriate circumstances. However, because of the variability of both the parts and the repairs to which they are applied, ACA believes that it is essential to have a national repair scheme that manages the quality of all second hand and non-OEM parts used for smash repair. A high priority must be given to safety critical parts.

An opportunity exists at this time to engage with the National Parts Code Inc seeking to establish a Code of Practice for the recycling of automotive parts. While this initiative is focussed on motor vehicle theft reduction it could be expanded into a program for the management of the quality of parts also.

If a car is old then OEM parts may not be available or may be very expensive compared to the value of the car, so that second hand parts of an equivalent age and quality as the rest of the car should be quite acceptable. A general principle that any fair minded consumer would accept is that a car need not be brought back to a condition substantially better than it was before the repair was required, as long as it is brought back to a condition at least equal to that prior.

If a part is not a critical structural component then small variations in quality are unlikely to affect safety outcomes, so that non-OEM parts that are equivalent to the OEM parts they replace could be used.

It is unlikely in our view that a vehicle that undergoes extensive smash damage and repair would be able to perform the same as an original vehicle in another smash. Hence any argument that the vehicle should be made compliant with the performance achieved by equivalent new vehicles in tests such as the ANCAP crash tests as a reason to use only new, OEM parts is not relevant.

However, it is important that the repairs are effected so that the vehicle's value is not diminished, for instance, by altering its appearance so that its repair is obvious, or so that the vehicle is perceived as non-original.

With regard to choice of repairer, ACA does not think that insurers should be required to provide such a choice. As is the case now we believe it is likely that there will always be a demand for this and that some insurers will cater to that market. If this did not continue, and if the market for motor insurance and repair become in some way non-competitive, then there would certainly need to be a further review of this situation.

In ACA's experience most consumers do not have a preferred repairer, at most they may have a referral from another person which they may use in the absence of any other method for deciding how to obtain repairs.

Most consumers are happy, in fact prefer, to let their insurer manage the repair. When non-choice of repairer first appeared in the consumer motor insurance market ACA research indicated some considerable dissatisfaction with the insurer that introduced that policy. More recent research indicates that this is no longer an issue for most consumers in assessing satisfaction with their insurer.

However, it is important that insurers fully disclose the policy of no choice of repairer at point of sale, and ACA believes they should provide a cooling off period for penalty free cancellation if the consumer indicates they did not understand this policy and is unhappy with it.

An important aspect of this policy is that it makes the insurer much more clearly liable for the repairs, as the consumer only has a contract with the insurer, does not enter into any financial arrangements with the repairer, and follow-up problems must be managed by the insurer, not by the consumer, as is usually the case now. Many consumers, as noted above, do not really want to deal with the repairer in the first instance; they certainly don't want to have to deal with the repairer in the case of a dispute. Nor should they.

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