

RACQ INSURANCE LIMITED

Response to the
Australian Government
Productivity Commission

Inquiry into Smash Repair and Insurance

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1. Executive Summary

RACQ INSURANCE welcomes the opportunity to respond to the terms of reference published for the Productivity Commission enquiry into the relationship between the smash repairer industry and the insurance industry.

RACQ Insurance is arguably the equal largest motor insurer in Queensland and manages/facilitates repairs for in excess of 60,000 motor vehicle claims per year.

A core vision of RACQ Insurance is to provide motor vehicle insurance that can deliver quality repairs that are cost effective whilst delivering a superior level of customer service.

RACQ Insurance has for many years embraced a partnering philosophy with the Queensland smash repair industry.

Whilst we appreciate the context of the inquiry's Terms of Reference, we feel that the issues to which they refer are not necessarily all applicable to the Queensland motor repair industry and in particular RACQ Insurance's relationship with motor vehicle smash repairers or indeed our approach to the repair of our customer's vehicles.

1.1. *This submission*

We have briefly identified what we see as the major issues and have responded to the current terms of reference. In our submission we have given examples of the practices adopted by RACQ Insurance as we believe these provide representative examples of the arrangements in place in Queensland between insurers and smash repairers. We have not been overly detailed but instead have identified and described the general nature of issues that are considered worthy of comment. We would be happy to provide more information or input into this inquiry at a later time.

The comments expressed in this submission are those of RACQ Insurance Limited and are not necessarily the views of the Royal Automobile Club of Queensland (RACQ).

1.2. Recommendations

Below is a summary of our views and recommendations to the enquiry in relation to its terms of reference:-

- RACQ Insurance believes that there is a strong and positive working relationship between smash repairers and insurers in Queensland. We do not have a detailed knowledge of the alleged industry issues occurring in the relationship between the smash repair industry and insurers in other states of Australia that may have led to this enquiry.
- RACQ Insurance believes that if a decision were taken to impose greater regulation on the relationship between Insurers and the Smash repair industry that there is a risk that this may impede currently effective working relationships between the parties and impose greater costs on the consumer with a consequent effect on the level of premiums charged.
- The scope of the inquiry covers the dispute resolution process. For general Insurance consumers, there is a legislative requirement to have in place an effective internal and external dispute resolution process. For outsourced activities, many companies have internal processes in place to manage contractual arrangements and we believe that these are effective mechanisms for both parties to ensure that contractual obligations are met.

RACQ Insurance would not recommend that a national approach be taken to further regulate the issues that are identified within the scope of the commission's inquiry.

If the Commission were to find that there are particular industry problems that may need to be resolved, the application of industry self regulation should be utilised as this has been effective in the past various industry sectors.

2. Queensland Market

2.1. *Background to RACQ INSURANCE*

RACQ Insurance is a personal lines insurer operating exclusively in Queensland and Northern New South Wales with a predominately private customer base. RACQ Insurance also offers CTP Insurance to the owners of Queensland registered motor vehicles. RACQ Insurance currently does not employ staff or engage agents outside of Queensland. RACQ Insurance's operational activities are carried out by its own employees who essentially perform a “back room” function whereas its distribution activities are conducted by the Royal Automobile Club of Queensland Limited, (RACQ).

Contractual arrangements with the smash repairers are managed by RACQ Insurance and we are currently reviewing our smash repairer (selected repairer) network.

2.2. *Market Analysis*

All Insurers strive to achieve a competitive edge not just in terms of premium levels and policy content but also in the supply of repair services to both Insured and Third Party customers. The core factors then that drive insurers in their relationship with smash repairers are, time, quality and cost of repair. Insurers are not able to create an effective balance between these factors if they take a short term view of the relationship or to leverage on one of the factors without reference to the others, eg. a focus in the reduction in costs can have short term savings at the cost of the business failure of smash repairers and ensuing poor time and quality of work outcomes for consumers. RACQ Insurance has for many years been of the view that the delivery of this service is unachievable without the establishment and nurturing of a strategic partnership between the Insurer and a cost effective and profitable automotive smash repair businesses and industry.

RACQ Insurance actively participates in areas crucial to this development and believes that without this support the automotive smash repair industries long term viability cannot be assured. A realistic view by most of the insurance industry of “hourly rates” and “operation times” has led repairers to improve efficiency and productivity, whilst at the same time improving quality, service and profitability. These steps could not have been undertaken without the benefit of partnership agreements between insurers and repairers.

Queensland insurers have developed joint initiatives with industry bodies and training organisations to further develop and improve skills and knowledge in the industry. Examples of this are the established relationships between insurers and the Motor Traders Association of Queensland (MTAQ), Worldskills Australia, TAFE and PPG industries. Some of the current initiatives are;

- Improved apprentice retention, incentives and training development
- Development of career guidance and counselling
- Establishment of an industry representative body to lobby Government for revision of trade training and apprenticeship schemes

Findings and Recommendations

RACQ Insurance is of the opinion that the relationship between the Queensland Insurers and smash repair industry differs greatly from other markets in Australia. The introduction of national regulation could adversely affect already strong, long term, transparent and successful relationships.

3. Preferred smash repairer network/ Relationship history

3.1. *The transparency with which such status is conferred on (and removed from) individual repairers*

In response to the terms of reference “the appropriateness and transparency of criteria used by insurance companies to confer ‘preferred smash repairer’ status on smash repairers including”:

Review of current arrangements

The RACQ Insurance “Selected Repairer” Network was first established in 1984 and included approximately 46 automotive smash repairers in key metropolitan and regional areas throughout Queensland.

In 2004 the network now includes;

- 136 Specialist Smash Repairers
- 8 Specialist Paintless dent repairers
- 4 Specialist Caravan repairers
- 2 Radiator and air-conditioning service providers
- 2 National Windscreen service Providers

The growth and success of the network over this period has been achieved by continued focus on our core vision of Quality, Cost and Service. RACQ Insurance customers have benefited from our partnership with industry through:-

- Quality repairs
- Lifetime guarantee
- Efficient and timely repair service

- Professional claims management

To ensure that a controlled approach is adopted for acceptance to the network, a review of the RACQ Insurance network is undertaken on a regular basis and a current review was commenced mid 2004 prior to this inquiry being announced.

The review has been planned to achieve the goals of transparency, objectivity and fairness. Selected repairers will be required to demonstrate their ability to achieve RACQ Insurance's core requirements of Quality, Cost and Service.

RACQ Insurance is a company that has had consistent growth over the last five years and this success has been dependant on already established and good working relationships with suppliers such as the smash repairer industry to ensure that this growth can continue.

Findings and Recommendations

RACQ Insurance would suggest that each individual insurer in order to form effective service relationships with all stakeholders (including customers and smash repairers) should, where more effective relationships are needed, customise the objectives and requirements for Selected Repairer status and would suggest no change is required to what is essentially a free market commercial arrangement.

3.2. *Are there currently "measures to ensure that market arrangements, including 'preferred smash repairer' status, do not compromise quality and safety".*

Review of current arrangements

RACQ Insurance has a robust quality assurance process and has been pro-active in developing suitable repair management systems for the use with the smash

repairer Industry. All repairers within the “Selected Repairer” network must comply with our structured comprehensive quality assurance programme.

Whilst there has been a suggestion that safety is compromised by cost allowances, current general industry practice subscribes to the belief that quality repairs are by definition safe repairs. Safety is paramount as part of the quality assurance mechanism and is a fundamental part of the service that we provide to our customers.

As a guide to some of the practices adopted by RACQ Insurance for internal quality assurance are:-

- Reinspection ratio of 12 % of authorised repairs to ensure parts and repair method is in accordance with original instructions
- Pre and post delivery quality control inspection ration of 10% of completed repairs to ensure standard and safety compliance
- A parts surveillance unit to audit invoices to ensure parts detailed are consistent with assessor instructions
- Assess ALL claims to ensure suitable industry standard repair methods and parts are used
- Customer service survey of 5% of repairs (customer satisfaction levels are consistently in the high 90% mark)
- Mandated use of OEM components

Findings and Recommendations

The insurance industry in Queensland in RACQ Insurances experience, effectively delivers quality repairs for customers.

We believe that further regulation may impose additional costs that would not necessarily lead to increases in quality and safety for customers or increase the viability of current smash repairers in the industry.

3.3. *The need for “for nationally agreed criteria to qualify for ‘preferred smash repairer’ status”.*

Review of current arrangements

As discussed in 3.1, imposing a universal standard of assessment across a diverse range of businesses and markets would be ineffective and counter productive. In examining the profile and nature of smash repairers, we can identify that in general terms they tend to fall into the category of small business, but within this sub group there is no common profile that can be applied. A smash repairer in regional Queensland has a different profile than one that is operating in metropolitan Brisbane area and this again is different in nature from one that is operating in metropolitan Sydney/Melbourne.

Insurers develop specific business criteria to appoint suitable service providers in order to satisfy their own business and commercial requirements. For example the criteria developed by RACQ Insurance to meet our specific business requirements include:-

- Geographical suitability
- Quality assurance
- Business management practices
- E-Business
- Business Innovation
- Business image

- Customer service
- Equipment
- Effective repair cost
- Licensing and legislative requirements

Findings and Recommendations

Nationally agreed criteria could have the potential to stifle the Industry's ability to approach their business operations in a dynamic and innovative manner.

RACQ Insurance considers there is no need to adopt nationally agreed criteria for preferred smash repairer status, because each insurer has their own specific business requirements, and profile of the geographic region in which they supply insurance related products.

3.4. *The requirement for "measures to ensure that non-preferred repairers are treated in a fair and reasonable manner and which improve overall transparency, competitiveness and consumer protection in the smash repair industry".*

Review of current arrangements

All Insurers have a responsibility to ensure the stability and viability of a prosperous smash repair Industry. RACQ Insurance supports our customer's decision to use a smash repairer suitable to their personal preference. All smash repairers are subject to our quality and service standards.

Findings and Recommendations

RACQ Insurance's approach to the smash repair industry is open and fair. RACQ INSURANCE considers that there is no need to adopt national measures to manage the relationship with "non-selected repairers".

4. Financial Relationship

In response to the terms of reference “financial relationships between smash repairers and insurance companies including”:

4.1. *The rates paid by insurance companies for smash repair work*

Rates paid by insurers to smash repairers are determined by a range of market factors including labour, materials and parts. Continual monitoring and liaison with the smash repair industry is done to ensure that the rates that we allow are based on a sound commercial basis and that take into account quality repairs and the soundness of the relationship between ourselves and repairers.

4.2. *The timeframes provided to smash repairers by insurance companies to consider and make informed decision on contract offers*

Review of current arrangements

It is usual for commercial arrangements between service providers and insurers to contain a standard notification period for any change or termination of the contract.

For example in RACQ Insurance's case the current review of our selected repairer network, contract holders were provided with several months notice that the panel was being reviewed.

Findings and Recommendations

The opportunity to enter into commercial arrangements are determined to the suitability of both parties. RACQ Insurance's opinion is that the Selected Repairers have adequate opportunity to enter into appropriate commercial agreements.

4.3. *The time taken by insurance companies to pay smash repairers for completed work*

Review of current arrangements

Payment schedules are defined in the commercial arrangement between the insurer and the smash repairer. For most insurers the move to electronic and automated payment systems for suppliers has decreased the timeframe between presentation and payment of invoices. In general terms that smash repairers tend to fit into the small business category requires that payment is prompt to ensure responsiveness to the insurers and customers needs.

RACQ Insurance offers a number of options for payment to repairers. This includes E-Business methods, EFT payment and scheduled periodic payments.

Findings and Recommendations

The insurance industry has moved to electronic processes that automate payment to suppliers and significantly reduce time taken between presentation and payment of invoices. We do not believe that external pressures will increase the implementation of more effective use of technology.

5. Consumer Choice

In response to the terms of reference “arrangements for consumers to have reasonable choice in the selection of repairers”.

Review of current arrangements

It is a RACQ Insurances experience clients who require the services of a smash repairer prefer to be directed to a selected repairer who they know has been through a quality assurance process and where we provide an additional guarantee in relation to the repairs conducted. It is recognised that where additional quality assurance measures are in place to audit work completed, there is less of a likelihood of amelioration of the original safety factors that have been provided by manufacturers.

While RACQ Insurance encourages and supports the use of its Selected Repairer network, RACQ Insurance will support a client's decision to use a repairer suitable to their personal preference and will in the both cases (use of selected or non selected repairers) act as an advocate of the client in relation to safety and quality of work issues

In Queensland there are particular factors that may impact upon consumer choice these are geographic location, an adequate client base to support smash repairers and the availability of a regional skills base and resources to ensure repairs meet minimum quality standards. Insurers in Queensland aim to provide regional centres with service equal to metropolitan areas increasing consumer choice.

Findings and Recommendations

RACQ Insurance considers that there is no need to change the current processes in relation to consumer choice.

6. Dispute Resolution

In response to the terms of reference “the extent, adequacy and independence of dispute resolutions systems between the smash repair industry, insurance companies and consumers”.

Review of current arrangements

RACQ Insurance currently has a number of options available to address complaints and disputes. Complaints in relation to consumer issues can be addressed utilising the prescribed process required under Australian Financial Services Licensing Conditions.

The dispute resolution procedure has been designed to take account of the relevant Australian Standards, namely Complaint Handling (AS 4269-1995) and Guide to the prevention, handling and resolution of disputes (AS 4608-1999).

Complaints or disputes arising from smash repairers are managed through an internal complaints management process. This process is transparent and equitable. As previously stated, RACQ Insurance's focus is to develop a collaborative and professional relationship with the Queensland smash repair industry.

Findings and Recommendations

Insurers can address any complaints or dispute arising from decisions in relation to the termination of current contracts, or unsuccessful applicants in the selection process, in accordance with their process for resolving contractual disputes and all have a process for managing complaints or disputes involving customers.