

The UK smash repair industry - structures, relationships and implications

January 2005

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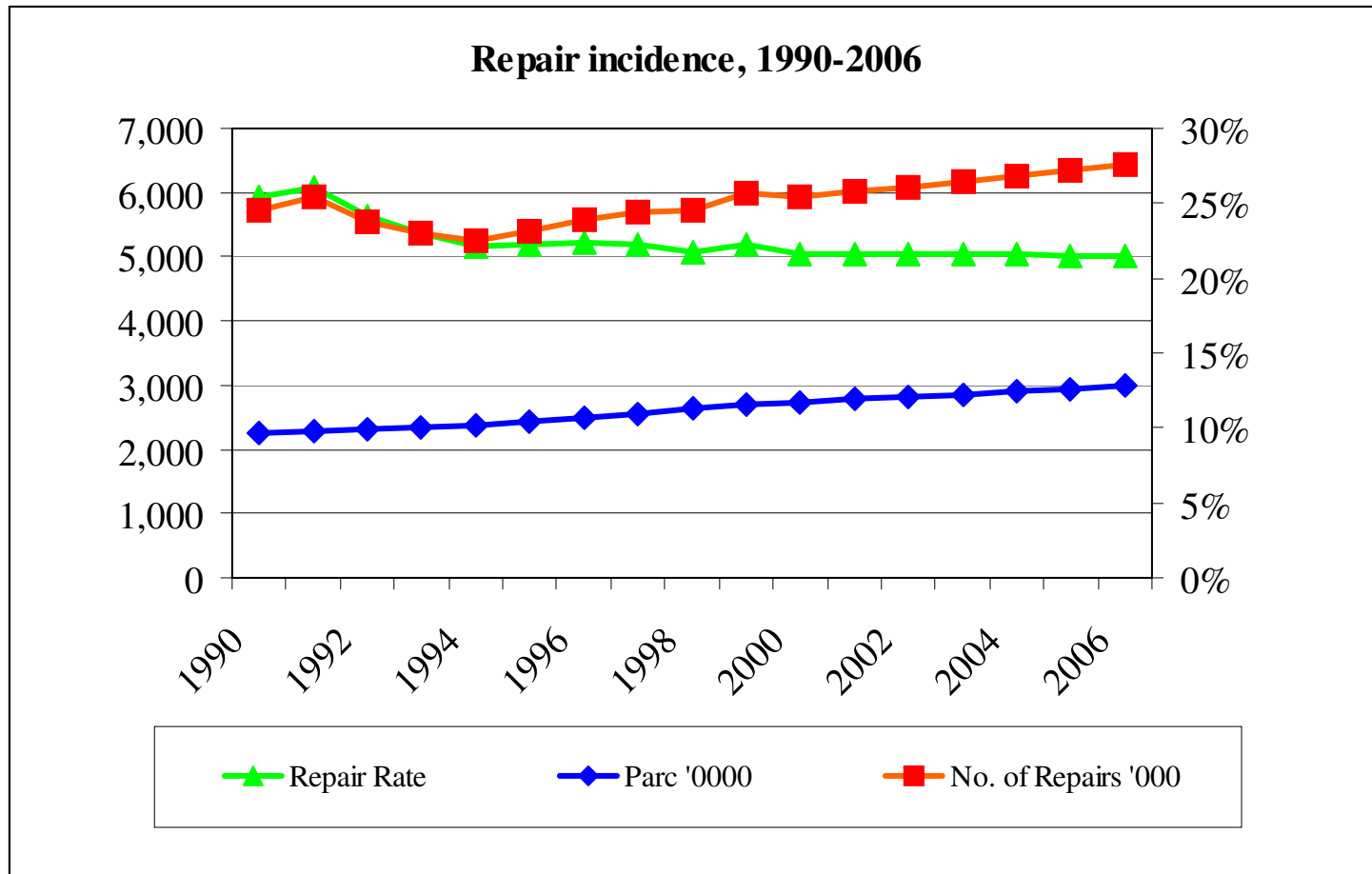
The objective of the project was to move the UK smash repair industry from adversarial to win-win

- **The UK body repair sector displays many of the problems evident in Australia:**
 - **Conflictual relations between repairers and insurers**
 - **Price pressure put on repairers by insurers**
 - **Inadequate returns**
- **We were trying to establish**
 - **The causes**
 - **The possible cures**
 - **Who should effect them**
- **Our aim was to produce gains for all involved**

Structures

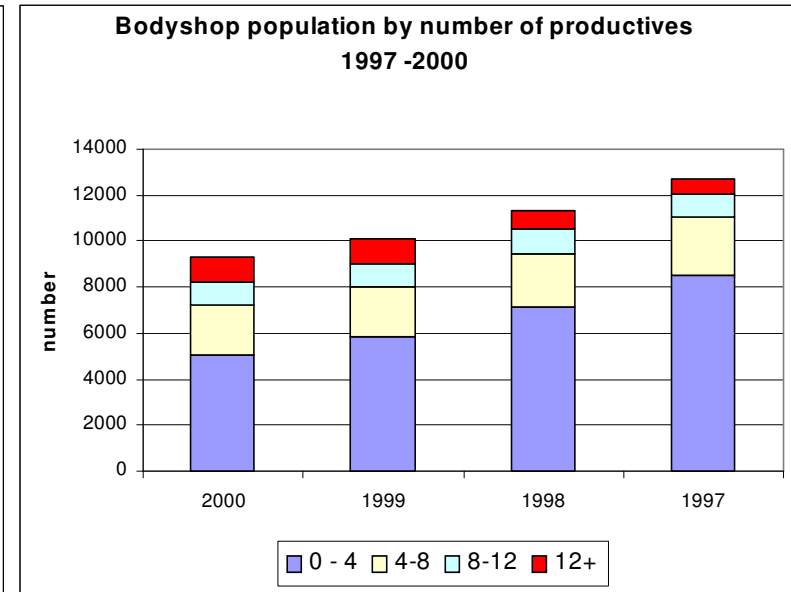
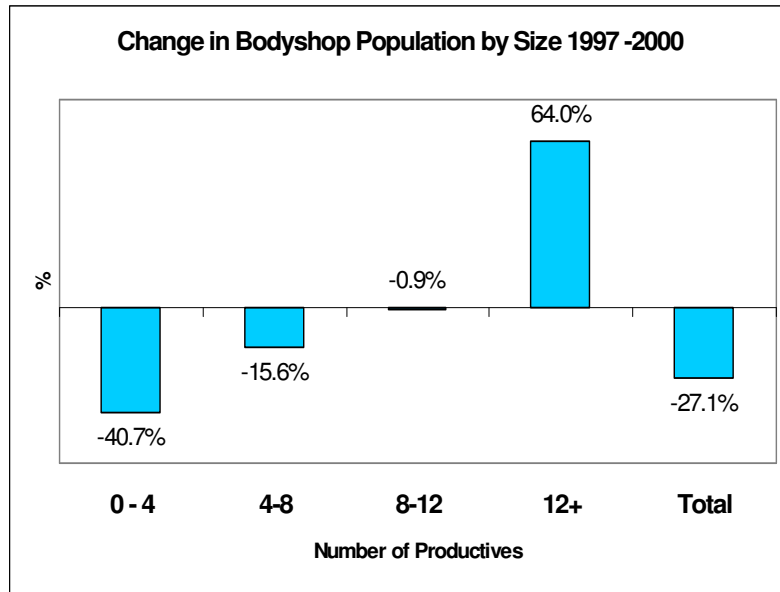
- **Repair volumes**
- **Smash repairers**
- **Insurers**
- **Parts**
- **Paint**

Repair volumes are growing only very slowly. 1.3% p.a. projected for 2001-2006



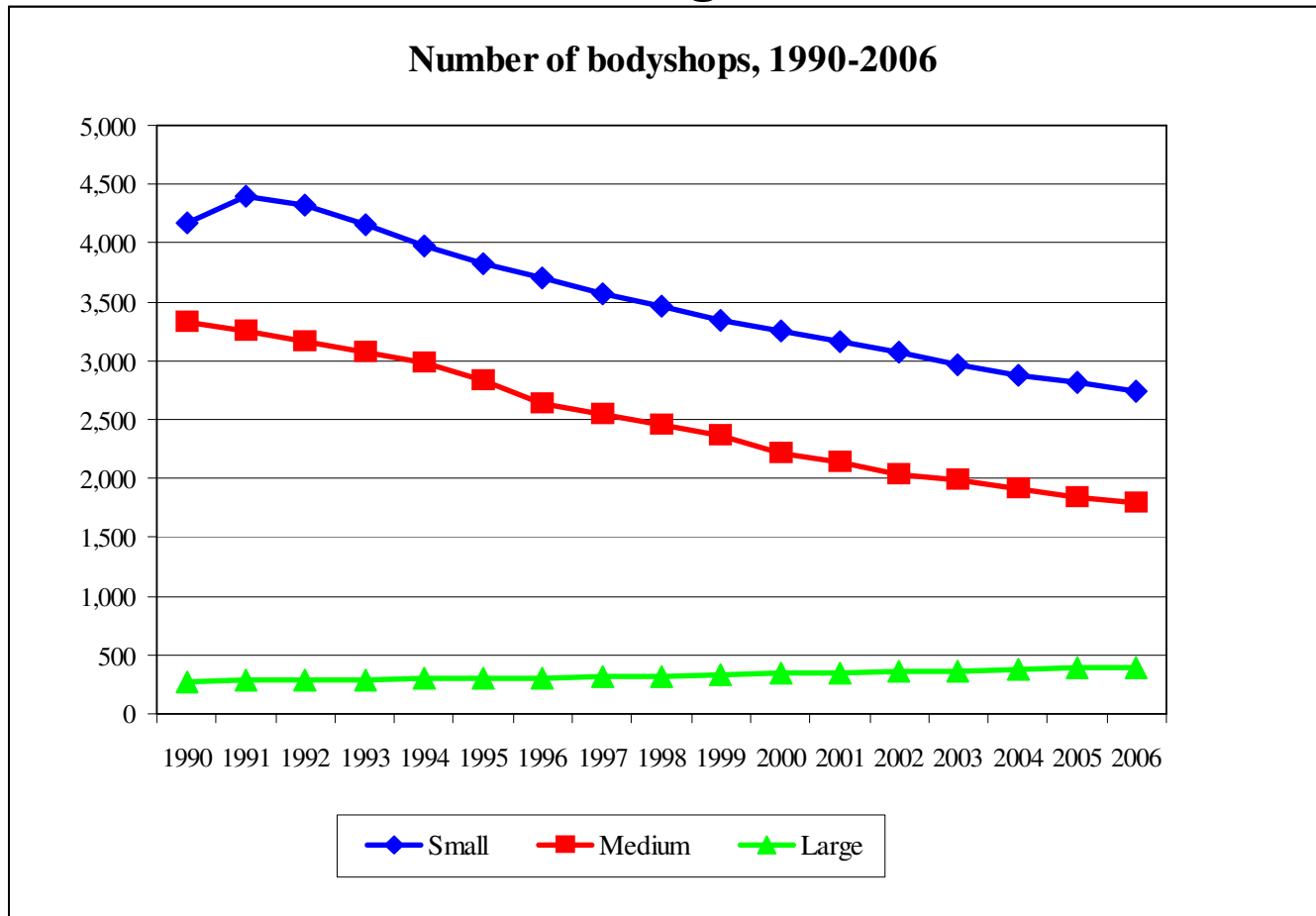
Source: mfbf

There has been a dramatic shift in the structure of the smash repair sector



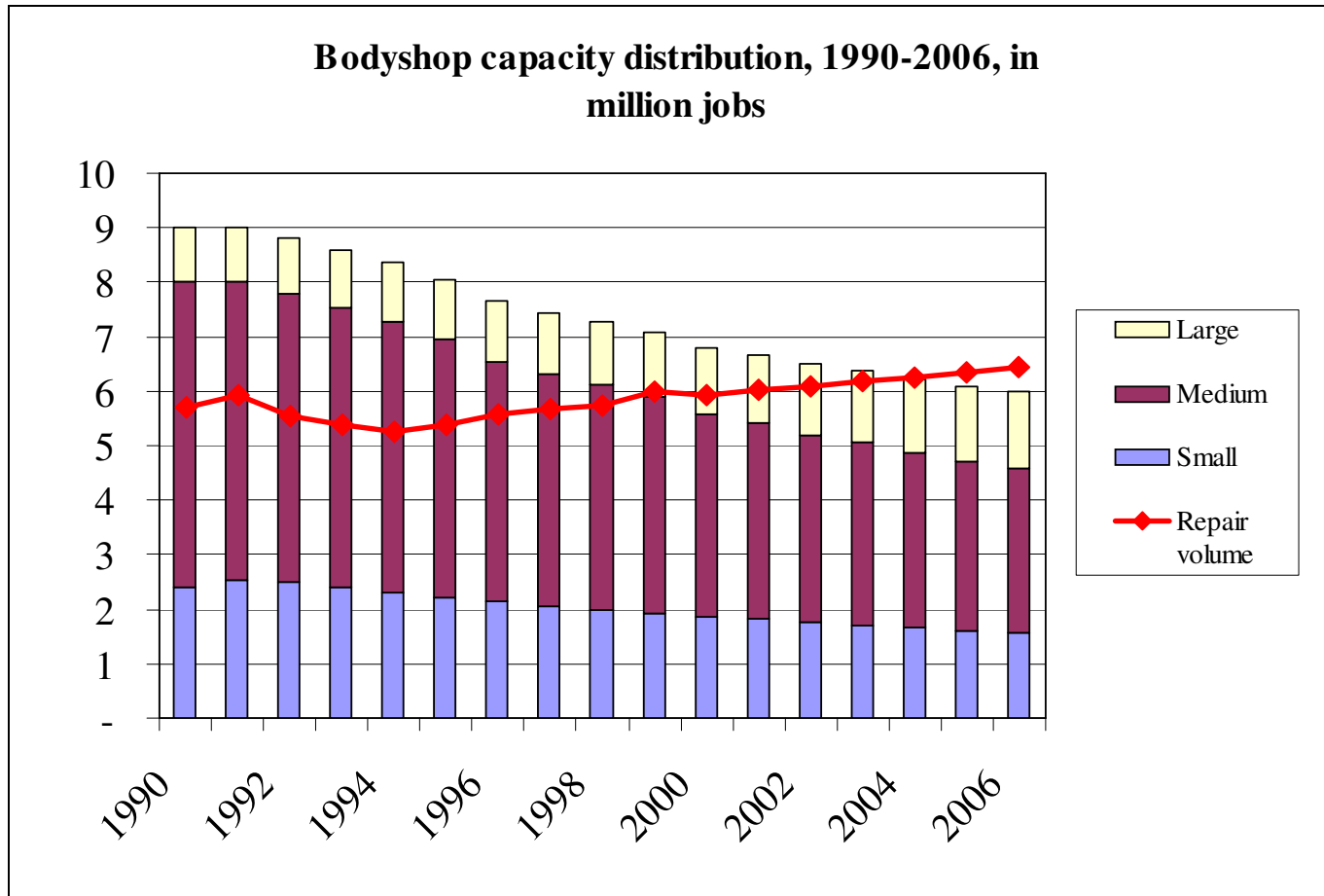
- In four years the total repairer population dropped by 27% with small repairers declining by 40%
- The number of large repairers has increased as the economics of being a medium sized player have become increasingly less viable
- This could ultimately lead to a polarisation of the market between small and very large

The repairer population is projected to continue falling ...



Data source: mfbf

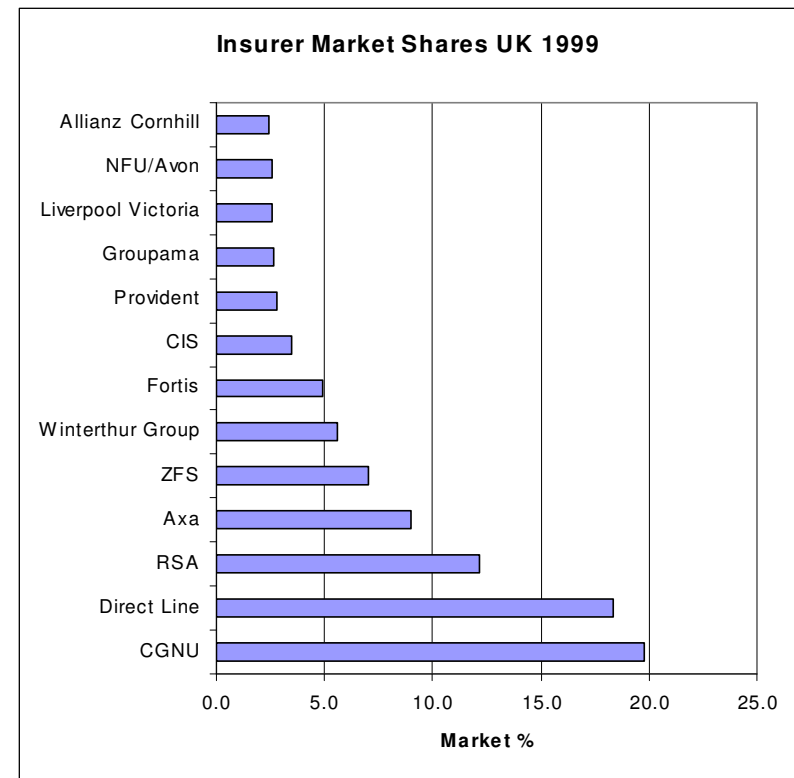
... as capacity adjusts to repair volumes, with the medium-sized shops squeezed



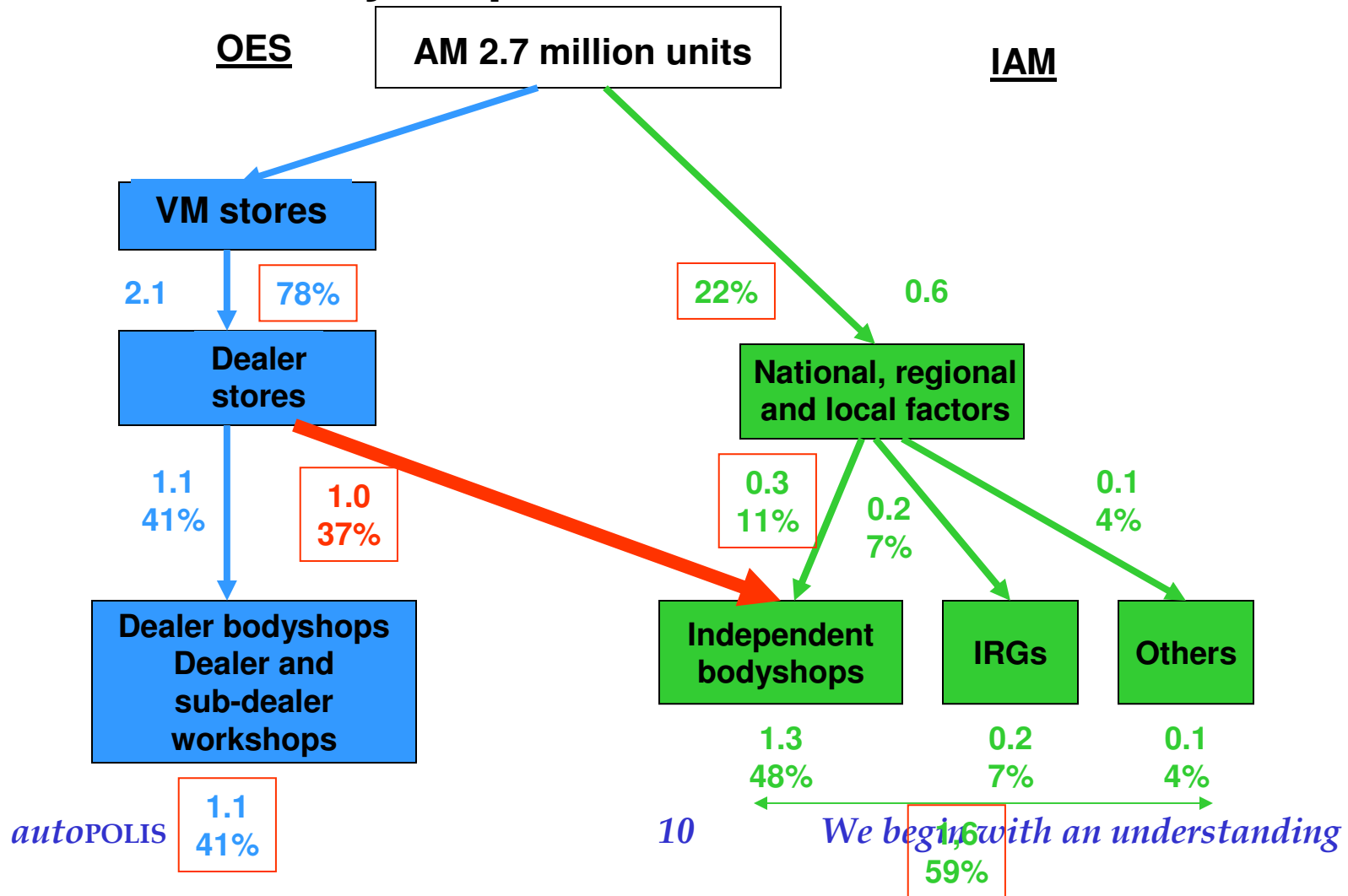
Data source: mfbf

The UK motor insurance sector has consolidated considerably- the 5 largest insurers now control over 70% of the market

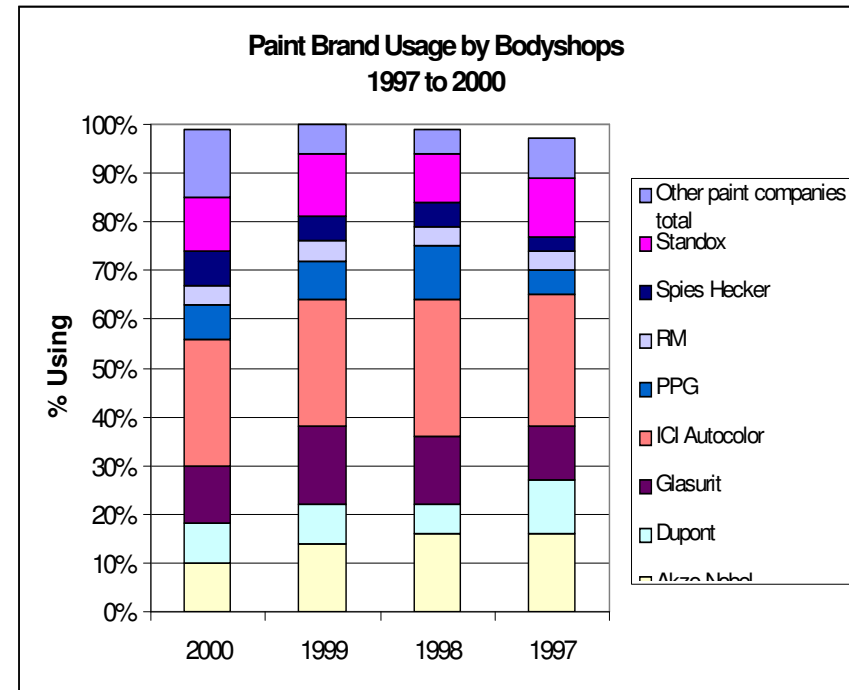
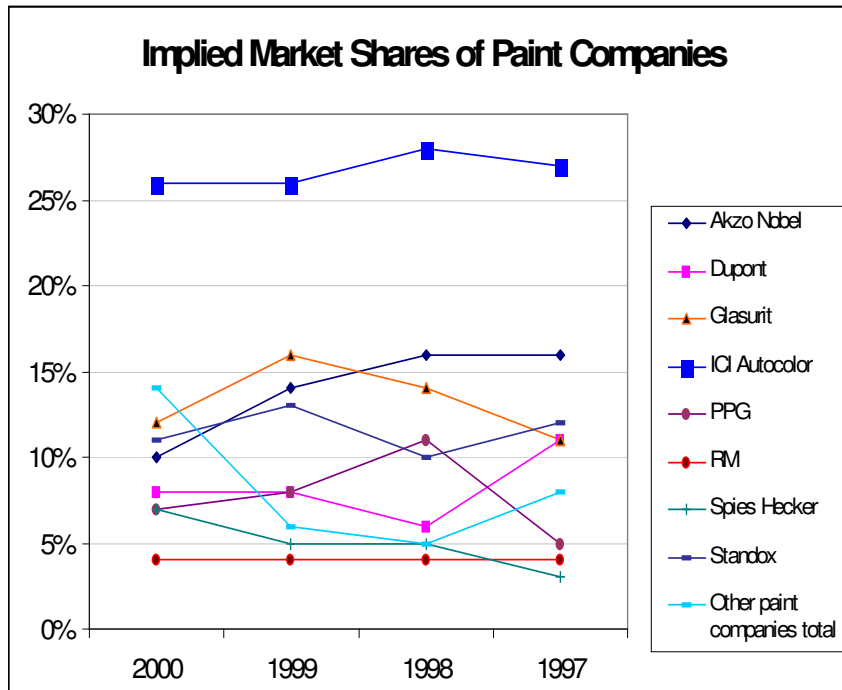
- In 1998, of the 353 insurance companies licensed to write motor business, only 74 companies and 16 Lloyds syndicates did so
- Seven years of mergers and acquisitions (as a result of European deregulation) has resulted in over half of the largest insurers being foreign owned
- The reasons behind the consolidation include the lack of profitability of motor insurance
 - Most motor-only insurers have now exited the market
 - Other insurers look to motor policyholders as an opportunity to cross sell other profitable insurance products such as life and pensions
- The net result is that five companies now control over 70% of the UK motor market
- It is likely that remaining small players will either exit or be acquired, as the threshold volumes necessary for writing business increase



Franchised dealers capture almost 80% of the headlamp aftermarket and 60% of the independent bodyshop aftermarket in the UK



Automotive refinish paint is a concentrated industry

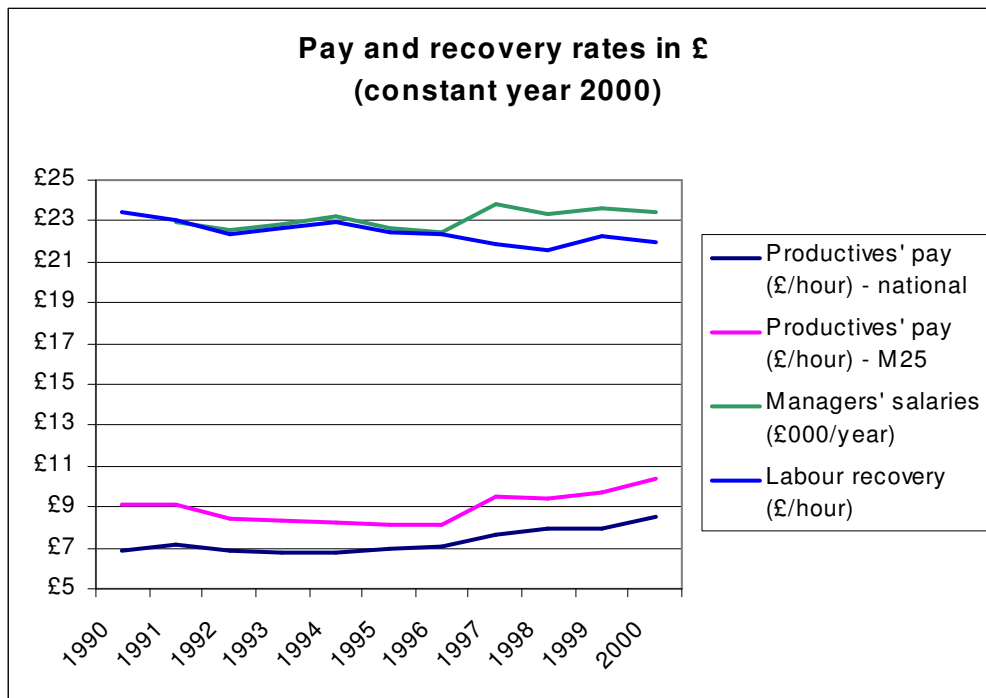


Source: Bodyshop 2001 Industry Survey

Economics

- **Smash repairers**
- **Insurers**
- **Parts**
- **Paint**

There has been a steady cost-price squeeze on repairer labour in recent years



- **In constant £, the total pay of productives has grown on trend**
 - **By 1.9% per year within the M25**
 - **With a sharp acceleration in the last 5 years**
 - **By 1.4% per year nationally**
- **Repair shop managers' salaries rose by 0.2% per year**
- **Labour recovery rates fell by 0.7% per year**

Source: Bodyshop Management Briefing No. 24

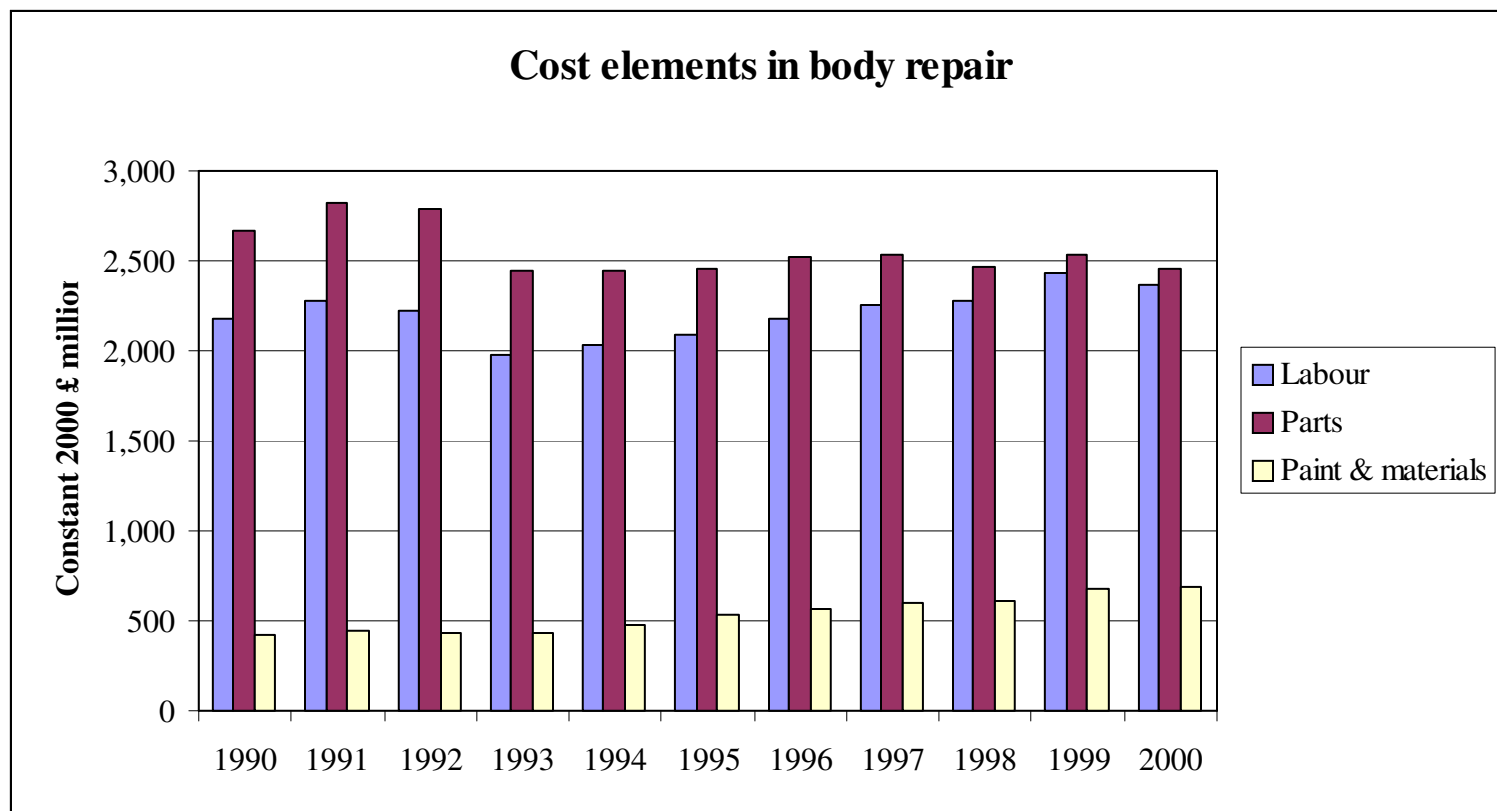
The quality of service has improved considerably – at the expense of repairers

Time Comparison (at 2000 prices)					
	1990	% of net sales	2000	% of net sales	Margin Loss
Repairs	966		966		
Added Services	0		292		
Retail Value	966		1258		
Non- billed services	0		-292		
Discounts	0		-100		
Net sales	966	100%	866	100%	
Cost of goods sold (repairs)	<u>596</u>		<u>596</u>		
Gross Margin on Repair	370	38.1%	270	31.1%	-7.1%
Cost of added services	<u>0</u>		<u>-214</u>	24.7%	-24.7%
Operating profit (before Admin & O'heads)	370	38.1%	56	6.5%	
O'heads @ 14% of net sales	<u>-135</u>	14%	<u>-121</u>	12.5%	-1.5%
PBIT	177	18%	-65	-8%	26.0%

Source: Body Magazine, Chris Oakham, autopolis calculations

- **Policyholders receive generally very good service: rapid response after accidents, vehicles collected and returned, quick estimates and agreements, courtesy cars, quality repairs**
- **Repairers have borne much of the financial burden**

In real terms, the total cost of labour has risen by 8.6% in 10 years, that of parts has fallen by 8%, and that of paint and materials has risen by 63.5%



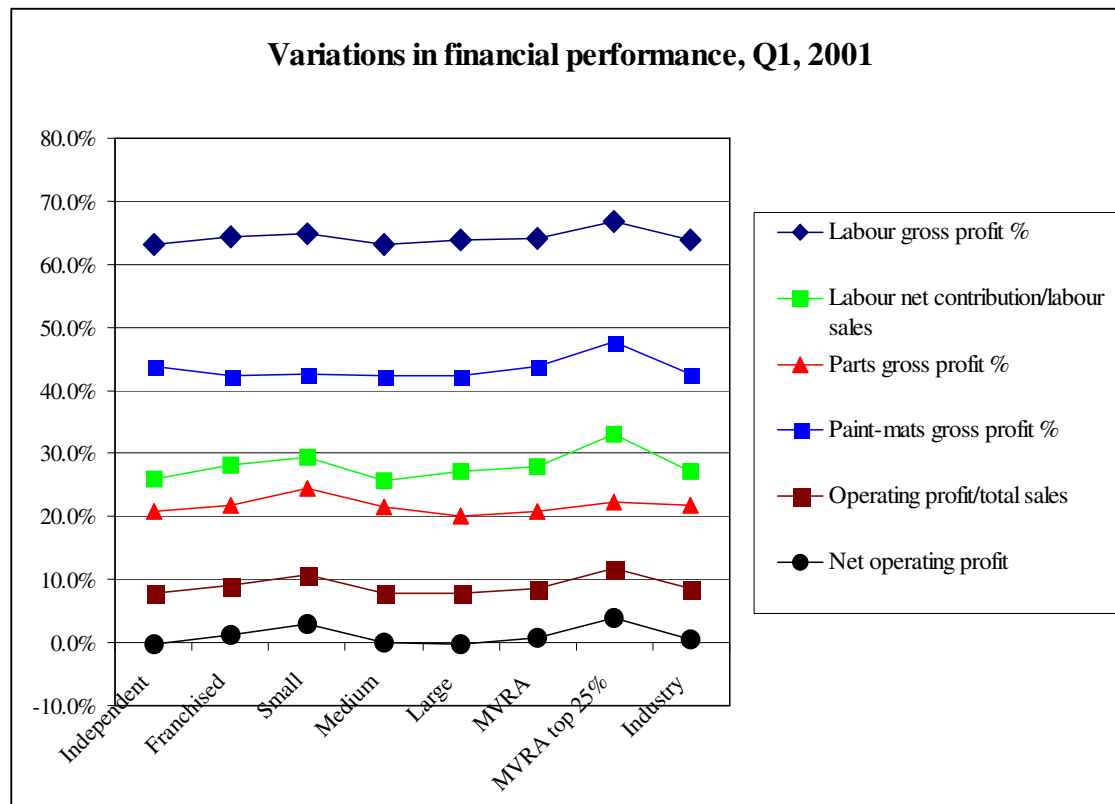
A layered contribution analysis suggests the real profit shortfall is on parts - which are the bodyshop's largest cost element

	<u>Sales</u>	<u>Cost of sales</u>	<u>Gross profit</u>	<u>GP/Sales %</u>	<u>Adjusted gross profit</u>	<u>AGP/Sales %</u>	<u>Overheads</u> (prop to sales)	<u>Net profit</u>	<u>NP/Sales %</u>
Labour	282201	99637	182564	64.7%	81367	28.8%	51582	29785	10.6%
Parts	256621	208726	47895	18.7%	47895	18.7%	46906	989	0.4%
Paint/materials	68903	49538	19365	28.1%	19365	28.1%	12594	6771	9.8%
Sublet/sundry	23952	20455	3497	14.6%	3497	14.6%	4378	-881	-3.7%
Total	631677	378356	253321	40.1%	152124	24.1%	115460	36664	5.8%

Source: Bodyshop Management Briefings No. 24

- **This analysis was for an “average bodyshop” in 1998, is of £631,677 total sales - 70% insurers, 13% accident managers, 4% fleets, 13% retail**
- **A conventional presentation is used to reach Net Profit: add up the 4 items of Gross Profit; subtract the Other Labour Expenses; then subtract the Direct Expenses/Overheads**
- **We reach Net Profit through a layered contribution analysis: putting Other Labour Expenses back with the Cost of Labour to reach an Adjusted Gross Profit; then allocating the Direct Expenses/Overheads proportionally to Sales**

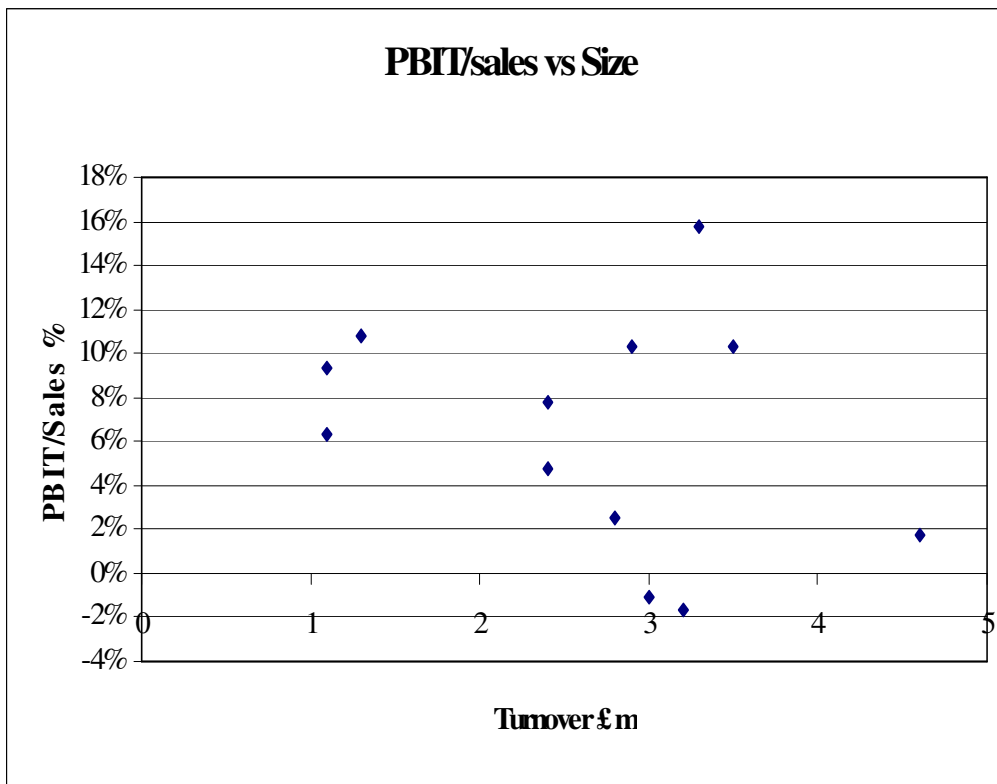
There is evidence that small shops and the upper echelon of shops do better financially than the industry average



Source: MVRA survey of members

- The Top 25% do significantly better than all others on
 - Labour gross profits,
 - Paints/materials
- The Top 25% and the small shops are both above average on
 - Labour net contribution
 - Parts gross profits
 - Operating profits/sales
 - Net profits/sales (taking out 8% for discounts)
- A very small group of bodyshops appears to be very healthily profitable

There appears to be widespread resort to fraud, in order to sustain profits



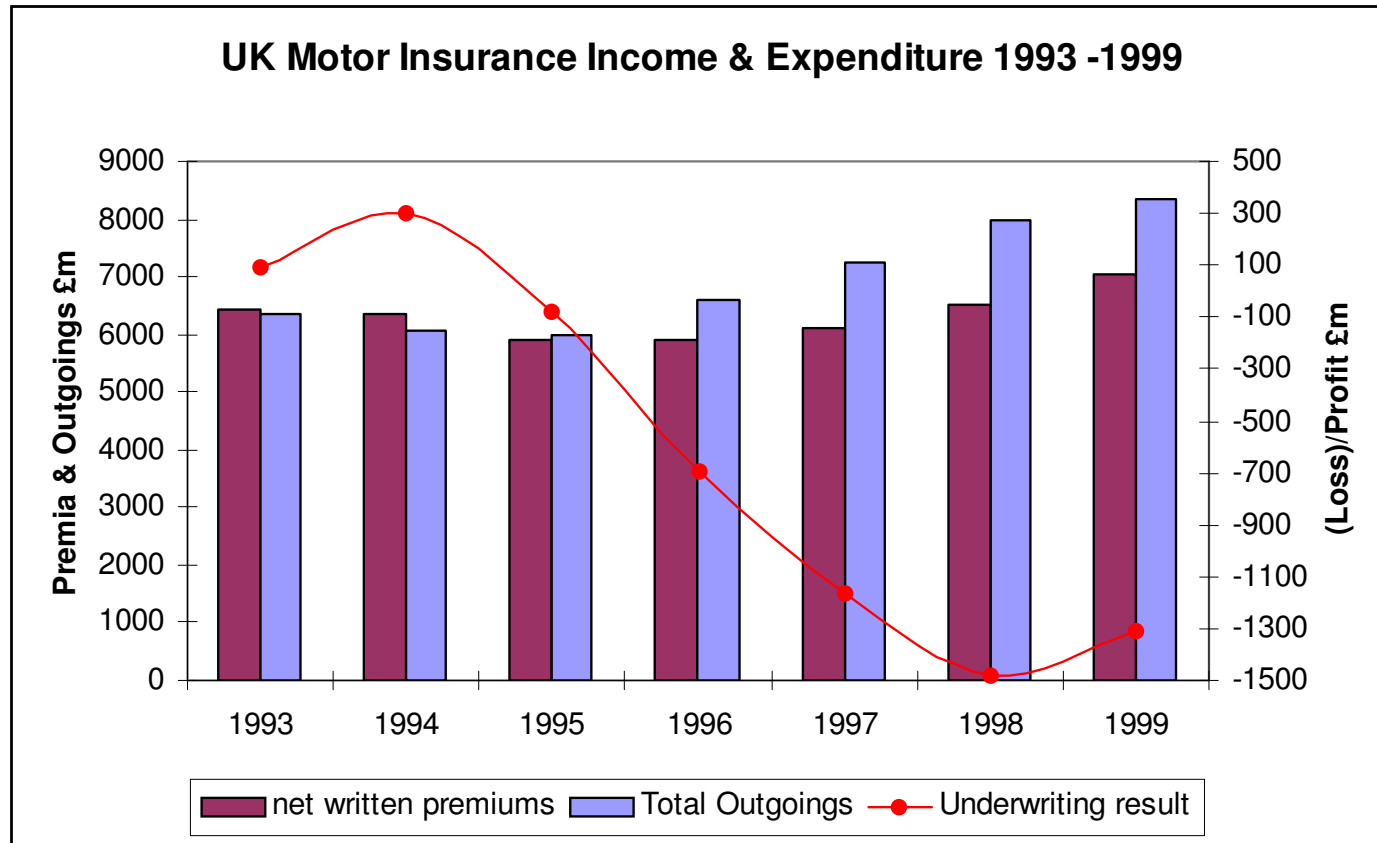
- Financial modelling suggests that properly resourced repair shops of adequate size can make an adequate return – but only if they are not much dependent on PSRs and insurers' imposed labour rages
- Actual returns vary inexplicably
- The conclusion is that many achieve profitability only through fraud

Source: company accounts

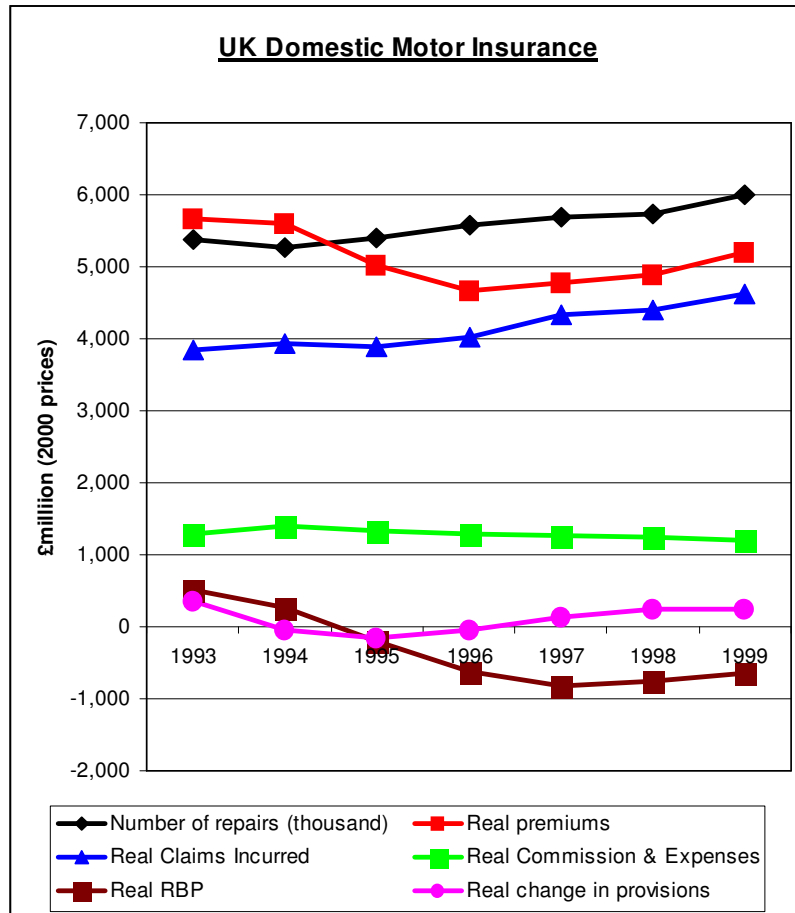
Motor insurance is not a very attractive market for insurers, in its own right

- **There is little customer loyalty to insurers**
 - Motor insurance is a 'negative' and obligatory purchase
 - Only 16% -18% of customers annually experience the 'benefit' of having insurance
 - Over 80% of customers (thankfully) do not 'experience' the service
 - They can only judge the experience at the front end - 50% of which is through brokers rather than with the insurer directly
 - The customer churn rate for most insurers apparently exceeds 40% annually
- **There is a permanent price/cost squeeze**
 - Acquisition costs are high, and customers are apparently only profitable after three to four years
 - The market is primarily price-driven, with pricing wars occurring on a five year cycle
 - Insurers have markedly contained the costs of repair which are relatively stable, whilst the costs for bodily injury claims are rising at 20% per annum, with fraud on whiplash injuries estimated at £200m p.a alone

Insurers have been unprofitable for some time



The UK motor insurance sector shows signs of suicidal pricing

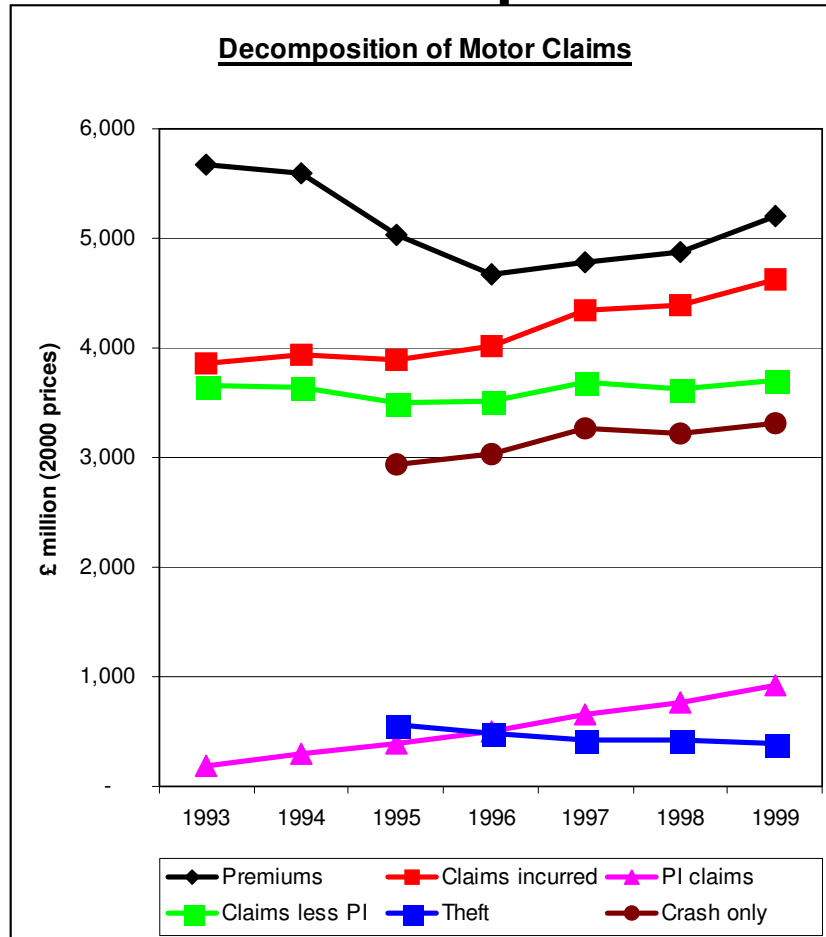


Sources: mfb, abi

autopOLIS

- The number of repairs has gradually risen – and claims incurred (in constant £) have about tracked this rise
- Commission and expenses have remained virtually flat – the insurance industry has contained these costs
- Premium income dropped heavily from 1994 to 1996, recovering a little since
- This has severely affected RBP (results before provisions)
- The stocking up of provisions was depressed during 1994-1997

It looks as though insurers have not adjusted premiums sufficiently to deal with the explosion in personal injury claims

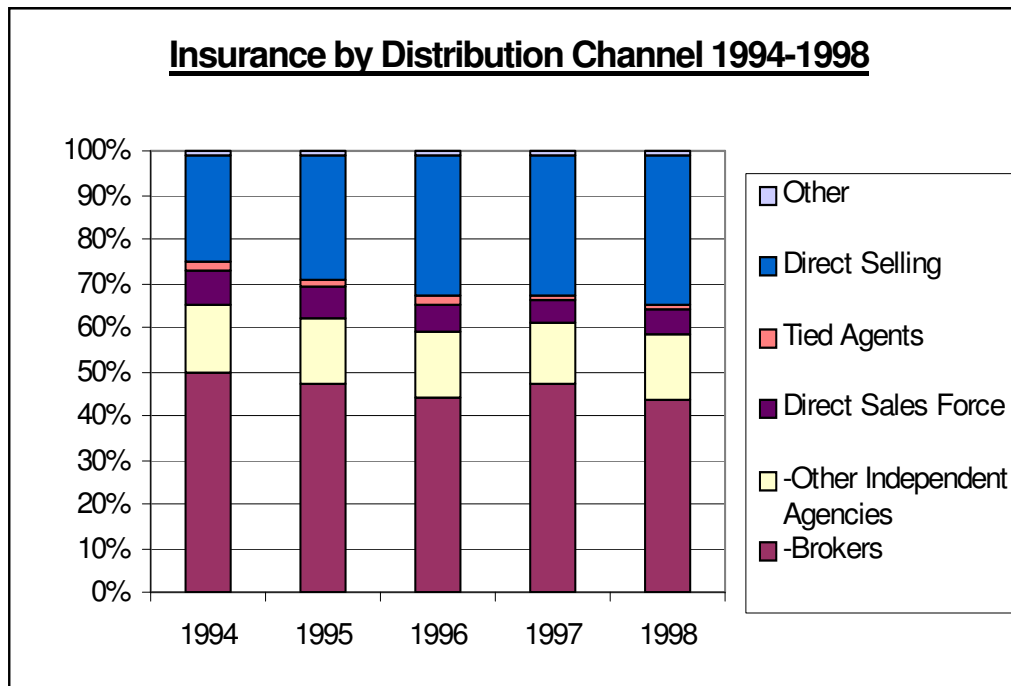


Sources: mfb, abi, autoPOLIS estimates

autoPOLIS

- A closer look at premium income and claims incurred shows the price/cost squeeze more clearly
- We have tried to decompose the claims costs for domestic motor business
 - *Estimated* the rising proportion of PI (personal injury) claims
 - Taken these and theft claims out of the total
- The residuals are consistent with body repair sector experience:
 - Without PI, claims are fairly stable, in constant money
 - Theft claims have declined, thanks to better precautions
 - The “crash only” residual increased about 10% from 1995 to 1999

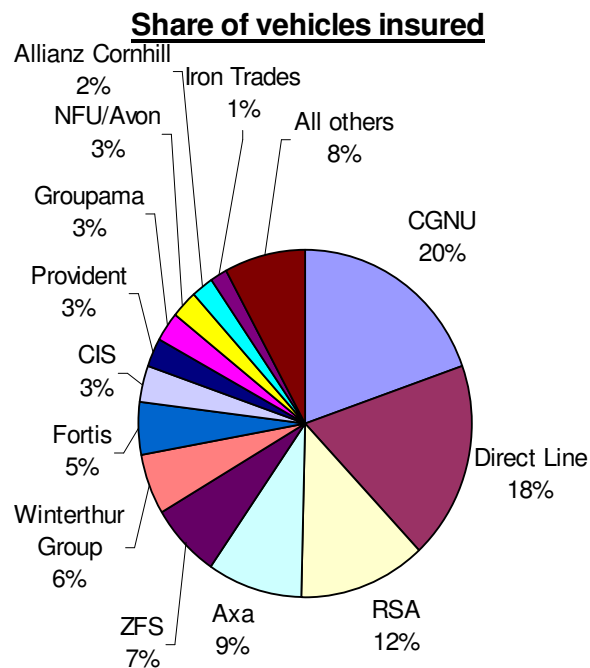
The opportunity to cut marketing, selling and acquisition costs by direct selling seems to have been exploited – with the possible exception of the Internet



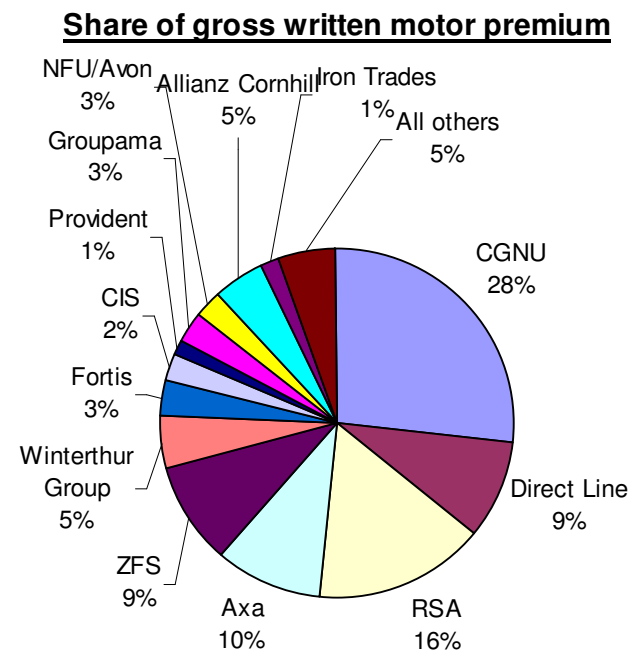
Source: ABI Industry Yearbook 1999

- **Brokers and other agencies now take about 59% of the market**
- **Direct sales forces and tied agents have 6%**
- **Direct selling occupies 35% of the market**
- **The consensus seems to be that direct selling in its current form will not progress much further**
- **It is likely to be partly superseded by Internet selling**

Concentration has been growing – the minimum scale required to compete appears to be increasing



Source ABI, mfbf



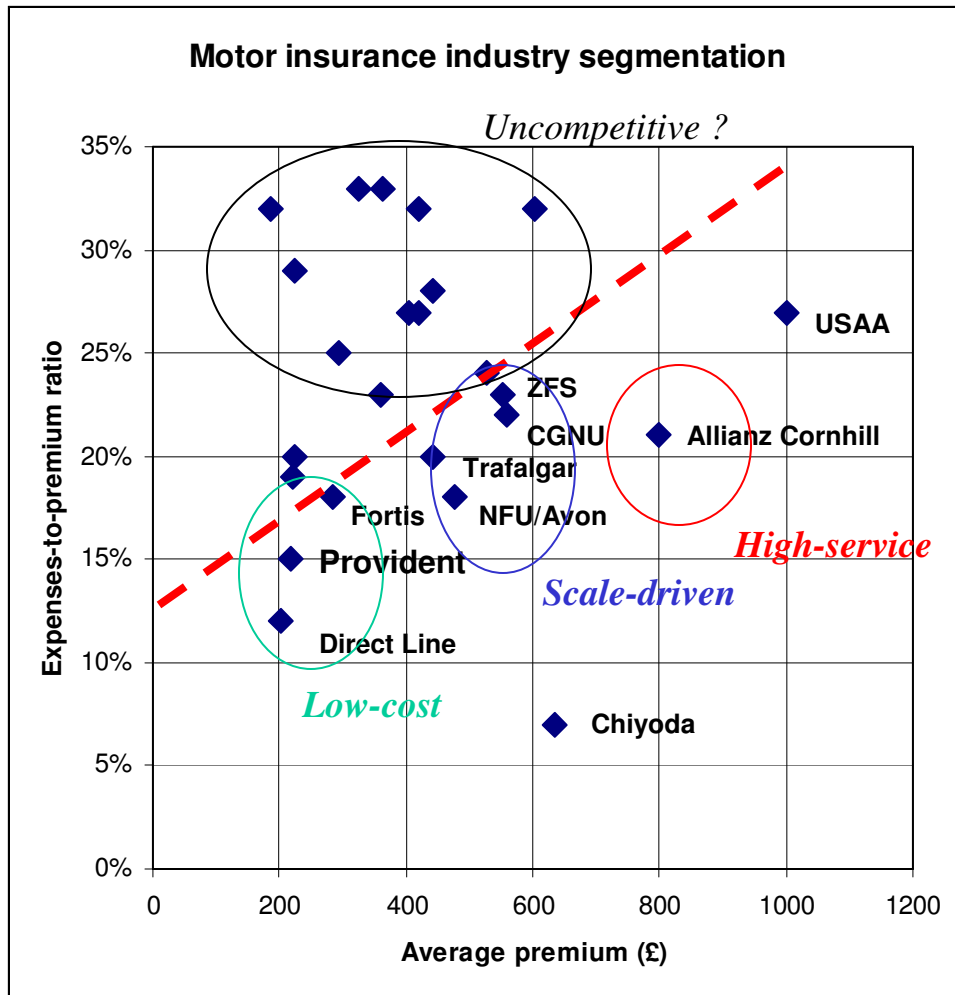
Source ABI, mfbf

Insurers with a book of under 400,000 vehicles look at risk - almost half of these are 'major' insurers

Company	No. of Vehicles ('000)	Gross written motor premium £m	Ave premium £	Company	No. of Vehicles ('000)	Gross written motor premium £m	Ave premium £
CGNU	3751	2093	558	Fortis	934	265	284
<i>Norwich Union</i>				<i>Fortis</i>			
<i>CGU International</i>				<i>Northern Star</i>			
<i>CGU Underwriting</i>				Groupama	499	202	405
<i>London & Edinburgh</i>				<i>GAN</i>			
RSA	2297	1210	527	<i>Groupama General</i>			
Axa	1709	757	443	CIS	655	192	293
<i>Axa Group</i>				Iron Trades	274	115	420
<i>Axa UK</i>				Provident	526	115	219
ZFS	1328	734	553	Liverpool Victoria	486	91	187
<i>Eagle Star</i>				MMA	306	68	222
<i>Zurich UK</i>				Chyoda Fire and Marine	82	52	634
Direct Line	3474	699	201	Prudential Corp	191	43	225
<i>Direct Line</i>				Trafalgar Insurance	70	31	443
<i>Privilege</i>				Pearl Assurance	77	28	364
Allianz Cornhill	456	365	800	Legal & General	120	27	225
Winterthur Group	1058	382	361	Independent Insurance	43	26	605
<i>Churchill</i>				Ecclesiastical Insurance	62	26	419
<i>NIG skandia</i>				Berkshire Hathaway International	43	14	326
<i>Winterthur International</i>				USAA	13	13	1000
NFU/Avon	481	230	478	Total	18,935	7,778	411
<i>NFU</i>				Lloyds Syndicates 1998	n/k	946	
<i>Avon</i>							

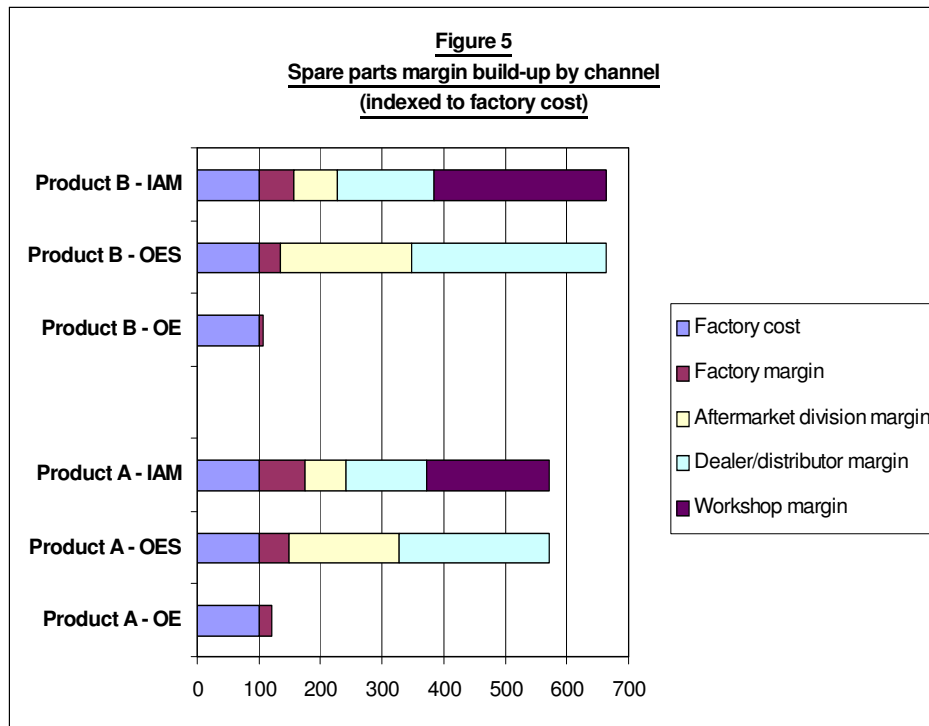
Source ABI, mfb, autopolis calculations

Who might be the less-pressured survivors ?



- There seems to be an emerging segmentation of the insurance market, based on concentration on market segments:
 - Standard products, simplified service, direct sales, low-cost – exemplified by Direct Line
 - Broad coverage, scale-driven, multiple channels – CGNU typical
 - Upmarket, high service – Allianz-Cornhill
- Those on the wrong side of the “frontier line” may not be competitive in the long-term
- If a shake-out takes place, the market could become more orderly, particularly in its pricing

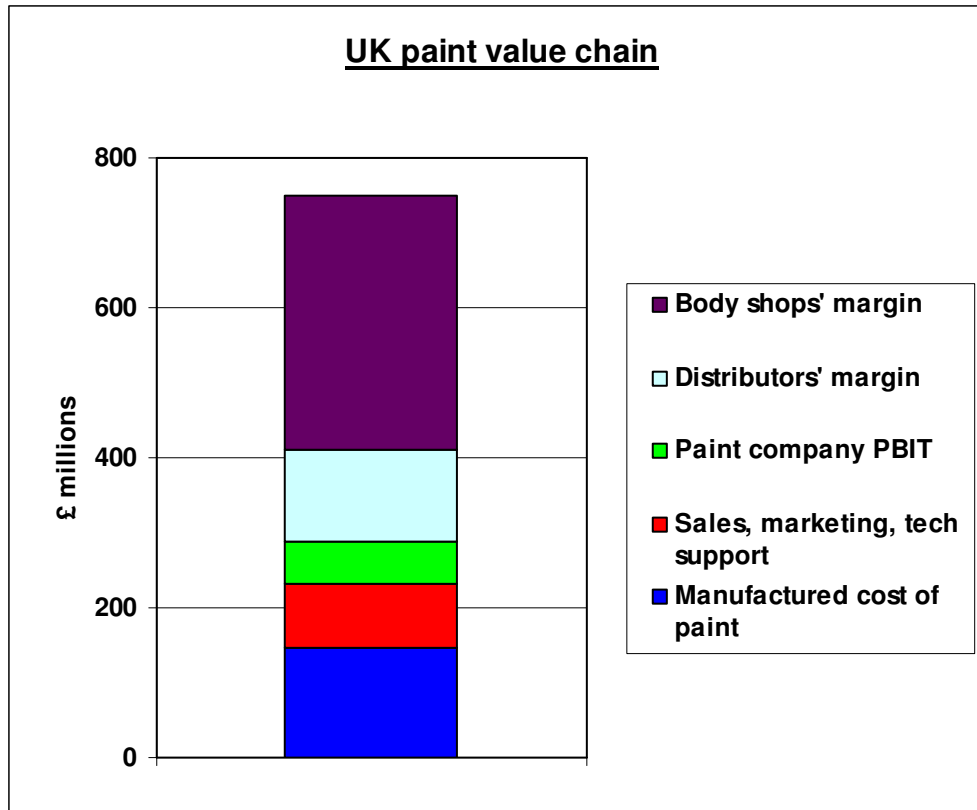
The lion's share of profits on body repair parts accrues to the vehicle manufacturers



Source: component supplier

- The slide shows margin accumulations for
 - OE parts
 - OES parts distributed through franchised dealers
 - IAM parts
- Vehicle manufacturers typically take 60-65% gross margins on parts made by independent suppliers - and more on captive parts
- They are heavily - and increasingly - dependent on spare parts profits
- This is one of the reasons for their strong defence of Block Exemption
- Most OE body repair parts are sourced by repairers from franchised dealers

The economics of the UK paint distribution system are weighed down by entrenched practices



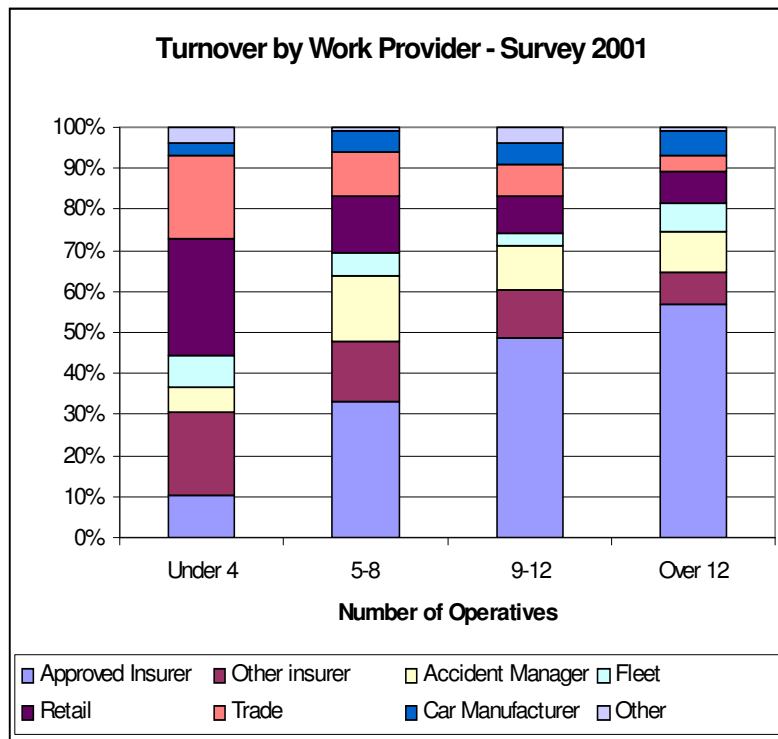
Source: autoPOLIS estimates

- The manufactured cost of paint is a “given” – it includes the logistical cost of getting mainly imported paint into the UK
- Three elements stand out as extravagantly large:
 - The sales, marketing and technical support costs of the paint suppliers, driven by the constant churning of repairer accounts
 - The distributors’ gross margin – driven by their fragmentation and excessive service than by their profits
 - The profit margins of paint suppliers
- Bodyshops’ margins are another “given” – in effect tolerated by work providers as an essential part of their remuneration

Industry relationships

- **Network construction**
- **Repair estimates**
- **Day-to-day**
- **Overall**

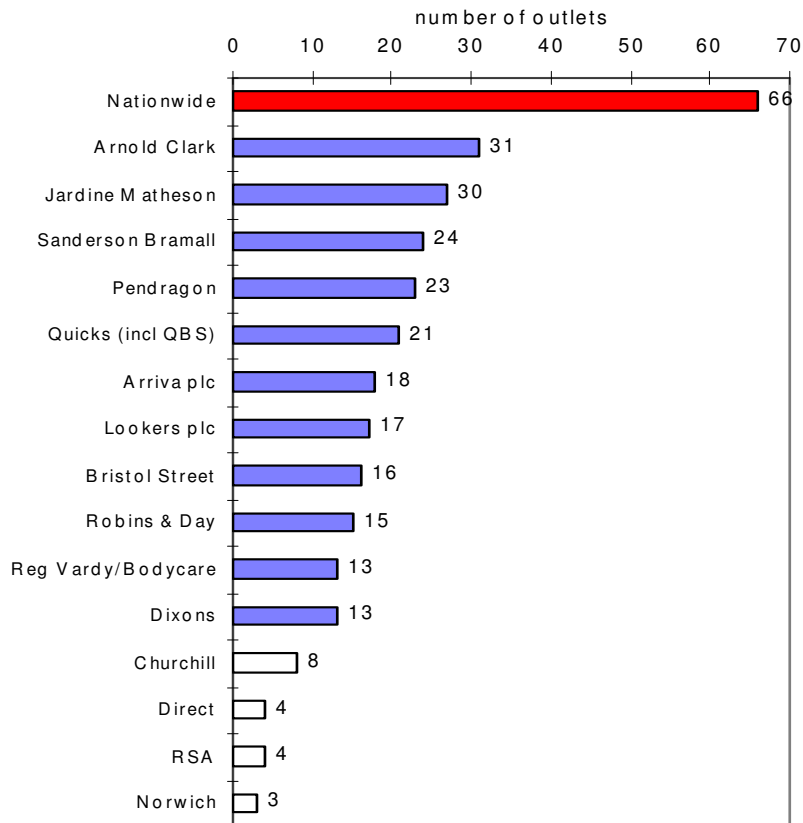
For all but the smallest bodyshops, the insurers are their dominant source of business



Source: Bodyshop Magazine Industry Survey 2001

- A Bodyshop Magazine Survey suggested that 69% of all repair work by value comes directly via insurers, with an additional 15% being directed by accident managers
 - Fleet work - 10%
 - Retail and Trade - 12%
- Larger shops are clearly more reliant on approvals for the sources of their work, whereas small bodyshops have a more balanced distribution of work providers
- In the same survey 41% of respondents had over 50% of their work from approved sources
- 16% relied on over 75% of their work coming through approved insurers

Although there are some major bodyshop groups in operation in the franchised and independent sectors, this has not changed the balance of power



Source: Castrol Trend Tracker 2002

- In spite of the size of these groups, the approvals are often on a shop-by-shop basis
 - This leaves the groups as exposed as the independents in terms of continuity of work
 - It discourages the effective utilisation of considerable resources by these groups
 - This therefore adds cost
- Ford was the first vehicle manufacturer to enter the independent bodyshop market, with the purchase of the Howard Basford chain
 - Which it intends to expand nation-wide
 - Although it is unlikely to allow its shops to have less than an equal partnership with work providers
- Insurers who have invested in their own capacity in major conurbations include:
 - Churchill - 5
 - Direct Line - 4
 - RSA - 4

Insurers do not seem to construct their network so as to achieve a reasonable balance of supply and demand, region by region

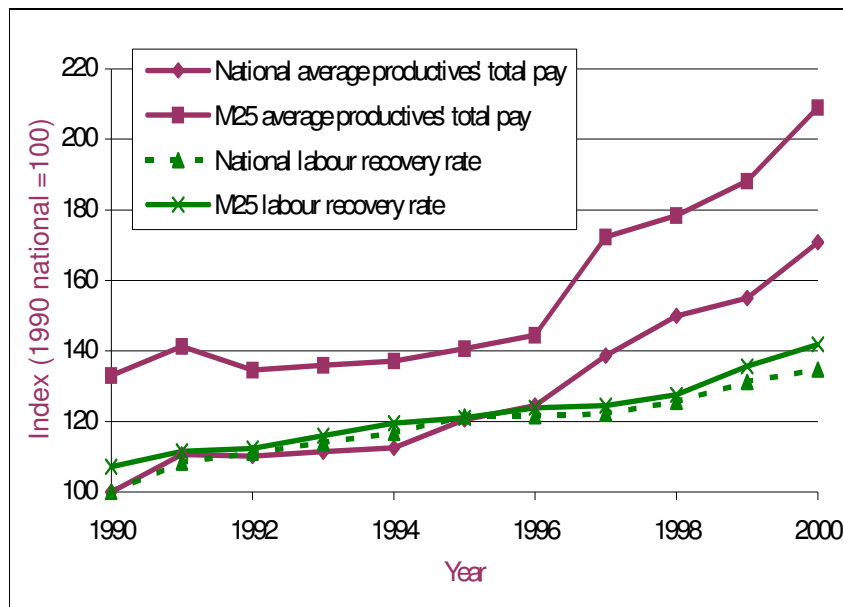
- **Insurers could construct their networks so as to ensure the viability of their approved repairers**
 - The approvals regime requires heavy commitment from bodyshops both financially and in service provision
 - Estimating and management systems required by insurers are quite sophisticated and capture detailed information
 - Which could be analysed as part of “footprinting” to set out network requirements
- **There is evidence that some insurers do co-ordinate and manage their repairer networks according to their claims expectations - however, it seems that these are the exception**
- **Instead, many work providers, fearful of lack of capacity at peak times, ‘over-approve’ their networks and hence disappoint in the volume and flow of work, against the expectations they raised**
- **This in itself has made a major contribution to network inefficiency - by stopping the natural shake-out of bodyshops**

Contracts or Service Agreements are totally one-sided affairs

- **There is little difference between insurers in their contractual terms of business with repairers - they are based on major commitments from repairers and virtually no commitments from the work providers**
- **Through these contracts the insurers exert a massive amount of control of these supposedly independent businesses, determining:**
 - **Estimating and imaging system usage**
 - **Equipment levels**
 - **Paint brand usage**
 - **Labour rates**
 - **Discounts on replacement parts and overall invoices**
 - **Response times for free collection of AD vehicle**
 - **Provision of courtesy vehicle free to insurer and customer**
 - **Parts sourcing and whether OE or non-OE**
 - **Payment terms**
- **Although the agreements allow for termination periods to allow bodyshops to find alternative work providers, in reality insurers can, and allegedly do, 'turn off the tap' instantaneously- without penalty**

The issue of labour rates is the most contentious of all, as they are unrelated to the true costs of labour

Trend in total wages/insurance labour rates nationally and within the M25

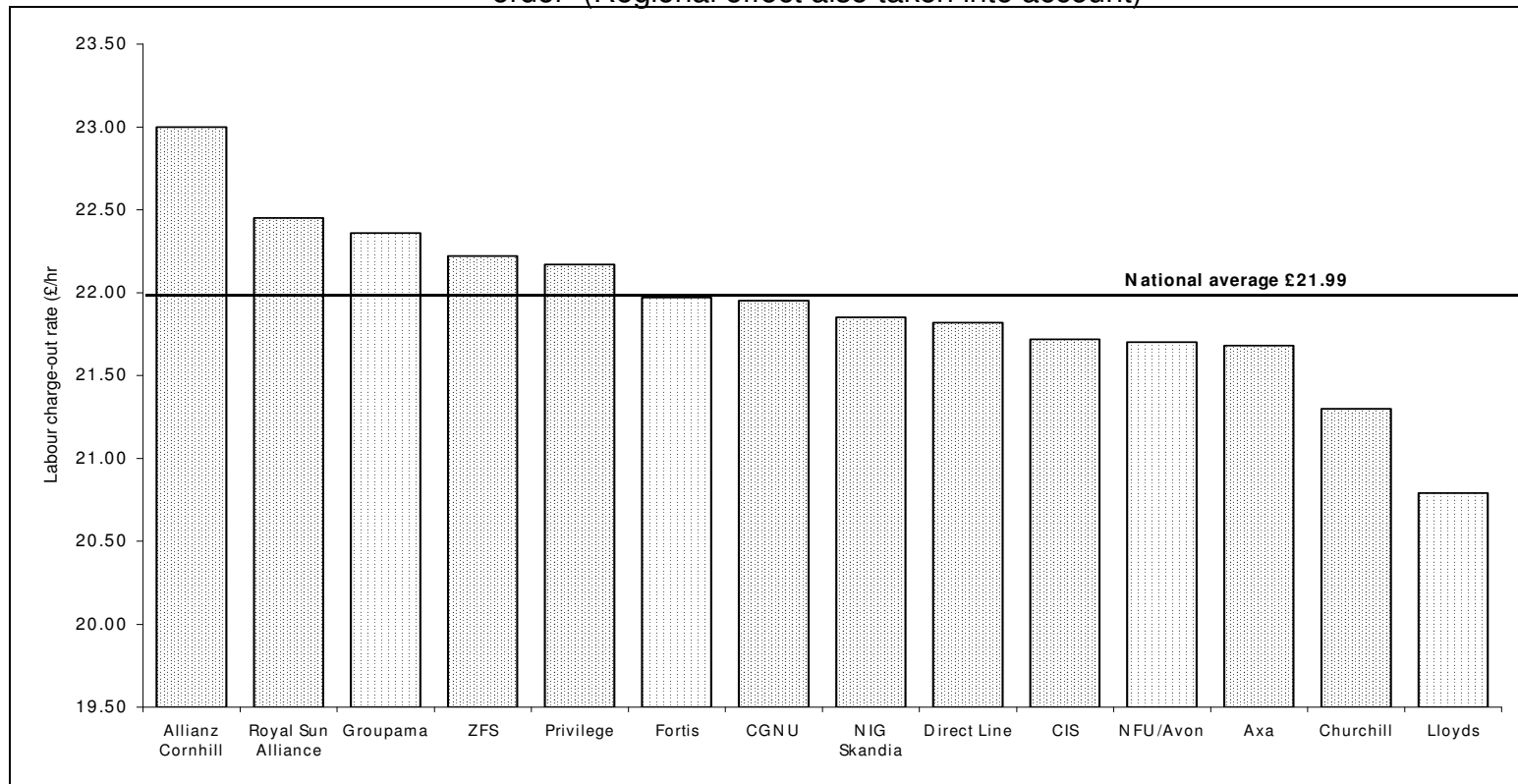


Source: Sewells/Audatex BS Opinion Survey 2001

- Nationally and regionally, wages have increased at a much faster rate than the labour recovery rate
- Inside the M25, the pressure on wages relative to recovery rate has been even more severe
- Part of the problem is the misallocation of overheads which masks the real costs to bodyshops of labour
- *“Labour rates are far too low. Insurance companies accept £45 per hour labour rate from our mechanical workshop, but not for bodywork” Repairer response to Sewells/Audatex survey 2001*

Labour charge-out rates also vary widely between insurers

Weighted labour charge-out rates by insurance company – rank order (Regional effect also taken into account)



The rationale behind the use of estimating systems is totally reasonable

- **A thorough and accurate estimate of the extent of the damage, including the methodology of repair, and the parts and the materials to be used in returning the vehicle to pre-accident condition, is pivotal to the cost-effective repair of an accident damaged vehicle**
- **Traditionally, all estimates were manually done, with the estimator's opinion of the time required forming the basis of the calculation and negotiation with the insurer's engineer**
- **The rules of the game were that estimators would over-estimate, and insurance engineers would negotiate the timings back to something which was acceptable to both**
- **With the increase in the volume and complexity of repairs, this approach became unsustainable**
- **The development of standard repair times was therefore a very logical and necessary step, in order to ensure common standards for all of the parties concerned**

Estimating systems have neither penetrated the market nor been rationalised fully

- **Computerised estimating systems have been a contentious area because of different insurers imposing different systems on their approved networks - a situation made even more difficult by the mergers of different insurance companies with conflicting requirements**
- **A lack of standardisation between insurers has led to**
 - **Increased costs of multiple estimating systems**
 - **Inefficiencies because of the different skills required to operate the different systems**
- **According to a recent Sewells survey of the 5,675 primary bodyshops: 28% have no computer (mostly those with 3-4 productives), 47% have one, 18% have two, and 7% have 3+ ... this is probably an underestimation of the use of multiple systems**
- **The two computerised estimating systems that are most used are Audatex and Glassmatix, with Audatex by far the market leader**

There are suspicions about a near-monopoly in estimating services

Company	GWP	Market Share (%)
Audatex	5,108	65
Glassmatix	2,106	27
Autoclaims	680	9
ARCS	516	7
Motex	448	6
Inter-Est	402	5
Quoits	134	1

Source: BRIC. Figures do not add up to 100% as sometimes more than one estimating company is specified

- Audatex operates through local licencees in many European countries, e.g. Sidexa in France, Informex in Belgium
- It has 90% market shares in Germany, France, the Netherlands and Belgium - with the UK, this means 80% of the European parc of light vehicles (passenger cars + light commercials)
- It appears able to raise prices with impunity and to earn very high returns
- There is no Thatcham-type counterweight outside the UK
- It does not have to 'sell' its products to repairers in the UK - it only has to ensure it is specified as the system required by insurers
- *"In Audatex's view, it has only 6 or so customers in the UK - the insurance companies"* – ex-Audatex employee

There is dissatisfaction with the basis for some estimating systems - but there are also problems at the bodyshop level

- Repairers express concerns about the Audatex system and its base data
 - *“Stop manufacturers from supplying poor data in relation to repair times. Warranty times do not reflect the true time it takes to complete a task, as the times are reduced due to a higher labour rate”. Body repairer in Sewells/Audatex survey*
- But it is important to remember that the system is a tool - the first requirement is the skill of the estimator in estimating
- Many problems can arise through lack of experience with the estimating system itself leading to:
 - Under allocation of labour hours
 - Wrong or incomplete parts selection
 - Wrong paint selection
- The requirement for multiple systems can only exacerbate the opportunity for mistakes through lack of training and understanding of the functionality of each system
- There are allegations that the systems are being manipulated by work providers in collusion with systems providers

The use of imaging systems is also increasing

- **Imaging systems, which allow the transmission of images of the crash damaged vehicle in real-time to a central assessor, are a major opportunity for speedy agreement of the accident damage and the approval of the estimate**
- **In the Sewells bodyshop survey, 51% of respondents had an imaging system**
 - **41% had one, 8% had two and 2% had three**
 - **This suggests that there are now 3,000 imaging systems in use**
 - **Possibly a 200% increase year-on-year**
 - **Following an estimated 300% growth between 1998 and 1999.**
- **Bodyshops tend to use the imaging system compatible with their estimating and management systems e.g.:**
 - **Audatex and Audalimage**
 - **Glassmatix and GlassImage**

Many repairers think the insurers are not managing the relationship with themselves well

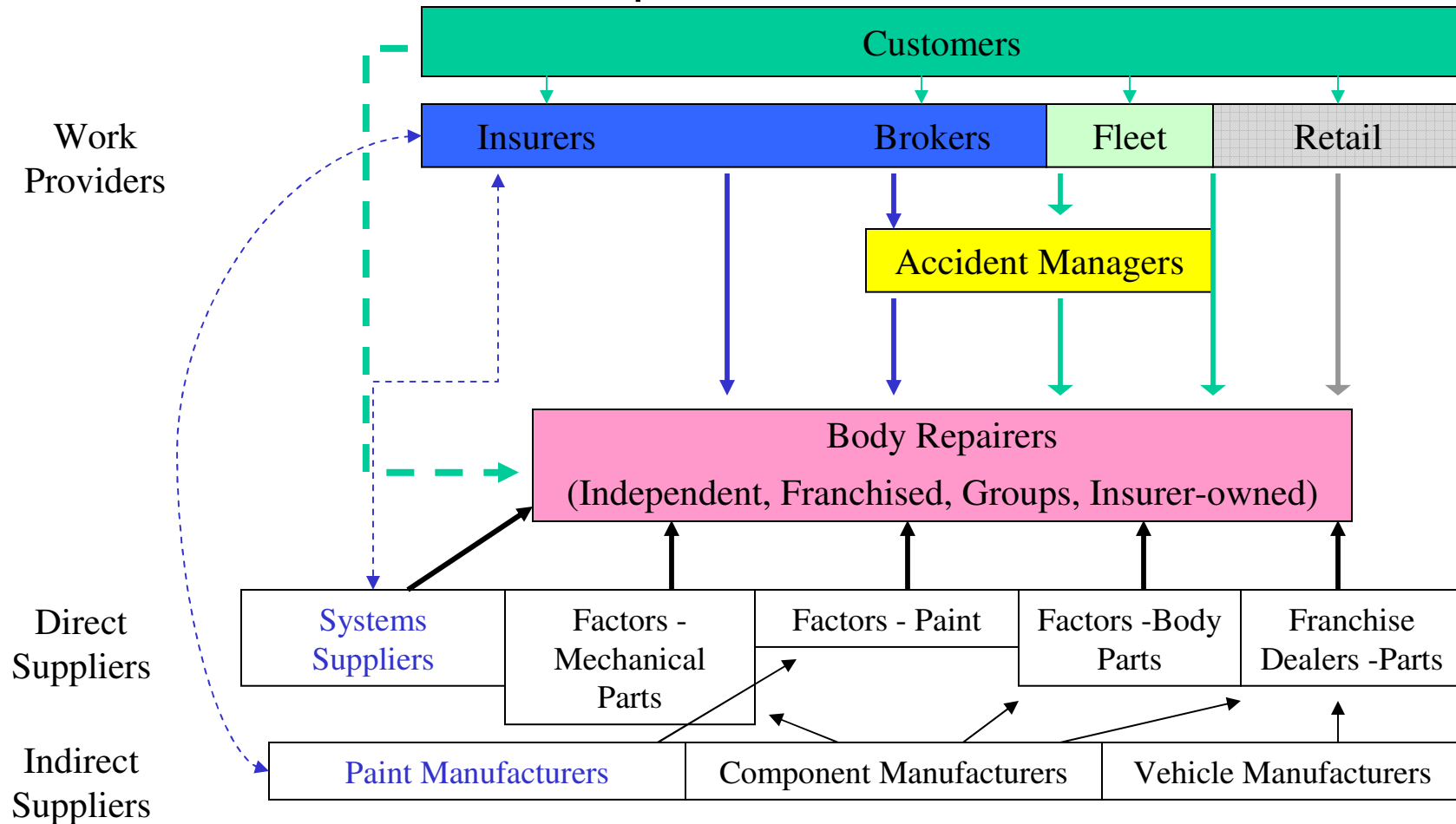
- *“They are cutting each other’s throats for market share, at the expense of the bodyshops and the policyholders. They treat life like a game of Monopoly, buying and selling, without a thought of the consequences to others”.*
- *“Generally, insurance companies are much too influential within the bodyshop business. Their reluctance to discuss hourly rates, until a uniform basis for estimating repairs was established, has forced bodyshops to adopt multi-systems at high cost.”*
- *“Efficiencies were realised many years ago with investment in workflow, equipment and training. Times have been standardised and now it is time the rates increased as originally discussed.”*
- *“Insurance companies repair contracts are becoming increasingly more unrealistic and it is alarming to think how much damage they are going to inflict on the industry, before a sensible approach prevails”.*
- *“Must realise that the industry they are strangling is the industry that looks after and leaves a lasting impression on their clients. Our time will come when we can hopefully obtain a rate, which enables us to make a living and employ a stable staff of craftsmen again”.*
- *“Relationships are becoming more adversarial as engineers, who no longer visit repair shops, are losing touch with reality. Also engineers are expected to continually reduce physical repair costs, when vehicle construction is becoming more complex”*
- *“The labour rates demanded are insufficient to support investment in equipment and training..”*
- *“There is too much concern regarding potential consolidation. All senior staff are too frightened of trying new ways of working, for fear of failure. There is a real need to focus on the total claims process, not just repair. There is also a need for authorisation process improvements, as the ‘taxi meter’ runs at the repairer’s cost. There is no incentive to speed up the process.”*
- *“There is too much focus on labour rate and opinion times, which are forcing repairers to supply and fit a high proportion of new parts, which is inflating repair costs and this is exactly against what insurers are trying to achieve. Engineers’ technical skills are being forgotten or are deemed not required, as they become auditors. Again, in my opinion, this is working against the insurers’ objectives and is not in the repairers’ interests either”.*

The relationship with policyholders seems to be neglected as an opportunity for differentiation

- **Insurers need to be proactive at the two ends of the relationship -customer acquisition and claims handling**
- **Yet most customers receive basically the same service for their premium - from the repairers - whether they paid £200 or £2000 in premium**
 - **The increasing use of call centres allows insurers to interact with the customer, but is used primarily as a method of directing customers into the insurers chosen repairer**
 - **Allegedly 20% of customers would prefer to choose their own repairer (*source: insurance broker*)**
 - **The facility of Accident Managers further severs the link between customer and insurer**
 - **Only a few insurers do not require the bodyshop to provide a free-to-the-customer courtesy car**
- **One of the few possibilities for non-price differentiation and customer retention is therefore through the quality of the repairer network - but repairers only interact with the customer at a time of distress**

Industry relationships ... overall

Body repairers are at the centre of a network of relationships that goes far beyond the insurers and repairers alone



Conclusions and implications

- **Conclusions for the UK**
- **Possible implications for Australia**

UK conclusions

- Consolidation of repairers continues but there are no effective large, well-managed and branded smash repair networks. The management of PSR networks by most insurers does not lead to stable relationships, based on trust and conducive to investment and honesty. Some insurers do not accept the responsibilities that accompany market power
- Repairers, for historical reasons, share some of the responsibility for this current situation. The smash repair sector has over-capacity, is inefficient, unlicensed and allows non-compliant companies to continue operating. The repairers have not been well served by having three weak trade associations, more interested in membership dues than in standards – there is a flagrant contrast in this respect with the Netherlands, with its single powerful trade association, which imposes standards and stands up to insurers
- There are substantial divergences in economic and financial performance between repairers. It is not possible to conclude that everyone is being starved to death by the pressures on labour rates and repair times and fraud appears to play a significant role
- The primary relationship is conventionally seen as being between insurers (work providers) and repairers (work executors), whereas it in fact should also involve three other very large sectors: vehicle manufacturers and their franchised distribution networks; component suppliers and their independent parts distributors; and paint suppliers and their distributors
- The transfer price mechanism is set up between the first two sectors and thus is too narrowly based (primarily on the labour content of repair jobs) and therefore does not adequately manage the total cost of repairs by managing the cost of bought-in parts and paint. Thus the insurance/repair sectors fail to exercise their combined purchasing power. There is a serious lack of transparency of cost structures and pricing mechanisms throughout the insurance/repair industry

UK conclusions (continued)

- **Much reliance is placed on the estimating/approval process to price individual repair jobs, thereby delegating responsibility to “mechanical” time-calculation systems and often insufficiently experienced estimators in repair shops. Repair times themselves are sometimes based on unrealistic repair conditions and exposed to manipulation. There is insufficient discrimination between types of repair and locations in setting charge-out rates**
- **The too often conflictual nature of the insurer/repairer relationship has discouraged thoughtful analysis and investment in real economic gains through new technologies in the repair sector. It has also distracted insurers from the need for better product design, optional levels of service, clarity of pricing, transparency and adaptation to customer needs, which could lead to better customer retention and lower overall costs**
- **The motor insurance market has been a financial roller-coaster, with too much attention paid to short-term gains in market share and too little to long-term stability and profitability, in what is fundamentally a very stable and predictable market. The wisdom and ethics of cross-subsidising motor insurance from other business by insurers appear questionable**

Possible implications for Australia

- Further consolidation of smash repair shops is clearly needed, in order to continue raising standards of repair and service to customers. But it is not a cure-all
- Insurers cannot manage everything. PSRs alone are not a sufficient mechanism, nor will codes of conduct suffice. The smash repair industry needs to organise and restructure itself, whether through managed networks or a single strong trade association (state-wide or national)
- We disagree with the rejection of standard times. Properly used through estimating systems, they enable considerable savings in time, cost and contention. But they need to be independently generated by methods representative of actual repair conditions. They may need to be “held in trust”, separate from the commercialisation of estimating systems that make use of them
- Conversely, more flexible negotiation of hourly rates is appropriate. Differences between types of job and localities is needed. There could be an argument for “streaming” jobs into specialised shops for instant, medium and heavy repairs
- A more balanced approach to cost reduction may be needed. There needs to be more emphasis on productivity and cost, and less on price. Insurers might put less pressure on repairers and their labour rates, and pay more attention to prices and margins in parts and paint
- More information and analysis seem to be needed on the economics of the sector