



Suncorp Metway Limited

**Response to the Productivity Commission's
Draft Report into Smash Repair and Insurance**

**Sydney
31 January 2005**

INTRODUCTION

Firstly, Suncorp would like to commend the Commission on what is overall, a balanced report.

On the whole, Suncorp supports the Commission's preliminary findings.

Suncorp's general feedback and views on the Report are represented in the submission by its Industry Body – the Insurance Council of Australia (ICA). As a result, this submission is brief.

Below are set out our specific comments on some of the Commission's preliminary findings. We also reiterate some of the key points Suncorp raised in its initial submission.

INDUSTRY RATIONALISATION

Suncorp welcomes the Commission's acknowledgement that due to a range of factors, ongoing rationalisation in the smash repair industry can be expected. Suncorp believes it is critical that any initiatives which are ultimately introduced in response to the Commission's findings, must be framed within this context. In particular, there is a need to avoid any misplaced attempt to maintain a status quo which would be at odds with the fundamental principles of competition and increasing productivity.

PSR TENURE ON SALE OR TRANSFER OF BUSINESS

Suncorp agrees in principle with the Commission's recommendation that PSR status should be extended for a short trial period on sale or transfer of a business. However, Suncorp supports the cautionary points raised by Insurance Australia Group in their December response to the Commission's Draft Report (page 7).

FUNNY TIME, FUNNY MONEY

Suncorp reiterates its view, outlined in its submission, that it supports the concept of reviewing the cost structure for smash repairers, provided the review is undertaken across all cost factors, including parts, labour, and paint.

Suncorp would also like to stress to the Commission the complexities involved in dismantling the FTFM system. There are high risks for all parties, including Repairers. Therefore any move to dismantle the system must be done very carefully and will take considerable time to do properly. Suncorp would like the Commission to acknowledge this point, and to support a process which allows sufficient time to ensure that all parties interests are protected.

Suncorp supports the industry views on this topic outlined in the ICA's submission.

CODE OF CONDUCT

Suncorp notes that one of the most important recommendations made by the Commission is the establishment of an Industry Code. Suncorp also notes the Commission's preliminary view that if insurers and repairers cannot agree on a code, it should be mandated under the Trade Practices Act.

However, Suncorp would like to reiterate its view, outlined in its submission, that its first preference continues to be for individual insurers to retain the ability to create their own Codes of Conduct.

Suncorp notes the Commission's proviso that an industry wide code should "not prevent individual insurers developing their own codes consistent with or building on, the industry-wide code". However, this is based on the premise that a benchmark industry code is first created. Suncorp believes that there would be no incentive for insurers to develop their own codes in addition to an industry code. Importantly, the opportunity for individual insurer codes to target specific issues relevant to their relationship with repairers would be lost. In addition, insurers will be required to implement compliance measures to deal with matters which may not be an issue for their company.

While the Commission notes that the compliance costs of a code "could be quite small", any code necessarily requires the development of robust systems to achieve, monitor, report on, and maintain evidence of, compliance. The costs should therefore not be underestimated. The opportunity cost also needs to be considered.

The funding arrangements for central administration of an industry code and dispute resolution scheme also need to be determined. While a user (loser) pays arrangement for dispute resolution is a possible solution, there are also fixed costs which need to be funded.

Nevertheless, Suncorp will publicly commit to working towards development of a voluntary industry-wide code through its industry body.

DISPUTE RESOLUTION

Suncorp welcomes the Commission's preliminary finding 6.1 that the existing internal and external customer dispute resolution systems are working adequately. Suncorp would like to point out to the Commission that in addition to the dispute resolution requirements contained in the Insurance Code of Practice, it is now a regulatory requirement under the Corporations Act for all Australian Financial Services Licensees to have internal dispute resolution processes which meet ASIC standards, and membership of an ASIC approved External Dispute Resolution scheme.

CONCLUSION

Suncorp supports the Commission's findings on the whole. Suncorp will commit to contributing to the development of a voluntary industry code addressing the matters recommended by the Commission. Suncorp refers the Commission to the ICA's submission for its views on other specific matters.