

11 February 2005

Stephen Matthews
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Dear Stephen

Your submission to the Australian Productivity Commission Smash Repair Inquiry

I wish to thank you for sharing your submission to the Australian Productivity Commission Smash Repair Inquiry with the Insurance Council.

You have raised a number of issues including preferred repairer status and parts procurement that we would like to comment on.

Preferred repairers

Some insurers have individually chosen to develop preferred repairer networks that are designed to ensure quality of workmanship, with the best knowledge and equipment to repair vehicles structurally that follow ICAR/Manufacturers' specifications and compliance with Land Transport New Zealand Repair Rules, and, just as important, the ability to meet individual customers' needs. Insurers place a lot of faith in repairers undertaking work on customers' vehicles as the insurer is legally and contractually obliged to ensure that repairs are undertaken in a way that are compliant with the Land Transport New Zealand Repair Rules. Another reason that may influence the selection of a preferred repairer would be the geographical location of that repairer conveniencing the customer. All these factors are taken into consideration when an insurer enters into a contract with a repairer for ongoing work.

In your submission to the Australian Productivity Commission Smash Repair Inquiry you have discussed hourly labour rates. The Insurance Council is not willing to enter into any debate over pricing, and to do so could be a contravention of the Commerce Act. However, it is of interest to note that there appears to be a significant difference between hourly repair rates in New Zealand, ranging between \$32 and \$70, and the Australian market hourly repair rates ranging between \$23 and \$40. The two markets are quite different. The Insurance Council does not believe it is appropriate for industry associations to get involved in pricing discussions.

Repairer networks influencing customer choice

Your submission to the Australian Productivity Commission Smash Repair Inquiry states that **"the Motor Trade Association is concerned that consumers are not provided with a choice of smash repairer, and that insurance companies and preferred repairer schemes effectively limit the ability of the consumer to freely choose who repairs their vehicle."**

The Insurance Council would disagree with this on the basis that no reasonable repair shop, where a customer would choose to have their vehicle repaired, would risk not having entered into some form of preferred repairer status with a major insurer. The Insurance Council does not recall having received any complaints from consumers about repairer choices being limited in recent years. The Insurance Council operates an 'open' complaints and inquiry service for all New Zealanders whether insured or not.

Partsprocurement systems

A major New Zealand motor insurer began operating a parts procurement system where sellers and purchasers tender electronically for repair components. This new system, in reality, has opened up the market creating more competition, and creates an audit trail of supply thus reducing the risks of supply of components which are not of "safe tolerance" as required under Land Transport New Zealand Frontal Impact / Light Vehicle Repair Rules. The parts procurement system we speak of is available to any supplier that wishes to be part of the system, and currently includes a major new vehicle franchise.

The majority of vehicle collision repairers are represented by the Collision Repair Association, whom the Insurance Council has regular dialogue with. The Collision Repair Association has not expressed any concerns with the Insurance Council over preferred repairer status networks or parts procurement systems.

The Insurance Council is of a view that the Motor Trade Association's submission to the Australian Productivity Commission Smash Repair Inquiry is somewhat misinformed in the way it has attempted to draw significant comparisons between the collision repair industry here in New Zealand and that in Australia. The two countries' collision repair industries do work quite differently. New Zealand may have experienced in the past some of the problems that currently are under scrutiny in Australia, but with individual repairers and insurers getting around the table and discussing areas of concern the industry has ironed out many past problems. New Zealand has proved that it can be done.

I trust that you find our comments useful. Please don't hesitate to call me if you wish to discuss any matters.

Yours sincerely
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Insurance Manager

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c.c. Ministry of Consumer Affairs, Wellington
Smash Repair Inquiry, Australia Insurance
Council of Australia