

## **Insurance Council of Australia**

4 March 2005

Jill Irvine  
Smash Repair and Insurance Inquiry  
Productivity Commission  
Po Box 80  
BELCONNEN ACT 2616

Dear Jill

### **Productivity Commission Inquiry - Smash Repair and Insurance**

ICA welcomes the opportunity to provide further comments on the Draft Report following the public hearings held in Sydney and Melbourne.

ICA believes the Preliminary Findings provide a clear way forward based on increased transparency, matters of process and dispute resolution. The report should put to rest many of the issues like, choice of repairer, minimum payment terms and quality concerns related to PSR arrangements.

Improving transparency will assist repairers where insurers have Preferred Smash Repairer arrangements, for example, greater awareness of the selection criteria, a wider understanding of the position and requirements where there are changes in approved repairer status and the position on the sale or transfer of the business. The Preliminary Findings address these issues and individual insurers with PSR arrangements will be making their own comments on these.

ICA is pleased to advise the Commission of a major change in policy and in the insurance industry position. Based on the Preliminary Findings of the Draft Report ICA has changed its long-standing opposition to the development of a voluntary Code. The ICA Board has asked ICA to develop a voluntary Code of Conduct. ie a Code that will address areas of process, transparency and dispute resolution.

To avoid any anti-competitive outcomes care needs to be taken to make certain that a voluntary Code does not include provisions related to commercial matters that are normally negotiated between businesses. Care also needs to be taken to make certain that the provisions of a voluntary Code do not disadvantage consumers who purchase motor vehicle insurance products. Administration and compliance costs need to be considered particularly as they relate to the Code and the dispute resolution provisions.

As a result of the Commission's Preliminary Findings the debate by repairers appears to have shifted from PSR arrangements, transparency, choice of repairer and payment terms. The repair industry representatives now appear to be focusing on suggestions that changes in the smash repair industry should not be driven by the insurance companies. Rather changes in the industry should merely be allowed to evolve.

Views have come forward to suggest that the influence of insurers is leading to a rationalisation in the smash repair industry that is not based on normal competitive market forces. The view is presented that this is closer to manipulation by insurance companies.

ICA believes that this is a biased and unrealistic interpretation of events.

It is acknowledged that some 75% of smash repairers' revenue flows from insurance companies. Whatever influence insurers bring to bear on developments is based upon many decades' experience in responding to customer needs and expectations. Customer research and the feedback derived from dealing with many tens of thousands of motor insurance claims are powerful forces driving the insurers' view and understanding of how best to meet customers requirements.

It is unrealistic to suggest that this knowledge and understanding of consumer expectations, when brought to bear upon the practice and scope of smash repairs, can be represented as manipulation. Rather it should be recognised as the true reflection of compelling market force it represents.

Yours sincerely

Robert Drummond  
General Manager