

Suncorp Metway Limited

Submission to Productivity Commission

**Inquiry into the Commercial Relationship between the
Smash Repair Industry and the Insurance Industry**

11 October 2004

Introduction

This submission is made by Suncorp Metway Limited on behalf of its licensed general insurance entities Suncorp Metway Insurance Limited and GIO General Limited. All references to 'Suncorp' throughout the document apply to both the *Suncorp* and *GIO* insurance brands.

This submission provides details of Suncorp's views and should be read in conjunction with the Insurance Council of Australia submission which provides a broad industry context.

Structure of this Submission

- Section 1 provides a brief profile of Suncorp including its motor insurance business.
- Section 2 contains an overview of Suncorp's preferred repairer scheme.
- In Section 3 we respond to some of the specific questions raised by the Commission.
- In Section 4, we briefly comment on Dispute Resolution and Codes of Conduct.
- Finally, in Section 5, we provide statistical data requested by the Commission.

SECTION 1 PROFILE OF SUNCORP

Suncorp is one of Australia's 30 largest listed companies, with a market capitalisation of around \$7 billion, 183,000 shareholders and 537 million shares on issue.

We are Australia's sixth largest bank and the third largest insurance group. We have 8,000 staff nationally. Suncorp's main businesses are retail and business banking, general insurance, life insurance, superannuation and funds management with a focus on retail consumers and small to medium businesses. We have 3.8 million customers across Australia.

Suncorp's Insurance Business Profile

Suncorp is Australia's third largest general insurance group, with Gross Written Premium of \$2.4 billion for the year to June 2004. The insurance group has a broadly diversified portfolio, comprised of personal insurance (home, motor, Compulsory Third Party) and commercial insurance focused on small to medium sized enterprises.

- More than half of our premium income is sourced outside of Queensland. Approximately 30 percent is generated in NSW, 10 percent in Victoria and 7 percent in Western Australia.

The Suncorp group also owns half shares in insurance joint ventures operated with motoring clubs in Queensland (RACQ Insurance) and South Australia (RAA Insurance) and 100 percent of RACT Insurance in Tasmania.

Suncorp now serves more than 3.3 million general insurance customers across Australia, and in the year to June 2004, we paid out a total of \$1.6 billion in claims to more than 400,000 customers.

Across Australia we provide cover for almost 1.5 million motor cars, holding 21 percent of the national motor insurance market. Suncorp holds the number 1 market share position in Queensland for motor insurance, and number 3 position in NSW and Victoria.

SECTION 2

SUNCORP'S PREFERRED REPAIRER SCHEME

Suncorp has in place a Preferred Repairer Scheme comprising approximately 600 repairers throughout Australia. The Scheme has been operating for more than 20 years. Suncorp's preferred repairers undertake approximately 60 percent of Suncorp motor vehicle repair work, the balance being undertaken by repairers outside of this scheme - usually at the request of our customers. We enjoy a good working relationship with the smash repair industry.

Suncorp is motivated to arrange high quality repairs at a competitive price to ensure quality repairs and competitive premiums for our customers. At the same time we aim to deliver adequate shareholder returns.

Suncorp believes that it is necessary and appropriate to continue to operate under a Preferred Repairer Scheme, which brings benefits to insurers, repairers and customers.

Preferred repairers benefit from having a predictable flow of repair work through their business. This allows repairers to staff efficiently and to confidently invest in new technology, equipment and staff training.

Suncorp benefits through reduced average repair costs and administrative expenses. A higher volume of work through fewer repairers requires less overall supervision by Suncorp. This significantly reduces the administrative expenses that would otherwise be associated with supervising a broader group of repairers. Reduced average repair costs for work undertaken by preferred repairers come about as repairers improve productivity and drive fixed cost benefits.

Suncorp customers benefit through high quality repairs and ultimately lower premiums because of lower repair and administrative costs.

The Suncorp preferred repairers scheme has engendered a partnership, which has created positive change, both for the industry and consumers.

For example,

- In SouthEast Queensland Suncorp has introduced a Repairer Advisory Group consisting of small group of repairers who provide advice to Suncorp on a range of issues. This group represents the broader group of preferred repairs. This Advisory Group has been beneficial in ensuring that there is good cooperation and communication between Suncorp and the repair industry. We intend to expand this successful initiative to other parts of Australia.
- Suncorp invites preferred repairers to participate in the development of quality and process improvement initiatives. An example of this is Suncorp's "Blue Ribbon Service Initiative" where Suncorp provides a guarantee to repair a customers driveable car within seven (7) after the car is delivered to a Suncorp Motor Vehicle Assessing Centre. If we are unable to complete repairs within seven days we provide our customer with a courtesy vehicle at no cost.

Suncorp consistently achieves a seven-day turnaround in excess of 90% of occasions. Furthermore, the success of this initiative has been driven by working cooperatively with preferred repairers to achieve process improvements and productivity benefits.

- Suncorp has invested in technology, including digital photo technology and web based quoting systems to create efficiencies particularly in regional locations. Once again preferred repairers were consulted and contributed to the overall design and functionality of these systems.

SECTION 3

RESPONSES TO SPECIFIC QUESTIONS RAISED BY THE PRODUCTIVITY COMMISSION

What are the criteria used to confer preferred repairer status

Suncorp identifies the need for preferred repairers on an area by area basis. The numbers of policyholders in each area (and therefore the number of car repairs) determines the need for one or more preferred repairers.

Once the need is established, Suncorp identifies repairers that may meet the required criteria. In some cases repairers may have already indicated their availability to become a preferred repairer.

The selection process is transparent. Senior Suncorp staff undertake the selection process and repairers are told about the selection criteria in advance.

The criteria used in determining the most suitable repairer are as follows:

- Size and location are used to establish whether a repairer is capable of managing the likely volume of work. In some cases two or more smaller repairers in an area may be selected to cover the expected volumes.
- Investment in technology, equipment and training.
- Safe access for Suncorp customers including safe street access, undercover parking and wheelchair access.
- Adherence to Workplace Health and Safety requirements, and environmental laws.
- Overall presentation of staff and management.
- A repairer's previous relationship with Suncorp may also be taken into account.

What are the advantages and disadvantages to insurance companies, repairers and consumers of preferred smash repairer arrangements?

Suncorp believes that preferred repairer schemes provide a number of significant advantages for insurers, repairers and customers.

Preferred repairers benefit from having a predictable flow of repair work through their business. This allows repairers to staff efficiently and to confidently invest in new technology, equipment and staff training.

Higher volumes of work through fewer repairers requires less overall supervision by Suncorp and significantly reduces the administrative expenses that would otherwise be associated with supervising a broader group of repairers

Suncorp benefits from reduced average repair costs for work undertaken by preferred repairers. These reduced costs come about as repairers improve productivity and drive fixed cost benefits.

Suncorp customers as well as consumers generally benefit through high quality repairs and ultimately lower premiums because of lower repair costs.

What are the implications of the preferred smash repairer arrangements for the quality of work undertaken and the resultant safety of the repaired vehicles?

Suncorp requires the highest standard of repairs. Suncorp's assessing team liaises with the repairer about the methodology for repair. Suncorp does not insist on cost reduction strategies such as inappropriate use of parts or other safety related issues.

What would be the advantages and disadvantages of establishing 'nationally agreed criteria' for preferred smash repairer status?

This would create competitive issues for both repairers and the insurance industry. It would effectively entail pseudo regulation of the relationship between the insurance industry and the smash repair industry and limit choice and flexibility.

Insurers may have criteria which are unique to their company's customer service objectives and promises, or to the geographical location in which they operate. In turn, individual smash repair companies need flexibility to establish standards for running their business which are based on their own business drivers.

A compliance monitoring infrastructure would need to be established to ensure compliance with the nationally agreed criteria. A process to keep the criteria updated in consultation with all stakeholders would also be required. This would all add cost and have negative impacts on the speed with which insurers and smash repairers are able to respond to changing market conditions and customer and competitive requirements.

As an alternative approach, the smash repairer industry could consider establishing its own best practice standards.

Are non-preferred repairers treated in a 'fair and reasonable manner by insurers?

Repairers who fall outside of the Suncorp preferred repairer scheme are not subject to any different treatment than preferred repairers. Suncorp standards for non-preferred repairers, including the methodology for determining payment rates, are the same as those applied to its preferred repairers.

Repairers who fall outside of the Suncorp preferred repairer scheme undertake approximately 40 percent of the available repair work. This comes about when customers have nominated a specific repairer or have arranged a quotation prior to advising us that they have incurred accident damage.

Suncorp deals with non-preferred repairers in a fair and reasonable manner. The repairer is invited to provide a quotation which is reviewed by a Suncorp Assessor. In more than 95% of cases the repair is authorised after normal negotiation between the repair and the Assessor.

When Suncorp is unable to agree on the cost or method of repairs a second quote may be obtained from another repairer. Importantly, on these occasions the second quotation is sought from another repairer who is not a Suncorp preferred repairer. The customer is kept informed throughout.

What are the levels, structures and timeliness of payment to smash repairers.

All Suncorp repairers are paid on the same terms and time frames.

Suncorp standards for timeliness of payment are within 10 days for repairers that deal with Suncorp electronically and within 25 days for non electronic transactions. These are the maximum standards. Suncorp closely monitors its performance against these standards, and generally processes payments well within these timeframes. Section 5 contains current performance statistics.

Suncorp does not operate any form of competitive bidding for work, or fixed cost repairs.

There is a heavy emphasis on the hourly rates paid to smash repairers in the current debate. However, hourly rates are only part of the overall price structure for smash repair work. Repairers also earn a significant percentage of the cost of parts fitted to cars.

Repairers are able to negotiate discounts on the cost of parts from distributors and in recent years repairers have been able to obtain improved margins in this area which has helped to cross subsidise the rates paid for labour.

The cost of parts as a proportion of the overall cost of repairs has risen from approximately 35% to almost 50% of the total cost.

Suncorp recognises the published MTA labour rates as the normal benchmark for allowing units of time to undertake specific repair activities. However, our assessors work closely with the repair industry to achieve a balance. Generally, we would prefer to allow additional labour in repair work to avoid the expensive alternative of fitting replacement parts on cars unnecessarily.

The overall cost of repairs also includes payments for paint and paint labour costs.

Suncorp supports the concept of reviewing the cost structure for smash repairers. However, this review needs to be undertaken across all cost factors including, parts, labour and paint.

What is the role and influence of assessors and assessment procedures?

Suncorp assessors act primarily as relationship managers. Their role is to ensure repairs are carried out safely and in a cost effective manner. In undertaking this role, Suncorp assessors have regard to the needs of repairers, our business partners, customers and shareholders.

What have been the trends in rates over time?

We believe that trends in rates when looked at in isolation do not provide meaningful information. Industry efficiencies and margin rates on parts also need to be considered.

How have repairer costs, and the composition of costs, changed over time?

The cost of parts as a proportion of the overall cost of repairs has risen from approximately 35% to almost 50% of the total cost.

What are the implications for costs, prices and repair quality of sub-contracting by repairers, and of the use of new/secondhand parts instead of panelbeating?

Suncorp repairers do not sub-contract work, other than specialised repairs, for example air-conditioning and radiator repairs.

Wherever possible, Suncorp encourages panel beating and accordingly increases the labour allowance for the repair. However, the ability to use panel beating is increasingly impacted by a shortage of appropriately skilled labour.

Who currently bears the costs of guarantees provided to consumers about the quality of work undertaken by repairers?

The repairer incurs the cost of rectification work where it falls within the guarantee they provide. Outside of that, Suncorp incurs the cost.

Do current rates offer smash repairers a 'fair return' for their services?

As outlined elsewhere in this submission, Suncorp believes there are many advantages for repairers operating under preferred repairer schemes. The longevity of Suncorp relationships with its repairers is evidence that Suncorp treats its repairers fairly and reasonably. Suncorp's core group of repairers - up to 80% - have relationships with Suncorp and GIO which extend for more than 20 years.

Are there implications for quality of work, quality of parts used, number of skilled workers, etc. of any 'cost squeeze' faced by repairers?

Suncorp expects its repairers to constantly look at ways to improve efficiencies, however this should not be classified as a 'cost squeeze'. Suncorp measures and monitors the cost of repairs and parts. Individual repairers are measured against the overall average cost base of all repairers. Where repairers fall consistently above the average, Suncorp works with them to determine the reasons.

Suncorp uses only manufacturers' approved parts for vehicles under warranty. This, and other information about Suncorp's standards for repairs, is disclosed to our customers in the Motor Vehicle Insurance Product Disclosure Statement.

How important are smash repair costs in the overall cost structures of insurance companies? Conversely, how important is insurance work for preferred repairers and other repairers alike?

There is a high interdependency between the insurance and smash repair industries, and therefore a need to maintain good business relationships.

Smash repair costs are the single most significant cost for motor insurers, comprising typically 70 – 80 percent of Motor premiums collected for Suncorp.

Similarly, insurance work forms the majority of work for smash repairers.

Are the current timeframes for repairers to make decisions on contract offers appropriate?

We interpret this question as meaning contract offers of fixed prices to repair cars. Suncorp does not operate in this manner. Repairers are able to come back to us for more fees where appropriate.

What would be the pluses and minuses of enabling collective negotiation by repairers with insurance companies?

This may operate to the disadvantage of individual repairers who are satisfied with the status quo. It has potential to inflate costs and to perpetuate an adversarial approach between insurers and smash repairers. Suncorp prefers a business partner relationship with its smash repairers.

To what extent do consumers currently have the opportunity to select a repairer of choice?

Our Motor Vehicle Insurance Product Disclosure Statement discloses that customers can either use one of our recommended repairers or choose their own repairer.

When customers advise us that their car has been damaged, they are asked at the beginning of the process whether they have a preferred repairer in mind to undertake repairs to their cars. When a customer does nominate a preferred repairer Suncorp will ensure that customer's choice is honoured. In 95 percent of cases the customer's choice of repairer is given the repair work.

To what extent is such opportunity exercised, where available?

Approximately 40 percent of our customers nominate their choice of repairer.

To what extent do the practices of the towing sector influence consumer choice?

The majority of vehicles are not towed. Where vehicles are towed, they are generally taken to our Motor Vehicle Assessing Centres. We contact the customer and allow them to select their own repairer or to use a Suncorp Preferred Repairer.

Is adequate information currently provided to consumers to assist them in making an informed choice?

The majority of customers want minimum hassle and their cars back on the road as quickly as possible. We believe that by relying on us to manage the process, they have made an informed

choice. Given that we provide a lifetime guarantee on repairs, our customers know that we will select quality repairers.

What are the costs and benefits for insurance companies of providing choice of repairer for consumers?

Suncorp benefits from reduced average repair costs for work undertaken by preferred repairers. These reduced costs come about as repairers improve productivity and drive fixed cost benefits.

Suncorp customers as well as consumers generally benefit through high quality repairs and ultimately lower premiums because of lower repair costs.

Do arrangements for choice bring costs or benefits for smash repairers?

In our experience the Preferred Repairer Scheme provides repairers with a continuous flow of work which is necessary to drive efficiencies, reduce the overall cost of repairs and maintain appropriate profits

Preferred repairers benefit from having a predictable flow of repair work through their business. This allows repairers to staff efficiently and to confidently invest in new technology, equipment and staff training.

Higher volumes of work through fewer repairers requires less overall supervision by Suncorp and significantly reduces the administrative expenses that would otherwise be associated with supervising a broader group of repairers.

SECTION 4

DISPUTE RESOLUTION & CODES OF CONDUCT

DISPUTE RESOLUTION PROCESSES

Licensed insurers are required to have membership of an ASIC approved independent external dispute resolution scheme for managing disputes with customers. The insurance scheme is Insurance Enquiries and Complaints Limited.

Suncorp does not have a formal dispute resolution scheme in place for managing disputes with its repairers. This is because in more than 20 years of operation, there has been no evidence of any systemic problems that would indicate a need for a dispute resolution scheme. In the rare instance that it was necessary, Suncorp Senior Management would assist with resolution of any dispute which was not quickly resolved through normal business management processes.

Suncorp would extend in principle support to the creation of a dispute resolution scheme, however the Terms of Reference would need to be clearly agreed by all stakeholders.

CODE OF CONDUCT

Suncorp's first preference is for individual insurers to retain the ability to enter their own Codes of Conduct.

However, Suncorp would provide in principle support for creation of an industry wide Code of Conduct because we want to attract and retain the highest quality repairers to the industry.

Suncorp's in principle support would be on the proviso that the code related to the core components of the relationship between insurers and repairers. We would not support a Code if there was an intent to wind back the preferred repairer scheme.

The disadvantages of an industry wide Code include cost impacts and competitive issues. An independent body to monitor adherence to the Code would be needed. This would add to costs for all parties, including customers. The Code would have to be very broad to avoid Trade Practices issues and may therefore be of limited value.

SECTION 5

KEY STATISTICS

Choice of Repairer

In the 12 months to June 2004, 152,136 jobs were allocated to repairers with 62.8 percent (95,590) being allocated to our recommended repair network nationally. The remainder were authorised to non-recommended repairers.

Prevalence of Preferred Repairer Scheme

Suncorp has 607 Preferred Repairers. State breakdowns are as follows:

State	Contracted	Regional
NSW	42	166
NT		4
QLD	76	68
SA		41
Tas		25
Vic	52	90
WA		43

Disputes between Consumer and Insurer

In the 12 months to June 2004, we finalised 225,325 Personal Motor Claims. Of these, 12 customers (0.00005 percent of the finalised claims) complained about repairs. Only 1 dispute about repairs went to external dispute resolution – Insurance Enquiries and Complaints Limited.

Disputes between Insurer and Repairer

We do not hold any data on this. Disputes about the quality of repairs invariably arise from time to time, however these matters are always managed and resolved by the accountable local manager or Assessor. No dispute has been escalated above this level.

Rates Paid for Repair Work

Rates paid for repair work are based on the total cost of repair and include parts, labour and paint. Suncorp uses the published MTA times as a guide. Times are adjusted and negotiated with repairers due to the complexity of jobs.

However, hourly rates are only part of the overall price structure for smash repair work. Repairers also earn a significant margin on the cost of parts fitted to cars.

Time Taken to Pay – Current Suncorp Performance

- Electronic – Currently 5 days from date of receipt of invoice from repairer
- Paper – Currently 14 to 15 days from date of receipt of invoice from repairer