



QBE INSURANCE (AUSTRALIA) LIMITED

**Submission to the Productivity Commission Inquiry
into the Relationship between the Australian Motor
Vehicle Smash Repair Industry and the Motor
Vehicle Insurance Industry**

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Introduction

QBE Insurance (Australia) Limited (QIA) insures approximately 182,000 vehicles through out Australia. In 2003 QIA paid 36,800 motor vehicle claims at a cost of \$55,248,000.

Within Australia the motor vehicle insurance can be split into two broad and distinct markets. The first market can be categorised as being predominantly intermediary based business insurance (company vehicles, fleets etc), with the other market being predominantly direct personal insurances (family vehicles). Whilst the economic drivers of both markets are the same, there are distinct differences in customer requirements.

QIA's philosophy has been to structure its' operations in accordance with both product and market requirements. For motor vehicle insurance QIA has two divisions, QBE Mercantile Mutual catering to the intermediary based business insurance market, and Western QBE catering to the direct personal insurance market. To meet the differing customer expectations of these two markets, these two divisions have employed divergent smash repair management strategies.

These strategies will be discussed in greater detail within the body of this submission.

Executive Summary

- QIA believes that the motor vehicle smash repair industry is over serviced, and in need of rationalisation, that most of the problems currently being experienced by smash repairers are a consequence of there being too many smash repairers, and that no meaningful improvements can be made without first addressing structural reform within the industry.
- The strains within the motor vehicle smash repair industry have been exacerbated in recent times by the current drought and lack of significant rainfall and consequent fall in the rate of motor vehicle accidents.
- That the costs associated with rationalisation and restructuring of the smash repair industry should not be borne by the insurance industry nor consumers of insurance products.
- QIA considers the introduction of preferred smash repairer schemes as the insurance industry's response to the ongoing problems manifest within the smash repair industry. Such schemes are merely an attempt to rationalise arrangements with an industry that has been experiencing difficulties for an extended period of time, and to provide some certainty with regards to costs and levels of service.
- QIA does not support the introduction of nationally agreed criteria for preferred smash repairer status, believing such would soon be rendered meaningless by competitive forces.
- Any proposed insurer to repairer codes of conducts would likely be anti competitive in nature and would adversely affect consumers.
- Neither the Insurance Enquiries and Complaints scheme nor the General Insurance Industry Code of Practice are the appropriate forums for complaints by or against smash repairers.

QBE Mercantile Mutual (QBEMM)

Catering to the intermediary based business insurance market, where relationships often exist between businesses, fleet managers and smash repairers, QBEMM's insurance policies provide for customer selection of smash repairers. The philosophy behind QBEMM's smash repair management strategy is that the customer owns the relationship with the repairer, and QBEMM facilitates the repair process through assessment and authorisation of repairs.

The pricing of QBEMM's motor vehicle insurance products are commensurate with this approach.

As such QBEMM does not employ a preferred motor vehicle smash repairer scheme. Provided the assessor believes the smash repairer capable of undertaking the repair, taking into consideration the complexity of the repairs, the level of equipment and skills of the repairer, then all motor vehicle smash repairers are eligible to undertake repair work for QBEMM customers.

QBEMM, due primarily to its present market share, has the view that it should neither be a market leader in hourly rates for repairs, nor should it be perceived as lagging its competitors. Rather, the QBEMM approach is to adopt an average rate based on the market as a whole.

For QBEMM the role of the assessor is vital in managing repair costs. The assessor is to consider all aspects of the repair in their assessment, including the sub contracting of work and the use of second hand parts. However, at all times the assessor is not to compromise the quality or safety of the repairs in arriving at an equitable cost of repairs.

The use of second hand parts, commensurate with the age of the vehicle, may be used where there are no safety or structural concerns. New OEM parts are fitted to vehicles within any new car warranty period.

QBEMM provides for a "repair guarantee" within their product disclosure statement for private and business vehicles for a period of 3 years from the date of repairs. For fleet, commercial and heavy haulage vehicles the repair guarantee is borne by the repairer.

Western QBE

The direct personal insurance market can be best characterised as having large volumes of policies and claims, at relatively low costs. The absence of intermediary involvement in this market has meant a significant investment in call centres and point of sales systems by direct insurers.

This market is particularly sensitive to price.

In order to maintain a competitive position within the market, it is necessary to continually strive for efficiencies to keep operating costs to a minimum. For personal motor vehicle insurance the greatest operating costs are those concerning claims, and of these the greatest proportion are repair costs.

Unlike QBE Mercantile Mutual, Western QBE reserves the right to nominate the repairer to be used to effect repairs.

Similar to a number of other insurers, Western QBE employs a competitive quoting regime, rather than a preferred repairer scheme. Market forces are used to maintain repair costs and to foster efficiency within the motor vehicle smash repair industry.

Competitive Quoting

Central to the competitive quoting process is the Assessment Centre. Western QBE believes that the assessment centre represents “neutral ground” which ensures repairers are able to quote the repair free from intimidation from or collusion with any other repairer, which is not always the case should the quote be conducted at a rival repairer’s premises. This is particularly so for vehicles deemed undriveable following an accident.

The process of competitive quoting involves the following:

Dependent on location, if within a defined radius of a Western QBE Assessment Centre, the vehicle is towed from the accident scene to the centre, or if the vehicle is driveable, the customer may be invited to drop the vehicle in to the centre at a time of their choosing. For driveable vehicles that are outside of the defined radius of the assessment centre the customer may be requested to obtain two quotes on the basis outlined below.

In most circumstances two quotes are sought from repairers, which may comprise one quote from a repairer of the customers choosing and one from a repairer nominated by Western QBE, or quotes from two repairers nominated by Western QBE if the customer does not have a preference. Where the vehicle requires specialist attention, such as prestige or 4WD vehicles, repairers who specialise or have the appropriate capabilities are chosen to quote.

To prevent any collusion between repairers in “winning” the repair, their respective quotes and details are kept confidential. Once the quotes have been received the assessor inspects the vehicle with both quotes and awards the work to the repairer with the most complete and competitive quote. In this way it is the repairer who determines how they wish to structure their costs, and what hourly rate they wish to apply.

To ensure that safety is not compromised, and that quality of repairs are of an acceptable standard, Western QBE both assesses the vehicle and the quote for completeness at the time of inspection, and before awarding the work to the repairer. On completion of the repair the vehicle is returned to the Assessment Centre where a post repair inspection is performed before the vehicle is returned to the insured.

Advantages and Disadvantages

Customers

The Western QBE approach benefits the customer by ensuring that the repair work is of an acceptable standard, and that vehicle safety has not been compromised. The awarding of a lifetime guarantee for the completed repair work provides an added incentive for the repairer to ensure repairs are completed correctly, and provides a level of assurance to the customer that should anything go wrong in the future that they have some recourse in having the matter rectified.

As most customers do not have a preferred repairer, or are unfamiliar with the motor vehicle repair process, they are able to turn to Western QBE to manage the process on their behalf. By doing so they are relieved of the stress and inconvenience that this process would otherwise entail. For those customers who avail themselves of the Western QBE Valet Service, whereby the customer is provided with a taxi from the Assessment Centre to a destination of their choosing, the Western QBE experience often exceeds their expectations.

Finally for the customer, premiums are maintained at an affordable price commensurate with the costs of repairs. With more affordable premiums, insurance cover now becomes available to those segments of the population who have traditionally been precluded from the insurance market due to price.

There are no disadvantages from the customer's perspective, as any request for the inclusion of a customer's preferred repairer is accommodated within the competitive quoting process.

Smash Repairers

Within the competitive quoting process all smash repairers are afforded an opportunity to quote and win business. Success is based on the volume of work awarded a smash repairer, and whilst their entrée to the process may be as a customers preferred repairer, the more repairs won the more opportunities will be afforded them to quote, and so win further work.

This process rewards the more efficient smash repairers, those repairers able to sustain lower quotes and repair costs over time without compromising quality or safety. Conversely the process may be perceived as disadvantaging those repairers who are unable to compete with regards to cost.

A further benefit for the motor vehicle smash repair industry is the increased number of vehicles previously considered uneconomical to repair now considered as viable repair propositions.

Insurers

Enables insurers to provide a quality customer service whilst maintaining premiums at an affordable level.

Recommended Repairers is a term Western QBE applies to repairers who are regularly asked to participate in the competitive quoting process. The distinguishing characteristics that set them apart from other repairers is primarily their support of Western QBEs' assessing philosophy and competitive quoting process, their ability to "win" repair work based on complete and competitive quotes, the service they offer in terms of timeliness, the quality of the repairs, and their ability to provide customers with an efficient and friendly service. Both location and equipment levels are also important considerations. Size and cost structures are important factors, however, Western QBE believes these are first and foremost considerations for repairers rather than insurers.

Western QBE has agreements in place with all Recommended Repairers, outlining customer service, timeliness of repairs, quality of repairs, and participation in the competitive quoting process. These agreements are required of all participants nominated by Western QBE within the competitive quoting process, but does not preclude participation of other repairers nominated by the customer in the process.

The addition of new members to the panel of recommended repairers is predicated on customer demand exceeding the capacity of existing recommended repairers to complete work in a timely manner in any given locality. The selection criteria is based on the distinguishing characteristics as outlined previously, with consideration given to past dealings with that repairer and their success rate in "winning" repairs as a customer nominated repairer.

All recommended repairers are reviewed and discussion held with regards to performance on a quarterly basis. Such discussion both allow for issues to be resolved and affords the repairer the opportunity to refine their processes in order to "win" a greater share of the repairs for which they have quoted.

To ensure quality and safety the Recommended Repairer agreements include the provision that rectification work must not exceed more than 5% of all vehicles repaired. Further, Western QBE assessors conduct quality control checks on large repair jobs and on all vehicles repaired via the Valet Service. In addition Western QBE only authorise the use of genuine parts for all safety and structural related components and do not authorise or instruct any repairer to in any way compromise the quality and safety of repair work. Western QBE offers a lifetime guarantee for all authorised repairs. The costs of such lifetime guarantees are borne equally by the repairer and Western QBE.

Western QBE does not sub contract work out. Any decision to sub contract work is the sole prerogative of the repairer, who is required to detail such arrangements in their quotes. Such an arrangement may form part of the repairers cost structure. This practice does not appear to have an adverse impact on the repair process. Western QBE does not have their own sub letting agreements, nor are such agreements imposed on repairers. All sub contracts quoted by repairers are checked as part of the assessment process and the work is authorised at a fair and reasonable cost.

The use of new or second-hand parts is established on a quote-by-quote basis depending on availability and subject to safety and structural constraints. Second hand parts, primarily panels, are not used on vehicles which have new car warranties.

Outside of this process assessors do not influence the direction of work to repairers. Once repairers have supplied their quotations, the assessor merely compares the quotes to the damage requiring repair, and authorises the most complete and competitive of the quotes received. However, as it is in the best interest of all parties involved that repair quotes remain competitive, feedback is often provided to the unsuccessful repairer as to the reasons for their failure to “win” the repair work. This feedback is in addition to the quarterly reviews mentioned earlier. It is hoped that such feedback will help the repairer review their cost structures, make changes where possible, and therefore improve their chances of “winning” future repair work.

Insurers

The advantages for insurers is the application of uniform processes leading to efficiencies, an improved level of customer service, and the maintenance of equitable repair costs.

All these factors have a direct bearing on an insurer's ability to retain customers and to compete against other insurers in attracting new customers.

Advantages and Disadvantages of Establishing a Nationally Agreed Criteria for Preferred Smash Repairer Status

By definition agreed national criteria for preferred smash repairer status for repairers would be largely dependent on the level at which such criteria is set. In other words it is dependent on “where you set the bar”. If the bar is set too low it becomes meaningless, if too high it becomes unattainable for many repairers. Even should the bar be set at a reasonable level, providing opportunities for most repairers to attain preferred repairer status, the volume of work available to support the number of repairers is such that there cannot be an even distribution of work amongst the smash repair industry without severe disruption to that industry. Regardless of such agreed criteria, without structural reform in the industry there will continue to be winners and losers in the smash repair industry.

Any such nationally agreed criteria for preferred smash repairer status would soon become a minimum standard, and would soon be superseded by insurer's and repairers striving to provide a level of service greater than the minimum. There is little in practical terms that would benefit the smash repair industry of such nationally agreed criteria.

Collective Bargaining

QIA believes collective bargaining to be anti competitive in nature, and would undermine any competitive quoting environment. Such a regime would increase repair costs, help support inefficient businesses, and merely delay the inevitable structural reform of the smash repair industry. In the short term such a delay would be paid by consumers through increased premiums, and by society as insurance becomes unaffordable for those who have only recently become consumers.

Terms of Payment

QIA's standards for payment of an invoice is within 3 working days from receipt. This is irrespective of whether a repairer is a recommended repairer or not.

Any delays experienced by repairers may be the result of the invoice being incomplete, or incorrect, or including work not previously authorised by the assessor. All of which require clarification or resubmission of an invoice for approval prior to payment. There may also be times where natural events such as storms or bushfires result in high claims volumes that may impact adversely on a claims departments ability to meet the standard, however these events are relatively rare.

Dispute Resolution Systems

QIA does not currently have a formal dispute resolution process for smash repairers. Rather disputes are managed at a local claim or assessing managers level, or should the dispute escalate past this point, managed at a national claim or assessing managers level. Very few disputes if any seem to escalate past this point.

QIA does not believe either the Insurance Enquiries and Complaints scheme, nor the General Insurance Industry Code of Practice are the appropriate forums for complaints by or against smash repairers. Further, any industry wide dispute resolution scheme for smash repairers is likely to be ineffective as such complaints are as a result of the systemic issues facing the smash repair industry.