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**SUBMISSION TO THE
PRODUCTIVITY COMMISSION INQUIRY
INTO THE RELATIONSHIP BETWEEN
SMASH REPAIRERS & INSURANCE
COMPANIES**

**Prepared by
THE MOTOR TRADE ASSOCIATION OF SOUTH
AUSTRALIA INC.**

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INTRODUCTION

The Motor Trade Association of South Australia was established in March 1926 originally as the "Garage Proprietors & Petrol Retailers Association of SA". It soon became the "South Australian Automotive Chamber of Commerce" until the MTA name was adopted Nationally in 1986.

The MTA is a registered employer organisation representing the interests of retailers in the Automotive Industry in SA. Our membership base is diverse, representing some 27 divisions and interest groups.

MTA – SA members operate over 2000 sites with approximately 50% of members being regionally based. Employment of South Australians in this industry exceeds 20,000 with 82% being full time positions.

The objective of the Association is to maintain and encourage a viable small/medium business sector within the Retail Motor Industry.

The continual drive to reach our goal is unachievable without the support from State and Federal Governments in the form of strengthening the Trade Practices Act to deal with abuse of market power, making public interest the sole determining factor in any National Competition Policy Review and allowing small business the right to collectively bargain with suppliers and franchisors.

The MTA – SA supports with other state bodies, and the National affiliated body MTAA in the progressive move to introduce a National Code of Conduct for the Smash Repair Industry. The current position of the industry indicates it is in dire need of a regulated code to reform the relationship between smash repairers, insurers and consumers.

The move towards balancing the market dominance of large insurance companies with small family owned businesses is paramount to the survival of the industry. The passing of legislation to introduce a "Small Business Charter of Fairness" is recognised as the chance to reignite the confidence for small/medium business operators throughout not just the Motor Trade sector, but across the board to all business factions faced with similar issues.

The MTA – SA will endorse any legislation that will encourage growth in the market place, raise the professionalism within the industry and strive to provide a better environment for the community.

SOUTH AUSTRALIAN MARKET

The smash repair industry in South Australia is predominantly made up of approximately 250 members dealing with about four major insurance companies, with one particular National insurance company dominating 60% of the market.

The smash repairers in this state report that approximately 80% of their work is insurance based with the remainder being private or fleet.

The numbers of repairers in SA have slowly declined from year to year, some through natural attrition, others as a result of not being part of an insurance company PSR Scheme. Some family operated business unable to hand the reins to the next generation are selling up or leaving the industry altogether.

Some businesses have taken the opportunity to diversify into other areas to provide a greater range of services and obtain better profit margins to compensate the shortfall from the repair side.

To date South Australia has no legislation in place for licensing of smash repairers, but continues to monitor the success of other states. Our members support the idea of licensing but recognise the issues affecting the industry nationally, demand a greater priority at this stage.

The contents of this submission are primarily state based, although the issues discussed are affecting every state across the nation in varying degrees.

Previous attempts to introduce reform and legislation to prohibit market dominance have made no in roads to either State or Federal levels, resulting in an industry on the brink of collapse.

The opportunity to resolve the issues and progress this industry into the current era is now of primary concern to all stakeholders and to the community as a whole.

The contents of the submission are as follows;

1. Preferred Smash Repairer (PSR) Status.

- 1.1 What it is / what it means / various categories.
- 1.2 The Agreements.
- 1.3 Transparency of appointments.
- 1.4 Disputes.
- 1.5 Quotation procedures.
- 1.6 Payment arrangements.
- 1.7 Quantifying numbers.

2. Hourly Rates.

- 2.1 Current practices.
- 2.2 Times manuals.
- 2.3 Proposals for future arrangements.
- 2.4 Assessors.
- 2.5 Skilled labour.
- 2.6 Technology & equipment.

3. Freedom of Choice.

- 3.1 Current practice.
- 3.2 Effect on Smash Repairers.

4. International Trends and developments.

5. Conclusion.

6. Supportive Documentation.

Letters.
Quotes indicating discrepancies between insurance companies.
Hourly rate variances.

Members and non member support documentation.

1. PREFERRED SMASH REPAIRER STATUS.

- 1.1 The Preferred Smash Repairer (PSR) Scheme is about the establishment of a group of repairers, specifically selected by the insurer to participate in and fulfil contractual terms and conditions in the process of repairing motor vehicles.

The insurer directs consumers to the PSR network to obtain more control of the repair process. The insurer can influence the process from cost control, to distribution of work, to establishing a stranglehold on the policy arrangements with consumers.

In some cases the repairers are graded into categories and then different classes.

- (a) PSR rating (Preferred Smash Repairer 1st level – gold, then silver, bronze and red class).
- (b) ASR rating (2nd level –Approved Smash Repairer)
- (c) Unauthorised Repairer (no contractual arrangement).

The criteria for the different categories is influenced by many factors for which no repairer can adequately control other than basic cost cutting techniques, which is completely biased towards the insurer's needs to lower the repair cost.

- 1.2 The contractual agreements are formulated with unilateral clauses, providing the repairers with little option to oppose or reject. The contracts often request the disclosure of confidential and private information, placing the insurer in a position of ownership of data normally reserved for financial associates contracted by the repairer.

- 1.3 The appointment of PSR status is an area that requires much transparency, with repairers oblivious to the selection process and the quantifying of increasing numbers onto the scheme. The fact remains that certain smash repairers unable to obtain quality repair standards previously, suddenly have the opportunity to participate with businesses more suited to the requirements of producing a high standard of quality work with a more advanced level of business acumen. On summarising the selection process, the more PSR's on the system the more competition there is to acquire work – forcing the cost of repairs to lower than achievable margins.

- 1.4 Currently there is no independent dispute resolution process available to the consumer, or repairer. Some insurance companies provide internal dispute resolution services, but they tend to favour the insurer, neglect the consumer and penalise the repairer.

The appointment of a National Independent Dispute Arbitration Body to resolve disputes between all parties, would provide an unbiased, professional service accomplishing a fairer outcome for all concerned.

- 1.5 The insurance companies with PSR schemes dictate the terms for which the quotation process is presented and to some degree, hijacks the diversity of work opportunities from other insurers.

The basis of the web based quotation process is a scope of works outlining; parts to be used and the areas that require repair. Specific vehicle lists

indicating the maximum remove and replace (R&R) times are available via a dedicated website.

The continual measuring and benchmarking between PSR's on quotation participation and success rate levels, places the repairers at the mercy of these insurers as they are penalised severely if they don't meet specific targets.

Associate Smash Repairers are called upon to quote only on the request of the insurer, limiting their opportunities.

- 1.6 Payment arrangements differ between the PSR's and the ASR's, with the PSR's offered various time allocations dependant on the rating ie; gold, silver, bronze or red. A gold repairer will receive payment more promptly than a red repairer.

An ASR payment will be completely judged by the insurer and history has shown no consistency.

A contractual agreement encouraging a working relationship should provide a viable set of terms and conditions for both parties, another area that proves the contract is biased and does nothing for the business needs of the repairer.

- 1.7 The issue of quantifying the number of PSR's on the system is obvious to the repairer (lowers the repair cost) , but counteracts the argument that there are too many repairers by the insurance companies.

If there are too many repairers per damaged vehicle then why increase the numbers to provide these repairers an opportunity to participate on the scheme?

The requirement from the community is "repair the vehicle to a standard equal to or better than pre-accident condition", so how can repairers with sub standard equipment and less experienced tradespeople provide the standard and guarantees outlined by these insurers?

2.0 HOURLY RATES.

- 2.1 The current practice used for the calculation or formula which determines the hourly rate is non existent; for the past thirty years repairers have been at logger heads with the insurers over the process of deciphering the hourly rate.

No other trade related industry has an hourly rate so antiquated, outdated and so comprehensively inadequate than the repair sector of the Motor Trade Industry.

The insurance companies have encapsulated the rights for this domain and through deceptive means managed to manipulate further cost savings for the repair process at the expense of the repairer.

The current cost to repair a vehicle today is less than it was 10 – 15 years ago!

- 2.2 The current times manual available to repairers is basically non existent, with the largest insurer providing times which due to the "funny time – funny money" scenario is completely unrealistic and considerably favours the insurer.

The MTA NSW times manual which provides some guidance has proved the inadequacies of the insurance sector in providing anything short of unattainable times.

The insurer must be liable for the ongoing concern of the vehicle if they force repairers to abide by dysfunctional times. The community is being placed at risk when repairers are forced to “cut corners” to meet the demands of the insurer while “striving to survive” at the same time.

- 2.3 The establishment of research centres such as Thatcham’s in the UK have produced invaluable documentation on the repair process of vehicles since 1975. The process of formulating repair times at Thatcham’s is an expensive and time consuming exercise and warrants much consultation prior to reproducing any facility in this country.

The ideal scenario for all parties is to agree on a fair and reasonable “real times” hourly rate with the consultation process involving representatives from both the insurance sector and the smash repair sector in forming a committee dedicated to balancing the conditions for both parties.

The hourly rate set by insurers requires a structure formulated on CPI increases, labour rate calculations, business expenses and government taxes. The comparison to other trade related industries must provide some basis of formulating a more accurate structure to operate under.

- 2.4 The role of the assessor is to assess the damaged vehicle against the quote prepared by the repairer. The assessor is not an auditor attempting to reduce the quote to save money outlaid by the insurer. The qualifications of an assessor are important to the process, because of the need to provide experience in the evaluation of the vehicle and extend their knowledge to reach a correct and safe method of repair in the best interest of the consumer and repairer.

- 2.5 The lack of skilled labour in the Smash Repair Industry is an indictment on the terms for which all parties are participating.

The lack of structure in the industry has produced much uncertainty and severed the desire for repairers to plan into the future.

The amalgamation of insurers has resulted in large conglomerates that dictate new terms and force repairers to constantly change their infrastructure to meet and satisfy their abundant requirements.

- 2.6 The current business environment is one of change and consolidation, businesses are continually looking to run more efficiently and profitability.

The introduction of the PSR scheme has transferred a percentage of the administrative workload to the repairer, placing added pressure on the business, and resulting in increased costs to equipment and staff to accommodate extra demand.

Other commitments repairers have met are the continual demands to upgrade workshop equipment levels to satisfy the needs of the insurer. Many businesses have been promised work if they pursue better measuring/pulling systems, and upgrade paint booths.

Promises which are decided purely on the competitiveness of the quoting ability of the repairer.

Some insurers are playing with the livelihood of businesses not educated enough to accommodate the reality of the changing environment.

3.0 FREEDOM OF CHOICE.

- 3.1 The opportunity for consumers to select the repairer of their choice has from the viewpoint of some insurers, never changed. Different insurance companies provide varying degrees of choice, dependant on policy selection. The main concern is the insurance companies providing no choice to the consumer other than the repairer prepared to repair the vehicle at the most competitive (lowest) price.

The latter case forces the owner to accept a quote which may be the result of a desperate repairer prepared to under quote a job just for the opportunity to keep workers employed.

Participating in the PSR schemes requires repairers to win a percentage of jobs, otherwise penalties could cause loss of opportunities or cancellation of contract. Competitive quoting is accepted in general by the industry, but the opening to large numbers of participants directly initiated by insurers is forcing the issue of poor quoting / repair methods.

The community in general has little knowledge of the repair process, the need for greater clarification from the insurers that have PSR schemes is warranted in the form of greater exposure via policy renewals or advertising.

- 3.2 The lack of freedom of choice by the consumer has huge ramifications to the smash repairer. All business owners are driven to succeed at their given field with the objective to build clientele, provide good service and maintain relationships with business partners. The decimation of clientele has reduced many businesses to be subcontractors to the insurance companies, reducing the value of their businesses to marginal amounts.

4.0 INTERNATIONAL TRENDS AND DEVELOPMENTS.

The trends overseas are indicating a push towards prohibiting preferred repairer schemes, as they are concerned about insurance companies taking away the consumer's rights and limiting the decision making process for consumers. The sourcing of parts by insurers has also been trialled, as parts contributing to 50% of the quotation process are an area that requires some intervention.

5.0 CONCLUSION.

In summary, the process of regulating the industry is of extreme urgency and progression within the industry must be on the agenda for all parties. The future of the industry affects thousands of businesses and the ramifications far exceed the shortfalls of varying dividends received by shareholders. The industry must be respected and given the opportunity to prosper with other industries to provide the economy with stability and confidence.

The MTA – SA strives to secure the future for all its members and will continue to “battle” with the best of intentions for all the Motor Trade Sectors in this state and nationally.

We appreciate the business needs of all parties involved in the Inquiry but the rectification process requires a true balance with the best interest of the community the main priority.

The introduction of a Code of Conduct is the only method for which the industry can fully comply. The need for a more transparent outlook from the insurance companies to provide fair and reasonable terms and conditions for their business partners is paramount. Also provisions for consumers to exercise their rights to “own” and determine the fate of their second largest asset is surely classified as “**progression**”.