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Senate Standing Committees on Economics  
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Dear Committee Secretariat

**Senate Economics Reference Committee Inquiry into the Future of the Australia's  
Automotive Industry**

Insurance Australia Group (IAG) welcomes the opportunity to make a submission to the Senate Economics Reference Committee as part of the Inquiry into the Future of Australia's Automotive Industry. As one of the largest vehicle insurers in the country, this topic is of significant relevance to IAG and our industry more generally.

IAG is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing more than 15,000 people. Its businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann, WFI and Lumley Insurance (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); and AAA Assurance (Vietnam). IAG also has interests in general insurance joint ventures in Malaysia, India and China.

General insurance refers to all forms of commercial or personal insurance but does not include life insurance. IAG has more than 762,000 shareholders. IAG's share register is the fourth largest in Australia.

Across IAG's international portfolio of brands the business insures 8.4 million cars, 2.9 million homes, 103,000 farms, 123,000 employers and 408,900 businesses. IAG is pleased to provide comments in response to the Terms of Reference as outlined below.

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## **1. Response to Terms of Reference C & D: Our role in the Australian Automotive Industry and the transition to global supply chains**

IAG operates the largest motor vehicle insurance business in Australia, insuring around 3.2 million passenger vehicles<sup>1</sup> which represents over \$2.5billion in Gross Written Premium. It is our role to help customers manage their personal risk and encourage loss mitigation. After customers' vehicles are damaged, we give them peace of mind by covering the cost of repairing their vehicle and or the other party's vehicle, as well as ensuring the vehicle is repaired efficiently, safely and to the manufacturer's standard.

When customers make a claim we rely on a supply network of small businesses across Australia to undertake over 400,000 repairs annually. IAG's supplier network is made up of thousands of small businesses, including paint and panel repairers, but also includes Original Equipment Manufacturers (OEM) Service Departments, mechanics, paintless dent repairers, windscreen suppliers & fitters.

Motor vehicle parts are a critical element of the supply chain. The scale of IAG's business means that IAG requires significant volumes of component parts to undertake customers' repairs. Overall, the business and supply chain is engaged with multiple segments of the automotive industry.

In this way, IAG is experiencing first hand the extensive changes taking place in the domestic and global automotive industry. IAG notes that the end of light vehicle manufacturing in the country further solidifies Australia's reliance on a global automotive industry. Consumers will have no option but to purchase foreign manufactured vehicles from 2018.

Currently, 87.8 percent of the Australian car fleet is made up of imported vehicles<sup>2</sup>, meaning that the vast majority of parts IAG's supply chain requires are already sourced from independent genuine parts importers, companies or distributors.

Parts supply and availability can also be a major cause in the delay of a repair. As part of IAG's strategy to address this issue IAG has developed strong relationships with OEMs, particularly in relation to vehicle design and safety via IAG's Research Centre, as well as sourcing manufacturers' repair methods for repairers.

When it comes to parts, IAG has established a clear Parts Policy. This commitment means that IAG is already well placed to evolve with the broader industry as it changes.

The Parts Policy criteria predominately recommends genuine new OEM parts for vehicles less than three years old. This policy is based on IAG's commitment to quality and safety. Replacement parts typically include items such as grilles, radiators, head lamps, tail lamps, impact (bumper) beams, panels, doors, fascias, spoilers, mouldings, trim and wheels.

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<sup>1</sup> Motor GWP in Australia in FY14

<sup>2</sup> Options Discussion Paper, 2014 Review of the Motor Vehicle Standards Act 1989 Pg2

These are provided by various motor vehicle parts suppliers including authorised OEM dealers; independent genuine parts importers; independent after-market ("non-genuine") parts importers and distributors; and used and exchange parts suppliers (for example dismantlers, recyclers and refurbishers).

In relation to replacement parts IAG's policies currently state that repairs will take place using new (OEM or genuine) parts or quality non-mechanical re-useable parts.

As of February 2014 the policy states non-mechanical re-useable parts or non-genuine parts should only be used when this:

- is consistent with the age and condition of the vehicle;
- does not affect the safety and structural integrity of the vehicle;
- complies with the vehicle manufacturer's specifications and applicable Australian Design Rules;
- does not adversely affect the post repair appearance of the vehicle; and
- does not void or affect the warranty provided by the vehicle manufacturer.

Generally, IAG does not authorise the use of re-useable parts for the repair of any motor vehicle that are less than three years old.

Repairers conducting repair work authorised by IAG have autonomy to order, procure and fit the necessary parts in accordance with the above guidelines. There are some circumstances where IAG may specify to a repairer that a particular type of part be fitted (for example, new genuine parts in newer cars) before issuing an authority to proceed with repairs. However, once IAG has assessed a proposed repairer quote and issued an authority to proceed, the sourcing of the replacement parts specified and their installation lies with the repairer.

## **2. Response to Terms of Reference E – New technologies/operators influencing the automotive industry**

Fundamental structural change within the smash repair industry continues at a rapid rate, driven by changes in technology, innovative and entrepreneurial smash repairers and consumer demand. At the same time Australian motorists are choosing to drive cars with increasingly complex safety features, technology, design and manufacturing materials. This affects industry sustainability given there are elements of the smash repair industry that are at best challenged by these changes, and at worst unable to safely repair modern day vehicles to manufacturers' standards.

Equally, the evolution in the industry is providing opportunities, competitive advantage and new growth for progressive smash repair businesses that have responded positively to change. IAG is proud to contribute to this opportunity for renewed growth and sustainability in the smash repair industry through its professional and mutually beneficial partnering arrangements it has formed with its repairers nationally. It should be noted, however, that while IAG are able to provide enough work to support a portion of the industry, it is simply not possible for IAG alone to sustain the entire industry.

However, as part of IAG's ongoing commitment to support small business and not own our own repair shops, IAG continues to work on a daily basis with the majority of repairers nationally through IAG's stated policy of offering all customers choice of repairer.

#### **A. IAG's Partner Repairer Model**

IAG pursues a business strategy which creates long term equitable partnering arrangements with small business. The model, in concert with the decisions IAG has made to improve the way IAG work day-to-day with the majority of smash repairers, has removed many of the adversarial relationships which have beset the industry over many years.

It also provides a solid operational base from which IAG can continue to deliver superior customer service while the broader automotive industry undergoes significant economic challenges.

The development of IAG's Partner Repairer model is based on one key premise: quality outcomes for customers. As part of IAG's commitment to work more closely with industry and support the sustainability of the smash repair industry, IAG has undertaken a range of initiatives. These have significantly improved relationships between repairers and insurers and have ultimately benefited customers. The by-product of that model is a more sustainable, certain and positive futures for the businesses and Partner Repairers.

**The below points outline IAG's Model in more detail.**

- IAG has partnered with high-performing, innovative businesses in order to compete in an increasingly crowded and price-driven comprehensive motor vehicle insurance market.
- Quality – and more importantly, repairing vehicles to manufacturers' standards – must be the platform of any repairer network.
- In this context IAG initiated a Request for Proposal process open to every repairer nationally in the markets IAG operates (NSW, ACT, VIC, WA and QLD, with the SA process currently underway). This gave IAG the opportunity to conduct site visits to assess each participating repairer's capability to deliver high quality repairs consistent with manufacturers' standards. Candidates were shortlisted before any commercial discussions were had and, furthermore, the entire process was independently audited by PWC to ensure fairness.
- IAG's Partner arrangements offer sustainability and certainty to an industry characterised by an oversupply of smash repairers, dwindling available work, and an increasing pace of technological evolution.
- Unmatched by the industry, IAG conducts approximately 2,000 repair quality inspections per month to identify and act on poor quality, safety and alleged

fraudulent repairs as well as conducting audits on smash repair premises and equipment. This is part of IAG's Smash Repair Quality Program\*.

- IAG's highly-trained Assessing team works with repairers to ensure the best quality outcome for customers. Dedicated Quality Assurance roles, supported by ongoing training, provide additional resources to continuously monitor and improve repair quality.

**Outcomes** (sourced from the IAG Smash Repair Quality Program Annual Report 2013-14)

- The NSW and national rate of potential safety rectification issues found in assessed vehicles in 2013-14 was **just 0.02%**.
- Last year's report found repairs conducted by Non-Partner repairers *outside* IAG's Partner network were twice as likely to require rectification.
- The next IAG Smash Repair Quality Program Annual Report is scheduled for production in September/October 2015.

## **B. The Risk to Safety, Consumer Protection and the Environment from Increasing Second-Hand Vehicle Imports**

Despite the unique merits of IAG's model and choice policy, demand and supply forces and new vehicle technology will continue to shape and change the smash repair industry and indeed the broader automotive industry.

For the sustainability of the industry it is imperative to strike the right balance between appropriate safety standards and ensuring consumers have access to vehicles at the lowest possible cost – without compromising on quality.

IAG therefore supports the Government's focus on delivering safer roads and better vehicles for motorists as part of the review of the *Motor Vehicle Standards Act 1989*. IAG welcomes the Government's agreement to consider options to reduce restrictions on the personal importation of new vehicles. ***Additionally, IAG strongly supports the Government's decision to deter the importation of used second-hand vehicles.***

One of the key objectives of the Act is to achieve better road safety. Relaxation of restrictions on the importation of second-hand vehicles will do the very opposite and be at odds with Australia's *National Road Safety Strategy 2011-2020*. Key risks involved with allowing more second hand vehicle imports are summarised below.

1. **Lack of vehicle history** – consumers may purchase a vehicle that unbeknown to them has been involved in a collision and may be structurally unsafe. An extensive safety regime would be critical to protect consumers from discovering their vehicle was poorly repaired. Without such a regime, unsafe vehicles may be discovered only when a vehicle underperforms in an accident, which places road users at serious risk.

2. **Repairability, repair costs and insurance premiums** - Older second-hand vehicles tend to break down more frequently, and may require parts that are different to the locally sold model of the same vehicle. Access to manufacturer specifications and methods of repair continue to be a challenge and would be exacerbated if the range of different second-hand models available increases. These issues can result in repair delays and additional expense for owners and insurers of these vehicles. Ultimately these issues impact repairability, repair costs and can end up resulting in higher insurance premiums.
  
3. **Risks related to increasing the average age of the Australian Vehicle Fleet** - From the perspective of putting downward pressure on the price of second-hand vehicles, increasing competition in the second-hand car market may appear beneficial to consumers. However, the benefit of cheaper second-hand cars is outweighed by the detrimental effect on road user safety by decreasing the take up of new, safer vehicles and increasing the average age of the Australian fleet.
  
4. **Consumer protection** – Due to more liberal restrictions on second-hand vehicle importation, New Zealand has one of the oldest light vehicle fleets in the developed world. The safety issues caused by an ageing fleet in New Zealand have been further compounded by maintenance issues. There is a risk that, as vehicles age and their market value declines, owners put off servicing and repairs, further increasing the safety (and environmental) risks to road users. Additionally odometer tampering is rife with second-hand imported vehicles. A Government report found the extent of the practice to be up at around 70 percent of used Japanese imported vehicles.

### **Importation of New Vehicles**

Vehicle age is a useful proxy for variables like vehicle safety. This is why the objective of lowering the age of vehicles on the road is considered such an important target in Australia's road safety strategy to reducing death and serious injury.

IAG supports the increased competition the direct importation of foreign new vehicles will bring to the new car market in Australia. It may also lead to better outcomes for consumers in terms of increased affordability of newer, safer cars.

However, IAG believes such a move toward deregulation in this area must incorporate safeguards to ensure consumer protection. This protection would require regulatory processes be implemented to ensure directly imported vehicles comply with applicable Australian safety and environment standards.

It should also be noted that an increased number of imported new vehicles will require higher volumes of imported component parts for servicing and smash repairs. As previously mentioned, parts supply and availability can be a major cause in the delay of a repair.

More detail on these issues are outlined in IAG's previous submission to the Review of the *Motor Vehicle Standards Act 1989* dated 20 October 2014.

<http://www.iag.com.au/iag-submission-2014-review-motor-vehicles-standards-act-1989>

Yours sincerely

Steven Bubulj  
Head of Supply Chain  
Insurance Australia Group

### **\*About the Smash Repair Quality Program**

The National Repair Quality Framework was launched by IAG in March 2011. It involves a 10-point plan to ensure high quality and safe repairs on our insured vehicles.

The main features of the Quality Repair Program are:

1. Lifetime guarantees on the workmanship of authorised repairs for the life of the vehicle.
2. Random Motor Assessor Quality Inspections.
3. Additional independent inspections by a group of quality assurance auditors.
4. Management of the end-to-end repair process by dedicated Repairer Performance Consultants.
5. Annual increases in inspections of vehicles.
6. The use of genuine parts as part of our Parts Guidelines.
7. In-house Assessor training including 6 and 12 monthly exams, manufacturer training and ICAR (new technologies) & PPG (paint finish) training.
8. Smash repair premises and equipment audits.
9. Performance management guidelines for partner repairers.
10. Regular reporting on safety, quality and alleged fraud breaches.

Quality inspections are performed on at least 10% of all repairs authorised by us regardless whether the repairer is a Partner or Non-Partner repairer.

### **About the IAG Research Centre**

As well as being one of the largest car insurers in Australia IAG has and continues to undertake substantial investment in vehicle safety, anti-theft security and crash repair research through the IAG Research Centre. The Research Centre has been operating for 20 years and is the only insurance-based research centre in Australia.

The Research Centre is actively engaged in physical safety research. This has also included extensive research into driver distractions and vehicle visibility, with the Research Centre having developed the world's first rear visibility rating system in 2004 which has been published every year since. The Research Centre is also the provider of head restraint ratings that are now part of the ANCAP 5 star requirement.

In recognition of the contribution the Research Centre makes to motor vehicle design, safety and innovation NRMA Insurance has representation on the ANCAP



Technical Committee and ANCAP Council and is the only insurer invited to be an ANCAP member.

Another important role of the IAG Research Centre is providing technical training and information to motor vehicle assessors. This function has become even more important in recent years as cars have become more complex and difficult to repair without the appropriate skills and equipment. It is also involved in a number of operational road safety activities including setting technical standards for repairs; distributing manufacturer's preferred repair methods and operating an assessor and repairer help desk, aimed at ensuring that cars we repair maintain their crash safety performance.