

**ECONOMICS AND INDUSTRY
STANDING COMMITTEE**

INQUIRY INTO WA'S AUTOMOTIVE SMASH REPAIR INDUSTRY



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 12 SEPTEMBER 2018**

SESSION TWO

Members

**Ms J.J. Shaw (Chair)
Mr S.K. L'Estrange (Deputy Chairman)
Mr Y. Mubarakai
Mr S.J. Price
Mr D.T. Redman**

Hearing commenced at 10.36 am**Mr STEVEN FITZPATRICK****Executive General Manager, Short Tail Claims, IAG, examined:****Mr TROY JOHNS****Specialist, Industry Relations, Governance and Risk, IAG, examined:**

The CHAIR: On behalf of the committee, I would like to thank you for agreeing to appear today for a hearing for the committee's inquiry into WA's automotive smash repair industry. My name is Jessica Shaw and I am Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee: to my right is Yaz Mubarakai, the member for Jandakot; to my left is Deputy Chair Sean L'Estrange, member for Churchlands; Stephen Price, member for Forrestfield; and Terry Redman, member for Warren-Blackwood.

It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. Your evidence is protected by parliamentary privilege; however, this privilege does not apply to anything you might say outside of today's proceedings.

Before we begin with our questions, do you have any questions about your attendance here today?

The Witnesses: No.

The CHAIR: Would you like to make a short opening statement?

Mr Fitzpatrick: Yes, I would. I will start with short-tail claims and what that stands for. Short-tail claims are literally claims that actually are shorter in length than, say, liability claims, for instance. So I look after all of motor, home, commercial and so forth nationally. They generally have a tail of about 12 months where they are finalised, whereas long tail would be more our liability, CTP, workers' comp sort of claims. It can be a bit confusing.

So, yes, my opening statement. Thank you, Chair. Thank you for the opportunity to address the committee. It is actually great to be back in my home state, where I was born and where I worked on the claims and assessing business for SGIO for a couple of years. I am joined by my colleague Troy Johns, who is our manager for industry relations risk in governance. Troy looks after our engagement with key stakeholders such as the motor trade associations around the country, as well as small business commissioners. He is IAG's representative on the Insurance Council of Australia as a member of the code of conduct administration committee.

IAG has a deep heritage in WA and a strong reputation of protecting and looking after our community in times of need. Whether it be motor vehicle insurance, home and contents, business insurance or natural disaster, we are here to provide the services and support our customers' needs. On that note, let me say that at IAG we have no greater priority than to ensure our customers' cars are fixed to the highest quality and safety standards. If we fail in this regard, we are failing on our commitment to our customers and our purpose as an insurer, which is to make your world a safer place. We are proud to partner with successful repair businesses in WA who share our commitment to quality, safety and great customer service. Using our partner repairers means we can provide a seamless experience for our customers at an affordable price. From the moment a claim is lodged, we will manage the entire process on their behalf, including booking in the car for an inspection on the spot.

I know this has been discussed at length before the committee, but it is important to make note from the outset that the repair industry in Australia, as well as overseas, is facing some of the biggest

structural challenges in its history. The industry is operating in a really rapidly changing environment. These challenges are largely being driven by changing demands from customers and cost-efficient technologies, new processes and innovative systems to repair cars quickly and to a high-quality standard. To be competitive, repairers must adopt new techniques and skills and invest in new equipment. Consolidation of the industry is happening at a rapid rate.

Insurers are also part of a broader automotive environment; they do not operate in isolation. Like the repair business, they are also being forced to evolve with rapidly changing market dynamics in order to compete. IAG seeks to embed sustainability across its brands in order to deliver clear business benefits such as operational efficiencies, employee motivation and retention, customer service and an increase in community trust. We are constantly testing and trialling the future of smash repairs to deliver greater customer experiences and more affordable car insurance. We continue to evaluate a number of initiatives for our customers, which enables us to define the best outcomes for them and streamlines the repair processes. We continue to work collaboratively with the industry to strengthen and improve it. This includes establishing and funding long-term apprentice schemes to benefit the wider industry, address labour shortages, and ensure a strong pipeline of skilled workers to keep up with today's more complex vehicles. I am happy to take questions from the committee. Thank you.

The CHAIR: Thank you. Could you give us a bit of an overview of your business here in Western Australia—market share, brands you operate?

Mr Fitzpatrick: Yes. Underneath the IAG brand we have about a 20% market share collectively across all our brands. Our largest brand, which has been in the market for a long time, would be SGIO. That has about 11% market share. HBF and Coles would be the next biggest ones. HBF has been around for a long period of time as well; it would have four per cent. Coles would have about 3%, and then we have other brands such as Wesfarmers Insurance more out in our rural areas, our CGU business and Lumley, which all would all have 1%. Lumley would be more around the specialist vehicles. That would be the motor vehicle market share, I guess.

The CHAIR: Could you give us an overview of how you manage your relationships with the smash repair industry? Do you own smash repair shops yourselves, or are you involved in any way in the industry as an owner or operator? And then if you do have preferred repairers, how do you structure those relationships?

Mr Fitzpatrick: Yes, certainly. So we have preferred relationships. Within WA, we do not run any repair shops. In WA we have a preferred network, whereby we would have about 36 repairers which meet a quality standard. We would have a relationship where our customer wants us to, essentially, take some of the stress and anxiety away around actually where to get their car repaired. We would send it to those particular repairers. We pretty much work with every single repairer within the WA environment and authorise repairs, and we would do that through assessing —

The CHAIR: Just to clarify, when you say “we work with every repairer”, you mean in your preferred network?

Mr Fitzpatrick: No, we work actually right across WA. So, essentially, customers have choice across pretty much every single policy that we have, like SGIO and so forth. There might be a small difference in terms of Coles around buying a choice policy, but generally, yes, they can choose where to take their repairs. Therefore, if they choose to take it to any smash repairer, we will assess the vehicle to make sure it has been done to the right level of quality, make sure it is the right method of repair, make sure the costs are fair and reasonable, and we would authorise the work. That would be across most repairers in Western Australia.

The CHAIR: I know you just sat in on the previous hearing. Across your policies everybody has choice. When someone picks up the phone and says, “I’ve had a prang”, how does the conversation go about references to preferred smash repairers or otherwise?

Mr Fitzpatrick: Our colleagues are trained to have conversations around our preferred networks, so they would say, “Yes, we can actually help you take your car to a repairer. We have a preferred repairer. It’s a guaranteed lifetime warranty in terms of work. We can get through a quicker process”, those types of things. We would definitely have those conversations.

The CHAIR: And for the non-preferred, do you guarantee the work?

Mr Fitzpatrick: Yes, we guarantee the work as well.

The CHAIR: So there is no difference then in the conversation?

Mr Fitzpatrick: Ultimately, the customer has choice, so if the customer says, “I want to go to John’s Smash Repair”, and they are not part of our network, then they can take the customer there based on the fact that their policy states that they have choice. We would let them know that we have a preferred network, that we guarantee the work there, that we know that they have the right standard of equipment, the right licensing—all those types of things. So we would always make them aware that there is a preferred network that we essentially work very closely with.

The CHAIR: So why is there a preferred network? What is special about being in the preferred network?

Mr Fitzpatrick: I think in terms of standard, it is a commitment actually to the quality of repairs. It means that we know that they are going to be fitting genuine parts as per our PDS—policy description statements. We know that they are essentially making sure that from a service perspective it is meeting a need, and they are doing it at a fair and reasonable cost.

The CHAIR: That has been pre-negotiated?

Mr Fitzpatrick: It is variable. But, yes, we would essentially have a targeted cost or agreement based on the fact that we can actually leverage scale, which actually makes it a much more efficient business.

Mr D.T. REDMAN: A couple of sentences ago I got the impression, when asked by the Chair of putting people to your preferred network, that you said you can guarantee. You used the word “guarantee” in your response. Does that mean that if they go and use a non-preferred repairer, there is not a guarantee?

Mr Fitzpatrick: I did also state that if we authorise the work at any repairer, then it comes with a lifetime guarantee.

Mr D.T. REDMAN: It comes with a lifetime guarantee; okay. So across the board.

Mr Fitzpatrick: Yes. If we do not authorise the work—say the customer wants to take it to a shop that is not licensed, that does have the right equipment and it is not going to get repaired the right way, we would not authorise the work in those particular instances.

Mr S.J. PRICE: I am just fascinated by this lifetime guarantee terminology. You sell insurance. Is there a premium on top of people’s insurance policies to cover that lifetime guarantee that you provide for their repairs?

Mr Fitzpatrick: There is no additional premium. The premium that they pay would be for essentially the repair work that gets undertaken.

Mr S.J. PRICE: When you structure that premium—so if I want to take out an insurance policy for my vehicle, in there it gives me choice of repairer, the repair comes with a lifetime guarantee wherever I take it.

Mr Fitzpatrick: Yes.

Mr S.J. PRICE: There would be a component of that base premium to begin with that would cover potential costs associated with providing that unicorn horn.

Mr Fitzpatrick: Yes, it would essentially be built into the price, but the fact that we are actually authorising work only with repairers that we know are going to do a good quality job in terms of the right way to repair the vehicle, means that the amount of times that we would apply it is relatively small from a quality perspective.

Mr S.J. PRICE: So if you did not provide that lifetime guarantee, would that result in lower premiums?

Mr Fitzpatrick: No, because we still would do the right thing by the customer in a circumstance where, say, the repairer has not got the repair right. Our first priority is to make sure that the car is safe on the road, so therefore we would make sure that that car is rectified to the right quality standard, always.

Mr S.K. L'ESTRANGE: Just on that, with your assessors, do you use repairers as your assessors to be able assess, first of all, what repair is required and then, second, to follow up on the lifetime guarantee, to see that the work that has been done is 100%? The assessors you are using to make those assessments, are they people who are skilled in doing repairs themselves or are they just people you train up to be assessors?

Mr Fitzpatrick: No, they are all qualified. They come out of the repair industry, so they are qualified people. We also invest heavily in their training. We are a platinum sponsor for I-CAR, which essentially is a training organisation that looks at the latest technologies coming out and makes sure they are up to the right level of standard. We take the quality component very seriously. We actually do quality checks on 10% of all repair work that is done as part of our commitment to make sure that our repairers, whether they be partner repairers or non-partner repairers, are actually repairing work to the right level of quality.

Mr S.J. PRICE: Can I go back a little on what you just said? You said all your assessors are qualified, I think was the term you used. Are they tradespeople out of the industry or does that make up a component of them and there are other people who are not from the industry but have undertaken some of the training you have just referred to, which makes them qualified?

Mr Fitzpatrick: I might pass to Troy; he can probably give you a bit more detail. As far as I know, they are actually qualified panelbeaters, spray painters, mechanics.

Mr Johns: Absolutely, I will take that one. I started as a tradesman myself and worked up as an assessor, so there is an opportunity for people from the trade to progress through their career. By state and by definition, there are some differences in licensing and qualifications across the country, but all our assessors come from a trade, whether it is motor mechanics, smash repairers, panelbeaters or spray painters. Again, you have to go back to what fits with each state. If there is no qualification there for that state, they may not hold a trade but, nationally, all our assessors meet the code standard, which outlines what an assessor must hold, and that is the qualifications and the training that sits underneath that.

Mr D.T. REDMAN: Just a clarification on the numbers you gave in terms of market share. You said that across the IAG brands there was a 20% market share. Is that 20% in the motor vehicle insurance sector?

Mr Fitzpatrick: Yes, just for Western Australia.

Mr D.T. REDMAN: For WA?

Mr Fitzpatrick: I believe so, yes.

Mr D.T. REDMAN: But you have HBF and others that go outside the remit of motor vehicle?

Mr Fitzpatrick: Yes, most of our brands would actually extend into property and so forth or commercial. CGU is more in the commercial space and so forth.

Mr D.T. REDMAN: But in the motor vehicle space, it is 20%?

Mr Fitzpatrick: I believe so, in WA.

Mr S.K. L'ESTRANGE: Just continuing with the theme of assessors and cost calculators, some of the industry players, the repairers, are telling us that the cost of repair is more than the insurance company is saying it should be, so with your assessors that you have just outlined to us, with them being former tradespeople, so they understand the industry quite well, have you found that that is the case—that there have been situations in which the repairer simply cannot meet the cost that you have defined it as being?

Mr Fitzpatrick: Generally, no. There is always a negotiation, I guess, in terms of what a repairer feels is the right price for that particular repair job. We have essentially a guide that our assessors and repairers understand, in terms of negotiating a fair and reasonable price. Some of the discussion definitely falls around: what is the right method of repair—whether or not it can be repaired, whether it needs to be replaced and so forth. For some of those things, there is always a negotiation in terms of what the assessor and therefore us as an insurance company believes, versus what the repairer believes.

The CHAIR: Is there an imbalance, though, in the relationship between the insurance company and the smash repairer in terms of price-taking for the smash repairer?

Mr Fitzpatrick: I guess it is not in our best interests to not have smash repairers in a sustainable position; it is about finding that right balance. I think there are a lot of new technologies out there, so it is about repair businesses being able to keep up with advances in technologies, which actually means that some of the things that might have taken a day to do take only half a day to do, so therefore the repairers that are investing in those technologies are the ones that are winning more work because they are willing to actually put the investment into their repair shops.

The CHAIR: Can I come back to the line of questioning that I was prosecuting to begin with around how you become a preferred provider. How does IAG identify and then enter into relationships with preferred suppliers?

Mr Fitzpatrick: We have multiple ways. Any repairer can put an application in. On our SGIO website, there is actually a tile you can click on and therefore apply. We would do a review from time to time in terms of making sure where our customers are that we have preferred repairers available, so therefore we would do our own review. I know we have a rural review happening at the moment, so therefore it presents some opportunities for new businesses to become a preferred repairer. It is fairly open in terms of being able to apply.

The CHAIR: Is it a continually open process? Can someone always put a proposal to you to become a preferred repairer?

Mr Fitzpatrick: Yes.

The CHAIR: Okay. So it is not like it is done on an EOI or RFP sort of process every 12 to 18 months or something?

Mr Fitzpatrick: No, but we would only put somebody on based on customer need. Therefore, if we find that there is not enough capacity within our preferred network, we would look at: is the application or the person who has put the application in, are they the right people? We might go out and we would have working relationships because we authorise work with over 350 repairers within the WA environment, and we might go, “Okay, you’ve been delivering consistent quality, great customer service outcomes”—because we measure our customer advocacy for a fair and reasonable price—“so you look like the right type of repairer.”

The CHAIR: How many assessors do you have here in WA?

Mr Fitzpatrick: I do not know off the top of my head. I can find out for you. Is that something you would like me to bring back?

The CHAIR: Yes, if you would not mind, that would be good. What is your understanding of “funny time, funny money”?

Mr Fitzpatrick: It is an antiquated way of finding a price for a vehicle. It works in terms of a multiple. IAG uses new times and rates, so we do not use funny time, funny money. I think some of the industry still is changing, so therefore I think we made an announcement back in 2017 that we were moving to new times and rates, which is actually negotiated with the motor trade associations and is recognised as a fair and reasonable way of actually repairing a vehicle.

The CHAIR: So you negotiate with the MTA what the times and rates are for different types of jobs?

Mr Fitzpatrick: Yes, we have taken new times and rates to them and I believe they found it fair and reasonable. I might pass to Troy.

Mr Johns: I think we need to step back on that. Following the Productivity Commission in 2005 at New South Wales and where the code came from, we heard mentioned earlier on, it has been around for about 12 years. One of the recommendations in there was to move to a realistic times and rates platform, where a repairer would have an applicable labour rate and then there are times and allowances that sit underneath that that are defined. They are based on manufacturer specifications. We have a research centre based in the east coast that has worked collaboratively with the motor trades associations and there was a committee formed call the National Times Committee back in about 2007–2008. Then we started scheduling cars, so we literally pull cars apart. We publish times. We went through a committee that had members from right around the country that would ratify that and agree and then we put them in place.

We test them in the live environment. For example, we might pull a bumper bar off a car. We would time it with a stopwatch and we would go, well that is how long it took with hand tools. There is an opportunity there for repairers to benefit from that by using more efficient ways. Generally those times are accepted. I think if you go back to the “funny money” piece, people are looking to establish what they need to recover on a claim. Once you agree on a method — if you agree on a method— that is, that aligns to a manufacturing specification and return the car to how it should be, the times will then flow whether it be through Thatcham, whether it is through Audatex, whether it is through new times and rates.

The times that sit underneath that are standard. I am talking about complex repairs like the removal of a chassis rail. They are not for dispute. There is a time there and it should be applied. It is being

designed by the manufacturer and/or applied in a workshop environment to make sure that it is fair and reasonable.

Mr S.J. PRICE: The variable, though, is the hourly rate that is applied to that.

Mr Johns: Absolutely. IAG has taken a road where we go out and establish all those who want to partake in that, a labour rate before we get to that point. We do not have assessors arguing labour rates at the coalface. That is counterproductive. That is done at a management level through the assessing team. Once we agree on a labour rate, you have ticked that box off. There are various ways of calculating that. There are some industry produced calculators out there. MTA had one *et cetera*. They can put their rate forward and if we think that is reasonable, we accept; we move on.

Mr Y. MUBARAKAI: We have heard through the hearings exactly this kind of information that has come through regarding the rates being worked at different proportions to what really is the time factor. For me, personally, if you could just give me a better insight into this National Times Committee and really the practicality of how frequently do you review certain time frames that, with modern changes, you apply this committee to work out the rate per hour for certain jobs?

Mr Johns: I will just clarify that probably with a little more detail. The National Times Committee was formed with the IAG research centre during the infancy of new times and rates. It has not been collected together in recent years and is probably something that we could look at. As far as the times, we publish them in the open forum. Even now, if we schedule a car now and it goes into the public forum, there is an avenue through our new times and rates website where you can say, "I think that's wrong." That is called a field submission where a repairer can say, "I've looked at this exercise and I don't believe that's the appropriate time."

We do get, from time to time, inquiries around their ability to meet a time or to achieve a time. It is generally around, as we have heard multiple times today, the technology involved. It may be that they are using equipment that is not up to the modern standard, which can actually present you with a problem; for example, the way you are tackling the repair. The modern motor car is more complex than ever. It is requiring people to make vast investments to make sure they can actually achieve and return these vehicles to the manufacturers' specifications and therefore to the original safety features of the vehicle and put them back on the road, so it is extremely important that we understand that. If you are tackling it the wrong way, you are going to end up with the wrong method.

That is where you get the discussion at the beginning with the assessor that may be at opposite ends. When we are aligned with the repair method, the operations will then flow from that. If you understand what you are going to do to the car and both repairer and assessor are in agreeance, there is really not much further discussion around, "Okay, how do we then finalise this?", if that makes sense.

Mr S.K. L'ESTRANGE: It does.

Mr S.J. PRICE: Just to follow on from that, that then comes back to this issue of what the appropriate hourly rate is because the expectation is that the repairer essentially carries the overhead of actually having the equipment to do the repair based on what your times are set on. Therefore, their hourly rate is probably higher as a result of having to ensure their equipment is up to spec. I suppose the evidence we have heard is that the actual hourly rate as such does not cover their operating costs, which is why you get back into this funny time, funny money scenario.

Mr Fitzpatrick: Underneath our preferred network, a repairer can negotiate, and does negotiate, their rates on a yearly basis. They can come back to us and say, "Based on all our operating expenses

and everything we're seeing in the industry, we think we actually need more." We have actually authorised a higher labour rate on those particular contracts. That is part of their contracts. There is though doubt that we can offset some of those increases in terms of the technology that they are investing in by pushing through scale. Therefore, it makes sense to have a preferred network where we are sending more work through so they can actually get through more work because they have fixed overheads. Therefore, the more efficient they become, the more profitable they are.

Mr D.T. REDMAN: What proportion of your work in Western Australia goes through non-preferred network?

Mr Fitzpatrick: Twenty-nine per cent.

The CHAIR: As to dispute resolution, how frequently do disputes arise between IAG companies and smash repairers?

Mr Johns: Since the inception—I will try not to pre-empt your question where we are going here —

The CHAIR: By all means.

Mr Johns: I will expand on what Rob said earlier on from Suncorp. The code of conduct has been around for 12 years. Since the inception we have seen seven IDRs through from Western Australia. That is not a significant number, but it is also to be contemplated; they are a rare occurrence. They are generally around method disagreements, for example, and have not extended past the IDR process, which is an internal dispute resolution. The assessing would be reviewed by the manager and then put through a team review and then passed back to a repairer for discussion and they are being resolved at that level.

I think it is important—I am trying to probably answer the next question—if we understand the code and how it functions, particularly in New South Wales where it is mandated, you can see the levels of escalation provide certainty and provide defined outcomes for all people involved right through to the point where the Small Business Commissioner in New South Wales has the ability to actually facilitate the external determination and the binding decision.

Mr Fitzpatrick: We would always follow that binding decision.

The CHAIR: We have had some evidence to suggest though that repairers are very reluctant to access dispute resolution mechanisms for fear of being seen as troublemakers and that that may then impact their business. It may see their pipeline of work dry up. What do you say to that?

Mr Fitzpatrick: We have got evidence where in Western Australia in particular they have actually raised disputes. We hoped that they would not get to that particular level and that is actually a pretty pragmatic conversation between the assessor and the repairer and it is resolved that way. Therefore, we think that most of it is, but they definitely have used the code. Therefore, my sense would be that the relationship that we obviously have with repairers would indicate that there is not a level of significant fear which stops them.

Mr D.T. REDMAN: Would you be comfortable with mandating the code in WA?

Mr Fitzpatrick: Yes.

The CHAIR: Are there any improvements that you would suggest need to be made to the code?

Mr Fitzpatrick: We have just recently gone through a code review, so once again, I think mandating it means that everybody is on a level playing field in Western Australia, so I think that would be probably the thing that we would definitely support the most.

The CHAIR: I will proceed to close today's hearing and thank you for your evidence before the committee today. A transcript of this hearing will be emailed to you for correction of minor errors.

Any such corrections must be made and the transcript returned within seven days of the date of the letter attached to the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. Thank you very much.

The Witnesses: Thank you.

Hearing concluded at 11.06 am
