

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO WA'S AUTOMOTIVE SMASH REPAIR INDUSTRY



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 27 JUNE 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 10.14 am

Mr ANDREW O'HARA

Chief Executive Officer, RAC Insurance Pty Ltd, examined:

Mr WILLIAM GOLSBY

General Manager, Corporate Affairs, RAC, examined:

Mr BRAD CHALDER

Supplier Relationship Manager, RAC Insurance Pty Ltd, examined:

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

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 today?

The WITNESSES: No.

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

Mr GOLSBY: If we could. Thank you, Chair and the Committee for the opportunity to provide a submission and to join you here today to talk about that submission and your inquiry. RAC is an associated incorporation. We are a mutual; we do not have shareholders and, most importantly, we are a membership organisation. We are now just over 110 years old and we have grown to over one million members that we represent in Western Australia. As you are aware, we are an advocate on the mobility issues facing the state. Our focus is around road safety, vehicle safety, accessibility and also sustainability as well. A key priority is to ensure that our members can move around the state safely, easily and sustainably.

In addition to being a membership organisation, we provide a range of services to our members—roadside assistance, insurance, travel and tourism, batteries and auto services. We do provide those services to our members. I just wanted to provide that, I suppose, overarching snapshot of the RAC group. We also employ almost around 1,400 people in Western Australia, and also, for this important opportunity, if you are happy for Andrew to provide an overview of the RAC insurance business, which is part of the RAC.

The CHAIR: Fantastic; thank you.

Mr O'HARA: As Will said, RAC Insurance is a wholly owned subsidiary of RAC WA, and that is the fundamental difference between us and other insurers in the market. So the fact that we are part of a membership organisation, the DNA of our organisation is all about the member. Indeed, from a claims insurance perspective, we look for ways to provide an optimal outcome for our members. The fact that we are part of a membership organisation permeates through our culture, and we are

also different from the other insurers in that we are totally focused on WA. We have local people providing local services to deliver better outcomes for our members.

The CHAIR: Just on that, you do not operate in any other states or territories?

Mr O'HARA: No, unfortunately the other states and territories do not get the benefit of our wonderful services, but yes, we are totally focused on Western Australia. In a lot of ways, on a national basis, we are a niche insurer because we are totally focused on the Western Australian market, servicing the needs of that market, but also, critical to our ambitions to continue to deliver services to our members is that we have a competitive and sustainable local repair industry, and I guess we look forward to discussing that with you today.

The CHAIR: Approximately what proportion of the WA insurance market do you have?

Mr O'HARA: We are at 35 or 37% market share now, so we are the major motor insurer in Western Australia, and we are very proud of our growth record. As Will said, we now have a million members within the organisation, and insurance has been a key driver and contributor to that outcome.

The CHAIR: One of the things—you have slightly touched on it—around the drivers, is that we have just had some very positive evidence about the differences between the way RAC interacts with the smash repair industry, and how other insurers might. Is there anything else, other than the fact that you are a membership-based organisation? Is there a particular way that you have structured your business model that sets you aside from the way other insurers typically behave in this market?

Mr O'HARA: I think, from an insurance company perspective, we are very conscious of, I guess, our growth ambitions, so we want to continue to grow. We are conscious of our roots as an organisation, and we want to be the most valued organisation within Western Australia, and with that comes a responsibility not only to our membership base, but also the broader community, and so our business model, in terms of the supply chain in the repair industry, which Brad can elaborate on, is to really work with the local industry and ensure that that is sustainable for our ongoing future. We have local repairers in local areas for our members, to service their needs. Our members are telling us that they want to be able to—I think there was a comment earlier today—"I want my repair completed quickly; I want it of a high quality; and I want it as fast as you can", so speed is becoming an ever-increasing challenge for a lot of businesses and a lot of industries.

Our response to that has been to develop a network of local repairers that can hopefully ensure that you do not have to travel too far to get your car repaired, so we are trying to maximise that convenience element to it. With that has come a real investment in working with the local repair industry, so Brad's role is dedicated to doing that. We have lots of touch points with our assessors who are again here on the ground, and they will be in local repair shops day to day, so they are working on a transactional-type relationship basis, and Brad's role is more looking at the strategic challenges and opportunities. Our success is very much interdependent. We will not be successful if we do not have a sustainable repair industry.

One of the things that we would really like to talk to the committee about is the example of how we are trying to assist the industry to identify some of these efficiencies through the 1Q1 model, which is an example, I guess, of how to respond to the challenges of disruption and change and ever-increasing demands for efficiency. That was an example of an idea that actually came out of the repair industry, which we supported and helped foster, and that is to try to drive better outcomes for the repairers and ourselves, but ultimately for our members, and that is what we are trying to deliver as an optimum member experience.

The CHAIR: The RAC is a membership-based organisation that I know takes at a broader, corporate level, a real interest in broader road safety issues, and that is a key driver, it would seem, for the

RAC. What role does that potentially play in the approach you take towards these smash repair issues?

Mr O'HARA: Enormous. Safety and quality are paramount for our organisation. The history of the organisation, the DNA of the organisation, is all about safety. It is in every part of the organisation—our people, our staff and also our relationships with the network and, importantly, quality, whether it is through the services provided by any of the products or services we offer, but in the insurance space, absolutely, the repairers and the quality and the demands, I guess, of the consumer are so high. I think RAC, given our motoring club heritage, people look to us to help find the right outcomes and the best outcomes for them. Often we find people looking to us for direction, and they expect, as a motoring organisation, the heritage of our business, they will get a quality outcome, so we absolutely have to deliver. I personally think we are held to a higher standard than a traditional shareholder insurance company.

Mr D.T. REDMAN: Further to that, the insurance industry is a pretty competitive industry. You have got a fairly substantial market share in Western Australia. You have got a very broad base of services by comparison to others, under a membership-type structure. How do you approach getting that market share increase insurance, which is only a component of what you do? I am assuming that everyone like me goes and gets a quote every time you come around for your cycle. Without exposing too much of your internal business model, is the broader base a tool to be able to carry a much more cost-effective insurance peace, to capture that, or is it that you are just competitive in that space full stop?

Mr O'HARA: The businesses operate largely independently. We have some shared services, so that distribution is done through the Joondalup contact centre, so that is a shared cost, if you like, or a shared service. We invest everything that we can back into the organisation and that either comes back to the members through better services, cheaper premiums and/or through the advocacy work that we do.

Mr GOLSBY: The cultural part of our organisation is when we talk about safety. It is critically important and we talk about it externally all the time. We need to live and breathe it. We are continually feeling a culture and the membership is at the centre of everything we do. That is, in turn, what we talk about. We absolutely are focused on growing our membership, because better services allows us to do more in the community, the giving back we talk about the statement of branching out into tourism as well, but also growth. So we have a culture of really wanting to grow and that is underpinned by service and the trust that our members have in the organisation. It is incredibly important to us, but we want to grow. As Andrew said, our vision is to be the most valued organisation by Western Australians by 2020.

Mr D.T. REDMAN: You may or may not want to comment on this, but the reason this inquiry is happening is because there is a certain amount of evidence, or certainly anecdotal feedback, of unconscionable conduct in the supply chain of insurance right the way through to repairers. Do you see much of that; and, if so, have you got views about just how entrenched it is and/or how much government should respond in terms of regulatory intervention?

Mr CHALDER: Possibly I am best placed because I am in the field on a daily basis. From what I see in the industry on a daily basis, it is a highly dynamic, entrepreneurial industry and I see none of what you describe in terms of unconscionable conduct. The industry itself is a very proud industry and it holds itself to its own high regard.

Mr D.T. REDMAN: The smash repair industry or the insurance industry?

Mr CHALDER: The smash repair industry. The motoring industry as a whole, I think, is important to talk about. It is not just the smash repair industry. The dynamic nature of that industry, and it has been from day one—Henry Ford doing what he did to today with electric cars and autonomous vehicles or whatever it might be. We have worked with these local repairers. To come back to the goals we set. I think you asked a question earlier. Local services to local people by local people was our mantra of what we talked about going back a number of years ago now. The idea there is that members were telling us that they wanted to feel a part of something and we wanted them to feel a part of that too when they had their car repaired.

If you look at things that we put in place to help those businesses succeed, things like the 1Q1 system we have listed in our submission. Prior to that, I should add, most repairers operated just with a book and paper and literally you, hopefully, worked things out accordingly. Today they have a sophisticated ability to look at their organisation, set appropriate targets for them to be successful, and provide our members with the best possible service because of that and, obviously, our organisation.

The CHAIR: You have said that your organisation subscribes to the Code of conduct. What role do you see the Code of conduct playing in this space?

Mr CHALDER: The Code plays an important role in transparency between industry and setting the ground rules for how we interact with each other.

The CHAIR: Do you take a view on smash repairer businesses that are Code members or not? Do you treat those members any differently? Are there any differences in the way that you conduct your business relationships between counterparties who are members or not? Is there any difference that the RAC perceives?

Mr CHALDER: We treat everybody as if they were a member of the Code. I could not tell you who is not a member of the Code. I was actually surprised when I heard that earlier today. I assumed that everyone was a signatory, so, yes, I would not know.

The CHAIR: How do you approach dispute resolution with smash repairer businesses if they have some sort of dispute?

Mr CHALDER: We work with smash repairers on a daily basis. We negotiate; we interact. Typically, the conversation would be we would meet with them and talk to them about the concern and rectify it either in favour of something that—put our hand up and say we could have done something better or vice versa. We talk to them about what we expect and how we can improve it moving forward. It is quite interesting. Our relationship with industry, I would like to think, is extremely strong. We have worked very hard. We have mutual respect for both industries and they, hopefully, have mutual respect for ours. By having people on the ground in Western Australia focused on building that relationship, it puts us in a high regard and we generally sort things out pretty easily.

The CHAIR: So how frequently would you access the formal dispute resolution mechanisms that are available to your industry?

Mr CHALDER: We have not had to.

The CHAIR: You have not had to? So you cannot really give us a view on how effectively they are operating? Okay; that is kind of good, right?

It has been put to us in several submissions that the Code of Conduct should be made mandatory. You are already members, so it would seem something that would just bring a whole heap of other smash repair businesses into the ambit of it rather than necessarily affect your business position.

How do you see making it mandatory potentially affecting your business or the industry more broadly?

Mr O'HARA: I guess our view would be we do not see any real evidence why you would make it mandatory. I think if you did something like that, it introduces another layer of regulation and potentially another layer of cost, and, ultimately, that might result in a lesser experience for the member through delays and time *et cetera*. I have not seen or I am not aware of any evidence out of the New South Wales change that they are getting better outcomes would be my view.

Mr GOLSBY: I think the sustainability of the industry is critically important, and also the affordability of insurance for our members. They are the two areas. I think the affordability obviously for our members is critical in any consideration like that.

The CHAIR: So you are a WA-based organisation focusing on operating here in WA. Your workforce is all WA-based, but the vast majority of your regulation is federal and you are presumably required to interact with federal agencies as part of that. How adequately do you think federal agencies understand the WA context and how well do you think they accommodate any particular concerns we may have over here?

Mr O'HARA: Brad is probably best placed to respond to that. We do struggle with that. A lot of the discussion, really, about the industries in general is more focused on the eastern states. New South Wales is a very, very different market dynamic. It is different again from Victoria, different from Queensland and very different from South Australia.

The CHAIR: How different?

Mr O'HARA: A much more adversarial relationship between the repairers and the insurers. There is a lot of history there, particularly with the demutualisation of the NRMA and some behaviours that went on in that space. One of the challenges that we talk about when we are talking about legislation from a national perspective is that it is not trying to address a specific state-based issue. We need to be able to retain, because, frankly, we do not have the same pressures or challenges from an industry relationship perspective that we have seen happen in New South Wales.

Personally, I get concerned when there is some commentary to say that we should be doing this and we should be doing that to address what is seemingly a New South Wales-based issue. Obviously, IAG and Suncorp have got a much bigger national presence. Brad represents us on various committees over there. What we have done is actively engaged in those committees because we have been concerned about those sorts of things.

The CHAIR: I know you gentlemen were sitting in on the previous hearing, listening. There were some ideas put to us about strengthening the role of the Small Business Commissioner and the ability for the Small Business Commissioner to compel people to come to the table and resolve disputes. Do you have any views on that proposal that has been put to the Committee?

Mr O'HARA: Again, I would probably say that we have not seen any evidence that that is required in the industry. We have had positive experiences, positive outcomes. I am not sure whether there is a demand for that requirement or change?

The CHAIR: Do you see any room for improvement in the Code itself?

Mr CHALDER: I think in relation to the Code, it is important to say that the Code has gone through a lengthy review process that only culminated with the new Code coming into play on 1 May last year. It is very early in this Code's existence to say let us go through another review period, in my view. It would be important to let that Code bed itself down and take out the feedback from that once we have got some more information really, because at the moment it is very early.

Mr D.T. REDMAN: Do you have a preferred list of smash repairers, and can you just give us some comments about your openness, if you like, to use client-preferred smash repairers?

Mr CHALDER: We work with the whole industry. It is important to say that we work with the whole industry. We work with some repairers more collaboratively on a daily basis than others, and I think it comes down to what we are trying to achieve. Our goal is to provide members with the experiences they want to go through in a claim time. Some members will come to us wanting us to handle the whole thing end to end because they want to have nothing to do with organising and whatever it might be, running around to get their car fixed.

Other members, you mentioned yourself before, would like to take some control of that potentially and so forth. We will provide the experience that the member wants from us. So to answer the question, you would have your car repaired in Denmark no problem at all, if that is what you wish to do. Vice versa, should a member want us to take control and take any inconvenience away—for example, if they wished to not suffer any inconvenience—we will take that away as well.

Mr D.T. REDMAN: I am assuming that, like any other industry, there is a bunch of people you probably would not want to send your car to. Do you have a process of accrediting who is satisfactory and who is not? I am assuming I also would not want my car going to someone who is unsatisfactory, albeit in your eyes as well.

Mr CHALDER: I think it is important to say that when we work with our members to get their car repaired, we do look to try at all times. One of the reasons we do that is to get the right car into the right repairer at the right time. Different repairers are capable of repairing different cars. This smash repairer here is more than capable of repairing this type of vehicle and vice versa, and we work with both the industry and our members to provide that accordingly.

Mr S.K. L'ESTRANGE: Have you had any repairers indicate to you that they are really feeling cost pressures themselves; that is, you are trying to get the cost down not only for your own business model, but also for the consumer, I suspect, although it is all covered by insurance? It is really your own business model. Have you had any repairers come to you and say, “Do you know what? I’m finding this really tough to meet your targets with regard to what you expect the cost of repairing this vehicle to be”?

Mr CHALDER: Yes, from time to time, definitely. We work with that repairer then to understand the pain points. 1Q1, to go back to that as a system, is a very good system in helping a repairer identify themselves where pain points may exist, where improvements may happen, where sometimes it is just the luck of the draw if you have got a bunch of cars, and that is fine. We work with them in a detailed manner, actually, to understand their operation and to try to then offer assistance to either help them with their problem or accept that what they are going through is actually okay and we let that take place.

Mr S.K. L'ESTRANGE: Are you getting a sense that there is growing unfairness in the industry from the repairer’s perspective?

Mr O’HARA: I think there is massive disruption and challenges largely brought around by technology. There are the member expectations. We are all living in an Amazon-type world and you want it delivered today, but we have seen enormous change in the industry from a technology point of view and that is only going to continue to increase and the conversation earlier was about automation and those sorts of things. The type of labour in repair shops is different now. You have got unskilled people like me disassembling things, whereas previously the panelbeater was doing the whole lot. There are paint systems in place now that can dry cars in minutes, without an exaggeration. That was a couple of days.

Part of the challenge is keeping up with the pace of change, and that is where we see we have got a role to facilitate and enable, particularly in our position where we are dealing with a lot of repairers. Brad, in his role, will come across things where “Gee, Andrew’s doing that really well. You might want to go and have a chat to him” or “Have you seen that technology that Will’s been trying?” That was literally where the 1Q1 system came out. With the analogy about Woolworths and Coles, we are moving to more of those models. There is less and less, and it is the same in broader industries, of the mum-and-dad sort of cottage repair industry. There are a lot more efficient bigger models and part of that is the challenge of the capital investment for some of these people. So, yes, there are challenges and we are trying to help people manage those sorts of transitions. That is probably the best way I can describe it.

Mr CHALDER: We are very proud of the local industry here. We mentioned in our submission, if you go back, we have had a number of repairers in Western Australia win national awards over the last three years. We have had one of the member’s, I think as you know, in Yaz’s local electorate. The repairer that won the best new shop in the country last year is in that electorate. It is a fantastic facility. You look at that facility and that is an independent small business person who literally 10 years ago—I know his story in detail—started in a small garage and he has worked hard to build his way up to where he is today.

We have got others that win technology awards, such as the gentleman that built 1Q1. That was done in a paint shop in Midland, if you believe that that type of technology that is coming across the industry would be developed in a paint shop in Midland. We found that there and he suggested to us, “What do you think?” “Fantastic; what can we do?” The entrepreneurial spirit that comes out of that small business is unbelievable and we embrace it wholeheartedly.

Mr D.T. REDMAN: You talk about the tech and paints and whatever else, but there is also the tech and RAC is on the front of it. You have got that electric bus running around the show down there. I asked the question and you probably listened to the MTA response: in terms of predicting out the industry going forward—you talk about disruption, and you used that word a couple of times—what do you see as the big disruptors and what is going to be the impact on the industry?

Mr O’HARA: One of the things we talk about, and at the same time you hope it does not happen in your lifetime, is relevance. How do we continue to maintain relevance for our members if you take the view that in an autonomous world you will not need insurance, as an example, and then the ripple effects that that all flows through? I agree with Stephen’s point; I think full automation is a long way away, but I think we are going to go through these stages and it is how we manage these transitions. We have certainly seen, just on our experience, frequency has softened and we have seen claims costs increasing, and part of that is because of the little beep, beep, beeps which stop you backing into posts. But when you are hitting, the technology in cars means it is often more expensive to repair or, indeed, they are written off. If you think about the amount of airbags in cars, once upon a time there was one. Now everything has got an airbag and as soon as they go, it is uneconomical to repair.

Mr GOLSBY: Certainly through the trial of the Intellibus, I understand about 90% of crashes are caused by human error. Part of the Intellibus is obviously to engage the community and get them to start to think and understand automated vehicles. As an organisation, we are trialling more of these things. It is also probably disruption in our own organisation as well—wanting to understand and learn and grow with what we are doing. Part of that trial is around the road safety aspect, it is about engaging the community and then understanding, as an organisation, what the future holds in automation. But there is going to be that co-mingling along with people driving, and then automated vehicles, I suppose, is untested and unknown.

But we see it as really important and that is the reason for the trials that we are doing to understand it. Even from a regulatory—the introduction of this technology is something that we are constantly saying members of Parliament need to understand because the decisions you are making today around infrastructure and technology, regulation, import requirements are all coming very, very quickly and are going to be a challenge in your decision-making as well.

The CHAIR: We might need to get you to come and talk to us on our other inquiry!

Mr D.T. REDMAN: The general response is that I am not getting any strong signals from you guys in terms of whether we should change or make any recommendations of change. Is there anything that you think we should have some attention to as a Committee in response to this inquiry?

Mr O'HARA: I do not think there are any sort of systemic issues. I think from our perspective, if we go back to, we really need and value the independent, sustainable repair industry. We need an industry that can adapt and can respond to these changes. We have been talking about technology in cars, but there are also changes in methods of repairs and new steels and all these sorts of things. That is going to become more and more challenging for them. I think one of the challenges for us as a state, if you like, is how do we embrace that; how do we help people on that journey? I think we have to work more and more collaboratively to help solve those problems, and I think we are in the position to be able to do that, given who we are and the relationships that we have got with industry.

In terms of the way things are structured, probably my personal concern is just making sure that Western Australia is not a pimple on a pumpkin, if you like, and it is part of the conversation, so we have actively engaged to make sure that there are no unintended consequences coming out of just sort of looking at things at a state level.

Mr GOLSBY: I think the other thing is, from the way we approach it is we are long term: We have been here over 110 years. We are long term; we want to grow; we want to provide affordable services to our members. That will help us grow. Part of that growing is industry; it is critical to us growing. We are long term in everything we do. Our approach to tourism, our approach to advocacy is long term; we do not surprise governments. We like to continue to keep on the message and keep going. I think one of the key messages we want to leave you with is that we are long term and there is absolute reliance on a sustainable, affordable industry.

The CHAIR: Very good. Can I just ask one quick question: In a couple of submissions and in the previous hearing that we just held, rectification came up — there is an industry figure of 5% but the suspicion is that it is closer to 15% but the insuring agencies are referring rectification works off to other repairers to mask that. What does RAC do with respect to rectification works?

Mr CHALDER: We work with our member to get their car repaired and appropriate, as the member wants. We do not farm work or do anything of that nature. The rectification rates that we see in industry are extremely low. We have processes in place to help prevent that as well as we went into in our submission. All our people are based in Western Australia. I go back to the submission of 1Q1, assessor training. Our assessors are trained to the highest standard in the country.

The CHAIR: If you have QA at the front-end, you should be all right?

Mr CHALDER: Yes. I am surprised at that number you have just mentioned. I have never ever heard a number like that in the industry, actually, so it takes me by surprise.

The CHAIR: Yes; it is in a couple of submissions that have been made to us. That is why. We have to test the evidence.

Mr CHALDER: We appreciate it.

Mr O'HARA: We have not seen that at all.

Mr S.J. PRICE: Two questions: With the 1Q1system, does that give you a direct line of sight into the business itself that you are dealing with?

Mr CHALDER: Only voluntary. We do not have a direct line of sight. The only thing we have got agreements with the repairer is the system itself allows automatic updates to be sent out to members live from the shop floor where your car is at in the process of repair. So members have a direct line of sight of where their car is at in the process. Once upon a time, they were blind. That is the only insight we get. We are now working with the repairers, through their voluntary—wanting to work with—on how we can work with them to better manage their time and better manage what they do, when they book cars in, how they fix cars and set up booking schedules and those sorts of things. As I said, not long ago, 20 cars in on Monday; 20 cars go out on a Friday. There was not a lot of structure around that. By providing structure to local business, it has helped them. I think there was a question before about how they can compete. Well it does help them compete. It does provide them with some scale and some capability too. Some certainty.

Mr S.J. PRICE: The other one was: do have you a view on repairable write offs, would you have them as an option or just go with the “Repairable or not?”

Mr CHALDER: The Department of Transport is currently conducting a review of their own at the moment. We participated in a working group last week—last Thursday—as was the MTA involved in that working group. There has been a lot of data supplied by the theft reduction and national theft reduction council and places like that, so I know the department is working very closely with industry on understanding things such as that question. I am not sure whether it has come out in a review yet, obviously. It is a wait and see but for the data we have seen from New South Wales, from the theft reduction council, there was no change to criminal elements or anything like that from what I have been made aware of.

The CHAIR: Excellent, thank you very much. I will proceed to close today’s hearings. 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 very much.

Hearing concluded at 10.48 am
