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ATT: New Car Retailing Team

New Car Retailing Industry – a market study

Australian Competition & Consumer Commission

New Car Retailing Industry – a market study by the ACCC – Issues Paper

SUMMARY

IAG welcomes the opportunity to provide comment on the New Car Retailing Industry Issues Paper.

The areas IAG is most interested in addressing are:

- access and availability of technical and diagnostic repair information; and
- vehicle data accessibility.

Consumers are choosing to drive cars with increasingly complex safety features, technology, design and manufacturing materials. Technology within vehicles has increased over the last ten years meaning that mechanical, information and safety systems are more closely integrated. Cars are now a complex network of controls dedicated to managing these technologies, and this is placing greater demands on the workforce.

Qualified trades specialists should be able to access all information required for the diagnosis, body repair, servicing, inspection, periodic monitoring and reinitialising of the vehicle in line with the service and repair information that manufacturers provide to their authorised dealerships.

Similarly, there is scope for Government/regulators to play a role in developing clear parameters of good practice when it comes to vehicle data accessibility. There is currently a lack of regulatory specification in this area. Vehicles have increasing capability to record, store and send data back to the manufacturer. Ready access to in-vehicle data including 'collision information' will assist with protecting consumers, vehicle owners, road users and more broadly the community in this area. This should involve collaboration between all stakeholders including enforcement authorities, manufacturers, government and insurers. IAG would be pleased to discuss aspects of this submission in greater detail. Find below more detailed information on these issues.

OVERVIEW

As the largest motor vehicle insurers in Australia and New Zealand, IAG develops, underwrites, sells and manages claims for general insurance products that are sold directly to customers and businesses. IAG insures over 8 million cars.

IAG is involved across the automotive industry Australia. Through the IAG Research Centre, our business is involved in the design, performance and testing of vehicles, our supply chain network is made up of industry specialists who repair hundreds of thousands of vehicles for our customers each year. We also work closely with vehicle manufacturers and Original Equipment Manufacturers (OEM's), and underwrite commercial vehicle fleets, and agricultural machinery through our Commercial Insurance lines.

Over the past 25 years our Research Centre, based in Sydney NSW, has been engaged in physical driver and vehicle safety research including driver distractions and vehicle visibility. IAG is the only Australasian insurance based member of ANCAP. Importantly, the Research Centre is 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.

IAG is also a core partner of the Australian Driverless Vehicle Initiative (ADVI) which is a co-operative of partners from government, academia and industry. The key aim of ADVI is to explore the impacts and requirements of this new automation technology in a truly Australian context and make recommendations on ways to safely and successfully bring driverless vehicles to Australian roads.

Like many other industries the insurance industry is facing a number of challenges in the way it meets the needs of customers. New technology – such as collision avoidance technology, driverless vehicles and sensor-laden household appliances that advise when they need repairs – will eventually change the nature of insurance and our products. While at the same time an increasingly digital and mobile society encourages customers toward new and better ways of accessing products and services.

IAG sees these as opportunities and guided by our purpose which is to make your world a safer place, we are determined to lead change to unlock the benefits of innovation for our customers. Our objective is to improve our customers' experiences and everything we do is designed with them in mind.

IAG addresses specific questions in response to the Issues Paper below.

ANSWERS TO QUESTIONS

SECTION 1: STRUCTURE AND OPERATIONS OF THE NEW CAR RETAILING INDUSTRY

1. How well does the ACCC's understanding of the new car retailing industry supply chain reflect market participants' understanding of the supply chain? Which key market participants does it not capture? How could the ACCC's definitions be improved?

IAG agrees with the ACCC understanding of the post-sale service markets.

The sub markets identified by the ACCC which are of particular importance to IAG are “the mechanical and electrical servicing of cars and repair services, including a number of specialist sub-markets (e.g. transmission or engine repair)”. As the largest motor vehicle insurer in Australia and New Zealand, IAG underwrites, sells and manages claims for general insurance products that are sold directly to customers and through brokers, agents and partners. Products include comprehensive motor vehicle insurance, home building and contents insurance and business insurance.

When our customers make a motor claim we rely on our industry partners, predominantly smash repairers, who make up our supply chain network. These businesses are located across Australia and undertake over 400,000 repairs annually for all brands within IAG. Our supply chain network is made up of thousands of businesses across the country, including paint and panel repairers, automotive mechanics, but also includes Original Equipment Manufacturers (OEM) Service Departments, mechanics, paintless dent repairers, windscreen suppliers and fitters to name a few. Motor vehicle parts are also a critical element of the supply chain. The scale of our business means that we require significant volumes of component parts to undertake our customers' repairs. Therefore IAG along with our supply chain are engaged with multiple segments of the automotive industry.

Insurers take an active role when it comes to the consumer protection process. Most consumers do not use repair services often enough to develop sufficient expertise to distinguish the most appropriate repairer for their needs. As such the repair market is characterised by consumers who are not well informed about the technicalities involved in repairing motor vehicles. Based on this information asymmetry, insurers' role in the consumer process is an effective way of ensuring that quality repair services are provided efficiently and safely¹.

IAG's commitment to quality

Our focus has always been on delivering high quality standards for our customers by providing a seamless experience before, during and after a severe weather event or motor vehicle incident. Since the inception of our quality program we've completed nearly 200,000 inspections of motor vehicles

¹ NSW Smash Repair Review, Deloitte Access Economics, February 2014

and more than 30,000 property inspections, and our partners and repairers alike continue to meet these high quality standards. We're the only insurer to have a dedicated and resourced smash repair quality program that audits our partners and transparently releases data for IAG brands.

Our industry partnerships continue to deliver great value, service and quality for all IAG customers. These partnerships and processes for all repairers have one common purpose: a superior outcome for our customers, where vehicles are repaired safely to a consistent standard, and our customers are able to get back on the road as quickly as possible.

IAG measures our performance by publishing the IAG Quality Report. This is the fourth year of releasing data that highlights the importance of collaborating with experienced industry partners in the motor and property portfolios to provide our customers with quality and value. Our authorised repairs continue to demonstrate the high quality – with a percentage of 99.99% of vehicles having no safety issues².

This gives our customers the confidence and certainty to know that no matter what brand they insure with they're getting access to our repair quality program. This confidence combined with the expertise of the industry partners we work with benefits our customers and the industry. The 2015/16 IAG Quality Report is due to be released at the end of November 2016.

6. What is the level of competition between participants in each sector of the market?

7. Has competition increased in the new car industry over time and, if so, what is driving this change?

The automotive industry is evolving

Australia has some of the highest car ownership levels in the world with more than 90% of all households having access to at least one car. There are more than 18 million cars in the country and car sales have been trending upwards over the last twenty years with the fleet growing at 2.1% a year³. Our comparatively small population (approximately 24 million) has a choice of 67 Marques and more than 365 model variants coming from 29 different countries⁴. In comparison, America has only 40 Marques servicing the 315 million strong market, (which is 15 times larger than the Australian market). The Australian automotive market is unique and therefore faces its own complex challenges.

While Australian consumers have a greater level of vehicle model choice than many, the challenge for the industry is keeping up with the rapid changes in vehicle technology. Electronic and mechanical technologies are merging; modern day vehicles are now computers. Contemporary vehicles offer

² From the 2015/16 IAG Quality Report which is due to be released at the end of November 2016.

³ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/9309.0>

⁴ An Industry at Crossroads, Australian Motor Industry Federation, 2015

consumers intelligent transport systems, navigation, tracking, infotainment systems as well as increasingly sophisticated safety technology. Cars are now a complex network of controls dedicated to managing these technologies, and this is placing greater demands on the workforce. More complex cars (e.g. electronics), require more complex (capital intensive) equipment and specialist-skilled workers to repair. Technology has also led to the development of new repair techniques and business models.

Today's smash repair industry was born from the "cottage" industry of the past, which was historically disaggregated, smaller general repair shops. Over the last 10 years or so, competitive pressures across the sector have necessitated commercial efficiencies. So we have seen the shift toward more efficient, larger, high-tech, purpose-built repair facilities which are capable of fixing modern day vehicles, and specialised repairers e.g. hail damage and/or prestige vehicles, in order to meet the new and evolving consumer demands of the industry.

Automated technology is in its infancy and there is likely to be a long lead time from today's prototypes and proof of concepts, to technology that is robust enough to be included in everyday motor vehicles in order for them to become 'driverless' – however, automated safety features do currently exist in motor vehicles. These include functions such as Electronic Stability Control, Autonomous Emergency Braking (AEB), Active Cruise Control, Lane Keep Assist, Intelligent Speed Assist (ISA) and Parking Assistance. Consumers are benefiting from these changes through improvements to vehicle safety⁵.

The combined forces of technology, safety and globalisation mean that the repair, service, retail, insurance and recycling sectors of the Australian automotive industry are facing adjustment. Disruptive change has always been a fact of life for business and is arguably a symptom of healthy competition driving market dynamics.

Traditional mechanics worked with less complicated vehicles and could fix almost every problem across a broad range of cars; with the rapid technological changes occurring, this is no longer the case. The demand for tradespeople and specialists is increasing to reflect the increase of our motor fleet, yet we have a skills and labour shortage as there are not enough tradespeople with the specialist or technical skills required.

We note that the end of light vehicle manufacturing in the country further solidifies Australia's reliance on a global automotive industry. From 2018, Australian consumers will only have access to foreign manufactured vehicles. Overall, the automotive landscape is changing and it is anticipated that as manufacturing will no longer play a key role, the sales, service and repair of motor vehicle

⁵ NSW Smash Repair Review, Deloitte Access Economics, February 2014

components will eventually represent 95% of all activity⁶. It is critical that the Government takes these issues into consideration as industry priorities that require policy attention.

The consolidation and changes occurring across the automotive supply chain are symptoms of the changing market dynamics. The UK for example, has already experienced this type of large scale change whereby advancements in technology have required changes in skill sets and equipment leading to the demand for more efficient repairers and new business models. It appears that Australia is following the same path⁷. Consumers will benefit from these trends through improved repair cycle time frames and high quality repairs and more competitive pricing for repairs.

Overall, consumers have unparalleled choice, information and influence and are setting high standards for products, service and experiences. The speed with which our customers want to buy insurance and claim on their policies is increasing, along with the appetite for more diverse product offerings. As a result traditional ways of delivering product, service and customer engagement are changing. In this way, IAG is experiencing firsthand the extensive changes taking place in the domestic and global automotive industry.

SECTION 2: QUESTIONS ON ACCESS TO REPAIR AND SERVICE INFORMATION AND DATA

What repair and service information and data is shared by manufacturers?

What repair and service information and data exists in relation to new cars? Who controls this information and data?

What issues have consumers experienced with accessing repair and service information? How do these issues impact them?

Repair and diagnostics

With sophisticated electronics now controlling vehicle behaviour, integrated with active and passive safety systems and an increasing emphasis on emission control systems, the necessity for accurate technical and diagnostic information is critical to road safety. Australia has a vibrant motor repair industry made up of hundreds of thousands of businesses across the country, including paint and panel repairers, automotive mechanics, (OEM) Service Departments, mechanics, paintless dent repairers, windscreen suppliers & fitters, parts manufacturers, wholesalers, tyre retailers etc. This means consumers have access to a healthy and competitive automotive market.

Only recently has a form of market based regulation been established to encourage a more formal approach with regards to the publication/accessibility of technical and diagnostic information for motor vehicle repair and servicing. This has been via the FCAI Voluntary Code of Practice for Access to

⁶ Automotive Environmental Scan 2015

⁷ Deloitte Access Economics, NSW Smash Repair Review, February 2014

Service and Repair Information for Motor Vehicles and it has as yet to make significant inroads to ensuring consumers and the repair industry have been access to vehicle and repair information.

This means that vehicle manufacturers and importers have historically been able to provide this information at their own discretion. Still today they are under no real obligation to make this information available outside their authorised dealer networks. This has created a situation where repairers and insurers have relied on commercial nous, broader strategic partnerships with research organisations or the goodwill of the manufacturer to obtain critical information to complete the repair.

Not surprisingly, the process to access technical vehicle information at times can be difficult and time consuming. This is not sustainable for the long term and requires further analysis, response and action from Government and regulators to ensure the Australian automotive industry can flourish against the backdrop of significant market changes.

Access to vehicle data

There is scope for Government and regulators to play a role in developing clear parameters of good practice when it comes to vehicle data accessibility. There is currently a lack of regulatory specification in this area. At present data collection may not require the explicit consent of the vehicle owner and in some cases transparency around how data is collected, how it is accessed and who has ownership of the data is deficient. IAG considers there is a need to both:

- ensure a standardised, secure and open-access platform for future in-vehicle applications or services, and
- ensure that consumers can readily access data generated by their vehicle and can choose to share it.

As such IAG strongly recommends that the ACCC defer to the Productivity Commission Review into Data Availability. This review is considering the below areas which are critical to acknowledge as part of equitable access to vehicle event data. Areas include;

- the benefits and costs of making public and private datasets more available options for collection, sharing and release of data
- identification of ways consumers can use and benefit from access to data, particularly data about themselves
- how to preserve individual privacy and control over data use.

IAG considers that advancements in vehicle technology provides policy makers with an opportunity to put in place best practice data sharing measures before the data is collected, and without being encumbered by legacy data investment considerations.

New vehicles have increasing capability to record, store and send data back data to the manufacturer which can allow ongoing updates on the health status of the car system, and also on the usage profile

and driving behaviour of the owner/driver. The volumes of data capable of being generated by increasingly connected vehicles will have significant value for all sectors of the community. Sensor information can be used to guide infrastructure development with more granular data on traffic flows and congestion.

Consumer benefit

An emerging area of concern is the potential consumer detriment arising from a lack of clearly defined ownership and control for consumers relating to vehicle data and technical information. Ideally, drivers must remain in control of their vehicle data and be free to share it with the service providers of their choice. Access to this data should take place through an open platform that allows fair competition between service providers and free consumer choice. It should not take place through a proprietary model under the control of a single stakeholder, which would be to the detriment of consumers and limit innovation and potential productivity gains.

Access to in-vehicle data will assist with protecting consumers, vehicle owners, road users and more broadly the community in this area. This should involve collaboration between all stakeholders including enforcement authorities, manufacturers, government and insurers. The European Union has mandated that all auto makers implement emergency calling technology (eCall) in new cars by 2018. When there is a collision or other incident, an eCall device in each car will automatically alert authorities and send data about the impact.

Collision information

From the insurance standpoint, vehicle automation will be an increasingly important issue. For example, if a semi-automated or a fully automated vehicle⁸ does have a collision it is very important that the insurance industry (and other stakeholders including the police) are aware of who is liable. Ready access to 'crash' information is critical to apportion liability and to make the claims process as efficient as possible for consumers. This should be made available to key stakeholders in an agreed format, and in an efficient, low cost manner.

It is worth noting that at an international level, insurers have compiled a list of data that is considered essential in order to address the liability and insurance issues required. There are listed below:

I GPS-time

II GPS-Location

III ACSF Status

IV Automotive Corrective Steering Function Mode eg. Parking or Driving

V Automotive Corrective Steering Function Transition time stamp

VI Record of Driver Take over

VII Driver Seat Occupancy

VIII Driver Belt Latch

⁸ Information on the different levels of automation can be found here - <http://advi.org.au/australia/levels-of-automation/>

CONCLUSION

IAG greatly appreciates the opportunity to provide comment on the New Car Retailing Industry – a market study Issues Paper. IAG would be pleased to discuss details of this submission further and as required.

Please refer to the below listed IAG submissions for further detail on related issues:

IAG Submission to PC Inquiry on Data Availability & Use - <http://www.iag.com.au/submission-productivity-commission-inquiry-data-availability-and-use>

IAG Submission to the NTC Discussion Paper – Regulatory Options for Automated Vehicles- <http://www.iag.com.au/comment-national-transport-commissions-regulatory-options-automated-vehicles>

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