

ACCC New car retailing industry market study

Submission by Terry Flanagan
TR Flanagan Smash Repairs Pty Ltd (Lic 44/000024/6)
496 Forest Rd,
Penshurst, NSW. 2222
02 9586 4646

Dated 14 November, 2016.

The focus of this submission is Post-sale service arrangements

About

T R Flanagan Smash Repairs Pty Ltd is a repair shop used by the major insurance companies to rectify poorly repaired vehicles. The owner has been operating his business in Penshurst for over 55 years. TR Flanagan provides smash repair for over 1200 vehicles a year.

The owner is Terry Flanagan OAM, who received an OAM in 1997 for services to the motor repair industry, particularly through the Motor Traders Association of New South Wales. Terry served as Chairman and/or Executive Member, Body Repair Division, Motor Traders Association of NSW, over 40 years; elected member of the Governing Council for over a decade; member of Executive Board for four years; recipient of Motor Traders Association President's award in 2001. He contributed to the development of standard quoting practices within the motor repair industry during the 1970's.

Developed and implemented an electronic quoting system in 1982, Auto-Quote, which has become a leading system for the motor repair industry across Australia and is sold in several countries throughout the world. Auto-Quote services over 600 collision repair clients and all the insurance majors. The prime objective of the Auto-Quote system is to provide management with the financial information, offering automatic links to all major insurance e-commerce systems and digital imaging and scanning to give accurate proof of damage, mask up, refinish quality and repair.

Our business has built its reputation on delivering quality smash repairs and rectification services.

We work closely with the insurance companies and provide the go-to service to correct poorly executed repairs.

Parts & Insurance

We prefer to use genuine and parallel parts in our repairs and have preferred suppliers that we can guarantee supply genuine parts.

Increasingly insurance companies are assessing our quotes and dictating where to purchase parallel or used parts. If a vehicle is over 3 years of age, the insurance companies are insisting on the use of used parts. I regularly provide quotations using genuine parts and have the quotation returned with specifications of where to source the used parts & price. I prefer to use my own suppliers. I want to be able to provide a guarantee of genuine parts.

Some vehicle manufacturer's warranties are rendered invalid if non-genuine parts are utilised. There is an inherent contradiction here between insurance demands and warranty restrictions. The consumer misses out.

In prescribing the part, the source and the price, assessors are not always informed about the differences created by same make vehicles manufactured in different regions, such as left or right hand drives, and the impact this has on the rectification work.

Most recently, insurance companies are increasingly working with international wholesale parts sourcing firms as a cost-cutting measure. They are directing us to purchase parts from these firms.

90% of collision repair work is supplied by insurers. 60% of the market is controlled by 2 of the largest insurance companies. There are 3 general Australian insurers (QBE, IAG, Suncorp) and 6 foreign owned (Allianz, Youi, A&G, Hollard, Zurich, Progressive). Insurance assessors – the interface between the collision repair shops and the insurance companies are currently unlicensed and in NSW they are still to finalise a Code of Practise, despite recommendations being on the table for over 2 years.

Role of government and industry

Having represented the industry via the MTA and other related bodies, I observe the increased challenge in the conflicts of interest pervading the industry as some operators becomes increasingly vertically integrated and control all stages of the purchase cycle. This means that industry representation, as it currently stands, does not necessarily represent all industry parties equally. Those that pay greater fees have a louder voice.

I am deeply concerned with the state of the collision repair industry. The industry is experiencing large number of closures and the quality of work is being impacted due to pressure on margins.

Assessors and estimators needs to be licensed and operate with honesty, fairness and transparency. They need to be subject to a licensing regime. We currently experience 100% difference between assessors position on some repairs. They ignore the Code of Conduct introduced in 2006 – as it is not enforceable.

Punishments needs to occur on both sides. Poor quality repairs are subject to license requirements and consequence. Everyone is licensed except the insurance companies. Currently there is no punishment or consequence for the insurance industry. The mediation process currently is not working as there is no consequence. For the repairer the consequence is they do not receive further work.

The assessor who makes the most reductions to repairers' quotes are more highly regarded by the insurance companies and rewarded through promotion or increased work.

There is significant unrest with assessors in the industry. Most assessors would prefer to work with RTRM (Real Time, Real Money) system, but the insurers direct them to work to the FTFM (Funny Money, Funny Time) system which mainly benefits the Insurer and is open to errors, shortfalls, manipulation and abuse.

Industry standards should be applied for real costs of labour and materials. Many insurers refuse to accept materials that are costed as the Code requires.

The “Insurance Way of Control and Assessment” should be abolished – there is a huge conflict of interest that is self-serving.

Current practise is to reward a chosen few repairers. These rewarded Insurance Controlled repairers receive volume work. Owners are directed to these repairers. Most of these repairers have work stockpiled with 1 -6 weeks wait before they can start repairs. This causes delays to the car owner, poor work flow for the majority of licenced repairers and the closure of some high quality workshops.

A high volume of insurance work (90% of work) is being directed for the cheapest cost to repair and not to shops that work to a quality standard. This can result in sub-standard repairs.

My business specialises in rectification work. Rectification work on cars poorly repaired is at its highest level, significantly coming from insurance controlled network of workshops. My workshop has carried out Rectification Damage Reports and done rectifications on all of the major insurance run workshops. These sites still receive the volume of insurance work and take the smaller, easier, cash flow jobs out of the system.

Currently there are no insurance standards for allowances of times, rates, materials and sundry items required in the repair process.

When a repairer receives a poor assessment there is nowhere to dispute this. The repairer is frightened to speak out to insurers as those repairers who do, do not receive further jobs. The car owner goes through hell trying to get a fair and reasonable result.

The industry needs INDEPENDENT assessors, looking after assessments. Competent independent assessors who fully understand the business of car repairs are also pressured by the insurers to work to their times and rates or they are starved of further work.

Current mediation procedures are not working. It is too slow, costly, never achieves a result. It needs to be repaired.

The modern cars of today are complex and need to be dealt with care and considerable accuracy. Repairers these days need to be across steel, plastics, paints, electronics and mechanicals.

Need for Regulation

The industry needs to partner government through this transitional stage in the industry. Improvements in regulatory & economic reform are needed to mitigate social impacts arising from the industry restructure. Controls and standards need to be enforced. Best practise needs to be outlined in guidelines. We recommend:

- a. Insurance assessors and estimators to be licensed - having reached a required training threshold and adherence to an Industry Code of Practice. Assessors should remain independent.
- b. Make the Motor Vehicle Insurance and Repair Industry Code of Conduct enforceable. The principals of disclosure, fairness and transparency should be part of the Code.
- c. Establish an Independent Pricing and Regulatory Tribunal (IPART) to oversee Industry Code, ensure safety and repair standards are adhered to and dispute resolution process established recognising the inequity between large insurance companies & small business operators.
- d. Establish safety and repair standards and ensure both collision repairers and insurance companies adhere to these standards. Make breaches subject to tribunal negotiation and enforced.
- e. Legislative recommendation for Manufacturers to disclose technical and parts information. This would benefit the accuracy of the information provided through our AutoQuotes' platform.

- f. Certification standards need to be established. They need to be independent and non-aligned.
- g. Compulsory adherence by both insurers and repairers to work to Real Time Real Money estimates and assessment methodologies and to abide by the Code. Make MTA RTRM system the industry accepted times guide. MTA to train both insurers, assessors and repairers on its use. (Note the NRMA RTRM system is riddled with errors, anomalies, omissions and impossibilities).
- h. Set guidelines for determining fair and reasonable Labour Rates insurers should pay insurers.
- i. When Insurer and Repairer cannot reach agreement over an assessment, then an Independent Expert should be engaged (paid for by both parties) and appointed to monitor the repair from start to finish.
- j. Set up a Name and Shame register for all insurance companies and repairers and insurance assessors who have major rectifications reported.

Training

The motor vehicle dismantling and used parts wholesaling industry employs nationally 3,574 people. The average wage for a motor dismantler is \$41,857 with 2.4 average employees per business.

Of the 434 businesses in NSW, there have been 177 collision repair businesses and 285 recyclers closed since 2012 – or 1/3 of all auto repair businesses. Margins are being reduced and businesses are closing. I estimate margins have dropped to 8%. The lack of viability means that young people are not being attracted to the industry. Currently there exists a skills shortage nationally of 21,800 people across the industry. Out dated courses are being delivered through TAFE (2 venues in NSW) and private RTO's such as the MTA, with only 430 apprentice in training panel beaters in NSW and 405 Spray Painters being trained in NSW. The courses do not recognise the nature of the new car requirements with electronics, computer based and plastics knowledge requirements.

A continued lack of new blood entering the market is one of the issues faced by the industry. Time, money and energy needs to be invested in apprentices, all of which is a scarce resource. The courses, as currently taught, are not aligned with the requirements on the shop floor and so typically, those who do enter often opt out after the first year or two.

The principals of many of the collision repair shops are ageing and within the next 10 years are likely to retire. I myself am 78 years of age. The gaps are being filled by 457 visa holders whose certification and qualifications are questionable. I recently heard a report of a Bathurst based operator whose 457 “trained” visa holder could not do the most basic of repairs. This impacts productivity and viability of the repair shops and has consequences for consumer safety.

I am of the view that there needs to be some leadership across the vocation and training sector to develop a Jobs for Australia Automotive strategy & incentives program to boost training & industry youth participation – particularly in regional NSW. Training needs to address the updating of VET training to build in sensor technology, electronics, computers, electric vehicles. Specific automobile management and administration training could see to greater efficiencies and productivity brought into the industry.

This would mean the formation of a Working Group from all sectors of the Industry (Government, MTA/VACC, Auto Recyclers, Aftermarket, Collision, Industry Consultants, etc) to look at whole of industry business. There are sectors which need to change (through education, technology, partnerships). There are sectors that are emerging and need employment/training strategies. Build out the business model. There is great opportunity for Australia in the Asian region if we get this right.

Dealers

As a way of ensuring a customer returns to their service centre, dealers are actively pursuing the practice of retaining the log book of a vehicle on behalf of the customer. The customer must then return to the service centre to conduct all their service and repair work. It is my belief that customers should have freedom of choice to utilise the licensed service centre of their choice.

End of Life

Establish with industry, an end-of-vehicle-life programs designed to provide solutions to the effective, efficient and environmentally sustainable recycling of motor vehicles at a pre-determined product life end. This could include manufacturers' 'buy-back' schemes at end of life to recycle materials and reduce costs of new product.

Governments cannot be seen to be disadvantaging the disadvantaged so it up to the Industry to encourage the public to reduce the average age of the motor vehicles on the road. This can be done in conjunction with the Government introducing yearly inspections of vehicles in all states.

Conclusion

The industry is in transition, becoming increasingly regulated and consumer focused. We support this direction. However the structural issues faced when small business makes this transition working with national and international companies as their main clients, means that clear regulatory and licensing regimes need to be put in place, along with low-cost dispute tribunals. We need to ensure the longevity and quality standards are maintained and that a well-trained sector is able to deliver service to the new fleets of vehicles that are being purchased by the Australian public. Safety should not be compromised and clear consumer guidelines need to be adhered to by insurance companies and industry alike. Certification standards need to be put in place, independent and non-aligned with current insurance regimes.

I am available for interview in relation to these issues and can provide case studies upon request.

Terry Flanagan
TR Flanagan Smash Repairs Pty Ltd (Lic 44/000024/6)
496 Forest Rd,
Penshurst, NSW. 2222
02 9586 4646