



FILE No.
NO.
DATE

Motor Trades Association of Australia

Tim Grimwade
General Manager
Adjudication Branch
Australian Competition and Consumer Commission
PO Box 1199
Dickson ACT 2602

Dear Mr Grimwade

Recently a notification of exclusive dealing by IAG, relating to its new "Choice of Repairer" Policy, appeared on the ACCC website. MTAA has reviewed this notification and has prepared a supplementary submission to the Productivity Commission's Smash Repair Inquiry; canvassing its concerns regarding the content of this notification.

While MTAA is yet to receive formal correspondence from the ACCC requesting its views on this matter, please accept the attached supplementary submission as its position on this notification.

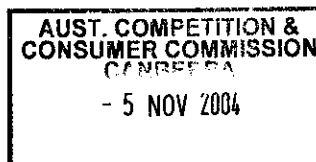
Furthermore, MTAA believes that the ACCC should reject this notification for the reasons contained in the attached document.

If you would like to discuss this matter further, please do not hesitate to contact Sue Scanlan, Deputy Executive Director at MTAA on phone (02) 6273 4333.

Yours sincerely

MICHAEL DELANEY
Executive Director

04 November 2004





Motor Trades Association of Australia

Commissioner Robert Fitzgerald
Presiding Commissioner
Smash Repair Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616
email: smashrepair@pc.gov.au

Dear Commissioner Fitzgerald

MTAA has noted with interest that IAG has lodged a notification of exclusive dealing conduct with the Australian Competition and Consumer Commission in relation to a new two-tier pricing offering for vehicle insurance it proposes to put into the market if the ACCC has no objections to its terms (copy attached).

MTAA believes that the terms and character of the proposal in the notification should be of central interest to the Commission's Smash Repair Inquiry.

In response we offer as a supplementary submission to your Inquiry a commentary upon the central aspects of this notification, and change in product offering, from the MTAA's perspective in addition to our submission of 15 October 2004.

Overview

IAG has lodged a notification of exclusive dealing conduct to permit it to offer a two-tier pricing structure relating to vehicle insurance. This change will involve a higher premium cost for policyholders wanting to have a right to choice of repairer, while standard policyholders will remain on the current premiums. The argument IAG has advanced for seeking this authorisation is, it says, to promote the option of choice in relation to insurance products and repairers and so as to remove what it claims are pre-existing "cross-subsidies" in the system where those who do not exercise choice pay for those that do. We do not accept that reasoning or that it is the case that there is a "cross-subsidy".

Discussion

There are two key aspects of IAG's notification that are of particular concern to MTAA and these aspects are detailed below.

The Choice of Repairer policy on offer does not really offer choice

IAG, in its notification, is proposing to establish two distinct product offerings for vehicle insurance; the first is a standard policy; where when a claim is made by the

policyholder the insured's rights are subrogated to the insurer. The second product is a so-called "Choice of Repairer" Policy; where when a claim is made the policyholder designates their repairer of choice. This product carries an extra premium above that of the standard policy, for example material sighted by MTAA indicates that the increased cost for this policy in Western Australia is \$40 per vehicle.

On the face of it, it would appear to be a sensible approach to offer consumers a broader range of policies from which to select. However when considering the detail of the notification, in particular how IAG intends the Choice of Repairer Policy to operate (under sections 4.4 and 4.5 of the notification), serious questions are raised about the real, and actual, level of choice in this policy. In these two sections IAG identifies that where the policyholder has elected the Choice of Repairer Policy, the insurer will not recommend or suggest a repairer unless asked to by the insured and the insured may select any properly qualified and licensed smash repairer. The concerning section is in the following paragraph where IAG identifies that "[i]f IAG does not authorise or cannot agree [to] the quote it will be settled with the insured for the reasonable cost of repair or replacement of the vehicle or [the] use [of] one of the other cash settlement options...". This indicates that while policyholders have the freedom to nominate their repairer, there is no obligation for IAG to accept the quote from that repairer such that the insured may exercise and enjoy the fruit of that choice. However, nowhere in the document does IAG identify the criteria on which it may reject a quotation. To that extent the present deception over choice in the market which is the product of intended non-disclosure is magnified and made the more injurious.

Consequently, consumers opting for the Choice of Repairer Policy may be further financially disadvantaged by IAG insurers paying out the claim at a lesser cost rather than the full cost of repairs at their repairer of choice. There is no description of how IAG intends to make a determination on this matter. It could simply be that the insurer decides that unless the independent repairer undertakes the work at the price of preferred repairers, then IAG insurers will pay out the cost of repairs; leaving the insured to either make up the difference, or shift back to the insurer's preferred smash repairer scheme. A clear definition of the basis on which IAG insurers will either accept or reject quotations must be mandatory in this scheme in order to provide more certainty for those choosing this policy option.

Further, the wording of the Choice of Repairer Policy is almost identical to the previous policy statement in terms of accepting or rejecting quotations from independent repairers. In the prevailing present policy statement, IAG states that if the insured chooses to repair its motor vehicle at a repairer not nominated by the insurer, the insurer will decide whether to:

- pay what it would have cost the insurer to repair the vehicle at one of its preferred repairers or repair management centres; or
- pay the insured the fair and reasonable cost to repair the vehicle at the insured's nominated repairer; or
- authorise and pay for the fair and reasonable cost of repairs at the insured's nominated repairer.

If this is really a substantially different product offering it must, for the avoidance of being misreading and deceptive, provide substantially different terms of operations.

IAG's two-tiered pricing system

MTAA could support the concept of a two-tiered pricing system as a method to provide more policy options for consumers were the concept truly offered and achieved. IAG's policy proposes an extra premium for consumers opting for the Choice of Repairer Policy. IAG has stated that its rationale for the increased premium attached to the Choice of Repairer Policy is as a result of what it says would be the increased costs of using independent repairers.

Through its preferred repairer scheme, IAG has been responsible for setting extremely low hourly labour and paint rates for participating repairers. Furthermore, while costs of labour and paint are continually rising, MTAA has sighted evidence of where IAG has not adjusted its rates since 1991. On the basis that preferred repairers are receiving about the same or less than their business input costs, in some ongoings, it is little wonder that independent repairers are more expensive, as they are likely to set their prices to reflect the real input costs of doing business. However, MTAA is not aware of any evidence, either anecdotal or otherwise, indicating that independent repairers are any more expensive than either preferred or associate smash repairers and in fact may even be cheaper in some circumstances for the same quality of repair and restoration.

IAG argues that cross-subsidies currently exists between those who subrogate their rights and those who choose their own repairer, as the cost of repairs at independent repairers is greater than the cost from within the preferred smash repairer network. MTAA finds this argument difficult to believe as under the present, prevailing policy document it is clearly stated (as described above) that the insurer will only pay what it would have cost the insurer to repair the car or the fair and reasonable costs. MTAA has not sighted any evidence from IAG that it is incurring any extra costs as a result of policyholders using an independent repairer and if no evidence is presented to justify this claim, MTAA can only assume that the cross-subsidising does not exist. In any case, in both cases it says it will only pay the same for both 'policies' and their benefits.

Historically, consumers had choice of repairer at no extra cost; although this entailed greater effort, information and transaction costs on the part of the insured. Since the introduction of preferred smash repairer schemes, insurers have been subtly reducing or removing the insured's right to choose their repairer; but as this choice has been withdrawn premiums have not declined. Now, IAG is purportedly intending to restore choice to consumers but only if they pay more for it. MTAA believes that noting there was no reduction in premiums to reflect the loss of choice as IAG shifted to a preferred smash repairer scheme, it must be economically more appropriate now to reduce the premiums for the Standard Policy and maintain the current premiums for the Choice of Repairer Policy.

MTAA position

In considering this notification, MTAA has reviewed its current and previous positions on this matter and believes that:

- IAG must clarify the circumstances in which it would reject a quotation from an independent repairer. This information is necessary to provide consumers with adequate knowledge of the policy and to avoid unreasonable costs being

burdened on them when a claim is made. This information should be provided in clear English and be conveyed to consumers at the time of advice of the policy offering available.

- MTAA does not believe that it is appropriate that IAG remove the insured's present contractual option of choice of repairer and then be permitted to charge them more for such a choice under a new policy offering. Rather IAG should reduce the premiums of those policyholders who choose to subrogate their rights while holding premiums at the same level for those wanting choice of repairer. IAG has presented no evidence that customer choice of repairer results in an increase in cost. Therefore there is no justification to increase the premium attached to this policy, other than to discourage the uptake of this policy.

MTAA trusts that this advising is helpful to the Commission. If you have any questions regarding the detail of this letter, please do not hesitate to contact me on phone (02) 6273 4333.

Yours sincerely



Michael Delaney
Executive Director

03 November 2004