

NEW CAR RETAILING INDUSTRY A MARKET STUDY BY THE ACCC – ISSUES PAPER



IAG Supplementary Submission May 2017

Summary

IAG welcomes the opportunity to make a supplementary submission to the ACCC New Car Retailing Market Study. This document provides some additional commentary in relation to access to technical and diagnostic repair information.

With sophisticated electronics now controlling vehicle behaviour, integrated with active and passive safety systems, the movement towards more automated vehicles 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 Market Study provides an opportunity to discuss the need for the development of clear parameters of good practice when it comes to access and availability of technical and diagnostic vehicle repair information. 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. This will support a more equal playing within the area of repair information allowing a fairer and more competitive market in the future. It will also play an important part in maintaining a high quality of repair standards to contribute to the safety of all road users.

IAG believes consumers need affordable motor insurance that provides the necessary inclusions to protect their interests. Many factors contribute to the premium that car insurance customers pay. These include: car design; the cost of specialised tools and equipment required to repair vehicles; higher repair costs and fluctuations in currency exchange rates. The inadvertent effect of withholding or limiting access to repair information from the industry is that repairs may take longer times to be completed. This can in the longer term affect the cost of motor insurance.

Insurers and the consumer protection process

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, the insurers' role in the consumer process is an effective way of ensuring quality repair services are provided efficiently and safely¹. This involves;

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

- managing the repair on behalf of consumers;
- providing consumers information about repairers; and
- checking and guaranteeing the quality of repairs undertaken.

This model has had significant benefits for consumers by helping to solve the information problem for uninformed consumers. Additionally, insurance prices decrease as scale allows insurers to negotiate more favourable terms within the industry.

When IAG's 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 IAG brands. Our supply chain network is made up of thousands of businesses across the country, including paint and panel repairers, automotive mechanics, and also includes Original Equipment Manufacturers' (OEMs) Service Departments, mechanics, paintless dent repairers, windscreen suppliers and fitters.

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.

IAG's Research Centre

IAG's 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. The IAG Research Centre plays a key part in ensuring our customers get the highest possible standard of repairs and are able to get their vehicles back on the road as quickly as possible. IAG is the only insurer in Australasia to invest in this type of research centre and has led the way on vehicle safety testing and design improvement for more than 20 years.

A core focus of the Research Centre is working with the automotive industry to carry out the physical testing and data analysis required to help reduce the cost of Comprehensive Car Insurance. The Research Centre also plays a role in advising consumers on car safety issues and provides technical information for the smash repair industry. Given this extensive experience, we provide additional commentary on our understanding of the new car retailing and post sales and service market in Australia.

Consumer impacts

Regarding body repair work covered by insurance, IAG sees the availability of repair information as helpful maintaining an affordable and competitive market for motor vehicle insurance.

Insurers regularly adjust premiums by increasing them to reflect higher risks, or by decreasing them when the risk is reduced. Vehicles that are more expensive to repair will require a higher premium to cover any damage that may occur via incidents such as collisions, weather events or theft. Conversely, vehicles that are equipped with safety technology that helps to avoid or lessen the impact of a collision can receive a premium reduction as the risk is decreased.

In this context, the cost of insurance is affected by broader economic forces and pressures that are not necessarily within an insurers control, these can include the underlying risk cost, the increasing claims cost and the prevalence of other events such as natural perils (for example hail damage can be costly to repair).

IAG believes consumers need affordable insurance that provides the necessary inclusions to protect their interests. The inadvertent effect of withholding repair information from the industry is that repairs may take longer times to be completed. Vehicles that have higher repair costs will therefore require a higher premium to cover any damage that may occur. Therefore, it is vital for insurers, acting on behalf of consumers, to have ready access to repair methods and data – as this will assist in containment of some claims costs.

There are significant differences between the costs of repairing some cars compared to others in the same class. IAG has documented the differences via its low speed collision repair cost tests. IAG has found there can be more than 500% difference between the cheapest and dearest repair costs in some classes of passenger cars.

<https://iagresearch.com.au/car/costs>

IAG publicises the results of these comparison tests to encourage vehicle brands to consider the cost of collision repairs in calculations of cost of ownership and also to help inform consumers about how we calculate their premiums.

Why is it critical for the industry to access repair information?

Overall, barriers that restrict access to repair information and parts have broader impacts on the level of competition in the automotive repair industry.

The car insurance industry and consumers rely on a having a diverse, independent smash repair sector in order for vehicles to be repaired in a timely and safe manner and at an affordable price. Therefore, it is essential that all repairers have easy and affordable access to the technical and diagnostic repair information they need to repair vehicles safely and to the required standard. Repair information must not be restricted to repairers operating within authorised manufacturer and dealer networks.

Access to repair information, tools and equipment is becoming increasingly pressing for a few reasons. This is in part due to the technology and electronic safety features built into newer cars and also the requirement of manufacturers for the use genuine parts and brand specific tools.

As we move into a future where vehicle technology continues to evolve and vehicles take on more autonomous capabilities, IAG considers there is scope for the development of clear and equitable parameters of good practice when it comes to accessing vehicle repair information. These parameters are currently not consistent nor strong enough to encourage ready access to this information. More detail on these issues is provided below.

1. Safe repairs

IAG believes it is essential for occupant safety that structural body parts that are damaged in collisions are replaced using the correct methods, tools and sealants. This is to ensure vehicles are repaired to the safest possible standard. It would be helpful if vehicle manufacturers were obliged to publish all information that is relevant to replace critical component parts on their branded vehicles.

Essential body repair information includes but is not limited to:

- distances between measuring points and dimensions of body apertures;
- materials specifications, including plastics, aluminium alloys, high-strength steels and composites;
- necessary sealants, adhesives, primers and body foams;

- joining requirements, including: resistance spot welding, plug welding, silicon bronze welding; and
- fastener requirements, including torque settings.

The kinds of procedural information required by body repairers are not patentable and do not involve unique ideas that might constitute competitive advantage for individual manufacturers. IAG acknowledges that illustrations and recommendations are copyrightable, and IAG recognises the manufacturers' proprietary rights in such cases. Fair use should include discussion, communication and transmission of selected information which is relevant to each vehicle being repaired.

2. Management of claims costs

Several factors contribute to the insurance premium that car insurance customers pay. These include: car design; the cost of specialised tools and equipment; higher repair costs – including labour and parts; and fluctuations in currency exchange rates.

Car design is rapidly evolving and cars now have more components in vulnerable locations, they have sophisticated electronics controlling vehicle behaviour along with the integration of active and passive safety systems and also emission control systems. The amount of standard equipment in cars is increasing to improve safety, comfort and convenience, but this adds to the complexity of vehicles and therefore the time and labour required to undertake repairs.

Almost all cars now feature at least six air bags with various crash sensors, while many newer cars now have supplementary cameras, radar and even lasers for range-finding and hazard detection. All these parts are physically vulnerable to destruction in collisions.

Additionally, a greater proportion of the front and rear components of vehicles are made of thermoplastics, such as the entire front and rear bumper fascias, upper and lower grilles, front and rear lampware, boot lid mouldings and tailgate finishing panels. Most of these components are quite expensive, and if they shatter on impact, are generally unrepairable. This means the repairer will need to source component parts in a market where there can be little transparency around pricing. This increases the frictional costs of doing business due to the time required to research the cost of replacement versus the cost of repair.

Specialised tools and equipment are often needed to address specific engineering requirements that differ according to individual car brand's technical requirements.

Car safety has improved in the past decade, but higher safety standards have brought higher repair costs because newer cars have proportionally greater structural complexity, with more frequent use of unrepairable high-strength steels, aluminium and composite materials including carbon fibre.

A lack of regulatory obligation has meant that vehicle brands and importers have historically been able to provide repair information at their own discretion. Currently there is limited obligation to make this information readily available. 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 brand to obtain critical information to complete the repair.

The process to access technical vehicle information can be difficult and time consuming at times and this is not sustainable for the long term. Easily accessible repair information will assist qualified trades specialists in accurately and efficiently diagnosing and repairing vehicles. Any efficiencies gained by way of time and labour will ultimately assist with a reduction of claims costs that will assist with keeping motor insurance premiums affordable for the long term.

3. Rapid improvements in vehicle technology demand access to vehicle repair data

IAG sees the rate of change in automotive technology increasing exponentially over the next decade and beyond. As mentioned, newer vehicles are requiring more complex repair methods that demand ready access to important repair information.

IAG identifies some key drivers of change in technology:

- a) The minimum requirements to achieve a five-star ANCAP safety rating are gradually being elevated. Since many brands now aim to achieve the highest rating, it is highly probable that the majority of new vehicles released on the market in the future will incorporate the latest technological advancements in body engineering, construction materials, safety technologies and electronic controls. These requirements mean that access to tools, parts, equipment and repair methodology is of growing importance to ensure more complex repairs can be done by repairers across the repair industry.
- b) Many brands have announced that they will be selling hybrid vehicles within the next few years. Some of these will be petrol-electric hybrids and some diesel-electric. Some will be series hybrids and some will use parallel formats. This level of complexity will provide considerable challenges to the repair industry. Complex materials and additional technologies including computers and sensors add to the need for detailed repair methods. This level of complexity will provide considerable level of challenge to the repair industry to cope with new materials, technology and systems.
- c) Government-mandated requirements for lower carbon dioxide emissions in most jurisdictions will likely to be achievable by lightening the new vehicle fleet through greater use of aluminium and reinforced plastic composites. These materials have their limits as to what can be economically repaired or may only be safely repaired with the aid of specialist tooling training and knowledge.
- d) Consumer demand for safety indicates that the future of vehicles lies with active or “autonomous” safety features that can prevent a collision from occurring in the first place. New autonomous vehicle technologies mean that at times, the vehicles themselves can intervene and take over elements of the driving task. Features including Electronic Stability Control, Antilock Braking Systems, Autonomous Emergency Braking and Lane Keep Assist are already included in many vehicles. As we prepare for a future encompassing a “mixed fleet scenario”, where there will be a variety of vehicles on the roads with varying levels of autonomy (from traditional human controlled vehicles, to those vehicles that can be fully autonomous and drive without human intervention) it is important that we provide a regulatory framework that supports healthy competition. A key part of this will be to ensure access of repair information to independent service and repair operators.

Current regulation does not adequately prevent brands from restricting third party access to their technical service and repair information. With future vehicle technology in mind, this issue becomes of critical importance.

Conclusion

Overall, 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. Barriers that limit or restrict access to repair information have broader impacts on the level of competition in the automotive repair industry. Given rapid advancements in vehicle technology, it is critical that access to repair information is improved.