Deloitte Access Economics

NSW Smash Repair Review

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Glossary

ABR	Automotive Business Research
ACCC	Australian Competition and Consumer Commission
AMO	Automotive Management Online
APRA	Australian Prudential Regulation Authority
CPI	Consumer Price Index
DAE	Deloitte Access Economics
DRP	Direct Repair Program
HVLI	High volume, low impact
ICA	Insurance Council of Australia
ISA	Insurance Statistics Australia
OECD	Organisation for Economic Cooperation and Development
OEM	Original equipment manufacturer
OFT	Office of Fair Trading
PC	Productivity Commission
PSR	Preferred smash repairer
SMART	Small- to medium-area repair techniques

Executive Summary

The smash repair industry in NSW has been experiencing significant change in recent years. The ultimate beneficiaries of these changes are consumers. Most consumers do not use smash repair services often enough to develop sufficient expertise to distinguish the most appropriate repairer for their needs. As such, the market is characterised by consumers who are not well informed.

Insurers' active role in the consumer decision making process is an effective way of ensuring that quality smash repair services are provided efficiently. Given the extent of the changes to the industry, however, the government has commissioned the *Inquiry into Motor Vehicle Repairer and Insurer Relationship*.

The Insurance Council of Australia (ICA) has commissioned Deloitte Access Economics (DAE) to prepare an independent research report examining some of the issues raised through the Inquiry's Terms of Reference.

Main trends driving smash repairers

The smash repair industry is undergoing consolidation. Historically, it has taken the form of a "cottage industry", comprised of disaggregated, small general repair shops. This has begun to change as a result of competition within the industry. Production line style large high-volume repair shops, complemented by small-medium specialist repairers, are outcompeting traditional repairers.

Many of these changes are being driven and facilitated by new technologies. Demand has decreased, as safer cars require fewer repairs. On the other hand, more complex cars (e.g. electronics), require more complex (expensive) equipment and higher-skilled workers to repair. Technology has also led to the development of new repair techniques and business models.

Similar trends have been seen overseas. The UK, for example, is a leading indicator. Consolidation and technology have led to more efficient repairers with new models. The Australian industry is likely to follow the same path.

Consumers will benefit from these trends through lower prices for repairs. As the process of consolidation continues, there will be some reduction in information asymmetries, as it will be easier to assess quality in a less fragmented market.

Technology and competition has raised barriers to entry for some small smash repairers, who need increasing amounts of capital and scale to compete. However this is an inevitable process seen in many industries (e.g. manufacturing). Business models will continue to evolve, and more efficient repairers will thrive. There will be a continued role for flexible, high quality repairers.

Insurance

There are four main motor vehicle insurers operating in the NSW market. They support a variety of brands and business models. To account for information asymmetries in the

market, insurers and car manufacturers are taking an active role in customer decision making. This involves:

- managing the repair more closely;
- providing customers with information about repairers; and
- checking and/or guaranteeing the quality of repairs.

In their role as information brokers, insurers offer varying degrees of advice and information. Repairers who value their reputations highly have an incentive to undertake high quality repairs. Insurers develop long-term understandings of the quality of repairers, and advise consumers accordingly. Consumers may decide on the extent to which they choose to follow this advice.

This has had significant benefits for consumers by partially solving the information problem for uninformed customers. Insurance prices decrease as scale allows insurers to negotiate more favourable terms. Consumers who decide not to follow the advice of their insurer still can ask the insurer to consider a non-preferred repairer. Depending on the policy, insurers may accept this alternative subject to the completeness and competitiveness of the quote.

These models reinforce consolidation in the smash repair industry, as preferred repairers secure higher volumes of work from insurers. However, some repairers choose to remain unaligned to PSR schemes, and continue to maintain strong businesses.

Legislation of insurer/repairer relationships

Some international jurisdictions have introduced legislation to govern relationships between insurers and repairers. These are aimed at addressing perceived abuse of power in relationships by levelling the playing field between the insurance industry and small, locally owned shops.

The mandatory *Industry Code of Conduct* in NSW already addresses many of these concerns. For example, insurers are required to offer policyholders the ability to choose a non-preferred repairer, subject to certain caveats. The PSR system means that repairers compete and have reputational concerns, so that insurer intervention helps to mitigate the information asymmetry. Innovation in the smash repair industry appears to be driven in Australia by insurers competing for customers by driving change in the repair industry. This is to the ultimate benefit of consumers, increasing efficiency in the industry.

There is evidence to suggest that legislation similar to that introduced overseas would not be best suited to the NSW context. Enforcing consumer choice increases search costs for customers. It does not address information problem. By forcing uninformed consumers to choose problems may be exacerbated. Consumers may be guided instead by market participants who have no reputational concerns or undeclared financial interests.

By reducing insurers' influence over repair costs and quality, it can result in increased premiums. Evidence from the UK shows that removing insurers' ability to contain costs by using preferred repairers increases premium prices. In Germany, a survey found that reputation, technical competence and competition reduced the likelihood that repairers would overcharge.

Conclusions

Consumers benefit from a well-functioning industry where they can meet their preferences for choice or convenience and certainty. Those who prefer the latter are well served by the role insurers play in helping them to navigate the smash repair system. An Australia-wide survey undertaken by Newspoll Market & Social Research in 2013 found that 69% of drivers preferred their insurer to handle their claim from end to end, including managing the repair and working with the smash repairer on their behalf (Suncorp).

Industry consolidation in the smash repair industry is inevitable. However, this is being driven by competition between repairers and technology, rather than pressure from insurers. Relationships between insurers and repairers are well governed by the *Industry Code of Conduct* and it does not appear that further regulation would benefit consumers.

Deloitte Access Economics

1 Introduction

The smash repair industry has undergone a series of changes in recent years. This change is challenging to the industry, but has arisen naturally. New repair technologies allow more efficient small- and medium- area repairs, but require significant capital investment. Newer vehicles have fewer collisions yet, with more complex electronics components, require different and deeper skills within the workforce. These are the primary factors driving consolidation in the industry; competitive pressures on less efficient and smaller repair shops are increasing.

Competitive markets find solutions to these challenges. In the smash repair industry, however, the ability of the market to solve these problems is impacted by information asymmetries. Consumers must be able to make informed decisions to ensure the effective operation of the market.

There can be significant variation in the price and quality of repairs. While prices are observable, it is difficult for consumers to identify and assess variations in quality due to a lack of technical expertise. For consumers, this variation combined with the infrequent nature of interaction with repairers, means consumers generally are not able to make informed decisions, unlike for most other purchases they make. This can result in suboptimal outcomes for consumers.

The market has evolved a method of dealing with this. In response to consumer demand, insurers have developed a role as information brokers, becoming more active in the consumer decision making process. This helps to mitigate information asymmetries.

Insurers and repairers are developing business relationships and partnerships which harness potential gains from these developments. For example, some repairers have contractual arrangements with insurers which guarantee higher volumes of work in return for containing repair costs.

However, not all stakeholders are comfortable with the impacts of the trends in smash repairs and, hence, there has been an increase in regulatory focus on the industry, in NSW and Australia and overseas. In Australia, following a 2005 Productivity Commission report, a voluntary industry code of conduct was implemented. It was made mandatory and incorporated into legislation in NSW (sections 51-53 *Fair Trading Act 1987)*.

Around the world legislators are seeking to protect consumer interests and promote competition. However, this should be considered in context. As the OECD notes:

> *"There is broad agreement among competition agencies from OECD countries that the purpose of competition policy is to protect competition, not competitors"*
>
> - *OECD 2011*

The NSW Government is now re-considering the issue. It has commissioned the *Inquiry into Motor Vehicle Repairer and Insurer Relationship*. The terms of reference for the Inquiry are broad:

- smash repair work and whether it is being carried out to adequate safety and quality standards;
- the current Motor Vehicle Insurance and Repair Industry Code of Conduct, its governance structure and dispute resolution mechanisms and whether it is effective at regulating the relationship between repairers and insurers, and in serving consumer interests;
- consumer choice, consumer protection and consumer knowledge in respect of contracts and repairs under insurance policies;
- the business practices of insurers and repairers, including vertical integration in the market, the transparency of those business practices and implications for consumers; and
- alternative models of regulation, including in other jurisdictions.

The Insurance Council of Australia (ICA) has commissioned Deloitte Access Economics (DAE) to prepare an independent research report examining the last two of these issues, focusing on the economics and aspects of the regulation of the smash repair industry.

The analysis of the economics draws upon publicly available information, including *Smash Repair Industry* (DAE, 2011) and the IBISWorld Industry Report into Motor Vehicle Body, Paint and Interior Repair in Australia (IBISWorld, 2013), as well as industry information provided by the ICA. The discussion of smash repair industry regulation was informed by an extensive on-line search of relevant legislation and academic literature, and insights from industry practitioners.

The report proceeds as follows:

Chapter 2 provides background on the smash repair industry, describing the constituent players and their relationships to one another, the products and the markets.

Chapter 3 presents a summary of the key trends affecting smash repairers today and into the future.

Chapter 4 examines the motor vehicle insurance industry. Competition in the industry is assessed against standard benchmarks.

Chapter 5 explores the key decisions that are made by smash repairers and insurers that affect consumer welfare.

Chapter 6 assesses efforts of legislators to secure better outcomes for consumers and supporting competition.

2 Defining the smash repair industry

The smash repair industry is characterised by a complex value chain. Services are provided to customers by various players, who are connected through a network of relationships.

The smash repair industry can be defined in terms of its participants, products and markets.

2.1 Industry participants

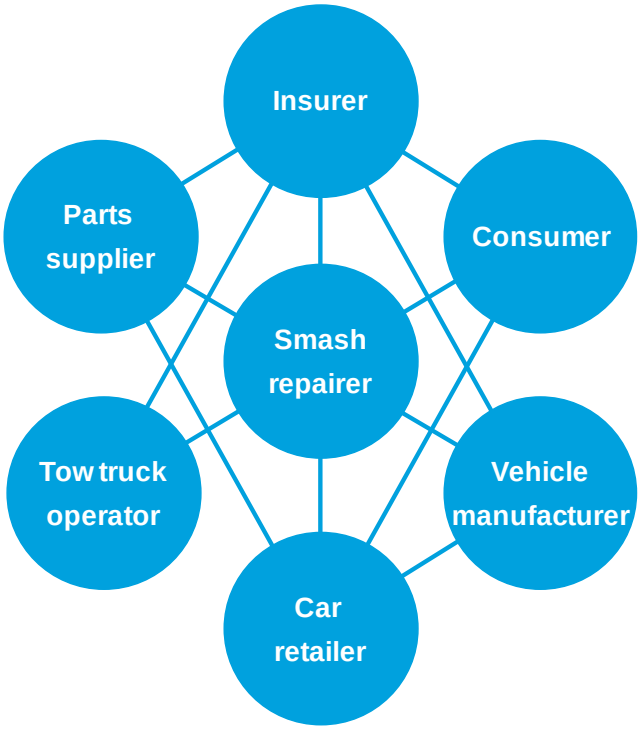
A diverse range of players are involved in the smash repair industry. They perform a range of roles – they may participate directly in the value chain, influence consumer decisions, or do both. They are described below:

- **Repairer** – an enterprise, mostly a single establishment at one location that repairs damage or upgrades, to the body, mechanical and electrical systems. Repairers may receive up to 80% of their business from insurer referrals, but also from other sources including tow-truck operators, mechanics, car manufacturers and dealers and by word of mouth.
- **Insurer** – a general motor vehicle insurer. Funds repairs depending on the coverage purchased by a consumer. They may operate under different business models.
    - In a "preferred smash repairer" (PSR) model, the consumer has limited choice of repairer. The insurance company recommends a local repairer who has a pre-existing relationship with the insurer, although the consumer can nominate other repairers also to quote for the work.
    - The alternative model is "user choice". This allows consumers to choose any repairer to quote. If they are uncertain or ambivalent, the insurer may recommend a specific repairer.

  In both cases, the insurer authorises the most complete and competitive quote.
- **Vehicle manufacturer.** Some manufacturers have PSR arrangements, similar to those offered by insurers. They may dis-incentivise the use of repairers that do not use parts supplied by the original equipment manufacturer (OEM) through the use of warranty conditions. For example, car warranties or other guarantees might be voided if a non-OEM part fitted after manufacture fails. Where 'authorised repairers' are not part of an insurer's PSR network, conflicts over insurance and repair could result. These arrangements are most common for premium car marques.
- **Parts supplier**. Spare parts frequently are required for smash repairs. Suppliers may offer different types of parts – those from the OEM, or after-market crash parts. This depends on the supplier's relationship with the manufacturer. The type of parts that are used can be determined by the repairer or specified by the insurer.
- **Tow truck operator**. Where the vehicle has been significantly damaged, a tow truck will take the vehicle to a repairer. Tow truck operations tend to have established relationships with certain smash repairers. Thus the choice of tow truck operator can determine the ultimate repairer.

The relationships between these players is summarised in the diagram below. The lines indicate where commercial relationship can exist between the two parties. Uniquely, the smash repairers may have relationships with any one of the other stakeholders groups.

Figure 2.1: Smash repair relationships



Source: Deloitte Access Economics 2011

2.2 Variety of business models

As noted in section 1, insurers have evolved as information brokers within the smash repair industry. Repeated interactions with repairers allow them to dynamically assess the value offered by various repairers, both in terms of price and quality of service.

Section 3 explains that insurers are the primary consumers of smash repair services. They have developed multiple types of purchasing arrangements with their suppliers. These range from one-off interactions to long-term contractual relationships and equity involvement. Some operate open tenders, while others direct work to preferred contractors.

Similarly, the variety of models within the smash repair industry has increased significantly in recent years. Technology, competition and new relationship structures have facilitated this process. They now take a number of different forms, including:

- High-volume low-impact repairers;
- Traditional repairers; and
- Premium marque repairers.

These are described in more detail in later sections.

Repairer relationships with insurers vary – some have no ongoing relationships, while others have relationships with more than one insurer.

2.3 Products

The smash repair industry in Australia is mainly comprised of small privately-owned businesses. The main services provided are post-collision repair of motor vehicles, although repairers also upgrade undamaged motor vehicles. Smash repair activity breaks down into the primary activities of the industry (IBISWorld, 2013):

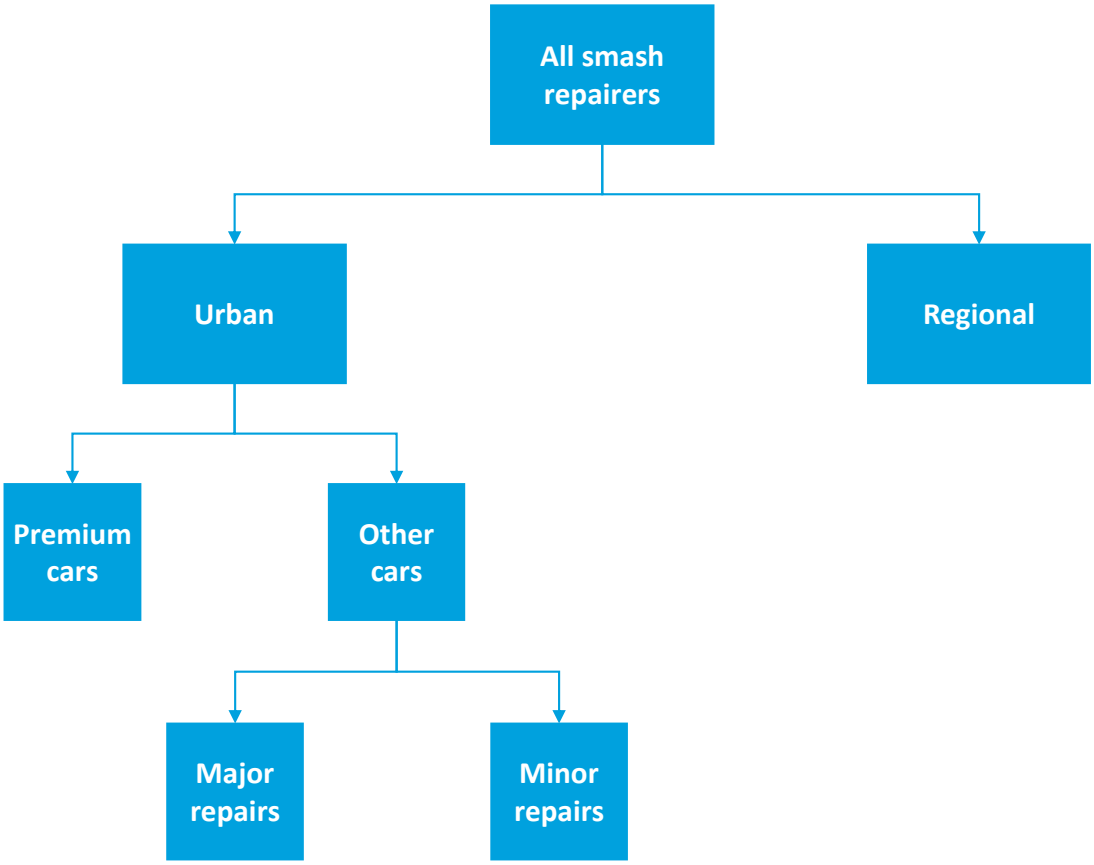
- vehicle body repairing, including panel beating (52.2% of industry value);
- automotive spray painting (20.6%);
- windscreen repair (14.5%);
- automotive trimming and interior repair (9.6%); and
- other services, including rustproofing and undercoating (1.4%).

2.4 Markets

The Australian and state markets can be broken down as shown in Figure 2.2:

- urban repair shops face a different set of consolidating forces compared to regional smash repairers, due to the proximity of competition;
- within these markets, there is a division between the premium car repairers and those which service all other cars. Premium repairers tend to specialise in a particular premium marque and, as such, cannot be substituted by general repairers; and
- these general repairers can also be broken down into major and minor damage sectors. Some businesses specialise in repairing a higher volume of vehicles requiring relatively minor repair – known as high volume, low impact or (HVLI) – compared to the other end of the spectrum where high-value repairs require both more skilled labour and specialised equipment.

Figure 2.2: Sub-markets within the smash repair industry



Source: Deloitte Access Economics.

3 Economic relationships and incentives

The process of repairing a damaged vehicle can be best understood as a value chain. Assuming that an individual is insured, it evolves as follows:

Figure 3.1: Typical smash repair flow of services

Source: DAE

In this simplified view, repairers are the ultimate suppliers. They produce repair services using their labour, skills, capital and purchased parts. Insurers purchase these services on behalf of their customers. They are well-informed buyers, who regularly interact with repairers. Where allowed, they will select their suppliers on the basis of price and quality. Insurers, in turn, supply insurance services to consumers. These services take different forms. For instance, the level of coverage and choice can vary between products. Consumers buy these insurance products. This will be informed by preferences, price, reputation etc.

Chapters 3 and 5 show that the smash repair and insurance industries are both competitive. Competitive industries increase consumer welfare by reducing prices and/or increasing the value of services. Thus, as long as the structure of the system allows for appropriate decision making, there will be benefits for consumers.

Effective decision making within the structure of the industry relies on three elements:

- the incentives of players;
- the decision making process; and
- the flow of information.

For simplicity, assume that consumers buy insurance. Each of the key parties acts in their self-interest:

- **consumers** have short-sighted preferences. They do not perceive the cost of the repair, because they do not directly pay for it. As such, insured consumers have an incentive to secure the best possible repair, regardless of price.
- **insurers** have a profit motive. This creates conflicting incentives:
    - **decrease costs**. This could involve accepting only repairers who offer low prices.
    - **increase revenues**. Retaining and attracting market share requires a strong reputation, amongst other factors. This provides incentive to only accept high quality repairs.

- **smash repairers** have a profit motive. This creates conflicting incentives:
  - **decrease costs**. This could be achieved through increasing efficiency or "cutting corners".
  - **increase revenues**. Individual repairers can improve revenue by increasing the quantity of service. Attracting more business from insurers requires an attractive offering in terms of price and quality of repair.
  - **manage liability**. Repairers are liable for faulty repairs under the Australian Consumer Law (Commonwealth, 2010). This can be costly. As such repairers have an incentive to ensure that services are carried out with "due care and skill".

Each party will make decisions based on these incentives. The strength of these incentives will vary depending on the structure of the system and business models. For example, in PSR business models, some insurers have introduced a guarantee on repairs in order to increase their market share. This introduces an additional incentive for insurers to manage their liability.

As noted in section 2, the structure of the market can take two forms, depending on whether the consumer:

- follows the insurer's recommendation; or
- decides to make their own choice.

The structure of decision making under each of these models is summarised below.

Figure 3.2: Typical decision process in PSR model

1. Consumer decides whether to be insured
2. Consumer chooses an insurer
3. Smash occurs
4. Consumer decides whether or not to claim on their insurance
5. Insurer assesses vehicle
6. Repairers are asked to tender on fixing the faults identified in the assessment
7. Insurer selects a repairer
8. Repairer assesses the damage (may not concur with the insurer)
    a. If they do not agree, repairer may negotiate a change in scope with the insurer
9. Repairer conducts the repair
10. Consumer receives the repaired vehicle
    a. If faults re-appear, consumer may contact either the repairer or insurer
11. Repeat

Source: DAE

Figure 3.3: Typical decision process in choice model

1. Consumer decides whether to be insured
2. Consumer chooses an insurer
3. Smash occurs
4. Consumer decides whether or not to claim on their insurance
5. Insurer assesses vehicle
6. Consumer identifies their preferred repairers, and obtains quotations
7. Insurer selects a repairer from amongst these, or requests additional quotations
8. Repairer assesses the damage (may not concur with the insurer)
    a. If they do not agree, repairer may negotiate a change in scope with the insurer
9. Repairer conducts the repair
10. Consumer receives the repaired vehicle
    a. If faults re-appear, consumer contacts repairer
11. Repeat

Source: DAE

The key difference between the two models is step 6 – who makes the decision on which repairer should be used. This difference also changes the incentives for players. These are summarised in Table 3.2.

Table 3.2: Incentives under recommendation and decision

	Insurer recommendation	Consumer decision
Insurer	• Stronger reputation incentive to ensure high quality repairs (consumers associate insurer with repair) • Introduction of an additional incentive to ensure high quality through voluntary guarantees	• Reputation incentive is comparatively weaker, since consumer decides on repairer.
Repairer	• Reputation develops quickly, as repairers deal repeatedly with insurer • Incentive to price more competitively	• Reputation develops slowly, as most customers do not get repairs often • Less incentive to compete on price, since tendering is less open

Source: DAE

These differences in incentives can significantly alter outcomes for customers. Under a consumer decision option, for example, Schneider (2012) tested several repair shops. Even when he posed as a potential repeat customer, he found that repairers did not care about their reputations:

> *"I find no evidence, however, that a mechanic's pursuit of a good reputation affects repair recommendations, improves service quality, or limits inefficiencies in a meaningful way"*
>
> - *Schneider, 2012*

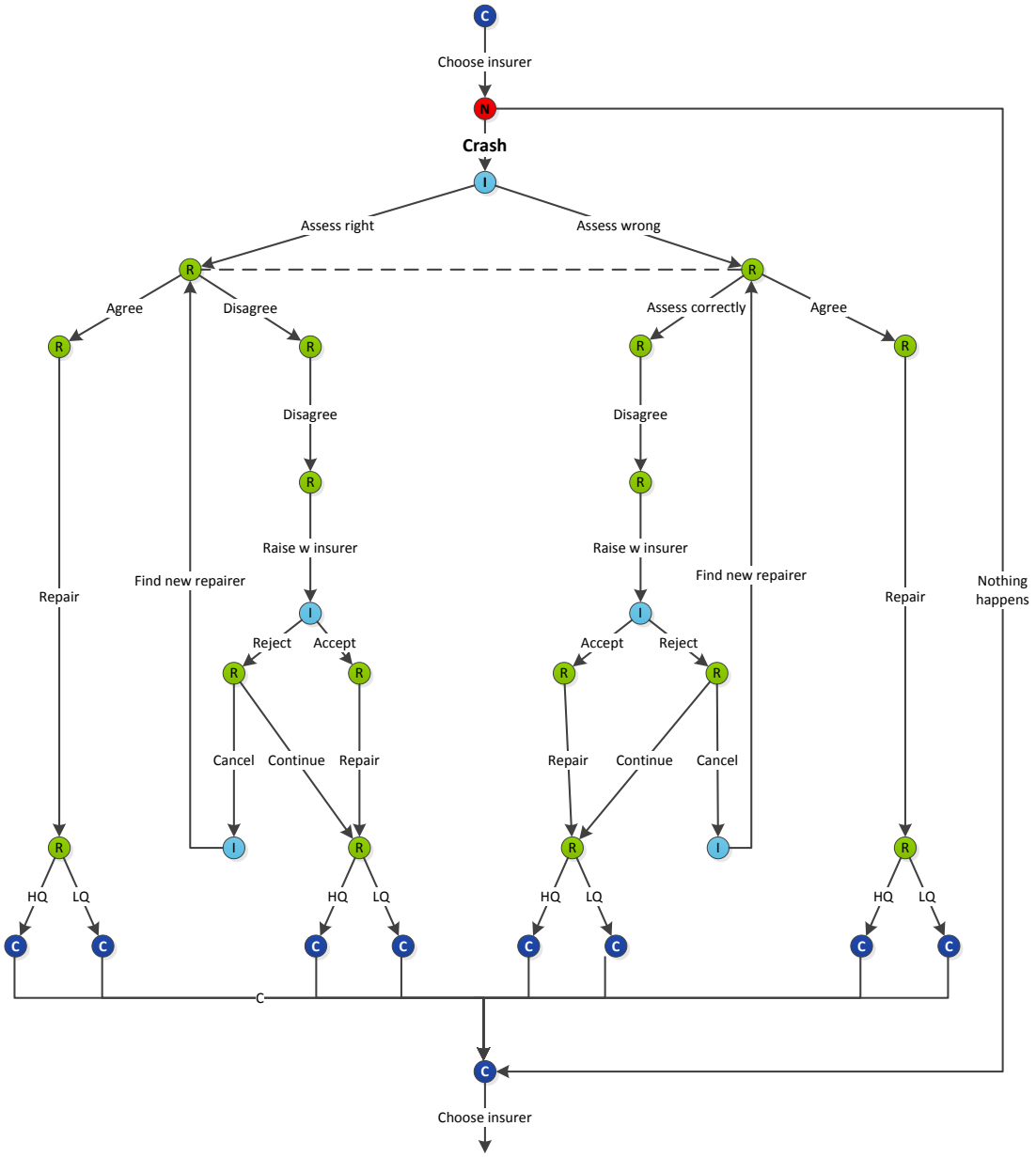
The consequences of this for consumer benefits – as well as the industry overall – were severe:

> *"I find that completely unnecessary repairs were present in 27 per cent of visits and represented 61 per cent of all charges. I also find that serious under-treatment occurred in 77 per cent of visits, and that defects that could generate much larger problems in the future were often overlooked… During both high and low-reputation visits, the quality of diagnoses was often poor, and the type and amount of repairs were highly inconsistent... a back-of-the-envelope calculation [shows] that agency problems in the U.S. auto-repair market generate a welfare loss of approximately…* ***22 per cent of industry revenue****"*
>
> - *Schneider, 2012 [emphasis added]*

As discussed previously, a majority of NSW consumers select an insurer recommendation type of process. This is preferred due to information asymmetries. Most consumers are ill-equipped to distinguish between repairers. They prefer the convenience and assurance of having their insurer do this on their behalf.

The remainder of this chapter considers key decisions and incentives under the insurer recommendation model, given its relative importance.

Figure 3.4: Decision tree – insurer recommendation model



Source: DAE, 2013

Figure 3.4 depicts the decision tree in more detail. It shows that there are several ways that the process can unfold. However, there are three areas where the relationship between the insurer and repairer are critical which should be examined in more depth.

Accurate assessments

Under an insurer recommendation model, insurers have more incentive to assess a repair correctly. Incorrect assessments could lead to unexpected increases in costs in the short term, as – if an insurer accepts the repairer's contention – they may be required to pay the repairer an additional amount to fix the undiagnosed damage. There are long-term consequences if insurers do not adjust incorrect assessments as necessary. Consumers who experience faulty repairs will apportion at least some blame to the insurer who authorised

and organised it. This negatively impacts on the insurer's reputation. As such, insurers have incentives to accurately assess damage.

Liability and reputational concerns under the PSR model mean that repairers have the incentive to correctly assess damage. Given that insurers regularly interact with repairers, it is likely that incorrect assessments will be detected. This may result in loss of PSR status, and thus loss of revenue.

Given that both repairers and insurers have incentive to assess the correctly, this is likely to be the most common outcome.

Incentive for quality

Outcomes for consumers are ultimately dependent on whether repairers choose to conduct the repair to an acceptable standard. Once a vehicle is repaired, it is generally returned to the consumer. As such, insurers cannot directly monitor the quality of repairs. Consumers do not have the expertise to assess a repair immediately.

Sub-standard repairs will result in faults in the vehicle in the medium term. Thus, they will eventually be detected by consumers and insurers. Sub-standard repairs would have a negative impact on the reputation of the insurer. Where insurers offer guarantees on repairs, it could also result in additional costs. For these reasons, insurers will remove sub-standard repairers from their PSR network as they are identified.

This will result in a significant loss of revenue for a repairer. The insurer recommendation model acts as an accreditation system. By creating long-term repeated interactions between insurers and repairers, it makes reputation a more important concern for repairers. Compounded with liability concerns, this means that, in a long-term repeated game, repairers always have an incentive to complete repairs to an appropriate standard.

Differing assessments

As noted above, both repairers and insurers have incentive to assess vehicles correctly under the insurer recommendation model. However, situations may arise where an insurer mistakenly does not identify the full extent of the damage.

If this is picked up by the repairer, they may go back to the insurer with a revised quotation. The insurer can choose to accept the revision or adhere to their initial assessment.

Again, the repeated nature of interactions helps to re-align incentives between parties. In a single interaction, an insurer would fear that the repairer was over-diagnosing in a bid to secure additional revenue. This would lead the insurer to reject the repairer's claim. However, the insurer recommendation model helps to alleviate this problem. Guarantees and reputational concerns mean that insurers have an incentive to maintain quality. Further, they can assume that the repairer also cares about their reputation, and as such has less incentive to over-diagnose.

This will lead to co-operative outcomes that improve consumer welfare. Insurers have reason to re-assess the vehicle or trust their preferred repairers in the short term. If assessments continue to differ, the insurer will look to the quality of their own assessments. As noted above, they are incentivised to ensure that this is correct.

Consumers as the ultimate feedback loop

The current structure of the motor vehicle insurance industry in NSW means that consumer choice of insurer provides an important counterbalance. Assuming that a consumer has chosen to be insured, their selection of repairer will be based on price and reputation.

Reputation could be developed through word-of-mouth or personal experience. If consumers feel that insurer-authorised repairs are not of an appropriate standard, they will select a different insurer in future, with yearly insurance renewals making switching easy.

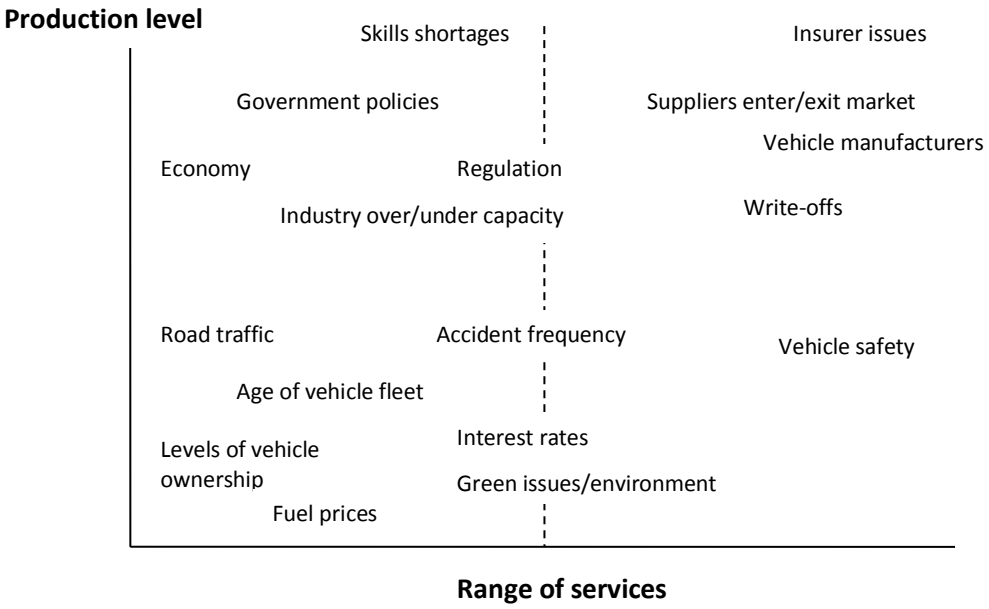
Quality of repair has emerged as a point of competition between insurers. This is demonstrated through some insurers voluntarily introducing guarantees on all repairs conducted by their PSRs. This shows how consumer preferences have shaped the development of insurance products under PSR models. Insurers face implicit and explicit costs if their suppliers (the repairers) do not perform. Competition between insurers for customers means that the incentives of all players are more closely aligned to the needs of customers.

4 Trends in smash repairs

This section looks at the factors impacting the supply of and demand for smash repairs and what they reveal about the likely future of smash repair and the impact on consumers. Briefly, they are automobile technology and safety, regulation and financial and economic considerations.

The factors relevant to present and future operations of the Australian smash repair industry are summarised Chart 4.1 (Automotive Business Research (ABR) 2011). Compiled from a survey of 36 smash repair businesses in Sydney, Brisbane and Melbourne, the key factors that affect repair businesses production (i.e. volume of repairs) and range of services are positioned according to their importance – the further away from an axis, the more important they are. Consequently, while skill shortages have a large impact on production levels, they have a moderate impact on the range of services provided. Overall, issues with insurers and vehicle manufacturers, and parts suppliers entering and exiting the market were judged the most significant issues by the smash repairers in the survey. These issues are explored in greater depth in the remainder of the report.

Chart 4.1: Significance of issues



Source: ABR, 2011

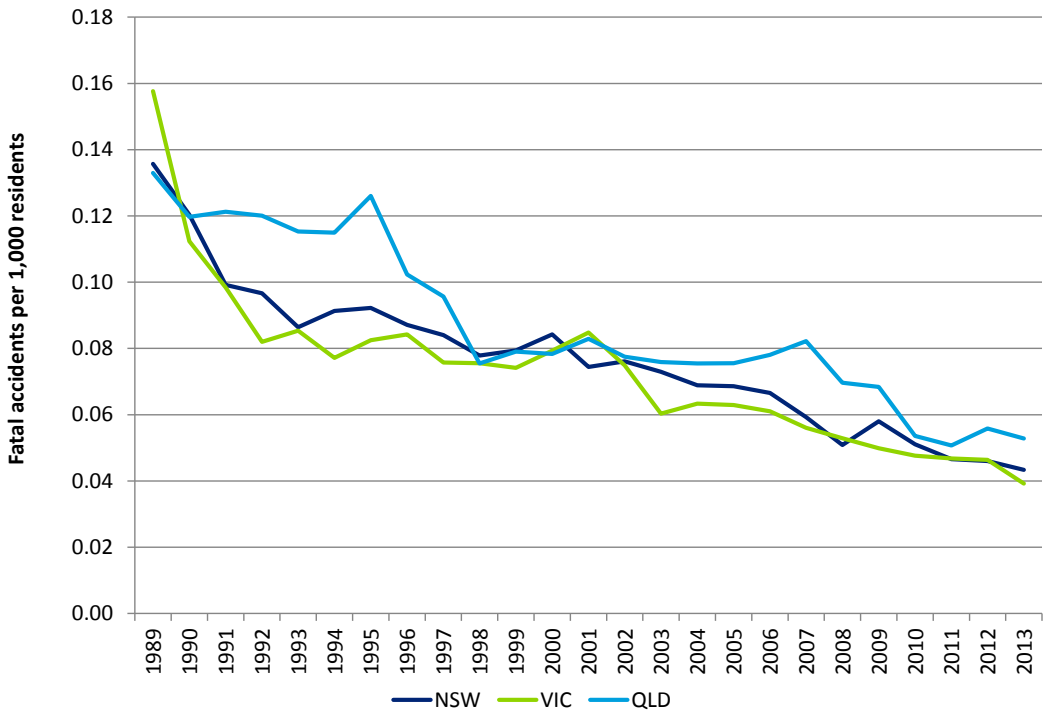
4.1 Demand and supply of smash repairs

4.1.1 Automobile technology and safety

Demand for smash repairs is directly related to the number of motor vehicle crashes on roads. Improvements in driver safety through policing, education and improvements of the safety of road have led to a decline in the number of crashes.

Bureau of Infrastructure, Transport and Regional Economics data shows that the rate of fatal accidents (as an indicator for the overall rate of accidents) has decreased by 50% or more in recent decades, as shown in Chart 4.2. Official estimates of the number of crashes of all types are not available, but incidents requiring repairs are believed to be on a similar path, although with a smaller decrease.

Chart 4.2: Fatal accidents rates, selected states



Source: BITRE, 2013

Over the last twenty years improvements in construction and materials used in cars have changed significantly. Critically, the safety rating of cars has been increased through the use of high-strength steel. Modern cars also sacrifice structure in a collision to protect occupants. The development of technology to prevent crashes including anti-locking braking systems, electronic stability control and automatic braking has also been introduced. Taken together, these technologies have reduced both the likelihood of collision and the severity of collisions that do occur, both of which have associated implications for the smash repair industry.

Technology has also mitigated the risk and effect of minor-impact collisions. Modern vehicles can include parking sensors which warn the driver when approaching an object, thus reducing the likelihood and severity of low-speed collisions which would have otherwise created demand for minor repairs.

Other factors that have driven down demand for smash repairs include the superior technology and declining cost of newer cars which have increased the propensity of individuals to simply write off cars following a major collision. Modular construction now also allows some parts to be replaced completely in lieu of repairs.

The development of hybrid and electric cars is unlikely to impact the smash repair market significantly. Their cost has so far prevented mass market sales, as evidence by lower than expected demand for hybrid vehicles (DAE, 2011). While electric cars are different from fuel based vehicles, electric car designs tend to protect the battery pack and electric motor from collisions and are therefore unlikely to be damaged in low-impact collisions. The electric components of such cars have therefore not increased to the cost of repair.

Since the GFC, consumer confidence has increased, resulting in more frequent car purchases – new car sales have reached new highs, peaking at 96,450 vehicles sold in Nov 2012 – which has in turn caused the average age of the Australian car fleet to decline over time. Newer cars require fewer repairs to maintain them and are safer to drive.

Going against the trend towards fewer smashes, in terms of demographics, individuals most likely to be involved in car accidents are aged 18-25 years, are less experienced, and often probationary, motorists. Over the past five years, there has been an increase in the population of these risky drivers, which should have contributed to an increase in the likelihood of motoring accidents.

4.1.2 Business models, repair types and techniques

The smash repair industry is moving away from general smash repair services provided by businesses that could undertake repairs on most vehicles towards an industry with large, specialised repairers. This is driven by the need for greater capital and skilled labour to repair vehicles as a direct result of the increasingly advanced technology – notably electronic systems - used in cars. This is likely to accelerate industry consolidation and drive differentiation between the remaining repair businesses.

As a result of these developments, the market is moving towards two types of businesses; the factory shop businesses which conduct a high volume of low value repairs, and the specialist shop businesses which focus on high value structural or marquee repairs. These business models are placing competitive pressure on general repair shops in major population centres to increase efficiency or specialisation.

4.1.2.1 Minor repairs

The distribution of car accidents itself affects the minor repair business. A majority of car accidents occur at low speed and are caused by misjudgement. For example, approximately 25% of all car accidents occur in car parks. The minor repairs resulting from such accidents do not require significant technology and represent the damage from over 80% of car accidents (DAE, 2011).

These repairs are ideally dealt with using HVLI facilities. These facilities focus on minimising cycle time and wastage and avoid capital and/or labour intensive repairs. Instead, they generate profit through a high volume, low margin strategy. These facilities are able to achieve economies of scale through the use of larger factory style workshops, located in metropolitan areas.

The number of HVLI shops is growing nationally. These shops are characterised by using innovative techniques to shorten repair times for minor collisions up to one half or one

third of the repair times with other business models. These shops focus on securing regular, high volume work from insurers (Capital SMART, 2011).

4.1.2.2 Major repairs

About 15% of accidents result in major structural damage, usually from high-speed collisions. A majority of the cars involved in such accidents are written off due to the high cost of repair, leaving only 2-5% of insurance claims to involve structural repairs, something usually reserved for premium vehicles (DAE, 2011). As a result of the use of high-strength steel, structural repairs now require capital-intensive equipment as regular welding weakens high-strength steel and compromises its properties.

To satisfy this demand, specialist shops have emerged with the necessary capital and labour to undertake such repairs. There is a shortage for high skilled tradesman who can perform these tasks, resulting in qualified staff being paid a premium.

On the other end of the labour market, repair shops which do not provide structural repair services hire lower skilled workers who are used to remove and replace parts quickly.

4.1.2.3 Premium marquees

When compared to regular vehicles, premium cars are unique in that the value of a repair, as a percentage of the cost of a car is lower. This induces insurers to prefer repairs of write-offs, for premium cars and thus drives demand for niche premium car repairers.

Repairing premium cars will be beyond the capacity of most repairs shop operators due to the accreditation regimes run by car manufacturers, the specialised equipment and training required and the need to use original parts. Repair shops that do have this capacity though are virtually guaranteed supply by manufacturers' seeking to honour their warranties.

4.1.2.4 Metro vs. Regional

Major population centres, by virtue of their size, allow for grater specialisation. In small regional towns, the volume of work is likely to be able to support one smash repair shop at best, catering to both minor and major repairs.

Regional centres face a combination of skill shortages and higher cost of parts (driven by distance from major centres and low work volumes) all of which threaten the viability of repair shops. It can now be cheaper to transport cars from regional areas to cities and back for repairs rather than having cars repaired locally. For example, this already occurs in Townsville where it is currently cheaper to transport cars to Brisbane for repairs than it is to have them repaired locally.

4.1.3 Regulation

The relationship between smash repairers and insurers is regulated at many levels. Separately from those regulations, smash repairers are also subject to a variety of other regulations.

In 2006, a voluntary national code was established as a result of the Productivity Commission Inquiry into Smash Repair and Insurance. The code was meant to provide a

governance structure to manage the relationship between smash repairers and insurers. In particular, it aimed to provide fair trading, transparency and efficiency while avoiding the need for a national licensing system for repairers. This code was made mandatory in NSW in 2007.

In addition, Federal Work Health Safety (WHS) regulation requires safe working conditions and equipment to minimise physical strain on workers. As smash repairers are usually small establishments, the fixed costs associated with the implementation of these regulations can be substantial and deter expansion or investment.

Consumer protection laws also regulate the relationships between smash repairers and insurers, particularly in terms of the quality of service and transparency in operations. This holds true even when consumers are third parties to the selection and repair process.

Local councils regulate waste disposal and can thus increase the cost of smash repairs for repairers with significant waste. Town planning regulations, and relatedly, land prices, also affect the location of repairers within residential and industrial areas and restrict the size of such operations.

The demand for smash repairs is also affected, and potentially reduced, by the introduction and enforcement of road traffic laws including drink driving laws and speed limits which reduce the number and seriousness of accidents.

Environmental regulations also affect the operation of the industry by regulating water, air and noise pollution. These in turn affect the hours of operation of and processes used by smash repair businesses. For example, the use of water based paints can require a change in infrastructure and application techniques.

Europe has introduced requirements that manufacturers build cars that can largely be recycled. While this has yet to be introduced in Australia, regulations that increase the scrap value of cars make them more disposable and thus reduce the volume of repairs.

4.1.4 Competition

Smash repairers compete on the basis of price and quality. However, the overall competitiveness of the industry is driven by a variety of factors. The framework used to analyse competition in this report is based on the ACCC's *Merger Guidelines*. The relevant areas which the ACCC considers are:

- Market concentration (as an initial indicator);
- Barriers to entry and ease of exit;
- Availability of substitutes;
- Dynamic characteristics of the market; and
- Vertical integration.

4.1.4.1 Price competition

A significant barrier to price competition has been the phenomenon of 'funny time funny money' (FTFM). FTFM relies on insurers paying fixed hourly rates for particular repairs which are significantly below the actual cost incurred. Repairers, in response, simply inflate

the number of hours charged for the repairs. Some hourly rates are also calculated to include the cost of materials while others are not.

This system is highly problematic as it fails to reflect the costs to repairs, distorts the relative prices of various stages of the repair process, induces repairers to use lower quality materials, reduces the ability of insurers to negotiate for lower prices and is very misleading, particularly to third parties (Productivity Commission, 2005).

This system has begun to change. The Motor Vehicle Insurance and Repair Industry Code of Conduct states that "the parties acknowledge ongoing changes in the Industry in relation to the development of realistic times and rates". The MTA notes that "real time, real rates" charging is now accepted by most major insurers:

> *"The information that MTA has received from the major insurance companies to date is that NRMA Insurance will only accept RTRM quotes from 1st June 2009. AAMI are currently accepting RTRM quotes. Suncorp GIO will commence RTRM from 1st January 2010. Allianz, Lumley, QBE and Zurich are looking at moving to using a realistic times and rates methodology and are accepting quotes written in this format."*
>
> - *MTA NSW, n.d.*

The emergence of HVLI repairers on the other hand has introduced a greater degree of price competition in the repairer market. HVLIs represent businesses that have made significant capital investments to expand capacity and lower variable costs. As a result of the efficiencies associated with HVLI, smaller cottage repairers are being driven out of the market through price competition.

When compared on price, tendered repairs appear to have a lower average cost when compared to non-tendered repairs. This reduction in cost however, is not simply driven by competition. There is some indication that smash repairers are subsidising tendered repairs by charging higher prices on jobs that are not tendered (DAE, 2011). This suggests that while increased competition may exert downward pressure on prices, the current prices charged for tendered jobs is likely to be lower than the equilibrium price for smash repairs.

4.1.4.2 Concentration

Despite the strong trend towards consolidation, concentration in the industry remains low. However, the industry has been undergoing gradual consolidation over the last decade with the number of establishments shrinking at a rate of 0.64% per annum and the number of enterprises shrinking at a rate of 1.57% per annum (IBISWorld, 2013). The faster rate of reduction of enterprises suggests that it enterprises with a fewer establishments than the industry average are more likely to be exiting the market. This comports with the overall trend of industry consolidation both in the scale of establishments and in the number of enterprises.

4.1.4.3 Barriers to entry

There do not appear to be significant barriers to entry into the smash repair industry. There are however, significant capital costs in terms of repair equipment as well as necessary investments in training and skills. As the make and models of cars are constantly changing, it is also necessary for businesses to make ongoing expenditures to remain competitive.

Figure 4.1: New smash repair models

New smash repair models are emerging in the NSW market and Australia more broadly. One example is the Gemini group. Founded in the UK, they opened their first shop in Australia in 2009. Since then, they have grown to include over 40 repair shops across five states and territories.

The Gemini group focuses on HVLI-type repair operations. Its website explains its mission "…dedicated to achieving new standards of excellence in all that we do. Using the latest technologies, environmentally friendly products, and new advances in repair equipment we aim to create a fresh and modern approach to accident repair."

The group's success illustrates that barriers to entry in the market are fairly low. New players with appropriate experience and effective business models are able to enter into the market. Further, their rapid expansion shows that effective competitors can succeed in the market.

Source: Gemini (n.d.)

4.1.4.4 Substitutes

The price of smash repairs is ultimately capped by the cost of purchasing a new car less the cost of scrapping a damaged vehicle. As insurers and individuals can simply write off a vehicle as a substitute for repairs, factors that either increase the scrap value of cars (such as increases in the price of metals) or decrease the cost a new vehicle will reduce demand for smash repairs.

4.1.4.5 Dynamic characteristics

As mentioned above, the long run trends affecting competition among smash repairers are the declining rate of accidents, the decreasing cost of parts, the increasing economies of scale associated with HVLIs and the increasing geographic reach of individual repair businesses.

4.1.4.6 Vertical integration

Vertical integration between smash repairers and insurers will be dealt with in section 5.6.

Smash repairers have the capacity to vertically integrate with other related businesses that can potentially refer work to a smash repairer. This includes vertical integration with tow truck operators, local mechanics, car manufacturers or even car dealerships. While vertical integration can be beneficial, smash repairers rely on insurers for up to 80% of their work, and hence are most fundamentally concerned with relationships such as PSR arrangements.

Vertical integration between smash repairers and other downstream service providers including tow truck operators have been marked by a lack of transparency in the past. Consumers were often unaware of the presence and nature of financial relationships between parties providing recommendations and smash repairers, thus blunting incentives for price competition.

4.2 The state of play in smash repairs

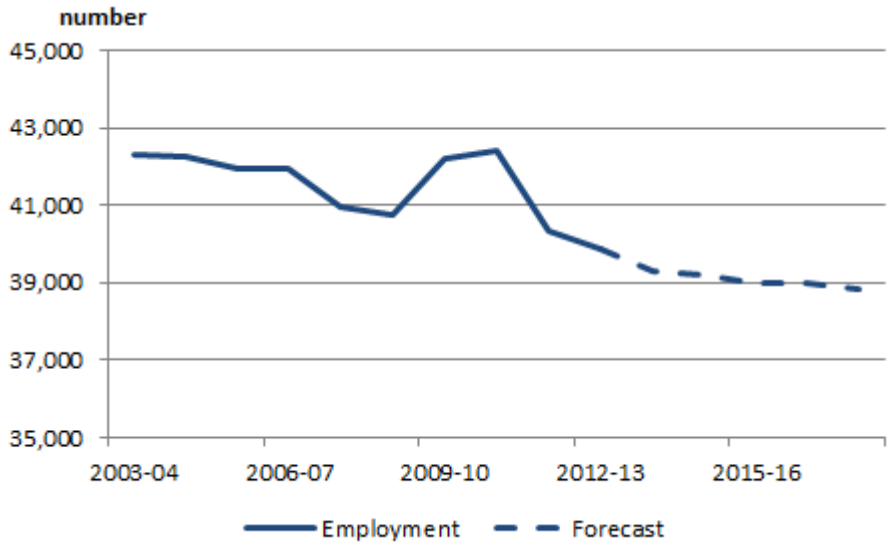
This section draws from the most recent IBISWorld report on the industry, defined as "motor vehicle body, paint and interior repair" (IBISWorld, 2013).

4.2.1 Enterprises and employment

In the financial year ending 2013, there were 10,799 smash repair enterprises in Australia (IBISWorld, 2013). These enterprises were spread out over 13,312 establishments across the country. For the 10 years to 2012-13, there has been a decline in establishments at a rate of 0.6% per annum. This has been driven by several factors including industry rationalisation, overcapacity and decreased demand due to a reduced number of accidents.

As a consequence of rationalisation and overcapacity, there has also been a downward trend in employment in the industry. This is represented in Figure 4.2. In 2012-13, the smash repair industry employed almost 40,000 individuals, down from 42,500 a decade ago. However, this is forecast to decline to 38,850 over the five years to 2017-18. (IBISWorld, 2013).

Figure 4.2: Employment in the smash repair industry



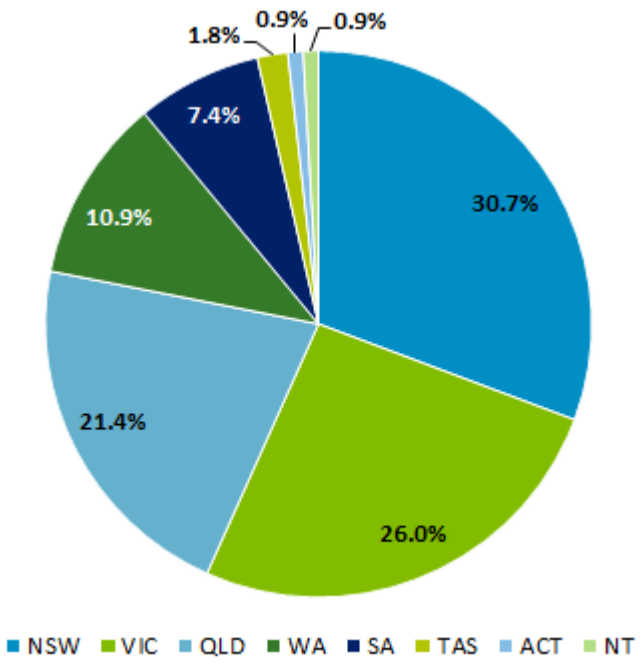
Source: IBISWorld, 2013

4.2.2 Geographic distribution

Smash repair establishments are distributed between the states roughly in proportion to their populations. Smash repair is a location-based service that largely is dependent on local demand, although cars sometimes may be transported over long distances to be repaired, e.g. from Perth to Adelaide and from Townsville to Brisbane. As demand scales with population, smash repair establishments tend to follow the distribution of the population.

The geographic distribution of smash repair establishments is shown in Figure 4.3 below. A majority of smash repair establishments are located in NSW and Victoria. Queensland and South Australia have more smash repair establishments per capita than other states. On the other hand, Victoria and Western Australia have fewer smash repair establishments per capita than other states. These differences are consistent with industry consolidation progressing further in some states, but also likely to be influenced by factors such as the location of major population centres.

Figure 4.3: Distribution of smash repair establishment locations



Source: IBISWorld, 2013

4.2.3 Financial performance

The industry recorded revenues of approximately $7.1 billion in 2012-13 (IBISWorld, 2013). The average revenue per enterprise is currently $658,000, following a steady increase over the last decade. This reflects the industry trend of consolidation, resulting in a smaller set of larger, more efficient establishments. The historical trend for revenue, wage and employment data for the smash repair industry are in Table 4.1.

Industry revenue is expected to decline by 0.3% per annum over the five years from 2012-13 reaching $6.93 billion in 2017-18 (IBISWorld, 2013).

Profitability within the industry has improved recently, operating profit margins rose from 8.7% in 2007-08 to 9.0% in 2012-13. This increase can be attributed to a number of factors, including:

- improved relationships with insurers, following the introduction of the Industry Code of Conduct;
- market consolidation, as a result of oversupply and the exit of less efficient enterprises; and

- greater economies of scale.

The number of employees per establishment is approximately three. In total, the wages paid by the industry are around $1.8 billion yearly. This translates into a mean annual wage of approximately $46,000 in 2012-13 (IBISWorld, 2013), in comparison to $57,460 for Australia overall (ABS, 2013).

Table 4.1: Revenue and wages

Year	Revenue ($m)	Revenue per enterprise ($m)	Wages ($m)	Employees/ establishment
2007-08	7,322	0.62	1,811	2.9
2008-09	7,227	0.62	1,841	2.9
2009-10	7,506	0.64	1,936	3.0
2010-11	7,516	0.64	1,954	3.0
2011-12	7,373	0.67	1,932	3.0
2012-13	7,105	0.66	1,847	3.0
2013-14*	6,995	0.66	1,826	3.0
2014-15*	6,878	0.65	1,802	3.0
2015-16*	6,809	0.66	1,770	3.0
2016-17*	6918	0.68	1785	3.0

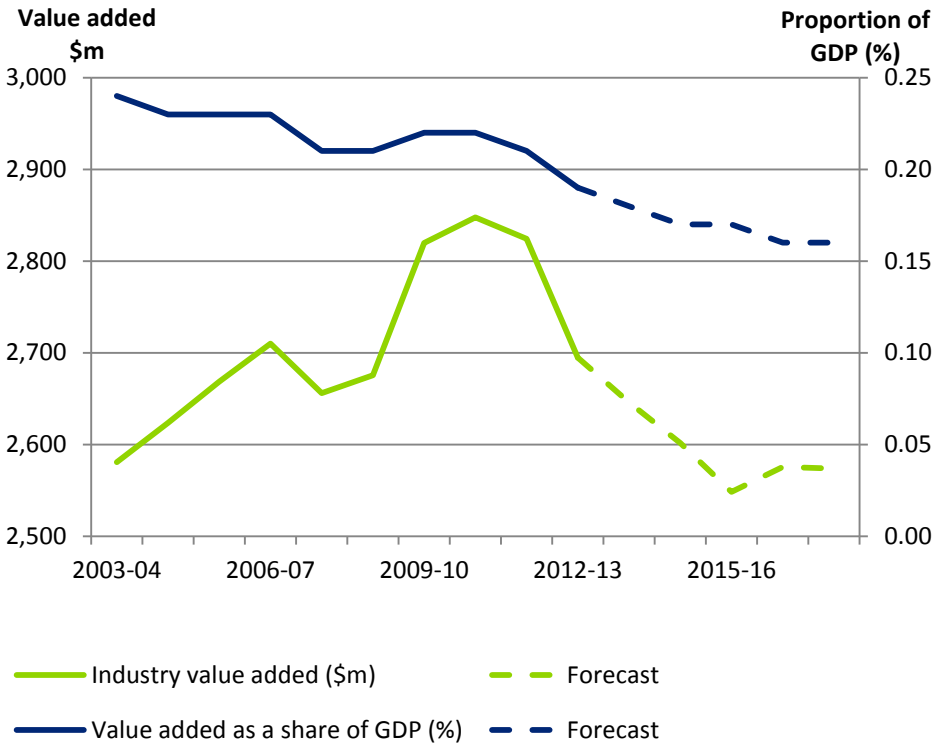
Source: IBISWorld, 2013, *forecasts

The smash repairs industry is traditionally labour intensive. In 2012-13, the industry spent over $11 on labour for every dollar spent on purchasing new capital (IBISWorld, 2013). This reflects the fact that tasks are often not standardized, with differences according to the nature of the damage and the car marque and model.

Employment figures and establishment numbers have been declining consistently over the past decade. Consequentially, the level of capital intensity in the industry is rising. This is also due to improvements in repair technology, and the increasing complexity of vehicles requiring repairs.

Over the last decade, the industry value added or gross product of industry (measured as the sum of wages, depreciation and profit) for smash repairs has been growing. This growth however, has been slower than the economy as a whole, resulting in the value added as a share of GDP declining over that time period. Industry value added peaked at $2.8 billion in 2010-11, and has since been declining and this downwards trend is expected to continue (IBISWorld, see Figure 4.4).

Figure 4.4: Industry value added



Source: IBISWorld, 2013

As concentration progresses, the remaining enterprises are likely to be more profitable and productive. The ratio of capital to labour inputs in the industry is thus expected to rise over time.

4.3 International comparisons

4.3.1 UK

The UK smash repair market has had mixed fortunes recent years due to a number of factors, many of which are associated with the downturn in the economy related to the global financial crisis.

The accident repair market, which involves body repairs, has experienced a decline in demand due to reductions in motor vehicle use and hence a decline in the number of accidents.

4.3.1.1 The accident repair market

It is estimated that 4.55 million car body repairs were carried out in the UK in 2012, down 22% from a peak of 5.81 million in 2006 (Automotive Management Online (AMO) 2012). In addition to the decline in the number of repairs, the price of an average repair has also fallen to £1,297, resulting in a drop in market value in real terms of 29% (Business Wire 2013).

The capital-intensive market has struggled during the double-dip recession, facing declines in consumer expenditure and insurer-paid repair demand. Insurance companies continue to account for the majority of work in this market, and demand has fallen in line with reduced average consumer mileages, with high fuel prices reducing vehicle use. Where possible, consumers are choosing to not have cars repaired, or seek cheaper alternative repairs.

Generally, the number of claims is directly correlated with the average annual mileage of cars. The claims rate (percentage of insured cars making a claim) has fallen from 19.4% in 2000 to 13.9% in 2011 as the average annual mileage has declined by 6% over the last five years to 8,240 miles (Trend Tracker 2012).

4.3.1.2 HVLI/SMART repairs

The recession has also reduced demand for small or minor repairs, with indications that consumers are avoiding or delaying non-essential work. After previous strong growth, or small to medium area repair techniques (SMART) repairers, i.e. HVLI repairs, have experienced a recent decline. From a peak of 1.49 million repairs in 2007, demand dropped to an estimated 1.16 million repairs in 2012 (Automotive Management Online 2012).

The recession has also resulted in a decline of work from other sources, such as general retail work on car bodies as well as trade work (refurbishment of used cars).

The Office of Fair Trading (OFT) completed a study of the private motor insurance and related goods or services market in September 2012. It found the accident repair market to be diverse and fragmented, with little market power compared to insurers who generally provide the work (OFT 2012).

As a result of declining demand, the market has experienced ongoing industry consolidation, with a 35% fall in the number of primary body shops between 2002 and 2011 (Business Wire 2013).

The number of smash repair businesses in Britain is similar to Australia despite Britain having three times the population and three times the number of cars (SMH 2012).This suggests that the UK experience may be seen in by the Australian smash repair industry in coming years and as consolidation progresses.

4.3.2 USA

The automotive repair and maintenance industry in the US is slated to grow modestly at a rate of 1.5% per annum. This growth is being driven by electronic automotive repair and maintenance, as a result of the increasingly sophisticated technology and electronics being used within the industry. The recession has also had the effect of increasing the number of older vehicles on the road, thus expanding demand for repair services.

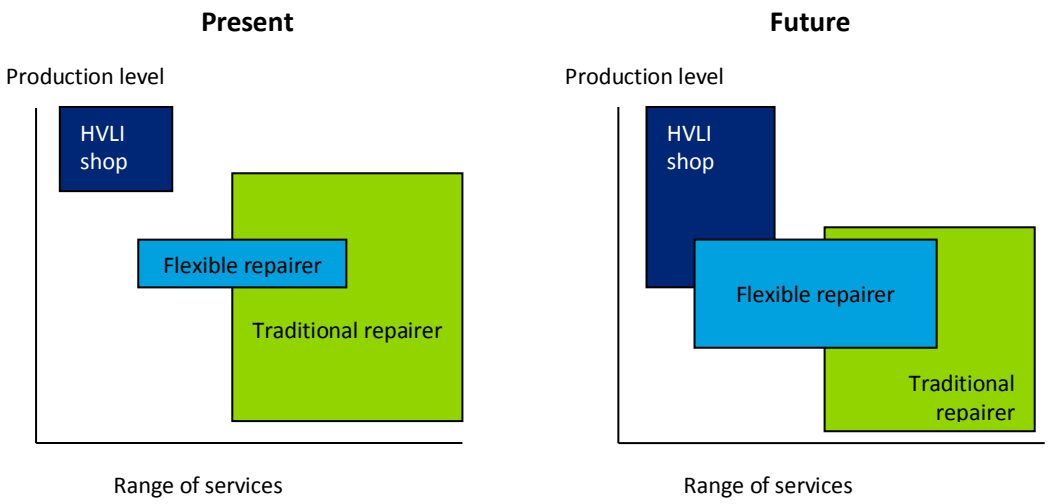
4.4 The repairer of the future

The analysis above suggests that the repairer of the future will have a different form to the historical smash repairer. The continuing process of consolidation will see repairers operating in a smaller industry. Average revenues of each establishment will increase as less efficient players continue to leave the market.

The nature and scale of repairers will continue to evolve. The "typical" repairer of the future is more likely to be a HVLI enterprise, as shown in Chart 4.3. It will service a greater number of vehicles using new technologies. Its business model will be more capital intensive. Its primary customer base will be insurers, and it will be in one or more PSR networks. It will have more employees, reflective of greater scale. These employees will also have new skill sets to better enable them to effectively and efficiently utilise the technology available.

As automobile safety and sophistication continue to improve, there will be a continued role for traditional repair shops that cover a broader range of services. However, they will have diminished production, as technology allows more efficient HVLIs to automate and streamline more of these processes. They will instead become more specialised and focus on complex repairs, as with flexible repairers. Skill sets within these repairers will also change to include more electronics expertise.

Chart 4.3: Evolution of the smash repair sector



Source: ABR, 2011

4.4.1 Implications for consumers

The workshop of the future will continue to deliver value for consumers. An increased prevalence of HVLI shops will improve turn-around times, as new technologies allow for faster repairs. Competition between repairers will remain strong. The increased efficiency of these shops will be passed on to consumers in the form of lower prices. For insured consumers this will translate to slow premium growth.

Standardization and consolidation will also improve industry transparency. For instance, the use of new technologies will allow for more accurate assessments, helping to decrease the likelihood of conflicting diagnoses and reduce variation in quotes. The use of standardized equipment though HVLI repairers will also mean more consistency in repair techniques, again increasing transparency.

Industry consolidation necessarily implies that consumers will have less smash repairers to choose between. Regardless, a wide range of repairers will persist in the market. Less

efficient repairers will dominate exits from the industry. As such the consolidation process may make consumer choice easier, since those who generate more value to consumers are more likely to remain. However, in practice, continued PSR arrangements mean that this is not likely to be a consideration for most consumers, who prefer their insurers to manage repairs on their behalf.

5 Motor vehicle insurance market

The Australian motor vehicle insurance industry for general repairs can be characterised as competitive. It is concentrated but generally contested on a national scale, with most insurers offering products across all states and territories. It supports a variety of players with differing business models and target markets. Recent years have seen a range of new entrants, as technology lowers barriers to entry. Some insurers have developed more vertically integrated structures.

This chapter describes, at a high level, the level of competition in the industry. This is not intended to constitute a robust analysis. Rather, it looks to canvass the issues which should be considered in an analysis of competition to inform further examination and debate.

There are many methods of analysing competition in a market, and indicators which can be considered. This report uses the ACCC's *Merger Guidelines* as a basis. The relevant areas which the ACCC considers are:

- Market concentration (as an initial indicator);
- Barriers to entry and ease of exit;
- Availability of substitutes;
- Dynamic characteristics of the market; and
- Vertical integration.

These issues are considered below.

Insurers may compete on the basis of price, product or both. In motor vehicle insurance markets, consumers tend to choose their products on the basis of price and price-related features such as excesses. Some consumers may also look at other product features, such as choice of repairer and guarantees.

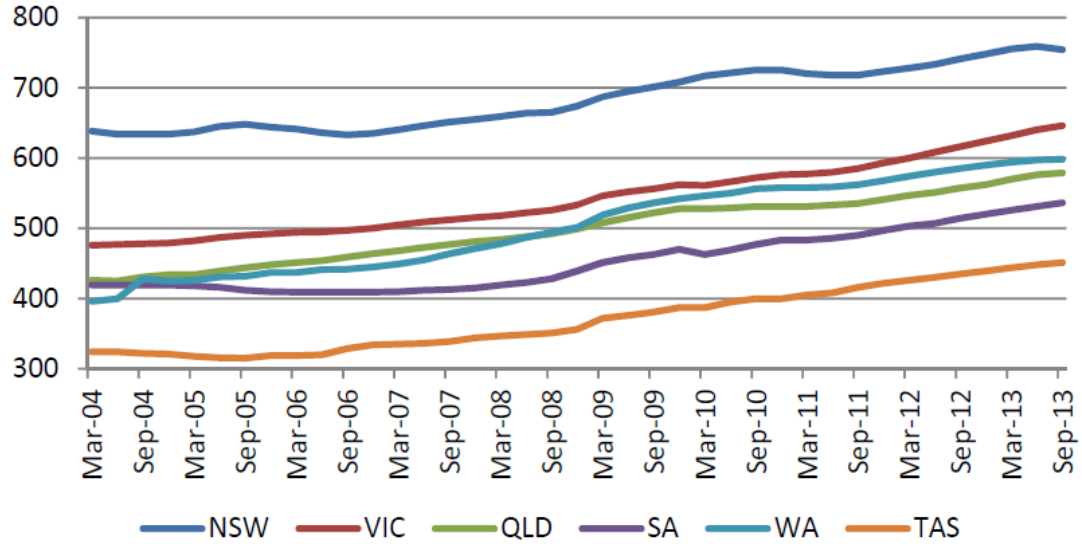
5.1 Price competition

Price is a focal point for analysis of the degree of competitiveness within the motor vehicle insurance market. In a more competitive market, prices charged to customers will be closer to the costs incurred by firms.

5.1.1 Premiums and affordability

Motor vehicle insurance prices have risen by less than prices overall within the economy; in NSW the rate of growth has been slower than other states, at an average annual rate of 1.7% and below inflation, which has averaged 2.8% over the past decade (Chart 5.1). This suggests that competition between insurers, combined with cost savings from new business models, is placing downwards pressure on premiums in the state. This is prima facie evidence that there is continued price competition within the market.

Chart 5.1: Average comprehensive motor vehicle premiums, 2004-2013

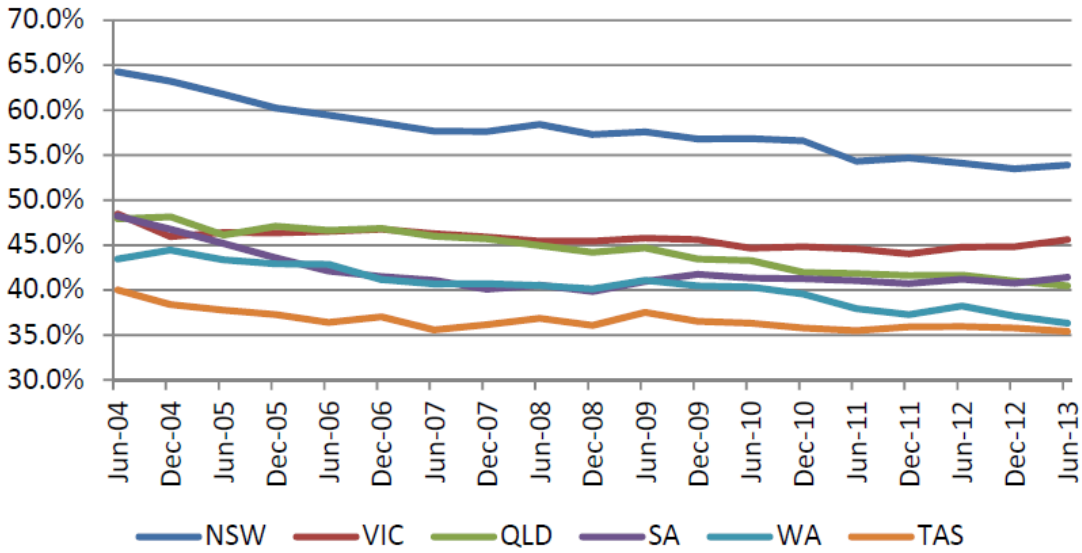


Source: ISA, 2013, via ICA

While indicative, the trends should be considered in context. Products may not be directly comparable, as they offer different features and inclusions. Further, premiums may be driven partially by external factors, such as the frequency of accidents, the age of the fleet, natural disasters and the cost of repairs.

Nonetheless, low growth in premiums relative to other prices and wages – average weekly ordinary time earnings (AWOTE) – in the economy has led to premiums becoming increasingly affordable in NSW (Chart 5.2). Since 2004, affordability has improved significantly. As suggested above, this is a result of competition and cost savings in the industry.

Chart 5.2: Premium affordability (average premium/AWOTE), 2004-2013



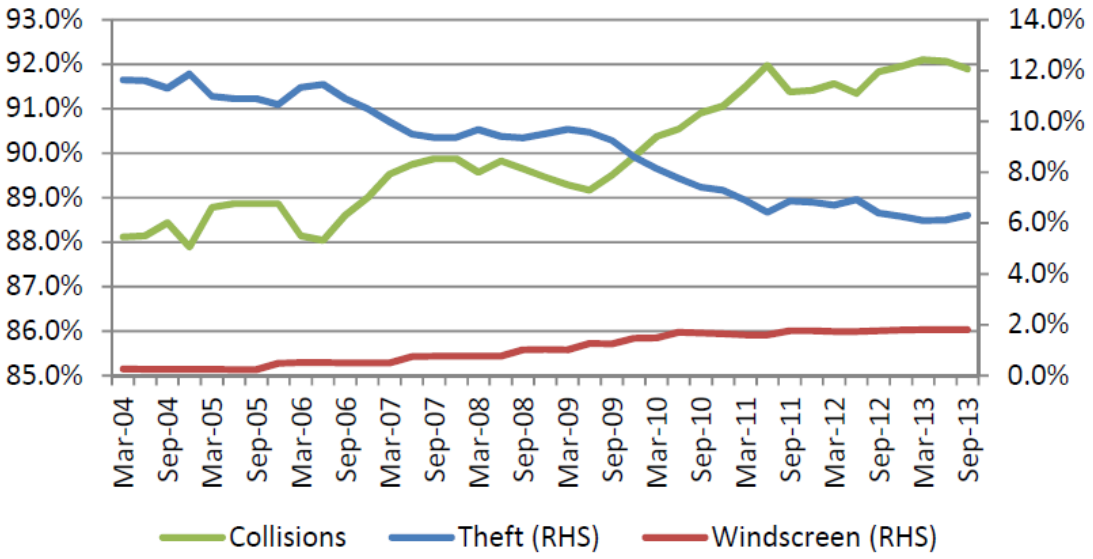
Source: ISA, 2013, via ICA

5.1.2 Costs

Insurance pay-outs can take a number of forms. Not all claims involve smash repairers. For example, under comprehensive car insurance policies, insurers also cover theft. As such, in analysing trends in the costs incurred by insurers, it is important to isolate those relating specifically to repairs.

Collisions represent the greatest proportion of direct claims costs per policy; over 90% of the total cost, compared to theft (approximately 6%) and windscreen damage (2%) (Chart 5.4).

Chart 5.3: Components of cost per policy, NSW, 2004-2013

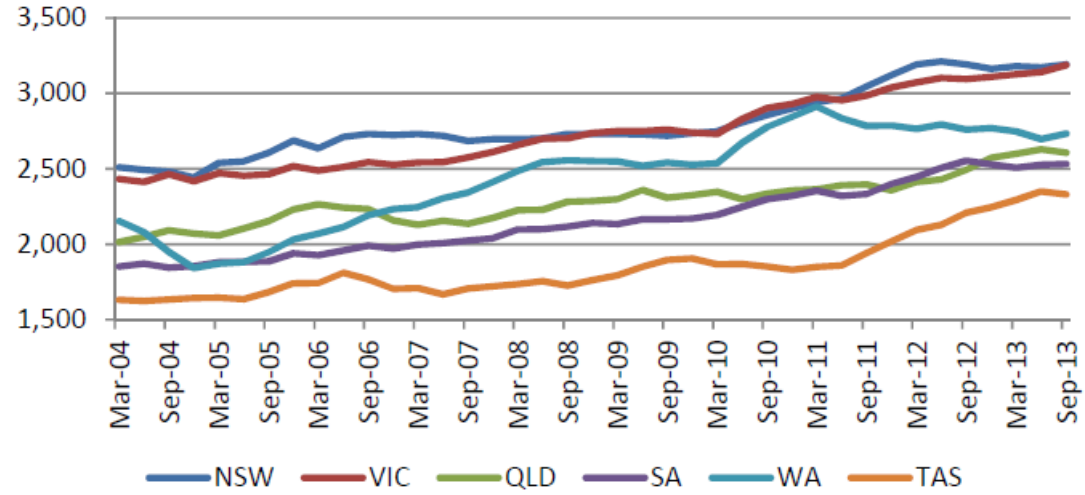


Source: ISA, 2013, via ICA

New South Wales has the highest average claim size ($3,190) (Chart 5.4) and equal highest frequency of claims (12.79% of costs per policy) for collisions and other sources of damage (Chart 5.5) as at September 2013.

The average claim size has been increasing steadily. This can be expected, as the cost of repairs increases over time as a result of inflation and the increasing complexity of repairs. At an average of 2.5% per annum, this growth is in line with inflation.

Chart 5.4: Average claim size, collisions (12 month average), 2004-2013

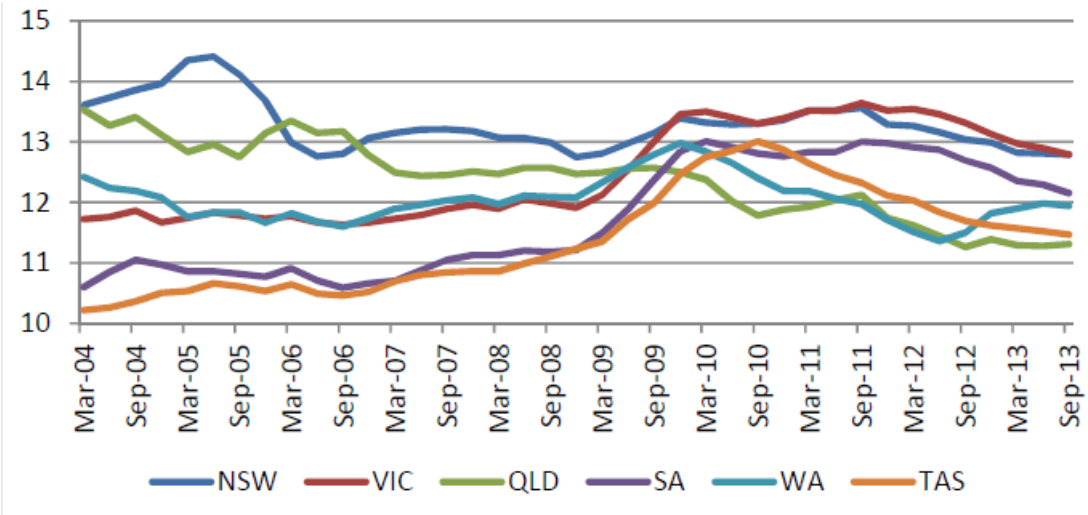


Source: ISA, 2013, via ICA

The frequency of claims in NSW has declined over the last decade. This can be attributed to a number of factors, as discussed in Chapter 3, including:

- improved automobile technology and safety measures;
- a trend towards a lower average fleet age; and
- a declining number of accidents.

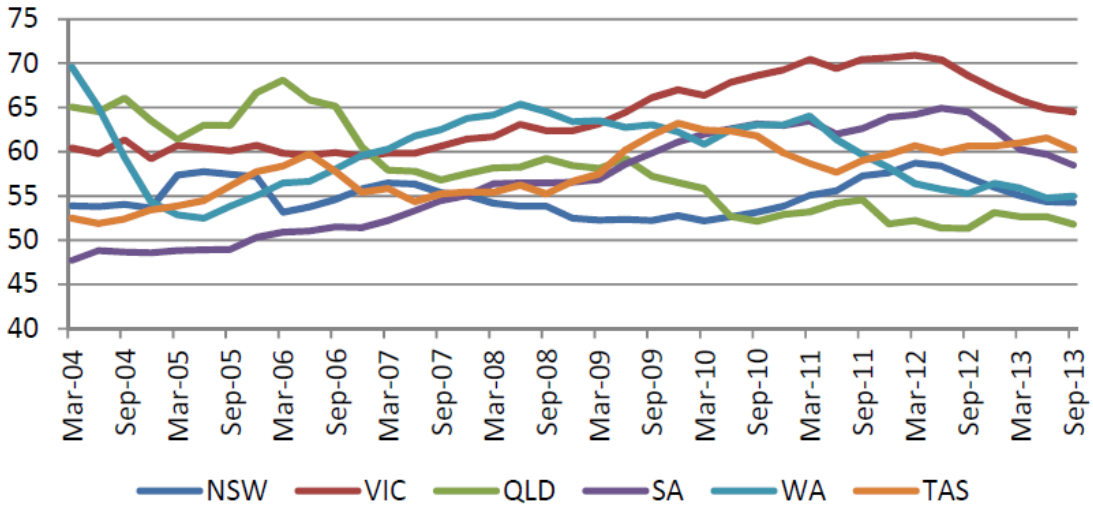
Chart 5.5 Claim frequency, collisions (12 month average), 2004-2013



Source: ISA, 2013, via ICA

A loss ratio is the ratio of total losses (including reserved losses) in claims and adjustment expenses to the total premiums earned. This is implicitly a measure of profitability and hence describes the actualised cost of providing insurance in comparison to prices charged. NSW insurers have some of the lowest loss ratios for collisions in Australia, fluctuating around 55% (Chart 5.6).

Chart 5.6: Loss ratio, collisions (12 month average), 2004-2013



Source: ISA, 2013, via ICA

It is important to note that competition within a market is not limited to price. The factors which affect the dynamics and evolution of competition over time are key determinants of how benefits to consumers are developed. Relevant factors are considered below.

5.2 Market concentration

A starting point in analysing competition in any industry is looking at concentration ratios. This is a useful indictor of the level of market power which can be exerted in the industry. A more concentrated market is likely to be less competitive, all other factors being held equal.

At present, the market for motor vehicle insurance is very concentrated. The four largest companies and their market shares by revenue are IAG (32.6%), Suncorp (29.6%), Allianz (5.6%) and QBE (5.2%) (IBISWorld, 2013a). The market looks very concentrated with the four largest players accounting for 73% of revenue and the two largest players accounting for 62.2% of market share.

Despite the market concentration, the industry displays a continued appetite for consolidation. In the last five years, IAG has received multiple takeover bids from other insurers.

On the other hand, the concentration in the industry has encouraged non-insurance companies to enter the market. For example, Woolworths and Coles have both entered in the motor vehicle insurance industry as well. Companies with pre-existing brands and customers relationships are ideally suited to enter the industry and tailor offerings towards their customers.

The emergence of online motor vehicle insurance comparison websites has also increased competition in the industry as it allows consumers to compare prices more easily. This is particularly advantageous to new entrants as it provides a sales platform that allows them to compete with existing players on a more even footing.

This level of concentration suggests that further analysis of competition within the market is warranted. Equally, despite the high levels of market concentration over the period motor vehicle insurance prices have not increased in real terms.

5.3 Barriers to entry

The height of barriers to entry in a market can influence how attractive it is to new entrants. The more costly entry is, the less likely it is that new players will enter the market. Higher barriers thus suggest that a market will tend to be less competitive, because incumbents are less threatened by potential new competitors.

Relative to other industries, insurance has higher barriers to entry. This can be attributed to three main causes:

- **scale**. The provision of motor vehicle insurance requires access to substantial reinsurance and capital reserves, as insurers may be required to pay out large sums of money on short notice. As such, having scale – or access to the scale of others – can be an obstacle to starting a motor vehicle insurance business. This can discourage players from joining the market.
- **reputation**. As with other finance and insurance industry products, motor vehicle insurance relies on consumers having confidence in an insurer meeting their claims. New entrants may find it difficult to compete with incumbents initially because they have not established a reputation and trust in the market.
- **regulatory barriers**. The insurance industry is subject to relatively higher levels of regulation, as are other financial sector entities. Prudential regulations are in place to ensure the continued solvency of insurers. There are regulatory controls over who can enter the market – for example, insurers must obtain a license. This process can be costly and deter new entrants. The cost of ongoing regulations, such as reporting requirements and meeting other prudential standards, can also impact on incentives to enter the market.

Despite the issues listed above, within the industry, barriers to entry have declined over time. This can be attributed in part to technological advances. These have made it easier for new entrants to access broader markets. Traditionally, selling insurance relied upon broad physical distribution networks with high overhead and set-up costs. Digital technologies mean that this is no longer necessary. Many insurers instead operate low-cost, online distribution networks. Reducing these costs means that it is easier for new entrants to enter and compete in the market.

Entry has also been aided by the emergence of aggregators, such as InfoChoice and CompareTheMarket.com.au. Aggregators allow consumers to directly compare products on offer from a range of different insurers. They may also offer services which help customers to decide which insurance is most appropriate for their needs. It is important that aggregators are transparent; that they reveal to potential customers details of any commissions or advertising fees they receive from insurers.

The fact that barriers are declining is supported by the number of new entrants to the market in recent years. Many of these are not traditional insurers, and have chosen to enter through motor vehicle insurance, e.g. supermarkets in the UK and Australia sell insurance products. Others are entirely new businesses, e.g. Youi and Progressive. These

lower barriers are indicative of effective competition in the motor vehicle insurance market.

5.4 Availability of substitutes

There are few products which can meet the same needs as motor vehicle insurance, but many motor vehicle insurance policies to choose from. Generally the alternative is self-insurance. However, in recent years, this has begun to change. Some car manufacturers are now offering extended warranties on their vehicles. These products are similar to insurance in covering repairs, but they do not cover the damage from accidents. As discussed in Chapter 3, warranties may be voided if an owner has the car has non-OEM parts fitted after manufacture. Further, warranties generally only apply to newly purchased cars. Thus, they cannot be considered a direct substitute for motor vehicle insurance.

Within the industry specifically, there is a high degree of substitutability between motor vehicle insurers and their offerings. Policy features and inclusions vary between providers and across price ranges. Importantly, consumers are able to compare varying offerings by virtue of the transparency from mandated disclosures. The requirements associated with Product Disclosure Statements (PDSs) are such that consumers are capable of making formed decisions with regards to different policies that function as substitutes. Overall, however, policies within the same category (i.e. comprehensive or third party insurance) tend to serve the same consumer needs.

The availability of substitutes is determined not only by the number of policies available, but the cost to a consumer of switching. If switching is very costly, then in practice substitutes may not be accessible for customers.

In motor vehicle insurance, switching costs are low:

- contracts are annual, with no cancellation fees;
- the entry of aggregators has helped to reduce search costs for consumers; and
- many policies offer portable loyalty or no-claim bonuses

As such, it can be concluded that there are a large number of substitutes in the market which are readily available to customers. This drives competition between suppliers, who risk losing market share if their competitors offer a better cover, service or price.

5.5 Dynamic characteristics

As noted in above, the smash repair and motor vehicle insurance industries are changing in reaction to external factors.

The increasing involvement of car manufacturers in the repair industry through the use of warranties has placed competitive pressure on insurers. Given that the average age of the Australian fleet is declining, a larger proportion of insured motor vehicles are covered by manufacturer warranties. Where a car is damaged, a warranty may be voided unless the vehicle is repaired using OEM parts. However, the manufacturer's preferred repairer shops may not have PSR arrangements with the customer's insurer. Customers may be

dissatisfied or choose to change insurers where this conflict arises. As such, insurers now have to consider manufacturer preferences, as well as their own, when choosing PSRs.

Advances in data analysis capabilities are also continuing to affect the market. Big data can help insurers to quantify the risks associated with any potential policy. Better understanding of underlying risks can lead to more effective pricing. The gains from this could be passed on to consumers in the form of premiums which more accurately reflect their risk profile.

As with smash repairers, other factors which influence the likelihood of damage to a vehicle – and the cost of repairing it – will also impact on insurers over time. If accidents continue to decline, costs to insurers will decrease – and demand for insurance may also be affected. Conversely, if repairs become more costly, insurers will have to increase payouts. The issues which influence these areas are detailed in Chapter 3.

5.6 Vertical integration

Where firms in an industry operate at more than one level – for instance, both as wholesalers and retailers – then they are said to be vertically integrated. In this sense, vertical integration is the process of an organisation becoming involved in a greater share of activities along the value chain. In the context of smash repairers and insurance, vertical integration would mean that insurers themselves are providing car repair services.

There are a number of reasons why an insurer would choose to vertically integrate. Primarily, vertical integration is undertaken for greater management control over aspects of the business. Practically, this gives an insurer more control over inputs in their supply chain, and allows them greater control over costs, quality and delivery of services. An example of vertical integration in the Australian market is the growth in the number of HVLI facilities owned by insurers, or with contracts with insurers, that offer to “fast track” repairs, e.g. Suncorp and Capital SMART Repairs.

The extent to which vertically integrated relationships emerge will depend on the business models for both parties. As evidenced in recent trends in Australia, some insurers may find that the benefits from vertically integrated relationships in terms of control over service delivery do not outweigh the costs associated with reduced flexibility in their choice of repairer. It may not be core to their business model.

Indeed, as outlined throughout this report, the different business models are sitting comfortably alongside each other with active competition in both the repair and insurer markets.

5.7 Implications for consumers

Consumers have benefited from the current motor vehicle insurance industry structure. The fact that the choice of repairer for consumers is mediated by insurance companies means that insurers implicitly accredit repairers, thus guaranteeing a minimum standard of service. This partially solves the information problem associated with selecting a repairer and has translated into lower prices and less uncertainty for consumers.

A consequence of this mediation however, is a reduction in choice of repairer when compared to consumers selecting insurers themselves. However, there is still substantial choice available as it has been the business practice of major insurers to offer products with repairer choice embedded within them.

Furthermore, while choice is restricted after entering an insurance contract, the transparency in terms of the contract through mandatory disclosures like PDSs means that consumers can select insurance products that offer a preferred choice set for their circumstances.

6 Legislation of insurer/repairer relationships

The complex relationships between stakeholders in the smash repair industry, and their sometimes conflicting incentives, gives rise to issues that are brought to the attention of legislators. This section explores the impact of legislation of smash repairs aimed to establish accountability for insurers and repairers and to encourage greater competition in the market, more products and better services.

6.1 The legislation

Some international jurisdictions, primarily in the United States, have enacted legislation that is claimed to enhance consumer protection, through levelling the playing field between the insurance industry and small, locally owned shops. Legislation has been enacted, or introduced, in around a dozen states including California, Connecticut, Massachusetts, Missouri and Washington seeking to prohibit insurance companies from making recommendations to their policy holders or negotiating pricing and services with repair providers.

A bill was introduced to NSW Parliament in 2006 which sought to address these same issues. The draft *Motor Vehicle Repairs (Anti-steering) Bill* contained provisions that curtailed insurers influence on smash repair outcomes:

- recommend a particular smash repairer to a customer;
- suggest that any specific repairer must or should be used; or
- require a repairer to use a particular brand or type of parts.

This Bill has since lapsed.

Many of the requirements of the legislation outlined above involve restrictions on the type of information that is allowed to be provided by insurers to consumers. However, as insurance companies work within the industry they are likely to hold information and institutional knowledge which is greater than individual consumers (Harrison and Cecere, 2010). Partly, this may involve insurers developing relationships with repairers that they know to provide quality services. Placing restrictions on the information that insurers are able to provide consumers reduces the flow of gained knowledge between insurers and consumers and may impact on the ability of consumers to make informed decisions with all the available information. In effect, by placing limits on the types of information that insurers are able to provide means that policy makers are determining which the types of information is appropriate for consumers to have.

6.2 The economic impact of the legislation

6.2.1 Consumer choice

Choice allows individuals to buy the products which are most suitable to their needs. The ability to choose also stimulates competition between producers. Yet, more choice is not always highly valued by consumers. It can generate higher search costs, since it can be more difficult to locate the most appropriate service, and make decisions more complex. Choice is problematic when there is imperfect information. If a potential buyer is not well informed and quality is not easily observable, then they can unintentionally pay more than what is necessary or purchase inferior quality goods.

Imperfect information is an issue for consumers in the smash repairs industry. It is sometimes difficult for a layperson to identify the fault in a vehicle. The technical skills required for repairs mean that it is challenging to understand the scope and nature of work required for repair. Generally, repairs are not required regularly. This means that consumers do not develop a sense for what price is reasonable. Faulty repairs may not be recognised until well after the event.

All of these factors combined mean that, in practice, consumers may find it difficult to make informed decisions over smash repairers. For these individuals, PSR arrangements leading to insurers choosing the repairer may in fact be considered part of the value of having motor vehicle insurance. As the Productivity Commission (2005) noted:

> *"…consumers are often prepared to accept more limited choice, or forego it entirely, in return for greater convenience, lower transactions costs and less risk… Requiring insurers to offer choice would disadvantage those many consumers satisfied with present arrangements."*
>
> - *Productivity Commission, 2005*

The idea that consumers might *prefer* insurers which offer PSR are supported by Bourgeon et al's interpretation of US evidence:

> *"As it appears from the figure, up to 2000-2001, Allstate was steadily gaining market share whereas the market share of its main rival, State Farm, was declining. This might be related to the fact that Allstate was a pioneer in the implementation of Direct Repair Programs. Although the creation of DRP may have interfered with other factors, the DRP creation has provided Allstate with a strategic advantage over its competitors, until the latter finally decided to implement their own referral programs".*
>
> - *Bourgeon et al, 2008*

An Australia-wide survey undertaken by Newspoll Market & Social Research in 2013 found that 69% of drivers preferred their insurer to handle their claim from end to end, including managing the repair and working with the smash repairer on their behalf. Only 31% of respondents felt they had enough knowledge to oversee the repair and negotiate with the smash repairer (Suncorp).

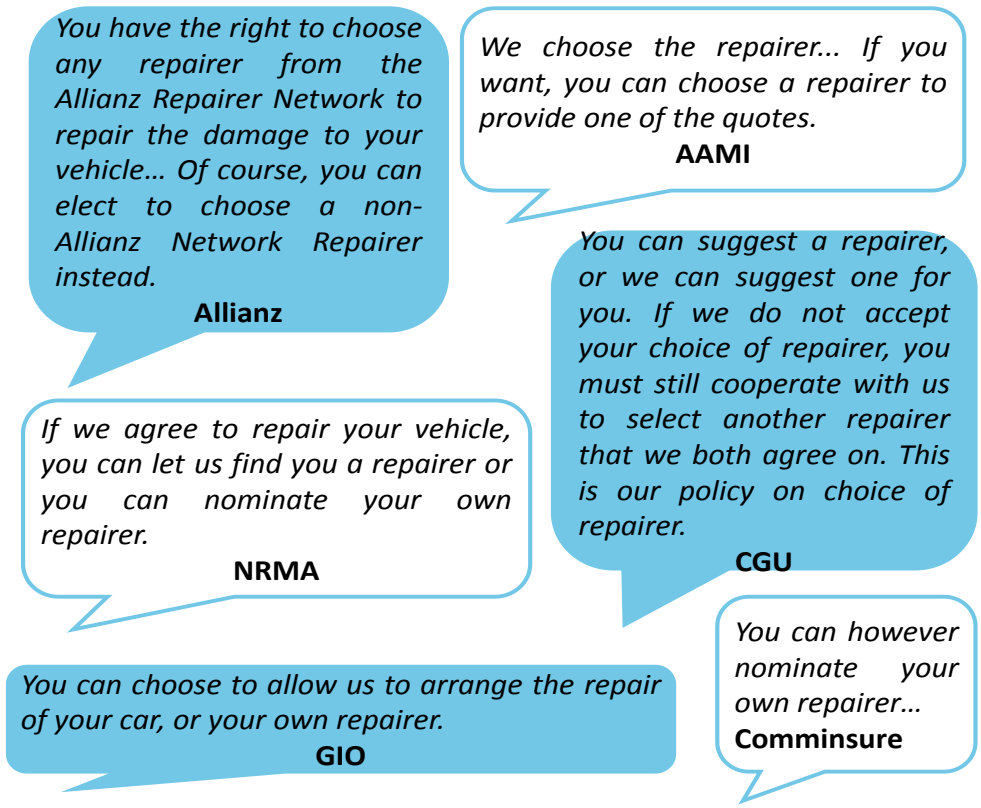
It is important to note that not all consumers are uninformed. Some individuals will have their own preferred repairers, and value the ability to choose them. Consumers who decide not to follow the advice of their insurer still may ask the insurer to consider a non-preferred repairer. Depending on the policy, insurers may accept this alternative subject to the completeness and competitiveness of the quote.

The fact that both customer-preferred and limited-choice business models and products co-exist in the market suggest that consumers value both types of products. Those who value choice highly are able to purchase products which allow them to nominate their preferred repairer. Others who do not have a preferred repairer can buy insurance products where they do not have input into the decision (e.g. insurers that use PSR arrangements). Under the assumption that decisions are based on both quality and value, there are benefits for consumers who are not familiar with the repair market. This led the Productivity Commission to conclude that

> *"…there is already choice available to consumers, largely through the availability of insurance policies that offer choice of repairer. Further, forcing greater consumer choice on the insurance industry, for example through the 'anti-steering' regulation requested by some repairer groups, would be a costly step. Apart from increasing costs for insurers and consumers, it would adversely affect the structure of the repair sector itself.*
>
> *In sum, consumers have restricted, but reasonable, choice of repairer. Consumer choice of repairer should not be mandated – in particular, 'anti-steering' measures should not be introduced".*
>
> - *Productivity Commission, 2005*

Since the PC came to this conclusion, there is no evidence to suggest that the ability of consumers to choose policies that allow them input into the repair decision has deteriorated. If anything, the level of variety of products appears to have risen. The introduction of the Industry Code of Conduct has led to most insurers giving consumers the right to choose their repairer, subject to varying restrictions. This is reflected in their product disclosure statements, a selection of which are reproduced in Figure 6.1. This would suggest that overall consumer ability to choose has risen since the Productivity Commission argued that consumers had reasonable choice of repairer in 2005.

Figure 6.1 Choice of repairer –quotes from selected product disclosure statements



Source: Allianz (n.d.), CGU (2013), CommInsure (2007), NRMA (2009), AAMI (2011), GIO Insurance (n.d.)

6.2.2 Price

The PC lists increased prices as one of the potential costs of *requiring* insurers to offer choice to consumers on all products. This is because there are efficiencies which arise from having PSR relationships. We have estimated how premiums would be impacted by making choice mandatory across all policies below.

Over time, insurers are able to determine the quality of service on offer from different repairers. PSR relationships are established on the basis of perceived value for quality. This means that insurers minimise the risk of sub-standard repairs, thus increasing efficiency. Further gains arise from lower administrative costs and greater scale. Long-standing commercial relationships will mean that the repairers conform to insurer requested documentation. Restricting the number of repairers also means that each PSR has larger scale. A greater amount of vehicles processed for the same insurer will create scale efficiencies.

Thus, restricting insurers will erode the efficiencies which insurers gain from PSR arrangements. This will be passed on to consumers in the form of higher prices.

In summary, consumers generally value choice. However, in the smash repairs industry, some classes of consumers may not be able to make informed choices. These individuals may prefer to use a repairer recommended by their insurer. It can present them with increased convenience, less risk and greater value.

Currently, motor vehicle insurance products on offer in NSW offer customers the ability to choose between using their insurer's PSR and nominating another repairer of their choice, with the insurer authorising the most complete and competitive quote. This is in keeping with the voluntary Industry Code of Conduct.

Providing unlimited choice of repairer will tend to be more expensive for insurers. Dealing with an "unknown" repairer will incur higher administrative costs than those associated with regular repairs from preferred repairers. Many insurers also have pre-existing arrangements with their PSR networks, under which more favourable rates are negotiated in return for the insurer guaranteeing greater scale. These savings cannot be realised where non-preferred repairers are used. Powell et al (2010) explain:

> *"Direct repair programs present several possible avenues for decreasing the cost of insurance and increasing value provided to consumers. Because insurance markets are competitive, the benefits of these programs will be passed on to consumers as lower prices and greater value."*
>
> - *Powell et al (2010)*

Given the above, it is reasonable to expect that, where customers exercise a right to choose their repairer, costs will be higher for the insurer. It follows that mandating customer choice – rather than simply allowing it – would increase costs across the board for insurers. This additional cost could be passed on to consumers in the form of higher premiums. Indeed, a recent UK study by the Office of Fair Trading found that:

> *"The OFT continues to have reasonable grounds to suspect that there are features of the market that are preventing, restricting or distorting competition in connection with the supply or acquisition of private motor insurance in the UK, in particular:*
>
> *• The insurers of at-fault drivers that are responsible for meeting claims for the provision of repairs or replacement vehicles to not-at-fault drivers often appear unable to exercise choice over how these services are provided. Insurers of at-fault drivers also appear to find it difficult to assess the extent to which the costs claimed are reasonable, and appear to exercise only limited control over the cost of these services.*
>
> *• The insurers of not-at-fault drivers, brokers, credit vehicle hire providers, credit repairers and others that supply services to motor insurers therefore have the opportunity, and the incentive, to take advantage of the insurer of the at-fault drivers' lack of control over costs. They do this by carrying out practices that allow them to generate revenues through referral fees or rebates, while simultaneously inflating the costs that the insurer of the at-fault driver has to meet*
>
> *The overall impact of these practices is likely to be an increase in costs across the private motor insurance industry. The OFT estimates that the features of the market it has identified cost private motor insurers £225 million in 2011, which indicates that* ***consumers could be paying an extra £10 per private motor insurance policy****."*
>
> - *OFT, 2012 [emphasis added]*

Prior to the passage of the bill in 2008, the Automobile Insurers Bureau of Massachusetts evaluated the operational and financial impact of the legislation. Actuarial analysis indicated that the legislation would add at least $100 million to the costs of automobile insurance (Automobile Insurers Bureau of Massachusetts n.d.). The increase in the costs is largely due to the increase labour costs associated with the ineffective operation of direct payment system by prohibiting the use of referrals. This would cause a 3.2% increase the price of premiums paid in Massachusetts[1].

In Australia, repair costs are approximately 40-45% of the cost of a motor vehicle insurance premium (Deloitte Actuaries). Consequently, a 10% increase in repair costs adds around 4% to the price of motor vehicle insurance.

6.2.3 Impact on quality

The quality of a repair has three components:

- The quality of parts used;
- The quality of repair conducted; and
- The quality of the assessment (that is, all faults were appropriately identified).

6.2.3.1 The quality of parts

The parts used to repair a vehicle affect the final outcome for consumers. The use of sub-standard parts can mean that faults re-emerge in the vehicle; for example, using a rear vision mirror that does not meet the requirement of form, fit and function could lead to the mirror breaking when adjusted after frequent use, forcing the consumer to incur additional costs to get it replaced.

The consequences of sub-standard parts could be far more severe. For example, poor brakes could cause a fatal accident.

Generally, the parts used in repairs fall in to one of three categories – manufacturer parts, generic parts, and so called "aftermarket" or salvaged parts. All three types of parts have been used in Australia for decades [Suncorp, personal communication 2014].

This has led to the widespread use of after-market and generic parts, which tend to be less expensive than manufacturer parts.

> *"The reverse flow of salvaged parts to be reused in the repair of cars is a common occurrence in North America. Several large distributions firms have evolved to manage the recovery and reuse of salvaged parts from end-of-life vehicles (ELV's), salvage parts for reuse being defined as components that can be reused without any need for change (Tang and Naim 2004). In Europe, the EU has issued a statement encouraging reuse of salvaged parts for the repair of cars (European Commission, 2009). There are several countries in Europe including Germany and the Netherlands which actively use salvaged parts in the repair of cars."*
>
> - *Aitken and Murray (2010)*

[1] The legislation also address glass company and rental car steering issues as well.

Of course, manufacturers also recall vehicles from time to time due to failures of OEM parts. For example, in 2013, there were 99 recalls of cars by 28 carmakers [ACCC 2013].

Consequently, safety issues are best dealt with by enforcing quality standards on all parts used in repairs, rather than banning the use of non-OEM parts.

6.2.3.2 The quality of repairs

In California, insurers first provide their policy holders with the right to choose any smash repairer. However, if the insured expresses to their insurer that they are uncertain or do not have a particular preference, the insurer may provide them with a list of preferred smash repairers. Despite the laws, it has been argued that the structure of legal obligations between parties and stakeholders in smash repairs leads to lower quality repairs.

> *"The repair facility is contractually bound only to the insured, and has agreed with the insured to repair his vehicle to its pre-accident condition. However, it is common insurance industry practice to continuously bombard the repair facility with demands to lower repair cost such as cutting out operations that the repair facility deems necessary, or using aftermarket or used parts as opposed to new parts. This practice interferes with the repair facility's ability to properly and profitably repair the insured's vehicle.*
>
> *… It is the repair facility's duty to ensure that the insured's vehicle is repaired to its pre-accident condition, not the insurer. Because the insurance company is not a party to the repair contract – only the insured and the repair facility are – the insurance company bears no liability for the quality or the safety of a vehicle's repair. This practice is unfair, as it places liability on the repair facility for repairs done to the insurer's vehicle which were not done to repair facility specifications."*
>
> - *Sachetto (2009)*

This does not represent practices in Australia. The contractual relationship in relation to insurer-arranged repairs is between the insurer and the repairer.

Moreover, this would suggest that increasing choice is not an effective method for ensuring the quality of repairs. Instead, ensuring quality repairs requires legislators to ensure that liability and legal obligations are structured in a way which gives all industry participants the incentive to focus on quality. One example of this is the guarantee system which has evolved naturally in Australia. Under this system, insurers guarantee work done by PSRs.

6.2.3.3 The quality of assessment

As detailed previously, the smash repairs industry is subject to information asymmetries. Policy holders do not generally have the expertise to diagnose the extent of damage, determine what repairs are necessary, and ascertain the most effective method of undertaking these repairs.

In Australia, this task often is undertaken by the insurer. Major insurance groups may send out assessors or use centralised assessment facilities. These assessments are then provided to PSRs.

The policy holder also can take their vehicle to their smash repairer of choice. The repairer assesses the damage and relays this assessment to the insurer.

In relation to policies that offer choice of repairer, repairers have the incentive to over-diagnose. Repairer may exaggerate the amount of repair required to attempt to secure more revenue through negotiations with insurers. Over time, this can lead to premium inflation, as insurers pass on the higher cost of repairs to their customers.

This behaviour has been demonstrated through behavioural studies. In Germany, an annual study is undertaken by the German Automobile Association, in which repairers elect to participate in a "test" of the accuracy of their assessments. Under this test, similar cars are prepared with a series of five faults, which should be easily detected. The damaged cars are then sent to participating repairers. The repairers are not made aware of which car is the test car.

Once the vehicles are repaired, they are sent back to the automobile club which administers the test, along with an invoice for the repairs. The club conducts a thorough inspection of the repaired vehicle. It then assesses, for each garage:

- How many of the faults were found and fixed; and
- Whether repairs other than those required were charged.

In analysing this data, Rasch and Waibel (2012) found:

- Repairers facing intense competition overcharge less often;
- More competent repairers are less likely to overcharge; and
- Repairers for whom reputation is a concern are less likely to overcharge.

Conclusions

NSW motorists are able to access a range of products to cater for different consumer preferences. Consumers who value choice can buy products which allow them to pick their own smash repairer. Those who value convenience and peace of mind can have an insurer select a repairer on their behalf. The relationships established between repairers and insurers help to contain premiums, while maintaining quality standards.

The smash repairs industry has undergone significant consolidation in recent years. New technologies allow for more efficient and cost-effective repairs. However, leveraging this requires capital investment, which can increase the barriers to entry. Similarly, more sophistication in automobile technology means that repairers require more specialised skills. A long-term trend towards less accidents and a younger fleet has also resulted in decreased demand for smash repair services.

Combined with previous over-supply, increased competition as a result of these trends means that consolidation within the smash repair industry will continue in coming years. Given that it is driven by the internal dynamics of the market, it is unlikely that business models in insurance will have any effect on this process.

Smash repairs services are characterised by information asymmetry. A majority of consumers do not have the expertise to compare smash repairers and their quotations. This may develop with experience; however, in practice, this is difficult to establish, as most do not require smash repair services regularly.

For these consumers, there are benefits to leveraging off insurer recommendations. Having the insurer organise and manage the entire repair process improves convenience. Repeated interactions allow insurers to assess the quality of repairers. Administrative and scale savings can result in a lower overall cost of repair. This, in turn, can be passed on to consumers in the form of lower premiums.

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