

---

# Repairable Write Offs

## - an insurer perspective

---

Mark Lever  
Senior Manager  
Government Relations  
IAG Direct Insurance  
30 June 2009



# RWOs - introduction

---

- *"Reports that say that something hasn't happened are always interesting to me, because as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns - the ones we don't know we don't know".*

Donald K Rumsfeld  
US Secretary of Defence

February 12, 2002  
on weapons of mass destruction in Iraq

# RWOs – known knowns

---

- ❑ *“It is clear that the statutory ban on the re-registration of the most severely damaged written-off vehicles, introduced around Australia between 2002 and 2004, has significantly impacted on the activity of traditional vehicle re-birthers. However, profit-motivated thieves have adapted to the changed environment by testing and exploiting perceived weak points in the new system. As a result, improvements in the overall recovery rate for stolen vehicles—the widely accepted measure of organised criminal activity—have not been as strong as expected.”*
- ❑ *“Incidents of repaired RWOs presenting significant consumer and safety issues have also received considerable media coverage in eastern States over the past 18 months.”*

# RWOs – more known knowns

---

- ❑ **Car insurance is a highly competitive business**
- ❑ **Writing off a vehicle is a commercial action**
  - ❑ Repair cost (to insurers' standards) > (insured value + salvage value)
  - ❑ Damage threshold falls with insured value as vehicles age
  - ❑ Some vehicles (esp motorbikes) can be written off for minor cosmetic damage on parts cost alone
  - ❑ Some repurchased by customers (eg after hail storms)
  - ❑ Generally capable of safe repair and potentially at lower than insurance cost eg non-genuine or 2<sup>nd</sup> hand parts, no warranty, own labour
- ❑ **Salvage is a substantial source of insurer income**
  - ❑ Affects cost of insurance to consumers
  - ❑ Integral part of competitive landscape
- ❑ **Compliance obligations are taken very seriously**
  - ❑ Internal controls in place
  - ❑ Assessors well versed in interpreting statutory write-off guides
  - ❑ But assessors are NOT regulators or compliance officers
  - ❑ Largely self-regulated – compliance monitoring limited and varies across jurisdiction
- ❑ **Insurance is ~75% of collision repair market**
  - ❑ What about WOV<sup>R</sup> reporting/compliance for fleets, non-insureds etc?

# RWOs – known knowns

Brisbane Courier-Mail 23 June 2009

## Cheap deals flood in

Natalie Gregg

MORE than a thousand cars damaged in last month's floods are going under the hammer, but with the bargain prices come some risks.

Insurers have off-loaded 1500 cars to Brisbane auction houses, with ManheimFowles selling 80 per cent of their water-damaged vehicles yesterday and Pickles Auctions with 700 vehicles up for grabs from noon today.

ABC Auto Gear general manager Ben Rayner said he bought water-damaged cars for parts and to resell.

He sells parts to those who had already bought a damaged car.

"It's usually people who are pretty savvy with cars and have the time to fix them up themselves, so instead of spending \$25,000, they might spending \$8000," he said.

"Sometimes they do really well but other times they go from problem to problem."

He recommends buyers stick to early model cars rather than modern vehicles with computers.

# RWOs – more known knowns

---

## Disposal auctions are outsourced and public

- High volume low cost system
- Both insurers and auctioneers have over-riding commercial imperatives
- Individual prices are volatile but averages are reasonably consistent over time.
- Genuine efforts are made to control access to suspect vehicles
- Past attempts eg iris recognition to monitor undesirable elements have had limited success
- Trend to online auctions is helping market integrity

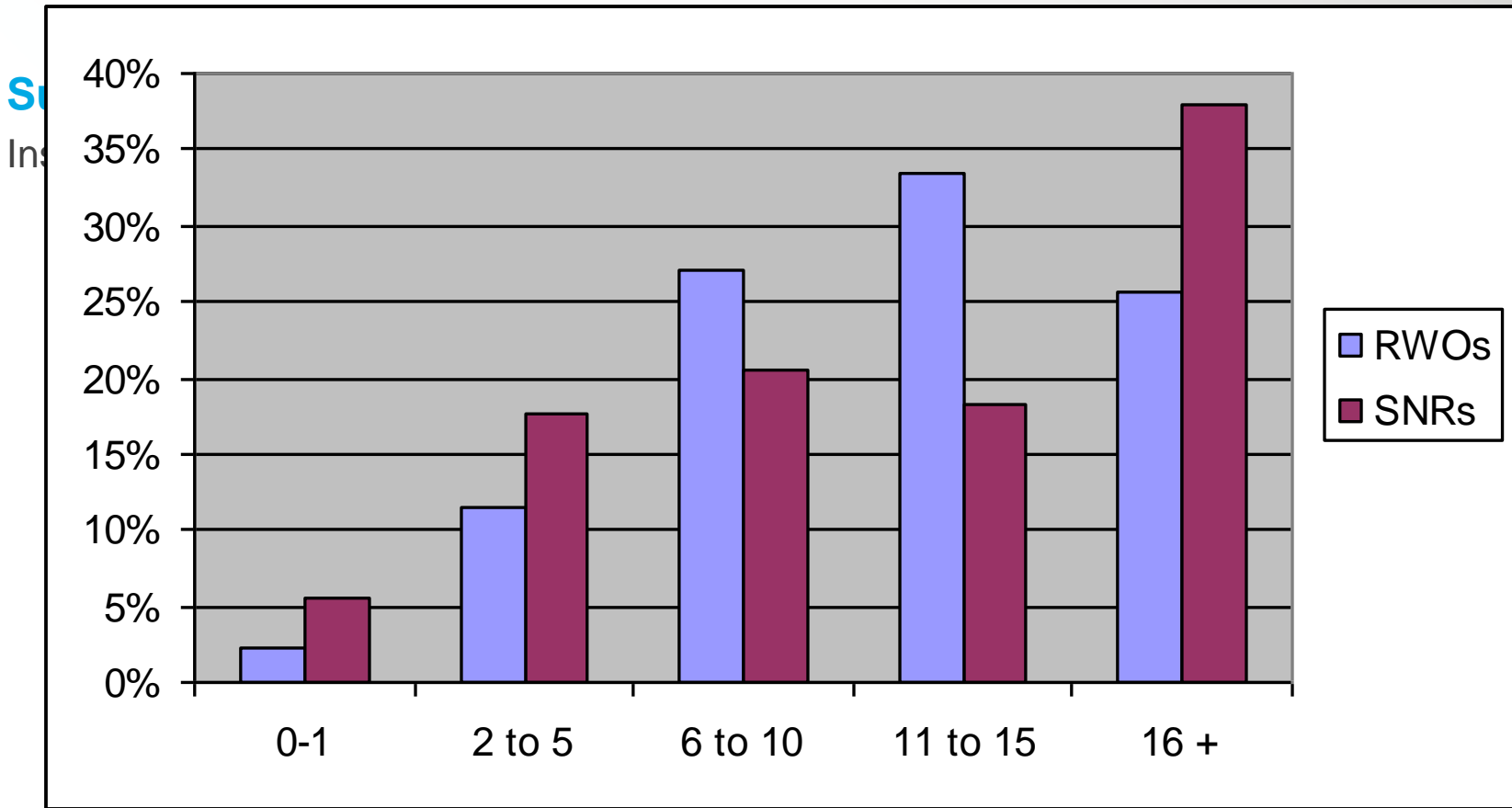
## National parts code trial

- Would have restricted auctions on high risk vehicles to accredited dismantlers
- No incentive for insurers to participate
- Risked competitive disadvantage
- No incentive for legitimate dismantlers to participate

## Only about 30-40% of RWOs are re-registered

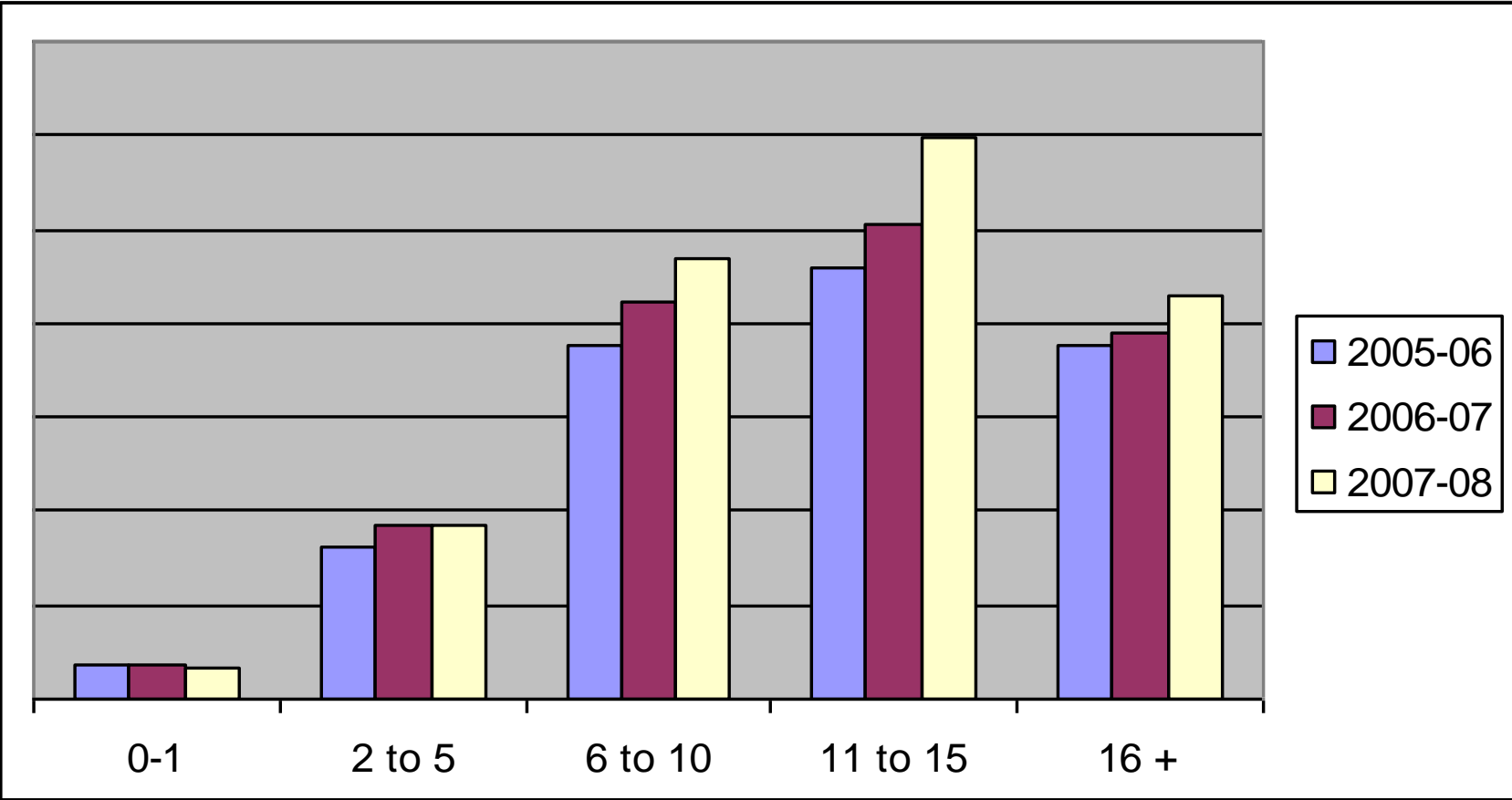
- Suggests most do go to dismantlers/recyclers.
- Limited analysis/understanding of drivers for repair vs dismantle outcomes.

# Salvage & theft



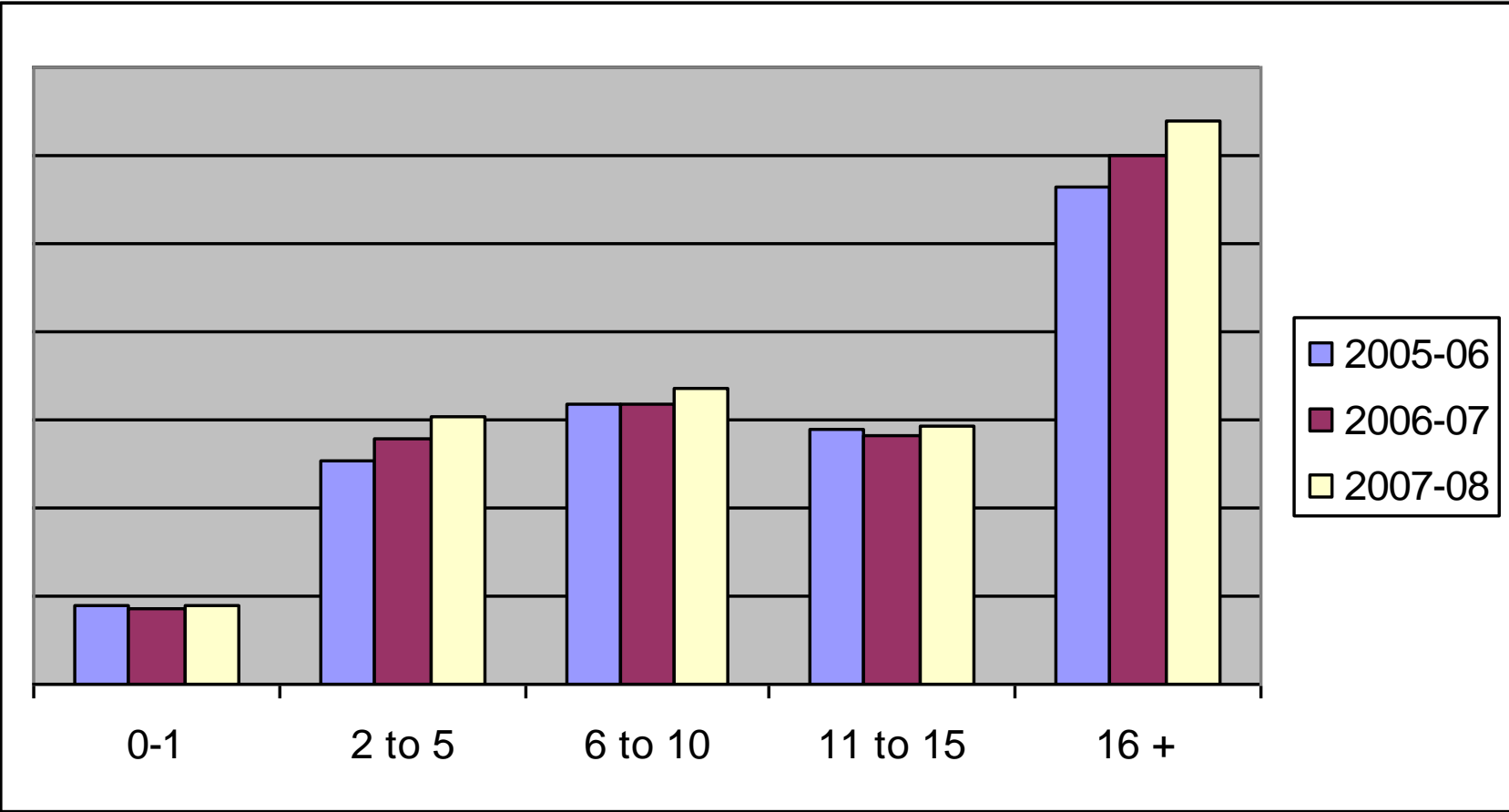
NMVTRC stolen not recovered (SNRs) vs IAG Direct repairable write-off (RWOs) disposals 2006-2008

# Repairable write-off trends



IAG Direct repairable write-off (RWO) disposal volumes by vehicle age band

# Stolen and not recovered trends



NMVTRC stolen not recovered (SNR) volumes by vehicle age band

# RWOs - some known unknowns

---

- ❑ **Theft footprint in broader motor trades**
  - ❑ Mechanical
  - ❑ Panel
  - ❑ Salvage
  - ❑ Scrap
  
- ❑ **Relative “market share” of RWOs vs other drivers of economic car theft**
  - ❑ Fraud
  - ❑ Strip
  - ❑ Export
  - ❑ Criminal enterprise
  
- ❑ **Real (vs perceived) community road safety exposure to sub-standard RWO repairs**
  - ❑ Insurer experience supports view that substandard repairs are widespread
  - ❑ Average claims cost on repaired RWOs are significantly higher
  - ❑ Safety impact less clear – no data on contribution to injury/fatal crashes
  
- ❑ **There are legitimate and safe RWO rebuilds – but how many?**
  - ❑ Apprentice training
  - ❑ Enthusiasts/hobbyists

# RWOs – the unknown unknowns

---

## Technology

- Major driver of trends in economic theft to date
- Manufacturer innovation a major challenge for motor trades

## Economic

- Impact on vehicle utilisation & life cycle
- Impact on crime patterns

## Market forces

- Changing customer preferences eg 4WDs, SUVs
- Changing demographics & lifestyle choices

## Environment

- Implications of low carbon future
- Impact throughout vehicle value chain
- Whole of life manufacturer responsibility

# RWOs – conclusion

---

- Disposal of written-off cars is an integral part of car insurance business.
- Policy responses need to target the misuse itself and not legitimate business activity.
- The better targeted the measures, the more effective they will be with less risk of unintended consequences.
- The control framework is there but weaknesses/gaps remain:
  - Compliance
  - Regulation
  - Enforcement
  - Information exchange
  - National consistency

# RWOs – conclusion



*To know that we know what we know, and that we do not know what we do not know, that is true knowledge*

Henry David Thoreau  
American essayist, poet & philosopher  
1817-1862