



## **WORKSHOP 21 NOVEMBER 2002**

### **CODE OF PRACTICE FOR DEALING IN SECOND-HAND PARTS**

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#### **1. INSURERS ARE NOT CURRENTLY DIRECT "BUYERS" OF PARTS**

Insurance premiums are a direct reflection of the cost of insurance claims. The biggest influence on the cost of claims is the price of replacement parts. The cost of parts determines how each car is repaired, and even whether it is repaired at all.

##### **1.1 There are environmental benefits to recycling replacement parts**

It is far more energy efficient to reuse components than to melt them down and recover the raw materials. The recycling of parts is an element of the IAG sustainability programme, which focuses on environmentally sound business practices.

##### **1.2 Insurers in Australia do not usually pay for parts directly**

The current method of sourcing and paying for parts is open to inefficiency and fraud. Most motor insurers have considered various ways to do things differently. There is some frustration with a parts industry that is burdened by vested interests and cross-subsidies.

Insurers initially commit to paying for repairs based on estimates prepared by smash repairers. The estimates are rarely treated as fixed quotes because no two smashes are exactly alike and methods of repair can differ according to the technical competence of the repairers.

Repairers rarely buy parts unless they receive the insurers' specific authority to proceed.

##### **1.3 Insurers prefer to undertake repairs rather than write off vehicles**

Recycled parts are important because the high prices of new parts rarely represent good value on older, depreciated vehicles with lower sums insured.

Insurers' approach to repairing and replacing parts is to match the age and condition of the subject vehicle – it is not economical for insurers to pay for all new parts on aged, depreciated vehicles because owners of older vehicles cannot

afford to pay the insurance premiums that would arise from restoring a car to new condition.

Insurers ultimately pay claims based on complex repair bills which are made up of replacement parts, repairers' labour, and miscellaneous sublet repairs.

#### **1.4 Demand for recycled body parts outstrips supply in Australia**

There is a relatively low rate of total losses and end-of-life vehicles to feed the dismantling industry in Australia, and there has always been a bias/prevalence towards front end collisions which makes front end parts more scarce.

Much recycled parts supply is imported from Japanese domestic used vehicle market. Japanese vehicles more than five years of age are valued more for their parts and are cut into sections and shipped to RHD markets in Australia, New Zealand, Singapore, Thailand and South Africa.

#### **1.5 Insurers often have problems with repairers' fidelity**

Many repairers do not stick to the method of repair they initially quote. Some repairers will substitute new aftermarket parts from alternative non-original suppliers rather than buying recycled parts. It is not uncommon for parts to be repaired rather than replaced, even though insurers are still charged for replacement parts.

## **2 ARRANGEMENTS FOR SOURCING PARTS VARY**

In the case of recycled parts, repairers normally purchase from multiple auto parts dismantlers according to availability of parts.

### **2.1 Insurers do not currently source significant quantities of parts**

It is rare for insurers to directly pay parts suppliers on behalf of body repairers. In 1987, GIO directly paid for new parts supplied for a handful of brands. In the early 1990's AAMI ran a new parts import business in Melbourne. In 1996 and again in 2000, NRMA Insurance made direct payments to repairers' preferred parts suppliers on behalf of the repairers.

On many occasions, repairers have strongly opposed most alternatives to choosing their own preferred parts suppliers.

Insurers are now using performance management techniques to contain costs, including expenditure on parts. Work is being selectively allocated to preferred repairers and competitive pressure is increased. Insurers are trying to focus repairers on competing with their peers. This takes the emphasis off one-on-one negotiations between repairers and assessors.

### **2.2 Typically, customers contact their insurers after collisions**

The insurers are tending to allocate jobs to selected lists of body repairers, according to the insurers' previous experience with quality, cost and customer service. This is subject to the customers' final choice. Some insurers offer a valet service where the customer never sees the repair shop at all.

About 70% of car insurance claims involve relatively light damage to non-structural components. They do not require towing, so most customers still present their cars at repair shops for inspection.

The body repairer will prepare an estimate of the cost of repairs, taking into account the insurer's preference regarding methods of repair and types of parts that are acceptable for the age and condition of the vehicle. The estimate is then submitted to the insurer for approval to proceed.

At this point, the insurer has to decide whether to repair or write off the car. If repairing the car is the best way to settle the claim, the repairer will receive a commitment from the insurer to pay an agreed amount. This clears the repairer to order the parts and strip down the vehicle.

### **2.3 The repairer will typically order parts from a variety of sources**

New, original parts are usually supplied by franchised car dealers, although there are independent importers who sell new original parts too. New, non-original parts are available from independent aftermarket parts suppliers, and these parts are often preferred by repairers rather than fitting recycled parts.

Recycled parts can be divided between those that have been reconditioned and those that have been dismantled from wrecks and sold in an unimproved state. Repairers normally have purchasing accounts at multiple auto parts dismantlers, plus plastic repairers who specialise in bumper bars and headlamps, and radiator repair specialists and air conditioning component specialists.

## **3 THE INSURER/REPAIRER RELATIONSHIP IS COMPLEX**

Most insurers and repairers disagree on the best method to calculate the bottom line of each job. Some insurers and repairers use hourly rates and fixed times. Others use competitive quoting to arrive at a best price.

Insurers and repairers are engaged in an ongoing dispute over how much influence each should have over the owners of insured vehicles.

### **3.1 Insurers are paying the bills**

Insurers want to choose the best repairers while avoiding higher than normal costs or poor quality or fraud. In most cases, the vehicle owners have no preferred repairer and so will take the car wherever the insurer recommends.

But repairers see the vehicle owner as their own customer and they want the chance to up sell them on extra repairs or refurbishments.

### **3.2 Insurance premiums are driven by repair costs**

Insurance customers shop around looking for the best price at renewal time. If you are an insurer and you are not offering the cheapest price premium, then your reputation for good service must be outstanding, otherwise you will lose customers. For insurers, the key to retaining customer loyalty is delivering a good claims experience. This is the only time that insurers have any chance to

differentiate themselves from competitors. Otherwise, it all comes down to the premium charged for the policy.

### **3.3 Insurers and repairers need each other**

The insurance and body repair industries cannot function without each other. But there is an oversupply of body repairers in almost all geographical areas. This is despite an acute shortage of tradespeople and apprentices. The barriers to entry are low and competition for insurance work is fierce.

Most insurers have identified preferred repairers. These are bound by contracts based on cost, quality and customer service and some guaranteed referral of work. This enables the insurers to keep their promises to their customers, including offering lifetime warranties.

## **4 THERE ARE SEVERAL WAYS FOR INSURERS TO SUPPORT A C.O.P.**

It will be important to strike a balance between having an effective Code and having reasonable workload implications for businesses.

It would be relatively straightforward for insurers to require all parts to be sourced from recyclers who have signed up to the COP and who maintain a record keeping system.

### **4.1 Insurers could seek a blanket undertaking to not deal in stolen parts**

Insurers could insist on minimum “audit trails” to substantiate and differentiate the origin of all major auto parts sourced by repairers

Where recycled parts are obtained, repairers could be required to use accredited recyclers. This would ensure upstream safeguards. The responsibility for verifying the legitimacy of the source of the parts would rest with the supplying, accredited recycler.

Perhaps a website or electronic database would be the best way to provide access to accurate record keeping. Insurers must be provided with the ability to access the system for verification purposes.

Insurers could insist repairers agree to fully co-operate with, and make records available to, Code compliance inspectors, police, offices of fair trading, registration authorities or other regulatory enforcement bodies as is reasonably required.

### **4.2 Effectiveness depends upon the resources put into policing it**

It has been suggested that the general framework for a Code should place the onus on accredited recyclers to verify the legitimacy of the source of all parts sold and in stock. The Code administrators would not be required to establish negligence on the part of the business, although an appeals arrangement would allow exceptional cases to be considered.

While it is relatively easy to check the legal status of whole vehicle wrecks, the greatest verification difficulties would lie with already separated parts, particularly body sections and nose cuts.

Dismantlers will need to mark certain mechanical and body components and maintain records in relation to those parts. The regulations would also impose requirements upon repairers to ensure that any parts they obtain have the appropriate identification marks.

The aim would be for Code inspectors to readily trace back to source any parts stocked or sold. – the source being either the donor vehicle, an accredited recycler, or properly checked and documented identification for other sellers.

#### **4.3 Insurers must be able to access the system for verification purposes**

It has been proposed that a record keeping system be modelled on the NSW Prescribed Parts Register scheme.

However, insurers currently have no way of accessing the NSW Prescribed Parts Register. As such, they may well be unknowingly funding the purchase of stolen parts utilised in repair.

Without access, insurers are unable to conduct meaningful audits of sources of supply.

Insurers must be allowed to access any system so they can audit the sources of the parts they pay for. If insurers have no way of accessing the records they will be unable to determine if the parts utilised in repair are legitimate.

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