



Submission to Commerce Commission

on

The proposed Vero acquisition of Tower Insurance

13 April 2017



ONE HUNDRED YEARS OF TRUST

Dear Sir / Madam

Submission: Proposed Vero acquisition of Tower Insurance

This submission is from:

Motor Trade Association (Inc)
PO Box 9244
Marion Square
Wellington 6141

The contact person in respect of this submission is:

Name: Greig Epps
Title: Industry Relationship Manager
Ph: (04) 381 8816 or 027 846 9768
Email: Greig.epps@mta.org.nz

Thank you for the opportunity for MTA to provide comment on the proposed Vero acquisition of Tower Insurance, regarding the views of and its effect on the automotive industry.

Yours sincerely



Greig Epps
Industry Relationship Manager

Introduction

The Motor Trade Association (Inc) (MTA) was founded in 1917 and currently represents approximately 3,700 businesses within the New Zealand automotive industry and its allied services. Members of our association operate businesses including automotive repairers (both heavy and light vehicle), collision repairers, service stations, vehicle importers and distributors and vehicle sales. In total MTA members employ in excess of 40,000 staff across New Zealand.

Currently MTA represents 171 collision repair businesses across New Zealand. MTA's comments are made with respect to this market segment of suppliers to the insurance industry.

We appreciate the opportunity to comment on the proposed Vero acquisition of Tower Insurance and have the following comments to make.

Submission

We thank the Commissioners for their accommodation of a late submission. This situation has, however, provided MTA with the opportunity to review other submissions. We concur with the comments and positions taken in the submissions of Dr Naylor, CBL Insurance, and Youi Insurance.

MTA does not support the proposed transaction.

We share CBL Insurance's regret at having remained quiet during the Lumley/IAG consultation by the Commission. Our concerns have borne fruit over the last few years.

The Youi submission speaks of the potential for the combined duopoly of Vero and IAG to increase the number of service providers captured by their networks and the pressure then applied to those service providers. This capture has been underway in recent years with IAG reviewing its supplier networks and reducing the actual number of "approved" repairers in that network.

In a 'normal' market, one would expect this to lead to competition and innovation among those suppliers, as they fight for supply. However, the insurers hold all the cards in this game – setting prices and times for repairs, demanding ancillary services for little or no compensation¹, and increasing administrative burdens in dealing with the insurer². Collision repairers do not compete with each other, they compete with ever changing criteria for admittance into an insurer's approved network. Being an approved repairer can mean the difference between survival and liquidation for these predominantly small businesses.

Commissioners may be aware of reports that, especially in Auckland, collision repair jobs can take as long as 6-8 weeks to be completed. This is not due to the complexity of the work – although modern vehicles do pose their own challenges to the repair sector. Rather, it is due to a severe skills shortage in the collision repair industry. There are simply not enough qualified tradespeople to address the work required.

Again, in a "normal" market, you would expect to see wage offers increase to attract talent, which would be funded through price increases to consumers. However, the vehicle owner consumer does not pay for collision repairs in the main; the insurance companies do. And, as noted above, these companies set the prices for repair work. For a collision repairer to pay the salaries required to attract talent, he or

¹ Such as courtesy vehicles and vehicle grooming.

² Such as multiple photos of processes like wheel balancing and demanding invoice documentation for small component materials like metal clips (where a job may require a dozen or so clips that are purchased in their hundreds – how does a company produce an invoice for something like that?).

she must either charge more for the work (impossible due to the set pricing in network arrangements), or continue to reduce margins and make cuts in other parts of the business.

MTA expects a similar supplier network review will happen with a Vero/Tower merger.

Beyond the market issues, MTA is aware that the relationships between collision repairers and insurers have declined since the market began consolidating. MTA has survey results going back to 2009 that show the decline in performance of merged brands following consolidation. Issues like the administrative burdens mentioned above and timely payment – small businesses cannot afford restricted cash flow caused by delayed payments.

As an aside, MTA will be urging the Commission and the Ministry for Business, Innovation, and Employment to closely examine the operation of the Australian regime of unfair contract terms protections for small businesses. Such a regime will be a great benefit to the automotive industry, which is made up predominantly of small businesses.

The arguments against a Vero acquisition of Tower are two-fold in the 'buying market' for collision repair.

Firstly, MTA is concerned at the trend for Vero to vertically integrate services within their own organisation. In doing so, Vero's own repair centres focus on the most profitable work (simple panel or component replacement work, minor scratches, etc), thereby leaving the more complex and difficult work for independent repairers (structural repairs and rebuilds).

This then takes a significant proportion of work away from Vero's network of independent repairers. Such integration further complicates the labour market as Vero's in-house repair centre competes with independent repairers in the scarce labour market. These small businesses could train more apprentices, but such an investment is seen by many in the industry as simply providing a training ground for the insurer's operations.

Shifting the Tower work into such a vertically controlled business exacerbates this issue.

Secondly, the effect of this proposed transaction will amplify the damage MTA perceives to have been done by the IAG/Lumley and IAG/AMI mergers in the buyer market. With Vero taking "easy" work in-house, the dominance of IAG increases in the market for buying independent repair services. Further taking Tower work away from the independents (and into the Vero in house repair centres) effectively leaves IAG with something approaching perhaps 90% of the independent repair buying market.

Conclusion

MTA's aim here has been to highlight the existing supply pressure put on collision repairers by the larger insurers, who current account for around 75% of the market. It is not simply pressure on the prices paid for the actual repair work, but the lack of compensation for the wide range of ancillary services and administrative tasks required by insurers.

Few collision repair shops can survive without insurance work, unless they have managed to carve out a niche for fleet work or a specialty area. Further consolidation of the companies that ultimately pay for repair work -- two companies with over 75% of the market -- will mean less bargaining power for repairers to seek fair and reasonable compensation for work done.

National contact details:

Member toll free phone: **0800 001 144**

Phone: **04 385 8859**

Fax: **0800 000 695**

Email: **info@mta.org.nz**

Website: **www.mta.org.nz**

Other contact information:

Stationery line: **0508 682 682**

Mediation service: **0508 682 633**

Human Resources Advisor: **04 381 8841**

Physical address:

Level 12, Nokia House, 13-27 Manners Street, Wellington 6011

Postal address:

PO Box 9244, Marion Square, Wellington 6141



www.mta.org.nz