



# **MOTOR TRADE ASSOCIATION**

**Submission to**

**Commerce Commission**

**On**

**Statement of Preliminary Issues**

**IAG (NZ) Holdings Limited / Lumley General  
Insurance (NZ) Limited**

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18 February 2014

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18 February 2014

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**MTA Submission: Statement of preliminary issues available for IAG/Lumley clearance application**

This submission is from:

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Thank you for the opportunity for MTA to provide comment on Statement of preliminary issues available for IAG/Lumley clearance application regarding the views of and its effect on the collision repair industry.

Yours sincerely

A handwritten signature in black ink, appearing to read 'DM', followed by a long, wavy horizontal line.

Dougal Morrison  
**Advocacy and Training General Manager**

# **Statement of preliminary issues available for IAG/Lumley clearance application**

## **Introduction**

The Motor Trade Association (Inc) (MTA), which represents approximately 4000 businesses with the automotive industry and allied services, takes this opportunity to convey views on the Statement of preliminary issues available for IAG/Lumley clearance application.

Members of our association operate businesses including automotive repairers, collision repairers, service stations, vehicle importers and distributors and vehicle sales. Our members employ in excess of 40,000 staff.

We appreciate the opportunity to comment on the Statement of preliminary issues available for the IAG/Lumley application and have the following comments to make.

## **Acquisition of Lumley General Insurance (NZ) by IAG (NZ)**

### **Statement of Preliminary Issues – Market Definition**

#### **Paragraph 17.2**

In view of the overlap in the supply of private and commercial motor vehicle insurance, we will also consider the following related markets:

#### **Background**

The Insurance Council of New Zealand report that for a 12 month period to September 2012 the Net Earned Premium by New Zealand's insurance companies for commercial and private motor policies was \$1.3 billion up \$43 million from the previous year however the cost of claims incurred during that same period have only risen by \$6.5 million for that same area. In the past 5 years insurance Loss Ratios have dropped from 73% to 63% meaning that for every dollar in premium they have received they have paid out 63 cents per claim.

New Zealand's leading insurer, IAG NZ, who trade under the State, NZI and AMI insurance brands and underwrite general insurance business for some of the country's leading financial institutions has reported its New Zealand profit at \$131 million to June 2013.

IAG NZ is by far the largest insurer in New Zealand with collision repair industry estimating that their market share of New Zealand's motor insurance industry is approximately 60%, however this figure has been difficult to quantify.

Currently they have approximately 340 "Approved Repairers" in their network. Policy holders from all underwriters who fall within this group are encouraged to deal with this network should they not have a repairer of choice. "Approved Repairers" are subject to a contract issued by IAG NZ which amongst other requirements sets out labour and painting rates. This contract is for a period of three years.

In December 2013, IAG NZ announced that it is reviewing this network and have already declared that a number of repairers nationwide who are currently IAG NZ approved" and non-approved have been unsuccessful in their application. It is expected that this figure will rise as they move into the next stage of their selection process.

With the profitable percentage declining, once successful business owners are now closing their doors and walking away from an industry which has endured continuous increases in operating and compliance costs with little or no current appetite from IAG NZ to recognise these factors and fairly compensate them.

From 2002 to 2012 inflation increased on average 2.9% per year during that decade. Power, rates, and insurance to name but a few commodities have increased dramatically during this period. Administration cost and time have risen considerably as repairers are being required to carry out functions traditionally conducted out the insurers.

Skilled tradesmen are making justifiable remuneration requests from their employers that are not affordable hence they are leaving. Apprentice numbers continue to drop with increasing numbers, who on the completion of their time are then moving to the lucrative Australian market. This is placing an increased and unsustainable pressure on an ever decreasing workforce.

Technology continues to evolve as manufacturers strive to make vehicles lighter and stronger by using sophisticated materials and components which in turn makes them more difficult to repair. With this brings a demand for higher levels of training and the need to purchase expensive equipment to ensure vehicles are being repaired correctly.

#### Anticipated impact on industry should IAG NZ acquire Lumley Insurance

There is a general perception throughout the overall collision repair industry that should this merger occur, IAG NZ, with its substantial market share, will have the ability to keep and hold the cost of collision repairs to a minimum.

Current rates and associated costs have not increased substantially over the past 10 years and it has been recognised that these are well below those required to run a successful panel shop. If this does not change the size of the collision repair industry will continue to dwindle as more repairers close their businesses resulting in trained staff moving into other forms of employment.

IAG NZ will continue to place greater demands on their network of "Approve Repairers" to purchase expensive equipment and expand staff training levels. Should there be no substantial increase in allowances to allow for this happen, this will be another undue financial burden on the business.

Should the acquisition of IAG NZ and Lumley Insurance take place, the current Lumley Insurance collision repair assessment process will move to the IAG NZ computerised platform (Online Repair Management). With previous IAG NZ mergers (NZI & AMI) this will involve a reduction in motor vehicle assessing staff numbers.

With Lumley's motor portfolio mainly concentrated in the sectors of heavy haulage and commercial insurance there is a concern that their current or any future "Approved Repairer" network will not cope with the increased volumes of work as was experienced after the merger with AMI. This will be to the detriment of the customer service offered to its cliental.

In a 2013 MTA Collision Repair Survey of Insurers, repairers were asked to rate the insurance companies with whom they conducted business. This involved answering a number of questions relating to the effectiveness of their individual claims, financial and relationship processes. The results were then transposed into a matrix index with 0 being "Poor" and 4 being "Excellent"

Once compiled, the "Overall results" index recorded Lumley Insurance scoring 3.26 compared to IAG NZ's result of 3.19. The overall industry standard score was 3.25.

Overall, out of the 14 Insurers who were reported on, Lumley Insurance were positioned 6<sup>th</sup> with IAG NZ positioned 11<sup>th</sup>.

In a similar survey conducted by the Collision Repair Association (CRA) some months later, Lumley Insurance was positioned 4<sup>th</sup> with IAG NZ positioned 11<sup>th</sup> out of 16 insurers.

When AMI merged with IAG NZ, AMI who traditionally has been the outstanding performer plummeted below the overall industry standard score.

It is anticipated that should this acquisition take place the same thing will happen to Lumley Insurance.

PartsTrader mark-up margins to repairers completing repairs for Lumley Insurance are currently more attractive than IAG NZ's. It is believed that these will revert to those allowed by IAG NZ.

### Submission

MTA submits that the IAG NZ acquisition of Lumley Insurance has the potential for an increased level of co-ordinated behaviour, particular were a collision repairer is outside the stable of IAG "Approved Repairers"

It is estimated that IAG NZ holds approximately 60% of the New Zealand motoring insurance market. Should this acquisition take place, MTA submit this will rise substantially creating an anti-competitive and unsustainably collision repair industry.

Should this acquisition be approved, MTA further submits that it should be subject to the following conditions:

1. The true market share of IAG NZ's private and commercial book is publicly revealed.
2. Given the significant decrease in claim loss ratios for the entire insurance market combined with IAG NZ's reported substantial profit for the 2012/2013 year, MTA ask that a review of premium increases for IAG NZ's motor portfolio over the past 5 years be conducted to identify trends.
3. IAG NZ undertakes a full review of its collision repair cost structures, time schedules and associated allowances including the provision for an administration allowance in the future. This should be done in conjunction with industry representatives from MTA and CRA.