MTAA AND AMBRA RESPONSE TO THE ACCC

IAG's proposed acquisition of RACQ and Allianz's proposed acquisition of RAA

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AUSTRALIAN MOTOR BODY REPAIRERS ASSOCIATION
THE NATIONAL VOICE FOR THE INDUSTRY

MOTOR TRADES ASSOCIATION OF AUSTRALIA

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Overview

The Motor Trades Association of Australia (MTAA) and its committee responsible for body repair issues, the Australian Motor Body Repairers Association (AMBRA) appreciate the opportunity to make this submission to the ACCC regarding IAG's proposed acquisition of RACQ and Allianz's proposed acquisition of RAA.

MTAA strongly opposes the proposed insurance acquisitions due to significant concerns about market power abuse and the broader impact on the Australian insurance industry. We urge the ACCC to reject these acquisitions and implement a nationwide regulatory framework to address systemic industry challenges and protect both businesses and consumers.

A less competitive insurance market will ultimately lead to higher costs, fewer choices, and diminished service quality for motorists. While repairers will bear the immediate burden, the long-term consequences will be felt by consumers through increased premiums and restricted access to high-quality repairs.

These acquisitions offer no benefit to our industry, no benefit to consumers, and only serve to reinforce the dominance of insurers who dictate market terms to the detriment of repairers and motorists alike. The lack of competition in the insurance sector is already a significant issue, and these acquisitions will only make matters worse. Allowing further consolidation will give insurers even greater control over pricing, repair conditions, and settlement terms, ultimately reducing consumer choice and fairness in the market.

To safeguard industry fairness and competition, MTAA calls on the ACCC and the Australian Government to:

- **Enforce a mandatory national Code of Conduct** for the Motor Vehicle Insurance and Repair Industry (MVIRI), ensuring consistent regulations across all states and territories. While the current Code is currently mandatory in South Australia and New South Wales, the absence of a penalty framework in NSW weakens enforcement.
- **Strengthen the MVIRI Code** through the 2025 Code review, introducing clearer dispute resolution processes, defined assessment timeframes, and enforceable sanctions to prevent unfair insurer practices.
- **Implement enforceable undertakings for mergers**, requiring merging insurers to meet strict conduct standards with significant penalties for non-compliance.

MTAA believes stronger enforcement measures are essential. The current lack of regulatory oversight allows large insurers to dictate repair practices, creating significant power imbalances that disadvantage small businesses. Existing penalties for non-compliance, such as the $50,000 maximum fine in South Australia, are too low to act as a deterrent for major insurers. Greater transparency is required to ensure accountability and prevent unfair practices.

To address these concerns, MTAA recommends the following next steps:

- ACCC to increase its oversight of the insurance sector to address insurer market power, improve transparency, and bridge data gaps to ensure fair competition and consumer protection

- National enforcement of the MVIRI Code to ensure all insurers adhere to fair and transparent standards
- ACCC involvement in the drafting and governance of the revised Code to ensure meaningful penalties and enforcement mechanisms
- Increased industry-wide data transparency to promote accountability and prevent anti-competitive behaviour

MTAA welcomes the opportunity to collaborate with the ACCC to implement these reforms and create a fairer, more accountable insurance industry that benefits both repairers and consumers.

Should you wish to discuss this submission further, please contact Matt Hobbs, CEO of the MTAA on 0419 609 845 or matt.hobbs@mtaa.com.au.

About MTAA and AMBRA

As the national automotive industry body, MTAA represents the unified voice of Australia's automotive industry, identifying and monitoring issues across all sectors, advising governments on industry impacts and trends, and actively participating in the development of sound public policy. Our focus encompasses the retail motor trades, the Australian vehicle fleet, and the mobility of local communities.

We represent over 15,000 businesses ranging from dealers to repairers, tow truck operators to service station businesses and every automotive retail business in between. These organisations make up a critical backbone of the Australian economy, selling, servicing, repairing, refuelling and maintaining Australia's 21.2 million strong motor vehicle fleet. Together, the sector contributes approximately $39.35 billion to Australia's GDP annually (or 2.1%).[1]

AMBRA is the national industry body representing motor body repairers across Australia. It operates under the MTAA and advocates for fair policies, industry standards, and regulatory reforms that support vehicle repair businesses.

Our response

We appreciate that there are significant challenges in the financial services sector, and that mergers and strategic partnerships also have the potential to deliver savings and other benefits to consumers as well as the companies involved.

[1] MTAA, "Directions in Australia's Automotive Industry – An industry report 2021", 2021. https://vacc.com.au/Portals/0/Publications/Industry%20Report%202021/2021%20Directions%20in%20Australias%20Automotive%20Industry_pp.pdf?ver=2021-05-20-14 Accessed February 2025

However, we retain some serious concerns about the potential deleterious use of market power from larger insurers in specific markets and we therefore oppose both acquisitions. Further, MTAA is of the view that the risks and negative consequences which flow from these acquisitions are present already in the Australian insurance marketplace, and that therefore:

- It may be unreasonable to apprehend and mitigate these risks for only companies who require a merger approval because:
    - This will not entirely obviate the risk in the market;
    - It would counter-intuitively benefit the position of competitors outside the merger; and furthermore,
- For future acquisitions, distribution arrangements and other scale initiatives, addressing a systemic problem now would remove a hurdle to approval.

Consequently, it is MTAA's view that the remedies we seek would be better imposed now across Australia, rather than being limited to the two companies or two markets in which the currently sought mergers are most significant.

Mandatory Code

As noted above, the optimal pathway of aligning incentives and addressing prevalent information asymmetries will face unsupportable costs.

At the same time, drawing on the experience of information sharing arrangements, voluntary undertakings in the motor vehicle industry are themselves asymmetric and insufficient to guarantee good faith behaviour.

MTAA believes the template for what might be done is found in the mandatory Motor Vehicle Information Scheme.[2] This scheme directly addresses an imbalance of market power, and the mandatory requirement for compliance simultaneously: specifies expected standards for the industry as a whole; and allows for a complaints-driven enforcement system rather than active policing.

A principal benefit of this Scheme is that it is nationally managed by the ACCC.

However, we also appreciate that this type of mandate may be outside the ACCC's ambit unless there is a corresponding change in Government policy or necessary legislation and regulation. In this case, MTAA would support:

- In the first instance enforceable undertakings to meet certain standards as a condition of merger approval, with significant penalties for non-compliance;

[2] ACCC, "Motor Vehicle Information Scheme". https://www.accc.gov.au/by-industry/cars-and-vehicles/motor-vehicle-information-scheme-mvis Accessed February 2025

- Ideally broader industry agreement to adopt those standards as an enforceable undertaking, under ACCC supervision and with more significant penalties.

We recognise that this may be an incremental path to full protection of the motor vehicle repair industry and associated businesses.

The MVIRI Code of Conduct

The appropriate code which might be considered by the Government and the ACCC for national mandate or similarly enforceable undertaking is the Motor Vehicle Insurance and Repair Industry Code of Conduct (MVIRI, the Code).[3] This is a joint code between the repair and insurance bodies, which for the moment remains voluntary except in South Australia and New South Wales (which lacks a penalty framework, making enforcement ineffective).

Without reviewing the entire Code, some key provisions are:

> 4.2a Repair estimates and work will adhere to manufacturer specifications, industry standards, legal requirements, and vehicle warranty conditions, considering the vehicle's age and condition
>
> 4.2b Provide accurate estimates for safe and professional repairs using original equipment manufacturer (OEM) specified methods and parts
>
> 5.1 Insurers must publish Network Smash Repairer (NSR)[4] membership criteria, allow repairers to register interest, confirm registration in writing, and provide a 14-day cooling-off period after signing (NSR) scheme
>
> 6.1a Insurers will ensure the estimation process is fair and transparent
>
> 8.1 In the ordinary course of business, an Insurer must pay agreed Repair costs no more than 30 days from settlement of the insurance claim or receipt by the Insurer or their agent of the final Repair invoice
>
> 10 Dispute resolution procedures

This is a fairly light touch instrument and would not be excessively onerous if it were to become nationally enforceable.

In the most recent review of the code by Dr Michael Schaper, the issue of enforceability (or lack thereof) was identified as a significant shortcoming, and the introduction of sanctions was recommended amongst

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[3] Motor Trades Association of Australia & Insurance Council of Australia, "Motor Vehicle and Repair Industry Code of Conduct", 1 May 2017. www.abrcode.com.au/site/DefaultSite/filesystem/documents/2017-03-29CodeofConduct.pdf Accessed February 2025.

[4] Essentially a 'preferred' repairer who may display the insurer's brand

other measures.[5] Industry negotiation on this, between the Insurance Council and the MTAA is due in 2025, and the new Code draft is yet to be publicly exposed.[6]

However, while MTAA cannot unilaterally provide a copy of the draft revised Code, we can confirm that the following dot points summarise the new key provisions from the MTAA's perspective:

1. Clarification of language: the existing code has a number of ambiguities which have been the source of dissatisfaction, as well as dispute between insurers and repairers as to what the Code requires;

2. The existing Code does not provide clear requirements for timeframes around estimation and assessment procedures, nor the process for those activities or the skills required of assessors. The new draft provides certainty around each;

3. Central to the MTAA's concerns, the new Code addresses the lack of clarity in the current dispute resolution process, as well as its frequent lengthiness. New provisions require shorter timeframes, as well as the potential for mediation and the appointment of an independent arbiter to resolve intractable disputes; and,

4. In response to Dr Schaper's recommendation, there is a new section of the Code which provides for sanctions, including warnings and monetary penalties. The latter are to be set at the discretion of the Code Administration Committee.

On the final point, a number of concerns remain regarding the real impact and enforceability of sanctions. What MTAA seeks is a uniform national approach which permits easy reporting by even the smallest repairers, and which is significant enough to change insurer behaviour. We expect that – rather than the prospect of modest monetary imposts – publicity and reputation risk are of the greatest concern to large insurance companies.

It would be most welcome if the ACCC were to bring its authority as a participant in the conversation around drafting and governance of the new Code. The proposed mergers are a timely opportunity to request such a conversation, and MTAA would be delighted to participate.

It is MTAA's view that any type of enforcement will have limited effect in the absence of regulatory oversight, which is both more serious than a voluntary approach, and which is more likely to excite public interest in undesirable behaviour: if the Code Administration Committee is to enforce a voluntary Code, its powers are ultimately limited to the sanction of excluding a signatory from that Code.

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[5] Dr Michael Schaper for the MVIRI Code Administration Committee, "Review of the Motor Vehicle Insurance and Repair Industry (MVIRI) Code of Conduct", April 2023.
https://www.mtaa.com.au/images/docs/submissions/2023/2023_MVIRI_Code_Review_Final_Report.pdf
Accessed February 2025

[6] Insurance Council of Australia, "Update on Industry Consultation on Draft Code", 10 December 2024.
https://insurancecouncil.com.au/resource/update-on-draft-motor-vehicle-insurance-and-repair-industry-code/ Accessed February 2025

Even in the case of current mandatory compliance – such as in South Australia – penalties for non-compliance are too trivial to affect large corporate behaviour. Penalties specified by the Small Business Commissioner are summarised as:[7]

> Depending on the nature and extent of non-compliance, enforcement action could include a written warning, issuing an expiation notice or prosecution.
>
> Failing to comply with the National Code can attract:
>
> - a civil expiation fee of $1,200 for a company and $500 for an individual
> - maximum penalties of $50,000 for a company and $10,000 for an individual.

By way of comparison, at end-December 2024, Allianz Group had a global capitalisation of €114.3 Billion (roughly $188 Billion).[8] It is difficult to see that written warnings and token expiation fees, or even the maximum penalty is material to a corporation of this scale. However, enforcement at a national level would have a more compelling effect.

The ACCC's increased oversight of the sector is a crucial step toward addressing concerns about insurer market power. Currently, there is limited data available beyond reports from industry members, making it difficult to fully assess the impact on competition and consumer outcomes. In the first instance, ongoing monitoring by the ACCC would help fill these gaps, providing greater transparency and ensuring that potential market imbalances are identified and addressed over time.

Supporting information: Economic analysis of the insurance industry

Motor vehicle insurance is a significant market in Australia, valued at $35.9 billion annually, or 32.2% of the overall general insurance market.[9]

Market share growth in the motor vehicle insurance sector is largely driven by the balance between two competing forces: insurers seeking to maximise profits and insured consumers aiming to maximise claim benefits. The resolution of these opposing incentives shapes market dynamics. For a detailed breakdown, refer to Appendix A.

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[7] Small Business Commissioner SA, "Motor Vehicle Insurance and Repair Industry Code of Conduct." https://www.sasbc.sa.gov.au/about-us/industry-codes/motor-vehicle-insurance-and-repair-industry-code-of-conduct Accessed February 2025

[8] https://www.allianz.com/en/investor_relations/share/share-price.html Accessed February 2025

[9] Ibisworld, "General Insurance in Australia", November 2024

To this extent, there is strong but imperfect alignment between consumer and insurer interests in preferring downward pressure on repair prices. However, this is an area where the imperfections may matter more than the alignment.

Information Asymmetry 1: Buying Insurance

The principal source of imperfect alignment between insurer and consumer interests lies with the impact of information asymmetry. This emerges from a number of sources, including:

- Simple scale differential: insurers manage vast groups of insured individuals and vehicles, which confers both substantial information benefits as well as the capacity to bear risk on a portfolio basis, whereas individuals face a limited basis on which to estimate costs, alongside the inability to diversify risk;
- As a corollary to the first point, consumers face high costs to obtain information and distinguish between different insurance offerings, which means they must rely on shortcuts to select insurers. This is compounded by the problem that insurance contracts are notoriously complex documents;
- Similarly, insurance firms are high-volume consumers of automotive repair services, whereas consumers are sporadic consumers at most, and face price incentives (typically no-claim bonuses) to minimise the frequency of their contact; and,
- Looking back to the two equations described above, there is not a strict correlation between the *individual* valuation of μWTP and the corporate pursuit of maximised $\mu\pi$. The former is idiosyncratic and the risk it seeks to cover is otherwise inalienable from the consumer in question. In contrast, insurance firms can do two things:
    - First, because motor vehicle insurance is risk-rated, they can charge a variable margin to riskier customers, not only to recognise their higher likely costs (C) but at the same time because as less desirable clients for whom there is lower market competition, they can be charged a contribution above expected costs which exceeds $\mu\pi$; and,
    - In a refinement to this approach, insurers[10] can prefer to weight their portfolios with lower risk consumers and vehicles, utilising the tool of positive selection, sometimes known as cream-skimming.

The real consequences of information asymmetry have been illuminated in recent years where ASIC has pursued both RACQ and IAG in relation to price disclosure failures.[11]

[10] This commentary relates to comprehensive insurance, whereas compulsory third party insurance (CTP) is commonly both price-regulated and does not permit refusal to insure. See for example Licence Condition 12 of the NSW CTP Insurer Standard Licence Conditions: https://www.sira.nsw.gov.au/resources-library/ctp-insurer-standard-licence-conditions Accessed February 2025

[11] Australian Securities and Investment Commission, "ASIC sues RACQ over alleged pricing discount failures, urges industry to improve pricing practices", 24 February 2023. https://asic.gov.au/about-asic/news-centre/find-a-

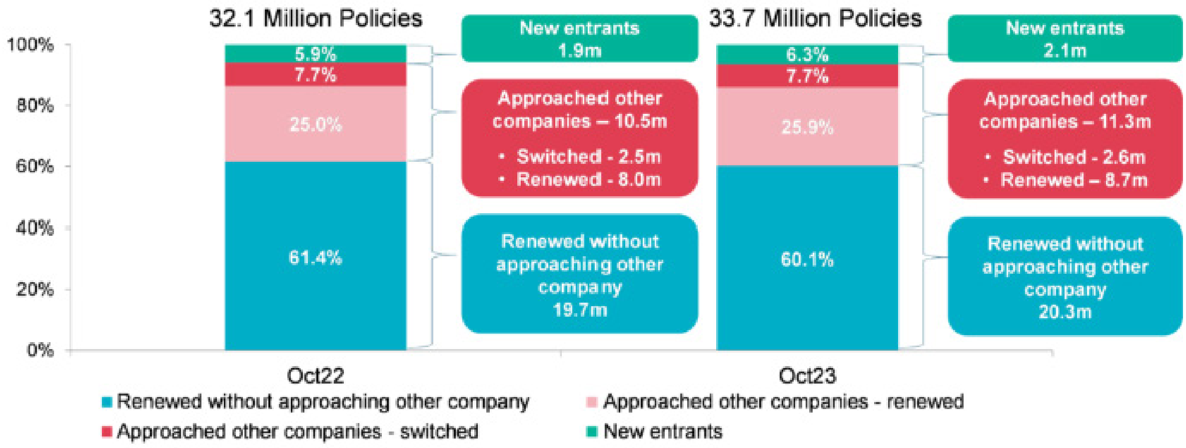
For the mergers addressed in this submission, the most important take-out is that because of the information gulf between insurers and their clients, consumers must rely on a series of short-cuts both in selecting insurers, and in dealing with unexpected repair events.

Heuristics

The most obvious short-cut or heuristic used by consumers in selecting a motor vehicle insurer is the natural tendency to renew with the same firm for multiple years. This makes sense because of the costs associated with comparing insurers (typically time) and the prejudice that insurance policies are likely to be very similar in coverage and price.

A recent survey of household insurances shows that while there has been some marginal shift in behaviour, probably associated with the cost of living, around two thirds of Australian households renew their car insurance policies with the same provider year on year.

Figure One: Action taken with car insurance policies in the last 12 months (2022-2023)[12]



In the 2022-3 financial year, even though 33.6% of insured consumers at least made some effort at comparison, it was only 7.7% of the total group who ultimately switched insurers.

The second heuristic, which is intimately connected with the first, is trust: people will be less price-sensitive (and ultimately less price-aware) if they trust the insurance vendor. This is consistent with international studies which find that local insurers typically have more pricing power (capacity to set prices beyond marginal cost) than international brands.[13]

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media-release/2023-releases/23-038mr-asic-sues-racq-over-alleged-pricing-discount-failures-urges-industry-to-improve-pricing-practices/ Accessed February 2025

[12] Roy Morgan Research, "There were nearly two million extra vehicle insurance policies in 2023", December 4, 2023: https://www.roymorgan.com/findings/vehicle-insurance-policies-in-2023 Accessed February 2025

[13] Abdul Latif Alhassan & Nicholas Biepke, "Pricing power in insurance markets: evidence from South Africa", *International Journal of Bank Marketing*, 2019

This is presumably a significant part of the attraction of both the Allianz acquisition of the RAA Insurance business, and the IAG acquisition of RACQ's insurances. Motoring Clubs are consistently amongst the most trusted insurance brands.[14] More specifically, RAA, RAC and RACQ are the best rated car insurers for customer experience.[15]

For many people, and presumably more so for older Australians, these regional brands are still regarded first and foremost as motoring clubs, providing breakdown assistance and other services alongside a general insurance business.

Underscoring this value is that both acquisition deals not only take the insurance businesses of the two institutions, but provide for 25- and 20-year distribution arrangements, so the traditional parent bodies will continue to be critical marketing channels for the newly-merged insurance businesses.

The third critical heuristic involved in motor vehicle insurance relates to selection of repairer. Again, because consumption of crash and similar repair services is infrequent, consumers have very little basis on which to select a repairer.

This is where the phenomenon of 'steering' becomes important, that consumers see it as a benefit of their insurance contracts that the insurer will provide guidance on potential contractors, typically emphasising:

- Repairers with whom the insurer has a 'preferred' relationship, and who the insurer 'trusts';
- Speed of both commencement and completion of the repair services.

Anecdotally, the principal consideration of consumers is convenience.

Information Asymmetry 2: Choosing Repairers

Following from the previous section, a further example of information asymmetry is common in the consumption of repair services. This is characterised by a general lack of consumer knowledge regarding the content of repair and restoration services: with some exceptions, consumers lack the technical knowledge to assess the quality of repair work, beyond the superficial.

In particular, consumers have limited capacity to:

- Assess the quality of work done;
- Know if OEM parts are used;

[14] "NRMA, motoring clubs among most trusted insurance brands", *Insurance News*, 24 June 2024. https://www.insurancenews.com.au/local/nrma-motoring-clubs-among-most-trusted-insurance-brands Accessed February 2025

[15] "CHOICE survey: RAA car insurance in top spot for customer experience", *CHOICE*, 1 November 2023. https://www.choice.com.au/money/insurance/car/articles/car-insurance-customer-satisfaction Accessed February 2025

- Understand whether the work and selection of parts has an impact on future resale value of the vehicle, or may even void warranty contracts; or,

- Know that these issues have a material effect, or what questions to ask to assess optimal compliance.

These problems of asymmetry are not in themselves a consequence of large insurance companies. And they likely contribute to the shortcuts of trust and steering, as the large-volume purchaser of a service will correctly be judged to have more insight than an individual.

However, this conclusion presents some further risks. While insurers are not expected to be cavalier in their treatment of clients' assets and personal safety, their principal incentive remains profit maximisation. This has the potential to lead to some level of preference for price over quality. We note that the consequences of any short-cuts in repairs may go beyond vehicle resale value, as optimal repairs support broader public policy, such as the goals of the New Vehicle Efficiency Standard (NVES).[16]

It is notable here, that the question of how much steering to accept may in fact be outside the consumer's scope of options. In many cases, and almost certainly unknown to many consumers despite a lengthy disclosure statement, policies may severely restrict consumer choice. For example, if we look at policy clauses from IAG Group's largest insurer – NRMA, the rules are summarised as:

Figure Two: From the NRMA Policy Booklet[17]

If we choose to settle your claim by repairing your vehicle:
- see Option 1 on page 65
- then we decide the best way to repair the damage.

If you make a claim and we agree to repair your vehicle, we will arrange for an NRMA Partner Repairer to fix your vehicle or you may choose your own repairer to fix your vehicle if:
- you have Comprehensive Plus Insurance and you have added the 'Any Repairer' option – see page 25, or
- you have Comprehensive Insurance and: – you have added the 'Any Repairer' option – see page 38, or – your vehicle is a motorcycle, or

In trusting an insurer, and accepting a certain level of steering, the client is to some extent engaging the insurer not simply as a financial services provider, but as an agent. The issue of principal-agent problems is well understood in economic literature, particularly where there is either or both: misaligned incentives; and/or information asymmetry.[18]

The solution to this type of problem, which is in essence a special category of conflict of interest, cannot be found in an approach to the underlying information asymmetry, due to the costs involved (for individual consumers, who are the principals). Equally, because companies and individuals – as in this case and as discussed above - have different species of incentives, it is impossible to perfectly align those.

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[16] Commonwealth Department of Infrastructure, Transport, Regional Development, Communications and The Arts, "New Vehicle Efficiency Standard". https://www.infrastructure.gov.au/infrastructure-transport-vehicles/vehicles/new-vehicle-efficiency-standard Accessed February 2025
[17] MTAA, "Choice of Repairer Information Document", supplied.
[18] See for example: Sunit N Shah, "The Principal-Agent Problem in Finance", CFA Institute Research Foundation, 2014

The third but best solution is a combination of oversight and enforcement. This does not have to be a heavy touch, and can be designed to operate in exceptional, rather than ordinary circumstances. A combination of measures which would deliver such a solution is outlined below.

Defining Markets

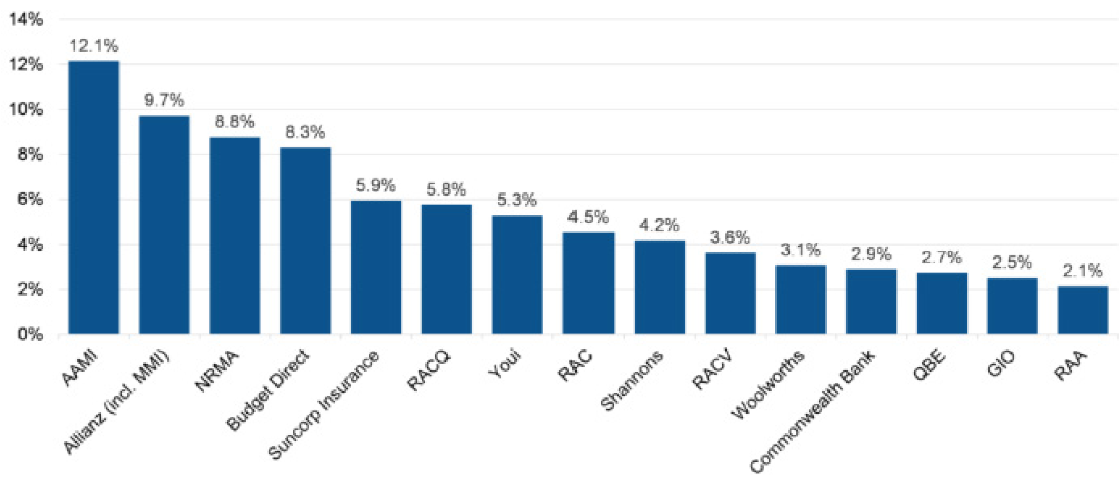
The MTAA notes that our concern is not with the national market for motor vehicle insurance. We are of the view that the proposed acquisitions of RAA and RACQ insurance businesses will lead to a catastrophic reduction in the competitiveness of motor vehicle and other general insurance markets across Australia.

The consolidation of IAG, Suncorp, and Hollard brands has significantly affected market dynamics, with Allianz also posing major challenges nationwide. Repairers in Queensland and South Australia are already anticipating increased pressure and unfair practices from these insurers, a concern echoed by repairers across the country. Issues include anti-competitive behaviour, inadequate cash settlements, and insurer-controlled standardised quoting methodologies that undermine fair competition and business sustainability.

We believe there is the capacity for consolidation of significant market power in the two regional markets (South Australia/Northern Territory) and Queensland from the proposed consolidation in part, this is because the acquisition targets are significant in each State and Territory, but also because as progeny of historical motoring organisations, their trust levels make them more robust to competition.

State share of car insurance markets is difficult to clearly establish, but some proxies may be used. First, consider recent data on new purchases of car insurance:

Figure Three: New Car Insurance Policy (First-Time Buyers) Market Share 2023[19]



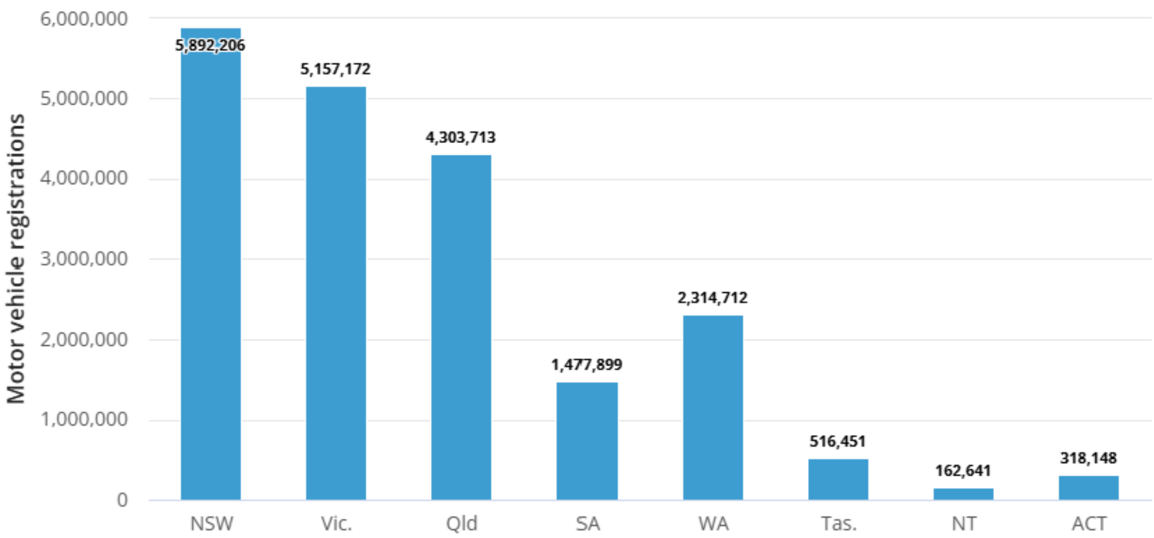
It is important to note that many of the entities shown in the charts above are affiliated sister companies, resulting in less competition than it may initially appear.

[19] Roy Morgan Research, December 4, 2023

This is inevitably the most competitive part of the car insurance industry, as new entrants have no capacity to simply renew (although they may follow family experience and recommendation). These data are also aggregately below some past estimates which put the IAG/Suncorp combined share of car insurance at around 70%:[20] Suncorp which is not involved in either merger is certainly a significant conglomerate, including AAMI, Suncorp Insurance, Shannons and GIO on the above list, amongst others.[21]

On a national basis, this would suggest competitive new market share of the combined Allianz/RAA of 11.8% and the combined IAG Group[22]/RACQ share of 20.2%. The implied IAG share of 12.4% is lower than the Group's share of overall general insurances in Australia (16.4%) and we are confident that the estimates in this submission are both cautious and conservative. Neither of these suggests a significant risk of market dominance national, but the picture changes when we look at State and Territory registrations:

Figure Four: Motor Vehicle Registrations by State and Territory, 2021:[23]



Looking at these data, we can see that:

[20] Motor Trade Association of South Australia, "Options for Strengthening Misuse of Market Power Laws Submission 2016", 12 February 2016 https://treasury.gov.au/sites/default/files/2019-03/C2015-061_MTA_SA.pdf Accessed February 2025

[21] https://www.suncorpgroup.com.au/about/brands Accessed February 2025

[22] Including NRMA and RACV, but with not data for CGU, SGIC, SGIO, Swann, Coles Insurance or others

[23] Australian Bureau of Statistics, "Motor Vehicle Census Australia", 30 June, 2021. https://www.abs.gov.au/statistics/industry/tourism-and-transport/motor-vehicle-census-australia/latest-release Accessed February 2025

- South Australia and the Northern Territory combined have 8.1% of national registrations, so even the RAA share of new entrants for those jurisdictions is at least 26%.[24] With the history of RAA and the benefit of renewal, that share will be much higher; and,
- The RACQ's 5.8% over 21.4% of the national market is even more significant at 27% if we assume it is predominantly limited to the Queensland market.

More directly, looking at the target insurers' annual reports, we note that:

- RAA has 823,000 members, and claims 468,000 vehicles insured,[25] so:
    - It has a 'trust' market share of 38.6% of the South Australian population;[26]
    - Its insurance business covers 28.5% of vehicles registered in South Australia (though historical data suggests this could be higher at around 35%);[27]
    - If we assume that Allianz's South Australian share follows its national share (9.7%), when combined with the RAA share, this would cautiously suggest a nominal market share of 38.2% of the South Australian market;
- RACQ reports 1.7 million members,[28] which is a slightly lower 30.4% trust share;
    - Claims 'over 700,000 members'[29] have car insurance with RACQ, which is ambiguous, as it covers individuals and households some of whom are likely to have more than one vehicle insured;
    - If we were to use this figure only, it would represent only 16% market share, and combined with IAG would only deliver 29.0% market share; but,
    - If RACQ's true vehicle insurance share follows a similar ratio to membership as the RAA, this would imply a 22.5% current share, or 34.9% merged with IAG.

We note these figures do not include some of IAG's smaller brands and distribution partners.

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[24] RAA overall market share divided by SA/NT market share (assumes that RAA is predominantly an insurer in SA & the NT)

[25] RAA, "Group Annual Report 2023-24: Better for members, better for our community". https://www.raa.com.au/about-raa/corporate-governance/annual-reports Accessed February 2025

[26] Cf. Australian Bureau of Statistics, "National, state and territory population", 12 December 2024. https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release Accessed February 2025

[27] Economic and Finance Committee of the House of Assembly, "An Inquiry into Motor Vehicle Insurance and Repair Industry in South Australia", 24 September, 2020

[28] RACQ, "Annual Report 2023-24", 10 September 2024. https://www.racq.com.au/about-us/corporate/annual-reports Accessed February 2025

[29] https://www.racq.com.au/car/car-insurance#policies Accessed February 2025

These data need further clarification as to current and potential combined market share, but by any measure they represent significant market share and associated market power.

It should be noted that over the past 15 years, insurers have strategically pursued slow and deliberate mergers, creating the illusion of a competitive market while systematically reducing competition and consolidating power. This long-term approach has also been applied to policy conditions and exclusions within insurance Product Disclosure Statements (PDS).

Market Power

Overall Equity

While this submission is made principally from the perspective of service providers rather than consumers, MTAA does note that market power in insurances has equity issues for consumers. This manifests in higher prices and price discrimination which can lead to higher coverage rates for consumers with higher willingness to pay, and lower coverage for those with lower WTP.[30]

This is important not least because willingness to pay is often dependent upon capacity to pay, and the potential for insurance premium inflation in the current economic environment will have greater bearing on those from lower socio-economic groups.

Impact on Repairers

The consolidation of scale, particularly combined with the acquisition of such trusted brands as RAA and RACQ will confer significant market power on Allianz and IAG in the South Australian and Queensland markets respectively.

Because of the issues of steering and agency discussed above, this market power will be most profoundly felt by suppliers of repair services, a significant proportion of whom the MTAA represents. These are typically very small localised businesses: for example, South Australia alone has 1,054 motor vehicle body, paint and interior repair businesses, which represents 7.1% of the 14,482 nationally.[31]

We anticipate four risks associated with potentially higher levels of market power in South Australia and Queensland, each of which we have already seen in various Australian markets in a small way, but which are likely to be amplified by a dominant market player.

First, there is the simple issue of volume. It is administratively simpler for an insurer to negotiate preferential pricing and other arrangements with larger multi-site suppliers. The operating procedure here is that insurers will tell customers with a claim that they can have a fast one-stop repair experience if they accept the insurer's nominated repairer or will need to get three quotes themselves if not. This is the essence of steering.

[30] Daniel Gottlieb & Humberto Moreira, "Market Power and Insurance Coverage", London School of Economics Financial Markets Group: Discussion Paper No.890, November 2023
[31] Ibisworld data (supplied)

This has the potential undermine the significant work previously done by the ACCC in ensuring smaller independent repairers have low barriers to access: in particular the insistence that independents have access to OEM technical information.[32]

Similarly, it has the potential to foster oligopolies such as those which persisted prior to the introduction of the *Competition and Consumer Amendment (Motor Vehicle Service and Repair Information Sharing Scheme) Bill 2021*[33] and the consequent Motor Vehicle Information Scheme. The ACCC will recall that much of the impetus to these measures was its conclusion from an industry survey that voluntary methods of information sharing had been inadequate.[34]

How this experience and the resulting scheme might provide a redress to the concerns noted in this submission is discussed at some length below.

The second issue with high levels of market power is the question of fair negotiation. Here, it is notable that the proposed acquisitions and stapled distribution contracts are taking place against a background of significant inflation in the car insurance market, in which premiums have risen quickly, but only in line with claims inflation. This means that – as their insurance insulates them from true claims costs – consumers only see premium prices rising without an attendant perceived increase in value. At the same time, competition and modest scale means that insurers have not had the levers to push this problem back to repairers, which limits the capacity to increase profit:

Figure Five: Recent Trends in Comprehensive Motor Vehicle Insurance[35]

Question 11 in the ACCC's market inquiries letter regarding these mergers[36] asks:

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[32] Australian Competition and Consumer Commission, "New Car Retailing Industry Market study: independent repairers' factsheet", December 2017

[33] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r6695

[34] CHOICE, *"Parliament tears down new car repair monopoly: CHOICE"*, 2021. https://www.choice.com.au/about-us/media/media-releases/2021/june/parliament-tears-down-new-car-repair-monopoly-choice Accessed February 2025

[35] Insurance Council of Australia, "Data Hub", Q1, 2024. https://insurancecouncil.com.au/industry-members/data-hub/ Accessed February 2022

[36] ACCC, "Allianz RAAI – Market inquiries letter", 31 January 2025. https://www.accc.gov.au/system/files/public-registers/documents/Allianz%20RAAI%20-%20Market%20inquiries%20letter%20-%2031%20January%202025.pdf?ref=0&download=y Accessed February 2025

> "Would the merged entity be likely to have the ability and incentive to reduce the prices or otherwise degrade the terms on which it acquires ancillary repair services."

The simple answer is yes, not least because consumers aren't typically aware of which repairers are excluded from the list when a preferred repairer is nominated: they can be steered toward firms with whom the insurer has a volumetric discount, and who are able to bear this due to returns to scale. The corollary is that independent repairers will naturally be asked – if they have the opportunity to quote – to match those terms.

This has the potential to:

- Lead to unsustainable pricing for businesses without scale
- Require debilitating terms of trade, particularly long payment terms, effectively making repairers lenders to insurers (whereas repairers are typically paid immediately upon job completion)
- Interfere with the expert judgment of the repairer
- Raise deep concerns about unsafe vehicle repairs, as cost-cutting pressures from insurers may compromise repair quality, putting road users at risk

This final point leads to the third dimension of risk associated with market power by insurers: the desire to push down repair costs – whether for price competition or profit motives – has the potential to lead to overreach in the insurer's role.

Consider a hypothetical but realistic case, in which an independent repairer has been asked by a consumer to quote on a crashed vehicle with damage to the front of the engine. The repairer adjudges that as part of the repair:

- The radiator needs replaced and as the car is still in warranty, an OEM part is quoted; and,
- A number of hoses and connections also need to be replaced to ensure optimal operation.

However, one of the insurer's preferred repairer has quoted on a third-party replacement part, and says that the hoses should be fine to retain. The independent is asked whether he can match these recommendations and the consumer is not sufficiently aware to understand the importance of the initial recommended work and parts.

This leads to a substandard outcome for consumers, if the cheaper pathway is followed. For repairers, it is an invidious position in which they need to make a choice between short-term income and longer-term reputation risk.

Additionally, a related concern is the growing number of policyholders who are told they can choose their own repairer, only to find that the insurer will cap its contribution to match the cost of repairs from a preferred supplier.

This is contrary to consumer expectations that their exposure in the case of an accident or other unexpected vehicle damage event will be limited to their policy excess or deductible.

What we are seeing is the emergence in a general insurance market of something akin to managed care in US health insurance: the insurer does not simply pay for what is needed and actuarially manage that risk; they actively intervene in the selection of remedies and their content; and limit care according to whether the client accepts a preferred supplier.

Selling gap insurance under the guise of comprehensive coverage is a well-known tactic that boosts profits without providing better outcomes for consumers. While it strengthens ties between large insurers and major suppliers, there is no evidence that it enhances competition or reduces costs for consumers in the long run.

Data Issues

Unfortunately, due to limitations in published data, MTAA is unable to conclusively comment on the risk of increased market power, or even the incidence of undesirable behaviour in the insurance industry.

Accordingly, our first request to the ACCC is that during the merger consideration period, some survey be undertaken of industry participants to better describe and quantify the operations and challenges of the motor vehicle insurance and repair sectors.

This would follow the template of previous Automotive Market Studies, but particularly focus on the scope and nature of the interrelationships between insurers and the repair sector.

MTAA represents a very substantial proportion of repairers and related service providers across the motor vehicle landscape, both in SA and Qld, and across Australia. We would be delighted to assist the ACCC in contacting our membership to ensure a high level of participation in any data-gathering exercise.

Unfortunately, the period of this initial consultation has been too brief to permit any such survey.

Next Steps

MTAA's preferred outcomes are a combination of more transparent industry data as well as either mandate or conditional enforceable undertakings to comply with the MVIRI Code of Conduct, at a national level, with appropriate penalties for non-compliance.

We would welcome the opportunity to discuss with the ACCC the issues raised in this submission and would be pleased to provide further data on the repair industry and experience.

Appendix A

The incentive to profit maximisation on the part of the insurer, given on a per-vehicle basis as:

Equation 1

$$\mu\pi = \frac{\Sigma Y - \Sigma C}{N}$$

Where:

$\mu\pi$ is the average net income per vehicle insured;

$\Sigma Y - \Sigma C$ is the gross difference between aggregate insurance premiums and aggregate costs for all vehicles insured; and,

N is the total number of vehicles or policies in the insurer's portfolio;

And the incentive to loss maximisation on the part of the insured consumer given as:

Equation 2

$$\mu WTP = \mu P - \mu eC$$

Where:

μWTP is the mean willingness to pay across all consumers (household and corporate);

μP is the average premium price per vehicle; and

μeC represents the mean of the expected annual costs which are deferred by insurance (which would represent the long-term average expenditure on collision repairs, hail damage and similar repairs).

In a sense, μWTP in the latter equation is a measure of the innate demand for general insurance at the unit level: it is the component of price which represents the consumer's utility from preferring risk transfer to a third party, rather than for example: establishing a private savings account with an annual allocation of individual eC; or otherwise privately bearing the risks of self-insurance.

These equations lead in turn to competing value propositions for new or retained customers, in which:

- Insurers have a clear incentive to minimise ΣC both because it is a direct cost to them and because it permits more room for price competition while maintaining profit margin; and,
- Consumers *similarly* (but not quite equally) have an interest in pushing down eC because, *ceteris paribus*, they assume this will lead to an equivalent fall in P (their premium price).

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