

The Hon Jamie Briggs MP  
Assistant Minister for Infrastructure and Regional Development  
Parliament House  
CANBERRA ACT 2600

By email: [MVSAreview@infrastructure.gov.au](mailto:MVSAreview@infrastructure.gov.au)

20 October 2014

Dear Mr Briggs

## **2014 REVIEW OF THE *MOTOR VEHICLE STANDARDS ACT 1989***

Insurance Australia Group (IAG) welcomes the opportunity to make a submission to the Department of Infrastructure and Regional Development as part of the review of the Motor Vehicle Standards Act 1989 ('the Act').

As Australia's largest insurer IAG experiences firsthand the extensive changes taking place in the global and domestic automotive industry driven by technology and consumer desire for safer vehicles. This is particularly true when it comes to working with expert, small business smash repairers to fix customer vehicles following a collision.

We believe it is appropriate that the Act be reviewed to ensure that it continues to meet its objectives, particularly in relation to safety and providing competition and consumer choice.

The proposed changes, namely streamlining of regulations that allow more direct imports of new foreign vehicles, will have implications for motorists who insure these vehicles, particularly when the vehicle needs repairs following an accident. While acknowledging the benefits of safety, consumer choice and affordable access to new and therefore safer vehicles, these implications, which will be detailed in this document, should be considered and understood by those who may purchase a foreign imported vehicle.

IAG does not support any relaxation of the present restrictions on the importation of second-hand vehicles. The consumer protection issues in conjunction with the safety ramifications we identify are justification of why current restrictions on second-hand vehicle imports in Australia should remain unchanged.

### **Second Hand Vehicles**

#### **The Risk to Safety, Consumer Protection and the Environment from Increasing Second-Hand Vehicle Imports**

One of the key objectives of the Act is to achieve better road safety. Relaxation of restrictions on the importation of second-hand vehicles will do the very opposite and be at odds with Australia's *National Road Safety Strategy 2011-2020*.

IAG does not support any relaxation of the present restrictions on the importation of second-hand vehicles. We believe the risk to safety, consumer protection and the environment would outweigh any consumer benefits in the form of increased consumer choice and competition in the used car market.

## **Repairing a second hand vehicle**

At a practical level, vehicles may make their way to our shores that have been previously involved in an accident.

The lack of readily available information regarding foreign vehicle history may expose consumers to purchasing a vehicle that unbeknown to them has been involved in a collision and is structurally unsafe.

Only an extensive safety regime would be needed to audit such vehicles to ensure previous repairs conducted in another market were conducted to a quality standard.

Without such a regime, such as the IAG Smash Repair Quality Program\*, the owner of a poorly repaired vehicle may only find out about a poor repair once involved in another accident.

## **Reparability, Repair costs and insurance premiums**

The importation of second hand vehicles will have other negative effects and practical difficulties for consumers, insurers and smash repairers alike.

Older second-hand vehicles tend to be subject to more frequent breakdowns and cost more to maintain. This is particularly relevant to directly imported vehicles that may not have been available new in the Australian market or directly imported second-hand models that are different to the locally sold and marketed model of the same vehicle. Parts for these vehicles may not be readily or immediately available, causing repair delays and additional expense for owners and insurers of these vehicles. Higher insurance premiums may be necessary to cover these higher repair and parts costs.

Similarly amongst the IAG repairer network, access to manufacturer specifications and methods of repair remains a significant issue for repairers which they anticipate will be exacerbated if the range of different models available increases.

## **Increasing the average age of the Australian Fleet**

Relaxing restrictions on second-hand imported vehicles will increase the pool of second-hand vehicles available to consumers and is therefore may lower the cost of purchasing a second-hand vehicle in Australia.

At the same time, allowing more second-hand vehicles to be imported into Australia will increase the number of older passenger vehicles being driven by motorists (which at 9.8%<sup>1</sup> is already significantly higher than the UK or Japan) and decrease the uptake of new vehicles with more advanced safety features. This will place motorists at increased risk of serious injury or death should they be involved in an accident.

From the perspective of putting downward pressure on the price of second-hand vehicles, increasing competition in the second-hand car market may appear beneficial to consumers. However, the benefit of cheaper second-hand cars is outweighed by the detrimental effect on road user safety by decreasing the take up of new safer vehicles and increasing the average age of the Australian fleet.

New Zealand's experience in allowing second-hand imports provides a valuable example of how liberalising restrictions on second-hand imports increases average fleet age and reduces road safety.

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<sup>1</sup> Australian Bureau of Statistics, 31 January 2013, 9309.0 – *Motor Vehicle Census, Australia*.

In 2013 the average age of New Zealand's light vehicle fleet was 13.2 years<sup>2</sup>. This is one of the oldest in the developed world and significantly higher than Australia (9.8 years) and almost double the United Kingdom (7.3 years<sup>3</sup>) and Japan (7.5 years<sup>4</sup>).

Part of the reason for this comparatively old fleet is the large number of used imported cars, which were imported into New Zealand in the early 2000's after regulations regarding importation of second-hand vehicles were liberalised (where second-hand vehicle imports make up 50% of all cars in New Zealand<sup>5</sup>).

The safety issues caused by an ageing fleet in New Zealand have been further compounded by maintenance issues that owners of older vehicles face and the increased risk that, as vehicles age and their market value declines, that owners put off servicing and repairs, further increasing the safety (and environment risk) to road users.

Vehicle age is a useful proxy for variables like vehicle safety. Hence the objective of lowering the age of vehicles on the road is considered such an important target in Australia's Road Safety strategy to reducing death and serious injury.

### **Consumer Protection**

Odometer tampering has been identified as a problem in New Zealand following the removal of second-hand vehicle import barriers. The New Zealand House of Representatives Commerce Committee has reported that substantial proportions of used Japanese imported vehicles had been subject to odometer tampering (productivity commission report). The extent of this practice has been put as high as occurring in 70% of all vehicles imported<sup>6</sup>.

Any relaxation of second-hand vehicle import regulations would also expose consumers to additional risk through misrepresentation and fraud.

The New Zealand experience highlights that greater importation of second-hand cars is likely to bring incidents of odometer tampering that represent a falsely lower mileage on a vehicle.

### **Recalls and Safety Notifications**

Another consumer risk with second-hand imported vehicles is the ineffectiveness of rectification and safety notifications or mechanical defect notices where these are issued in the vehicles' country of origin. This is because it is unlikely this information would be communicated to the new local owner.

### **Importation of New Vehicles**

IAG notes that many of the safety and consumer issues associated with direct imports of second-hand vehicles do not apply or are less relevant in the case of direct imports of new vehicles. As such they pose little if any community risk.

In fact the increased competition direct importation of foreign new vehicles will bring to the new car market in Australia may lead to better outcomes for consumers in terms of increased affordability of new safer vehicles.

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<sup>2</sup> Statistics New Zealand at [http://www.stats.govt.nz/tools\\_and\\_services/newsletters/price-index-news/oct-13-used-car-market.aspx](http://www.stats.govt.nz/tools_and_services/newsletters/price-index-news/oct-13-used-car-market.aspx)

<sup>3</sup> European Automobile Manufacturers Association Vehicles in Use Report 2013 at [http://www.acea.be/uploads/statistic\\_documents/2013\\_ANFAC\\_Report.pdf](http://www.acea.be/uploads/statistic_documents/2013_ANFAC_Report.pdf)

<sup>4</sup> Kitano, T. 2012 *Disguised Protectionism? Environmental Policy in the Japanese Car Market*, National Graduate Institute of Policy Studies at <http://www.iss.u-tokyo.ac.jp/~matsumur/automobile.pdf>

<sup>5</sup> Hall, S. 2014 'Cheaper second-hand imported cars a step closer' in Drive.com.au at <http://www.drive.com.au/motor-news/cheaper-secondhand-imported-cars-a-step-closer-20140214-32prt.html>

<sup>6</sup> Productivity Commission 2014, *Australia's Automotive Manufacturing Industry*, Inquiry Report No. 70, 159 Canberra. at [http://www.pc.gov.au/data/assets/pdf\\_file/0020/135218/automotive.pdf](http://www.pc.gov.au/data/assets/pdf_file/0020/135218/automotive.pdf)

Implications for making an insurance claim or for purchasing insurance however remain.

Where an imported vehicle has no local dealer/manufacturer presence or support, vehicles requiring parts for a repair may be off the road for an extended period of time. A customer who may be expecting a quick repair to their car may be caught out by extensive delays.

### **Safeguards that must be implemented for direct imports of new vehicles**

Any deregulation in this area must incorporate appropriate safeguards to ensure there is appropriate level of consumer protection, that the benefits of any deregulation are maximised and that those who may purchase these vehicles understand the potential pitfalls.

The potential safeguards include:

- That all new directly imported vehicles comply with applicable Australian safety and environmental standards.
- That there be appropriate regulatory arrangements with car importers that provides equivalent protections to consumers as that currently available to consumers purchasing vehicles from existing new and used car dealers.
- An education campaign support any change so those who purchase imported vehicles understand implications including any potential repair delays.

### **Harmonisation of Australian Design Rules with UN Regulations for light vehicles**

IAG supports the ongoing harmonisation of Australian Design Rules (ADRs) with United Nations vehicle standards regulations in order to reduce regulatory costs borne by Australian consumers through the price they pay for new motor vehicles.

IAG also agrees that the impending end of local car manufacturing in Australia warrants further and improved harmonisation as Australian consumers have no option but to purchase foreign made cars.

It is within this context that we also agree with the Australian Productivity Commission that, given the additional regulatory cost they impose, any existing and future unique ADR's that differ from the UN Regulations should be subject to and must be justified through independent cost benefit analysis. For example, a more stringent Australian safety design rule must be found to provide additional safety benefits to consumers in terms of lowering their risk of serious injury in a collision than would the equivalent UN standard.

In relation to methods to increase harmonisation of ADR with UN Regulations IAG supports the adoption of option 2 (as outlined on page 38 of the discussion paper) whereby Australia adopt UN Regulations as the primary motor vehicle standard, with the additional capacity to permit variations to suit Australian conditions where safety considerations demand this.

This method of harmonisation strikes the appropriate balance in relation to maintaining control of motor vehicles standards and regulatory efficiency, while at the same time ensuring that safety standards are not compromised and will continue to improve.

The Australian Government and all state and territory governments should justify any existing and future jurisdictional deviations from UN Regulations through comprehensive and independent cost benefit analysis.

## **ABOUT INSURANCE AUSTRALIA GROUP**

IAG is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing over 15,000 people. General Insurance refers to all forms of commercial or personal insurance but does not include life insurance. IAG has more than 750,000 shareholders.

IAG's businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann, WFI and Lumley Insurance (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); and AAA Assurance (Vietnam).

Across IAG's portfolio of brands IAG insures 10.3 million cars, 3.3 million homes, 107,000 farms, 128,000 employers and 555,000 businesses. IAG had more than 16.1 million policies in force in financial year 2014.

NRMA Insurance is also the only insurer to be invited to participate in the NSW Road Minister's Road Safety Advisory Council.

### **About the IAG Research Centre**

As well as being one of the largest car insurers in Australia IAG has and continues to undertake substantial investment in vehicle safety, anti-theft security and crash repair research through the IAG Research Centre. The Research Centre has been operating for 20 years and is the only insurance-based research centre in Australia.

The Research Centre is actively engaged in physical safety research. This has also included extensive research into driver distractions and vehicle visibility, with the Research Centre having developed the world's first rear visibility rating system in 2004 which has been published every year since. The Research Centre is also the provider of head restraint ratings that are now part of the ANCAP 5 star requirement.

In recognition of the contribution the Research Centre makes to motor vehicle design, safety and innovation NRMA Insurance has representation on the ANCAP Technical Committee and ANCAP Council and is the only insurer invited to be an ANCAP member.

Another important role of the IAG Research Centre is providing technical training and information to motor vehicle assessors. This function has become even more important in recent years as cars have become more complex and difficult to repair without the appropriate skills and equipment. It is also involved in a number of operational road safety activities including setting technical standards for repairs, distributing manufacturer's preferred repair methods and operating an assessor and repairer help desk, aimed at ensuring that cars we repair maintain their crash safety performance.

### **\*About the Smash Repair Quality Program**

The National Repair Quality Framework was launched by NRMA Insurance in March 2011. It involved a ten point repair plan to ensure high quality and safe repairs on all NRMA insured vehicles.

The main features of the Quality Repair Program are:

1. Lifetime guarantees on the workmanship of authorised repairs for the life of the vehicle.
2. Random Motor Assessor Quality Inspections.
3. Additional independent inspections by a group of quality assurance auditors.
4. Management of the end-to-end repair process by dedicated Repairer Performance Consultants.
5. Annual increases in inspections of vehicles.
6. The use of genuine parts as part of NRMA Insurance's Parts Guidelines.

7. In-house Assessor training including 6 and 12 monthly exams, manufacturer training and ICAR (new technologies) & PPG (paint finish) training.
8. Smash repair premises and equipment audits.
9. Performance management guidelines for partner repairers.
10. Regular reporting on safety, quality and alleged fraud breaches.

Since launching this program over 100,000 quality inspections of repaired vehicles and over 2,200 audits of repairer premises and equipment have been undertaken. Quality inspections are performed on at least 10% of all repairs authorised by NRMA Insurance, regardless whether the repairer is a partner or non partner repairer.

If you have any questions regarding this submission please contact Thomas Lunn on 02 9292 9582.

Yours Sincerely

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