



SUBMISSION TO THE ESSENTIAL SERVICES COMMISSION
PERIODIC REVIEW OF ACCIDENT TOWING AND STORAGE FEES



INTRODUCTION

WHO IS INSURANCE AUSTRALIA GROUP (IAG)

Insurance Australia Group (IAG) is the parent company of an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. IAG has more than 808,000 shareholders (as at August 2012). IAG's register is the third largest in Australia. IAG employs more than 13,600 people of whom around 9,000 are in Australia. Its current businesses underwrite over \$9 billion of premium per annum and pay over \$6 billion in claims per annum. Across our portfolio of brands IAG insures 7.7 million cars, 2.9 million homes, 103,000 farms, 117,000 employers and nearly 400,000 businesses. IAG had more than 16.1 million policies in force in financial year 2012.

Within Australia, IAG's Direct Insurance business provides personal insurance products as well as business insurance packages targeted at sole operators and smaller businesses in New South Wales (NSW), Australian Capital Territory (ACT), Queensland and Tasmania primarily under the NRMA Insurance brand. SGIO is the primary brand in Western Australia, and SGIC in South Australia. In Australia, IAG also has a distribution agreement with RACV (underwritten by Insurance Manufacturers of Australia – owned 70% IAG; 30% RACV) in Victoria. Products are distributed through branches, call centres, the internet and representatives.

Also within Australia, IAG's intermediated insurance products are sold nationally, primarily under the CGU Insurance and Swann Insurance brands through a network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. CGU is also a leading provider of workers' compensation services in Australia.

IAG'S INTEREST IN THE REVIEW

In Victoria, IAG has a distribution agreement with RACV (underwritten by Insurance Manufacturers of Australia – owned 70% IAG; 30% RACV). We are dedicated to continuous improvement in the quality and consistency of the end-to-end motor repair claims experience to make it easier to get people back on the road.

As an insurer with a network of towing suppliers, we depend on a sustainable and productive towing industry to support our members and customers, while helping to keep insurance premiums affordable in the long term.

ISSUES FOR STAKEHOLDER COMMENT

Setting the level of fees and charges

Other than the CPI-X annual fee no changes to costs are apparent.

IAG believes first-tow accident fees are at an appropriate level and should be maintained. Salvage costs can be volatile and charges differ greatly from operator to operator.

In our experience any regulated increases to towing flow-on and cause the costs for secondary unregulated tows to increase. These increases are in the greatest extreme in unregulated tows occurring in rural Victoria.

IAG believes industry benchmarking would be difficult for this unique industry. The challenges in doing so would be similar to those faced by the taxi services industry.

The annual adjustment mechanism

IAG believes the annual adjustment has been effective for operators to help manage CPI-X for their business.

We do not believe price decreases should be provided as we believe these CPI-X charges are fair and reasonable.

The regulation of salvage charges

Current rates remain fair and reasonable. IAG believes this fee should be regulated as an hourly fee with guidelines on what salvage should or should not be applied, taking into account what an accident tow fee incorporates.

Issues relating to secondary towing

IAG is currently satisfied with operator fees on secondary tow costs. These costs can range from \$80 to \$200 pending on the suburb. We believe there would be difficulty in regulating these fees because some secondary tows are not boundary based like accident tows.

The nature of a secondary tow includes:

- Vehicle towed from a repairer/tow depot to an auction facility to be sold as a total loss
- From repairer to repairer
- Sublet supplier to repairer
- From a customer's home to a repairer outside the regulated distance
- Any trade-tow outside of an accident tow

'Out of storage' towing

IAG has seen an increase in the incidence of this unregulated fee. It can cost up to \$88 to tow a vehicle from the back yard of a depot to the front gate and we lack control in using our preferred operators to perform this simple task.

IAG believes this fee should be included in the base towing fee.

Coverage of the base fee

In its 2010 review, the Commission recommended that the Act be amended to clearly specify what services the base towing fee covers. IAG supports this recommendation.

Treatment of non-commercial tows

IAG is satisfied with the present process around non commercial tows and does not believe further regulated change is required.

Opportunities for innovation

IAG believes in the strength of sustainable and long term working partnerships with its suppliers. These relationships are the key to innovation industry sustainability however certain forms of more prescriptive legislation may be required to address some of the issues outlined in this paper.

RESPONSE TO ADDITIONAL QUESTIONS

For accident tows, how frequently do operators impose additional (unregulated) fees, e.g. salvage, secondary tows, out of storage tows, cleaning costs etc? What is the level of these additional charges (relative to the accident tow fees)? Has the level of these fees been reasonable? How does their frequency and level compare to other states?

The level of (unregulated) additional fees has been minimal in the past, however we have started to see increases in fees to clean tow trucks with oil spillages after an accident. These fees can range from \$55 to \$75. To protect truck drivers against any risk associated with oil spillage, IAG believes \$55 is a reasonable fee to clean a large amount of oil from a tow truck.

IAG requests images to support these fees and pays a fair and reasonable amount for cleaning if it can be shown this cleaning was required.

Salvage fees can differ greatly and range from \$100 to over \$5000. IAG believes a regulated hourly fee for salvage is required.

Excessive salvage fees are occasionally quoted by operators who lack modern equipment to complete salvage within an appropriate timeframe while ensuring strict safety guidelines are adhered to. IAG believes alternate operators should be engaged in these instances to ensure the salvage is appropriately completed.

IAG has also identified an increase in additional salvage fees. In these instances we also request an image to support the undertaken salvage.

IAG is currently satisfied with operator fees on secondary tow costs which can range from \$80 to \$200 depending on the suburb.

Where you have been charged a secondary tow, has the towing operator sought the permission of the owner (or insurer) to perform the secondary tow, before it is undertaken?

The majority of the time an operator will not move a vehicle without an authority to do so. However we have found a small majority of operators will move a vehicle without an authority to avoid another tow truck taking the vehicle from their depot.

Have you noticed any change in the incidence or level of additional (unregulated) fees being imposed, following the change to legislation requiring fees to be 'reasonable'?

Yes. Salvage fees differ greatly and there is difficult determining and therefore justifying what work has been completed and what the correct cost would have been for the work undertaken would have been. This results in substantial resources required to investigate costs including the use of supporting photographs.

IAG is concerned by the increase in the costs charged to tow a vehicle from the back yard of a depot to the front gate when another operator arrives to pick up a vehicle. In questioning this charge we are informed external parties are not permitted to collect the vehicle on site due to occupational health and safety concerns. We believe this fee is unreasonable and should be reviewed accordingly.

IAG is also concerned by the trend of inclusion of toll fees on accident tow invoices; this is a commercial cost to the operator and should only be included on secondary tows.

Is there any evidence that this change has led to fewer (or lower) additional charges being imposed?

IAG believes this change has not lead to fewer or lower additional fees being charged.

Have any cases of overcharging been pursued with relevant authorities, e.g. VicRoads or VCAT? Is this a cost effective path given the level of overcharging?

Cases of overcharging are rarely pursued through Vic Roads and their engagement is limited to assistance is enforcement when vehicles are not released vehicles following overcharging of storage costs.

Cases of overcharging are linked to a small increase in particular towing operators attending accidents without an allocation. These operators are known to sit at busy intersections awaiting an accident to gain the opportunity of repair. Being at an accident within minutes an operator can convince a member of the public that they have had a call from Allocation to attend an accident.

For accident tows in the Melbourne Controlled Area, are vehicles being towed to an appropriate location? (Put another way, are accident towing operators listing a location on the Authority to Tow that is likely to require a secondary tow before the vehicle can be collected by the owner/insurer?)

This area is a growing area of concern for IAG. In some cases on some vehicles, customer instructions to towing companies are not followed and additional costs are then associated to moving the vehicle from the location the vehicle has arrived at against their wishes.

Do you provide your members an accident / breakdown service? Where that service involves a tow of the vehicle; do you have contractual arrangements with a towing operator to provide that service? or do you provide that service directly. In either case, how much does such a tow cost? How does this compare to Melbourne's regulated accident towing charges?

Yes. This work is all completed by allocation as part of the RACV break down service and is done through a contract with a commercial operator.

What other services / benchmarks could be compared to accident towing, and how do their fees compare to current regulated fees?

Breakdown costs offer a useful comparison:

Breakdown costs: From Monday to Friday, 7:00am to 6.00pm, the first 20 kilometres is \$63 then \$4.00 per kilometre thereafter to drop off.

From 6.00pm to 7.00am (after hours) first 20kms costs \$83 then \$4 per kilometre thereafter until drop off.

Break down cost for a vehicle 25 kilometre away then 25 kilometres back to drop off (before hours) = \$185

Compared to:

Accident costs: \$196.90 for the first tow, first 8 kilometres then additional \$3.10 per kilometre. After hours surcharge costs \$67.20 5.00pm to 8.00am Monday to Friday

Accident cost for a vehicle 25 kilometres away then 25 kilometres back to drop off (before hours) = \$329.10

Where smash repair services are required, what percentage of repairs is carried out at 'preferred smash repairers'?

On 26 February 2013 Insurance Australia Group implemented a new partnership model with smash repairers in the Greater Melbourne metropolitan area. It is difficult to determine the current percentages at this early stage of our new model.

What are the major issues that should be addressed by the Commission in its Melbourne fee review?

Opportunities exist to review the unregulated costs to move vehicles from a back yard of a depot to the front gate of the same depot when other operators to pick the vehicle up. IAG believes such costs are unreasonable.

Opportunities also exist in itemising invoicing. IAG believes invoices should be broken down by costs and charges rather than enter into back and forth between the insurer and operator that could otherwise be avoided.

For further information contact:

Damien Butler
Insurance Australia Group
damien.butler@iag.com.au
02 9292 1180