

News for insurance media editors from Trend Tracker Ltd

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For immediate release

Motor insurers face rising vehicle damage liabilities, says new report

Vehicles will soon become too complex for general all-makes bodyshops to repair competently, which could result in insurance companies being liable for personal injuries or fatalities that arise from incorrectly repaired cars, according to a new research study on the car repair industry*. Report co-author and Trend Tracker director Robert Macnab explains:

Insurers could be in breach of their duty of care obligations if repaired cars are involved in subsequent accidents involving injuries or loss of life, particularly where an insurer has intervened and prescribed an alternative repair method to that specified by the vehicle manufacturer. Insurers will increasingly need to employ specialist bodyshops capable of repairing specific types of car or specific types of damage.

These are some of the findings from a new wide-ranging research study into the future of the car body repair market in the UK published by Trend Tracker under its MFBI market study brand. The research shows that with vehicle manufacturers under pressure to produce cars that are lighter, stronger and more crash-resistant, they are using a range of new materials including high strength and ultra high strength steels, aluminium and plastic composites. As well as using new materials, vehicles are being designed to perform (or deform) in particular ways that protect both occupants and pedestrians in the event of an accident.

Phase 2 of the EU pedestrian safety legislation, to be implemented by 2010, will require significant changes to vehicles' front-end design and construction. As vehicle construction becomes more complex, both in terms of structures and the use of more active-safety electronic systems, vehicle manufacturers are stipulating specific repair methodologies to ensure that structural and systems integrity is maintained following a repair. Any divergence from these specified repair methods could compromise a vehicle's pre-designed crash resistance properties as well as occupant and pedestrian safety.

More investment needed

New materials which are critical to a vehicle's crash performance require specialist repair techniques and equipment. Over the next few years, bodyshops will be required to provide significant levels of investment in new equipment and training to ensure they are capable of repairing the current and next generation of more sophisticated vehicles. There is already a growing occurrence of cars that have been placed within an insurer's approved repair network for repair but which have needed remedial work or specialist repair by a vehicle manufacturer's approved repairer.

Unless the members of insurers' approved repair networks are able and willing to invest in the training and new equipment necessary to repair the current and next generation of more complex cars, insurers will face little alternative but to place a higher proportion of accident-damaged cars with a vehicle manufacturer's approved repair network, rather than their own approved repairers, to avoid any potential duty of care liabilities. At present, a high proportion of insurers' approved bodyshops comprises independent bodyshops rather than those operating under a car manufacturer's brand. To ensure that independent bodyshops are capable of repairing modern cars will require significant investment, but the profitability of many bodyshops is too low to enable that investment.

An analysis of bodyshop accounts in the new report shows that a typical independent bodyshop that carries out repairs for insurance companies will make a net profit of £28,000 on a sales turnover of over £1.2m, which equates to a return on sales of just 2% and a profit of £22 per repair. Independent bodyshops generally achieve respectable direct profits (gross profit less direct expenses) of around 20% of sales turnover, but these are whittled away by high overhead costs which are likely to increase further.

Franchised dealers with bodyshops are required to make the necessary investment in bodyshops to maintain standards as part of their franchise agreement, but unlike independents, their overhead costs can be absorbed across other more profitable dealership departments. The report's analysis of dealer composites for a volume car manufacturer shows that whereas a dealer bodyshop achieves £5.16 direct profit per hour sold, a dealer service department makes £19.35 per hour sold, the principal difference being the higher

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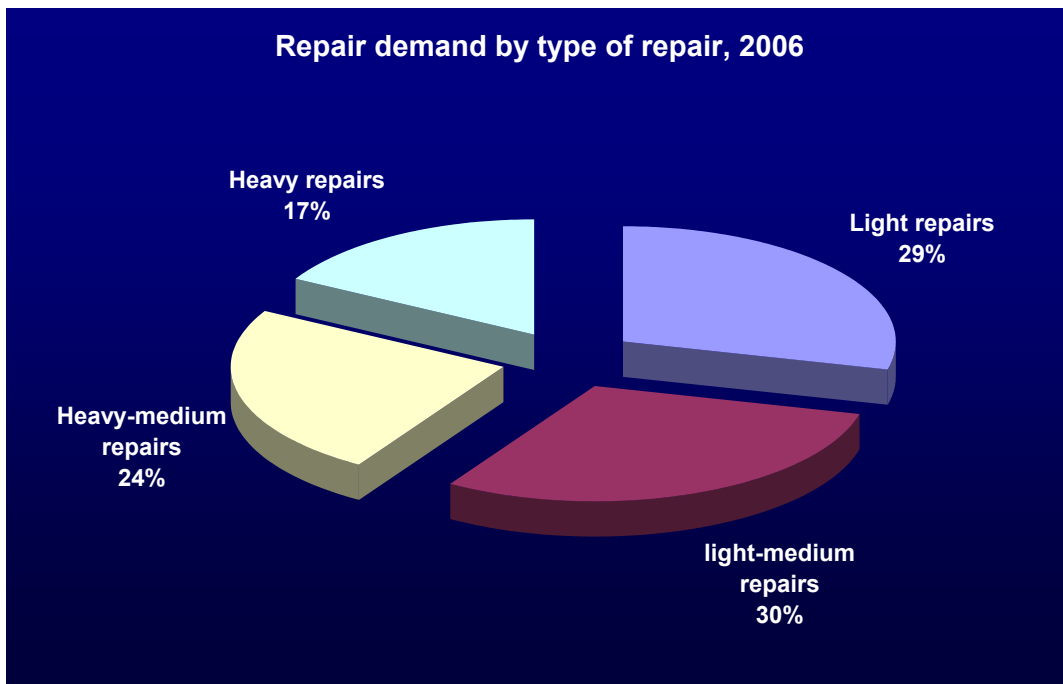
service labour rate of £44.50 compared with 23.50 in the bodyshop. If insurers are forced by vehicle complexity to place a higher proportion of repairs with manufacturer-approved dealer bodyshops, it is likely that these approved bodyshops will seek higher labour rates for approved repairs.

Model-specific repair techniques

As vehicles become more complex, repair methods will become more manufacturer- and model-specific than in the recent past. Consequently, insurance companies and their engineers will be less free to specify alternative cost-saving repair methods, or they will run the risk of being in breach of their duty of care to their policyholders and other road users as a result of not using the manufacturer’s specified repair method.

Repair specialisation

Insurer’s potential liabilities are most at risk when cars suffer structural damage during an accident. The MFBI study shows that structurally damaged cars currently account for up to 40% of all current repairs after allowing for total losses. The study recommends that repairs should be assessed for damage severity and then sent to the specialist repairer that is capable of carrying out the correct repair.



The study suggests that pre-repair assessment or ‘triage’ centres will be required to establish the extent of damage severity *before* a car is sent to a bodyshop for repair, and not after, as tends to be the practice at present. This will enable repairs to be organised on the basis of specialisation, either by make of car or type of repair, which will enable bodyshops to maximise their return on investment and ensure that the correct repair methods are employed. The majority of smaller non-structural repairs could still employ standard or generic repair methods and could therefore be carried out by bodyshops specialising in lighter repairs.

The MFBI study categorises smaller repairs into two categories of ‘light repairs’ which account for 29% of all current repairs, and ‘light-medium’ repairs which account for 30% of all current repairs. Light repairs would include fairly superficial or cosmetic damage which could be repaired using SMART (Small to Medium Area Repair Techniques) repair methods, while light-medium repairs may require outer panel replacement but not structural repair. Overall, the MFBI study shows that the repair of vehicles is experiencing a step-change in terms of technology and expertise, and insurance companies will have to respond with care to avoid an increasing liability risk. **The Car Body Repair Market in the UK, published August 2006*
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Notes for editors

Details of the contents of this MFBI report, *The Car Body Repair Market in the UK*, priced at £795, can be downloaded from www.trendtracker.co.uk, or obtained via email to: info@trendtracker.co.uk or by calling Charles Oakham on +44 (0)870 421 4350.

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About Trend Tracker Limited

Trend Tracker conducts qualitative and quantitative research for a wide range of automotive clients, besides publishing Trend Tracker and MBFI brand studies on the vehicle, motor finance, aftersales, body repair and other automotive segments. The company also assists clients in implementing performance improvement through training and development programmes.