FINANCIAL REVIEW

HD **Suncorp's smashing car award**

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Chanticleer

General insurer Suncorp Group wins Chanticleer's 2014 award for the most successful micro-economic reform in any industry in Australia thanks to its top to bottom transformation of the multibillion-dollar car smash repair business.

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This is the inaugural prize in a contest that may well go into hibernation because of the general lack of enthusiasm in corporate Australia for taking on vested interests.

It is fitting the award is being made on the same day Boral chief executive Mike Kane is being lauded for his gutsy decision to take on the powerful Construction, Forestry, **Mining** and **Energy** Union.

However, the Kane victory reflects his willingness to confront a single bottleneck in the construction industry supply chain.

Over at Suncorp, the head of the **company**'s personal insurance division, Mark Milliner, managed to change every facet of the smash repair supply chain.

This warrants a Chanticleer tail feather because it combines new processes, use of infrared paint-drying technology to speed up repair times, just-in-time parts supply and dramatically different labour practices.

The productivity gains in the Suncorp smash repairs business have been stunning. There have been materially significant financial benefits.

One unanswered question is whether those gains will flow equally to Suncorp's shareholders and to its insurance policyholders.

However, the structure of the general insurance market, whereby 60 per cent of the business is shared between Suncorp and Insurance Australia Group, means there are incentives for policyholders to gain from micro-economic reform.

Milliner's idea for changing the smash repair industry from a cottage industry to an industrial scale machine came to him when he worked as an insurance assessor for Suncorp.

He could see the inefficiencies and learned firsthand the frustrations of customers who were unable to use their cars for lengthy periods despite needing simple repairs.

Milliner also saw firsthand the ripoff that is involved in the supply of parts, as each participant in the supply chain earned a profit.

A report prepared for Suncorp by Allen Consulting Group in 2013 found that the difference between the price paid by vehicle assemblers and the replacement market could be as high as 700 per cent by the time they reach the consumer.

For example, a component that cost $20 to manufacture would sell to an assembler for $21, but the following margins would be added for the aftermarket: intermediaries $44, dealers $27 and the smash repairer.

That would take the cost to the consumer to $140 or seven times the cost of production.

Suncorp's own research through forensic engineering **company** Delta-V Experts found the total cost of parts in Australia for a $21,000 medium-sized hatch, such as a small Hyundai, would be be $114,081, or 543 per cent of the car's **purchase** price.

As an insurance man through and through, Milliner realised that if he could lower or, at the very least, cap the cost of repairs he could lift the Suncorp insurance trading margin.

However, he also realised that with industrial scale smash repair **operations** he could significantly lower the time to complete a repair and thereby dramatically improve customer satisfaction.

The size of the Suncorp personal insurance book meant that greater efficiency would deliver huge savings.

Suncorp home and motor claims spent more than $2.8 **billion** in 2013-14 on repairs.

Milliner also knew that any move by the insurer into an adjacent industry would require specialist expertise. That is why he entered into a joint venture with an expert: Jimmy Vais.

The SMART smash repaid joint venture now has 26 smash repair centres nationally. It repairs 2500 a week on average or drivable cars or about 130,000 a year out of about 500,000 repairs a year across Suncorp.

The new system has managed to keep repairs capped at $1.2 **billion** over the past two years. Customer satisfaction is up because the average repair time for a drivable car has been cut from six days to 10 hours.

This week, the project was extended to include home repairs. This involves a joint venture with a **company** in Melbourne called Home Repairs.

This aims to cut the cost of insurance claims below $10,000. That is a critical number because in the Melbourne Hail Storm 85 per cent of all home building claims were under $10,000 and in the 2013 Cyclone Oswald about 80 per cent of all home building claims were under $10,000.

There are now three businesses in Suncorp personal insurance business that vertically integrate repairs.

Revenue from the smash repairs under SMART, parts under ACM Parts and Home under Home Repairs are expected to rise from $200 **million** next year to $400 **million** in three years.

Lack of financial literacy is one of the main reasons why so many Australians are ill-equipped to push back against people selling high risk investments or unsuitable financial products.

While commission driven sales people played a key role in the financial disasters of the past decade, the blame for the heavy losses must be shared by those who handed over the cash.

The dire state of Australia's financial literacy was exposed on Wednesday with the release of new research which tracks the financial attitudes and behaviours of consumers and investors.

The research, which was conducted in August by the Australian Securities and Investments Commission, shows that at least two thirds of the population has little if any understanding of the concept of the risk/return trade-off.

When asked about the concept 41 per cent of those surveyed said they hadn't heard of it, 28 per cent said they had heard of it but didn't really understand it; and 9 per cent of the 30 per cent who claimed they understood the concept of risk-return tradeoff were unable to accurately describe the concept when tested.

Another startling statistic is the one that shows the willingness of people to put money in products they don't understand.

Of the third of surveyed Australians who said they held investments other than superannuation and/or their home, 1 in 10 said they'd invested in something they didn't understand in the past six months.

These brief excerpts add to the compelling arguments in favour of more Australians seeking professional financial advice.

But the survey found that only 38 per cent of surveyed Australians said they had a short-term (three to five years) financial plan in place. Of these, 36 per cent had not monitored their progress over the past six months.

Even fewer (22 per cent) reported having a long-term (15- to 20-year) plan in place. Of these, about three quarters had a short-term plan.

There was some favourable headline news in the latest edition of the World Intellectual Property Indicators, which tracks global intellectual property filings.

The data, published by the World Intellectual Property Council, shows Australia ranked second behind **China** in 2013 for the fastest growth in filings.

China, which accounted for a third of the 2.6 **million** patent applications in 2013, saw its filings grow by 26.4 per cent in 2013 while Australia's grew by 12.7 per cent.

However, when you dig a bit deeper the picture is less favourable for Australia. It is not our home grown entrepreneurs driving the growth in patent applications.

Almost all the growth in Australia's patent filings in 2013 was from non-resident applicants. **China**'s double digit growth was almost all from resident applications.

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