To write off or not

When a vehicle is written-off, there is money to be made, both by ethical and unethical means. For Motor Month, RISKSA takes a look at the intricate lifecycle of a written-off vehicle, examining the process from start to finish and then following the money changing hands. We even take a tentative step into the underground economy after a write-off.

Frances Bailey
At the scene and beyond

From the accident scene, the vehicle is towed by an independent towing operator. "At the scene, it could be a straight accident tow, easy to pick up, or if the vehicle is down a steep embankment you might need two trucks to salvage it without causing further damage," explains Danie Antill, general manager of Cape Road Assist.

After towing, the vehicle will sit in the impound lot until a release fee is paid to the tow truck company. These fees are known to vary greatly depending on the circumstances.

"While it is not straightforward to charge fixed rates, there is a lack of regulation within the tow truck industry and a dire need for the standardisation of fees," Antill points out.

However, many salvage dealers offer free storage to insurers for a written-off vehicle once it is released into their possession.
According to Dynamic Salvage Management (DSM), many insurers don't move the vehicle from the impound lot to the salvage yard quickly enough.

"The chain is a bit inefficient. Vehicles are left for a week or more, coating the insurer in excess of R7 000 to release from the impound lot," says owner Mark Teichmann.

Managing director of Salvage Management & Disposals (SMD), Jan Van Wyk, explains the next steps that follow – from storage to assessment and possible write-off.

"When the vehicle arrives at the storage yard, it is stocked-in through a comprehensive process including checklists, and a visual inspection of the vehicle is recorded. Specifically, our technology captures a complete 360-degree visual representation of the vehicle in high definition, which is accessed by both the assessors and insurers, and in our case, one of our representatives as well," he explains.

"Typically, assessment facilities are offered to the client which enable them to assess the vehicle in an independent environment. In our case, this is done at SMD, as they arrange pick-ups from the towing and storage yards. "Once the vehicle is a write-off, we are notified to collect it. There is normally a release fee, which we pay to the towing and storage company on behalf of the insurer," he begins.

"We bring the vehicle to the stock and notify the insurer of the stock number, giving them the engine chassis details so that the insurer can confirm with client that it is the right vehicle. And then the vehicle stays with us until the insured gets paid out. Finally, in accordance with the South African Insurance Association (SAIA), the vehicle is categorised as a code 2, code 3 or code 4 and we can auction it off and deduct the storage fee," he says.

But why do insurers write-off an accident-damaged vehicle in the first place if it is still viable for repair?

Two wrongs don't make a write-off

"The insurer may need to write off the vehicle if it's going to cost them more to have it fixed and returned to the original roadworthiness state, explains Zakes Sondiyazi SAIA manager: motor insurance risks, adding that there is no specific percentage value, and this differs from company to company and in consultation with the policyholder."

"Typically, assessment facilities are offered to the client which enable them to assess the vehicle in an independent environment. In our case, this is done at SMD, as they arrange pick-ups from the towing and storage yards. "Once the vehicle is a write-off, we are notified to collect it. There is normally a release fee, which we pay to the towing and storage company on behalf of the insurer," he begins.

"We bring the vehicle to the stock and notify the insurer of the stock number, giving them the engine chassis details so that the insurer can confirm with client that it is the right vehicle. And then the vehicle stays with us until the insured gets paid out. Finally, in accordance with the South African Insurance Association (SAIA), the vehicle is categorised as a code 2, code 3 or code 4 and we can auction it off and deduct the storage fee," he says.

But why do insurers write-off an accident-damaged vehicle in the first place if it is still viable for repair?

Two wrongs don't make a write-off

"The insurer may need to write off the vehicle if it's going to cost them more to have it fixed and returned to the original roadworthiness state, explains Zakes Sondiyazi SAIA manager: motor insurance risks, adding that there is no specific percentage value, and this differs from company to company and in consultation with the policyholder."
A fl exible, future-proofed customer experience solution for the insurance industry

But execution even more so

The pace of innovation has increased tremendously. Consumerism, the Internet of things, and emerging technologies that offer new value propositions impact every part of the insurance lifecycle. Practically all insurance companies would agree: innovation is enormously important.

But executing on innovation is hard. Often insurance companies find there are barriers to implementation. How to turn ideas into profitable action? How to identify the key benefits from innovation? How to create an effortless experience and be cost-effective at the same time?

Many questions, one answer: Roundcube. We help insurance companies succeed in today’s challenging environment. With innovative software solutions and flawless execution.

Empower your business and execute on innovation.

Roundcube

A flexible, future-proofed customer experience solution for the insurance industry

About Roundcube

Roundcube is a general insurance solutions software provider and is a wholly-owned subsidiary of CCIS, the market leading insurance solutions provider in the Netherlands. The company brings a culture of grounded Dutch innovation to the South African insurance industry, drawing on 30 years of experience of supporting many of the world’s leading insurers.

Innovation is important
OEM versus alternative parts

Alternative parts offer a solution to insurers who want to reduce their write-off ratios. There are also instances where the insured wishes to repair the vehicle, but the cost of using original equipment manufacturer (OEM) parts makes it uneconomical to do so.

The use of second hand or alternative parts is then a viable option according to Rene van Coller head of claims at One Insurance.

“To achieve acceptable loss ratios on motor books – and also to contain premium increases – it is imperative that insurers manage their repair costs. The cost of alternative parts could average as much as 40 per cent lower than original equipment manufacturer parts. On windscreens the costs are as much as 50 per cent less,” Botha says.

Repair Solutions founder Peter Todd says that the approach that most large insurers have adopted is not to fit an alternative part where the manufacturer’s warranty conditions will be jeopardised or where there is any uncertainty as to the quality and safety standards of the alternative product. George adds that they are specifically useful for non-safety-critical components such as bumpers and fenders.

“it is interesting if you compare this practice to the glass industry that faced a similar challenge some five years ago. There was huge resistance among local manufacturers and suppliers of auto glass but if you look at the same suppliers now, you will see that they have adopted the practice of offering alternative glass as one of their cheaper options,” she reveals.

Todd adds something to put the consumer’s mind at rest: “A good comparison of approved alternative parts (not pirated parts) is the example of generic medicines, which are effectively the same medications but are affordable enough to be covered by medical aids. We’ve certainly had hardly any comeback from the vehicles in our networks that are repaired using alternative parts,” he says.

From the repairer angle, however, the standard mark up allowed by insurers of 25 per cent doesn’t encourage the use of alternative parts. Nor does the settlement rebate on original parts offered by manufacturers, which Todd believes could be as much as 12 per cent. Fitting alternative parts can also be more difficult which increases labour hours that are not originally quoted to the insurer.

Todd illustrates this with a simple example: “If the part is R100, the repairer will get R25 from the mark up, but if he used an alternative part, his mark up would have amounted to 60 per cent less, at R10. So now, through services such as ours, the insurer will still offer him R25 on the cheaper part, or even offer additional incentives to offset the loss of labour time or settlement rebates.”

SAFETY IS OUR PRIORITY

No matter what life throws their way, your clients can rest assured that we’ll be there when they need us. Our new “Star Drive” technology provides scoring information, automatic crash detection and accident validation data, providing peace of mind, as part of our many telematics solutions. Altech Netstar, we take action so you get your own back.

Call us on 0860 12 24 36 for more information on Altech Netstar’s Stardrive.

GET YOUR OWN BACK

www.netstar.altech.co.za
Does the sum of parts really exceed the value of the vehicle?

Advocate Sonnekus claims director of Oakhurst Insurance.

Especially in the case of older vehicles, yes:

Taking the example of a particular vehicle, such as a Peugeot 307 1.6 2008 model, which has a ‘market value’ of approximately R70 000, and assuming that it is a “Code 2’ vehicle and that the insurer has a fixed percentage contract with a salvage contractor, then the mathematical calculation reveals that the insurer will in all likelihood not want to spend more than R49 000 on repairs (R70 000 less 30 per cent salvage value equals R49 000).

Now, assuming that the accident caused damage to the front of the vehicle, the following parts prices can be expected in order to replace damaged items:

- Front bumper    R 4 600.00
- Grille     R 1 200.00
- Bonnet     R 5 300.00
- Headlamp    R 2 400.00
- Fender     R 2 100.00
- Front cross member    R 3 100.00
- Front door    R 5 300.00
- Roof panel         R 3 100.00
- Airbag    R 4 800.00
- Seat belt     R 4 100.00
- Roof lining    R 7 000.00
- Front support frame    R 8 900.00
- Instrument panel    R 10 000.00
- Airbag control unit    R 4 800.00
- Steering knuckle    R 3 800.00
- Steering gear (complete)   R 9 500.00
- Air conditioner condenser   R 3 100.00

Total:                                         R 83 100.00

It is clear from this example that certain key parts/component such as airbags, seat belts, instruments, air conditioner components and even bumpers and fenders have a profound effect on the cost of repairs to the car.  The prices listed above are only for the larger items.  In addition to these there are a large number of smaller ancillary items that have to be replaced to put the car back in the position that it was before the incident such as clips, brackets, hoses, clamps, shrouds, tensor struts etcetera. On top of that comes the cost of removing the old damaged items and replacing (refitting) the new undamaged items. Items to be painted not only require a labour cost to prepare the item but there is also a material cost attached to the painting.

Botha from Holland adds the following insights: “Historically, insurers sold written-off vehicles to salvage dealers on pre-agreed terms. This was a fixed percentage of the market or retail value of the vehicle, based on the code of the vehicle. Over the years, there has been a significant move towards disposing of vehicles via specialist salvage auctioneers. In Holland’s experience, salvage disposed via auction has resulted in significantly higher prices. Under this model, insurers pay a fixed auctioneers’ commission but then also carry the risk of low proceeds on really badly damaged vehicles.”

While the salvage dealers explain that their returns vary greatly, they have some insight to add on what makes the money for them.

“Certain motor vehicles have a fantastic resale value and certain vehicles have rebuildability due to the lower price of their parts. Number one is Toyota and VW and Mercedes-Benz is also popular. The rest just follow behind and generally the high-end vehicles are the least popular among our target market,” reveals Teichmann.

We now ask the experts who they think is making the money from a write-off with various industry players giving us a deeper insight into this complicated lifecycle.
Who makes the most money after an accident?

THE TOW TRUCK COMPANIES?

If I could do it all over again, I would like to be in the towing and storage business because you charge towing, storage, admin and security fees. For example, I’ve had release fees of R120 000. They look at the value of a burnt out truck, for example, and push for the highest price possible which could be as much as 75 per cent of the vehicle’s value. – Mark Stechmann, owner of Dynamic Salvage Management.

After an accident, the client, who is in shock and a little bit panic, signs over his or her vehicle to a rogue operator without reading the fine print on the towing slip. Once the dust has settled, there are these exorbitant release, storage, towing, security and admin fees to be paid. It is better for most of these rogue operators to operate independently and hold the cars ransom for high release fees as they make more money in doing so. – Danie Antill, founder.

Before the panel system was introduced 10 years ago, smaller tow truck operators could auction parts of a burnt out truck, for example, and push for the highest price possible which could be as much as 75 per cent of the vehicle’s value. – Len Smith

THE REPAIRERS?

We’ve seen a 14 per cent increase in our motor repair costs in the last year: the weak rand is one factor which influences the cost of parts, and panel beaters also have to include their own mark up on the part. Motor repair costs are what drive up premiums. If these costs could be controlled we would not have to increase premiums. – Debbie George, general manager of the broker’s division at Infiniti Insurance.

Panel beaters have their own margins and incentives. What needs to be investigated, for example, is the 45-day interest free practice for repairs, the return for credit facility and, more importantly, enforcing traffic laws to bring down the number of road accidents in South Africa: this is the one factor that is really driving up premiums due to the ensuing repair cost. – Unlinked industry authority.

The cost of spare parts is only one of about seven factors that influence motor insurance premiums as well as the decision of whether or not to write-off a damaged vehicle. – Anton Botha, general manager of personal lines at Hollard Insurance.

Over the years, insurers have also pushed down the labour rates for repairers in real terms, making it not commercial enough for repairers. This has resulted in repairers starting to replace parts on vehicles instead of repairing them and has incentivised them to minimise the most expensive parts to make up for the shortfall in labour. Ironically, this has created a bigger claims inflation for the insurer than the labour component. – Peter Todd, Repair Solutions founder.

THE MANUFACTURERS?

Manufacturers have the right to protect their income stream: do they make money from the sales of vehicles or the sales of parts? I would argue the latter. It always jades that today, if you have the time and the capital, you can make more money by literally walking into a manufacturer of one of the German cars, buying the car off the floor, stripping it apart and selling the parts – and you will make more money than you paid for the car. – Collin Miede, CEO of Zurich Insurance.

THE INSURANCE COMPANIES?

Before the panel system was introduced 10 years ago, smaller tow truck operators could act independently and hold the cars ransom for high release fees as they make more money in doing so. – Danie Antill, founder.

Before the panel system was introduced 10 years ago, smaller tow truck operators could act independently and hold the cars ransom for high release fees as they make more money in doing so. – Danie Antill, founder.

Before the panel system was introduced 10 years ago, smaller tow truck operators could act independently and hold the cars ransom for high release fees as they make more money in doing so. – Danie Antill, founder.

Before the panel system was introduced 10 years ago, smaller tow truck operators could act independently and hold the cars ransom for high release fees as they make more money in doing so. – Danie Antill, founder.

Before the panel system was introduced 10 years ago, smaller tow truck operators could act independently and hold the cars ransom for high release fees as they make more money in doing so. – Danie Antill, founder.
Labour, paint and miscellaneous costs make up about 40 per cent of the total costs, with parts making up the remaining 60 per cent. The parts costs alone can quickly exceed the whole market value of the vehicle, let alone the maximum repair cost threshold. — Advocate Gerhard Sonnekus, claims director at Oakhurst Insurance.

Various motor companies have different business models: in the case of VWAG, we have 75 per cent on code 1 vehicles, 25 per cent for code 2, 20 per cent for code 3 and about 10 per cent for code 4. But they have, over the years, been pushing the percentages up to about 35 and even 40 per cent, which is absolute suicide for the insurers, administrators or brokers. — Jan van Wyk, managing director at SMD.

The parts costs alone can quickly exceed the whole market value of the vehicle, let alone the maximum repair cost threshold. — Advocate Sonnekus.

Salvage contractors have been liquidated in the past and insurers have lost money on expected salvage returns that were never realised. Both parties have learned from the experience and insurers are deliberate about whom they contract for salvage — Advocate Sonnekus.

THE INSURANCE COMPANIES?

Auctioning off write-offs have become a second revenue stream for insurance companies and in some cases a very lucrative income. — Danie Antv, general manager of Cape Road Assist.

The lack of the sole returns are paid back to the insurers, administrators or brokers. Auctioneers with some of the highest returns in the industry offer a gross recovery of 47 per cent on code 2 vehicles. — Jan van Wyk, managing director at SMD.

I have looked at the income statements for big motor insurers and I believe they are still making healthy profits. — Unnamed industry authority.

There are too many of those in the industry who have assisted the insurance industry to get higher prices, resulting in many salvage dealers closing down. A good percentage for a salvage to conduct business in a healthy manner should be around 30 per cent for code 2, 25 per cent for code 3, and about 10 per cent for code 4. But they have, over the years, been pushing the percentages up to about 35 and even 40 per cent, which is absolute suicide for salvage dealers. — Dynamic Salvage Management owner Mark Teichmann.

Salvage contractors have been liquidated in the past and insurers have lost money on expected salvage returns that were never realised. Both parties have learned from the experience and insurers are deliberate about whom they contract for salvage — Advocate Sonnekus.

The intention of the insurer is to find the best possible solution to put the policyholder back to the position they were in before they suffered the loss — Zakes Sondiyazi, SAIA manager for Motor Insurance Risks.

SALVAGE FRAUDSTERS?

There are various methods used by criminal syndicates to obtain the identity (VIN and engine numbers) of vehicles to clone the vehicle identity. Syndicates purchase wrecked vehicles and then transfer the particulars of the wrecked vehicle onto a stolen or hijacked vehicle — the South African Insurance Crime Bureau.

Claiming of vehicles happens on a daily basis. They take it out in your name without you even knowing about it and it’s the honest person who has the real nightmare, because it can take up to four months to make the original car legal. — Unnamed salvage dealer.

Repair fraudsters?

Fraudsters in the car repair industry order OEM parts and then return the part for credit only to replace it with an alternative part while charging OEM prices. The exchange for credit practice in the manufacturing industry needs to be looked at to resolve this. — Unnamed industry expert.

When we fit parts, we actually have a team of people who source alternative parts for incentives and there is enough money in it that they can save the insurers money while making money themselves. The trick in sourcing the part is the quality as well as the source of the part, and our system is based on complete transparency. — Todd.

As Zurich, we have contracted a separate service provider to dispose of code 4 vehicles so that they will never be put back on the road. They have to be crushed and deleted with eNatis so that they don’t fall into the wrong hands. — Malype.

If we sell someone a code 4, we hold the papers so that they technically cannot do anything with it. — Teichmann.

It is apparent from our review that there are many areas around a write-off that still lack transparency with some industry experts believing that most of the money is made right at the beginning (towing and storage) and right at the end (vehicle cloning) of the lifecycle. If this is true, it could be attributed to the lack of control and regulation when the cars are “out on the field”. Keep reading RSXSA because this debate is only going to become more interesting.