

What's Ahead for 2019?

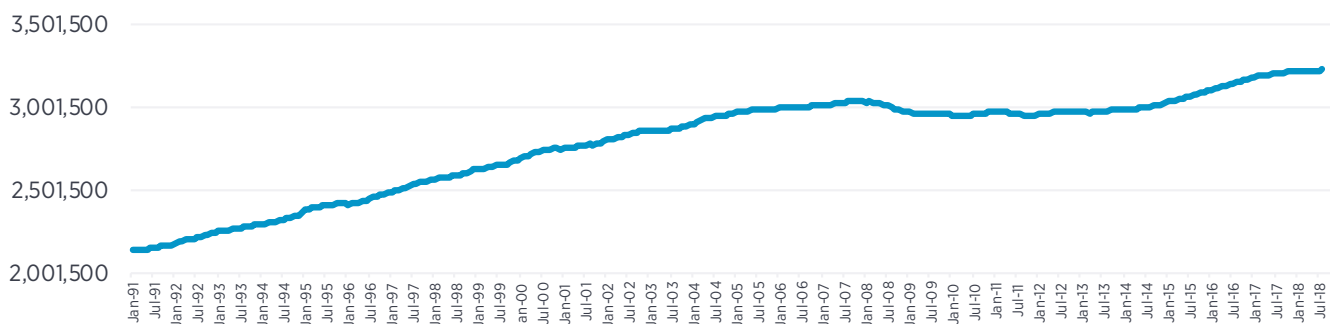
Susanna Gotsch, Director, Industry Analyst, CCC



Hard to believe yet another full year has passed by – and yet here we are, at the start of CY2019. Among the top stories of 2018 within the collision repair and insurance industries were those underscoring the growing complexity of vehicles, their repairs, and the demands among consumers for a better digital experience across all aspects of their lives. As we head into CY2019 the demands remain the same, although the need to meet them has accelerated and become ever more critical to long term business success. In this issue of CCC Trends, we will discuss briefly how we expect market forces to drive change within automotive claim frequency and loss costs in the coming year.

Auto sales in CY2018 were strong, marking another year of 17M sales in the U.S. While there still remain a lot of factors such as increased urbanization, alternative mobility options such as car-sharing and ride-sharing, we haven't yet seen a significant decline in auto sales. In fact, as discussed earlier this year, ride-sharing for example has actually added to overall miles driven in the U.S., which perhaps otherwise might have seen no increase at all, but instead eked out a 0.5 percent increase for the year (see **Figure 1**).

Figure 1: Annual Vehicle-Distance Traveled - Moving 12 Month Total on All Roads (Million Miles) Jan '91 – Aug '18



Source: FRED® Moving 12-Month Total Vehicle Miles Traveled, www.research.stlouisfed.org

With miles driven essentially flat, and claims data showing the miles driven per year of the vehicle still trending down (see **Figure 2**), it's not a surprise that auto liability and collision claim frequency are beginning to also flatten (see **Figure 3**).

Additionally, with more and more vehicles being sold with advanced driver assistance systems, we expect that the frequency of some of the most common type of traffic accidents (front to rear) will also begin to decline.

Figure 2: Average Mileage per Year of Vehicle by Age of Vehicle
All Vehicle Conditions – All Loss Categories CY02-CY18

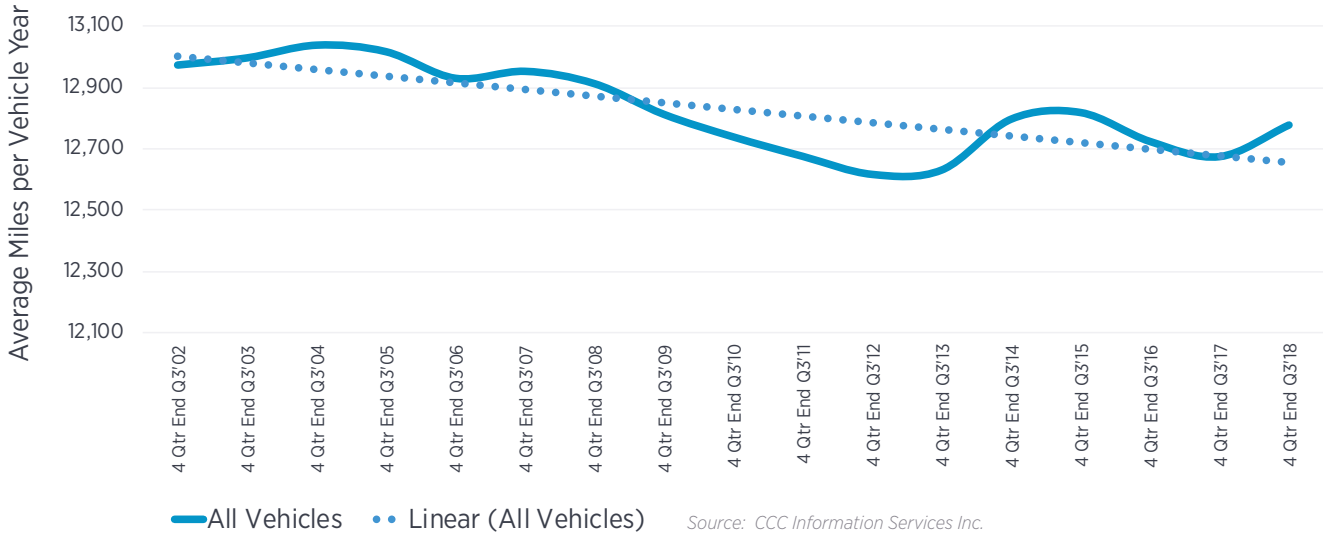
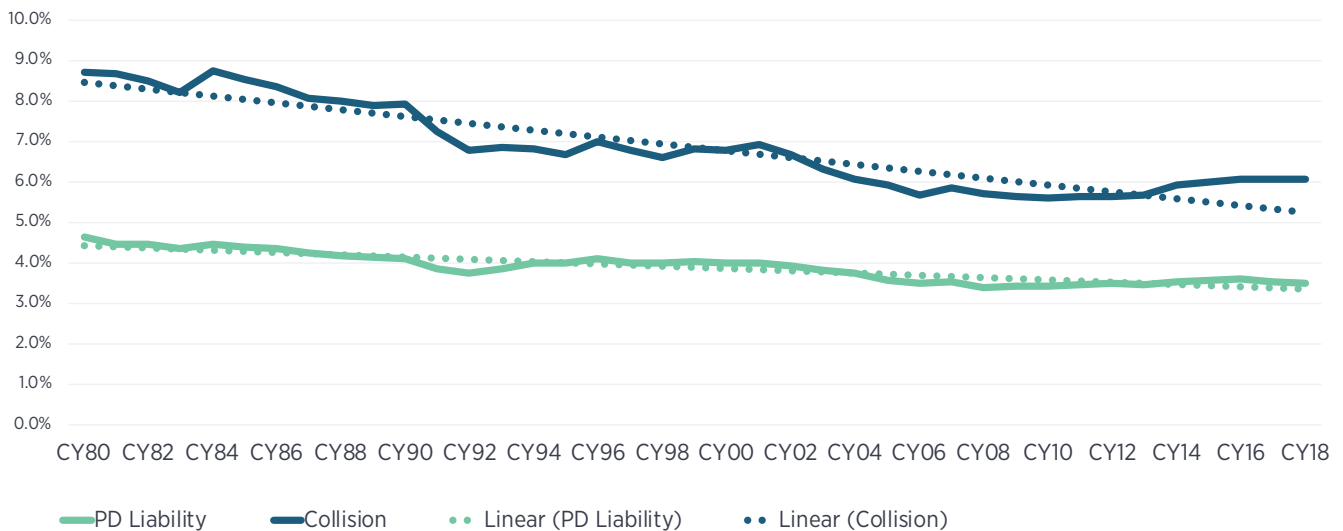


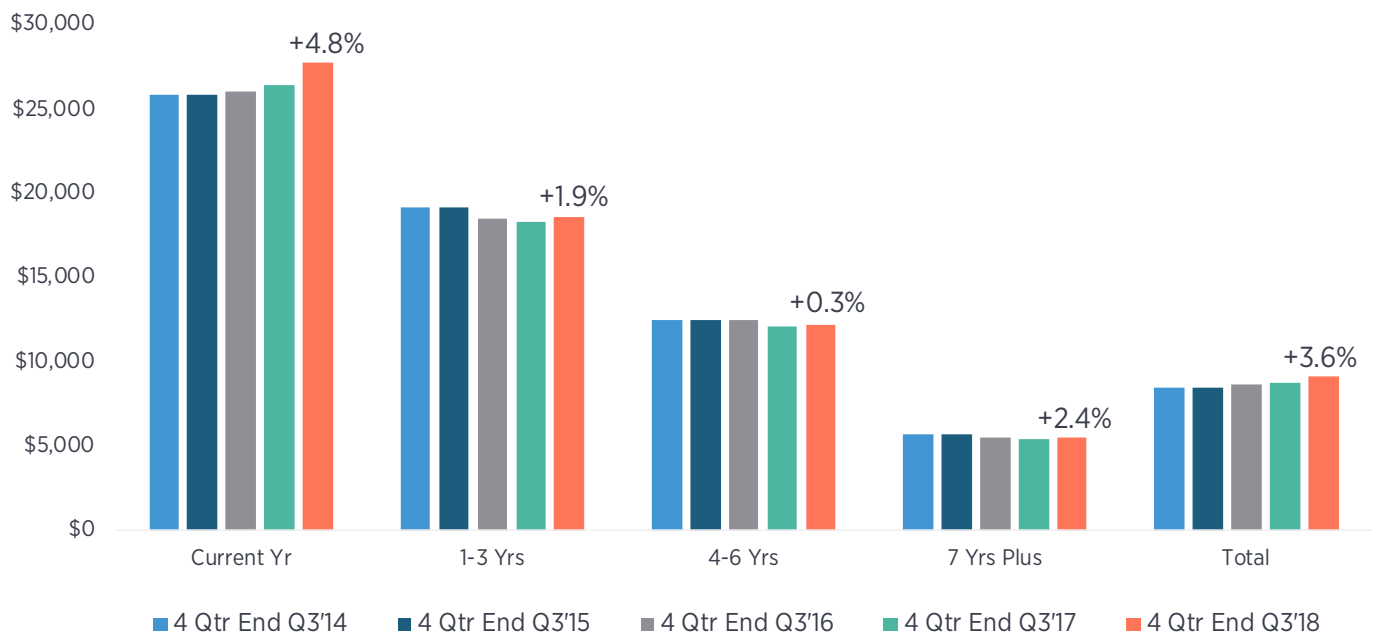
Figure 3: Fast Track Claim Frequency – Property Damage/Liability and Collision Losses
Rolling 4 Quarters Ending Q4 Each Year (CY18 Rolling 4 Ending Q2 '18)



Used vehicle sales were also strong in CY2018, with large volumes of newer units (up to three years of age) returning to market from leases written over the last several years helping to drive up the average used vehicle transaction price to over \$20K according to Edmunds.com.¹ With more OE's beginning to discontinue production of less popular small and mid-size cars in favor

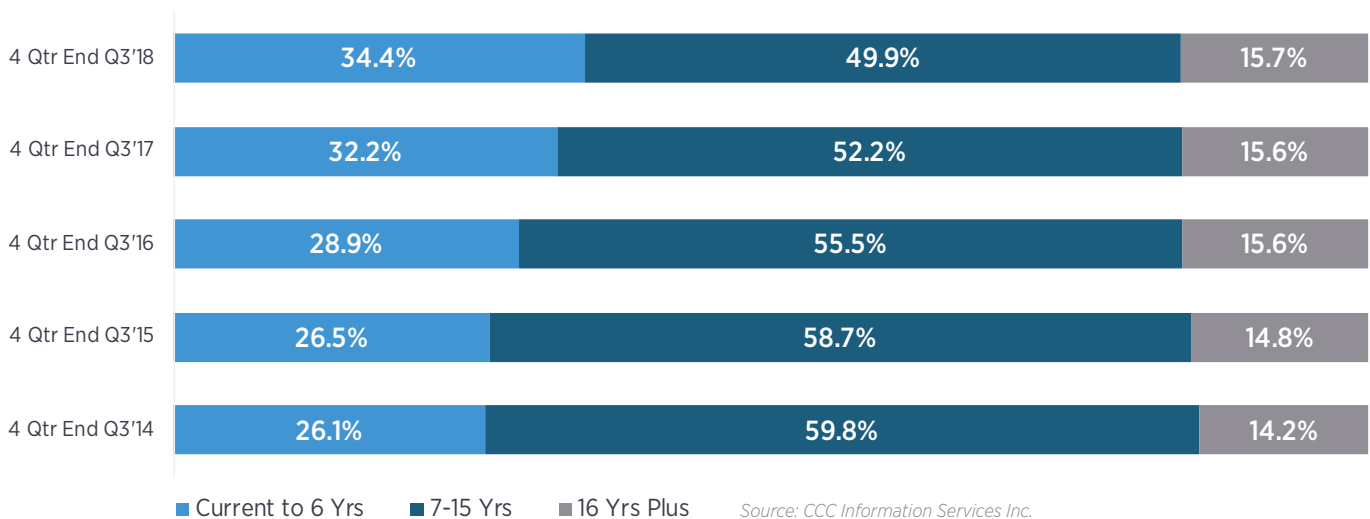
of crossovers, the average new vehicle price is expected to continue to rise, which would help to keep used vehicle demand, and their prices, elevated in the coming year. This in turn, will mean insurance total loss claims are expected to also continue to see elevated costs, as vehicles have maintained their values, and more total loss volume is shifting newer again (see **Figures 4A-B**).

Figure 4A: Total Loss Valuations
Adjusted Total Loss Vehicle Value by Vehicle Age Group



Source: CCC Information Services Inc.

Figure 4B: Collision & Liability Valuations
Share of Volume by Vehicle Age

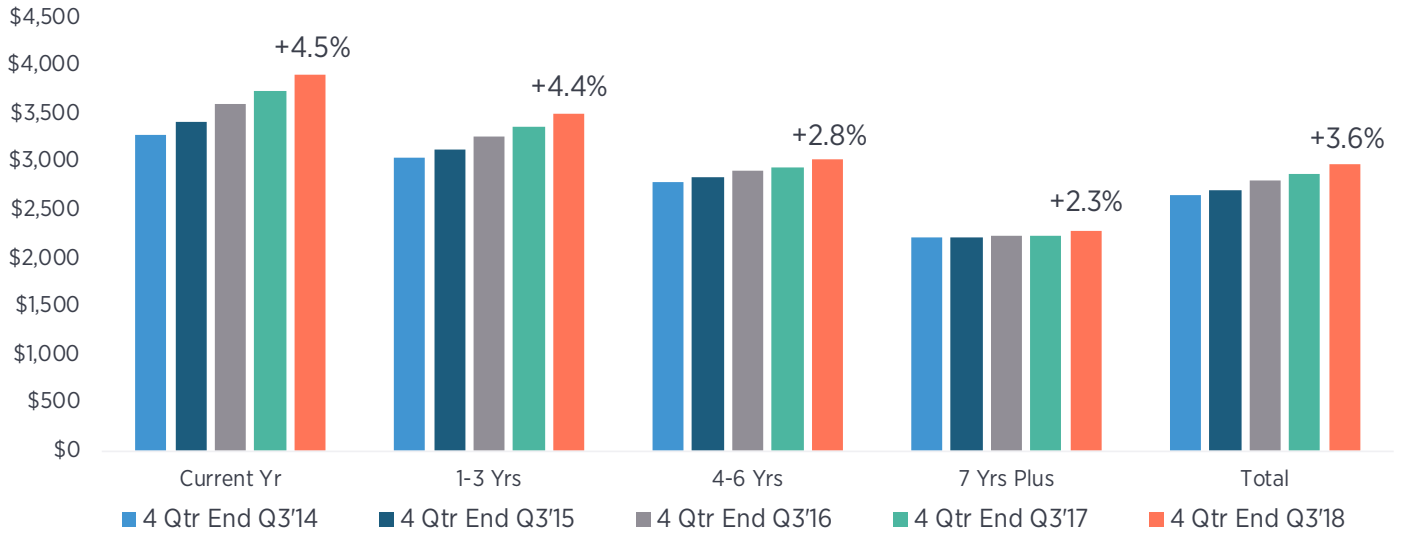


Source: CCC Information Services Inc.

Vehicle repair costs are also expected to continue to increase in 2019, as the additional costs like scanning and calibration are often now required to repair the newest vehicles equipped with ADAS. Repair costs for the youngest vehicles has increased the most (see **Figure 5**).

Strong auto sales over the last several years have resulted in over 40 percent of all appraisals for vehicles current to three years of age, many more of which are equipped with these technologies (see **Figures 6A-B**).

Figure 5: Repairable Vehicles – Collision & Liability Losses
Average Total Cost of Repairs by Vehicle Age Group



Source: CCC Information Services Inc.

Figure 6A: Share of **Overall** Non-Comp Appraisal Volume by Vehicle Age Group

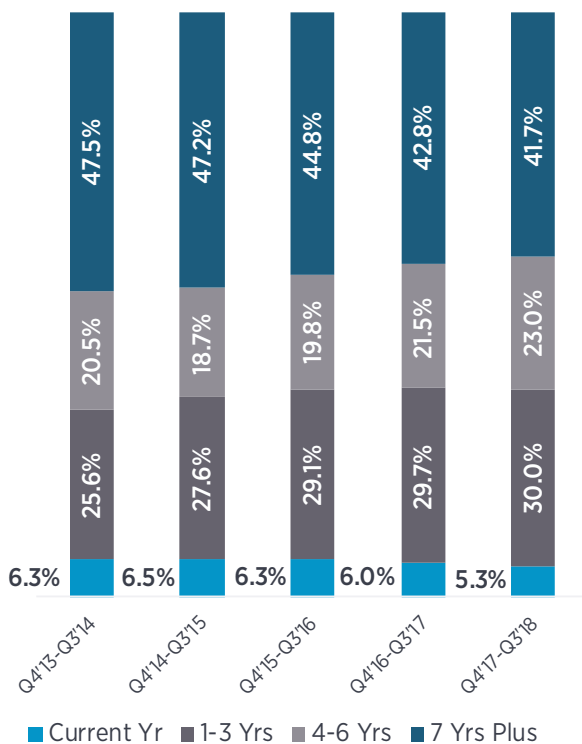
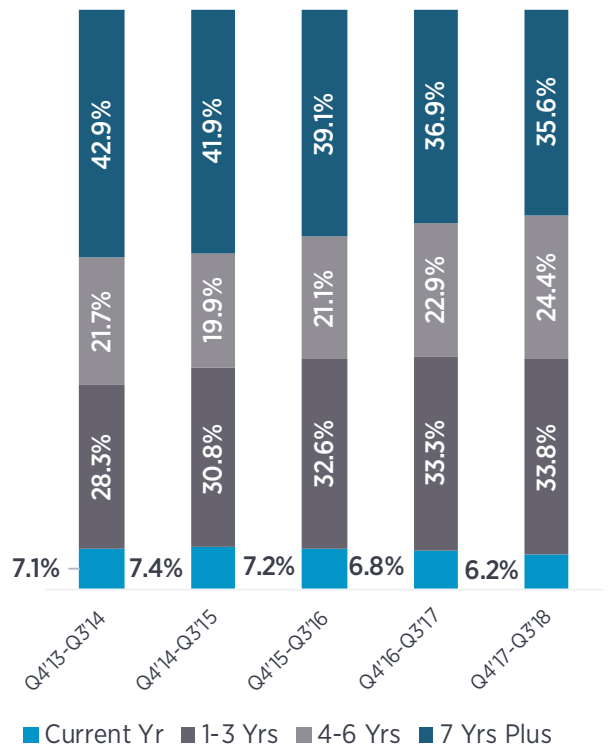


Figure 6B: Share of **Repairable** Non-Comp Appraisal Volume by Vehicle Age Group

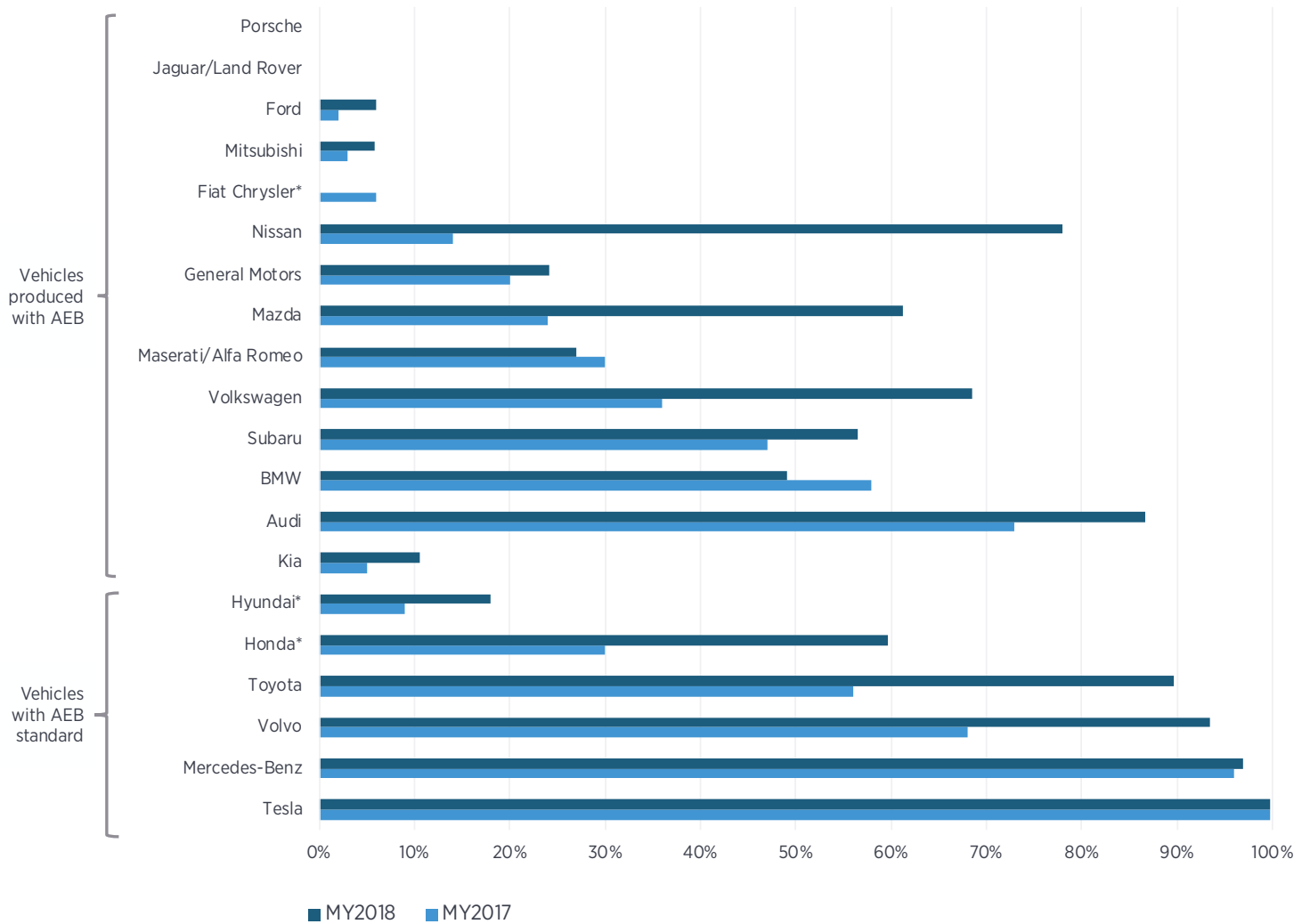


Source: CCC Information Services Inc.

For example, the twenty automakers that committed to make automatic emergency braking a standard option for all vehicles of curb weight 8500 lbs or less by September

2022 have already equipped over 50 percent of their MY 2018 vehicles with the technology, from less than 30 percent for MY 2017 (see **Figure 7**).

Figure 7: Percent of MY2017 and MY2018 Vehicles Conforming to NHTSA – IIHS AEB Voluntary Commitment



Note: *OE provided only percentage meeting AEB commitment, no vehicle volumes. Graph created by CCC Information Services Inc. For vehicles manufactured after September 1, 2016, and before August 31, 2017, and to be sold in the United States. Source: <https://www.regulations.gov/docketBrowser?pp=25&so=DESC&sb=postedDate&po=0&D=NHTSA-2015-0101>.

Higher repair costs are being driven in large part by increasing vehicle complexity and a mix shifting to newer more expensive vehicles (see **Figure 8**), which has resulted in more part replacements required per repair, along with the labor to replace those parts, and often additional labor to scan and calibrate those same parts (see **Figure 9**).

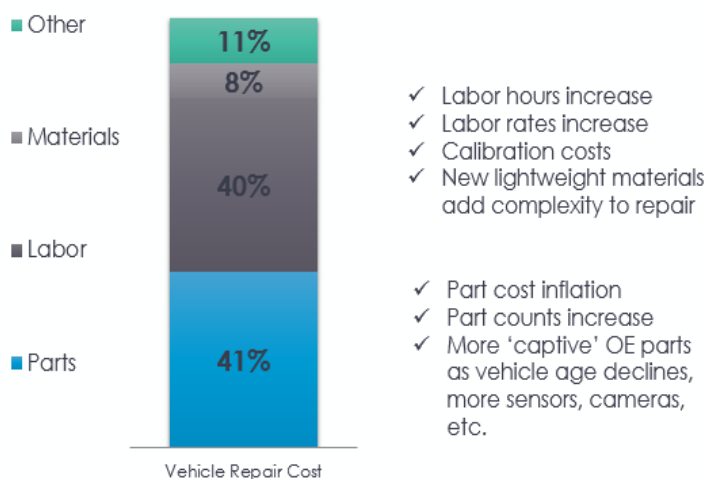
And while less than 1 percent of all appraisals included additional charges and labor for calibration of things like blind spot monitoring, lane departure, back-up cameras, etc. for the 12 months from Nov'17 to Oct'18, a comparison of the aggregate repair costs for those claims with a calibration fee versus the average repair cost for all appraisals over that same period provide a remarkable comparison.

Figure 8: Collision & Liability Repairable Appraisals
Parts & Labor Increases and Vehicle Mix Changes Drive Repair Costs

	4 Qtr End Q3'14	4 Qtr End Q3'15	4 Qtr End Q3'16	4 Qtr End Q3'17	4 Qtr End Q3'18
Avg Total Cost of Repairs	\$2,654	\$2,712	\$2,810	\$2,875	\$2,967
Avg Labor Hrs per Claim	23.1	23.2	23.4	23.5	23.5
Avg Sheet Metal Labor Rate	\$46.39	\$47.00	\$47.60	\$48.43	\$49.67
Avg # of Parts Repl per Claim	9.1	9.3	9.6	9.7	9.9
Avg Price per Part	\$118	\$119	\$121	\$122	\$122
Current - 3 Yrs % Claim Cnt	35.40%	38.10%	39.70%	40.10%	39.90%
4-6 Yrs % Claim Cnt	21.70%	19.90%	21.10%	22.90%	24.40%
7 Yrs Plus % Claim Cnt	42.90%	41.90%	39.10%	36.80%	35.60%
Asian % of Claim Vol	49.20%	50.00%	50.70%	51.30%	51.60%
Domestic % of Claim Vol	41.20%	40.40%	39.70%	39.00%	38.90%
European % of Claim Vol	9.50%	9.60%	9.70%	9.60%	9.60%
Light Truck % of Claim Vol	42.50%	43.30%	44.60%	46.60%	48.80%
% of Claims flagged Total Loss	14.40%	15.80%	17.00%	18.00%	18.80%

Source: CCC Information Services Inc.

Figure 9: 2018 Share of Total Repair Cost



Source: CCC Information Services Inc.

- Pre-Repair Scan (Avg Cost \$63 per claim)
- Post Repair Scan (Avg Cost \$93 per claim)
- Combined Pre/Post Repair Scan (Avg Cost \$103 per claim)
- Replacement Labor (Avg 0.2 to 6.0 labor hrs at average of \$45 per hour per part)
- Calibration Labor (Median Sublet Fee of \$200 per Claim; Automated database time average of 0.2 to 6.0 labor hrs at average of \$45 per hour per part)

- Additional part component to be replaced (Avg cost per part \$157)
- Few if any non-OEM alternatives available (OEM share of these parts 98%+)

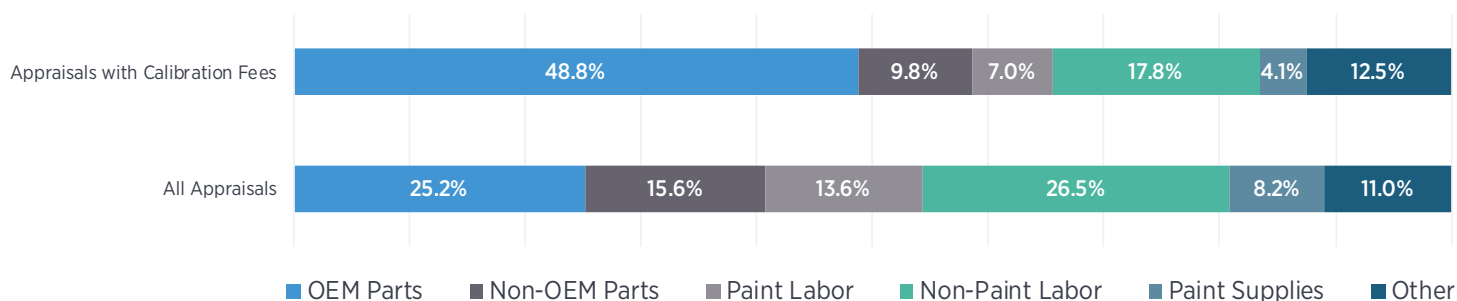
The average repair cost for those vehicles with a calibration fee was \$8704 versus the overall average of \$2967 (see **Figures 10A-B**). And while the vehicles with a calibration fee were much newer and had approximately double the percent of non-driveable vehicles than overall, the comparison provides an unsettling prediction for the future, where repair frequency may decline, but repair costs may increase further.

1. Edmunds.com "Used Car Report Q3 2018." P. 3. <https://www.edmunds.com/industry-center/data/used-car-market-quarterly-report.html>

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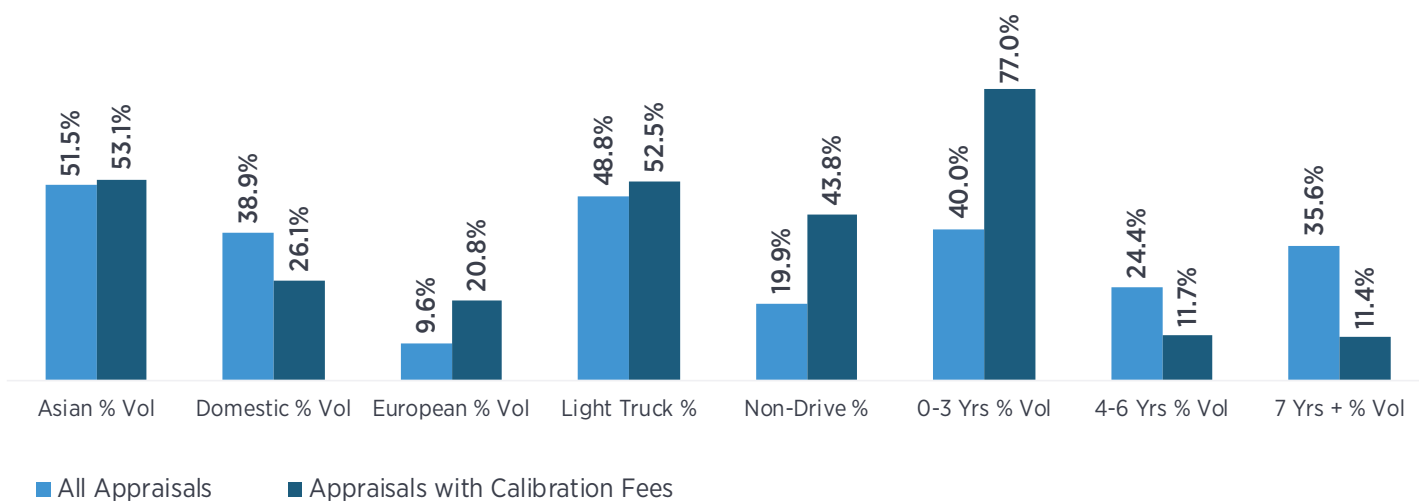
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Figure 10A: Share of Total Repair Cost



Source: CCC Information Services Inc.

Figure 10B: Vehicle Mix Comparison – Volume Share



Source: CCC Information Services Inc.