



**Executive Summary**

Q3 2023

# The State of CPI Report

*Take a closer look at the economic factors impacting how financial institutions approach risk management on auto portfolios.*

A combination of factors over the last few years have led to higher risk auto loans. The economy is declining, and once-low interest rates and car insurance premiums are rising. This has resulted in consumers facing financial hardships, leading to difficult decisions about bill payments, with insurance often being one of the first to be cut.

#### Key factors impacting auto lending risk:



Higher personal and commercial automobile premiums contributing to a 16.4% increase in borrowers dropping insurance<sup>1</sup>



More vehicles being deemed total loss versus repairable



Used prices remain high contributing to claim severity, yet are beginning to flat line

## Economic Factors Impacting CPI

The economy has experienced tumultuous changes since the onset of the pandemic. Consumer prices rose 4.9% in a 12 month span.<sup>2</sup> Both purchasing and leasing trends show noted increases in monthly loan costs and longer loan terms due to the ongoing liquidity crisis. Inflation is affecting the cost of fixing a damaged vehicle, increasing claim severity. Financial institutions are facing increased risk of delinquency as borrowers face ongoing financial challenges and setbacks.

	2019	2020	2021	2022	2023
<b>Unemployment<sup>3</sup></b>	3.6%	6.7%	3.9%	3.5%	3.4%
<b>Average Vehicle Loans<sup>4</sup></b>	\$32,480 (New)	\$35,228 (New)	\$39,721 (New)	\$40,290 (New)	\$40,851 (New)
	\$20,446 (Used)	\$22,467 (Used)	\$27,291 (Used)	\$27,768 (Used)	\$26,420 (Used)
<b>Average New Loan Term (Months)<sup>4</sup></b>	69.28	69.68	69.66	68.73	68.64
<b>Average Monthly Loan Payment<sup>4</sup></b>	\$550 (New)	\$576 (New)	\$644 (New)	\$716 (New)	\$725 (New)
	\$393 (Used)	\$413 (Used)	\$488 (Used)	\$526 (Used)	\$516 (Used)
	\$457 (Lease)	\$464 (Lease)	\$531 (Lease)	\$578 (Lease)	\$586 (Lease)
<b>Average Insurance Premiums<sup>5</sup></b>	\$572.78	\$545.38	\$567.88	\$648.77	\$695.93
<b>Total U.S. Consumer Debt Balance (Trillions)<sup>5</sup></b>	\$13.70	\$14.88	\$15.58	\$15.85	\$17.05
<b>Average FICO Credit Score<sup>6</sup></b>	703	710	714	714	

These economic factors stress the importance of proactive risk management practices.

# Market Predictions



CPI claim losses have doubled since pre-pandemic<sup>7</sup>



Used car prices will continue to impact ACV (actual cash values) and claim severity



Interest rates stabilize once the Fed satisfactorily combats inflation



Sustained margin compressions because of the yield curve



Regulations will put more pressures on the financial industry, impacting reporting and risk management strategies



Delinquencies will see all time highs



Increased demand for seamless digital processes



Repossession costs per recovery will continue to rise to accommodate for inflation, volume, and scarcity of repo agents

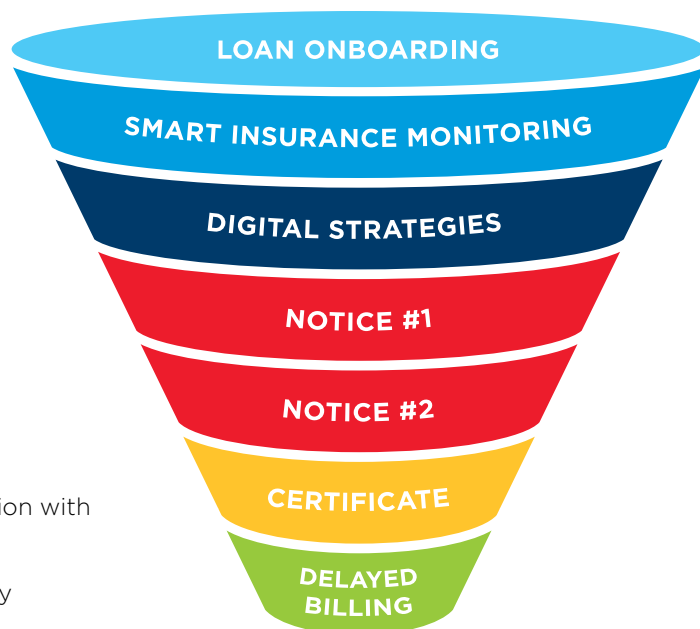
Despite the need to prepare for increased portfolio risk, it is important not to compromise the borrower experience. When informing borrowers about their obligation to provide proof of insurance, it is crucial to simplify and streamline the process to avoid confusion and negative experiences.

*Is your CPI program solving or creating confusion for your borrowers?*

# A Holistic Approach to CPI

Allied Solutions is known in the industry for providing a borrower-centric, technology-driven program that is both efficient and compliant. The aim of our program is to proactively search for and validate existing insurance, only placing lender coverage as a final course of action to protect the collateral. Our smart CPI program covers each auto loan from onboarding through billing with:

- Real-time, personalized communication including email, and video marketing
- Innovative technology to proactively gather insurance information with automated web verifications
- Technology-driven insurance processing for speed and accuracy



## Result Driven Success

- On average, 8% of borrowers have not provided proof of physical damage insurance on their collateral
- Only 1-3% of borrowers will remain uninsured after being informed of their requirement to maintain coverage
- Our program focuses on notifying and obtaining proof of coverage for the remaining 5-7% of borrowers

By proactively tracking insurance, our program reduces internal administrative workload and has the lowest false placement rate in the industry.

### Do you have a sound risk management strategy in place to protect your auto portfolios?

Learn more about a program that keeps your borrowers informed and your portfolio protected:

[alliedsolutions.net/solutions/vehicle-collateral-protection-insurance-cpi](https://alliedsolutions.net/solutions/vehicle-collateral-protection-insurance-cpi)

# Sources and Citations

- <sup>1</sup> Based on Allied Solutions data. June 2020-June 2022.
- <sup>2</sup> US Bureau of Labor Statistics. Consumer Price Index. May 2023.
- <sup>3</sup> Bureau of Labor Statistics. US. Department of Labor. May 2023.
- <sup>4</sup> Experian. State of Auto Finance Market. 2019- 2023.
- <sup>5</sup> Federal Reserve. Household Debt and Credit Report. Q1 2023.
- <sup>6</sup> Experian. What is the Average Credit Score? 2023.
- <sup>7</sup> According to Allied Solutions data. 2023.



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