



Total Loss Accidents Up 20%: How Does this Impact your Lending Portfolio?

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Due to economic variations and market changes, Allied Solutions has seen a 20% increase in total losses resulting from auto accidents in just 24 months. The severity of total loss claims is also on the rise. With total loss claims rising in amount and severity, it is not surprising that many lending institutions are experiencing total loss impact in record amounts.

MARKET CONDITIONS

Improved employment, inexpensive gas prices and mobile lifestyles have led to people driving faster, longer and more often. As a result, vehicle values are depreciating at record speed. While vehicle values are decreasing, loan amounts and term lengths are increasing. In just the first quarter of 2017, total auto loan balances had already increased by \$10 billion from the end of 2016.¹ Average loan amounts for new and used vehicles were at record high amounts at the end of last year, and many of these loans have terms lasting as long as 72-84 months.² Rapid depreciation combined with lengthy loan terms result in higher loan to value ratios.

An increase in drivers on the road has also led to an increase in reported accidents. In 2015 alone, there were approximately 6.3 million police-reported crashes.³ And with the added bonus of having distracted drivers on the road, the severity of accidents has also been rising like never before. Last year, as many as 40,000 people died in motor vehicle crashes – a 6% rise from 2015.⁴ An increase in auto accidents combined with higher loan to value ratios has resulted in an exponential increase in total loss accidents.

TOTAL LOSS CLAIMS

In addition to these market changes, many insurance carriers are now regularly utilizing automated tools to settle accident claims. The market assessments performed by these tools often increase the amount of deductions taken out, leaving the insured with a devalued vehicle or total loss. Deductions taken to reduce market value might benefit insurers by saving on claim costs, but the practice results in greater potential for GAP claims and losses for lenders.

According to Anne Holtzman, Risk and Recovery Specialist for Allied Solutions, 25% to 35% of vehicle valuations performed by insurance companies are undervalued. With most borrowers accepting the first settlement offer from insurance companies, they could be missing out on an opportunity to receive a higher settlement. At the same time, your lending institution is likely missing out on thousands of dollars in undervalued accident and total loss settlements.

Additionally, vehicle owners today typically have more knowledge of their vehicle's auto history, with the availability and transparency of Vehicle History Reports. This awareness has also led to an increase in total losses, since many borrowers are hesitant to hold onto a car with a history of accidents or repairs out of concern for their safety and the longevity of the vehicle.

¹ Federal Reserve Bank of New York. "Quarterly Report on Household Debt and Credit." May 2017. <https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2017Q1.pdf>.

² Assis, Claudia. Auto loan amounts, length hit record in 2016, Experian says. 2 March 2017. <<http://www.marketwatch.com/story/auto-loan-amounts-length-hit-record-in-2016-experian-says-2017-03-02>>.

³ NHTSA. "2015 Motor Vehicle Crashes: Overview." 2016. Traffic Safety Facts: Research Note. <<https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/812318>>.

⁴ Korosec, Kirsten. 2016 Was the Deadliest Year on American Roads in Nearly a Decade. 15 February 2017. <<http://fortune.com/2017/02/15/traffic-deadliest-year/>>.

ACTIONABLE STEPS

The key to reducing the amount or severity of total loss accident claims is to help your borrowers to negotiate the insurance settlement. Every single claim an insurance carrier submits can be negotiated, yet most consumers blindly accept insurance company's first offer.

1. **Educate your loan staff and borrowers**

Many borrowers don't know they are within their rights to negotiate insurance settlements. If you inform them about their right to negotiate at the onset of their loan know loss settlements, they will be much more likely to do so. Resources like this wikiHow page can be shared with your borrowers to help guide them in the negotiation process.

2. **Perform your own valuation**

Performing your own evaluation of the actual retail cash value - not wholesale value - of the vehicle will enable you to verify the accuracy of the insurance's loss claim and are your borrowers with better tools to negotiate with their insurance companies. You can launch an in-house valuation program to assess the actual cash value of vehicles, or you can outsource these processes to third party vendors, like Allied Solutions, who have experience performing valuations and claims assessments on thousands of vehicles.

3. **Verify the vehicle specs**

Maintaining copies of the dealer spec sheets for all of your direct and indirect loans will enable you to verify or negate the history, mileage, and condition of the vehicle. Negotiating these specs with insurance companies can increase the vehicle's determined value by hundreds to thousands of dollars.

Performing these tasks can help your business recover lost dollars from undervalued claims, while protecting your GAP program. Not only will this benefit your bottom line, but it will also bring incredible value to your borrowers by helping many of them to collect money that they could have missed out on.

Watch the recording of our August 24 webinar on managing total loss risk to learn more: <http://bit.ly/2urEjMG>

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