CollisionWeek

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CollisionWeek Interview

Interview Rick Tuuri, VP of Industry Relations for Audatex

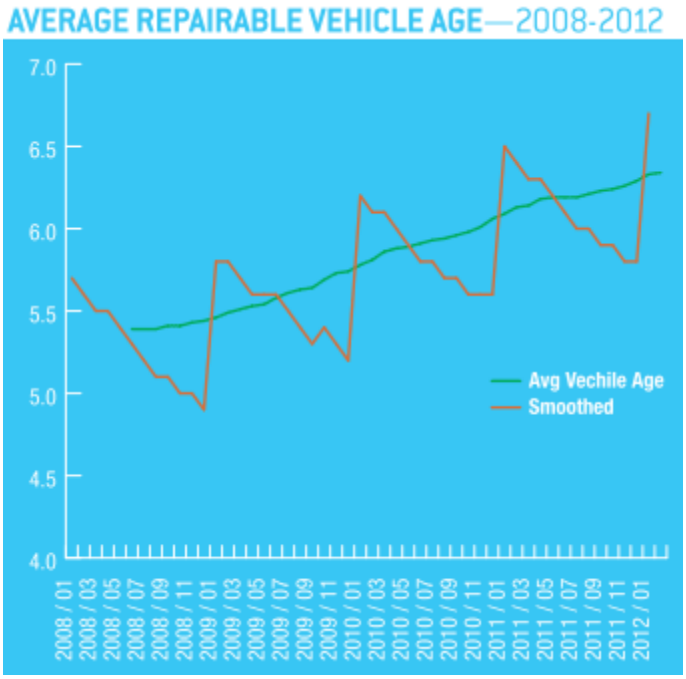
Tuuri discusses the factors that have driven average repair costs and claims volume down since the recession and when they may return to 2008 levels.

In December, Audatex published the latest edition of its industry magazine *Audatex Directions*. In that issue, Rick Tuuri, VP of Industry Relations for Audatex, presented an article that explains why average repair costs and repairable claims volume have simultaneously declined since the recession, and when they may return to historical levels. We invited Rick to discuss the article and explain what he has discovered through his examination of Audatex claims data.

"According to Audatex data, the industry's overall average repair cost began to decline when the recession hit in 2008. That decline continued for several quarters before reversing in 2009. Since that time, the overall average repair cost, or gross appraisal value (GAV), has been on the rise, but it has still not reached those pre-recession levels. Yet, the average cost to repair a vehicle of comparable age has continued to rise throughout the entire time.

According to Tuuri, the explanation can be found in the changing makeup of the nation's vehicle fleet.

"When 2008 came along we saw a drop in the average GAV (gross appraisal value) for several quarters, then in 2009 we saw that cycle back up again, still not back up to 2008 levels, but that trend is continuing. So we wondered why," Tuuri said. "The one factor that really caught our attention is the age of the vehicle."

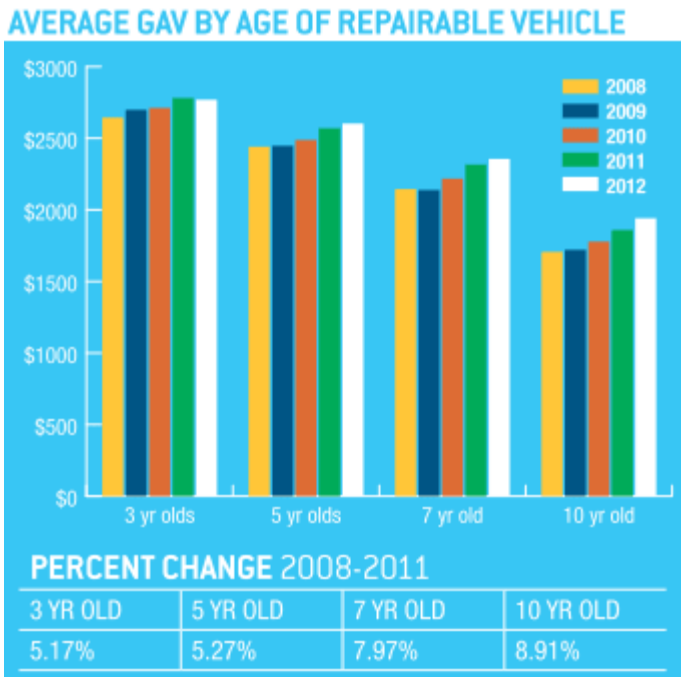


SOURCE: Audatex, A Solera Company

"According to JD Power, we now have the oldest vehicles on the road in American history, eleven and a half or twelve years old. The average repairable vehicle is now six and a half years old, when it was five and a half. So the average repairable vehicle is now one year older now than it was before [the recession].

Yet, Tuuri explains, when Audatex looked at the data over time, and compared estimates on repairable vehicles of similar age categories (three year olds, five year olds, etc.), they found that the average three year old vehicle today costs more to repair than the average three year old vehicle a few years ago. And, the same was true for every age block they examined. Repair costs continue to rise on vehicles of comparable ages.

"What you see is, for each one of those vehicle age blocks, the cost to repair the vehicle has actually increased. So you ask yourself, how could every one of those age blocks go up in average GAV, when the [overall] average has come down?"



SOURCE: Audatex, A Solera Company

"The answer is very simple, but not necessarily intuitive. And that is, there are now more older cars on the road than there were before, and older cars cost less to repair than newer vehicles," Tuuri explained. "We're now repairing more older cars than ever before, there are now more older cars in the mix."

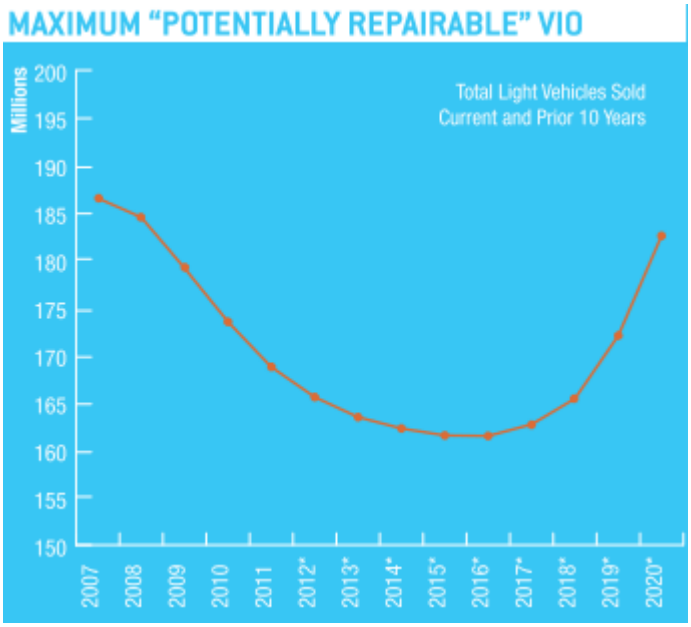
Declining claims volume

According to Tuuri, the decline in claims volume since the recession is a direct result of the new car sales drought that occurred in recent years. While that may seem like a simple explanation, Tuuri makes an interesting observation in his article.

"We know from Audatex data that in 2008, prior to the auto sales slump, a full 89.8 percent of all repairable estimates were written on vehicles that were 10 model years old or newer," Tuuri writes. "Even with the rising average age of repairable vehicles through 2011, 85.1 percent of all repairable estimates in 2011 were still contained in the group of vehicles 10 years old or newer."

What this means, according to Tuuri, is that we can calculate the maximum number vehicles new enough to be repaired (rather than totaled) by simply counting all the new light vehicle sales for the prior ten years. "In other words," Tuuri writes in his article, "without the effects of catastrophe losses, repairable estimate volumes must decline if there are simply less cars in the country to insure and repair." Because of the lack of

auto sales following the recession, there are now 17.8 million less vehicles on the road (10 years old or newer) than there were in 2007.



SOURCE: Audatex, A Solera Company

Here is where, Tuuri observes, that we will not have the repairable vehicle population in the US that we once had in 2008, until the year 2020 or later. By predicting future car sales figures, it is possible to estimate when the "repairable vehicle population" will once again rise to pre-recession levels.

"While there are certainly other mitigating factors that come into play, not the least of which are catastrophe losses, the reduced population of late model vehicles is a critical fact of business life that repairers and claims professionals must all understand and consider as we plan our business over the next decade," Tuuri concludes.

The data was presented by Tuuri in the Winter 2012 issue of *Audatex Directions*, available for free download from Audatex.