Every industry has been impacted by actions taken to control the spread of COVID-19, including the automotive industry. Growing unemployment, coupled with a pivot to remote working, has changed consumer priorities and **curtailed car-buying habits**. The decline in miles traveled has also resulted in less wear and tear on vehicles, thereby reducing the replacement rate. Additionally, like many other manufacturers, some automakers temporarily closed or repurposed plants to produce ventilators and personal protective equipment. They also closed dealer showrooms to protect employees and the public. Amidst the COVID-19 response, these and other changes in market dynamics are giving rise to new emerging total loss trends.

**Flattening of a Different Curve**

For the past several years, average market values have increased regularly both in the United States and Canada. A gradual shift toward newer vehicles and **more light trucks and SUVs**, along with steady demand, has kept this trend continuing almost unabated. That steady uptick in demand, however, has recently slowed—causing dealers to be more aggressive in their sales incentives and more creative in their sales practices to accommodate a shift to online vehicle purchases as a result of social distancing. While J.D. Power recently reported **up to a 15% reduction in wholesale prices** in certain regions of North America, given the sales environment it is unlikely retail price reductions will follow suit—as dealers must increase margins to offset sales declines. Under these conditions, it may be more likely that the industry will experience stagnation in average market values **as opposed to any actual declines**, although with a 90–120-day lag time for historical pricing, we may not see the true impact for several months.

**Reduction in Salvage Returns**

Reported **declines in average sale prices** at wholesale auctions across the US and Canada also mean that insurers are seeing less return on salvage when a vehicle is deemed a total loss. In addition to the
reduction in demand from the industry’s retail and rebuilding segments, auction prices are also being
driven by the drop in commodity prices. The COVID-19 pandemic has caused the global manufacturing
industry to hit the pause button, reducing the short-term demand for raw materials, including scrap steel
and aluminum. The average price of scrap steel has dropped by almost 20% since the beginning of the
year and we do not yet know whether additional declines are in store. What we do know, however, is that
changing driving habits and workforce strategies could further impact the salvage market.

Greater Reliance on Virtual Conditioning

To support a new remote workforce, many carriers are transitioning to a virtual claims handling model.
While each business is unique and must make decisions that best serve its employees and customers, we
are already witnessing an acceleration of virtualization adoption in the auto claims industry due to the
spread of COVID-19. This not only applies to estimating but to total loss conditioning as well. Some carriers
had already moved their total loss conditioning practices to a virtual model prior to the pandemic. Others
continued to rely on in-person inspections to complete this aspect of the settlement process. Now that
social distancing has become the norm and businesses are looking for ways to limit unnecessary
interactions between employees and customers, the idea of conditioning a vehicle from photos is much
more palatable today than it was just a few short months ago. Carriers see it as a way to expedite the
claims process and increase customer satisfaction, while consumers benefit from the speed, ease and
convenience. As virtual conditioning becomes more widely used, carriers will need to provide consumers
with easy-to-follow instructions for taking high-quality photos—ensuring that total loss teams have the
images they need to accurately condition a vehicle.

While uncertainty still exists concerning the long-term effects of COVID-19 on the automotive and auto
claims industries, we can look to emerging trends like these to help guide how we think about—and
prepare for—the next 6–12 months. How will consumer driving and work habits affect the collision
industry? How will the pandemic drive innovation in the claims process? What will a move to virtualization
mean for consumer satisfaction and carrier efficiency? Watching these trends closely will help business
leaders more quickly emerge prepared for not just a new normal, but a better normal.