Auto Physical Damage

A Look Back at 2020 Trends in Auto Insurance

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It has been a year since the United States and Canada first felt the effects of COVID-19. With states and provinces issuing stay-at-home orders that required residents to shelter in place, the automotive insurance industry watched claims volumes shrink and dangerous driving habits grow. After just three months, it's still too early to tell what impact the events of 2020 will have on 2021. However, by taking a look at last year's key trends, carriers and collision repairers can successfully navigate an uncertain future and adapt to what will likely be a new post-pandemic normal.

Drastic Reduction in Claims Frequency

Once North American shelter-in-place mandates were first issued in March 2020, roads became ghost towns and traffic-filled, hour-long commutes were replaced by quick trips on empty freeways. With fewer people driving, accident frequency declined dramatically, according to Mitchell data. The United States experienced a 42.49% reduction in April 2020 compared to April 2019 and, during the same time period, Canada saw a 50.09% reduction (Figure 1). Despite different regional lockdown requirements, there has been a steady increase in accident volumes since the lows of last spring. In fact, claims volume in December 2020 was only off by 16.61% in the United States and 26.46% in Canada compared to December 2019. With a decline in air travel and other forms of shared transportation, more people are relying on their own personal vehicles to get around, resulting in a quicker claims frequency recovery than many initially predicted.

Shifting Methods of Inspection

Who could imagine a year ago that terms like "social distancing" would be incorporated into our daily lexicon? The need to stay apart because of the pandemic pushed businesses to quickly adapt to remote work. It also forced them to pivot to meet the changing demands of consumers who began embracing digital technologies like never before. Thankfully, photo-based estimating—also known as virtual estimating—was already gaining traction. When COVID-19 struck, it was ready to take center stage as a way for the automotive insurance industry to safely perform appraisals. Today, it is relied upon to improve efficiency, increase customer satisfaction and protect the safety of appraisers and consumers by limiting in-person interactions. In April 2020, Mitchell data shows that the percentage of estimates written using a virtual method of inspection grew to more than 13% in both the United States and Canada (up from 6% and 4% respectively in early 2020, Figures 2 and 3). These numbers have remained fairly consistent since the start of COVID-19 and there is no expectation that they will change post pandemic.

Challenges to the Parts Supply Chain

One of the greatest concerns in the beginning of the pandemic was the impact the spread of a potentially deadly virus would have on the parts supply chain. Many thought, at least initially, that procuring parts would become a herculean task with production shutting down—weakening logistics capabilities and resulting in an overall decrease in demand. The reality is that the resiliency of the macro auto parts supply chain has been on full display since March 2020. In the United States, parts procurement continued with only occasional hiccups, according to Mitchell data (Figure 4). And many of the same parts selection trends witnessed over the past two years have endured with surprising regularity. Canada experienced a much larger degree of OEM dealership and parts supply depot closures that resulted in a decline in the utilization of OEM parts beginning in April 2020. With relatively little disruption to manufacturing and logistics in the aftermarket segment, repair facilities filled the gap in the OEM supply chain with aftermarket parts and, thereby, mitigated potential delays for vehicle owners and insurance carriers.

Consumer Sentiment

Finally, amidst all the upheaval of the past year, it would be an oversight not to mention the change in consumer sentiment. According to the 2021 Deloitte Global Automotive Consumer Study, 83% of Americans (Deloitte does not segment Canadian data specifically) have either not altered their timeline for purchasing a new vehicle or have accelerated it. However, 8.8% of those surveyed indicated they would be more likely to purchase a less expensive vehicle than previously planned, which is in line with the percentage of respondents who requested some form of auto loan payment deferral in 2020 (10%). Even with historic unemployment and various other pandemic-related financial challenges, consumer demand for vehicles appears strong in the short term. However, consumer acceptance of connected vehicles remains low, with 64% of U.S. respondents indicating they are concerned about hacking and threats to their personal safety should access to their automobiles be compromised. With personal vehicle ownership on the rise along with advancements in 5G connectivity, the safety of a vehicle's data and digital infrastructure will become paramount to gaining consumer trust in the years ahead. While the effects of the pandemic have devastated industries including airlines and restaurants, the future looks brighter for the automotive insurance sector. Despite a reduction in claims volumes last year, it's clear that personal vehicle ownership and usage is more important than ever today. Although 2020 brought uncertainty and change, insurance carriers and collision repairers adapted to meet the needs of their customers and business partners. And there is no doubt that they will continue to do so, no matter what the future holds.

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