Auto Physical Damage

Episode 17: Claims Crossroads: Understanding Market Trends

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Are there fewer auto accidents or just fewer insurance claims? Host Ryan Mandell welcomes Olga Yuskevych, manager of automotive and mobility at Boston Consulting Group, and Josh Meyer, vice president of strategy and innovation at LKQ Corporation, to answer that question and explore trends reshaping the collision industry. Together, these experts analyze how vehicle repair economics impact claims severity, total loss decisions and parts selection. They also examine the effect of advanced driver assistance systems on accident frequency along with differences in passenger and commercial vehicle repair.

Ryan Mandell: Welcome to the Mitchell Collision Podcast, where we dive into the trends, tech and strategies shaping the future of the collision repair and auto insurance industries. We've got a ton to talk about in today's episode.

There's just a lot going on in the collision industry, and everyone is trying to figure out what is going on with claims volumes. You know, the first half of the year repair shops weren't as busy as they have been in the past, but then maybe over the summer we got some signs of life. So, we're going to unpack a lot of that today.

We're going to talk about where can we expect claims volumes to go from here. We're also going to look at how ADAS is impacting the industry both from a frequency standpoint as well as a severity one. And, also we're going to touch a little bit on medium- and heavy-duty trucks and how that industry is changing and some of the

similarities and differences that we find with the personal passenger market.

So, with us today are two experts in the field. We have Olga Yuskevych, who's manager of automotive and mobility for Boston Consulting Group. And Josh Meyer, who's the vice president of strategy and innovation for LKQ Corporation. Thank you both so much for being here today.

Olga Yuskevych: Thanks, Ryan, thanks for having us.

Josh Meyer: A pleasure.

Ryan Mandell: So maybe before we jump into some of the content here, why don't we learn a little bit about both of you and your backgrounds and your experience in the industry. So maybe Olga, we can start with you. Tell me a little about your background and what it is you do for Boston Consulting Group.

Olga Yuskevych: So my background actually started at LKQ, where I worked alongside Josh on the LKQ strategy team and then moved over to BCG—basically covering the whole automotive sector, my focus being specifically the aftermarket. And as you can imagine, there has been a lot of activity in the collision space. So, I've built a little niche there and am excited to share some of the findings.

Ryan Mandell: And Olga, when you say the aftermarket, maybe just define that a little bit, because I think that term gets thrown out in many different circles, and people use it in different ways. So, when you say the aftermarket, what do you mean by that?

Olga Yuskevych: I cover a lot of work on aftermarket suppliers, distributors, the independent retail and service segment, and even some work on the dealership side on their service and parts markets. We've also worked with a few recyclers. So, I guess it's a pretty broad definition, Ryan.

Ryan Mandell: Broad in the sense it's essentially the majority of the automotive industry except for the original equipment manufacturers. Would you say that's fairly accurate?

Olga Yuskevych: That's fairly accurate.

Ryan Mandell: Ok, awesome. And, Josh, why don't you tell us a little bit about your role at LKQ and your career trajectory and what has brought you up to this point.

Josh Meyer: Certainly, let me first start with the term aftermarket. I've worked in the automotive aftermarket for more than two decades, and aftermarket to me means virtually anything beyond the point of new vehicle assembly, including hardware for diagnostics and services, including mechanical repair as well as collision repair—within LKQ, the strategic planning function. And I spend a lot of time within the collision industry where LKQ is a market leader in North America.

Ryan Mandell: Fantastic. So, as we mentioned earlier, one of the probably primary topics that I hear being spoken about throughout the entire industry, whether it's insurers or repairs or suppliers, is this reduction in overall claims volume. And so, I think the big question that people really have is, are there fewer accidents that are taking place? Or are there just fewer claims? So maybe, Josh, we can start with you. What are you guys seeing at LKQ, what is your research showing you and what are your thoughts on what we're seeing in terms of accident volume versus claims volume?

Josh Meyer: The problem, or the headwind in our industry, is claims. Of course, cars have gotten safer with ADAS and ADAS do have a modest impact on the number of incidents on the road. But, at the same time, miles driven and VIO have grown every year coming out of COVID. And the headwind we face is largely due to the

economics of insurance. Insurance has gotten more expensive. Deductibles have gone up and coverage has been reduced. Thus, consumers are less likely to make an insurance claim. Olga, have you seen the same?

Olga Yuskevych: Yes, Josh, we pretty much have seen the same. Maybe what I can add to that is the trend we're seeing in total loss—that has been increasing at least last year, as we saw the drop in used vehicle prices, that has outpaced the drop in repair costs, but as new and used vehicle pricing is now increasing and normalizing, we're probably going to see the total loss rates slightly decline, if not just stay stable for the next year or so.

Josh Meyer: Total loss is a big factor out there and it has grown a little bit every year and that is also eating into the repairable claims count. This is also due to increased cost of repair due to general inflation and due to vehicle and technology complexity.

Ryan Mandell: So with total loss, I'm glad you both brought that up because I hear a lot of conversations around total loss right now. And do you think that there's an opportunity to revisit some of the thresholds that maybe insurance companies set around what determines an economic total loss? Is there an opportunity to maybe repair more vehicles as that would maybe be a better outcome for the consumer, especially in an environment where we might be faced with increasing vehicle costs in the short term again, with some tariff uncertainty. So, Olga, is that something that you and the BCG folks are looking at at all?

Olga Yuskevych: We're definitely looking at the cost of repairs and the cost of parts and the impact of tariffs, although I don't have specific numbers for you. I do think as the cost of vehicles is continuously increasing due to the electronics content, the ADAS content in the vehicles, it would make sense to lower the total loss threshold, but we have not done that specific analysis, no.

Josh Meyer: Look, all of us listening to this podcast, I assume, are in the repair industry. We're not in the total loss industry, or the auction industry or the shredding industry of vehicles. So, assuming we're all in the repair industry, we have an industry problem. Fewer cars are being repaired in part due to total losses. There's not an industry solution to date, but we need to work together to find one. And any solution we look towards has to lower the cost of repair. If you assume that it's very hard to reduce the labor hours and the labor expense, the cost of repair we need to bring down or the portion of the costs we need to bring down are most likely around parts if we're going to save more vehicles from being totaled out.

Ryan Mandell: But as these vehicles become more complex, what are things that LKQ is doing to really try to find maybe new segments of the parts market, new part types, for instance, that have traditionally maybe not been sold or not been utilized from a recycled or aftermarket standpoint, and start to bring those to market? How is LKQ thinking about that and strategizing around that aspect?

Josh Meyer: Certainly, and look, before we get into specific part categories, it's in everyone's interests, our customers' interests as well, to figure out a way to keep cars from being totaled out. So, while certainly LKQ likes to sell parts, I think our customers like to install parts equally, as opposed to totaling out cars.

You know, there's a couple things going on in our industry that we need to have a conversation around. There's not a simple solution. Salvage, which is the least expensive option, is also one of the least popular options relative to aftermarket or OEM parts. So obviously increased usage of salvage if it is a good substitute, and there's many reasons out there why salvage is not the most popular choice today. But if we could find ways to use more salvage inherently that brings down costs.

Same with reman or refurbished. That could also bring down costs relative to aftermarket or OEM new. And in our industry, the term reman or refurbished has maybe a different meaning than it does in, say, hard parts especially, say, hard parts in Europe. The definition of reman in Europe often implies a part is restored to the same quality and functionality as new. No difference than new.

Here, reman doesn't necessarily always have that connotation in collision. And maybe that's something we should work for is to figure out how to assure quality around lower cost alternative parts.

Ryan Mandell: And, Olga, I know you've done some research, you and your team, around the remanufacturing sector and some of these other part types. Are you seeing that there's growth or there's investment that's taking place in remanufacturing right now or is it still fairly stable from where it has been over the last decade?

Olga Yuskevych: I think we're seeing growth. I think there's more interest on the PE side in sustainability, recycling companies. And, as you know, recycle and reman parts generally do well in high inflationary times or when there's any parts shortages, things like tariffs.

So as the market, you know, penetrates with more ADAS electronics, I do see more specialty reman recycling players, similar to like an All Star for headlamps penetrating the market and more OEM-certified shops that actually have the in-house capabilities being able to do these type of repairs kind of grow in the market.

Ryan Mandell: And are you seeing that with the proliferation of these newer technologies. I mean, even if we just look at headlamps, just the proliferation of LED technology and some of the adaptive nature of some of lighting that's out there. That requires a different level of skillset, a different level of tooling and equipment for a remanufacturer to actually bring those part types back to a level of condition that is going to be usable in a collision setting. So, are you seeing that there's a lot more investment that's having to be made and how are companies dealing with that?

Olga Yuskevych: Yeah, it's definitely a lot more labor intensive than just brushing off the headlamps and reselling them as is. I think a lot of these companies are PE-backed and they're getting capital investments in order to focus on these types of reman activities. But at the end of the day, it’s still extremely manual and they are still competing with the OEMs that have a much more standardized process to manufacture these parts. So, until that becomes less labor intensive, I think that's when reman is going to really pick up.

Ryan Mandell: And Josh, how are you looking at some of these newer electronic type parts that, you know again, 10 years ago, there wasn't a need, these parts didn't even exist. Sensors, cameras, things of that nature. Is there an opportunity, or is this work already being done, to reman some of these part types and present them as an alternative option for repairers and insurers?

Josh Meyer: Certainly, there's a large cottage industry of remanufacturing of control modules. It has been going on for years and years, and many fragmented small companies specialize in this, whether it's something like an ABS control module, as an example, or infotainment control modules.

The interesting thing about the electronics is that as an industry, we have very few choices for parts. Now, why do I say that? Imagine calling up Dell computer and asking if you can order a 10-year-old laptop. And they'd say, no, we don't have a supply chain that makes 10-year-old parts. We can't make a 10-year-old computer. It's just not possible.

The same is true with automotive control modules. Often, there's no supply chain to manufacture them 10 years after new. So now we're stuck with either buying them as new from the new car dealer, and those parts have been sitting in a warehouse for 10 years waiting for demand to pick up. And they're often very expensive. It's often more expensive than saying just buying a laptop for your children.

The other alternative is salvage. Reman is another alternative out there where these parts have been tested and have met the quality requirements of a remanufacturer before they were released for sale.

Ryan Mandell: So really it makes sense that there's these options that are geared towards those older vehicles on the road. And we know looking at a lot of the VIO data that, and VIO for anyone not aware, we're talking about vehicles in operation. And we see that the average age of vehicle is getting older. So as that changes, then you would think that that would actually mean that there is an increase in the demand for parts that are geared towards that segment of vehicle.

Josh Meyer: Certainly. So as vehicles age and also get more electronics on it and have more complexity, demand increases. And I'll share with you, I have a 10-year-old BMW and the MOST network went down—that is the network that controls the infotainment. And it's just one node on it. And, because it's not a star network all communicating back to the same hub, but more like a daisy chain, one module on that network that fails, takes out the entire network.

It's no longer as simple as removing or replacing a radio anymore. I have to go across the network with diagnostic tools to figure out which module went down and then find the appropriate module, hopefully salvage or reman, because I, for one, can't afford new. Maybe somebody else can, but I can't. That's why I'm driving a 10-year-old BMW. And, thus, welcome to reality. Economics force our choices, and that's why reman and salvage are the best choice for me.

Ryan Mandell: That sounds a lot like when I'm trying to figure out why my Christmas lights went out. One goes out and knocks out the whole strand. It's the same thing, even on a BMW.

So, speaking of older vehicles, Olga, I want to shift gears a little bit here and talk about medium- and heavy-duty trucks. Now, when we look at average age of vehicle, in our data at Mitchell, we see the average age of a medium- or heavy-duty truck is typically right around five or six years older than what we see for personal passenger auto.

So, what are some of the similarities or differences that maybe you're seeing with the medium- and heavy-duty space in the research that you've done? And is there an opportunity to look at personal passenger auto as a little bit of a window into maybe what we can expect in that segment?

Olga Yuskevych: Yeah, absolutely. So, the medium- and heavy-duty market is a little bit different. You mentioned the average vehicle age, which is almost five years older. The focus there is really extending the lifespan of the truck when you do collision repair.

That's why the majority collision repair market is done by the dealers and then some of the independents like Penske, Fleet Pride and Team USA. We estimated the market to be around nine to 10 billion. Growing just at around 2% to 3% per year with freight tonnage and increasing car parc. The medium- and heavy-duty collision market has an even longer tail of smaller independents. A majority of those compete on a local level, but we do think the market's going to consolidate.

Ryan Mandell: And do you think that consolidation is mainly being driven, obviously, by the profit potential that's there and the typical things that a PE firm is looking at? But is there additional opportunity when PE firms look at investing in those kind of platforms? Is really the idea that they can obviously expand the footprint but also increase the efficiency because that's really what becomes ultimately important for a fleet operator that is operating these vehicles is having more time that the vehicle is actually in operation and on the road.

Olga Yuskevych: Absolutely, I mean, they look at a lot of metrics. They look at turnaround time, how many shifts are needed, how much capacity there is per shop, customer satisfaction. The most important is doing the safe repair and getting the vehicle to the fleet operator as quickly as possible.

Another thing they're looking at is an emerging impact of fleet—fleet collision manager companies like Wheels or Fleet Response that most midsize fleets use. And so kind of having a seamless process with the insurance carrier and the collision manager is also really important to them.

Ryan Mandell: And when you look at those vehicles specifically, and the changes in their technology, we're hearing a lot of information that's coming out there about how, it's a lot easier to spec these vehicles with some of the same type of ADAS technology that's going on passenger vehicles. Are you seeing a similar growth trajectory in that kind of complexity with medium- and heavy-duty trucks, or are we kind of still in the early innings of that process?

Olga Yuskevych: I think we're still in the early innings of the process. I mean, you can imagine it's expensive to get new trucks with ADAS on them. And while ADAS is lagging, I think it's going to eventually take a similar path as the passenger vehicle side with some of the leading OEMs there taking a higher share.

Ryan Mandell: Do you think there's any opportunity for collision repairs to operate kind of in both spaces to work on personal passenger autos and medium- and heavy-duty, or is really specialization the way to go when it comes to these vehicle types?

Olga Yuskevych: I think specialization is the way to go. I mean, these are large trucks. They need a paint booth that is pretty expensive. Calibration tools that are much larger. So the space required and the customer base is quite different. I don't know of a player that does both today.

Josh Meyer: And maybe to augment Olga's point, typically, when it comes to electronics, the diagnostics tools and equipment that have coverage for light vehicles don't cover heavy-duty vehicles and vice versa. So different tools and trainings are required just from a diagnostics perspective.

And to Olga's point, calibration is related to diagnostics, so it requires some specialization or at least specific investment in tools and equipment that have no application for the light vehicle segment.

Ryan Mandell: It makes perfect sense. And I think it's actually a bit of a microcosm of what we're seeing across the entire collision industry itself. It has moved towards more specialization. The fact that you need OEM certifications to be able to repair certain vehicles. Otherwise, there could be parts restrictions. There could be a lack of access to repair procedures.

There's a lot of signs that are pointing, I think, to increasing specialization not only between vehicle segments, but even just between different OEMs, the type of construction they're made with, the type of technology they have, the type of propulsion maybe they have. So, I think that's indicative of the broader trend that we're seeing in the industry.

I want to circle back real quick to our original conversation. Kind of close out here back with maybe just talking about where do we see things moving from here? And, Josh, you mentioned at the very beginning, that ADAS is having a modest impact on preventing accidents. When you say modest, what do you think that means today? And when do you think, and I know this is kind of looking into the crystal ball a little bit, but when do you think we might really start to see ADAS having a significant impact on the reduction of accidents?

Josh Meyer: We're still fairly far away from autonomous vehicles, so it's going to be a while. What we do see today are reductions in the range of say 1% to 2% at most. And with every successive model year, more ADAS functionality, greater range and capability, and higher efficacy than prior model years.

We also see today, over time, the efficacy of ADAS erodes. I'll give you a simple example. One of the things going on we talked about is fewer insurance claims, which also implies more unrepaired vehicles. An easy

example to give is a vehicle that's not been repaired probably doesn't have an ADAS that's functioning as intended. So unless maintained, ADAS efficacy erodes over time, and thus its functionality as a new vehicle is going to be very different than its functionality with a 10-year-old vehicle. And there is today no law that I'm aware of that requires ADAS to be maintained.

Ryan Mandell: I'm not aware of one either. And I think that's something that is actually going to be a subset of the industry that we'll see growing in the next several years is this preventive form of maintenance for these safety systems to ensure that they are working as intended. Because as we look at OEM repair procedures, many of them dictate that certain components of the ADAS are calibrated any time the vehicle's involved in an accident, regardless of the severity of that accident.

One could argue that hitting a curb at a certain speed or hitting a pothole with great force would constitute the same level of disruption that maybe a minor accident would, or even more so. So, there's definitely going to be some discussions around that, and I think that's something that really has not come to the forefront as of yet, but I think it will in the future.

Josh Meyer: So if I can just add an example, imagine getting your wheels aligned, your front wheels aligned, and the thrust angle of the car changes a little bit. You should also recalibrate your camera and maybe your radar sensors, now that the thrust angle has changed with the wheel alignment. That's in principle. In fact, we know the reality.

Ryan Mandell: Olga, maybe we can just close with you, just kind of looking at what you see in the collision industry in the next 18, 24 months. What can we expect to see when it comes to claims volumes? Where do you think severity is going to go? Do you see any leveling out of the total cost of repair? Or are we going to continue to see the same trajectory that maybe we've seen outside of COVID, outside of these inflationary years, but maybe prior kind of back to the 3% to 5% range. Is that what we can expect or are we in for something different?

Olga Yuskevych: It's a little hard to predict where the future cost of repairs will go. We do think, you know, cost of parts, specifically aftermarket parts, may increase with tariffs, cost of labor, there's still technician shortages. So, that's probably going to remain high. And we typically see it growing with the U.S. auto parts CPI. I think roughly at 3% into the future, 2035.

But other future trends, I mean, robotaxis, right? They are a reality and I think the next big wave of ADAS and autonomous driving is going to be with fleets. And we are going to see certain like Sunbelt cities have a higher and higher percentage of these robotaxis. And so, it would be interesting to see how the insurance and cost of repairs are going play out for those in the future.

Ryan Mandell: Absolutely. And I know having been in many of these cities, you know, you're seeing them more and more and there's definitely an entire other level, another suite of components that these vehicles are equipped with. And the more of them on the road, the more they're going to be in accidents. So that is absolutely something we're all going to have to grapple with.

I just want to say thank you both for your time today. It's great spending this time with you and getting to share some of your knowledge. Thank you so much for sharing your insights with our listeners. We greatly appreciate it.

Olga Yuskevych: Thanks for having us, Ryan. Always good chatting.

Josh Meyer: Always a pleasure.

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