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## VEHICLE VALUATION EXPERTS APPRAISE TOTAL LOSS CONCERNS

COSTS ARE UP AND  
CLAIMS ARE DOWN AS  
THE MARKET IS BECOMING  
FLOODED WITH TOTAL LOSSES...

**OR IS IT?**



## VEHICLE VALUATION EXPERTS APPRAISE TOTAL LOSS CONCERNS

The cost of parts and labor continue to rise, exceeding the rates of inflation which elevate fairly consistently, while used car prices also skyrocket to unprecedented levels. Although claim count is down, severity is up, creating a market overflowing with total losses – or is it?



During the most recent Collision Industry Conference (CIC), the Industry Relations Committee delved into this topic with four individual presenters from various industry segments collectively providing a holistic view of the issues related to total loss plaguing the industry. In a further exploration of these concerns, *Hammer & Dolly* asked three vehicle valuations experts to weigh in, and WMABA President Steve Kriepps (Collision Safety Consultants of West Virginia), Robert McDorman (Auto Claim Specialists) and John Walczuk (ZB Negotiations) graciously agreed to share their insights.

### It's About Trust

CIC Industry Relations Committee Co-Chair Jim Keller (1Collision) kicked off the conversation about total loss by examining these situations from the consumer's perspective. Displaying an image of all industry segments, as he stressed, "The consumer is right in the center and should be our biggest concern, no matter what segment you represent. Everything we do revolves around the consumer, and the more trust between all those segments, the better off we're all going to be and the better we'll be able to focus on the consumer's standpoint."

When Keller polled attendees to determine their perception on total loss frequency, 87 percent of respondents agreed that it is increasing, and 73 percent believe the factors driving the increase include a combination of salvage values, virtual appraisals and parts availability.

***Hammer & Dolly:* What role does "trust" play in total losses, and how can the collision repair industry improve consumer trust, especially in instances where the shop and insurer are at odds about the total loss designation?**

**Steve Kriepps:** That question is not as straightforward as it seems. It really depends on the state and their respective laws. For example, West Virginia has a 75 percent ACV (actual cash value) total loss threshold to determine total loss; however, under the terms of most policies, you would need to reference the specific policy since an insurer may have the right to repair, replace or pay for the loss in money.

From a shop's perspective, they really don't have a dog in that fight. All they can do is write an accurate repair plan and present that to the consumer. I know we all feel we are the ones that have to take care of this consumer and while I agree that's true within the realm of your profession, policy and legal disputes are not a world the shop needs to play in. Now, if a consumer goes to bat and you want to back them up on an insurance commission complaint or through a legal process, go for it. As far as trust, I believe the shop needs to be honest, and they also need to be educated on their state's respective rules. Let a consumer know

where they can get help and assure them that you will be there with them. Otherwise, you are writing checks you can't cash.

**Robert McDorman:** As long as the insurance carriers are allowed to participate in valuing the loss and manipulating the unsupported data provided by the Market Valuation/Data Provider firms, there will continue to be trust issues related to the total loss designation. The unsupported data is being used in manipulated form as a weapon against the insured and claimant to undervalue the loss.

Also, the opening question limiting the cause for total loss frequency only to salvage values, virtual appraisals and parts availability was not complete. The insurance carriers play an instrumental role in the total loss process and the wrongful deeming of repairable vehicles as economic total losses.

**John Walczuk:** Trust in your body shop is important as the client is looking for professional guidance; however, the problems are twofold: Is the shop independent or a DRP contracted shop? Are they following contract requirements, or is the shop fixing a vehicle that should be a total based on proper repair guidelines? Being at odds with the carrier in current times is likely a commonplace issue. The real question is what constitutes a total. Is it repair costs, is it salvage value, is it anticipated loss of use claim costs, or is it parts availability? The phrase "constructive total" is commonplace when the percentage threshold criteria is not reached but other factors of undefined cost are anticipated.

### Is the Industry at a Total Loss?

Dan Risley (CCC Intelligent Solutions) provided statistics to demonstrate that total loss frequency has been rising annually since 2013, yet 2021 served as an anomaly due to the elevation of used car prices. At the same time, supply chain constraints limit the availability of new cars, causing people to keep their cars longer, driving up the average age of vehicles on the road, including rental car fleets. A number of factors adversely affect severity. Claims data continues to suggest that more higher speed crashes are still occurring, and the cost of parts and labor has shot up faster than inflation rates which hover in the six to seven percent range according to the Consumer Price Index.

"Used car prices are going up and outpacing – or at least equalling – the cost of repairing the vehicle," Risley summarized. "Yet, we're not seeing a proportionate increase in total losses, so it makes me wonder how much of that can be attributed to the fact that claim count is down. If we're not seeing such a huge jump in total loss percentages, can that be directly attributed to claim count?"

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# COVER STORY

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Robert McDorman

**H&D: Is total loss frequency increasing in the current market, and why?**

**SK:** The short answer is 'yes.' Some vehicles are being declared totals simply because parts are not available and the cars cannot be repaired in a reasonable amount of time. In addition to this, the valuation methods (or lack thereof) from the carrier utilizing CCC, Mitchell and Audatex valuation software always seems to undervalue a vehicle, leading to potentially incorrect total loss determinations.



Sandy Blalock

**RM:** Yes, and the carriers play an integral part in the total loss frequency. CCC, Audatex and Mitchell data is strong and helpful but not complete. Their valuing tools include many input levers for the carriers to use to obtain a desired result. With salvage values high, the desired result is more often to total these vehicles.

**JW:** Currently, I am seeing 2022 vehicles that could be fixed, but the parts shortage is resulting in a total loss determination.



Dan Risley

**Where Do Total Loss Vehicles Go?**

"Total loss is affecting all of us – it's not just affecting the collision repairers; it's also affecting the salvage industry," Automotive Recyclers Association Executive Director Sandy Blalock began as she addressed CIC attendees. "Total loss does not necessarily mean end of life for every vehicle, and many vehicles leave the professional market and are bought by rebuilders because a lot of them can be rebuilt safely. But some of them cannot."

No restrictions exist related to who can purchase salvage vehicles, including non-repairables. As a result, they are purchased daily by licensed auto recyclers and dealers; however, at least 30 percent are sold to unlicensed and unregulated buyers. Often, these non-repairable cars are then rebuilt – "certainly not using any OEM repair procedures" – and often resold via curbstoning, an illegal scheme by which a "hustler" flips dozens of cars each year with no consideration for the safety of the consumer who unknowingly climbs behind the wheel.

"Title washing is an epidemic in the US, and

one out of every 325 vehicles on the roads today may be operating on a fraudulent title," Blalock claimed. "These unlicensed curbstoners have no ethics and no concern for the consumers they're defrauding. Let's challenge each other to make a difference. Our purpose should be to contribute to making things better, not only for the professional businesses we each represent, but most importantly for the consumer."

**H&D: Since being deemed a total loss doesn't necessarily mean "end of life" for a vehicle, what concerns exist with the number of salvage vehicles being "curbstoned" or resold with "blue titles" as a result of increasing total loss frequency? What effect could this have on the driving public?**

**SK:** Curbstoning and vehicles being sold with blue titles are huge issues and deceptive practices which cause major harm to consumers. More and more people are being lied to, and as a result, they purchase potentially dangerous vehicles. Sadly, I see this same thing happening in my area through the work I do with law firms to rectify these exact situations. It is real, it is happening, and it is a problem that costs consumers money and potentially their safety.

**RM:** Ms. Blalock provided a good overview of the safety issue of vehicles deemed a total loss, subsequently sold to various sources, repaired and resold; however, she offered no cure to stop this process.

Until each state requires a vehicle to be titled as a salvage vehicle once the insurance carrier deems the vehicle a total loss, the insurance carriers will continue to manipulate the titling system to sell as many vehicles as possible at the salvage sale as vehicles with a good title history (blue title). Insurers play an important part in the titling of total loss vehicles with good titles, and this affects consumers because less-than-desirable rebuilders purchase these total loss vehicles with good titles only to perform substandard, unsafe repairs and then sell them to the public with limited or no disclosure of the vehicle's history.



Jim Keller

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# COVER STORY

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**JW:** Being deemed a total does not mean end of life. The vehicle will likely go to auction with several possible outcomes: It will either be purchased, properly repaired, inspected and then sold for public use, or it will be purchased and cannibalized for parts to repair another vehicle, or it could be purchased and sold for an overseas final sale where safety features are not a concern. Purchasing any used vehicle requires due diligence, and any buyer should be aware of any prior incidents to a vehicle. Even vehicles with a prior repair history, but without a branded title, should be reviewed in detail.

## A Case of Blue Titles

"We only represent the consumer," McDorman warned before analyzing a random sample of 200 total loss claims worked by his company to demonstrate that one-third of those vehicles deemed a total loss were either sold with a blue title or still remain in the client's name with a blue title.

Using a 2017 Chevrolet Traverse claim as an example, McDorman explained that State Farm valued it at \$18,889 and sold it at auction for \$4,800 with a clean title and no indication of damage history – despite showing an estimated repair cost of \$14,345 and being reported to CarFax as a total loss. Furthermore, the actual repair value used to deem the vehicle a total loss came in at \$18,970.01, which would have prevented the car from being sold with a clean title if that value had been provided at auction. The current driver has no idea how badly damaged his vehicle had been.

"These are driving weapons that could fall into somebody's hands," McDorman cautioned. "When the insurance company deems the vehicle a total loss, they should be required to issue a salvage affidavit and transfer the title as a salvage title. Insurers should be required to transfer the title on all total losses to a salvage title within 30 days which would prevent a lot of curbstoning and detour rebuilders from buying these cars to rebuild and remarket as clean title vehicles.

"The problem is twofold: The data provided by the market valuation/data provider firms is unsupported, incomplete, and the carrier plays an instrumental role in evaluating the loss. It's multi-faceted. It is a virus and a problem. It's a safety problem, and we need relief. We all need to get together to talk about how we can address these problems so we can fix them and take care of our consumer."

By invoking Right to Appraisal (RTA), McDorman helps consumers settle total losses for higher values, and his data demonstrated that final estimates regularly exceed carriers' original estimates by an average of 77 percent up to 102 percent, depending on the insurer.

## **H&D:** In your experience, how does invoking the Right to Appraisal impact total loss determinations, including its effects on consumers and shops?

**SK:** I strongly agree with the unethical and disturbing trends in total loss evaluations presented by Robert McDorman at CIC as I see these same issues in my state through activities I conduct. Invoking RTA – given it is the correct and best option – typically yields a positive result for the consumer. I would imagine the shop benefits as well, but honestly (with no disrespect meant to my fellow collision repairers), their happiness following or during an RTA is irrelevant. On total losses, I'm seeing an increase in ACV settlements of \$2,500-\$3,500 on average; some have exceeded \$6,000!

Although RTA is discussed less often as an option for loss disputes (not total losses), it may be the best choice in some cases when the policyholder and the insurer cannot reach an agreement on a repairable vehicle. I've seen increases in loss amounts of \$3,000-\$7,000, up to \$10,000, in loss disputes where the carrier wrote only \$1,500-\$2,000 based on photos while the shop wrote \$8,000 after a physical inspection and repair planning.

**RM:** In most (if not all) insurance policies we have in our library, the limit of liability is based on the ACV. The market valuation indicated through data provider firms use a complex algorithm to arrive at an adjusted value (AV) that is biased and always favors the insurance carrier. This adjusted value is not the ACV. Once the ACV has been defined, this becomes the fence post to determine loss. The carrier always wants to use the total loss formula (TLF) to determine the repair or replace loss type. The TLF, commonly known as an economic total loss, always benefits the carrier at the insured's expense; "economic total loss" essentially means it's in the carrier's best economic interest to total the insured's safely repairable vehicle.

In eight out of 10 claims, we see a significant enough error to invoke RTA in contest of the loss. Once the ACV is defined, the increase between the AV and the defined ACV through appraisal is \$3,672 on average, and this delta between these two figures is the under-indemnification of the loss. Once the ACV is properly defined, a significant number of these types of claims are eligible to be safely repaired under the policy limit of liability.

**JW:** We invoke the appraisal clause on 99 percent of all client vehicles. We specialize in obtaining fair valuations for the vehicle owner when we have been hired to obtain correct ACV. Shops recommend us after they have already determined the vehicle is a total or have been told by the carrier that it is a total as a way of assisting their client by directing them to a resource who will fight for the client's rights. **H&D**