White Paper

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The State of Risk & Recovery Report

Let's take a look at some the factors impacting risk and recovery management in 2023.

The auto industry has experienced highs and lows in the aftermath of the pandemic. In efforts to drive down soaring inflation, the Fed orchestrated four consecutive 3/4 percent rate hikes. A high interest rate environment has lowered loan demand. However, as loan volume becomes a strategic priority for financial institution, associated lending risks and recovery concerns are escalating as well.

Key market factors impacting risk and recovery management include:

- Loan delinquencies are up 20% and loan defaults are up 34%, compared to 2022.[4]
- The CFPB has issued new guidance for repossessions, collections, and product refunds.
- Insurance premiums have increased 12% since 2019 and more borrowers are opting to cancel coverage.

Economic Factors Impacting Risk and Recovery

Vacillating between high unemployment to inflation, to high vehicle prices and interest rates, the industry has experienced economic whiplash in the last few years.

YEAR OVER YEAR ECONOMIC COMPARISON

	2019	2020	2021	2022	2023
Unemployment[1]	3.5%	6.7%	3.9%	3.5%	3.4%
Gas (unleaded regular)[5]	$2.60	$2.18	$3.02	$3.06	$2.81
Total Vehicle Sales (millions)[2]	17.49	14.88	15.41	14.23	N/A
Used Vehicle Value Index[3]	153.9	175.7	257.7	219.3	224.8
Average Insurance Premium[1]	$572.78	$545.38	$567.88	$648.77	$658.51

The bad news: as gas, vehicle, and insurance prices increase year over year this may result in fewer borrowers maintaining insurance and making timely payments. As borrowers feel financial strain, lenders will see a jump in delinquencies and defaults.

The good news: unemployment rates are decreasing, inflation is stabilizing, and vehicle sales are leveling.

Shifting Regulatory Measures

In addition to a shifting economy, regulations regarding risk and recovery are becoming stricter. Regulatory bodies, at both the state and Federal level, have ramped up measures in response to consumer financial strain. As regulations shift, some best practices are emerging to include:

- Ensure an end-to-end process for refunding unearned portions of vehicle protection products.
- Review all collections scripts, canceled orders, and fees charged to a consumer to ensure alignment with UDAAP.
- Be attentive to all incoming consumer complaints regarding recovery.

What Goes Up Must Come Down

The ripple effect of the pandemic continues to be felt years later. Once-low car prices have skyrocketed, but they won't stay there. Physics and the economy have this in common: what goes up must come down. Even after interest rates and vehicle prices come down, financial institutions must take a 360 degree approach to risk management and recovery.

Taking a 360 Approach to Risk and Recovery

Jobs are growing.

Supply chain issues are resolving.

Inflation is slowing.

The economic whiplash may not be over yet, but there are hopeful signs for strong growth opportunities and recovery expansion in 2023. Lenders must stay alert, maintain relationships with all recovery vendors, and think about enterprise risk management from a proactive standpoint.

About Allied Solutions

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Learn how to take a 360 approach to risk and recovery: alliedsolutions.net/solutions/manage-risk

White Paper Sources and Citations

[1] Bureau of Labor Statistics. US Department of Labor. May 2020.

[2] Federal Research Economic Research. Total Vehicle Sales. May 2020.
https://fred.stlouisfed.org/series/TOTALNSA

[3] Manheim Used Vehicle Value Index. January 2023.

[4] Cox Automotive. Auto Market Weekly Summary. February 2023.

[5] U.S. Energy Information Association. Gasoline Prices and Outlook. 2023.

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