



# The Changing State of GAP Report

Q1 2023

## Let's look at some factors impacting GAP claim activity.

*Over the last six months GAP (guaranteed asset protection) claim volume, frequency and severity has started to increase to pre-pandemic levels. Economic conditions tied to the new car market and used car values have begun to change. Even modest decreases in used car values are having an impact on the frequency of GAP losses in 2023.*

Other key market factors impacting GAP include:



New car inventory has improved, as well as parts supplies are more readily available, decreasing the demand for new cars.



Regulatory attention on refunding borrowers on canceled GAP waivers continues to be a major focus.



Used car prices modestly declined for the seventh consecutive month in January 2023, now 9% below 2022 peak.<sup>1</sup>



Total loss settlements and actual cash value payments are lower and are not consistently nullifying deficiency balances, causing an increase in GAP frequency and claim volume.

## ECONOMIC FACTORS

Across the automotive industry, GAP activity will continue to be impacted by a variety of economic factors.

	2019	2020	2021	2022	2023
<b>Unemployment<sup>2</sup></b>	3.5%	6.7%	3.9%	3.6%	3.7%
<b>Gas (all types)<sup>3</sup></b>	\$2.69	\$2.26	\$3.79	\$4.19	\$3.39
<b>Average Vehicle Loans<sup>4</sup></b>	\$32,480 (New)	\$36,072 (New)	\$39,721 (New)	\$40,290 (New)	\$41,665 (New)
	\$20,446 (Used)	\$20,916 (Used)	\$27,291 (Used)	\$27,945 (Used)	\$28,506 (Used)
<b>Average New Loan Term (Months)<sup>4</sup></b>	69.28	71.54	69.99	69.46	69.73
<b>Average Monthly Payment<sup>4</sup></b>	\$550 (New)	\$568 (New)	\$644 (New)	\$667 (New)	\$700 (New)
	\$393 (Used)	\$397 (Used)	\$488 (Used)	\$515 (Used)	\$525 (Used)
<b>Used Vehicle Value Index<sup>5</sup></b>	141.1	150.6	236.2	221.5	238.6

Used car values are on the decline and this is changing the landscape of how total losses are paid. Used car pricing is driving total loss settlements down and lowering actual cash value (ACV) settlements. The GAP product is now seeing an increase in frequency and severity of claims due to these changing market influences. There are economic and market indicators that strongly imply that this trend will continue throughout the remainder of 2023 and possibly into 2024. As the market continues to evolve, these changes will make Allied's Total Loss Assistance and EZ Claim products even more valuable to the management of GAP.

### 2022 Allied Impact<sup>6</sup>

	Claim Totals	Average Lift	Total Recovered in Lift
<b>EZ Claim: Total Loss<sup>®</sup></b>	6,269	\$824	\$464,955
<b>EZ Claim: GAP<sup>®</sup></b>	1,318	\$3,199	\$2,492,789
<b>Total Loss Assistance</b>	2,088	\$858	\$244,519

## A MENU OF GAP OFFERINGS FROM ALLIED SOLUTIONS PROVIDE:

- Auto Deductible Reimbursement (ADR) as a consumer benefit solution helps lenders stabilize GAP loss ratios and rates
- Innovative technology and software to:
  - Quote, track, report, and process GAP sales
  - Analyze participation and penetration in sales goals
  - Submit GAP claims 24/7
- Sales support from training and performance specialists to create customized development plans for increasing GAP sales penetration and volume
- Automatic document transfer from Total Loss claim to GAP claim
- Better settlement offer from primary carrier prior to signing Letter of Guarantee

## CONCLUSION

As the industry navigates new challenges, GAP continues to be an important aspect of revenue and borrower support. The key benefits of Allied's flexible program options and add-ons can aid in significant growth for GAP volume amidst an uncertain market. Over the past few years, numerous market conditions including limited new vehicle inventory and inflated values on used vehicles have resulted in temporarily low losses. That is changing. Now more than ever is the time to ensure your borrowers are protected with GAP.

**Do you have a flexible GAP program to protect your portfolio and borrowers?**

Learn more here: <https://www.alliedsolutions.net/solutions/guaranteed-asset-protection>

<sup>1</sup> CoPilot. Feb 2023.

<sup>2</sup> Bureau of Labor Statistics. US Department of Labor. Nov 2022.

<sup>3</sup> US Energy Information Administration. Aug 2022.

<sup>4</sup> Experian. State of Auto Finance Market. Dec 2022.

<sup>5</sup> Manheim Used Vehicle Value Index. Aug 2022.

<sup>6</sup> Allied Solutions. Claim Data. March 2023.