



ON TRACK

A
Newsletter
FOR THE
Auto Auction Industry

02 The Times They
Are a-Changin'

04 Infotainment systems:
The new normal in
automotive manufacturing

05 What's New at IAA

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03
Keeping up with the recalls



The Times They Are a-Changin’


It’s hard to believe that we’re already nearing the holiday season of 2016. As fast as this year has gone by, it seems like the speed at which the automotive industry is changing is moving even more quickly. Bob Dylan was right. The times are indeed changing. From manufacturing materials to advanced technologies to new approaches to long-standing processes, the way we as an industry do things is certainly a whole lot different than it was when Mr. Dylan was recording some of his most popular songs. It’s a lot different than it was even a decade ago. Our company alone has made tremendous strides since our inception. Far more than a simple auction company, IAA has become a more complete service provider from the first notice of loss to the day total-loss vehicles are sold at auction.

One of the big changes we’ve seen in the last couple of years in particular is the mainstream boom of infotainment systems in vehicles. They’re no longer just a luxury add-on. In fact, many new models offer this equipment in standard trim packages. Infotainment systems provide drivers with navigation, smartphone connectivity, real-time weather and vehicle performance information and of course, music and movies. Never before have we had so much access to information in our cars than we do today. But as this technology advances – and the big players such as Google and Apple get involved – how will that change things on the used-vehicle and salvage fronts? How will it change the value associated with used vehicles equipped with complex technology? These advanced systems aren’t exactly easy or cheap to fix. How does this affect insurance companies and their total-loss determinations? These are some of the more intriguing questions we’ll be keeping a close eye on over the coming months and beyond.

Another change we’ve been tracking is the way recalls have affected the auto auction industry. It feels like there’s a news story about another recall every week. Perhaps the most famous one of late is the Takata airbag recall, which is now the largest recall in our nation’s history. It’s hard to say if there are actually more problems with today’s vehicles or if we’re just better at diagnosing them, but nonetheless, it comes down to handling these issues in vehicles up for auction. There is certainly no shortage of things to think about when it comes to recalls and the evolving auto auction industry.

Change is inevitable in any industry. I’m proud of the way IAA has adapted to change over the years, and I know we’re better equipped than ever to face new changes head on. It’s one of our strengths. Recognize changing tides early, make smart decisions and help our clients drive success. That’s something that will never change.

Regards,




JOHN
KETT

Chief Executive Officer and President

GREETINGS

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”

ONTRACK

Keeping up with the recalls

It's been endless. A constant barrage of auto recalls have been announced over the past two years, and it doesn't seem to be slowing. [In 2014, automakers recalled a record 50.99 million vehicles, and broke the record a year later in 2015 by recalling 51.26 million vehicles in the U.S.](#) This blistering pace is also in response to stringent government regulation and proactive responses to safety problems.

The good news is these recalls mean that our safety is taken extremely seriously. It's hard to fault the agencies that uncover defects, and automakers absolutely should publicize recalls as quickly as possible. Consumers expect swiftness in being informed. How an automaker manages the press when a recall is announced is tantamount to how the public will react.

However, it should also be noted that while 2015 stands as a year with a record-breaking number of recalls, it was also a record-breaking year for new-vehicle sales. So the question is – what impact do vehicle recalls have on the automotive marketplace?

Moving through the gears

First of all – how come there are so many recalls now, anyway? Well, just look at all the steps in the auto manufacturing process.

As more vehicles become dependent on hardware and software to function correctly, the supply chain is [becoming increasingly complex](#). An automaker can employ a dozen or more original equipment manufacturers for their vehicles. For example, in 2014 when Takata Corporation announced a recall of their defective airbag inflators, the news swept industry giants like BMW, General Motors, Honda, Toyota and more. It soon became the center of the [largest auto recall in history](#), with tens of millions of vehicles being recalled even up until the time of this publication in 2016.

So when a recall happens, pinpointing the problem can be more difficult than it seems. Is it an issue with a part's design? Is the company that produced a part at fault, or the company that performed the installation in error? These multiple layers can obfuscate quality management systems – which can have varying standards, resulting in enough defects making it through the assembly lines.

Additionally, new regulatory demands – such as the CAFE standards for fuel efficiency – are putting pressure on automakers to innovate. New research is being done on alternative metals and materials, which will be beneficial, but the viability of these materials can be unpredictable, even as equipment manufacturers continue to experiment and test amidst new specifications.

Outside impact

Cars are complex. And luckily, the general public seems to understand that. [Consumers accept a reasonable expectation of imperfection](#), and how a company addresses a recall affects a brand's reputation [more than the size and severity of a recall](#).

As mentioned, the number of recalls doesn't seem to be slowing down vehicle sales. In an age where technology and mobility is being redefined by the day, consumers seem patient with the automotive industry working out the kinks in pursuit of the most efficient and reliable car.

Meanwhile, the wholesale industry is playing a [waiting game](#).

"The vehicles in our inventory were really at the direction of the seller," Jim Hallett, CEO of KAR Auction Services said, "Some of these sellers want to hold the vehicle until the recall is completed."

There are express laws in the rental segment that prohibit the selling of recalled vehicles. Meanwhile, dealers have vehicles with stop-sale orders that they have not yet been able to release to auction.

Automakers are still figuring out additional affected makes and models, but some dealers are already receiving replacement parts and taking steps to repair vehicles. As the auto manufacturing process continues to be specially parsed out, we are headed into a time where a vehicle may be judged for its parts rather than its whole.



Massive recalls have had a significant effect on the entire automotive industry.

Infotainment systems: The new normal in automotive manufacturing

If you haven't purchased a new vehicle in the last five years, you're likely to find yourself in awe of what's presented to you on the dash of the shiny new models the next time you find yourself in a dealership. In an age of rapidly advancing technology – an era arguably seeing the fastest advancement in history – the automotive industry is no longer reserving high-tech gadgetry and interactive systems for the top-tier vehicles. Infotainment systems are becoming standard in many of the common vehicles you see every day during your morning commute. And the secret is out. A recent survey found that 37% of people shopping for a new car said they would switch to another manufacturer if it was the only one offering an infotainment system. [That number is up from 20% in 2014.](#) The demand is certainly there.

What are infotainment systems?

Infotainment systems bring together just about everything a driver could want right at arm's length. From navigation systems to music and movies to smartphone tethering via Bluetooth, and a plethora of applications that include real-time weather data, vehicle performance and more, infotainment systems and their large touchscreens keep drivers connected more than they have ever been.

Some of the more familiar infotainment systems include Toyota's Entune, Ford's SYNC and MyFord Touch, Kia's UVO, Cadillac's CUE and Fiat's Blue&Me. With the global market for infotainment systems in passenger cars [projected to reach \\$35.2 billion by 2020](#), the big technology companies have taken notice. Google, Apple, Samsung and Microsoft have all entered the fray, [despite some automakers' resistance.](#)

The price of modern tech

It can take nearly three years to concept and develop an infotainment system, and the manpower in terms of software engineering alone [can be staggering](#). Point being, these systems are far removed from simply throwing together a tape deck.

High-end tech layers in a number of factors with relation to the used-vehicle and salvage industries. In the old days, just about everyone could either fix their own car, or knew someone who could. This complex technology adds a new wrinkle into the mix. The more computerized our vehicles are becoming, the more difficult – and potentially costly – they become to fix.

So what does this mean when it comes to determining value? How will insurance providers weigh the cost of repair vs. total-loss determination? Perhaps a vehicle has light physical damage, but the infotainment system requires serious work. Things will become less expensive relatively soon. Remember, DVD players used to cost \$1,000 or more. But this initial mainstream integration of infotainment systems into new vehicles, and the trickle-down effect it will have on the value of aged inventory, brings forth important questions for how to handle today's used and damaged vehicles equipped with cutting-edge technology.

Technology is supposed to make our lives easier, but whenever there is large-scale or sweeping change, the first few steps out of the gate can be a bit tricky. These are uncharted waters, and, while exciting, it will be important for everyone involved to stay on top of the trends and influencing factors that are quickly reshaping the industry as a whole.



Infotainment systems and their large touchscreens keep drivers connected more than they have ever been.

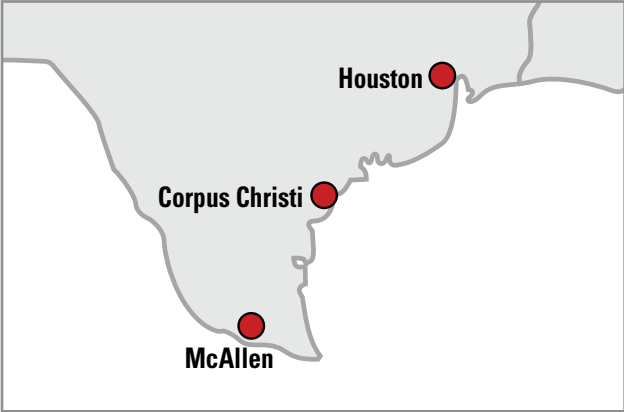
What's New at IAA

Between networking with peers in the industry, launching services and products and opening strategic branch locations to service our buyers, the IAA team keeps busy. Here's what we've been up to.

UPDATES

Send comments about
ONTRACK to: OnTrack@iaai.com

Insurance Auto Auctions, Inc.
Two Westbrook Corporate Center, Suite 500
Westchester, IL 60154



Growing in the Lone Star State

IAA is happy to announce the strategic expansion of three branch locations in Texas – Corpus Christi, Houston and McAllen. “Our advancements in Texas serve to successfully provide customers with the additional storage area and capabilities needed to meet demand, while also providing greater inventory of vehicles to choose from,” said John Kett, CEO and President.



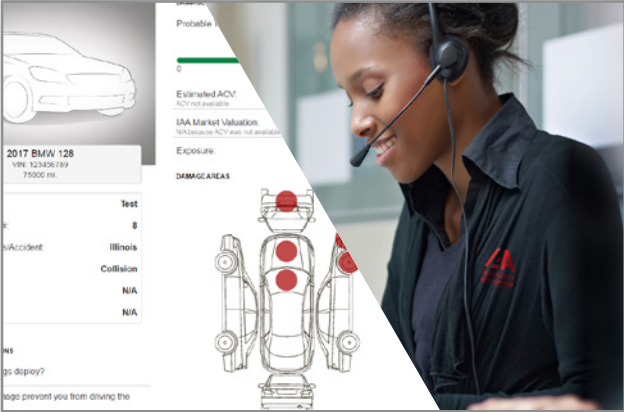
Connecting and serving

This August, IAA headed to Anaheim, CA, to exhibit at the NACE/CARS Conference and Expo. We got the chance to spend time with our industry peers and, in what's becoming tradition, were able to provide a 2013 Honda Accord to a family in need.



Notaries hit the road

The latest offering from IAA Total Loss Solutions eliminates the need for a policyholder to travel to a notary as part of their claim process. The service allows insurance companies to dispatch notaries to meet their policyholders, rather than putting the onus on the customer, which can significantly shorten the cycle time for total loss settlements. "The mobile aspect of Express Notary markedly reduces the time typically required for a total loss settlement to be processed," said Pat Walsh, senior vice president of business development, IAA.



Introducing IAA Loss Advisor™

As part of IAA Total Loss Solutions, Loss Advisor gives call-center representatives the tools to more accurately determine if a damaged vehicle is a candidate for total loss. Loss Advisor reduces operational costs and gets vehicles to the inspection phase more quickly. That means a smoother process from first notice of loss (FNOL) to settlement, and a better customer experience. Learn more [here](#).