onTRACK

A *Newsletter* FOR THE *Auto Auction Industry*

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The Long and Short of It

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When it comes to how they think a business should approach the future, people tend to fall into two groups.

One camp espouses the benefits of taking a short-term view, leveraging agility to ensure they're always prepared to capitalize on opportunities as they present themselves. The other focuses on a long-term approach, methodically working toward defined milestones and avoiding immediate distractions.

While these approaches each have their benefits, they also come with downsides. Focus too much on the here and now, and you could lose sight of your long-term objectives. Inversely, if too much of your attention is focused on distant goals, you could miss out on immediate opportunities.

So how do you overcome this conundrum? It's not easy, but I prefer a "prepare for today, plan for tomorrow" approach. Our latest edition of OnTrack is a perfect example of this philosophy in action.

We recently published an update to our original CAFE Standards Report, the industry's first in-depth look at how these regulations could impact returns at auction. At the same time we're planning for the long-term impact these evolving standards could have on our industry, we're also preparing for some short-term developments that could change the scope of the conversation. A Mid Term Evaluation being conducted by several federal regulatory groups is set to determine whether mandated CAFE standards for model years 2022-2025 are still realistic, given advancements made (or not made) over the past few years. The OnTrack team has you covered with everything you need to know about the review.

GREETINGS

I prefer a "prepare for today, plan for tomorrow" approach.

We're also seeing several auto manufacturers take a combined short/long-term approach when it comes to future product offerings. Case in point: General Motors (GM), which grabbed headlines earlier this year with a flurry of investments and acquisitions in the ride and car-sharing industries. At first glance it would appear that these options conflict with GM's short-term objectives (*i.e.*, sell as many vehicles as possible), but when you take a moment to really consider the situation, it appears as if GM has made a very savvy move. With its broad position within the marketplace, GM is now poised for success regardless of which way the industry moves in the future. What's less clear is what this strategy could mean for America's insurance carriers, a topic we cover in this issue.

As each issue of OnTrack comes together, we ask ourselves if what we've created will help our partners get more from their relationship with IAA. It is my sincere hope that you find that value in this issue of OnTrack. As always, I encourage all of you to keep reading.

Regards,

Pulling an All Nighter

COVER

Will the Mid Term Evaluation derail CAFE standards?

The third pot of coffee. Text books strewn about the desk. A vague sense of impending doom. The unmistakable feeling of cramming for midterm exams. For most of us, those days are (thankfully) in the rearview mirror. For the automotive industry, however, a critical test is on the horizon, and its results could have a tremendous impact on the manufacturers. Let's start with a little background.

CAFE standards 101

America's Corporate Average Fuel Economy (CAFE) standards, set by the federal government, mandate the minimum average fuel economy a manufacturer's fleet must meet in order to remain compliant and avoid potentially catastrophic fines. In 2012, these standards received their most ambitious revision to date with a recommended mandatory minimum of 54.5 miles per gallon (MPG) for model years (MY) 2022-2025. Given the long-term nature of these standards, certain checks and balances were implemented to ensure they remain achievable. One of these processes, the Mid Term Evaluation (MTE), is set to take place over the next two years.

Test time

Unlike the midterm exams we remember, the MTE won't directly involve the "students," or in this case, the manufacturers. Rather, it will be a joint effort undertaken by the Environmental Protection Agency (EPA), National Highway Transportation Safety Administration (NHTSA) and California Air Resources Board (CARB), and it could actually be welcome news for the world's automakers. As the NHTSA describes it, the MTE process will determine whether "existing standards for MYs 2022-2025 are still appropriate given the latest available data and information."

In other words, based on what the MTE uncovers, standards could actually be *relaxed* for MYs 2022-2025. The MTE will examine a host of factors, but among the most important are:

- **Digital modeling** – To be accurate, the MTE will require the analysis of empirical data before a final ruling can be made. Given the tremendous cost of implementing new designs and manufacturing processes, however, there is no cost-effective way to produce test vehicles for the study. That's where the Argonne National Laboratory's Autonomie system will come into play. Autonomie is a digital development environment used to support the evaluation of new powertrain technologies. During the MTE, Autonomie will be utilized for "large-scale simulation," helping to predict the effects of advanced technologies on fuel economy.

- **Vehicle mass reduction** – Techno speak for weight loss, vehicle mass reduction has been the automotive industry's most effective weapon in its fight to improve fuel efficiency. Shedding a few hundred pounds may sound low-tech compared to hybrid powertrains and electric propulsion, but this approach is likely to pay more dividends in the short term than any advanced technology. The MTE will seek to update information on this field and explore the feasibility and projected costs of enhanced "lightweighting" efforts.

- **Consumer adoption** – Manufacturers bear the burden of bringing CAFE-compliant vehicles to market, but they can only sell what the general public will buy. As a result, the rate at which consumers adopt fuel efficient technologies has a significant impact on CAFE recommendations. As of today, that adoption rate appears to be relatively low. Thanks to cheap fuel, dealer incentives and easily obtained credit, consumers have demonstrated a clear preference for larger pickup trucks and SUVs over the past few years. Fuel isn't the only cost driver, though, as the technology needed to meet tougher CAFE standards will undoubtedly increase the cost of both new vehicles and insurance policies. The consequences of these increased costs is difficult to predict, but could have a significant impact on the MTE's final determination.

The final determination of the MTE is due by April 1, 2018, but it is likely results will be published sooner in order to provide manufacturers with sufficient time to implement any necessary changes. In the meantime, however, it's important for everyone in the automotive industry to familiarize themselves with the CAFE standards, and as usual, we have you covered.

We recently released an update to our CAFE Standards Report, and it will provide you with all the information you need on this subject matter. So make sure you're prepared. Download your copy of the report today.

In 2012, CAFE standards received their most ambitious revision to date: a recommended mandatory minimum of 54.5 miles per gallon (MPG) for model years (MY) 2022-2025.

written by
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Sharing Is Caring

FEATURE

An update of recent developments in the ride and car-sharing industry

"I'll call an Uber."

If you live in the United States in 2016, you probably hear this nearly everywhere you go. Uber – a ride-sharing service that's frustrating the taxi industry to no end – utilizes a smartphone app to match drivers with individuals in need of a ride. Uber's story, and that of ride-sharing in general, has been remarkable. From a fledgling startup, Uber has capitalized on the "sharing economy" philosophy to the tune of millions of users and a $60+ billion valuation.

But it isn't just small startups getting in on the action. In the span of a few short weeks earlier this year, General Motors (GM) made waves with several investments and acquisitions that could redefine the shape of its business over the coming decades. It's also left insurance carriers wondering what it means for them.

GM's move into ride and car-sharing

GM's flurry of activity began in January with the announcement of a $500 million investment in Lyft, the nation's second largest ride-sharing service. GM and Lyft say the partnership is based on the companies' shared vision of an autonomous future where driverless cars will do the heavy lifting. "We think our business and personal mobility will change more in the next five years than the last 50," GM President Dan Ammann said in an interview with Reuters. By working together, they will be able to leverage GM's autonomous vehicle research and Lyft's ride-hailing/GPS software. The partnership will provide GM with an unfiltered look at the financial side of the ride-sharing industry, which will undoubtedly help guide future decisions and give it an early advantage over competitors considering a similar move.

Next, GM purchased the remnants of Sidecar, one of the original peer-to-peer ride-sharing services. While it may have been one of the early providers, Sidecar was unable to keep pace with rivals Uber and Lyft, and had shifted its focus to delivery services before going under last December. Per the terms of its deal, GM will take ownership of Sidecar's assets and technology and, perhaps most importantly, add 20 of Sidecar's employees to its urban mobility team.

GM's foray into the world of ride-sharing is notable but the introduction of Maven, the banner for its portfolio of car-sharing services, stole the show. Unlike ride-sharing, car-sharing services operate as a form of on-demand car rental. Users have access to a fleet of vehicles which they can use at their discretion. A smartphone app serves as the user's key, allowing them to enter and start vehicles which are located in dedicated parking spots throughout select markets. With Maven, GM is implementing several initiatives:

- Trial car-sharing services in New York City, Chicago and Ann Arbor, MI.
- A peer-to-peer service in Germany, allowing individuals to share their cars with others.
- A GM campus program in the U.S., Europe and China.

GM has cast a wide net, and is no doubt looking to explore any option that could potentially disrupt its core business. Other manufacturers are getting in on the action, too, which leads to questions for America's insurance carriers.

What it means

Should more drivers forego vehicle ownership in favor of ride and car-sharing services, there will be fewer potential policyholders. That much is clear. This may seem unlikely given the record-setting new-vehicle sales we saw in 2015, but the numbers indicate it's a situation that bears monitoring.

Between them, Uber and Lyft serve more than 8 million users. While not every individual that downloads a ride-sharing app will use it frequently or at all, the growth of these services is nonetheless impressive. Car-sharing usage rates aren't quite as high, but they are growing fast. In a 2015 report, Auto Rental News estimated that nearly one million individuals are sharing roughly 19,000 vehicles nationwide. Thilo Koslowski, vice president at research firm Gartner Inc., estimates that by 2025, 20% of all vehicles in urban centers will be dedicated to shared use.

Whether this comes to pass is open for debate, but as manufacturers enter the ride and car-sharing industries, we're going to see new initiatives and programs that could redefine urban mobility in the 21st century.

The growth of ride and car-sharing services has the auto insurance industry wondering what's next.

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What's New at IAA

UPDATES

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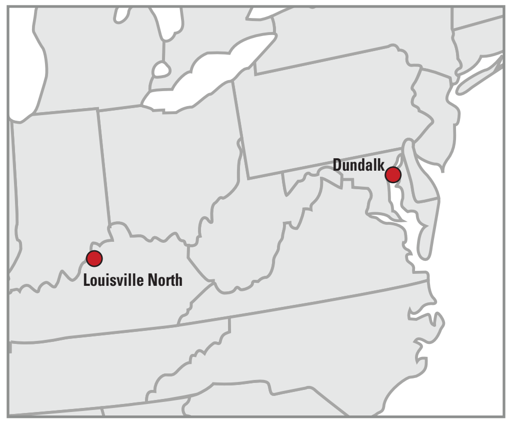
We're always excited to open new locations, but getting involved in our communities is what we care about most. Check out what we've been up to.

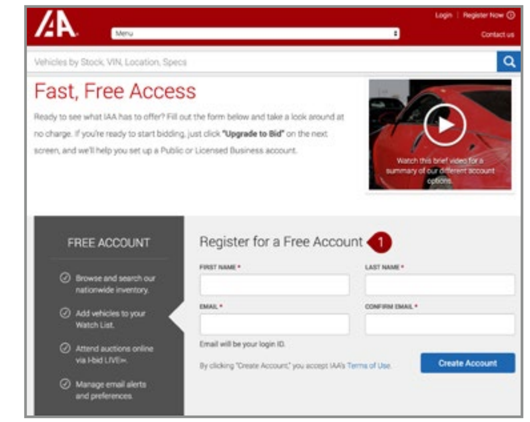


New facilities on the home stretch!

Kentucky and Maryland have long been home to two of the biggest events in thoroughbred horse racing, and now they're also home to IAA's two newest branches. We're proud to welcome IAA Louisville North and IAA Dundalk to our network of more than 170 North American auction facilities. When it comes to our newest locations, it's all about access and convenience. Maryland and Kentucky represent potential growth markets for vehicle buyers and sellers, and IAA is committed to providing our partners with the opportunities they need to do business anywhere, anytime. These additions bring IAA's regional presence to five locations in both Kentucky and Maryland.

Leaping into service

Find leap years confusing? It's OK, so do we. Rather than dwell on the mysteries of this bizarre astronomical necessity, KAR Auction Services – IAA's parent company – launched the Leap Into Service program in order to give back to the communities its 13,000 full-time employees call home. As part of Leap Into Service, KAR is giving all full-time employees across North America eight hours of paid time off to volunteer with the charity of their choice. "KAR Auction Services is dedicated to serving the communities in which we live and work, and we are always looking for innovative and fun ways to give back," said KAR Chairman and CEO Jim Hallett. "We recognized the extra day we get this Leap Year as an excellent opportunity to make a meaningful difference in the many different communities we are a part of across the country."



Revised buyer registration a big hit

When we set out to overhaul our online buyer registration process, we wanted to make things easier, faster and more intuitive. If the numbers we're seeing are any indication, we definitely accomplished our objective. The new process went live on September 1, 2015, and to date, buyer registrations have nearly doubled compared with the same period year prior. The new platform offers a host of enhancements, with one of the most significant being the option to instantly upload IDs and business licenses via scanned documents or digital images. "Today, our new buyer registration platform is streamlined, and the user interface has been completely overhauled to make registering with IAA easy, flexible and mobile friendly," said John Kett, CEO and President of IAA.