

## Market Analysis 2004 - 2005

Since the mid-90s, the consumption and sale of automobiles in the domestic market in Mexico have risen sharply. Turnover has more than tripled in the last eight years, from 325,045 vehicles in 1996 to 1,095,796 in 2004, when a new record in retail sales was set, following a 12.1% increase in volume compared to 2003. These outstanding figures were mainly the result of aggressive marketing and financing strategies pursued by the manufacturers and the growing appearance of new vehicle brands with a great variety of vehicle models and types.

**VALUADATA** has kept pace with this growth, providing full support to its users by integrating into its system 98% of the vehicles currently offered in the Mexican automobile market.

In addition, the technical reliability, impartiality and transparency of the **VALUADATA** Group has helped to maintain a smooth and stable relationship between the insurance sector and repair centers (both dealerships and independent shops). For the insurance companies, this has been apparent in a true control of vehicle claims costs, transparency in operations and the capacity to plan and implement vehicle claim management strategies without affecting the repair market. The repair centers, meanwhile, have been able to sustain fair levels of profitability which have allowed them to grow and acquire the latest tools and equipment to offer a good level of quality and service to both insurance companies and vehicle owners.

With its extensive knowledge of the insurance and repair markets in Mexico, **VALUADATA** has pioneered development and helped create a professional environment in this business sector by bringing innovation to claims processing and leading-edge technology to the appraisal process. The Group has also provided administrative controls for senior managers, and technical training for operational personnel both at insurance companies and repair centers. This has been reflected in rising quality standards and numbers of satisfied customers.

Meanwhile, the insurance sector has benefited from the increases in new vehicle sales, writing a greater number of material damage policies which have to be renewed annually, since around 60% of new vehicle sales involve some type of financing arrangement including obligatory insurance cover.

Looking to take further advantage of this growth in the automobile market, insurance companies have developed various financial and operational strategies aimed at making premium prices more competitive while increasing the services offered to their customers.

In these strategies, the main focus has been on reducing operating costs and vehicle claims costs while maintaining or even increasing levels of profitability.

However, the price war which began at the end of 2003 had a negative effect on premium growth: despite a sharp 28% increase in the total value of new vehicles sold in 2004, growth in automobile insurance premiums was almost nil.

Looking at it from another viewpoint, more policies were written, but premium revenues remained static; this means that a greater number of claims have to be handled with practically the same resources. Natural increases in the market prices of items such as materials, paint, labor and parts add to the financial pressure.

In order to counter the negligible increase in premium revenues and achieve profitability, some insurance companies have taken to using systems which are new to the market for estimating material damage, based on labor rate tables. With these they hope to impose a unilateral labor rate to force the repair market to lower prices, in an attempt to reduce costs in the face of the imminent increase in vehicle claims volumes.

These systems provide for adjusting the labor rates and the number of hours estimated for performing vehicle repairs. Although attractive at first sight, this system is harmful in practice, since as well as leading to a loss of transparency in operations, technical standards and price standards in the market, it does not take account of the natural inflation in repair costs. This weakness leads to the result of these estimations favoring those who operate the systems, destroying the equilibrium between the parties and losing all impartiality and good faith attempts to seek a fair market price.

At the same time, repair centers are asked to make considerable investments in facilities, training and high tech equipment as a condition of maintaining assigned work volumes. However, the downward pressure on their prices cuts into their profit margins, making such investments impossible. As a result, the growth this sector had been enjoying will be restricted.



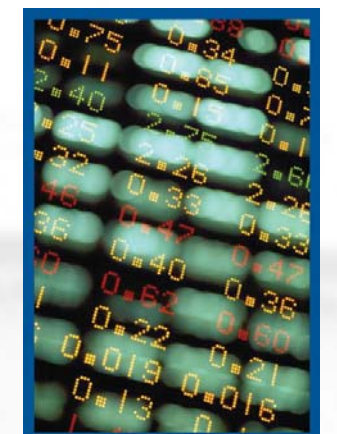
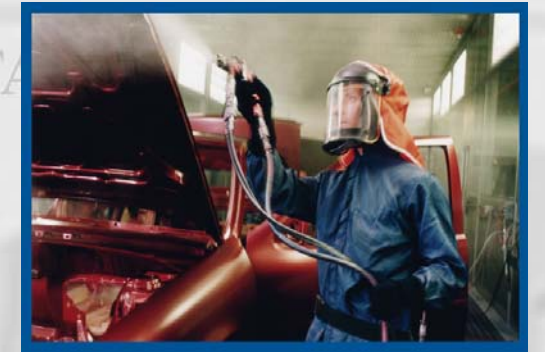
The natural result of this would be for the repair market to seek to recover their earnings levels, either by reducing the quality of their work by using lower quality materials or parts from the informal market, etc., which would tend to have repercussions on customer satisfaction levels. Another disadvantage of the rate tables is that they are open to alteration and potential misuse by operators or other interested parties. It is unlikely therefore that the objectives of the claims cost control strategies will be achieved in the short term, because the disappearance of price control and order could lead to increases greater than inflation, undermining and exposing the market and making it difficult to reestablish order in prices and technical standards.

The use of these rate tables is not new; it is merely the transfer of the traditional manual method into electronic format. History has shown that, far from contributing to market growth, these pseudo systems have had a negative impact on standards and the economy of the sector.

We would do well to remember those scenes from the past, when there were no standards or order in prices; we should value and preserve the efforts made to control vehicle claim costs - no easy task - for 15 years. The new generations of senior managers in the insurance sector who did not experience those times should consider the sector's history when making their decisions, so that they do not repeat the errors of the past, and direct their strategies with confidence.

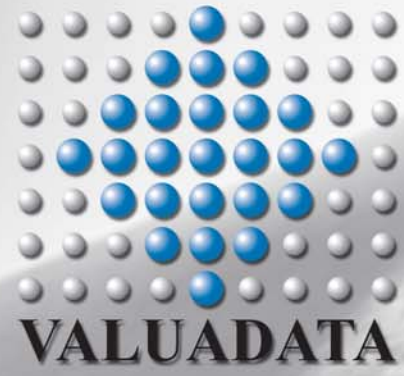
All of the sectors involved have a great responsibility to protect the balance in the economy and the service levels achieved over the years, where **VALUADATA**'s technology and philosophy have been recognized as the best solution. We should all continue to apply the strategies that have proved beneficial to all parties to ensure the long term development and growth of the different sectors involved in the Mexican market.

20 years after its foundation, **VALUADATA** is still the only expert system to offer a true cost standard, by basing its appraisal calculations on actual materials, paint, labor and parts prices; on knowledge of automobile engineering; and on research into repair processes carried out at CIDET, our own technology research and development center. **VALUADATA** faithfully reflects the economic conditions in the different sectors involved, and its results represent an authentic economic indicator for the market.



<sup>1</sup> The Mexican Automobile Industry Association

<sup>2</sup> Standard & Poor's



VALUADATA proudly celebrates 20 years of service to insurance companies and repair centers. It is still the only expert system in the market for assessing and appraising accident damage to vehicles.



SISTEMAS DE VALUACION 2001 S. A. DE C. V.

Zaragoza #1300 Sur, Edificio KALOS A3-301  
Monterrey Nuevo León  
México.  
C. P. 64000  
Tel. 01(8)344-38-06 y 344-35-83(Fax)  
www.valuadata.com  
e-mail: siva@valuadata.com

# Automobile Market Analysis

