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How Many Dealers Comply?

By Jim Lemman

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Hazard a guess at how many dealerships fully comply with finance and insurance rules and regulations:

(A) 33%

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(B) 76%

(C) 4%

(D) 15%

According to F&I experts, the answer is 15%. They admit it's an educated guess. In fact, it even may be closer to 10%.

“And the sad part here is that at least 50% of dealers think they're doing it right,” says Terry Dortch of Automotive Compliance Consultants.

Considering the possible consequences (i.e., criminal charges, lawsuits, bad publicity), it's hard to imagine why all dealerships don't insist on full compliance and training.

Too many dealers don't insist on that. Reasons range from believing that small or rural dealers aren't of interest to F&I regulators, to believing the vagueness in some compliance laws leaves wiggle room.

Some dealers simply dislike the idea of adding compliance processes perceived as disrupting workflow, even though those processes can provide a return on investment and indeed fit into the workflow.

Another reason is the perceived loss of revenue associated with ideal compliance.

“The most prominent reason for such failure or neglect is some dealers fear that compliance will erode profitability,” says F&I compliance consultant Gil Van Over of gvo3 & Associates. “That absolutely is not a valid reason any more.” Here's why:

“Chargebacks decrease dramatically with F&I compliance processes in place and practiced, because consumers know what they are buying,” says Van Over. “And this same presentation of aftermarket products to every customer, every time causes the dealership's F&I products penetration to go up.”

Just what is compliance?

Compliance is a repeatable, full-disclosure process with a paper or electronic trail showing what F&I products were presented that qualify for a particular customer (no need to pitch credit life insurance on a cash deal), what the customer agreed to purchase and at what price. Prices are itemized and shown separately from monthly payments.

The results of those presentations and the customer's agreement to them are recorded on each relevant document.

“In other words, the worksheet, the buyer's order and the contacts are in synch,” Van Over says. “It is this transparency of the transaction you look for. If you do that, you mitigate the likelihood of lawsuits (from customers claiming they didn't know what they were buying).”

Dealers have two strong economic incentives for taking another look at their compliance processes.

One is avoiding fines and lawsuits that can cost violators tens of thousands of dollars. The other is that a compliant F&I office, that consistently presents all of its relevant products to every customer, can net up to 50% more profit per vehicle.

For a while now, dealers have used menus that offer a simpler and better presentation of F&I products. Electronic menus have improved effectiveness, accountability and compliance.

Still, menus are not a cure-all, says Dortch.

“If they are not designed in such way that segments out the different products — a menu to really be compliant needs to individually price products — a lot of menus still allow the F&I staff to pack payments,” he says. “And these packed products are often without value to a particular customer.”

Smile, You're On F&I Camera

Some compliant-conscious dealerships use video systems to record what is said and done with the customer in the F&I office.

Bob Elbrader is operations director for one such equipment provider, Intravision. Its system automatically starts and stops video cameras through dealer-management system (DMS) integration.

Elbrader says other systems allow the cameras to be turned on and off at the F&I staff's whim.

He says, "If a dealer is going to record F&I transactions, the dealer must do it right, which means having the right recording technology.

"The customer in the office must be informed that the transaction will be recorded. If the customer does not give his or her consent for the recording, the F&I office must get the OK from upper management to turn off the recorder."

Less than 1% of customers decline the video recording. Many decline because they are criminal types using bogus or stolen identification or otherwise trying to pull a fast one, says Elbrader.

Dortch says many dealers and F&I staffers simply don't want F&I transactions video recorded. Although a recording indicates things are being done right in the F&I office, it also can be evidence of things being done wrong.

Other dealers believe it is too extreme and too unfriendly of a practice.

Training To Comply

Perhaps the best compliance assurance is a dealer committed to a fully compliant F&I office and an F&I staff trained in best practices, processes and procedures.

Such training needs to be ongoing because of staff turnover, changes in compliance laws and a constantly changing tide of F&I products.

Training needs to extend from the F&I office to the showroom, where acts of noncompliance often begin, as misinformed or overly enthusiastic vehicle sales people sometimes promise buyers things the dealership can't or shouldn't do.

Some of the modern-day equipment can help in the training.

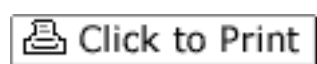
For example, Elbrader says the Intravision recordings can be studied to identify procedures. F&I personnel can view their own recorded transactions to improve their presentations and rapport skills with customers.

Meanwhile, DealerTrack's DealWatch, an electronic deal jacket, allows dealership F&I personnel to examine components of a transaction (i.e., electronic signatures, credit-report pulls and customer product sign offs) as part of overall training and improving of practices.

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