

CAR DEALER INSIDER

Profit Making Secrets for the Competitive Dealer

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F&I managers should scrutinize new GAP product to determine value for customers

From the editors of Car Dealer Insider

A new GAP product from Chubb Personal Insurance highlights the ways insurers are tweaking their offerings to retain profits as they're seeing higher-than-expected claims losses.

The Chubb "added value" coverage product allows customers to purchase a specific amount of coverage under a GAP policy. For example, a customer who purchases a \$40,000 vehicle can purchase a GAP policy that will pay \$40,000 if the customer's car is lost or stolen.

Chubb says the product effectively eliminates the effects of depreciation on GAP coverage - a factor that can reduce GAP benefits on traditional policies that pay the difference between the value of a vehicle and the amount the customer financed in cases of theft or accidents that result in a totaled vehicle.

Gil Van Over, head of gvo3 & Associates, says the Chubb policy reflects a growing trend among GAP providers to find price points and policy benefits that appeal to customers and protect the insurers from high claims losses that eat into profits. Some key marketplace factors that drive the trend:

- **Growing popularity of GAP.** "Customers are asking for it" when they come into stores, Van Over says. That's because many understand the combination of depreciation and negative equity can leave them short-handed if they lose their vehicle to theft or an accident. That squares with reports from dealers who note they've seen penetration rates climb by a few percentage points in the past year or so. A benchmark: Dealers say they're seeing an average of about 35 percent penetration rates on GAP sales in F&I - with some inching toward the 40 percent mark.
- **Higher losses for GAP providers.** More customers are rolling negative equity into their vehicle finance deals and, at the same time, depreciation rates on vehicles have slowed somewhat in the past year. In turn, that has triggered higher claims losses for GAP providers. In recent months, GAP providers have implemented caps on coverage benefits to ensure claims losses don't eat into their profits. For example, providers like Universal Underwriters and IAS have implemented coverage caps that limit benefits to 110 percent to 150 percent of the value of the vehicle at the time it's booked. In addition, some providers have raised base prices on policies and structured policies to fit specific makes and models of vehicles. "It's more of a risk-based approach," Van Over says.

The trends in the GAP market also raise some considerations for your F&I team:

1. Check the wording on your menus and word tracks. With the advent of exclusions, verbiage that simply states a GAP policy will "pay the difference between the cash value and loan balance of your vehicle" may not be sufficient, Van Over cautions. He recommends inserting any relevant coverage caps into your wording to avoid any accusations of misrepresentation of the product.
2. Make sure GAP holds a benefit for your customers. For most customers, it's a fairly safe bet that GAP policies will provide a benefit during the first three years they own their vehicle. But for customers who make down payments of 20 percent or more, GAP may not offer a true benefit. "If the loan to value ratio is

80 percent, it's questionable whether you should sell GAP," Van Over says. The benchmark may not apply to drivers who accelerate depreciation by putting 40,000 to 50,000 miles on their vehicles each year.

Another key metric: In his audits of dealerships, Van Over will examine a store's F&I sales practices if he sees penetration rates running higher than 40 percent - a potential sign that customers are being sold coverage they don't need.

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