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AGENT ENTREPRENEUR
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THE INDUSTRY'S LEADING SOURCE FOR AUTOMOTIVE GENERAL AGENTS

INDUSTRY 2020 TRENDS

Agents, F&I executives, and product providers pave the way as we enter a new decade of automotive retail

Dealers Don't Need to Know Your Politics +

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Photo courtesy of The Cosmopolitan of Las Vegas

NEW YEAR, NEW LOCATION FOR AGENT SUMMIT

By Kate Spatafora

Organizers of Agent Summit are looking forward to sharing new and exciting updates with prospective attendees as planning is underway for the event's 10th installment.

Attention agents!

After a successful few years at the Venetian & Palazzo, we are headed down the strip to The Cosmopolitan of Las Vegas. 2020 will be Agent Summit's 10th year and is scheduled for May 3–6.

The conference was designed exclusively for automotive general agents, by general agents, with the goal of educating top GAs on the latest techniques, trends, and challenges to help you better serve your dealer clients. The agenda includes industry experts, thought leaders, and F&I trainers from around the country.

"As the automotive F&I industry continues to evolve, Agent Summit will evolve right along with it to keep agents up to speed," said David Gesualdo, show chair and publisher of Bobit Business Media's dealer group, including *Agent Entrepreneur* and *F&I and Showroom*. "With the move from the Palazzo to The Cosmo, we are looking forward to a fresh atmosphere and high energy, which will no doubt result in cutting-edge ideas and heightened success."

As in previous years, the 2020 event will include workshops and panel discussions all dedicated to agency success, the latest technology trends, and F&I development, as well as the Reinsurance Symposium, networking receptions, and Automotive Compliance Education's certification program, all included with every full show pass.

Tasked with building the agenda, Randy Crisorio, president and CEO of United Development Systems, has risen to the challenge. He will lead this year's advisory board in selecting the speakers and topics most critical to the success of agents as the industry moves forward into the new decade.

"Once again we find ourselves on the build for Agent Summit X — and with the key theme, 'Innovation 2020' — your calling has arrived to stay on top of your game," said Crisorio. "This, as you know, is a must-attend event, as high performers are aware, and the key is in the ignition for 2020!"

Not only will 2020 bring us to a new location, we will also be debuting Agent Summit's new website in early January. Created to provide a seamless outlet of event information, including speaker profiles, a detailed agenda, travel and registration details, and sponsorship opportunities, we are looking forward to sharing the new look with you.

Speaking of sponsorship opportunities, your company still has a chance to be a part of the action! We have many different packages available and if you are interested, please contact David Gesualdo via email at dgesualdo@mgigusa.com or over the phone at 727-947-4027.

DEALERSOCKET ADDS SINGLE PAGE APPRAISAL TO INVENTORY

DALLAS — DealerSocket has added Single Page Appraisal, a feature of its Inventory+ software designed to enable dealers to quickly appraise and competitively price a vehicle to ensure they are stocking the right inventory for their dealership, the company announced.

The company has also upgraded Inventory+'s Ideal Inventory Model with new artificial intelligence and machine learning capabilities, said DealerSocket's Steven Meeker, the platform's general manager.

"Saving time and having the right data are very important for our dealers, and DealerSocket's Single Page Appraisal for Inventory+ and our new IIM capabilities empower our customers to do both," Meeker said. "... Our new Single Page Appraisal makes it easier for dealers to arrive at actual cash value (ACV) quickly and our IIM upgrades help them gain prescriptive pricing recommendations and profitability confidence score on recommended vehicles."

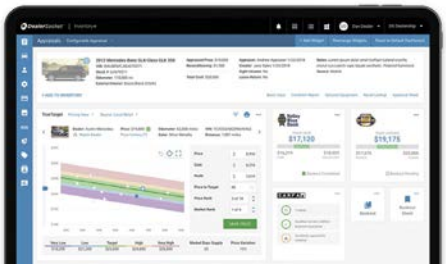

Photo courtesy of DealerSocket

CDK DMS ADDS DEALERTRACK REGISTRATION AND TITLE SOLUTIONS

NORTH HILLS, N.Y. — Dealertrack Registration and Title Solutions has become a participant in the CDK Global Partner Program, the company announced. The integration was designed to provide dealers with data sharing capabilities between their Dealertrack in-state and out-of-state solutions and the CDK Drive DMS.

Executives said dealers can now "seamlessly" push the deal from the CDK Drive DMS into their Dealertrack Registration and Title Solutions and back into the DMS when a deal is complete. This will help reduce data discrepancies between dealer systems and improving operational efficiency in the sale and F&I process, mitigating the need for double data entry by automatically populating the DMS, all according to the announcement.

"At Dealertrack, we are continuously seeking innovative solutions that ease the registration and titling process for our dealers," said Kaitlin Gavin, vice president and general manager of Dealertrack Registration and Title Solutions. "Joining the CDK Partner Program furthers our commitment to ensuring dealers are equipped with the most accurate information for deal completion, which in turn reduces surprise costs at the end of the deal."

"We're excited to introduce Dealertrack Registration and Title Solutions to the CDK Partner Program," said Howard Gardner, vice president of data services at CDK. "They are a welcome addition to our vibrant program, which provides dealers with a range of choices and the assurance that their programs will be seamlessly integrated with our applications."

U.S. DEALERS REMAIN OPTIMISTIC DESPITE EXTERNAL THREATS

ATLANTA — According to the Q4 2019 Cox Automotive Dealer Sentiment Index, U.S. automobile dealers continue to view the current market as negative, with an index score of 47. The slight decrease from Q3's current market index of 48 was not statistically significant.

The index reading of 47 indicates that slightly more dealers feel that the current market is weak compared to the number who feel the current market is strong.

As the CADSI has consistently demonstrated, the current market sentiment skews more positive for franchised auto dealers, operations that sell both new and used vehicles, compared to independent dealers, those who focus only on used-vehicle sales, analysts noted.

The gap narrowed this quarter, however, as franchised dealers became less positive — decreasing from 56 in Q3 to 51 in Q4 — while independent dealers remained negative at 46, unchanged from Q3.

"The fourth quarter seems to be revealing

an important turning point for dealer sentiment especially compared to this time last year when views of the future dimmed," said Cox Automotive Chief Economist Jonathan Smoke. "Independents are more optimistic about the next 90 days, and that improvement is related to increasing used-vehicle inventory. Franchises have similar positive views of the future as they did at the end 2018. However, dealers remain concerned about the economy as well as the usual seasonal decline that impacts parts of the country more severely than others."

When it comes to views of the future, franchised and independent dealers moved closer together in Q4. Franchised dealers' sentiment scored 54, down from 57 in Q3, while independents' sentiment increased from 49 to 51, an improvement that is likely driven by to growing used-vehicle inventory as well as increasing profits.

The overall future index score of 51 in Q4 is better than last year and equal to Q3, signaling a better end to 2019 and sustainable opportunities expected in the used-vehicle market, according to Smoke.

When asked about factors holding back the business, dealers in aggregate remained fairly consistent in Q4, although "economy" entered the top five and pushed "expenses" to the sixth spot. "Market conditions" remained in the top spot as the most cited negative factor for both groups. "Competition" stayed in second place for both as well.

SENSE OF URGENCY PERVADES Q3 DEALERSHIP ACQUISITIONS

IRVINE, Calif. — Kerrigan Advisors reports a total of 58 U.S. auto dealership transactions were completed in the third quarter, down 10% from the year-ago period but an 18.4% increase from the prior quarter. The buy/sell firm's latest Blue Sky Report predicts dealers will add to a five-year streak of 200-plus acquisitions.


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"Based on the first three quarters, 2019 is pacing to be another 200-plus transaction year, likely matching 2018's high activity level. Kerrigan Advisors expects the third quarter's deal momentum to increase in the fourth quarter as buyers and sellers are more motivated to close before year end," the report states, in part.

Analysts pointed to a healthy economy as one of the key factors driving the dealership buy/sell market, citing a 2.9% gain in annualized consumer spending. Growth in consumer spending has helped offset "weakness" in the commercial sector, "weighed down by trade disputes and a slowing global economy."

The report also pointed to a series of cuts to the Federal Reserve's target interest rate as a key factor driving shopper behavior and dealers' long-term outlooks.

"Supportive credit markets are the backbone of a healthy auto retail market, both for the consumer (auto loans) and the dealer (floorplan)," analysts wrote. "Not surprisingly, with an improved interest rate outlook, the average dealer reported strong earnings growth through the third quarter of 2019, continuing last quarter's trend."

REPORT: INCONSISTENT F&I TRAINING PUTS DEALERSHIPS AT RISK

LAFAYETTE, Colo. — An F&I assessment tool created by KPA finds that risk training for dealership employees, while occurring in various forms across most, is inconsistent in terms of which risks are addressed, the company announced.

"We're happy to report that training is happening," said KPA District Manager Ryan Daly. "The vast majority of dealership F&I departments are training employees on critical risk areas like Red Flags, customer information security, ethics in the workplace, and cash reporting."

However, Daly added, not every dealership is conducting adequate training to address all the major risks faced by F&I departments. For example, 24% of respondents reported not having any training related to the Federal Trade Commission's Red Flags Rule.


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Additionally, analysts found employees at one-third of dealerships do not lock up physical documents, creating a significant risk for customers, and one that can result in big fines if the unsecured files violate the Gramm-Leach-Bliley Act.

Even more concerning, 21% of respondents don't have up-to-date records of which employees have been trained on what risk area — making it nearly impossible to ensure that every employee has received critical information to help them understand their responsibilities and how to comply with policies to minimize risks, Daly said.

"If you can't see who hasn't been trained or what's broken, you can't plug any holes — and the liabilities only start to compound from there."

The report was based on a survey of nearly 75 dealer participants.

IAS ACQUIRED BY IA FINANCIAL FOR $720M

QUEBEC CITY — iA Financial Corp. Inc., the holding company of Quebec City-based iA Financial Group, announced it has entered an agreement to acquire IAS Parent Holdings Inc. and its subsidiaries for $720 million.


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Founded more than 35 years ago and based in Austin, Texas, IAS counts more than 600 employees and 4,300 dealers in all 50 states.

"We're excited to become a part of the iA family once the transaction closes sometime in the first half of 2020. Our team has worked hard the last few years to expand our products and services beyond just ancillary coverages and now have an expanded suite of solutions to help our partners grow their profitability and customer retention," Patrick Brown, president and CEO of IAS, told F&I and Showroom. "As part of a publicly traded C$7B market cap company that's been in business since 1892, we look forward to serving our partners and clients for decades to come."

iA executives said the acquisition is highly complementary to the Canadian company's existing operations in the U.S. with respect to product suite, distribution networks, and geographic scope.

"We look forward to this new chapter in our U.S. expansion with great optimism, combining IAS with our already well-established presence in the United States and leveraging our strong track record in dealer services in Canada," said Mike Stickney, chief growth officer of iA Financial Group and head of the Company's U.S. operations since 2005. "This acquisition expands our customer offering by bringing an end-to-end product suite and omni-channel distribution, as well as reinforcing our national breadth. Along with the high-quality senior management of IAS who will be joining our organization, we will have the platform to pursue our growth strategy in the vehicle warranty market in the United States."

TRENDS 2020

2020 INDUSTRY TRENDS, PART 1: THE INDUSTRY

By Kate Spatafora

Thought leaders from the agent and product provider segments debate the past, present, and near future of the F&I products industry and the many components that drive it.

It is no secret that the automotive industry is continually navigating through a world of new and evolving trends that encompass digital retailing to electric cars to mergers and acquisitions, and everything in between. However, one thing all our experts agreed on is that the industry needs to embrace the technological advances that play a part in all of these trends today, to stay connected with the consumers of tomorrow.

Agent Entrepreneur spoke with 19 of the industry's leading executives, agents, and product providers and asked them to assist with the task at hand. They shared their thoughts and advice as tools to be utilized as we make our way through the next decade of automotive retail.

TODAY'S TRENDS

We asked our participants what trends they would be keeping an eye on in the new year — for the auto industry as a whole and specifically within F&I. Although their responses covered a range of topics, there was one common factor that we heard about on more than one occasion.

"The trend toward a seamless online-to-instore consumer experience will continue and the ongoing transition to a more connected, digital experience will also continue to drive change across the entire dealership, including F&I," said APCO Holdings' chairman and CEO, Finbarr O'Neill.

O'Neill believes that finding ways to speed up the purchase process and increase transparency with new approaches will be critical for dealers in 2020 and beyond. "In any case, dealers will be forced to build better processes to meet consumer expectations, and we think that the one touch strategy (or a variant thereof) will make the most sense in most instances." He recommends that dealers partner with an F&I provider who embraces forward-thinking sales strategies and provides sustainable training on these strategies. "Agents can bring a great deal of added value to their dealers by helping them along this path and thus helping them to improve profitability," he added.

William H. Kelly, executive vice president of Automotive Development Group (div. Brown & Brown Dealer Services) will also be following the trends of digital retailing in 2020 and specifically how they can help dealers offer F&I products to their customers sooner in the process.

Strategic DX's president, Steven Apicella, has seen smartphones transform the way most of us interact with the world today. "OEMs have raced to integrate smartphones into the vehicle, with wireless charging pads, Apple and Android integration and connected app services. However, leveraging these powerful devices to intuitively connect with today's customer is severely past due for most F&I providers and their dealers," he said.

Aware that the digital experience of owning F&I products is fast becoming a primary differentiator, surpassing features, benefits and price, Apicella said customers expect transparency and simple accessibility via a digitally supported platform, which isn't limited to just the purchase of their vehicle.

"2020 will see new F&I leaders emerge that are driving new and previously abandoned revenue opportunities by winning on the battlefield of a digitally connected dealer/customer experience," he added.

CNA National is continuing to watch the trends in online searching and sales, plus the consumer's desire to access more sales-related data and information, according to Alan Miller, the company's senior vice president of sales. "As a service contract provider, we are also tracking claims data that is showing an increase in average claim cost on new vehicles due to the electronic options such as sensors, cameras, and crash-avoidance devices."

John Lutman, vice president of sales and head of the agent channel at IAS, believes that as a whole, we'll continue to see more online sales and streamlined processes within the dealership to sell and finance vehicles online. "Dealerships will continue to evolve their


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F&I process. ... Although traditional F&I departments will still be the majority, we will see an increase in nontraditional processes like sales personnel handling the entire sales process, including F&I," he added.

Customer shopping and buying trends will continue to be a focus for NAE/NWAN in 2020, said David Neuenschwander, the company's president. "The game has changed and customers have spoken. It's up to the dealer body to respond and provide a buying experience that is demanded."

Neuenschwander believes that, ultimately, this paradigm shift and a dealer's ability to adopt will impact F&I. "F&I products provide value to customers and customers want the protection and coverage provided by the products. However," he added, "if the sales experience does not meet expectations, selling products becomes more difficult."

Reynolds and Reynolds' director of compliance, Terrence J. O'Loughlin, has said that one of the great strengths of the automobile industry is its constancy: It is not prone to quick and fickle transubstantiation. "However," he added, "technology does, indeed, fuel change and the automotive industry is not immune to technological innovation."

According to O'Loughlin, the remedy lies in increasing applications of electronic commerce.

But it's not just online shopping that is on our experts' radars.

"We are carefully monitoring the growth and success of subscription services which are multiplying at a fast pace, especially for high end vehicles," said Brent Griggs, president and CEO of Portfolio, where they are also tracking the speed of the move to online auto purchases that exclude auto dealers and the process changes in dealerships to speed up the selling process. Griggs noted his company is also taking steps to make their F&I products and services available to consumers that participate in the online buying process.

As a founding member of PRO Consulting, Craig Almon expects that we will continue to see the pendulum swing toward a stronger used vehicle market due to a huge supply of off lease inventory hitting the auctions. "New retail will continue to hold steady as long

"Dealers are looking for ways to adapt new technologies to make the process easier for all involved"

as gas prices stay low and money is cheap," he added. "And leasing continues to play a large role in moving new inventory."

Continuing integration of technology into vehicles and the sales process; competition from OEMs both on telematics and connectivity and other F&I products; and loyalty-focused products that help dealers capture return service business in a flat or down retail sales market are all trends that National Auto Care's CEO, Tony Wanderon, said the company will be keeping an eye on.

Lindsey Bird, Evolution Vehicle Protection by DentWizard's division vice president, will be following the continued increase in dealer owned warranty companies as well as the consolidation and mergers of both service and F&I providers.

Also following the consolidation trends, COO Stan Starnes said Nobilis Group will be keenly interested in how venture capitalists seek investment opportunities in the automotive sector in 2020. "There has been a lot of consolidation over the past couple of years. If this trend continues through 2020, we believe it represents a healthy outlook toward the economics and growth in our sector.

"Conversely, less investment foreshadows a potential softening," he added.

"As a whole, dealers continue to struggle with profits on new cars," said ECP's director, Brian Feldman. He recognizes this as a significant opportunity for the F&I industry to continue to offer products that consumers want and generate profits for dealers. He cited loan terms, balances, and delinquencies as key indicators of overall economic health dealers are tracking.

Also creating F&I profit opportunities are the concerns of consumers toward protecting the value of their vehicle and having the vehicle for longer periods of time due to the increased costs of the vehicle themselves. Mark Nagelvoort, PCMI's president and CEO, realizes this and views it as "an excellent opportunity for the F&I industry given that our products enable a consumer to achieve these goals."

AUL Corp.'s Jimmy Atkinson is most interested in the electric vehicle market and the disconnect between investment by manufacturers and customer demand. "When will the gap converge?" the company's president and CEO asked. "... In addition to Tesla and Rivian, Ford, GM, Volvo, VW, Audi, and more are spending a lot of money in that sector. F&I products tend to be 'evolution, not revolution,' yet continue to bring solid value for consumers to protect themselves from everyday breakdown and other expenses."

He said the growing popularity (and scrutiny) of alternative credit scoring models will be worth keeping an eye on. "If the financial institutions who buy deals from auto dealers can leverage an alternative credit scoring model, it very well could help some consumers either finance a vehicle or move up and buy a more ex-

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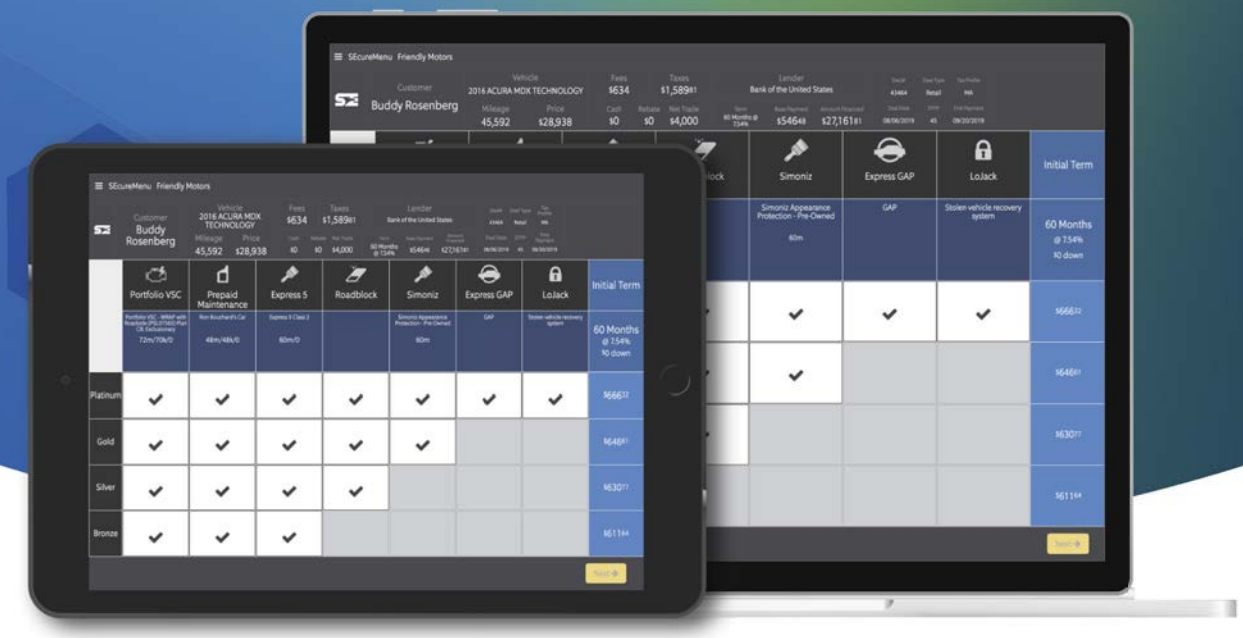

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pensive vehicle," Atkinson added.

"We will be watching closely for a resolution as it relates to the negative impact to GAP sales from the Military Lending Act," said Wise F&I President Matt Croak, referring to a U.S. Department of Defense interpretation that continues to restrict the sale of this key product to servicemembers.

Michael Tuno, president of ARMD Resource Group and World Class Dealer Services, will also be watching how multiple trends unfold — but brings the focus back to digital. "F&I will feel more pressure from the trend to provide consumers with the tools and information centered around the F&I process. Retailers and the entire food chain would be well served to avoid just throwing technology at the F&I process without improving the understanding of the needs of the consumer combing through data before making their buying decision," he said.

Tuno's advice for success is to improve the "road to the sale" for F&I so as to avoid making protection products a commodity and eliminating the margins for the entire F&I food chain.

TECHNOLOGY IN THE SPOTLIGHT

You may have picked up on the common theme by now ... technology! As we move into the next decade, it is inevitable that the realm of automotive F&I will come face-to-face with a higher demand for the latest technologies. When asked if technology will play an import role in the year to come, the answer was clear.

"Absolutely," said Lutman of IAS. "F&I technology is forever changing, as it should. This is the new norm for our industry."

Automotive Development Group's Kelly concurred, noting that the industry will see many technology updates in the F&I world in 2020. "We see advances every year, but 2020 will get us closer to a complete digital experience than we have currently. The customers want it and quite frankly so do the dealers. No one likes all the paper and no one likes having part digital and part paper, this will be a big year for innovation on the tech side of things."

"The promise of a paperless process is still out there and may happen before fully autonomous vehicles!" said Atkinson of AUL, who said new ways of reaching consumers through video and mobile access can add transparency and product value earlier in the sales process, having a positive impact on product penetration.

On a similar note, ACE's Van Over believes the greatest change will be the number of dealers who further embrace digital contracting, moving from pulp to ions.

"There has been shift over the past several years for all products to move to online platforms, especially with the copious amounts of form changes required due to every state changing their parameters on a whim's notice," said Classic's Holcomb, who expects the trend to completely remove paper contracts from the administrator side will continue as the VSC sector has already accomplished that. "I think that the industry's ability to create more interactive environments for customers, agents, dealers, lenders, and insurers to participate in the claims and cancelations process is ongoing."

Wise F&I's Croak predicts that there will be continued interest on the development of digital retailing solutions in terms of integrated models where dynamic content is also served up alongside rates and contracts. "The focus here," he said, "is taking the F&I products that a dealer sells in the F&I office and making those same products also available online via a dealer's retail website."

ECP is seeing an increase in paperless transactions and transactions performed online and dealers are looking for ways to adapt new technologies to make the process easier for all involved. "I look forward to anything that makes it easier for the dealer and/or the customer to transact business with providers," said Feldman. "There has been a lot of recent technology improvements and I expect the pace and offerings to increase."

"When both dealers and consumers are embracing technological advances, we are bound to see an impact all through auto retail, including F&I," said APCO's O'Neill. "Everyone understands that consumers conduct online research ahead of vehicle purchases and it is not much of a stretch to say that this behavior will create more pressure toward completing the entire vehicle purchase transaction online."

O'Neill is aware that this transition will take many years. However, as he put it, "No dealer wants to be the proverbial frog who does not notice the water getting warmer until it is too late." So, while the transition to fully online transitions will take some time, he recom-

mends dealers adjust how they engage with consumers in the store and embrace the changing customer expectations in the meantime.

Almon of PRO Consulting agrees. He believes that as the urgency to complete the entire finance transaction remotely grows, the practical ability to present and build value in finance products at a distance is paramount.

"Technology will continue to evolve, especially in the area of customer-focused offerings," said CNA's Miller. "Apps to make it easier to view contract coverage information, customer service technology, such as live chat features for consumers and dealership personnel, will become more available." In addition, he added, technology to make the purchase experience easier and more consumer-friendly should enhance the buying experience.

"The impact of technology in the F&I sector will be most pronounced within the menu provider space as this area of the F&I technology space becomes central to supporting the push to aid both the consumer and the retailer improve the current flow of the customer inside of the dealership when buying a vehicle," said Tuno of ARMD. "The current 'silo' effect that is too common inside of the retailer will be an area ripe for technology to support a positive change for the buying experience of the consumer so as to shorten the time to take delivery and provide a better buying experience for the consumer."

NAC's Wanderon predicts that technology will continue to be at the forefront of the push to streamline F&I processes and the car buying process and telematics-based solutions will give dealers a new avenue to communicate with relevant information and a customer experience that will drive more customers back to the selling dealer.

The automotive business is starting to catch up with the rest of the world in digital fluency. Starnes of Nobilis sees the increased utilization of econtracting and digital menu presentations as the future of F&I efficiency. "Further, new car retailers are adopting more sophisticated solutions for inventory management, wholesale loss control and their retail business development centers. ... I think this will continue to expand and gain momentum in 2020 and beyond," he added.

With these advancements the industry is seeing major changes with consumers demanding more transparency and dealers wanting support. "Based on the multitude of different ways consumers will be buying vehicles, F&I will have additional demands in relation to providing support to those tech platforms.," said PCMI's Nagelvoort. He noted that, 10 years ago, all they had to worry about was menus and today they have to support dealership accounting, service drive, menus, desking, DMS, and other CRM tools being used to communicate with the consumer.

Griggs of Portfolio sees that vehicles continue to be loaded with technological advancements that will make them safer (and more expensive) but also create the potential for more costly repairs. "I do not believe the movement toward fully autonomous vehicles will get much traction over the next five years given the complexity of the hurdles facing manufacturers," he said. He predicts that electric vehicles will gain very little market share over the next five years but will be a force 15 to 20 years from now.

AutoNation recently reported record PVR numbers, leveraging in part their own branded F&I products. To that, Strategic DX's Apicella pointed out that AutoNation doesn't have access to better F&I providers or products than anyone else.

"Their process of connecting their brand to their products is also not unprecedented, but it clearly works," he said. "The major development for all dealers in 2020 is extending private branded F&I products to dealer branded customer experience. Digital transformation makes it possible for the dealer, dealer group and OEM to stay digitally connected to their customers after the point of sale, related to the private branded F&I products purchased."

"Menus, tablets, mobile apps and devices are in place and will be modified to enhance the customer experience," said Neuenschwander of NAE/NWAN. "The changes that we have already experienced will be enhanced and modified to meet today's demand."

BIG SELLERS IN F&I

F&I products are top of mind for everyone involved and many of our experts agree that 2020 will be another big year for a multitude of products, including VSCs, value-added and ancillary items, cybersecurity, and many more.

APCO's O'Neill sees the big driver for F&I products being the consumers' fear of unexpected vehicle repair expenses. He said this concern will allow dealers to offer more vehicle service contracts and related products. "When, according to some reports, over 60% of American consumers don't have enough savings to cover an unexpected $500 car repair bill, one can easily understand how valuable a VSC can be for the average consumer."

Apicella of Strategic DX spoke to a similar theme, that the F&I product's value is in the eye of the beholder. He believes that F&I product features, benefits and price seem to have run its course.

"New digital innovations will continue to transform these otherwise commoditized F&I products into hyper-relevant customer engagement solutions and customers are willing to pay more for a better experience, but that better experience isn't a promise alone," he said. He reiterated that customer service and customer experience are two different things. "F&I products that deliver both will be the big sellers in 2020."

"I think 2020 will be the year of growing value-add products," said PRO Consulting's Almon. He listed key, dent, appearance protection — and other bundled products that consumers can use as a part of their normal driving habits — as the big hitters.

ARMD's Tuno thinks the dealer branded CPO product space will remain a strong product offering for 2020 as consumers continue to value the price point these vehicles provide as an alternative to the escalating cost of new vehicles. "In addition, these types of products will help the dealers retain customers for service work that isn't factory warranty work. Products that bring a retention element to the retailer for the consumer will remain key to the product success for all F&I products."

Kelly with Automotive Development Group sees 2020 as another year of strong vehicle service contract sales, with the percentages continuing to go up on an annual basis and he thinks we will see them go up again in 2020. "In addition to service contract sales, I think chemical sales along with tire-and-wheel sales have the most opportunities. With the overall number of vehicles being sold staying consistent with 2019, or slightly better, the ancillary products will have to increase."

Circling back to VSCs, AUL's Atkinson said they still reign supreme as the best value proposition for the customer. "We are seeing dealers expand the use of CPO and limited warranties to differentiate their dealership and include maintenance and other offerings as a dealership sales package," he said. Adding that they then wrap this coverage in the F&I office.

Miller of CNA anticipates that vehicle service contracts sales will continue to remain strong as evidenced by increasing levels of customer acceptance and added complexity in vehicle systems. "Ancillary products will continue to add value, especially with leased vehicles," he said.

VSC and ancillary products to enable buyers to retain protection and value over a longer term are what Dent Wizard's Bird listed as top sellers. "Expansion of online retail sales channels and finance products will continue to grow with these providers along with growth in the CPO channel," he added.

"The core products continue to be very important for dealers and customers," said Feldman of ECP.

He included appearance protection programs, service contracts, GAP, and ancillary bundles in the list of products that continue to play an important role in protecting consumers while also generating revenue for dealers.

IAS's Lutman thinks VSC and other traditional F&I products will remain the largest sellers because they provide value to the consumers who purchase them. "But," he added, "we'll begin to see some new products like GPS, depreciation protection products, and new tech products expanding or coming into the F&I arena."

Neuenschwander of NAE/NWAN predicts that core F&I products will continue to be in demand and big sellers, with those core products being service contracts, GAP, tire-and-wheel and paint-and-fabric. "Coverage for these products will need to change to keep up with vehicle and industry changes but the value provided and the average cost remain desirably affordable for today's buyer," he said. "There will be niche products that gain traction in pockets and in geographic areas and more emphasis will be placed on 'connected vehicle' benefits for retention that are slowly gaining momentum."

"VSC will continue to rule the roost as the dominant F&I product," said Nobilis' Starnes. "However, we are seeing steady and meaningful increases in the ancillary product space," listing dent, interior and exterior chemical protection, and tire-and-wheel as examples.

Wanderon with NAC cited programs tailored to pre-owned vehicles and independent dealerships as a big seller. "As even superprime consumers opt for used vehicles over new due to rising prices, offering suitable protection products for those vehicles is critical for F&I," he said. "In addition, I see telematics being a huge opportunity for F&I today, tomorrow and into the future."

"We see continued strong demand and growth in all the F&I products, given that consumers are expressing interest in keeping their vehicles longer as well as protecting these long-term investments," said PCMI's Nagelvoort.

Wise F&I's Croak said the company foresees diminished value protection contract production numbers increasing in 2020 and beyond. "With a growing acceptance by both regulators and lenders, we are certain that diminished value protection will be at the top of the F&I menu in the future," he added.

Voluntary protection products will continue to be pivotal for F&I product sales success, according to O'Loughlin of Reynolds and Reynolds. "Technological features in new vehicles will require a greater need for service contract coverage. For example, key fob coverage sales should increase along with more sophisticated service contract coverage."

Portfolio's Griggs thinks products that protect the consumer from expensive end of lease charges will continue to be very popular as auto leasing continues to become more commonplace. "Auto maintenance products will also continue their high growth trend because of the consumer value and value to dealers because of improved customer satisfaction and retention," he added.

If there is a consensus among our experts, it's that staying up to date with the latest technologies and reinforcing F&I product offering and sales should be at the top of the list for anyone in the automotive industry looking to stay a step ahead of the competition. **AE**

2020 INDUSTRY TRENDS, PART 2: EXTERNAL FACTORS

By Kate Spatafora

After sharing their predictions for the automotive industry in the coming year, our experts expand their range to include the economy and government as a whole.

Countless external factors will play a crucial role in your agency's success — or lack thereof — in 2020. The economy will forever be in constant fluctuation, and with that, consumers' buying habits will change.

Our government also counts as a variable in this equation, especially in a presidential election year. While many of our experts are optimistic about the auto F&I industry's potential in 2020, all are monitoring the economic and political climates and preparing for the unknown.

THE ECONOMY

Wise F&I's Matt Croak is one of those executives who is entering the new year with a positive outlook while remaining cognizant of the impact it may have on the industry.

"In 2020, we can see the overall economy continuing to grow, as long as the market stays with its current pace of low interest and unemployment rates," he said. "As far as the automotive industry, that will depend on the impact of the new trade agreements."

The leader of APCO Holdings, Finbarr O'Neill, spoke to a similar sentiment. He believes a flat market will create the need to maximize profitability in F&I, particularly with improved penetration of vehicle service contracts and ancillary products driven by improved processes.

"Our agents and dealers, who are on the front lines every day, are optimistic. Although total auto sales are likely to remain flat, the economy should perform well in 2020, particularly if unemployment rates hold steady, household spending continues at its current pace, and interest rates remain low."

"Overall, I think the economy will remain strong, at least in regions where the local economy is derived from diverse industries," said PRO Consulting's Craig Almon.

Michael Tuno of ARMD Resource Group and World Class Dealer Services predicts the economy will hold solid in general and specifically with the automotive industry.

"The job market continues to be solid, the key indicators from the Federal Reserve remain stable and consumer spending remains solid," he said, adding that trade challenges arising from the "tariff mindset" will remain in check, for now.

"Our economy is driven by a consumer that makes their spending choices based in large by a great customer experience," said Strategic DX's Steven Apicella, referencing such companies as Apple, Amazon, Netflix, and Uber as having redefined existing marketplaces through digital transformation.

"The legions of digitally connected customers are feeling increasingly disconnected when they enter the analog dealership," Apicella added. "Dealerships and their support community must provide digitally organic pathways that inspire a positive revenue vote from their customers."

William Kelly with Automotive Development Group sees the economy continuing to stay strong at the beginning of 2020 with some caution around the presidential election, but he doesn't plan to sit back and just wait for whatever happens in November to dictate their year.

"The job market is strong and people need and want vehicles, so we have to focus on giving the people what they want and to set modest goals for sales while developing strong teams," he said. "The automotive industry is still a people business it is just how we interact with people that is going to make a difference."

"Predicting the economic future has become like doing the weather in San Diego: It's always nice, but to make it exciting, we keep looking for the next storm!" said AUL's Jimmy Atkinson. His prediction is a solid year in 2020, with SAAR holding steady at around 17 million units.

Gil Van Over with Automotive Compliance Education is a self-described optimist who does not foresee any existential threats to the economy during 2020. "Which, of course," he adds, "bodes well for the industry and vehicle sales."

"All indications point to the economy continuing to be strong

in 2020, especially if trade issues are successfully addressed," said CNA National's Alan Miller. "The favorable interest rates and low unemployment should help maintain vehicle sales at a level similar to 2019, with the only danger being the rise in the average transaction cost." He predicts that this could impact the types of vehicles sold and continue to create emphasis in the pre-owned sector. "Of course, one caveat is the pending election. ... This could affect sales, especially in Q4," he added.

Evolution Vehicle Protection by Dent Wizard's Lindsey Bird believes we will see a little chaos in the financial markets due to the fact that it is an election year, as well as the possible impeachment of President Donald Trump. "There will be some nervousness about future investment and in particular some flattening or decline of lease and new car sales or SAAR," he said, noting he expects interest rates to rise slightly and the CPO value proposition to continue to increase.

"Most economists are predicting that 2020 will be another strong year for both new and used car sales and we are seeing [new-unit] projections in the 16.5 to 16.8 million range," said ECP's Brian Feldman. "Many indicators seem positive. Unemployment remains low and gas prices have remained relatively flat."

Short term, Feldman adds, these trends will continue. However, with the election pending, anything is possible, including a volatile economy. "I do believe 2020 sales will be lower than 2019, although sales will continue to be strong as in recent years."

John Lutman with IAS says "uncertainty" is the word that comes to mind when going into an election year. "No one knows what's going to happen in the election, and that uncertainty will likely lead to a relatively flat year for the automotive industry," he added.

"I believe we will see volatility in the markets in 2020," said NAE/NWAN's David Neuenschwander. "Our economy has never been better, but what's sustainable? We are past due for a correction and we are continuing to see signs and trends that we are heading for a downturn."

Neuenschwander expects our economy to stay healthy in 2020, but with slowing growth and increased volatility and uncertainty in the second half of the year. Having heard questions about sustainable sales results for several years, Neuenschwander thinks 2020 is probably the year we see a meaningful decrease in new vehicle sales volume. "The automotive industry surprised most of us in 2019 and I am anticipating the new vehicles sales forecast being down in 2020."

Tony Wanderon with National Auto Care sees both challenges and opportunities in the year ahead. "Challenging is consumer debt and overall negative equity. Combine that with affordability of new vehicles and I can see some substantial head winds for new."

On the positive side, he noted, used vehicles are picking up the slack, and he sees that being a big lift in 2020. Of course, the "sticker shock" of climbing new vehicle prices is doing its part.

"Dealer lots held higher levels of older model year inventory later into this year than is typical, indicating that factory output is not in sync with a lower level of consumer demand," Wanderon said.

PCMI Corp.'s Mark Nagelvoort believes the record employment in the U.S. will result in more consumers who want vehicles and have the means to purchase them.

"Predictions are difficult, especially about the future," said Terrence O'Loughlin of Reynolds and Reynolds. "The economy will remain on a steady state with vehicle sales being around 17,000,000 new car and light truck sales, similar to 2019."

Portfolio's Brent Griggs expects to see only a very slight weakening of the fundamentals of the U.S. economy in 2020 as has been the trend in 2019, adding that full employment has been nearly achieved, borrowing costs remain low relative to historic levels and inflation growth being held back by the Fed through moderate interest rate hikes.

"I expect auto industry new vehicle sales to fall slightly this year to around 17 million and fall again by roughly 2% next year, barring any dramatic changes on the trade tariff front, as new car pricing continues upward and used car sales continue to grow in 2020 as they have in 2019 and remain a respectable replacement for high priced new vehicles," Griggs said.

"Many analysts are forecasting we are at a saturation point where a market correction is due, and we are extremely bullish on the stability and growth of the automotive market," said Stan Starnes of Nobilis Group. "Despite pressures from the threat of tariffs, dips in the Asian and European markets and a forthcoming election year, the U.S. automotive market has proven to be resilient."

THE ELECTION BREEDS UNCERTAINTY

"There is always uncertainty and a heightened level of anticipation leading up to a presidential election and this is especially true for the auto industry since consumer confidence and spending impacts what vehicle they purchase and when they purchase it," said APCO's O'Neill. Regardless of politics, he added, agents and dealers need to be confident that the partners they've selected are financially secure, forward thinking and have a long history of helping them reach their goals.

Tuno with ARMD Resource Group and World Class Dealer Services thinks the upcoming 2020 presidential election will have an effect on the automotive industry only if poorly thought out deci-

sions are made for the sake of political gain as opposed to sound business fundamentals that are the backbone of a healthy automotive industry.

"I think the industry is going to stay the course regardless of who is elected," said PRO Consulting's Almon, adding that the Federal Reserve has a good plan on money and the money continues to flow into the U.S. economy from abroad.

Atkinson with AUL predicts the primary impact on F&I and the products they sell is on a return to heightened success, regulation or not. "The current administration has relaxed the CFPB approach while still advocating for consumers versus the prior administration."

"The presidential election will have an impact in the 4th quarter and will either be a major slowdown to the economy or give it a shot in the arm," said Kelly, who recommends trying to hit your numbers early to take advantage of the current economy.

"... And if the people have a good reaction to the election, then we can have a positive last two months of the year to hit stretch goals," he added. "But you shouldn't count on a strong November and December, just as a measure of caution."

Holcomb with Classic thinks Trump's presidency has been good for the administrator side. His presence has tempered the Consumer Financial Protection Bureau to an extent, she said, and kept at bay legislators such as U.S. Rep. Maxine Waters (D-Calif.) who are looking to completely remove aftermarket products from the menus with their "biased" views. Some, for example, would like to extend limits put on GAP sales to military servicemembers to all consumers, which Holcomb believes would have a detrimental effect on all sides of the auto industry.

"That is very hard to predict; however, if unemployment continues to be low, corporate earnings and wage growth remain strong, the impact should be minimal," said CNA National's Miller.

Feldman with ECP knows that markets and consumers do not like unpredictability and that uncertainty can cause a spike in interest rates. "This could translate into a slowdown in sales and I also think we will see a slowdown in M&A activities in 2020 until some predictability exists. Ultimately," he added, "it will depend on who will be involved in the election and the policies they put forth."

"Uncertainty of what the future holds will keep most cautious before the election," said IAS's Lutman. "If the incumbent wins, things will stabilize and if there is a change in the White House, we will probably see instability and uncertainty as we experience a regime change."

Neuenschwander with NAE/NWAN anticipates the same historical impact felt in the industry will be experienced again in 2020 because presidential elections create uncertainty and cause buying pause. "The global markets will be watching, which will create some volatility throughout the year, and, as a result, the automotive industry will be impacted."

"The results will largely dictate what landscape the industry will encounter in 2021: Will the U.S. experience a dramatic shift in policy — environmental and corporate regulation, economic policy, et cetera — or will the same approach to things like trade and regulation continue for four additional years?" asked National Auto Care's Tony Wanderon.

In terms of the election cycle, Wanderon added, the current administration may implement policies to attempt to court or cultivate support (from corporations and voters) ahead of the election that could affect the wider economy and auto industry.

O'Loughlin with Reynolds and Reynolds is betting on history repeating itself. "Historically, an election year generates economic excitement which should extend to the automotive sector," he said — assuming sales remain strong.

"I don't believe the presidential election will have much impact at all on the automotive industry in 2020," said Portfolio's Griggs. "The strength of the U.S. economy will have a powerful effect on the automotive industry, but the election will just be a distraction during the year and no major policy changes are likely to happen in 2020 because of it. Depending on the outcome," he added, "we could certainly see some different trade policies and economic goals in 2021 that could stabilize the economy."

"Elections have always impacted the automotive buying decision and regulatory landscape," Starnes concluded. "This coming year will be no different."

RULES & REGULATIONS

"As an industry I think we have to continue making a strong push to police ourselves to limit rules and regulations in our industry and products," said ADG's Kelly. "We should all be working with our dealers to do the right thing and that is to provide quality programs to our customers that encourage customer retention and value."

Kelly added that "profit" is not a dirty word and businesses should get paid for their services — we just have to make sure that consumers know what they are buying and why. "If we can continue doing that, so that consumers continue having good experiences, we will be able to limit government oversight and additional regulations."

Feldman with ECP has learned that rules and regulations in an election year are a big unknown but states that we can be certain each party will be pushing their agenda.

"Depending on who takes control of the presidency and Congress, we are apt to see little or no change, versus dynamic federal pressure and intervention," said Nobilis Group's Starnes.

Wanderon with National Auto Care concurred, adding that 2020 should be an interesting year. "I think that all depends on the election. The one thing everyone needs to be aware of in the telematics space is privacy and how to monetize data."

"The regulatory environment is always one that's hard to forecast," said APCO Holdings' O'Neill. He believes the current administration supports more business-friendly regulation, so the current deregulatory trend will continue through 2020. After that, it is anyone's guess.

"Ultimately, it will not be regulations that drive the biggest change. It will be consumer expectations," O'Neill added. "F&I providers, agents, and dealers need to remain committed to offering products that provide value to their customers and need to do so in a transparent way."

PRO Consulting's Almon thinks the CFPB is quietly doing its thing and while compliance is not front and center, it is clear that state and federal regulators are aware and active in enforcement of rules and the law. "Bad actors get called out sooner and no dealer who has a mindset of longevity would dare cross the line."

"2020 will see a continued emphasis on all consumer's protection rules and regulations, simply because consumers will demand it. The winners in the industry will be those companies who understand this and make it central to their operations in a focused and comprehensive manner," said ARMD Resource Group and World Class Dealer Services' Tuno.

To be successful, he recommends companies think beyond simply training a limited amount of its employees and expand compliance to the entire dealership. "The best solution will be an enterprise-wide compliance management system that is robust and comprehensive for all of the employees and can remain current with the regulatory landscape for each and every job in the dealership."

AUL's Atkinson sees states being more aggressive with areas like privacy disclosures and meeting new laws like California's enhanced data privacy standards can be challenging. "A focus on cybersecurity is another area that has increased dramatically and will continue to. I think the broader federal regulatory landscape will remain the status quo pending the results of this year's presidential election," he said.

"Compliance has become so convoluted over recent years with the frenzy of everyone being compliant, but each state and lender have completely different views on what is compliant," said Classic's Holcomb. "The omnipresent state law changes that require new forms has made it difficult to keep up, coupled with the lenders who require new form filings for each little tweak, so there is a constant concern on whether your form is correctly compliant with the lender and state, and, oftentimes, they are viewing a law or rule with their own perspective, so it can be confusing."

Lutman with IAS predicts that with the election coming in November, the uncertainty in the rest of the market will likely hold for regulations as well. "I don't see any major changes coming before the election."

"I do not anticipate any new or groundbreaking regulations developing in 2020. I anticipate experiencing more scrutiny during the next economic downturn simply because the auto industry remains an easy target," said NAE/NWAN's Neuenschwander, noting that "a lot of transactions, a lot of money, and a lot of hands in the pie" make the industry attractive for increased scrutiny by regulators and consumer advocacy groups.

Nagelvoort of PCMI Corp. thinks dealer participation programs will continue to be impacted by tax strategy. "Some dealership groups may be faced with difficult choices in transitioning to DOWCs or remaining with NCFCs."

"Some states' attorneys general will likely continue their quest to develop and empower mini-CFPBs," predicts ACE's Van Over.

O'Loughlin with Reynolds and Reynolds will be keeping a close eye on the proposed Veterans and Consumers Fair Credit Act being floated in Congress. "It would effectively establish a 36% rate cap for consumer retail installment sale contracts and abolish mandatory arbitration," he said. "This bill, along with various state legislative proposals, would limit the sales of voluntary protection products and create increased liability exposure."

"I see significant development of regulation around autonomous vehicles, which is one reason the growth of the segment will be much slower than many are predicting," said Portfolio's Griggs. "With the weakening of the CFPB under the Trump administration, I expect that many individual states will promulgate regulations aimed at protecting consumers from overcharging for F&I products and services." **AE**

CXM, Part II: A Proven Approach

By Dean Harrison

Customer experience management is a relatively new concept for most agents, but its effectiveness in driving F&I product sales means it's probably worth investigating.

In part one of this article, we discussed the concept of customer experience management and why it's vital for agents who help drive dealership marketing and customer retention strategies. Now we'll discuss different CXM strategies and how to leverage technology to help your dealers improve their customers' experience.

CXM Helps Agents and Dealers Sell F&I

ADMINISTRATORS AND THE DEALER'S CXM STRATEGY

After purchase, every touchpoint between a dealer and their customer is an opportunity for that dealer to reinforce a positive customer experience. For that reason, ancillary product administration companies can play a significant role in their dealer clients' CXM and retention strategies.

Many dealers consider service contracts and GAP insurance to be their "core" products, but ancillary vehicle protection products — such as tire and wheel, paintless dent repair, and key and windshield replacement — actually have a higher frequency of claims.

Consequently, high penetration rates on ancillary product sales create opportunities for valuable post-purchase touchpoints. They also generate significant additional profit opportunities for the dealership.

MOBILE-FIRST, -SECOND, AND -THIRD APPROACH

A key component of CXM is building and maintaining trust. This is done by providing consistent and open communication, and it must be done in a way that is easy and convenient for the customer.

Rather than having customers call customer service lines, utilizing in-app communications make customer service quick and easy. Customers increasingly want to communicate with brands on their own schedule — when and how they want.

In 2015, 85% of millennials owned a smartphone. Today, according to Pew Research, that number has climbed to 93%, including nearly 100% of Gen Z internet users. In order to deliver an exceptional experience to today's customer, you must reach them on their mobile device.

BE A PART OF THE SOLUTION

Agents know that customers lose their keys and get flats, dents, and dings. The question to ask your dealers is "are you a part of the solution?"

When a customer has a loss that would be covered by an ancillary product, if the customer purchased a policy that covers the loss, the dealer becomes a part of the solution. Find a product administrator that customizes their mobile app to each dealership, so that when a customer initiates a claim or interacts, the customer associates the interaction with the dealer.

This integrated communication is a vital component in helping dealers augment their CXM strategy.

YOU CAN'T MANAGE WHAT YOU DON'T MEASURE

To ensure that you are delivering world-class experiences to your dealer clients and their customers, you need to measure the effectiveness of their interactions. Do this by surveying each customer and calculating their net promoter score.

NPS is the core metric used for measuring CXM. The score ranges from -100 to 100.

For example, the average auto dealership NPS is 39, but those that incorporate a mobile app, with customer-oriented interactions, have an average NPS of 77.8. Thus, dealers whose customers interact with their dealers have an NPS double that of the average dealership.

PROVEN RESULTS

This customer-oriented approach yields calculable results.

The car business is changing faster than ever. With disrupters like Carvana and Vroom, a declining SAARs forecast, and increasing customer expectations, it's more important than ever for dealers to maximize their CXM strategy.

Integrating customer experience management concepts like great two-way communication and follow-ups into your marketing and customer retention strategies is vital in today's market. Customers who know, trust, and value your dealers will return again and again.

AUTHOR BIO: Dean Harrison is the president of Maximus Auto Group, a customer service-focused F&I product provider and administrator to some of the nation's largest dealer groups. **AE**

Are You a Political Agent?

BY: Bruce Martin

Agents and dealers often hold the same opinions on the issues of the day, but talking politics on the job is still a bad idea and could cost your agency business.

Whether you're an intense politics junkie or a neutral and passive observer — or even if you just landed here from Mars — it's impossible to miss the deeply divided political climate that has crept into nearly every corner of our nation.

As these divisions (and the opinions that inevitably accompany them) intensify, so does the temptation to convert those on the other side of the aisle to our way of thinking. This urge to vocalize the redeeming qualities of our political "team" is straight from a human nature that isn't unique to Republicans, Democrats, or independents.

As satisfying as delivering a well thought-out point or counterpoint can be, it can also be professional death when the venue is the workplace — or the audience is a customer.

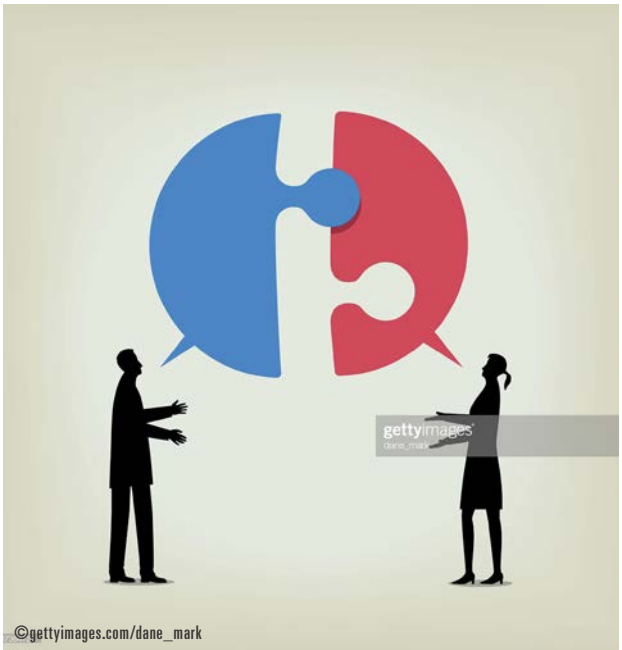
Automotive retail is no different. For agents, the dealership ecosystem can be full of landmines when it comes to talking politics with owners, principals, managers, and staff. That means staying focused on why you're there should be your No. 1 job when you're in the store.

HOW ABOUT THAT BORDER WALL?

No matter how tempting it may be to launch into a rant about how bad Obamacare is or how awful the border wall is, staying neutral (or just staying quiet) is the best way to accomplish your mission.

You're in the store to represent the brands of your products and your agency. You want the people with whom you interact to remember *those* things and not your position on a candidate or a political issue.

And while it's true that no one wants a vanilla, cardboard, robotic personality walking into the F&I office with something to sell, in most cases, they also don't want you sprinkling your "Trump Nation" or "Feel the Bern" commentary into a business discussion.



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Additionally, there are *many* people in our uber-political world who just don't want to hear *any* talk of politics. When you walk into their dealerships, you have relationships to develop, a product to market, and a family to feed — not a candidate to endorse. Many of us will just roll our eyes when someone injects politics into the workplace — even if we agree with the rant!

YOU CAN'T PLEASE EVERYBODY

For argument's sake, let's assume that you are 100% certain that you're calling on a dealership with a conservative owner. Does that translate to the political leanings of the store's management, customers, and staff? With the American population split nearly evenly between political identities, the answer is most certainly no.

More often than not, you will need the rank and file to accept your pitch, sell your agency's product, and pay your invoices. Why risk alienating them by talking politics when you're in their workplace?

With stores that can be strung across multiple states and political environments, your opinions and reputation for injecting politics into a business visit to a dealership can certainly follow you from customer to customer — as can your political posting on social media outlets.

If you're connected with your customers on LinkedIn (which is likely) and Facebook (which is possible), the political posts you make and share on those platforms will also shape the opinion that your dealers and their employees have about you — and that reflects directly on your product and your agency.

So be smart. Is one politically charged post really worth creating a negative perception among any of your dealer customers? Just like delivering your views on candidates and divisive issues in-person at the dealership workplace, the answer is a loud "Hell no!"

Be as engaged as you wish with your job and your political views. Just keep them separate. **AE**

BRUCE MARTIN IS THE PRESIDENT OF BROAD & PATTISON AUTOMOTIVE SEARCH INC., A MANAGEMENT RECRUITING AND EXECUTIVE SEARCH FIRM THAT EXCLUSIVELY SERVES THE U.S. AUTOMOTIVE INDUSTRY.

The Gap in GAP

BY: Robert J. Wilson Esq.

A multimillion-dollar settlement should compel agents to take a closer look at the marketing language that accompanies the GAP product their dealers sell.

In the automotive industry, "GAP" is an acronym for "guaranteed asset protection." GAP exists to protect the borrower in the event of a total loss where the financed loan balance exceeds the actual cash value of the vehicle.

Any good lawyer will tell you that the word "guarantee" should be used cautiously since it can create exposure — it implies complete coverage with no out-of-pocket expense. This concept was brought home to Santander Bank in an administrative proceeding brought by the CFPB in connection with the marketing of their ancillary add-on product S-GUARD GAP.

TRUE FULL COVERAGE MEETS LTV LIMITATION

Santander marketed S-GUARD GAP as a method to cover the gap between a consumer's primary insurance payment and their outstanding vehicle loan balance if there was a total loss. More specifically, the marketing stated:

"Today comprehensive and liability insurance still don't provide true full coverage. You have to fill the GAP. ... Your auto insurance may be inadequate to protect you financially in case of a total loss through accident or theft. If your loan balance is greater that the current cash value of your car, GAP ... can be a great way to protect you. Your insurance payout could end here. *GAP takes care of the rest.*" (Emphasis added.)

Unfortunately the S-GUARD GAP product did not provide "true full coverage" as was represented, but it was subject to a loan-to-value limitation of 125%. Due to the LTV limitation, if the borrower's loan balance exceeded 125% of the value of the vehicle at the time of the total loss, the borrower would have to reach into their own pocket to pay the balance of the auto loan.

When the product delivered does not match the representations made during the marketing and sales process, litigation or enforcement actions are sure to follow.

Here the CFPB found that over 44,000 Santander customers who were sold the S- GUARD GAP product had LTVs above 125% at the time of the vehicle purchase! These customers did not receive "true full coverage," but were exposed to liability for sums in excess of the 125% limitation. The representation of "true full coverage" in the face of the 125% LTV limitation was found to be a material misrepresentation constituting an unfair, deceptive, or abusive act or practice, more commonly known as UDAAP.

This administrative proceeding also made claims about Santander offering loan extensions for delinquent borrowers, which, was also found to be a UDAAP violation. Santander paid $11.8 million dollars to settle these charges, which included $9.29 million in restitution and $2.5 million in fines.

THE AGENT'S ROLE

Eagle-eyed viewers may recall that Santander was in the news previously due to funding subprime loans to automotive dealers known to be engaging in illegal and fraudulent behavior. That


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conduct resulted in approximately $26 million in fines paid to Massachusetts and Delaware and new oversight policies.

Those oversight policies must not have extended to the ancillary marketing and sales departments given this case.

In this case the CFPB required Santander to (a) provide templates of all future marketing materials for S-GUARD GAP, (b) enhance and strengthen its compliance management system relating to marketing and selling S-GUARD GAP, and (c) enhance and strengthen its training and oversight of all agents, employees and service providers involved in marketing and selling S-GUARD GAP.

So the takeaway here is that if your dealer clients are marketing and selling a GAP product (guarantee), you should closely review the script and the terms and conditions with your counsel to make sure that no misrepresentations are being made.

Undisclosed conditions and limitations, which erode or eliminate the represented benefit, are fertile ground for regulators and class action attorneys. In a broader sense, TPAs, agents, dealers, and everyone in the distribution chain for GAP products can greatly benefit from implementing and strengthening their compliance management systems (as was the case with Santander).

If your GAP product has an undisclosed gap in coverage, this can cost you millions!

If your GAP product has an undisclosed gap in coverage, this can cost you millions!

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 AE

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An Interview With Guy Koenig

By Tariq Kamal

***AE* gets focused on the mission with Guy Koenig, president of GSFSGroup.**

Last March, attorney and 20-year F&I industry veteran Guy Koenig joined GSFSGroup as president. *Agent Entrepreneur* sat down with Koenig to trace his path through the legal, insurance, and automotive industries, ask what he hopes to achieve with GSFSGroup, and why it's important to treat every F&I professional you train fairly — but not necessarily equally.

Guy, we last saw each other at Industry Summit. Is New Orleans your favorite show city?
I do like New Orleans, if not just for the food. For conferences, Vegas seems to draw more. I think all the dealer conferences are struggling with the same thing: getting folks there. It was good to see how well-attended Industry Summit was.

We've found the best way to get dealers and GMs is to invite them to come for free.
That works. A lot of the dealers are just getting bombarded with things. It's harder to get a message to the dealer. They're afraid they're going to come to these events and get attacked by vendors. I think the best approach is to get a lot of folks together who want to interact with dealers and give them a message they can transmit.

Where are you from originally?
I'm originally from South Dakota. I'm probably the first South Dakotan you've met.

I have one other friend from South Dakota. He told me all about Wall Drug. I'm still waiting for my T-shirt.
Wall Drug! Big tourist draw. I lived in Rapid City, South Dakota, until high school. My family moved to Minnetonka, Minnesota, during my junior year. Post high school, I lived in Des Moines, Iowa, for about 13 years for undergrad, law school, and beyond. I moved to Charlotte, North Carolina, in 2004, where I stayed until 2012, when we moved to Southlake, Texas. Since February, as part of my role at GSFS, I have resided in Katy, Texas.

You moved to Des Moines to attend Drake, which is known for its law school. Did you always plan to go to law school?
I did. I certainly intended to have a graduate degree and I have always wanted the juris doctorate. I consciously made that decision — business degree followed by law degree. I think it's worked out so far. I started college as a corporate finance major.

Are you a math guy?
I'm a math dork. Drake has a really well-known actuarial school. While I wasn't in that particular program, the business curriculum is very focused on data and its applications in the real world.

And you mentioned you stayed in Des Moines after graduation.
I stayed for an additional six years. I worked for two locally based insurance companies in compliance-type capacities.

How did you like it?
I think I did a good job, but it was never a great fit. While I certainly have an appreciation for establishing and following rules and order, I always felt my heart and passion were in building and selling products and coming up with solutions to grow the business. In legal and compliance, it can sometimes be easy to say no without coming up with solutions.

So you no longer work in the deal killing department.
Nope. We're in the business of sales and service. Without that, everything else ceases to exist. My job is to understand what the rules are and find a way to grow and support our partners within that framework.

How did you get into automotive?
Probably by accident, like most of us, it seems. During my time at a large bank, a few former colleagues and great friends and I

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were presented with a unique opportunity to "dust off" a dormant A-rated property casualty insurance company. With the support of a great executive team, and the bank's desire to grow third party and non-related business, we built a business plan designed around leveraging the AM Best rating and the very strong balance sheet.

The focus was on issuing our paper to managing general agents, general underwriters, and service contract and warranty administrators. This opportunity allowed us to really get a great understanding of the F&I business while partnering with numerous well-known administrators.

Why was the insurance company dormant?

It was in runoff. The banks all used to have insurance companies to sell credit insurance. When credit insurance went by the wayside, banks started selling debt cancelation. So they had these insurance companies just sitting there. At the time, there weren't a lot of insurance companies willing to issue contractual liability policies to third-party administrators. So the market was looking for additional capacity.

And we weren't just limited to automotive. We were also working in the consumer and commercial sectors. The industries are different, but the structures are similar. We had a lot of opportunities to learn from one business and apply those lessons to the next.

So it was a big success.

It was going very well. And then the 2008–'09 recession hit, and the major banks were really tasked with divesting themselves from non-core banking business. So we moved the team and most of our business to another insurance company that already had a presence in the service contract space.

During my tenure with this insurance company, via reorganizations, acquisitions, and organic growth, I was involved in all aspects of the administration and insurance related to F&I via partnerships with dealers, agents, distributors, and OEMs, both in the United States and internationally.

And yes, we really were successful — seven or eight times growth in five years. We added a lot of the big OEMs and really grew that business.

Where did you go from there?

After I realized I was living in an airplane, I spent two years working with one of my clients, CareGard, in Dallas, running an F&I administrative company. Great company, everything was fantastic. I certainly was not looking for anything new. But when the opportunity and honor to serve as president of GSFSGroup was presented to me, it was simply too good to pass up.

How did they convince you to join?

I could speak for days about all of the wonderful things related to this company — from the incredible support at the top of the house from the Friedkin family and their 38 years of continuous ownership, to the outstanding leadership group, and to a world class team who has built an incredible industry reputation.

While my title is president, I believe I really only have one role within the company, and that is to help put every one of my teammates into a position where they can succeed. Enabling and empowering our associates to succeed will ensure that we continue to help make our dealer and agent partners — and their customers — successful.

How's it going so far and what do you hope to achieve?

It has gone better than I could have expected. This might sound a little cheesy, but in eight and a half months, I have yet to leave the office less excited than when I walked in that morning.

In terms of what I hope to achieve, I would say that we will focus on continuing to support our existing and new partners with the products, services, and solutions to help them grow their businesses. With all of the "chaos" in the marketplace today with buy-sells, acquisitions, and investments, we offer an incredible and long-term set of solutions to partners seeking consistency and support.

Do you take a personal interest in the training your company offers?

Yes. Look, when I think about the F&I space, there isn't a great amount of difference in products from company to company. Generally speaking, it's pretty consistent. Pricing is not dissimilar, at least among full-service companies. We differentiate ourselves with the value we offer to the dealer. We consider our award-winning training a big part of that.

We have a fully dedicated team that focuses just on training for dealers and agents. And that training is for sales, F&I, service — all the areas of focus for the dealer. We also have a team of performance development managers. They focus specifically on the F&I space. They are available to go in and hone in specifically on F&I. They can sit down with F&I managers because they are all industry professionals who have been in those roles.

All evidence indicates dealers are increasingly interested and invested in training. From your perspective, what's driving that?

Most dealers want to remain compliant because they want to protect their brand. But training is so important to profitability. When you look at where dealership revenue comes from today, there is much less opportunity to make revenue on selling the vehicle itself. And when you think about the turnover that can happen in dealerships — or any business — having that training available is key.

And you have to continually refresh it. New systems, tweaks to products, new companies — all these things are constantly changing. Our job is to understand what's happening in the industry from a broad perspective, then drive that information to dealerships in a way that helps the dealer's business.

I coached college-age baseball players for a number of years. That was a fantastic lesson and experience in understanding that you treat everyone fairly but not necessarily equally. Everyone has a different definition of success. Find out what that is and give them a path to do that. That's my focus.

What do you do when you're not working? Are you still coaching or playing baseball?

My wife Julie and I have two young children who keep us very busy. And yes, sports are still a big part of my life. I can't bring myself to leave baseball, but my body is telling me it's getting closer. Those college-age players get younger every year. AE

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DAVIS JOINS AUTO/MATE AS MID-ATLANTIC SALES MANAGER

ALBANY, N.Y. — Auto/Mate Dealership Systems has hired Brian Davis as the company's new regional sales manager for the Mid-Atlantic territory. Based in Richmond, Va., Davis is responsible for cultivating and managing relationships with franchise and independent auto dealerships. He reports to East Coast District Manager Mike Siomacco.

Davis brings "significant" industry experience to his new role, having started as sales professional after learning the business from his stepfather, a 20-year dealership general manager, according to the announcement.

"I am excited to be in a position to deliver incredible value to Auto/Mate customers. The industry is rapidly changing, and Auto/Mate's world-class products, customer support, and transparency are all potential game changers for dealers looking to pivot their tech," Davis said.

BLACKWELL PROMOTED TO COO AT NUVINAIR

DALLAS — NuVinAir Global announced the promotion of Troy Blackwell to COO. Blackwell joined the company last August as senior vice president of global operations.

"After hiring Troy, we immediately began to see the value of his corporate leadership background and vast network, which he has been harvesting over his 20-year career, and the benefit they provide to our growth strategy," said Kyle Bailey, the company's founder and CEO. "Now as a member of our executive team, Troy will continue to provide his strong leadership and vision as we continue our aggressive growth track."

In Blackwell's expanded executive role, he is responsible for providing leadership and vision for the company's customer programs, national accounts, operational controls, and franchisee success, according to the announcement.

"As COO, I look forward to playing a greater leadership role in managing our incredible team, as well as driving the company's robust franchisee network that now spans more than 40 territories," Blackwell said. "Since joining NuVinAir earlier this year, I've gotten a real grasp on the company's untapped growth potential, and my new role will enable me to scale our partnerships faster and more effectively."

ETHERIDGE TO LEAD CLIENT RELATIONS FOR TECASSURED

WESTERVILLE, Ohio — TecAssured LLC announced the addition of Sherry Etheridge as director of client relations. Executives said Etheridge will be heading up all client support efforts, including customer service, operational support, and onboarding of new clients.

"I am excited to join the TecAssured team and be a part of such a rapidly growing company with so much to offer," said Etheridge. "This is an amazing opportunity to apply my business knowledge, and years of industry experience, and play a pivotal role in their continued expansion and success."

Etheridge brings experience in operations in the automotive aftermarket product space, most recently as a product and program analyst for a leading F&I product administrator. She has also worked at BMW Financial Services and Fidelity Investments in other operations, client relations, and support roles.

"We are excited to welcome Sherry to TecAssured," said Joseph Pesce, CEO of TecAssured. "We have grown exponentially in the past year and her position will have an immediate impact for our clients and partners. With Sherry onboard, and her specialized experience, TecAssured can expand client services and help us continue to manage this growth."

GSFSGROUP NAMES HURLEY CFO AND VP

HOUSTON — F&I products provider GSFSGroup (div. Friedkin Group) has named Michael Hurley as CFO and vice president of finance and planning. A veteran F&I professional with more than 35 years of experience, Hurley most recently served as accounting and finance director for Allstate Dealer Services, having served with an Allstate-branded company in some capacity since 1984.

"We are excited to have Michael join our team here at GSFSGroup. His expertise and leadership will help us accelerate our already rapid growth as we continue to expand our national footprint, secure additional agent partnerships, leverage our insurance company for insurance-only opportunities, and evaluate potential acquisitions in the space," said Guy Koenig, president of GSFSGroup.

Hurley will be responsible for developing the overall financial policies for the division and strategic direction of all financial functions, including finance, accounting, analysis of strategic business initiatives, and overall business operations for the company while ensuring that proper financial controls are in place and compliant with applicable laws and regulations, all according to the announcement.

"I believe the potential for growth and value creation is tremendous, given this group of smart and passionate people, strong technology, and extensive automotive industry expertise," Hurley said. "I look forward to becoming part of the GSFSGroup family and partnering with the team to continue to build the business."

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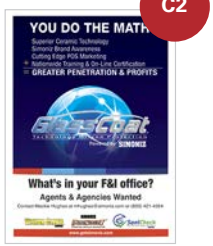

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F&I Meets Alternative Credit Scoring

BY: Gil Van Over

New methods to qualify car shoppers could help your dealers sell more vehicles and F&I products, but alternative credit scoring is not without its pitfalls.

A long time ago in a place not so far away, I was involved in creating internal credit scoring models for first a captive, then a major independent finance source.

We would take data from the credit bureau report, supplement it with information from the credit application, consider the deal structure, and calculate the risk level. We always understood the ability of finance managers or credit supervisors to manipulate the consumer information on the credit application.

This scoring model was the genesis of a Walmart greeter becoming a customer relations manager with a minimum of two year on the job and two years at their residence. And, because we assigned more points for checking and savings accounts than not, we reportedly opened more savings accounts than any other source in the country.

Our goal was to create a scorecard that relied solely on the data in the credit bureau report and keep the algorithm in a black box. We succeeded, resulting in today's credit scoring models.

WHAT'S THE ALTERNATIVE?

The unintended consequence of the traditional scoring model is that it only applies to *most* consumers, leaving a sizable minority with a credit profile that does not contain enough data to generate a credit score.

These consumers are either young and haven't had the opportunity to generate a credit profile or have simply chosen to follow their parents' mantra: "Pay cash for everything." Either way, those with no score usually get strapped with the lowest tier (and highest buy rate).

Of course, no one pays cash for everything. Even if the consumer does not have a mortgage, not all 30-year-olds are living in Mom's basement. Many of them are renting and are making regular, on-time payments to a landlord. Why not capture that repayment record as a trade-line for the credit-scoring algorithm?

Similarly, renters sometimes are responsible for paying the utilities. Can we get the public utilities to report the repayment history? Or the cellphone carriers? I think you get the drift.

> ***By capturing these alternative sources, the industry may be able to find another source of consumers.***

By capturing these alternative sources of regularly scheduled repayment, the industry may be able to find another source of consumers who can purchase and finance vehicles. Some may even be able to move from the deep subprime to the near prime strata and obtain more favorable credit terms. This could also mean a higher priced and likely more reliable transportation source.

ROADBLOCKS, RISKS, AND DOWNSIDES

It ain't all paper roses with alternative credit scoring.

It sounds like a great idea to require utility companies to report repayment history, at least to those of us who may benefit from a new market to market our goods to. But if I were running a utility company, I might have some heartburn.

When the utility companies start reporting credit histories, how much of the Fair Credit Reporting Act applies to that industry? I often make the statement that the car industry is the most heavily regulated industry in America, surely utility companies are not far behind. And you want me (as a hypothetical CEO of a hypothetical utility company) to accept additional regulations and potential regulatory oversight?

As the CEO, I now must create a process to ensure that accurate and timely reporting of utility users' repayment history is reported to all three credit-reporting agencies. This includes a dispute resolution process and department that must be staffed up and trained to handle credit-reporting disputes. Adding expenses for this proposition with no discernible revenue to offset the expense.

I also see the risk of another tool for the exploding synthetic identity theft industry. The sophisticated identity theft rings count on starting a credit profile with an authorized user account and building a credit profile over two to four years before venturing on a shopping spree. With alternative credit scoring, the synthetic identity thief can start a credit profile with a utility bill or a cellphone account or a landlord reporting.

Now comes the tampering of expectations: Believe it or not, not everyone pays their utility or cell phone bills on time. Shocker.

But there are plenty of times that the place of residence stip on a subprime deal is a copy of a past due utility bill. Reporting a delinquent or shut off utility bill would not improve someone's alternative credit score.

Stay tuned and, as always, good luck and good selling. AE

GIL VAN OVER IS THE EXECUTIVE DIRECTOR OF AUTOMOTIVE COMPLIANCE EDUCATION (ACE), THE FOUNDER AND PRESIDENT OF GVO3 & ASSOCIATES AND AUTHOR OF "AUTOMOTIVE COMPLIANCE IN A DIGITAL WORLD."

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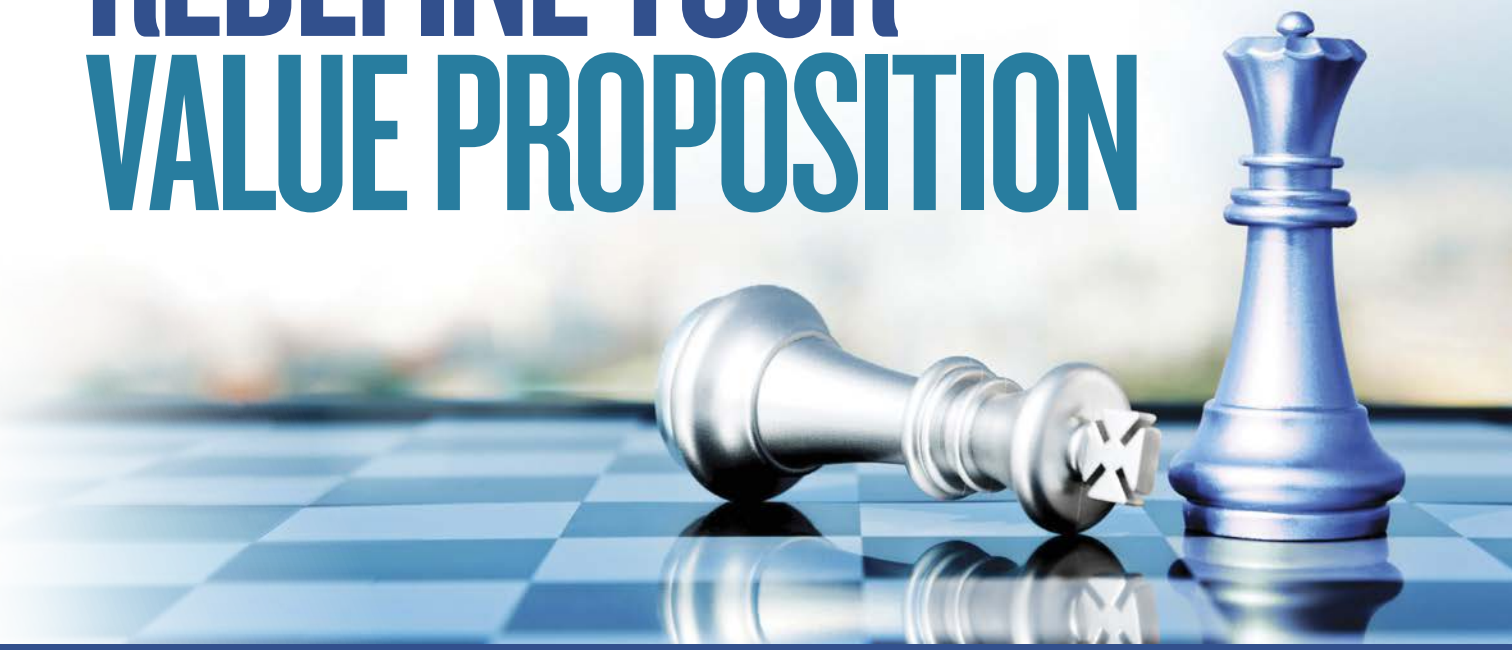

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