AE
AGENT ENTREPRENEUR
JULY/AUGUST 2020 | VOL. 7 NO. 4

THE INDUSTRY'S LEADING SOURCE FOR AUTOMOTIVE GENERAL AGENTS

AGENTS IN ACTION

# OVERCOMING THE PANDEMIC

+ Automotive Industry Drives High-Tech Innovation ■ Change Is Required ■ Economic Recovery Begins with Behavior

Automotive Compliance Education

# CONTENTS






## FEATURES



## DEPARTMENTS

# Mark Your Calendars for Agent Summit 2021

*The tenth annual Agent Summit will take place April 11-13, 2021 at Caesars Palace in Las Vegas, Nevada.*

BY KATE SPATAFORA

**If you make your way to the Agent Summit website you will find the statement that the team here at AE strives to uphold when planning and executing a new and improved Agent Summit with each passing year.**

*Launched in 2011 and brought to you by Agent Entrepreneur and F&I and Showroom magazines, Agent Summit recognizes the independent general agent's unique role—and unique needs. This is the industry's only event designed by and for the hardworking professionals who drive F&I success and dealership profitability across the nation. Attendees come from all over for the targeted education and valuable networking that Agent Summit provides. The educational slate touches on all aspects of agency operations—including F&I training and development, dealer recruiting, agency building, and reinsurance. Agent Summit is built by an advisory board comprised of top agents and F&I industry executives and thought leaders who help to shape the industry.*

This year, however, I think we can all agree that things have unfolded differently than any of us could have planned for. Many of you received and participated in a survey that was sent out to gauge what our loyal attendees and sponsors wished for us to do in these uncertain times. After processing the information you all submitted we came to the decision that it would be best and safest for all involved to suspend plans already in place for the 2020 event and begin planning for 2021.

We are pleased to announce that the tenth Agent Summit will take place April 11-13, 2021 at Caesars Palace in Las Vegas, Nevada. In years past we have asked for your feedback to assist us in curating an agenda suited to the ever-changing needs of the automotive general agent. This year, that feedback is more crucial than ever before! Dealerships are facing unprecedented challenges and thus, the agents that work with them will need to develop new ways to address these challenges.

> *Agent Summit recognizes the independent general agent's unique role—and unique needs.*

So with that, we need your help. I ask for just a few moments of your time to send me an email that shares an experience you have faced in the past few months; a new trend or technology you want to learn more about; or a hurdle you are trying to overcome post-pandemic. With this insight we can build an agenda for 2021 that helps to solve all the new challenges being faced by the industry. If you would like to play a part in building the best Agent Summit yet, please email me directly at kate.spatafora@bobit.com.

I look forward to hearing from you. **AE**

– Kate Spatafora

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OUR COVER STORY

**AGENTS IN ACTION: OVERCOMING THE PANDEMIC**

INDUSTRY

DOES YOUR PRODUCT ADMINISTRATOR KNOW THE RECIPE FOR SUCCESS?

*Developing a new product in the retail automotive F&I industry requires special attention to the steps that must be completed and what 'ingredients' go into the mix. Find an administrator that has the secret recipe!*

BY TOM RUBADUE

**Whether you prefer the food from your mother's kitchen or a four-star restaurant, they both have one thing in common: Each begins with a recipe.** An essential how-to that dictates the steps required to achieve that perfect bite. Not only does a recipe dictate the ingredients, but the amounts and order in which the steps must be taken, as well. An error in any of these variables, and the outcome quickly turns from fabulous to failure.

Developing a new product in the retail automotive F&I kitchen requires a similar recipe with specific steps, completed in order, and great attention paid to the ingredients that go into the mix.

A good product administrator should use a methodical approach to product development that involves a large amount of research to create each product's unique features and benefits, and ensure the needs of all stakeholders are met:

- Agent
- Dealer
- Lender
- Consumer

Lets use potential products for electric vehicles as an example. A good administrator should research the current and future electric vehicles in development by their different manufacturers, including battery manufacturers and suppliers, and available service contracts in the industry. Additionally, review average repair costs to determine which product features and coverage levels would be most beneficial to each product stakeholder group.

**A Different Twist**

Good cooks will often say their dish is better because of a secret ingredient or an extra dash of something unique. The same is true in F&I product development. When researching current products in the market, successful administrators will conduct a gap analysis, asking:

- Is a product truly new?
- Is there something similar/the same already in the market?
- If so, how is the product performing? What are the product sales and loss ratios?
- What is the growth potential of the product?

With the electric vehicle protection products we are focusing on in this article, the administrator should review the current state of the electric vehicle market and its growth potential, along with the available service contracts, which could be sold with electric vehicles. The more generalized vehicle service contracts provided a significant amount of coverage for components that aren't included in electric vehicles and provided limited coverage for electric-vehicle specific components. The vehicle service contracts designed specifically for electric vehicles also fell short in one key area – battery coverage. Using this information, they will see the need to bring to market an electric-vehicle-only vehicle service contract.

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## Does Your Product Administrator Know the Recipe for Success?

Thanks for sharing, Tom. Great administrators should further consider the "experience" of the F&I products they develop and offer and their impact on revenue and retention. 1-800-numbers, archaic online claim forms or even an app that only works with one provider's products, are all part of the current disconnected experience. Every administrator provides "customer service," typically measured by call-hold wait times and manual claim processing. Our industry will always need strategic product evolution but delivering an exceptional customer experience is critically past due. It's well documented that customers are willing to pay more for a better experience. We should stop deploying the commodity-based approach where every provider can easily replicate F&I product features and benefits. Customer experience is the battlefield where business is earned or lost … in both this COVID-19 and any economic reality.

**– Steven A.**

## The Gap in GAP

Interesting read, Robert. This article clearly points out one of the many reasons that lenders should allow the dealer to offer their own products. Too often the lender uses their not-too-subtle "extortion," which requires the dealer to sell the lender product or nothing at all. As noted here their products are often inferior (i.e. 125% LTV limit) or come with inaccurate or illegal marketing. At the very least, it is less likely for a dealer's agent to invest much time training the dealer on how to represent the lender's product compliantly. So the dealer loses the value of the agent's counsel for that product. And the ultimate loser is the consumer.

**– George S.**

DEPT: Legal

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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## LET YOUR VOICE BE HEARD!

*Agent Entrepreneur* welcomes any comments or questions about any of the articles appearing within. Please email the editor, Kate Spatafora, at kate.spatafora@bobit.com. Messages may be edited for content or clarity.

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## NIADA PROVIDES COVID-19 GUIDELINES TO DEALERS

The National Independent Automobile Dealers Association has compiled a guide to operating an independent vehicle dealership in the era of COVID-19.

The Independent Dealer's Guide for Safely Operating During COVID-19 contains guidelines, best practices, policies and procedures gathered from government agencies as well as independent dealers across the nation.

"As the automotive industry continues serving its communities in a post-COVID-19 environment, protecting the health and safety of the driving public is the highest level of priority," NIADA CEO Steve Jordan said. "We are proud to offer this important guide to the dealer community as a set of recommended guidelines to assist in their ongoing efforts."

The guide is a tool to help dealers plan carefully and understand what changes they might need to make in their businesses to take advantage of post-pandemic opportunities while protecting the health and safety of their customers, employees and vendors.

- General considerations for creating a safe workplace, such as establishing a written plan and conducting daily health checks of employees.
- Best practices for policies regarding social distancing within the dealership, and cleaning and disinfecting in the showroom and in vehicles.
- Handling interactions with customers, including test drives, sales and financing, service department operations and collections;
- and much more ...


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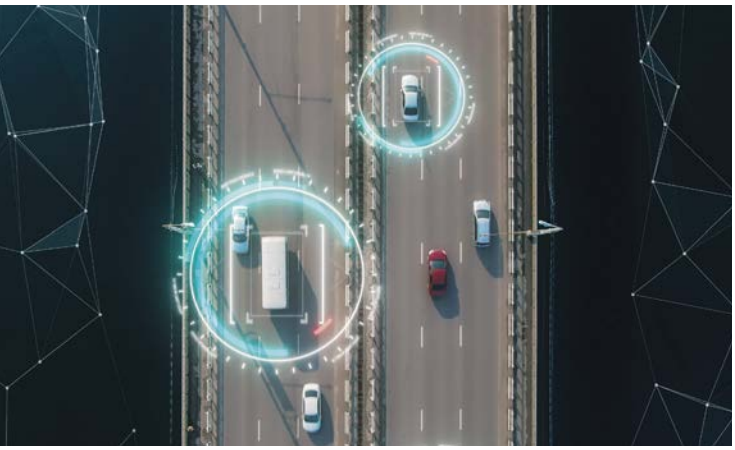
The guide contains information from the Centers for Disease Control and Prevention, the Occupational Safety and Health Administration, the California Department of Public Health and other agencies.

> The guide is available on NIADA's COVID-19 resource page at **covid19.niada.com**.

## THE U.S. DEPARTMENT OF TRANSPORTATION ANNOUNCES FIRST PARTICIPANTS IN NEW AUTOMATED VEHICLE INITIATIVE

The U.S. Department of Transportation announced nine companies and eight States that have signed on as the first participants in a new Department initiative to improve the safety and testing transparency of automated driving systems, the Automated Vehicle Transparency and Engagement for Safe Testing (AV TEST) Initiative. The participating companies are Beep, Cruise, Fiat Chrysler Automobiles, Local Motors, Navya, Nuro, Toyota, Uber, and Waymo. The States are California, Florida, Maryland, Michigan, Ohio, Pennsylvania, Texas, and Utah.



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Automated driving system technologies hold the promise to help prevent fatal crashes, save lives, and reduce the severity of the crashes that do occur.

"Through this initiative, the Department is creating a formal platform for Federal, State, and local government to coordinate and share information in a standard way," said U.S. Transportation Secretary Elaine L. Chao.

The AV TEST Initiative will include a series of public events across the country to improve transparency and safety in the development and testing of automated driving systems.

Participants can share information about their activities, which will help increase the public's awareness of testing, centralize the Department's role in promoting safety and innovation, and build stronger relationships among Federal, State, and local governments and stakeholders.

Additionally, this voluntary initiative will provide an online,

CONTINUED ON PAGE 10

# MANHEIM USED VEHICLE VALUE INDEX JUMPS MID-MONTH


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A mid-June measure of the Manheim Used-Vehicle Value Index is good news for those hoping to see an increase in wholesale used-vehicle values. In fact, the latest measure shows values have never been higher, an indication there is rapidly growing demand for used-vehicle inventory. The team notes wholesale values of used-vehicles at auction are now higher than they were in January.

Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) increased 6.6% in the first 15 days of June compared to the month of May. This brought the mid-month Manheim Used Vehicle Value Index to 146.1, a 4.0% increase from June 2019. If the mid-month value of the Manheim Index holds for the full month, the Index will hit an all-time high.

Manheim Market Report (MMR) prices improved again over the last two weeks, resulting in a 3.7% cumulative increase in the first two weeks of June on the Three-Year-Old Index. Over the first 15 days of June, MMR Retention, which is the average difference in price relative to current MMR, was above 100% every day and averaged 102.8%. The MMR Retention trend reflected that vehicles were selling above current MMR values. The weekly price performance in May and June has been more reminiscent of a typical March and April.

On a year-over-year basis, most major market segments saw seasonally adjusted price increases in the first 15 days of June. Luxury cars outperformed the overall market, while most other major segments underperformed the overall market.

Recovering retail sales are reducing vehicle supply. As used retail sales continue to recover, both retail and wholesale supply are coming down. Using a rolling seven-day estimate of used retail days' supply based on vAuto data, we see that used retail supply peaked at 115 days on April 8. Normal used retail supply is about 44 days' supply. The most recent seven-day estimate of used retail supply is at 31 days. We estimate that wholesale supply peaked at 149 days on April 9, when normal supply is 23. It was down to 30 days for the most recent seven-day period.

Rental risk pricing improves. The average price for rental risk units sold at auction in the first 15 days of June was up 0.5% year-over-year. Rental risk prices were up 6% compared to May. Average mileage for rental risk units in the first half of June (at 40,500 miles) was down 13% compared to a year ago and down 12% month-over-month.

Coronavirus uncertainty amid economic contraction. Auto loan delinquency rates fell in May, but much of the improvement may be a result of loan accommodations, which were reported by Equifax to be 7.3% of auto loans by the end of May. In May, 1.45% of auto loans were severely delinquent, while 5.19% of subprime loans were severely delinquent. Both rates were higher than last May's rates. The subprime delinquency rate in May was the highest for the month of May going back to 2006. The initial May reading on Consumer Sentiment from the University of Michigan increased to 78.9 from 72.3 in May. The increase in sentiment was driven by improving views of future expectations as well as current conditions. Consumers also saw improving buying conditions for vehicles and homes. The peak in daily new COVID-19 cases in the U.S. was seven weeks ago, but the new case trend has at best flattened out recently as several areas of the country are seeing an uptick in new cases. Some cities and states are contemplating reimposing lockdown orders. Despite these concerns, we continue to see positive recovery trends in the auto market in June.

## PRODUCT & TECHNOLOGY

With most **MANHEIM** lots now open for clients to preview vehicles, dealers and transporters in more than a dozen locations are finding their vehicles faster and easier with the help of Lot Vision. Introduced last year, **LOT VISION** is a GPS-based wireless device that is placed in a vehicle's on-board diagnostic port and reports its whereabouts on a Manheim lot within ten feet. Recently, the technology was enhanced to include vehicle tracking by VIN and work order number. Lot Vision is easy for dealers and transporters to use. They simply input a work order number or VIN and activate "Location Services" on a smart phone or tablet to pinpoint the vehicle's exact location and path to find it. For vehicles without an on-board diagnostic port, trackers are attached to the steering wheel. In addition to making it easier to find vehicles, Lot Vision also speeds up vehicle processing for transporters.

**EFG COMPANIES** announced the launch of its re-imagined **MOTORIST ASSISTANCE PLAN** (MAP®) vehicle service contract (VSC). This newly-engineered VSC provides dealers the potential to increase VSC sales by 15 percent through 25 million available terms, and generating up to $200,000 in revenue per year. Traditional VSCs have a small set of very specific terms that may not fit every customer's needs, forcing dealers to shoehorn customers into narrow terms with too much or too little coverage. With the enhanced MAP, EFG expanded eligibility requirements and term mileage in 2,500 mileage increments, resulting in 25 million term options dynamically available to the dealer. Along with five deductible options and six surcharge options, the updated MAP allows the dealer to better tailor the product to each customer's personal driving habits, giving them a viable product for every customer and increasing penetration rates. Cancelled contracts and burdensome chargebacks are also reduced for the dealer with the product's focus on each customer's specific protection and budget constraints.

**BLINKER** announced an exciting long-term collaboration between Autotrader, an automotive marketplace, and Blinker, an award-winning tech company that created the premier digital platform for vehicle transactions between consumers. **AUTOTRADER** brings more trust and speed to online car shopping and buying, helping car shoppers browse the widest variety of vehicle options all in one place. Autotrader continues its commitment to deliver effective digital retail offerings to consumers and dealers. Blinker will help expand Autotrader's existing marketplace capabilities by integrating innovative transactional capabilities that include improved communication between private sellers and their buyers, financing options, and fraud prevention tools, providing great value to their audience. Blinker is the only peer-to-peer e-commerce platform that provides an end-to-end solution for anyone buying, selling or financing cars. Complex vehicle transactions can happen with ease, including financing and loan payoff confirmation, at the point of sale in parking lots and at the end of driveways over mobile phones – more safe and secure than ever before.

**AUTOMATED VEHICLE INITIATIVE CONTINUED**

public-facing platform for sharing automated driving systems testing activities and other safety-related information with the public. Online mapping tools may show testing locations at the local, State, and national levels, as well as testing activity data, which may include dates, frequency, vehicle counts, and routes.

"Automated driving system technologies hold the promise to help prevent fatal crashes, save lives, and reduce the severity of the crashes that do occur. Under the leadership of Secretary Chao, NHTSA is committed to facilitating the safe testing, development, and eventual deployment of advanced vehicle safety technologies through enhanced transparency and information sharing with all our State and local partners," said NHTSA Deputy Administrator James Owens.

The AV TEST Initiative will be open to all stakeholders involved in the safe development and testing of automated driving system vehicles. At the State and local level, participants may include departments of motor vehicles, departments of transportation, highway safety offices, and city governments. At the automotive industry level, participants may include developers, manufacturers, suppliers, operators, and testers.

> For more about the AV Test Initiative, please visit **www.nhtsa.gov/avtest**.

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# BLACK BOOK: COVID-19 MARKET UPDATE

Fueled by continued stimulus payments, the success of the Federal Paycheck Protection Program, and unsatisfied demand from April and May, last week continued a story of rebounding wholesale prices, with volume-weighted overall car and truck segments both showing gains for a third week in a row, gaining 0.62% overall. As for specifics, the overall car segments increased by 0.88% (compared to 0.16% the prior week) and the overall trucks and SUV segments increased again this past week at 0.52% (compared to 0.08% the prior week).

Wholesale prices declined 1.5% in May – a substantial improvement compared to April when prices dropped by 5.9%. As a result, Black Book's Seasonally Adjusted Retention Index had a very respectable comeback in May, only dropping by 0.7% (vs. a 6.9% drop in April). The decrease in April was driven almost exclusively by the collapse in consumer confidence, along with high levels of uncertainty about the financial markets due to the COVID-19 pandemic. Since the middle of May, we have observed the stabilization of prices, as shelter-in-place orders are being relaxed throughout the country.

Auction sales volume is finally returning to pre-COVID-19 levels, although most auctions are still operating in a digital only environment. Over the past several weeks, we also measured a substantial increase (compared to previous weeks and compared to last year) in volume of rental units sold, as rental fleet companies are reducing their fleets to match much weaker consumer and business traveler demand. As supply continues to grow, we are concerned with the throughput of major auctions as they operate with reduced staff. In speaking with management teams from two auction chains last week, they are trying to continue to execute on the increased volume and customer demand without immediately bringing back significant amounts of furloughed staff. There is a concern that this uptick may be short-lived and the need for increased staff may be temporary.

Since the beginning of April, weekly initial unemployment claims remained at record levels. Last week, the Labor Department reported that the US added 1.54 million new jobless claims. The US unemployment rate in April was 14.7%, the highest monthly rate since the Great Depression. In a surprise to many economists, May unemployment decreased to 13.3% due to the success of the Federal Paycheck Protection Program (PPP) and other stimulus measures. The Labor Bureau also noted in its report that there was a classification error in its survey, and the real unemployment numbers should be about three percentage points higher for both April and May. There is also concern that without further Federal stimulus, these gains will be temporary and employment numbers may deteriorate once PPP expires. The unemployment numbers are similar to Black Book's projections for our Most Likely Economic Scenario, and these were used for short term residual value projections in our recent publication of June residual values.

With a weakening of the economy, consumer confidence is low. The University of Michigan's Monthly Consumer Sentiment Index in May was 72.3 points (a slight uptick from April's 71.8). With one-time stimulus payments and extended unemployment benefits helping the economy, the preliminary index for June increased to 78.9. As a reference point of how uneasy the consumers are about the economy, the Index was at 101 in February.

As more economic data for the second quarter of 2020 arrives, "the GDPNow model [from the Federal Reserve] estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2020 was -48.5 percent on June 9th."

The overall weakening of the economy is causing demand for vehicle purchases to decline. In addition, gasoline prices reversed the May trend, and started to increase, up $0.25 since the end of April to $2.04 per gallon last week, according to the U.S. Energy Information Administration.

At the same time, we expect a large, incremental influx of used inventory to hit the marketplace over the next six months, coming from prolonged lease return delays, downsizing of rental fleets (including the expected sell-off of a large number of Hertz's units), increased repossessions, and un-sold inventory from the March-May time period.

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# WE ARE HUMBLED AND HONORED.

The past few months have been uncertain, confusing and painful for us all. Our sincere thanks goes out to our community - and the product/service providers tirelessly adapting to the new norm to ensure we're able to provide essential information. Your continual involvement gives us something far more powerful and long-lasting than any virus...

**HOPE.**

*We want to ensure we're giving back...*

# YOUR **COVID-19** INFO ZONE

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**www.agent-entrepreneur.com/covid-19**

AGENTS IN ACTION

# OVERCOMING THE PANDEMIC

*Four experts offer their advice, predictions and experiences from the front lines, to assist automotive agents and those they do business with, in the battle to overcome the aftermath of COVID-19.*

BY KATE SPATAFORA

**Over the past few months the automotive industry has witnessed unprecedented economic lows, government-mandated business closures and a rapidly evolving pool of consumers.** Now that states have loosened restrictions and dealerships can begin working towards a "new normal," what exactly does that mean for the agents that help them drive their business? *AE* spoke with four experts in the agent arena, to learn how general agents have been impacted by the pandemic, and what they need to focus on to reclaim lost profits and help drive success.

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**Randall Crisorio**, president of United Development Systems (div. Brown & Brown Dealer Services); Automotive Service Group's senior vice president, **Lyle King**; **John Lutman**, senior vice president of sales and head of the Agent Channel at IAS; and President of ARMD Resource Group and World Class Dealer Services, **Michael Tuno**, all shared their candid advice for the present, predictions for the future and real-world experiences to aid general agents.

### How has the pandemic affected automotive agents spcifically?

***CRISORIO:*** The pandemic downside for F&I agent operatives is the routine loss of personal contact with dealer clients and their staff. Some mobility was self-limiting while dealer principals imposed restrictions on visitors unless they planned to buy or service a vehicle.

***KING:*** We've been forced to re-examine how we connect with dealers and dealer personnel. Use of technology, while previously important, has become undeniably necessary. Becoming a Zoom expert was never an aspiration, but it quickly became one during this time period.

***LUTMAN:*** Obviously due to the pandemic, the dealership volume has decreased throughout the country, but some regions are certainly harder hit than others. Agency revenues have been impacted dramatically, and they had to find new ways to help their dealership clients generate revenue as well as for their own agency, in addition to finding new ways of servicing them. The way agents do business has changed drastically, but the end goal of the agent remains the same.

***TUNO:*** The pandemic has affected agents differently depending on the state and markets that they serve. The impact ranges from slight to significant because of how each governor has controlled the ability of our industry to function. The most severe impact has been that agents' businesses have been required to close due to being classified as non-essential by the state in which they are located. This has proven disastrous because auto sales in these states have also been deemed non-essential or only allowed to conduct online sales, with no test drives permitted.

***"Smart agents have taken this time to escalate their expertise and seek marketplace innovations that will drive dealer results."***

*– RANDALL CRISORIO*

In many other markets where the showroom has remained open, sales have been in some cases very robust, even record-setting. The RV and power sports business' have seen a significant increase in sales in general, as consumers are finding substitutes for their recreation as well as their future vacation plans. Agents that serve these markets have seen terrific sales growth of all their products and services. The automotive markets for agents will seemingly continue to be fragmented based on where you reside and the states that you serve.

### What is your view of the current automotive environment as it relates to agents and their ability to conduct business?

***CRISORIO:*** In some states such as Pennsylvania, retail operations were shuttered and there would be no retail staff to visit for months by order of the Governor. Although things are opening up, generally by phase as called for in Federal Guidelines, fear on both sides is pervasive as is the virus misinformation train that has accompanied the pandemic.

***KING:*** Times of economic crisis have created more open minds and sometimes we're able to connect with clients and potential clients while they're more open to reviewing possible solutions. In that way, we have legitimate new opportunities available today.

***LUTMAN:*** The landscape has certainly changed. We must be sensitive to this pandemic and what it can do to people who are high risk. However, the one thing about general agents is their ability to adapt to the environment and still find ways to be relevant with their clients. They have been using technology to train and coach dealership personnel. They have shifted to new products in the marketplace like disinfectants and unemployment insurance to help dealerships continue to sell vehicles in a safe environment.

***TUNO:*** The states that are hardest hit by the pandemic have forced agents to preserve cash because the industry that they serve has been shuttered by government decree. Where the showrooms are not shuttered, it is business as usual, except perhaps the growing attention paid to PPE and sanitizations of the dealerships. The mosaic of how states have dealt with this pandemic largely dictates the agent's ability to conduct business. Open states

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are business as usual and locked down states require the agents to find remote ways to conduct business despite the limited sales volumes seen at the dealerships. Even in states that are in lockdown, the service departments remained open and were deemed essential by state governors, but these areas for agents to derive a living are limited largely due to the dealerships having skeleton staffing due to consumer anxiety over performing service on their vehicle.


**How has the pandemic changed how agents will work with their dealer clients moving forward?**

***CRISORIO:*** Those F&I agents with solid reporting systems have moved review and counsel sessions to the dealer staff desktop monitor. Organized training is delivered via Webinar, GoToMeetings, Zoom sessions, and the like, but with a mixed level of preparedness and expertise. At UDS we know that not all staffers are available to attend each scheduled session so training is archived and available online for retrieval.

***KING:*** At the outset of the pandemic, it seemed that maybe agents could ultimately spend less time on the road with clients and more time making technological connections. That seemed like it may last, but as time has gone on I think we've experienced a temporary change, but our plan going forward doesn't seem to be much different than before.

***LUTMAN:*** Agents will continually adapt to the ever-changing environment. They will continue to partner with their product providers to come up with new ways of servicing clients. You will see a higher focus on online sales and no-touch deliveries, while online training and development will also continue to rise. One-on-one training in the dealership will happen with social distancing as compared to previous mass-classroom trainings. General agents will be more relevant in this new world then ever before.

***TUNO:*** Moving forward, agents will need to be able to conduct business both in a traditional manner, "boots on the ground," with safety measures in place as per the CDC guidelines ... as well as remotely, as both consumers and dealership staff have accelerated this change to the traditional methods of operation due to concerns over their safety. The servicing and selling activities of the agent must have both forms in their business strategy for a successful future.

**Are there any new trends or technologies that agents should be keeping a close eye on?**

***CRISORIO:*** Dealer sales calls by "Cold Call Visits" have been recreated into a process of introduction by email, mail and phone, seeking the opportunity to present either virtually or preferably, in person. The admin-teams that support our business, while often working remotely, haven't missed a beat accommodating the needs of our dealer clients.

***KING:*** The ability of millennials, to do business online instead of in person, has been in front of us for as long as millen-

**"The way agents do business has changed drastically, but the end goal of the agent remains the same."**

– JOHN LUTMAN

nials have been. The pandemic fears have accelerated dealers being willing and motivated to create those online solutions faster than originally planned. Accommodating that demographic, as well as the cautious public during the pandemic, has greatly gained importance.

***LUTMAN:*** Agents need to be on the lookout for the best solutions to help with online sales, and that could play out in a lot of different ways. For example, a menu system that enables the dealership to interact with the customer remotely, software solutions that help the dealership sell more vehicles like equity mining programs, or products that help the customer maintain peace of mind in case of pandemics like this one.

***TUNO:*** The chemical business, that supports sanitizing and anti-microbial solutions will be necessary to add to an agent's product array, so the dealerships can promote the healthy well-being of its staff and its customers. In addition, technology that can help dealers cull more prospects from the marketplace through enhancements to their online activities, should be considered by agents. Also, some dealerships are using GPS devices to support customers taking test-drives without the salesperson being in the vehicle during the test-drive. The GPS device safeguards the dealer form the vehicle being stolen, while maintaining a safe and healthy space for the staff and the customers.

**Is there any advice you would like to give to agents that may be having a hard time returning to pre-pandemic levels of business?**

***CRISORIO:*** Smart agents have taken this time to escalate their expertise and seek marketplace innovations that will drive dealer results. Agents committed to our industry will exit this pandemic with some new strengths and day-by-day the retailing environment is returning to pre-pandemic levels.

***LUTMAN:*** Be relevant to your clients. Dealerships need the agent entrepreneur more today than ever. Agents are on the front line, and dealerships appreciate the people who are helping them get through this pandemic. Reach out to your product provider partners to solicit their help with technology and new products to find ways to generate additional revenue on less vehicles sold.

***"Moving forward, agents will need to be able to conduct business both in a traditional manner, as well as remotely."***

*– MICHAEL TUNO*

***TUNO:*** The soundest advice that agents should be mindful of, is to continue innovating during these uncertain and difficult times, so that your value to the industry supports the changing needs of both dealers and consumers. Be persistent and thoughtful for solutions that support both the traditional pre-pandemic business practices. As well as the new normal, of remote digital products and services, to help solve for the issues of social distancing and remaining healthy within the dealership environment.

All agents would be well served to stay mindful of the need for their dealers to remain compliant in this pandemic environment. The need to understand the importance of sound compliance policies and procedures, relating to the remote manner in which business is being conducted during this pandemic, has increased the risk to the dealership when conducting sales. Like adherence to the E-signing act, the Red Flags Rule and identity theft, cyber risks when employees are working from home on their own Internet network may lack robust security against malware, and ransomware attacks as they interface with the dealerships systems.

In addition, when conducting sales remotely there tends to be a lack of adherence to proper disclosure with Regulation Z and its amendment in 2003, requiring the customer to review a blank copy of the retail installment contract before signing it. The remote nature of carrying various documents off the dealer's premises also carries the risk of not being properly safeguarded and then creates risk with the Safeguard Rule. For example, if the documents are being physically transported for the consumer to complete the transaction, the security protocols that the dealership has in place at the store are not in place when remotely transacting. If the vehicle in which the documents are being transported isn't physically secured, and there is an accident, the documents are at risk of being exposed thus violating the Safeguard Rule of the dealership. **AE**

# CHANGE IS REQUIRED

*The automotive industry is going through rapid change, facing additional costs associated with personnel, benefits, and retention, and depending on a steady stream of additional customers to replace those customers that have defected. So how do you change how you conduct business to meet the current challenge?*

BY LEONARD BUCCHOLZ

***What's the difference between the average dealership or repair facility during this current state of our country and say, ride-sharing services, like Uber and Lyft?***

I'll give you a minute to ponder that question. However, believe it or not, there are many similarities between the two industries.

Both industries are going through rapid change. Both are facing additional costs associated with personnel, benefits, and retention — personnel and customers. Both are dependent on a steady stream of additional customers to replace those customers that have defected. Both industries are being asked to change how they do business to meet the current challenge.

*Give up?*

Nothing is different.

That's right. The same conditions are plaguing both industries.

*Easy to see the correlation now, isn't it?*

The virus is not our fault. It's a worldwide problem. What is our fault is the way we've been doing business for some time, before the COVID-19 outbreak.

We became survey hounds consumed by the pursuit of scores. We were concerned about issues only when it affected the dollars coming in, provided training to our personnel only when absolutely necessary, and when there were no other cheaper alternatives, constantly and consistently changed employees pay plans and benefits. We waited for our problems to be solved by technology, and over the past few years, happily existed in a world of our own making.

But, as the saying goes: "The chickens have come home to roost, Bobby Boucher."

We are facing a crisis that demands change, and we cannot correct it doing the same old things. Let me give you an example. Most dealerships have attacked the current issues by changing the following: new hours, mining the recall lists, offering pickup and delivery, providing a vehicle cleaning service, prospecting from the SOP bin, changing pay plans and benefits, and laying off personnel.

When we finally get back to normal (if there ever will be a normal), we will need to immediately re-energize the customer base because — guess what — they realized they didn't need us all that much.

Oh sure, recalls and goodwill are important, but will it be enough to get John Q. Public back into the dealership's doors for regular service and maintenance? If you are counting on that to happen organically, I challenge you to start thinking differently.

Some dealers will throw money at cus-

tomers, chase customer retention instead of building customer retention, keep reducing costs (by any means necessary), put training on the back burner, and expect technology to come to the rescue.

Here's a little secret about technology: It does not work with untrained people.

So, if you've been waiting and looking around for help, and are expecting technology to save you, you might be disappointed with the results. It's takes a trained professional using the latest technology to overcome this challenge in our industry. You can't do it with just one of those things, you need both.

First, your dealer clients need to train the service sales team. Many of you have grown up in the car business and have been around many service departments and many service personnel. I dare say, if personnel have been around awhile, you would think they would have had some training or instruction along the way.

Not the case.

I will bet everyone reading this, that I can go into any dealership in North America (or the world for that matter), and find an advisor or manager that has been in the business for years and years, and has never been trained, other than "Here is your phone, here is your desk, don't mess it up."

*What does that make them?*

It makes them survivors.

They escaped being eaten alive by this business, albeit, many of them are covered in "scars" from customer and management encounters over the years. But it doesn't make them good advisors and managers, and years of the same experiences only keep them in the same crab bucket they started in.

*You know about crab buckets, right?*

Put a bunch of crabs in a bucket and you get crab mentality. Nobody gets out and they all suffer the same consequences. Much like the mentality permeating our industry today. We need to stop the crab mentality — get people out of the bucket and into a training program — or we are doomed like those crustaceans going to the boiling pot. That's why you need to train continuously.

Second, you need technology that makes sense, works right, and is easy to use.

> People make up our business, and they are telling us that the way we do business is not the way that they want it.

Take software. There are lots of software solutions out there and you can narrow down your choices by using three simple questions.

1. Does the software help advisors sell and service more customers, and is it easy to learn and implement for the dealership team and customers?
2. Does the software help increase engagement, provide transparency and build relationships?
3. Does the software help make a profit?

These three simple questions will guide you and narrow down the choices. Then it becomes a matter of selecting the one that is right for you. Keep in mind that the best choice might not always be the most obvious choice.

Not only should it be friendly to the customer (and the advisor), it needs to be robust, feature-rich, upgradeable, easy to make changes based on dealership preferences, provide reliable and instantaneous communications, and be accessible from any device, anywhere.

*Why do we need it today?*

Here are some recent survey results from different sources. AAA says that two out of three drivers don't necessarily trust repair shops. According to DEM Automotive, dealers lose between 60-78% of revenue on cars that are three to six years old and approximately 80-92% on cars more than seven years old.

*What will this same survey look like six months after the virus has been corralled and the industry has started to return to "normal"?*

This is nothing new to many of you reading this article. We've been fighting the customer attrition problem for a long time.

*But do you know what has not changed?*

The experience we provide our customers.

Our customers are telling us we need to do something different. The industry is being turned upside-down by disruptors. Traditional sales and service methods are being washed away in favor of the convenience, speed, value, transparency, and trust model, and that requires us to change.

People make up our business, and they are telling us that the way we do business is not the way that they want it. They can choose their level of service and experience with the push of a few buttons.

*Want a bigger rental car?* Click.

*Want a large instead of a small?* Click.

*Want to upgrade your hotel room?* Click.

*Want more legroom?*

Click ... Click ... Click.

Options are what make the experience better, people are what makes the experience memorable. Give your customer options, train your personnel so well that they become the standard by which others emulate, provide your personnel with the tools necessary to engage and enhance the customer, and then get out of the way.

If you have not considered a training program for your advisors and fixed operations personnel and combined it with a communications and service sales software tool to change how you interact with your customers, then you might be part of the new dealership extinction event that's coming to a town near you. **AE**

Leonard Buccholz is a trainer, consultant and lifetime learner. He has been a professional workshop and seminar facilitator with success as a leadership, sales process, communications and fixed operations coach.

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# ECONOMIC RECOVERY BEGINS WITH BEHAVIOR

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*The auto market appears to be showing signs of recovery, but it's too early to tell how far the recovery will go in the short term, and it's more critical than ever to keep up with the changing perceptions of the industry.*

BY BRIAN EPRO

**As of this writing, the auto market appears to be showing signs of recovery, but it's still too early to tell just how far the recovery will go in the short term.** It's fantastic to see the industry coming off the frightening bottoms it hit and it's more critical than ever to keep up with the changing perceptions of the industry.

Case in point: I had a videoconference reunion with my high school buddies. Some of us hadn't spoken in years. After we went through everyone's family updates, we started swapping professional updates. I was surprised by how many questions my friends had about the state of the auto industry. I was even more shocked when they asked me why they couldn't order a car online and have it delivered to their homes. They didn't realize they could buy a car online, that many dealers already offer this service and that it's likely to become even more commonplace after our collective quarantine periods end.

Here's the canary in the coalmine: When a bunch of non-auto folks get together to talk to the auto guy and this is the crux of their questions, then you know as an OEM and a dealer you need to pay attention to digital retailing.

## Exploring "New" Ways of Working

But, it's not just the process of making an auto purchase transaction happen online. Dealers will need to be less reluctant about posting the actual selling price of their vehicles online, and they will have to try to find ways to create relationships with the folks shopping on their sites. If people aren't calling or walking into their stores, it becomes much harder for a dealer to create a tailored and relevant experience for the shopper.

Good use of behavioral data can go a long way in filling that gap because it helps you make real-time decisions about consumer intent. Sure, you can continue to just "shotgun" your marketing to your entire database, making the same offers to everyone and hoping for the best, or you can start using the data you have to understand the journey each of your customers is on, and better target your responses to those individuals.

Imagine knowing when a hand raiser is actually going to buy a car versus wasting your time and energy just kicking tires? Resources and solutions are now available to allow you to do that.

## How Behavioral Data Helps

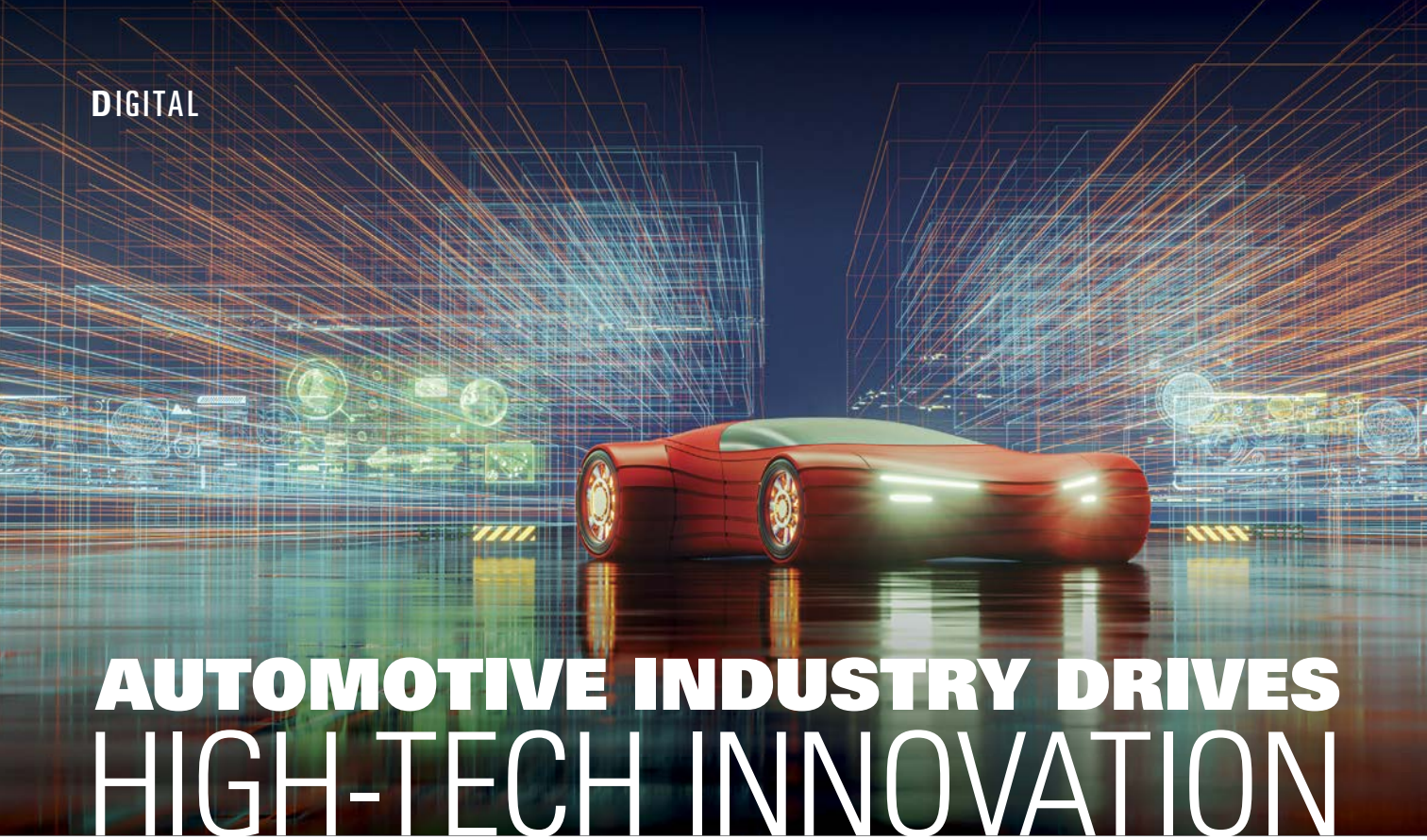
The data mix in auto has traditionally been identity, demographics, and psychographics. In the aggregate, that data can be effective. On a 1-to-1 basis, the data can frequently be wrong. Particularly in light of digital retailing, layering in witnessed behavioral data is becoming a priority for the auto industry, and there are two key ways behavioral data can be leveraged.

1 **Find Serious Shoppers:** Understanding behavior can help auto brands and dealers know who is serious about buying a vehicle by understanding their journey. How long have they been shopping? Have they been visiting relevant sites? How long did they spend on your VDP prior to submitting a lead? Answering these questions helps OEMs and dealers know who to prioritize.

2 **Timing Your Outreach:** The next step is using behavior to understand when someone is shopping. Particularly, in the current economy and for the foreseeable future, knowing when someone is actively shopping will be key for several reasons. Nobody who is between jobs wants to receive solicitations to buy a new car. With the number of buyers reduced in the market, it's more important than ever for OEMs and dealers to be able to get their messages in front of the right people at the right time when they are actually shopping.

The only way to know when someone is actually actively shopping is to work with a vendor who is able to actually witness online behavior and report back. Yes, we're in a difficult auto market right now, but the OEMs and dealers who leverage the latest in data tools will have distinct advantages in weathering the storm and coming out on the other side with new and loyal customers. AE

Brian Epro is vice president of automotive at Jornaya.



# AUTOMOTIVE INDUSTRY DRIVES HIGH-TECH INNOVATION

*To design and develop new technological innovations, automakers need software engineers. So how do OEMs successfully compete for this in-demand talent against competitors that are also investing in smart technology?*

BY CASEY SIVIER

**Automakers are increasingly investing in major technology upgrades, fueling their advances in hybridization, electric mobility, and digitalization.** All of these changes have driven a shift in the makeup of the auto workforce. To design and develop these innovations, automakers need software engineers.

The problem? So does everyone else.

How do OEMs successfully compete for this in-demand talent against multinational technology companies, deep-pocket e-commerce brands, and all the other manufacturers investing in smart technology?

## Driving a Desire for Auto Work

The answer could lie in a broad range of factors, including a creative environment, growth opportunities, and a diversity of projects.

"As automakers become more engaged in the high-tech elements of design and engineering, I've seen a commensurate shift in the workplace environment," notes Aerotek Director Lucas Hiler. "Where before the office space was structured into a series of individual cubicles, now it looks more like a start-up, with open areas and sit/stand desks.

"The culture is also becoming more like that of Silicon Valley," he continues, "with flexible hours and no dress code, as well as free meals and valet parking at some places."

This may stem from the fact that OEMs are likely competing with start-ups for the same talent.

"Start-ups have a powerful incentive to retain engineers through the entire span of product development," Hiler says. "Plus, they know they are a riskier employer than a traditional company, so they might pay an additional 10-15% premium."

Although many traditional employers have little appetite for allowing comprehensive remote work opportunities, software engineers seem to be more mobile than other professionals. With high-tech hot spots including Boston and Philadelphia, not all roads lead to Silicon Valley.

Employers in need of this talent may have to throw out the rulebook to come up with winning strategies. Can you raise your salary offer? Provide relocation benefits? Offer a non-traditional work schedule? At the same time, candidates want to know about company culture. Why should they choose your position instead of another offer? Fundamentally, employees want a challenging and rewarding job with a great employer, and they want to feel valued.

## Upskilling Opportunities

Perhaps more so than other professions, engineers seek out new information and new skills, and they want their employer involved. A recent Allegis Group Cultivating Skills survey of human resources decision-makers found that employers are responding and now view employee skills development as their responsibility:

- 93% believe the employer is responsible for enabling their workforce to acquire new skills;
- 90% are exploring new ways to develop critical skills within their workforce;
- 86% anticipate that their budget for training, learning and development will increase over the next two years.

By providing training, employers cre-

ate value in several ways — they can prioritize the exact skills they need and set a quick pace for training, demonstrate their appreciation for current employees, and help fulfill the company's potential for growth.

Sometimes skills development comes through a mentorship/training arrangement. Aerotek works with a tier one auto supplier that has developed a program to take junior-level workers and pair them with more experienced engineers for a training period of six months to a year. The goal of the program is to operationalize knowledge transfer and create a skilled team of workers who have trained in exactly the processes and proficiencies the company wants.

## Contingent Solutions for Short-Term Needs

Some software engineers prefer the flexibility and stimulation of contract work.

"A lot of engineers are increasingly seeking work/life balance," Hiler says. "When they take on an assignment, they want it to be challenging and interesting. And when it's over, they may want to take a break to spend time with their family or pursue other interests. Then they have the freedom to switch it up and take a new job that helps them learn new skills or offers something completely different. Some contractors are actually motivated by a desire to see the world. They want to move to different places and experience different environments."

Many engineers want to develop new work experience by taking on new and challenging contracts. Because of this, the option to take on a short contract in a new company can be attractive — especially knowing they'll have new opportunities in a relatively short time. At the same time, the typical hourly rate for contract work is much higher than a salaried position. Some recruiting agencies include benefits, making contract work even more viable.

If engineers feel that their careers have hit a plateau or aren't as stimulating as they prefer, the chance to work in an increasingly high-tech industry could provide the challenge they're looking for.

Competing for software engineers is one of the biggest workforce challenges today. But by harnessing what they have to offer and matching it with the factors that motivate employees, auto manufacturers can attract the talent they need. **AE**

Casey Sivier is a strategic account executive for Aerotek.

# DOWC vs. CFC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*Do not step over dollars to pick up pennies … picking a formation that is not a good fit will cause exit strategy issues and could cost you ownership of the next formation. Take the time to educate yourself on the different reinsurance formations to ensure success now and in the future.*

BY **MIKE HAAS**, LPN, LPFS

**As a 30-year veteran of the automotive industry, I wanted to share this article to give you a better understanding of the DOWC vs. the CFC reinsurance structures.** The latest buzz in the automotive industry, of this not so new and shiny apple called the DOWC, and I am referring to the structure and not the company. I travel around the country speaking with auto dealers, associations, and groups about participation programs and have decided to write this article because I feel they may have been sold the proverbial bill of goods. This is not meant to be financial or legal advice (and you should seek proper counsel for those questions), but insight into these formations.

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A dealer-owned warranty company (DOWC) is an administrative corporation (C Corp) designed to be the obligor for non-insurance F&I products such as vehicle service contracts (VSC). The company is not regulated as an insurance company but typically qualifies as an insurance company for federal income tax purposes. The DOWC is generally owned by a dealer or a dealer group and is administered by a third-party provider, and it often purchases an excess of loss insurance provided by a third-party insurance company.

Every participation program has its place in the automotive space, including the DOWC. But when it comes to the DOWC, you must ask yourself: "Have I been properly qualified for this program?" Many dealers are enamored by the prospect of controlling the cash flow and investments, with possible higher returns, claims of increased profits that could reach 50% greater than that of the controlled foreign corporation (CFC), lower admin fees without ceding expenses, or premium taxes. As I cautioned you in my last article, "The Reinsurance Check-up," lower admin fees usually equal lower services, and this typically equates to dissatisfied dealers. As you sit and wonder if the DOWC is the right fit for you, here are some things you need to know and a few questions you may want to ask yourself:

- Am I properly educated in insurance and risk mitigation?
- Am I confident I can run a stand-alone warranty company parallel to my dealership?
- Am I ready to increase the workload for myself and for my dealership team?
- Is my dealership properly staffed to handle the additional workload?
  - This would include a separate operating statement that runs parallel to your dealerships statement, reserves account and statement, insurance company P&L statement, investment strategy (with or without an advisor), and the tracking of investments returns, just to name a few.
- Am I capable of knowing and meeting statutory requirements?
- Am I comfortable with failure to perform insurance vs. a CLIP policy?
  - Although, a CLIP insurance may be available for an additional cost.
- Am I comfortable with no corporate administrator assistance such as an obligor company?
- Am I okay with limited product selections with no insured products permitted?
  - This may limit your ability to work with specialty partners.

The reason I mention some of these things is that dealers I have met with over the past two years have been struggling with the DOWC formation, primarily because they were not properly qualified and do not have the support they need to succeed. Dealers have been unclear on a few things. They are required to pay an additional layer of tax as an insurance company. They need to move money to an investment account and invest it, knowing what and when to buy, and when to sell. Also, they need to understand their risk tolerance and have a risk strategy. Obviously, they need to consult with an advisor who is familiar with the statutory requirements; however, this is one more step in total ownership.

> The DOWC is great for the larger and more experience dealers, and CFC is an excellent choice for all others.

Not all DOWC providers are equal. Many tout their ability to use a customized vs. a template format, where many, if not all, of the F&I products can be customized to include deductibles, terms, coverage, and surcharges. Although everyone loves the idea of customization, that comes with a lot of work in some cases. Allowing a third party administrator (TPA) to provide a structure based on years of historical data, analytics, and loss costs may be prudent and less labor intensive, not to mention more profitable in the long run. Lastly, are you confident you would be prepared for an IRS audit of your stand-alone warranty company? Do you have your proper reserve statements, claims reports, investment statements, capital gains statements, retail accounting statement of P&L for the product sales, commissions, and tax payments, etc.? All DOWC providers will provide some level of statement activity, but the more involved they are, the more expensive the admin fees will be. Additionally, the statements they are providing in many cases is based on the information you provided. So if you did not provide accurate data, the report they provide could be off, possibly causing long-term issues.

**DOWC Benefits:**

- Domestic U.S. C-Corp formation.
- Stand-alone warranty company.
- Open an account with almost any U.S. bank.
- No 8886 – form Filing is needed. (Reportable Transaction Form)
- No 8938 – form filing is needed. (Foreign Financial Assets Form)
- No foreign domicile fees.
- No 953 (d) re-domestication election necessary.
- Possible access to unearned cash. (Loan against unearned premium reserves)
- Potential for greater investment income based on higher return investments. (Higher risk)

**DOWC Tax Difference:**

- Most DOWCs utilize retail-cost accounting, which recognizes the retail cost of the VSC as premium, and expenses dealer commissions and administrative fees up front, which generates a large tax loss for the first 5-7 years of the program.

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- DOWC stand-alone warranty company typically does not make IRC Section 831(b) election until it is placed in runoff status, and this is assuming the new program is not part of a controlled group with runoff DOWC.
- DOWC stand-alone warranty company files both state and federal income tax returns, with no premium tax paid.
- DOWC stand-alone warranty company federal taxation is as a P&C insurance company. (TAM 9601001)
- DOWC stand-alone warranty company pays state taxation, which will vary, but most states start with federal taxable income and adjust for various items, except for California.
- DOWC is a domestic stand-alone warranty/insurance company whose revenue meets the IRS requirements for an insurance company.
- DOWCs file a 1120-PC and are only taxed on a prorated amount of earned premiums.
- Within the DOWC structure, the F&I department's profits/commissions are written off as an expense, creating a long-term net operating loss (NOL) carry forward. As a result, the DOWC enjoys deferred tax liability for years.

**DOWC Advantages:**

- Potential for higher profit margins base on retail cost accounting method.
- Risk is limited to the initial capital invested. ($50,000-$500,000 FL)
- DOWC is usually tax deferred for the first 5-7 years of the program due to retail cost accounting.
- Dealer controls funds, although, backend insurance may require some funds to be invested in trust for expected claims.
- Potential for deferral of taxation to shareholders.

**DOWC Disadvantages:**

- DOWC stand-alone warranty company is a more dealer-involved, hands-on and labor-intensive program.
- Much higher initial capital requirement than the CFC, and this investment is at risk.
- Limited to non-insurance products – no ability to add insurance products that require reinsurance.
- Earnings are subject to additional layer of taxation.
- Regular P&C company taxation may be excessive.
- May require additional capital investment from the dealer based on losses.
- Significantly greater ongoing operating costs.
- Greater IRS scrutiny of captive programs. (IRS Notice 2016-66)
- Additional regulatory requirements.
- May have limited ownership rights of the next formation. (May be limited to 50%)
- Midyear transitions with greater than 2.3 million ceded premiums may create ownership issues for the next formation. (Retail cost accounting plays into the concern)
- Potential negative tax status once the initial tax loss is exhausted.
- Program may have hidden costs if the dealer decides to change administrators.
- No portability of the program.
- Limited life span of the program.
- Uncertain exit strategy, when leaving the program and moving to the next strategy.

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No matter what formation you select, participation is the way to go for every dealer.

In the last two years, I have meet with more than 30 dealer principals that were in DOWC formation with multiple providers. My takeaways from these discussions were that not one dealer could show me where the DOWC generated 20%, 30%, 40% or 50% more profits than the previous CFC ... not one. Not only did they not capitalize on a claim of up to 50% more profitability, they did not realize higher gains in their investment portfolio either. Actually, in almost all cases, investment income was lower. In my opinion, this is based on softer oversight of the investment portfolio and lack of global connectivity of the formation, like you might see in a CFC. With this said, I believe the DOWC formation is a great program for the well-educated and experienced dealer, or the dealer group looking for a Non-Control Foreign Corporation (NCFC) option. It is certainly not a one-size-fits-all program for dealers, and they should proceed with caution as they consider the DOWC formation.

I believe the CFC is still one of the best options for most dealers producing less than $2.3 million in annual ceded premiums. It has been around since the early 1990s, it has a proven track record, it is backed by IRS TAMs, and with its plug-n-play structure, it works well for almost all dealers and does not discriminate based on their education or experience in reinsurance. The CFC is the perfect combination of control, investments, customization, and access to surplus and loans, with crucial protective measures in place for the dealer, and it typically comes with a professional support team (provided by the TPA), helping to ensure greater levels of success.

- Administrator Obligor (AO) or Dealer Obligor (DO) options.
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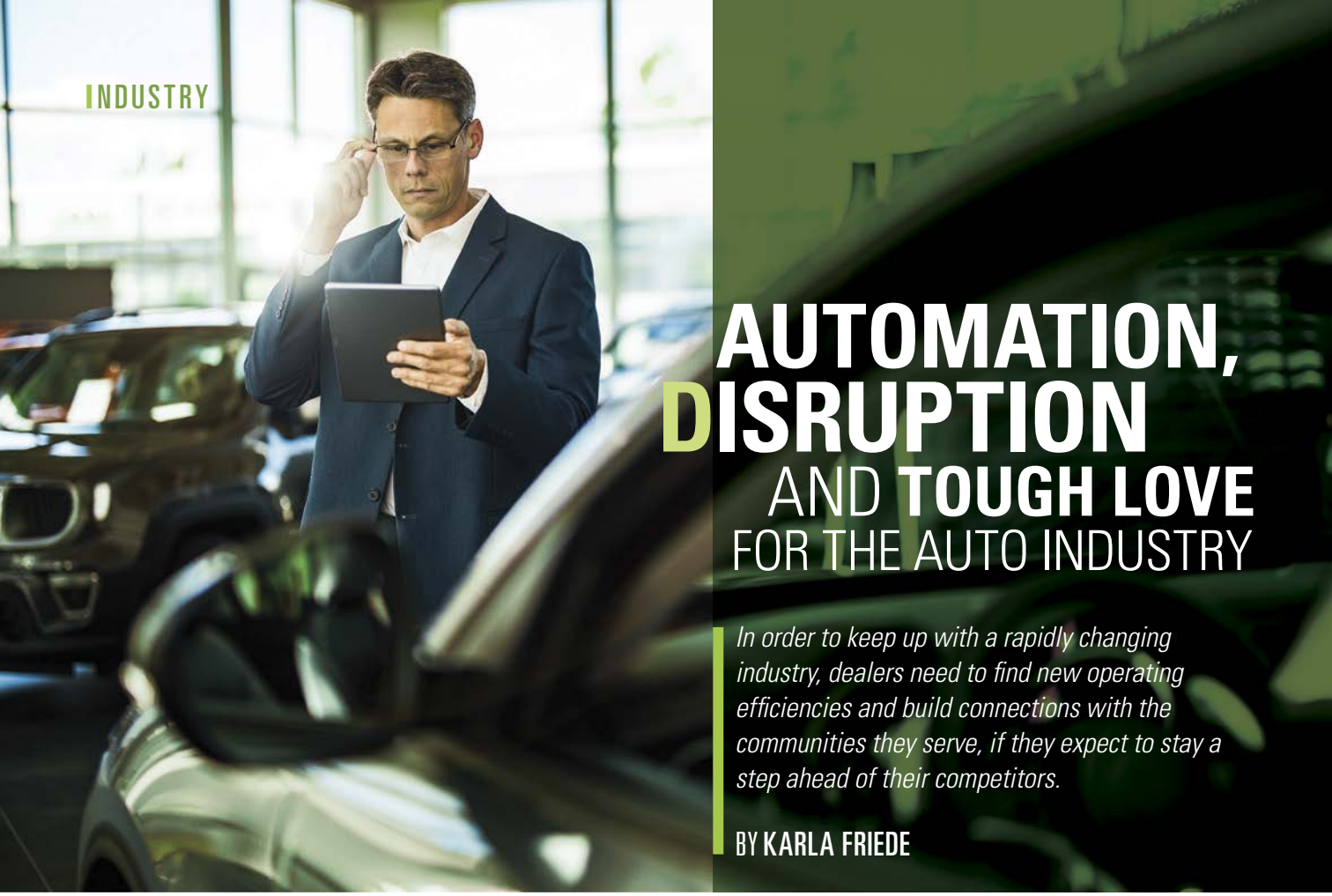
- Reserve guidelines to protect the dealer from insolvency.
- Very few product restrictions.
- No restrictions to work with specialty partners.
- Program portability.
- No exit strategy issues.

In closing, the DOWC is great for the larger and more experience dealers, and CFC is an excellent choice for all others. In my experience, a dealer will have the highest level of success with the CFC, giving them just the right amount of control, flexibility, and options. The agent and TPA provider will assist the dealer with formation selection, set-up, launch, compliance assistance, fraud, and loss control, making this option not as labor intensive and tedious for the dealer. This brings me back to the beginning, when I shared with you the "have you been properly qualified" question: Has the consultant reviewed your size, production, premiums, products, secession plan, and exit strategy before making a formation recommendation? The simple question I asked was to show me 20%, 30%, 40%, 50% increased profits in an active formation, show me 10%, 12%, 15% ROI in the investment portfolio as it related to the DOWC. So far, not one person has been able to do so, costing dealers lots of time, money, and expenses that may not be necessary. Do not step over dollars to pick up pennies, picking a formation that is not a good fit, will cause exit strategy issues, and could cost you ownership of the next formation. The CPAs and attorneys I have discussed this topic with for the past two years feel as I do, that the difference between the DOWC and CFC may not be worth the aggravation unless you are educated and have the proper staff to run a stand-alone warranty company in a way that maximizes every aspect of the business. No matter what formation you select, participation is the way to go for every dealer. I hope this review sheds light on this difficult topic and potential choice of formation for you, and you will have one or two takeaways that will guide you into a better future. **AE**

Mike Haas, LPN, LPFS is president of Dealer Performance Center.



# AUTOMATION, DISRUPTION AND TOUGH LOVE FOR THE AUTO INDUSTRY

*In order to keep up with a rapidly changing industry, dealers need to find new operating efficiencies and build connections with the communities they serve, if they expect to stay a step ahead of their competitors.*

BY KARLA FRIEDE

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**The auto industry is innovating, and smart dealership groups are embracing technology that helps them to adapt, both on the retail front-end and in the back office.**

Arguably, this comes as response to automation and disruption continuing to move forward at lightning speed as we further enter the 2020s. As we forge into the new decade, it's a good moment to reflect back to future-proofing strategies that have been laid out in recent years by finance leaders from dealership groups and software providers to the industry.

## Changing What Cars Are About

Autonomous vehicles, ride-sharing services, and big data are changing the very notion of what cars are about, notes Greg Goodwin, CEO of Kuni Automotive. He envisioned a world where transportation is mostly delivered as a service. Instead of owning a vehicle, drivers can get access to a variety of vehicles for different needs, for example, a luxury car for the weekend or a four-wheel drive sport vehicle for a road trip.

Cars and trucks will become part of the "Internet of Things," nodes on a network, transmitting data to insurers and traffic routing apps among others. Efficient autonomous vehicles will relieve the strained capacity of highway systems, and traffic tickets will be a thing of the past.

In this new landscape, sales of cars are expected to spike initially as new operators build out their fleets, and then decline dramatically. However, utilization will go up, which could mean increasing demand for service and repairs.

## Disruption Upon Disruption

All of this comes as dealerships are adapting to the impact that the internet has already had on the way cars are sold. Previously, customers visited a dealership an average of five times before making a purchase, according to data shared by Justin Sprague, the division vice president for product marketing, North America at CDK Global. Now they come to the store armed with information, ready to buy on the first visit.

That's resulted in lower profits, and it's also meant that dealerships can't just focus on selling a car, but also selling an experience to an increasingly disloyal customer. According to other research shared by Sprague, only 12% of the iGeneration, born in late 90s early 2000s, are brand loyal when it comes to cars.

These consumers value a paycheck less than work-life balance, and experiences over things. They expect high levels of engagement from companies they do business with — engagement that spans physical and digital channels.

"There's a future in the auto business, but only for those who are realistic about the changes," said Goodwin.

Small dealers will likely struggle as these changes unfold. Bigger dealership groups that can achieve economies of scale will fare better, but they will have to centralize accounting and make smart technology investments to root out inefficiencies.

## Automation and Tough Love

To that end, Patsy Price, director of operations at Peterson Auto Group, a five-store chain in the Boise area, has detailed how she consolidated accounts payable, taking the company from driving "coffee-stained

invoices from store to store" to an automated end-to-end process. She provided a distinctive blend of automation and tough love.

"I'm giving you 45 days to get rid of that filing cabinet," she told her team. "No scanning, no paper invoice files."

Executives initially balked at approving invoices online instead of on paper, seeing it as AP's workload falling onto their desks. Price told them, "If you want to touch something, touch the screen." Once they experienced the visibility and control of the online approval process, the solution spoke for itself.

With AP automated from invoice ingestion through payment, now Price says, "We manage our business instead of it managing us. If it takes you longer than five minutes to do a task, you have to have a conversation with me."

## Increasing Engagement

If increasing operational efficiency is one strategy for thriving in this new world, increasing community engagement is another.

CFO Laura Carlisle of Kuni Automotive has shared the company's journey toward creating a culture of community engagement through a long-standing partnership with a local chapter of Big Brothers Big Sisters. The organization currently brings a school bus full of kids to the Kuni Garage to meet with their Kuni mentors weekly.

The benefits of community involvement cut both ways she said. It's an opportunity to increase employee engagement, leadership skills, and also retention. "By the way" she said, "It also sells cars."

Former NFL executive and general manager of the San Francisco 49ers, Carmen Policy, also neatly bookends the community engagement theme. He has shared stories of the 49ers' dynasty in the 1980s. One thing that made the era legendary, he has noted, was the organization's ability to develop a culture that attracted others, and became a viral offshoot.

The next decade will bring sweeping changes to the auto industry — both pain and new opportunities. Car dealerships will not go away, but they are likely to look different. Finding new operating efficiencies and ways to tie themselves more closely to the communities they serve are two keys to reinventing the dealership for a vastly different future. **AE**

Karla Friede is CEO, co-founder, and member of the board of directors at Nvoicepay. She has more than 30 years of experience in management, finance, and marketing roles in both large and early-stage companies.

# COVID Waivers

*Will a COVID waiver protect your business? There is no definitive answer as of early 2020, but after a review of the risks, it may be deemed an advisable addition to your compliance quiver.*

BY ROBERT J. WILSON, ESQUIRE

**Apparently, if you wish to attend certain political campaign rallies, you need to sign a COVID-19 waiver first.** This trend is not limited to the political arena but has been spotted in restaurants, salons, and gyms. Public gatherings, indoor meetings, and client-facing businesses have all required rethinking reasonable precautions as a prerequisite to becoming the "new normal." The larger question for most businesses is: What constitutes a reasonable precaution and/or will a COVID-19 waiver protect me?

All effective compliance management systems (CMS) include risk assessment and risk management components. Starting with the CMS policies and procedures, how is the COVID-19 risk assessed? A reasonable starting point is to review infection rates and trends at business locations. Some states have imposed "traffic light" systems tied to the infection rates: red light requires the strictest limitation, yellow light relaxes the limitations, and a green light indicates that restrictions have been lifted. Studies have identified that indoor meetings represent an increased risk, so what procedure should be followed? Again, reference to standards built into governmental guidelines represents a good baseline (i.e., the CDC "Guidance for Cleaning and Disinfecting" for public spaces or OSHA's "Guidance on Preparing Workplaces for COVID- 19"). Some businesses use infrared no-contact thermometers at the point of entry and have hand sanitizers, masks, and gloves available for customers. Signs can be posted at all entry points requiring certain precautions for entry into the business premises, and notices can also be posted on business websites to reinforce safety precautions in place.

Should your business policy and procedure include requiring a COVID-19 waiver? There is no one answer to this question, but this is certainly a discussion to have with your legal counsel.

There are at least three infection sources to consider: employees, customers, and onsite vendors, and all three should be considered when readying your business to reopen.

COVID-19 waivers contain content that can vary from a laundry list to very short summaries. We have seen waivers that require you to acknowledge the risk of exposure to COVID-19 (i.e., Disney identifies severe illness and death) and outline precautions taken by the company to address the risk. Some include a long list of questions relating to exposure. For instance: Have you traveled in the last two weeks? Have you been tested for COVID-19? Aare you displaying any symptoms of the disease?

COVID-19 waivers have not been tested by the court system, so no one is entirely sure how they will be interpreted. Proving that infection was caused by a visit to a single site will likely prove difficult, but if the plaintiff becomes severely sick or passes away, the liability risk will be significant. Even if the case is won in the courts, the legal expense and reputation damage may be incalculable. The vast majority of insurance policies disclaim coverage for pandemics, so that the loss will hit the bottom line.

*What constitutes a reasonable precaution and will a COVID-19 waiver protect me?*

So the question posed at the top of this article is largely without a single definitive answer. As part of their CMS, each business should assess factors unique to its circumstances (e.g. infection rates, physical layout of premises, distancing of interaction with customers).

Protections should be implemented for the benefit of all building occupants, and personal protective equipment should be a requirement of entry into business premises. Will a COVID-19 waiver protect your business? There is no definitive answer, but after consultation with your legal advisor, it may be deemed an advisable addition to your compliance quiver. **AE**

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Robert J. Wilson, Esquire (Bob) is a Philadelphia lawyer and is general counsel for ARMD Resource Group. Bob is the principal of Wilson Law Firm and has over 30 years of experience both as a counselor and as a litigator in state and federal courts. Risk management, problem solving, and dispute resolution are his core competencies. Bob's practice is largely in the consumer finance space and he regularly consults with lenders and contributes articles on various compliance related issues.

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# The Dress Rehearsal – Getting It Right!

*Due to the lockdown, dealerships must conduct more sales transactions online, with video calls and remote vehicle delivery. It is up to every agent to help determine what resources and technology need to change to prepare the dealership for any future obstacles.*

BY RICK McCORMICK

**We all can recount the efforts of Charlie Brown in the 1965 holiday classic, "Merry Christmas Charlie Brown."** It focused on the annual Christmas play, primarily on the dress rehearsal and how, in the end, they got everything wrong. They were completely disjointed, misunderstood the message they were attempting to convey, and did not realize the importance of practice.

Due to the lockdown, dealerships must conduct more and more sales transactions online, with video calls and remote vehicle delivery. The F&I portion of the deal has presented unique challenges on building value in F&I products without having the customer physically present. Good grief, Charlie Brown, we have a lot of learning to do. However, like the Peanuts gang's dress rehearsal, we must take this opportunity to prepare for when it really matters. No one knows the exact timeframe for when our business will convert to a primarily online system, but now is the time to prepare for things to come. Let us look at a couple of things we must practice before the grand re-opening.

We must act upon the message this crisis is telling us. The new process must be fast, convenient, and easy to understand. The customer is waiting to see how we respond to this crisis and what actions we will take. Will we attempt to go back to business as usual or start building a more consumer-friendly experience? The way forward must be through a mix of in-person and remote selling that will continue to evolve as we progress. The pace of our change must be dictated not by us, but by the customer. Today's consumer is telling us that the more control they have in the buying process, the more they will trust and value our expertise, which means more sales.

This urgency is real, and we must make crucial changes in our process. The curtain is opening; we have seen a glimpse of the future. We must prepare for that now. The need to develop a more consumer-controlled online experience has long been dismissed. This new process must be efficient and center on the needs of the customer and their valuable time. Earlier access to the transaction online leads customers to arrive at the dealership with valuable questions and a desire to learn.

A more prepared and engaged customer saves time, allowing us to focus energy where it is needed most. Less time spent selling a vehicle means more vehicles sold. Review dealer websites and determine what online tools will be most effective for the future. Ask yourself: What technology should we invest in to move more of the buying process, for both the vehicle and F&I products, online?

It is up to every agent to help determine what resources and technology need to change to prepare the dealership for any future obstacles. Dealerships need their agents now more than ever, and those that use this opportunity as a rehearsal to practice for events to come, will flourish when it counts. Success belongs to those that treat the present as a warm-up for the future. When the curtains open on the big show, remember it is all about the customer. Thanks Charlie Brown. **AE**

Rick McCormick is the national account development manager at Reahard & Associates Inc.

# 3 Decisions That Will Change Your Future

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*In a post-crisis world, leaders need the input of trusted partners to guide them and their teams down the best path. Decisions need to be made, and these are three that will lay the foundation for many more to come.*

BY RICK McCORMICK

**Dealerships require a different type of leadership now than they did several months ago.** In a post-crisis world, leaders need the input of trusted partners to guide them and their teams down the best path. Times of crisis change you; however, if you make the right decisions, it can leave you better than before.

What will you focus on? Many will focus on the damage done and the negative influences caused by the crisis. To move the dealership to higher profits, they must focus on three things. Here are the opportunities that should be shared with dealership leaders to inspire their team and assure a more productive future.

## 1 Focus on what you can control, not the things you cannot.

You cannot manage the number of customers coming to buy a vehicle, but you can control the experience that everyone receives.

## 2 Concentrate on what you have, not on what you may have lost.

Crisis always causes losses, but also offers opportunities, such as in this instance: improving our process, developing online and offsite options for customers, and improving our competitive advantage. Dealerships are not competing with other dealerships around the country; they are competing with the dealership across town. If your team and your customer service is better than the dealer across the city, that is a win. Improve the customer journey at every point, and it will bring growth in profits and income.

## 3 Look to the future.

There is a reason the windshield is proportionally much larger than the rear-view mirror. The last few months have been challenging, with no shortage of uncertainty. However, the future is promising and open to those that seek out change and have the courage to move forward.

*What does this mean?*

Perspective is the jewel garnished from extreme pressure. Looking back, we will find that our process has been slow to change in meeting customer expectations. Meanwhile, other industries have been moving at a rapid pace to accommodate the customer journey. Long-standing principles will need to remain in place, and they should. The "why" we do things is the same as before, but the "how" must evolve. Challenge every dealership you touch to take a deep dive into how they are helping customers. How can they be more efficient with the customers' time and trust?

*What am I going to do?*

Crisis demands immediate response to accommodate and enhance the customer experience and simultaneously grow profits. One word should summarize the go-forward plan of dealerships: Accelerate. Accelerate everything that develops your team and leads to a more time-efficient, profitable experience for everyone. Accelerate training, accountability, and the commitment to technology use. It sounds simple; however, it will require some honest and intense discussions to consider the path forward for each dealership. As general agents, prompting these discussions can be the difference between moving forward and going backward.

Leaders in dealerships are looking for direction and a path forward. Decisions need to be made, and these are three that will lay the foundation for many more to come. Share these with your trusted partners in the dealerships you serve and help prepare them for the future. **AE**

Rick McCormick is the national account development manager at Reahard & Associates Inc.


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# Digital Remote Deliveries in a Post-Pandemic World

*Even with the benefits of moving into the digital world, some risks have also amplified. Taking some of these precautions can help your dealer avoid the angst of identity theft.*

BY GIL VAN OVER

**The overnight digital evolution is not necessarily an overnight event.** It has simply been forced on the industry as a response to the recent pandemic that locked everyone down. In many cases, consumers could not or would not venture to the brick-and-mortar dealership facility. Since a dealer must sell vehicles, the standard onsite, paper, or printed documents process morphed into offsite, digitally signed documents.

Let's call it what it is, a digital remote delivery.

I am confident that each of you have helped your dealership in implementing this new process. After all, many pocketbooks are affected if dealers don't sell voluntary protection products.

Even with the advantages and benefits of moving into the digital remote delivery world, some risks have also amplified. Going digital also means clearing some roadblocks for identity thieves, potentially making it easier to steal a victim's identity and your dealer's inventory.

## Remote Delivery Defined

A remote delivery is any transaction where the customer either lives outside of a dealer's geographic footprint or the consumer does not step foot on the dealership's property. Some ID theft cases involved customers who visited a dealership a few states away from the victim's residence with manufactured identity and stips. In other cases, the ID thief conducted the entire transaction by phone and internet.

## Identity Thieves are Scaredy-cats

Many police officials who specialize in identity theft tell me that most of these thieves want to steal and use a victim's identity without potential confrontation. They also tell me that identity theft is the favored crime of meth addicts because the thief does not have to deal with someone face to face.

## Caution – Remote Deliveries

If identity thieves truly are scaredy-cats, then digital remote deliveries fit their preferred method. Obviously, not every remote delivery is an identity theft, but the anecdotal evidence suggests fraudulent attempts are on the rise because of a dealership's willingness to sell and deliver vehicles outside of the dealership.

## Process – Remote Deliveries

The remote delivery process should be a separate and distinct part of your sales and F&I policy manual.

1. **Obtain and vet the credit application.** The credit application is one of the first signals of a remote delivery. Another initial signal is when the customer is requesting a remote delivery. When the customer's address is outside of the dealer's geographic footprint, or the customer requests a remote delivery, immediately start the vetting process.

2. **Understand where the vehicle is going.** Pull up a satellite image of the residence address. Be careful if you find a warehouse or a campground.

3. **Vet the identity provided.** You are familiar with your state-generated identification, and maybe even neighboring states. You may not be so familiar with a state ID or driver's license from another region. Use a search engine to view images of valid state ID or driver's licenses. Ask for another photo ID. Confirm the wear and tear on the ID is consistent with the age of the ID. If the ID was issued three years ago and appears brand new, watch out. Alternatively, there are vendors who can vet the photo ID whether the customer is present or purchasing from remote.

4. **Complete the Red Flags review.** Most dealers today use an automated process to conduct their Red Flags review. Ensure there are no red flags noted during the review. If there are any red flags, proceed with the clearing process and retain all documentation used to clear the red flags. Use the available out-of-wallet questions as an added precaution, particularly if the customer is not and will not be in the dealership. Some dealers have started leveraging the ability to Facetime or Zoom with the customer as another approach to verify the customer's appearance vis-à-vis the identity provided.

5. **Complete the paperwork.** For those customers who you have decided to ship the paperwork to, you should seriously consider using available services that will send a notary to the customer's residence to complete the signing of all paperwork. Alternatively, the availability for e-signatures has exploded over the last few months, and in many cases the entire deal can be e-signed.

Taking some of these precautions can help your dealer to avoid the angst of identity theft.

Good luck and good selling! **AE**

Gil Van Over is the executive director of Automotive Compliance Education (ACE). He is also the founder and president of gvo3 & Associates.

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