

Vehicle Service Contracts..... What to Look For?

By David Hopkins



In today's market of information overload, we are constantly bombarded by advertisements and solicitations for all types of products. We have access to information on our computer, phone, PDA, billboards, newspapers, radio, and magazines just to name a few. With all of this information, how do you know you are

getting a quality product that will be there in the future? Do your homework and research! With recent problems at some of the largest automobile manufacturers, selling the manufacturer's service contract does not necessarily give peace of mind that the contract will be upheld in the future. The following five areas are recommend to review prior to committing to write a product at a dealership:

1. Well Backed or Insured

Most service contracts today are written where the administrator of the contract is obligated to provide easy access to claims adjudication generally by contacting a claims adjustor using a toll free telephone number. In the contract, the administrator is clearly named with their contact information. In the event the administrator is no longer in business or you have not received payment for your claim within 60 days, you are instructed to contact an entity, usually an insurance company that is guaranteeing the performance of the contract. The first step to ensure reliable coverage is to research the length of time the administrator has been in business and to look at the quality of the insurance carrier who is backing the service contract. If the administrator has a good track record and the insurance carrier is "A" rated by the A.M. Best

Company, an insurance rating organization, odds are, you will have a service contract available when your customers make a claim three to six years down the road.

2. Well Accepted

In years past, manufacturer vehicle service contracts promoted the fact that their contracts were more accepted than typical "aftermarket" contracts. This industry has evolved over the last few years with the use of virtual credit card programs. Many programs in the past hesitated to pay for claims with credit cards due to the fact that the fraudulent use of the credit cards was hard to control. Today, technology allows the most progressive companies to issue one-time credit card numbers that are good for the exact amount of the authorized claim. This virtually eliminates the risk of fraud and has led to credit card payments being authorized on more than 90% of paid claims at some administrative companies. Most dealerships and independent repair facilities will now accept service contracts that pay by virtual credit card.

3. Good Coverage

Obviously, coverage is a key element of the program. However, many fail to realize the details are sometimes buried in the fine print of the service contract and these details can make what appears to be great coverage limited at best. Such things as exclusions for claims within the first 90 days, claims for overheating, claims for wear and tear, and claims for consequential damage are eliminated. All service contracts will have certain provisions for eliminated pre-existing claims, damage from abuse, neglect, lack of maintenance service, and many other common exclusions. Watch for the exclusions that limit the amount of claims to a fixed dollar amount or those that specifically apply to intended use. The vehicle service contract that covers a vehicle based on



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an exclusionary basis where only a short list of excluded components are not covered will generally provide you with the best overall protection. Contracts that list only specific covered parts and components are more limited and may best apply to higher mileage or older vehicles not eligible for exclusionary coverage. Also, keep in mind that mechanical coverage is only part of what you are selling. Many times, the additional provisions such as rental benefits, reimbursement for expenses incurred during a breakdown such as flat tires, running out of fuel, hotels or meals associated with the breakdown or being towed to a repair facility can amount to more than the mechanical repair. Make sure you look at the amount allowed for the daily rental and how long a customer may keep the rental. Many repairs take several days to complete.

4. Administration

Part of the process for determining the quality of administration should be to call the claims number and experience the service first hand. Is the administrator for the program the same company that is out marketing the products? Do you talk to a live operator or do you have to maneuver through a maze of endless computer generated prompts and options? Do you talk with a claims adjuster promptly or do you have to hold for a long period of time? A quality claims department will not leave a customer on hold. If you experience hold times of more than a couple minutes, you will probably want to look for another service provider. Repair facilities will not be anxious to accept a service contract if they know that they can expect to hold each time they have to call in a claim.

5. Profitability

Finally, one of the most important aspects of any independent service contract program is the overall profitability to the dealership. The cost of the contract is obviously important. However, some contracts reimburse

at retail parts and labor while others are limited to factory reimbursement. You will also find that a large amount of the potential profit lies in the “underwriting” profits and the investment income that can be earned. Many programs promote “reinsurance” and many dealers, not understanding the various options available, will lump together these programs as being equal opportunities. However, the details of the reinsurance program can lead to a significant difference in profitability of the program four to five years down the road. Having a thorough understanding of the various ways business is put into the dealer company and the structure of the reinsurance company itself can have a major impact on the amount of future profits.

Taking the time to research the service provider you are considering and carefully evaluating the coverage offered can help ensure you have the program that is right for your dealership. Making a change on the service contract program you offer can be one of the most costly or one of the most profitable decisions you make. The difference is in the details. Looking for a service provider that is well insured, an administrator that also markets the program, coverage without the unnecessary exclusions, and a profit participation program that will maximize your return are all key elements to a satisfying program. Having a company that is willing to sit down and openly discuss the details of the service contract and agreements and encourages you to learn the details is a good place to start. The rewards can be amazing!

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