

On the Rebound

The head of Protective's Asset Protection Division provides his insights on the market, including its biggest challenges and greatest opportunities. **By Gregory Arroyo**

Brent Griggs says he saw the market begin to turn in the third quarter of last year, a period in which the company increased its sales by \$10 million. Although he remains cautiously optimistic about 2010 and beyond, the president of Protective's Asset Protection Division believes the downturn might be a boon for core F&I product categories like GAP and vehicle service contracts.

F&I: There's been a lot of debate as to whether we're in a recovery. What are your thoughts?

Griggs: Most of the key indicators suggest the markets and overall U.S. economy are recovering. For instance, December's seasonally adjusted annual rate of sales was 11.25 million vehicles. That was the high point of 2009 if you adjust for Cash for Clunkers, providing further evidence that some growth has returned to the market.

Most economists expect 2010 new-car sales to average 11.5 million, although comments from Ford suggest they are even more bullish. The good news is Ford, GM and Chrysler have all announced that they are beginning to rehire plant workers in the United States in anticipation of growth this year. Still, consumer spending remains weak. Our expectation is that we'll see modest growth in new-car sales this year.

F&I: What was your take on Cash for Clunkers?

Griggs: I believe it was one of the most targeted and effective economic stimulus programs of 2009. It is estimated that an additional 690,000 cars were sold as a direct result of the program. As for Protective, our third-quarter sales were approximately \$10 million higher than in the second quarter, which was primarily due to that program.

F&I: Can you talk about the downturn's impact on F&I?

Griggs: Unfortunately, the tighter lending requirements resulted not only in fewer cars being financed, but a significant restriction in the ability of dealers to include F&I products in sales transactions. On a positive note, the economic downturn has forced thousands of consumers to hold onto their cars longer than they originally planned to, which has had a positive impact on consumers' desire for extended vehicle protection.



F&I: Was there a specific service-contract plan that did well with both consumers and lenders?

Griggs: Our high-mileage Mileage Plus product became a very popular plan during the downturn, which is consistent with consumers keeping their vehicles longer. We have also seen growth in both our lifetime engine warranty and limited warranty products. These products offer coverage similar to service contracts, but they act like warranties because they are offered by the selling dealer and are generally placed on every car sold.

F&I: I've also noticed a renewed interest in reinsurance. I think dealers are aware of how those programs helped dealers last year. What are you seeing?

Griggs: We believe profit participation programs, including reinsurance, can enhance the profitability of F&I products for many dealers. We offer a choice of programs, including participation in non-controlled foreign corporations, controlled foreign corporations and, for those dealers who don't want to assume any risk, retroactive commission and plain front-end commission programs. It is true that dealers with well-established reinsur-

ance companies were able to draw on surplus from those companies to cope with cash-flow challenges last year.

F&I: I've heard there might be a new model for GAP rates. A Mercedes, for instance, would carry one price and a Toyota would carry another. Is this true?

Griggs: We have been a leader in driving differentiation of GAP rates because it allows us to more closely match the cost of the GAP coverage to the individual customer. We

expect GAP products to evolve just like service contracts have. If you can believe it, many of the first service contract providers charged one price for all makes and models. Obviously, with the variations in car quality, types, costs, etc., this model was very ineffective and made it difficult for providers to determine the 'right' price for the contracts. As we learn more about the variables that impact the frequency and severity of GAP claims, we will be able to differentiate better and charge less for those less-risky cars.

F&I: Your company recently acquired Prizm. What are your plans for this acquisition and what should Prizm dealers expect?

Griggs: Protective has been providing insurance and dealer support for Prizm dealer customers for more than 10 years now. Our goal is to continue that great service while administering the contracts from our Chicago administration office. While any integration comes with its share of challenges, we made the major changes in October 2009, and most of the operational issues have been worked out. We look forward to continuing our longstanding relationship with Prizm's valued clients. ■