

Vehicle Service Contract (VSC) Risk Evolution

F&I Reinsurance and Product Conference

by

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Topics

- VSC Basics
- Vehicle & VSC Sales Trends
- Keys to Monitoring Your Portfolio
- Experience Trends

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VSC Basics

- Transfers risk of mechanical breakdown not covered by OEM warranty
- Covers cost to repair, replace, maintain or restore part to its proper function
- \$100 Deductible most common

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VSC Basics - Coverage Categories

- | | |
|---|---|
| <ul style="list-style-type: none"> • Powertrain <ul style="list-style-type: none"> ▪ Engine ▪ Transmission ▪ Transfer Case ▪ Drive Axle • Surcharges <ul style="list-style-type: none"> ▪ Turbo/Super Charger ▪ Luxury Electronics ▪ 4-Wheel Drive ▪ \$0 Deductible | <ul style="list-style-type: none"> • Tiered Categories <ul style="list-style-type: none"> ▪ Air Conditioning ▪ Brakes ▪ Electrical ▪ Engine Cooling ▪ Fuel System ▪ Interior/Exterior Fixtures ▪ Steering ▪ Suspension • Benefits – Roadside, Rental, etc. |
|---|---|

Bumper-to-Bumper exclusionary – everything covered except...

Wrap – Tiered or B2B excluding Powertrain (wraps around OEM)

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VSC Basics

Current OEM Warranty Terms

- 3/36 Basic, 5/60 Powertrain
 - Buick/Chevrolet/GMC
 - Chrysler/Dodge/Jeep
 - Ford
 - Honda
 - Mazda
 - Nissan
 - Subaru
 - Toyota
- 5/60 Basic, 10/100 Powertrain
 - Hyundai/Kia/Genesis
 - Mitsubishi
- Others
 - Infiniti – 4/60 Basic, 6/70 Powertrain
 - Jaguar – 5/60 Basic & Powertrain
- 4/50 Basic, 6/70 Powertrain
 - Acura
 - Cadillac
 - Lexus
 - Lincoln
- 4/50 Basic & Powertrain
 - Alfa Romeo/Fiat
 - Audi/Porsche
 - BMW
 - Land Rover/Mini
 - Mercedes-Benz
 - Volkswagen
 - Volvo

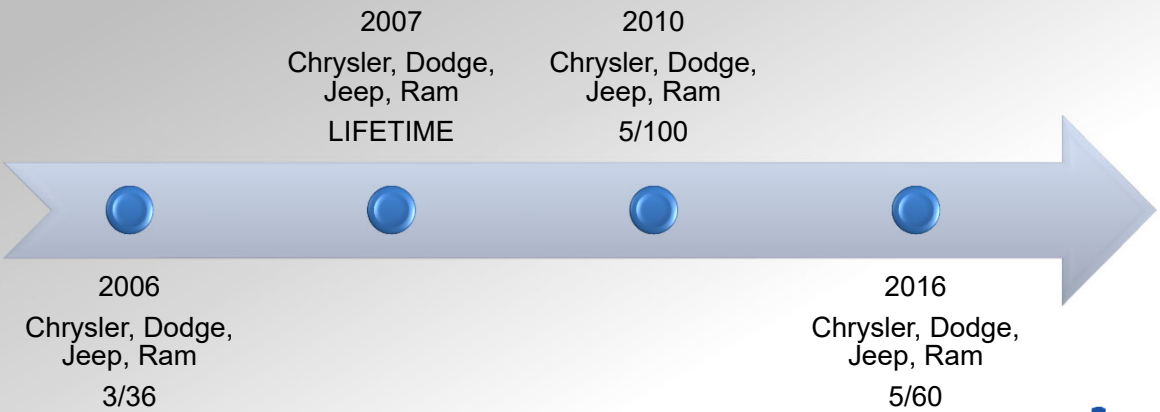
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VSC Basics

OEM Powertrain Warranty Changes - Chrysler




2006
Chrysler, Dodge, Jeep, Ram
3/36

2007
Chrysler, Dodge, Jeep, Ram
LIFETIME

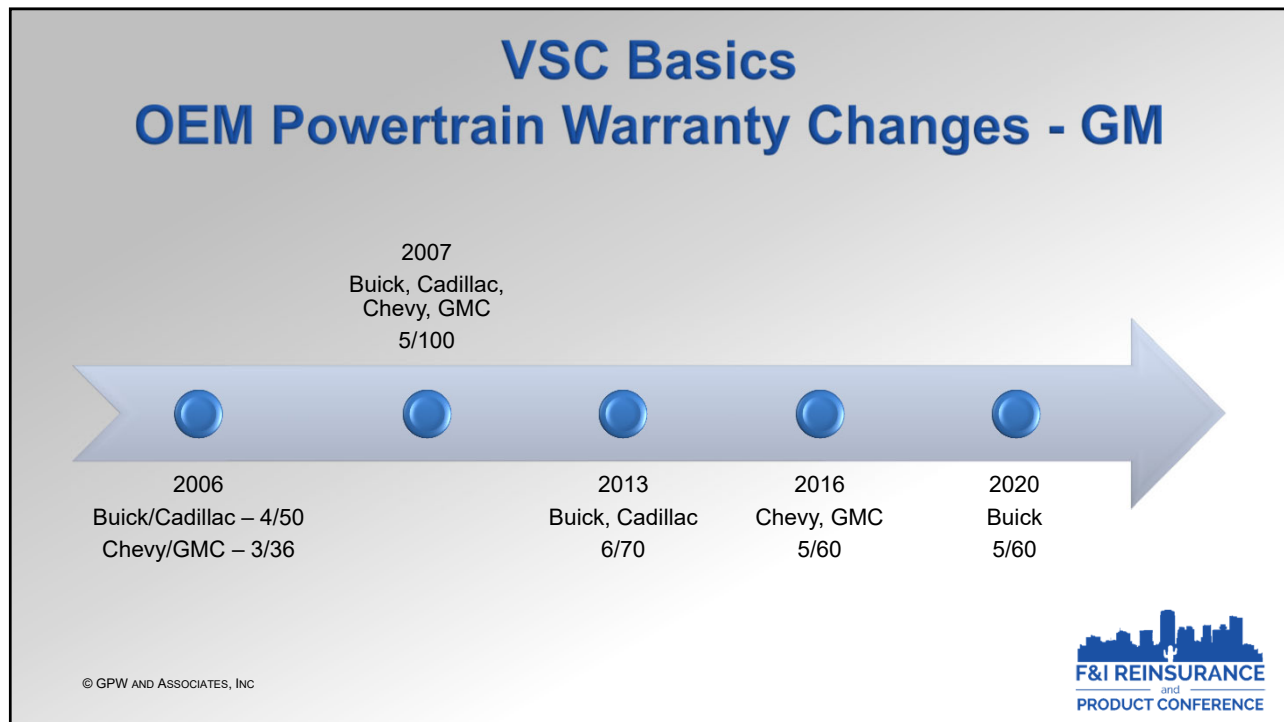
2010
Chrysler, Dodge, Jeep, Ram
5/100

2016
Chrysler, Dodge, Jeep, Ram
5/60

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VSC Basics

Term Months & Miles

- New/Extended Eligibility (EE)
 - Still under OEM Comprehensive/Basic Warranty
 - Term Months may begin on either original vehicle in-service date or contract purchase date by new owner
 - Term Miles begin at 0 (Term Miles = Expiration Miles)
- Used
 - Outside of OEM Comprehensive/Basic Warranty
 - Term Months begin on contract purchase date by new owner
 - Term Miles add on to odometer at contract purchase date (Current Odometer + Term Miles = Expiration Miles)

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VSC Basics Common Terms

- New/Extended Eligibility
 - 60/100,000
 - 72/100,000
 - 84/100,000
 - 96/100,000
 - 120/100,000
 - 36 & 48 Month Terms also common for EE
 - 60,000, 75,000 & 125,000 Mile Terms also common
- Used
 - 3/3,000 (Limited Warranties)
 - 12/12,000
 - 24/24,000
 - 36/36,000
 - 48/48,000
 - 60/100,000 (Powertrain only)
 - 15,000/Yr Mile Terms also common
 - Some offer Unlimited Miles

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VSC Basics Rating Variables

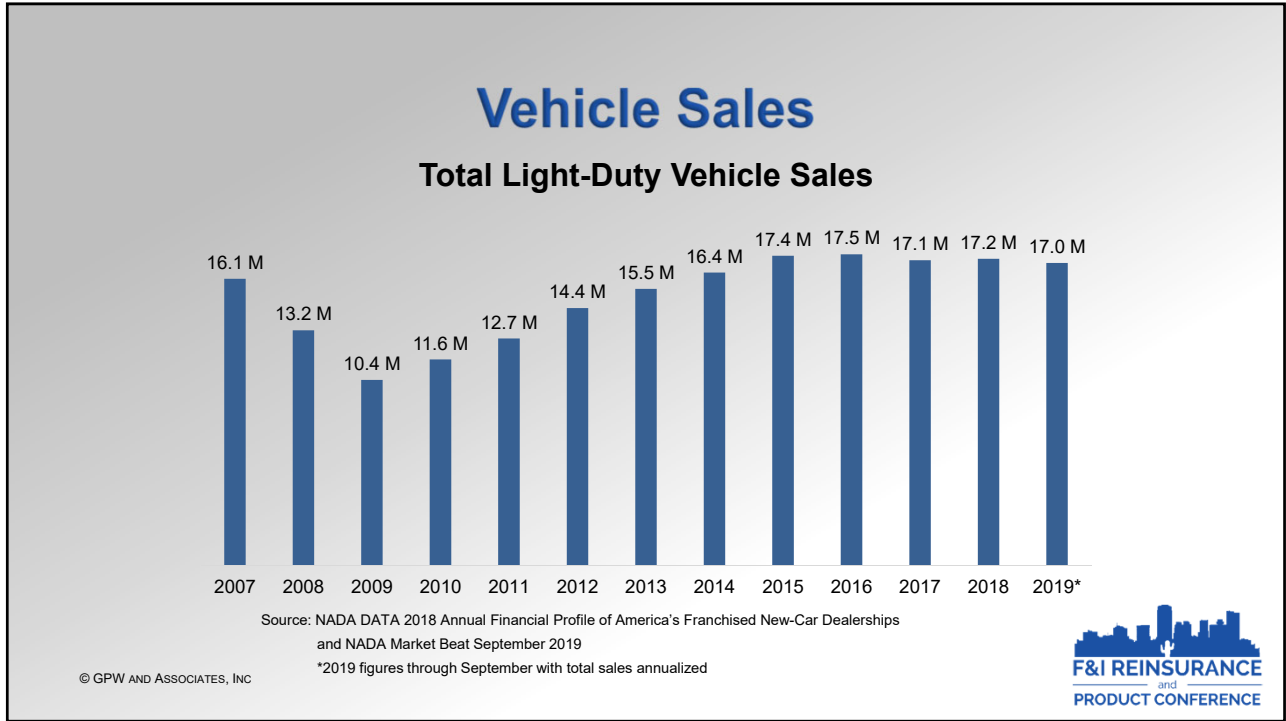
- New/EE or Used
- Coverage Level
- Vehicle Age (Model Year)
- Starting Odometer
- Class (Make & Model)
- Term Months
- Term Miles

Exclusionary Coverage New Car							
Current +1 Yr Vehicle Age 0-12,000 Starting Mileage							
Class	Term Months/Term Miles						
	60/75K	60/100K	72/75K	72/100K	84/100K	96/100K	120/100K
1	\$	\$	\$	\$	\$	\$	\$
2	\$	\$	\$	\$	\$	\$	\$
3	\$	\$	\$	\$	\$	\$	\$
4	\$	\$	\$	\$	\$	\$	\$
5	\$	\$	\$	\$	\$	\$	\$
6	\$	\$	\$	\$	\$	\$	\$
7	\$	\$	\$	\$	\$	\$	\$
8	\$	\$	\$	\$	\$	\$	\$

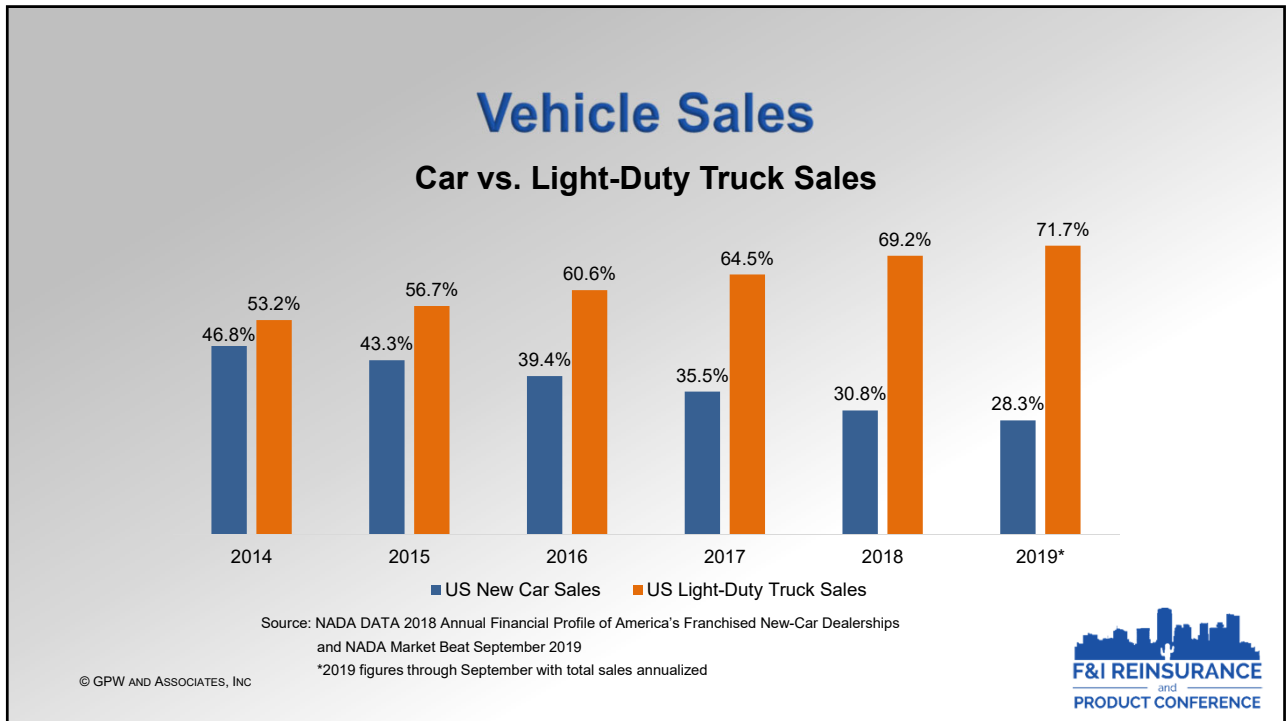
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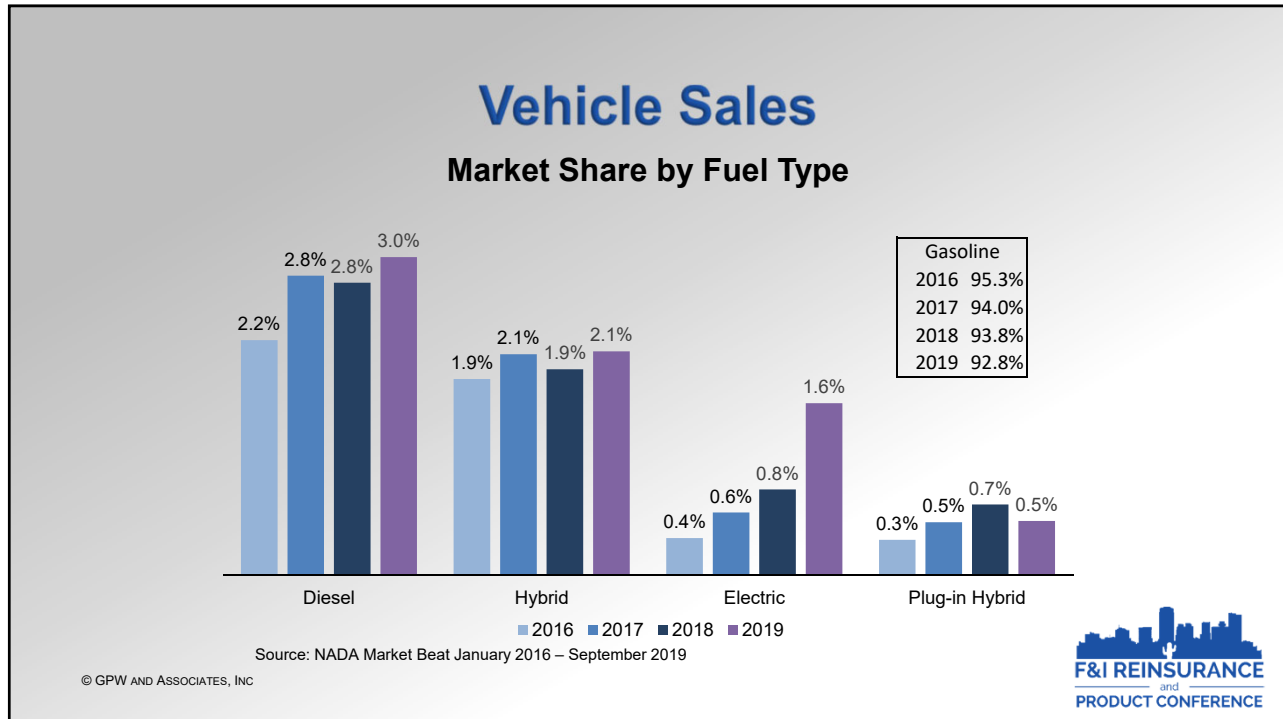
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Polling Question

Did you purchase at least one F&I product for your current vehicle?

A. Yes

B. No

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VSC Sales

F&I Penetration

New	Used
• 2015 – 90.3%	• 2015 – 71.4%
• 2016 – 90.4%	• 2016 – 74.4%
• 2017 – 90.3%	• 2017 – 73.2%
• 2018 – 89.6%	• 2018 – 73.2%

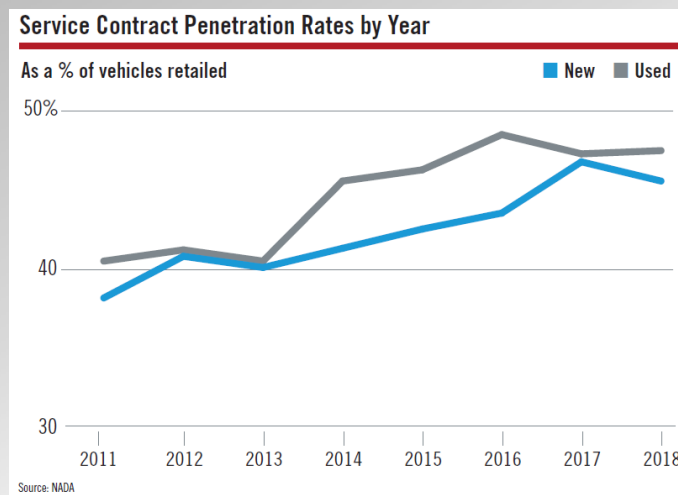
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Source: NADA DATA 2018 Annual Financial Profile of America's Franchised New-Car Dealerships



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VSC Sales



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Source: NADA DATA 2018 Annual Financial Profile of America's Franchised New-Car Dealerships



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Keys To Monitoring Your Portfolio

- Know Your Mix of Business
- Break Experience Down by Contract Year
- Use Appropriate Earnings Curves

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GPW Internal Data

- Results are blended and smoothed across multiple data sources
- As information is proprietary, actual values have been excluded

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Experience Trends New/EE Loss Ratio Relativities

Odometer Band	60 Months/100,000 Miles			72 Months/100,000 Miles		
	Asia	USA	Euro	Asia	USA	Euro
0-15,000						
15,000-30,000						
30,000-45,000						
45,000-60,000						

Lower Loss Ratio  Higher Loss Ratio

 Know Your Mix of Business

Source: GPWAS Internal Data
As information is proprietary, we have excluded actual values

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Experience Trends Used Loss Ratio Relativities

Odometer Band	24 Months/24,000 Miles			36 Months/36,000 Miles			48 Months/48,000 Miles		
	Asia	USA	Euro	Asia	USA	Euro	Asia	USA	Euro
0-50,000									
50,000-100,000									
100,000-150,000									

Lower Loss Ratio  Higher Loss Ratio

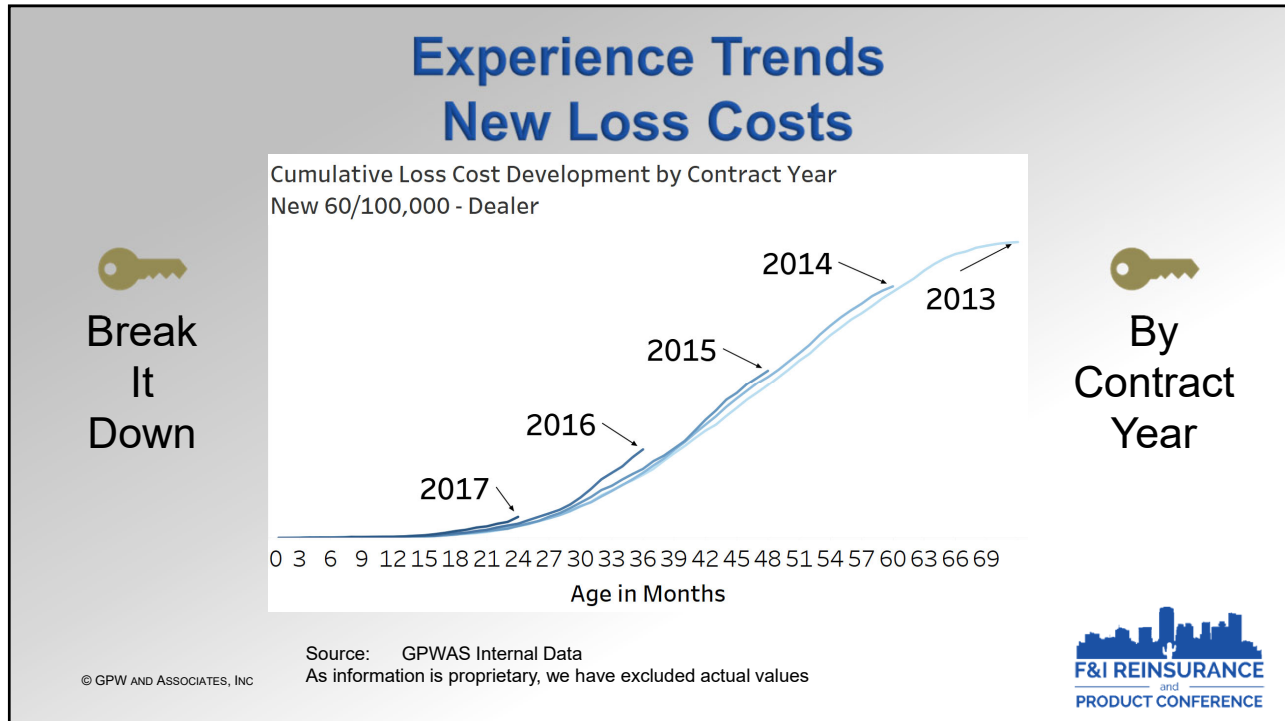
 Know Your Mix of Business

Source: GPWAS Internal Data
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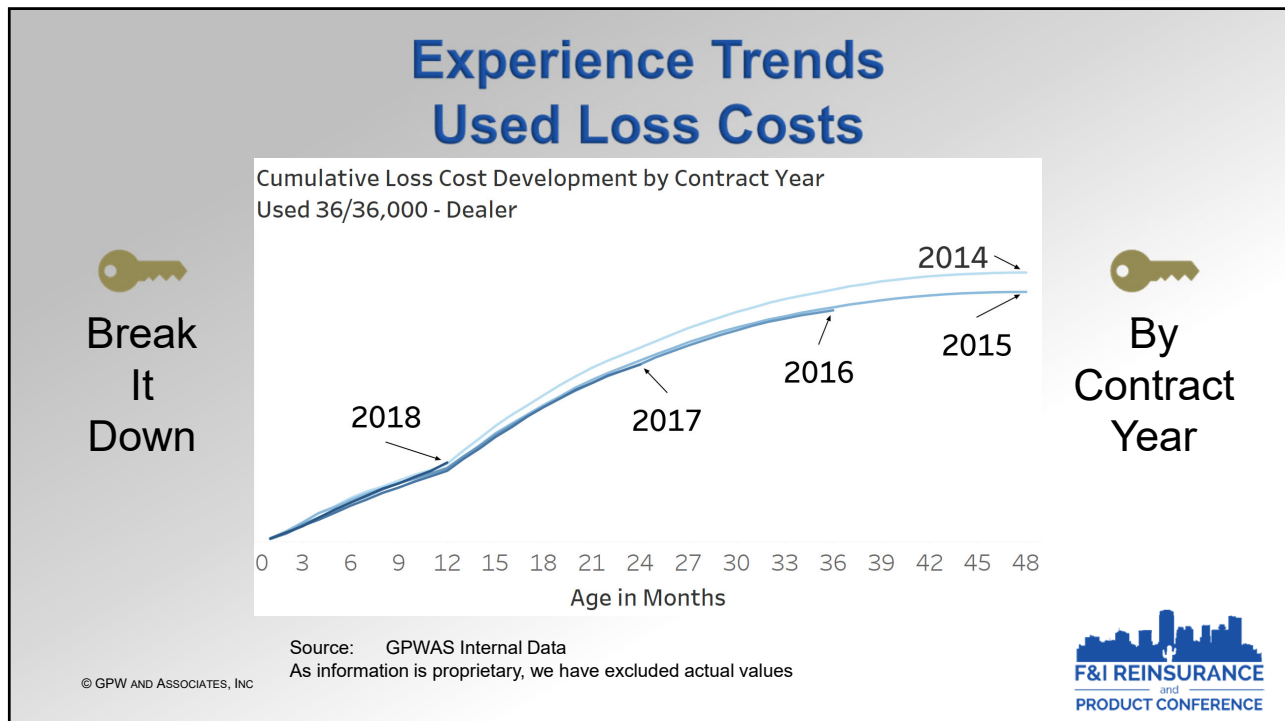
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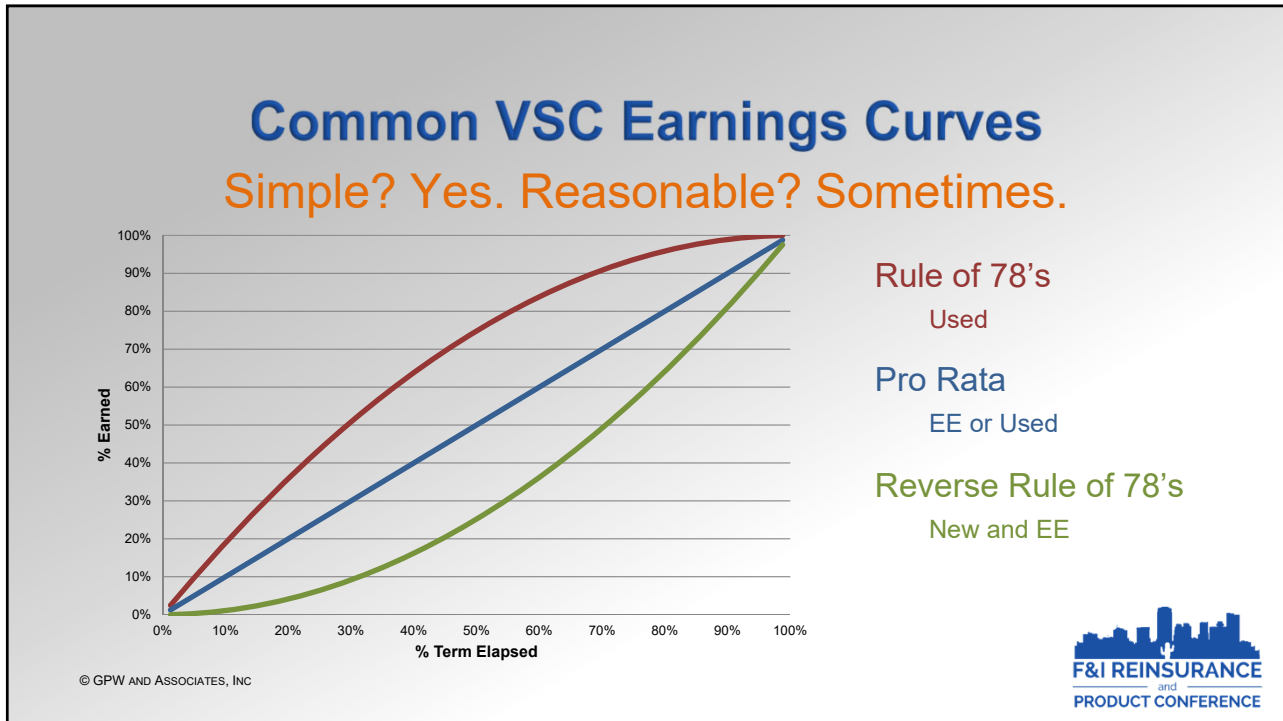
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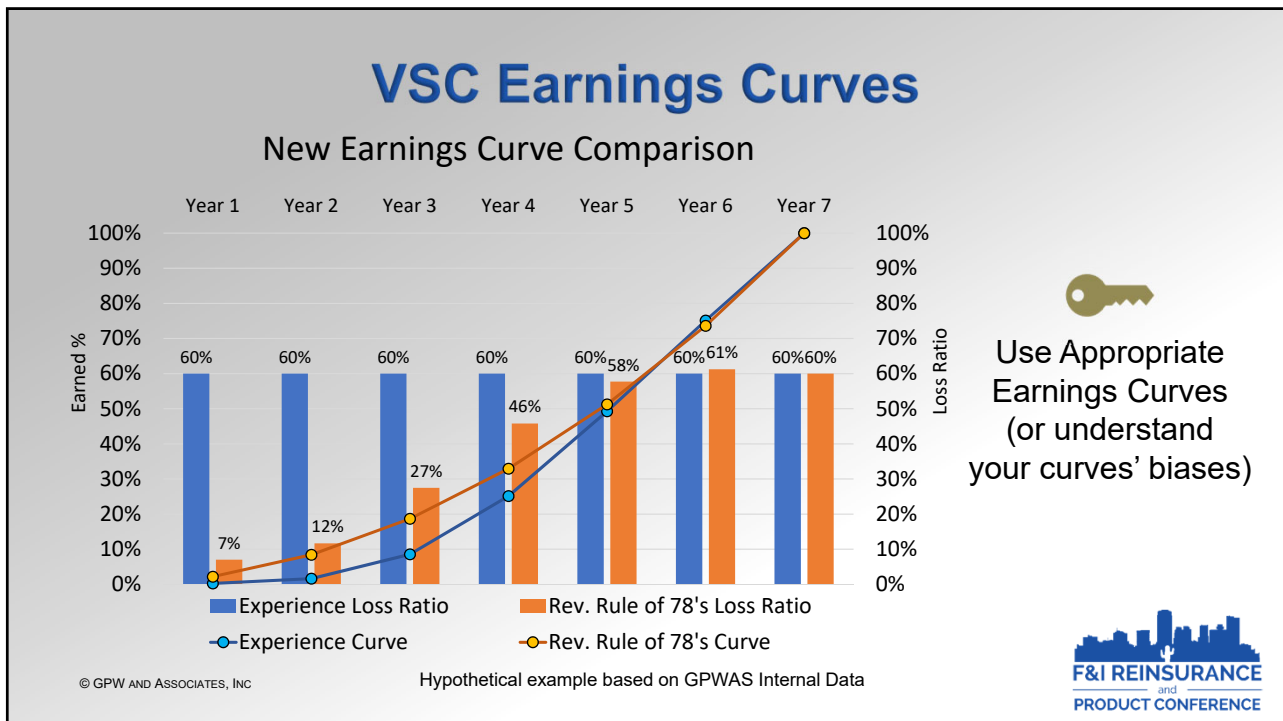
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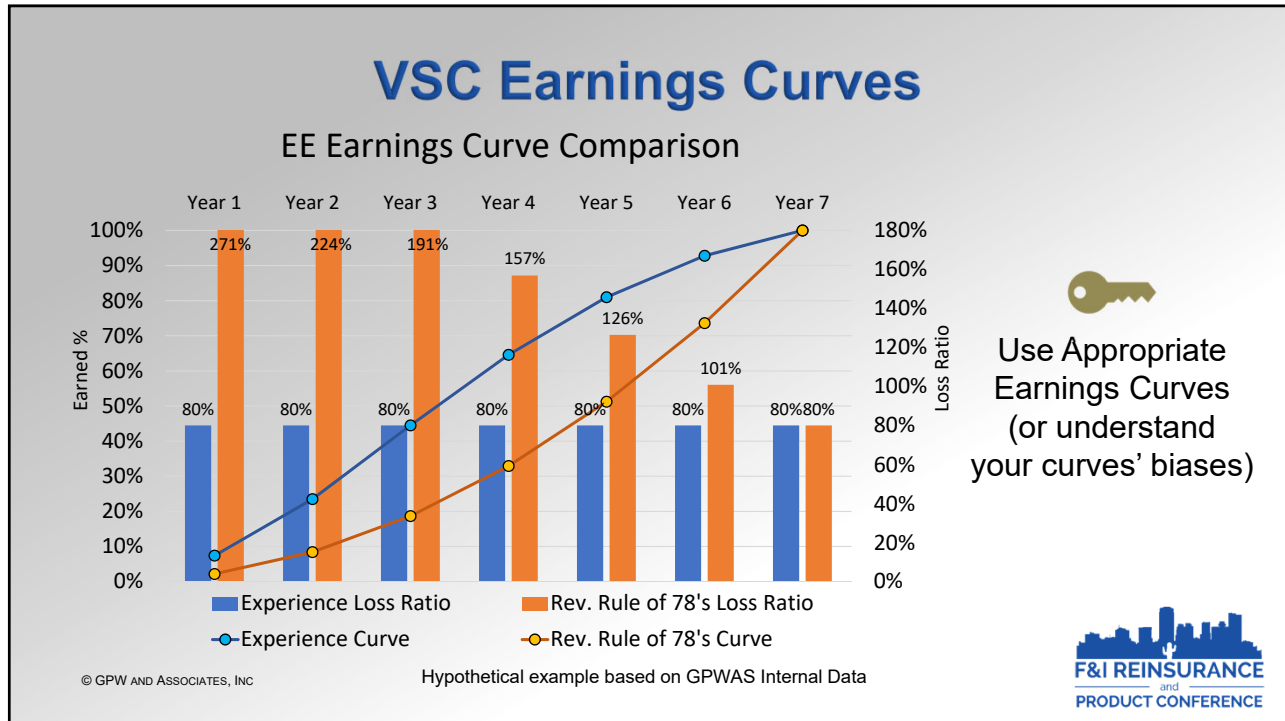
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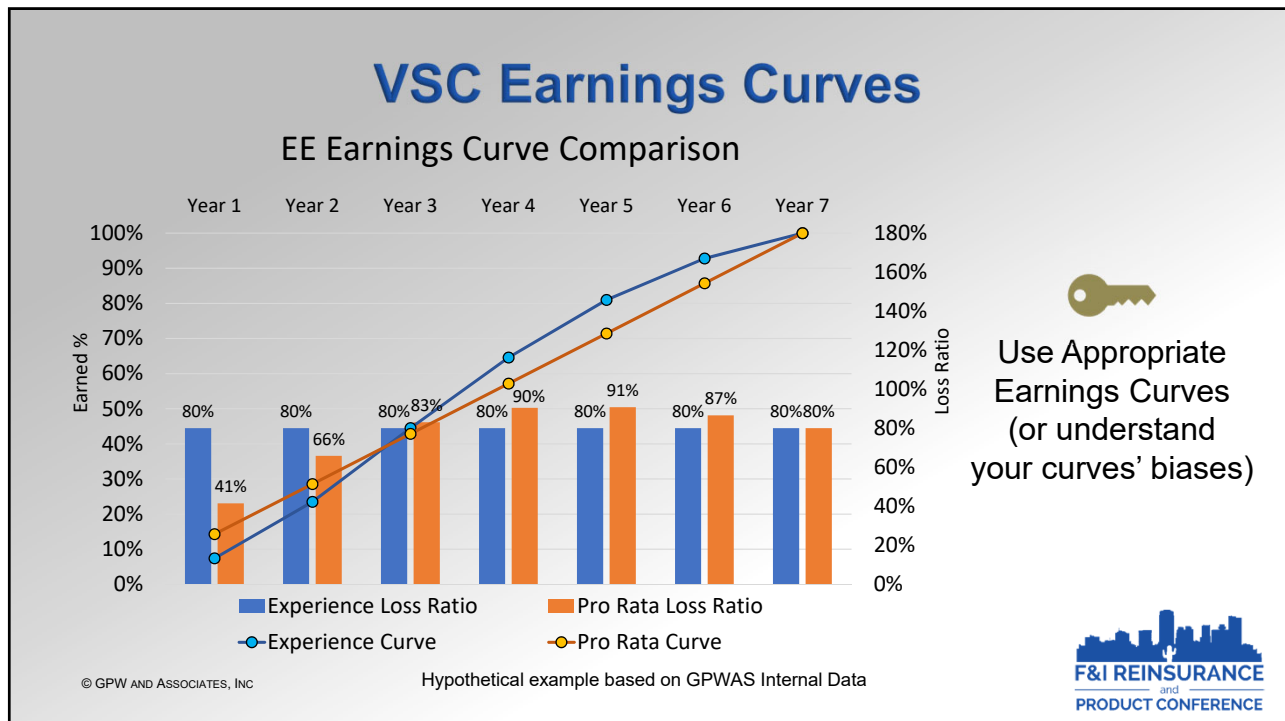
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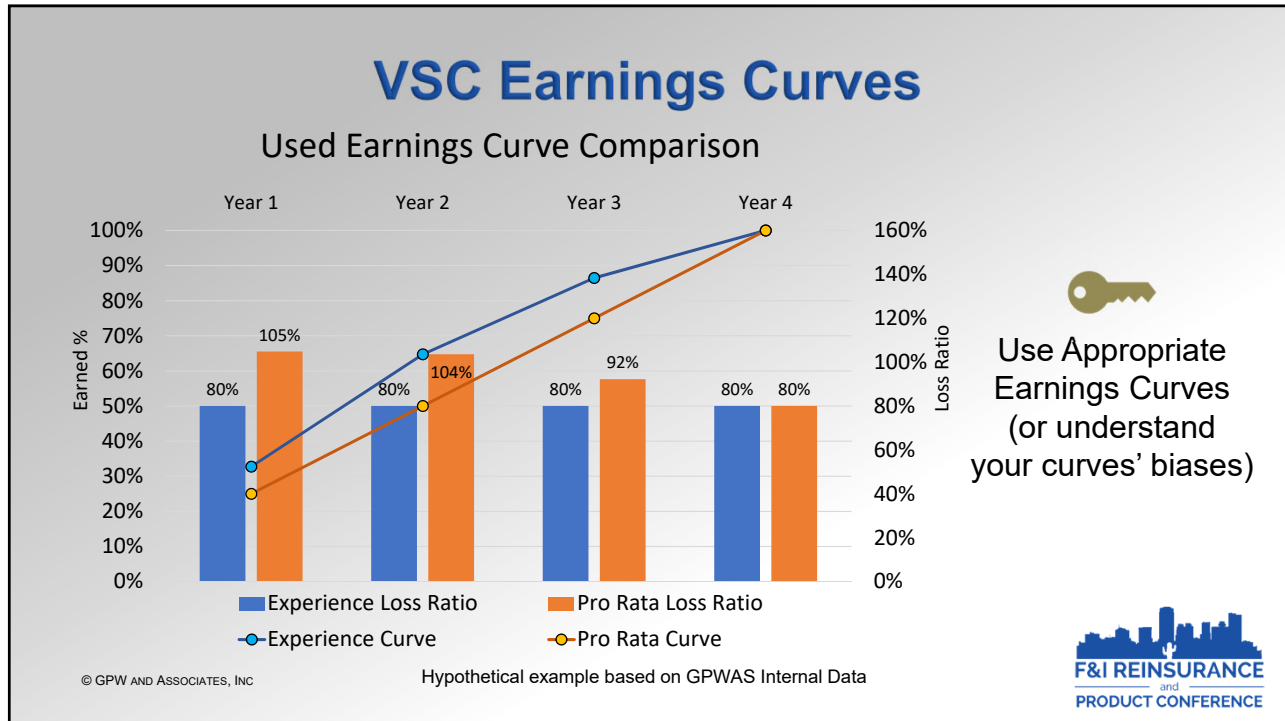
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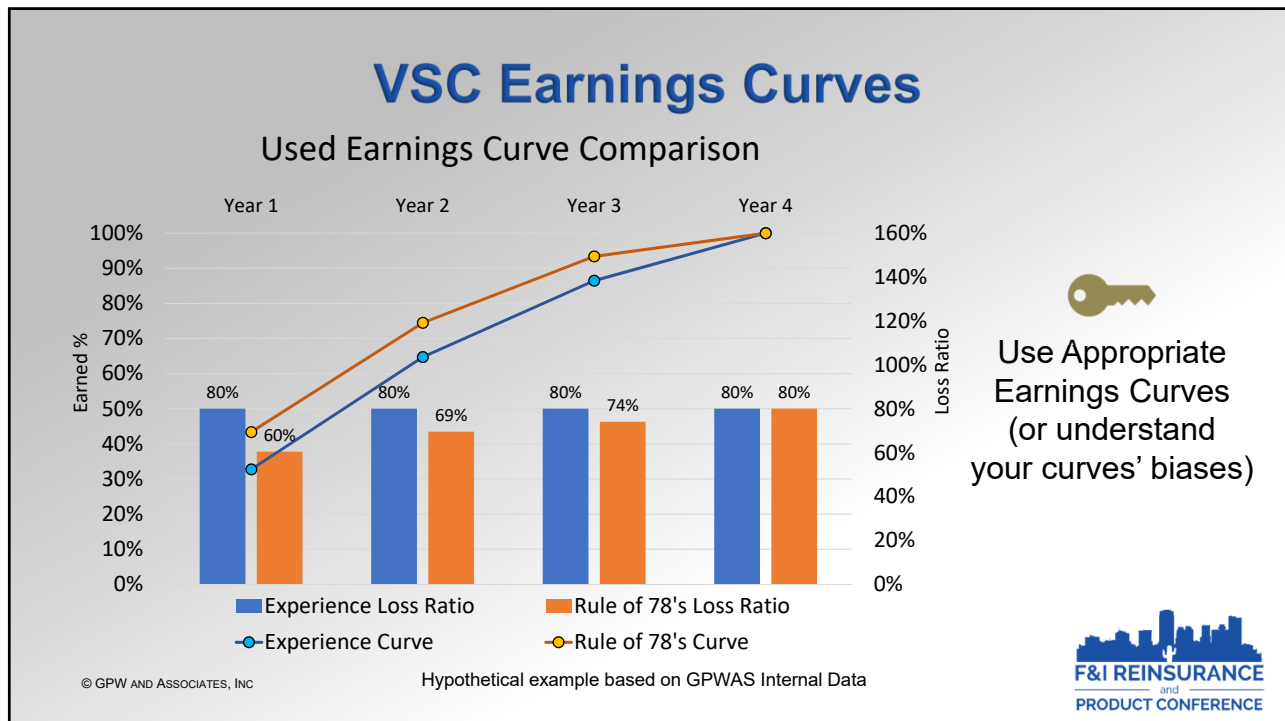
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Keys To Monitoring Your Portfolio

- Know Your Mix of Business
- Break Experience Down by Contract Year
- Use Appropriate Earnings Curves

Additional Information:

<https://www.providers-administrators.com/348218/earnings-curves-matching-premium-with-losses-and-refunds>

<https://www.providers-administrators.com/348369/staying-ahead-of-the-earnings-curve-alternative-methods-of-examining-vsc-experie>

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Questions



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