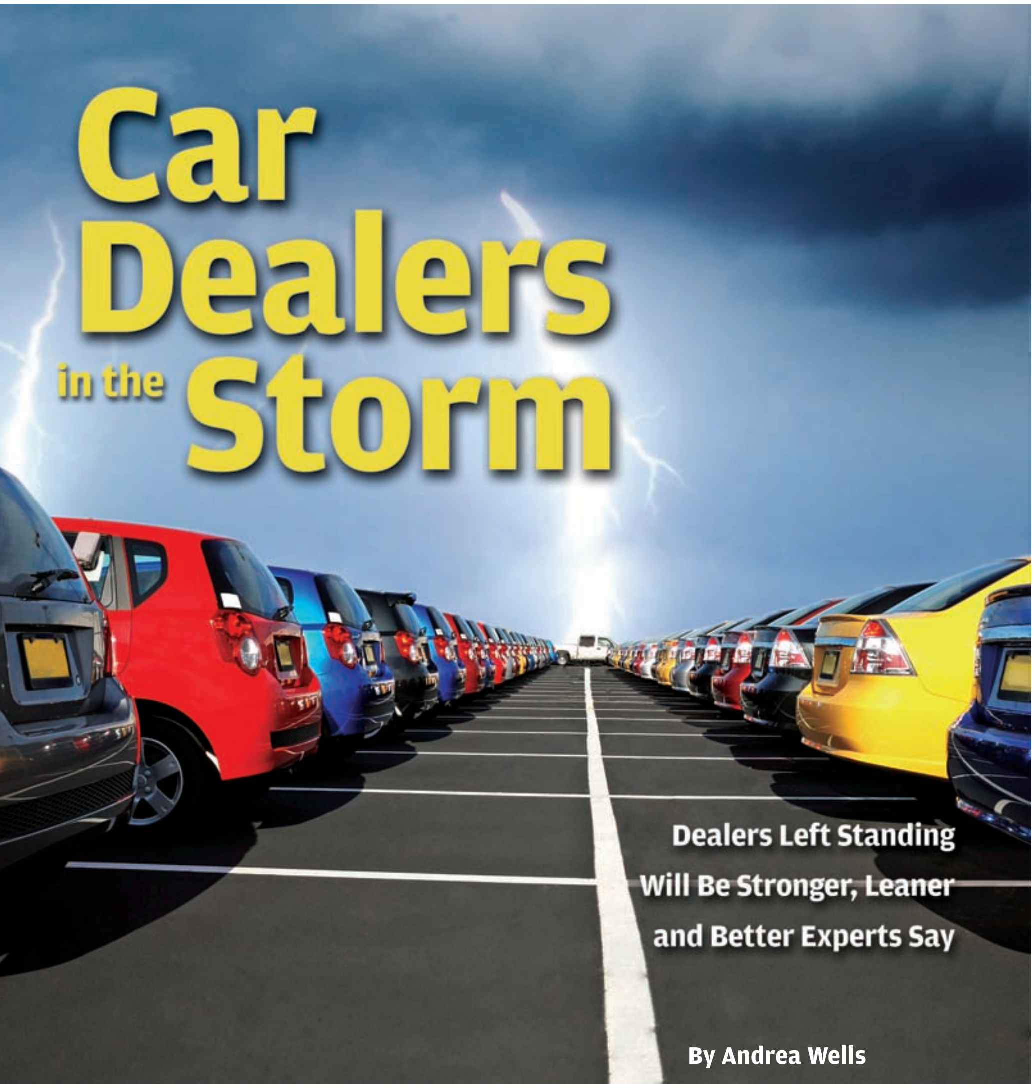

Car Dealers in the Storm

Dealers Left Standing Will Be Stronger, Leaner and Better Experts Say

By Andrea Wells

Automobile shoppers may be abandoning car makers but insurance carriers and brokers remain dedicated partners, experts say.

Yet no one can deny that tough times have fallen on many of the nation's car dealers who seem to be caught in a perfect storm. The bad economy has led to a nearly 40 percent drop in new car sales. Financing for new car purchases remains tight and some Chrysler dealerships have found lending for new car inventories completely cut off all together. Not to mention the bankruptcy proceedings of General Motors and Chrysler, under which approximately 789 Chrysler dealerships out of its 3,181 authorized dealers will close. GM stands to shut down another 1,350 dealers out of their total 6,000 dealerships.

Even so, insurance specialists to the auto dealers market say survival of the fittest will come into play and those car dealers left standing will be stronger, leaner and better.

"I have a lot of confidence in dealers," said Corie Curtis, account manager for RJF Agencies where she manages a dealers' open lot insurance program out of the agency's Minneapolis headquarters. "I've found them to be intelligent and savvy business people with innate survivor instincts," she added.

RJF's open lot auto dealer's program is a relatively young insurance program, and despite the turbulent times, is growing quickly, Curtis says. The program is available to both used and new car dealers in 47 states and represents approximately 100 dealerships from Colorado to Tennessee, and Minnesota to Texas.

Roger Beery, president of Austin Consulting Group, a Greenwood Village, Colo.-based risk management and garage insurance consulting firm that represents 300 new car dealerships nationwide, couldn't agree more with Curtis' assessment.

"Auto dealers are the most upbeat, positive people in the world and the ones that are left are going to be fine," Beery said.

"Americans will start buying cars again," he predicts. Perhaps not at the same levels purchased just two years ago, but "once they get comfortable they will start buying again," he said. "The dealers that are left standing are probably going to be financially stronger than dealerships today," Beery added.

Jason Wallace, division president for The Horton Group's risk management services, doesn't expect his car dealer business to grow tremendously given the current times but says his agency will stay committed to the market, and so will the carriers that cover car dealerships.

"Auto dealers have always been attractive to carriers," Wallace said. "The current financial situation hasn't dissuaded anyone from that."

Solid Market, Tighter Financial Underwriting

The tough times haven't deterred the insurance market when it comes to insuring auto dealers, the experts say.

A risk manager to auto dealers, Beery says that from his view prices tightened slightly for auto dealers early in the year, but that trend hasn't held up.

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"We still see what I call a vigorous market," Beery said. According to Beery, a number of direct writers with very large books

continued on page N22

Car Dealers in the Storm, continued from page N20

of auto dealer business continue to dominate the market. Some of the biggest players are Zurich, Sentry Insurance Group, Federated Insurance and HARCO National, he said. On the broker side, Beery says Travelers has been very active, as well as Wausau Insurance and to some extent, Hartford. He also sees a number of regional insurers actively writing auto dealer business today.

Even though he describes the market as vigorous, he noted at least one carrier announced they will no longer write Chrysler dealerships but they are still willing to write GM dealerships. "We don't understand that. If Chrysler is bad then why is GM good?" he questioned. "They are both in bankruptcy."

Even so, pricing for auto dealers remains stable, although underwriting for financial data has been under watch, Beery, Curtis and Wallace concurred.

"We are seeing all insurance companies scrutinize financial statements much more," Beery noted.

RJF's Curtis says she has seen a rise in awareness and concern when it comes to financial underwriting data. "There's a heightened awareness to the viability of a dealership," she said.

'More than anything we have seen heightened underwriting and more questions in financials, and have not seen a decrease in available markets or appetite.'

In recent years, coverage is still very available, added The Horton Group's Wallace. "More than anything we have seen heightened underwriting and more questions in financials, and have not seen a decrease in available markets or appetite."

Bottom line, it's still a competitive market, Beery says. "I don't want to give the impression that this is a truly soft market. But it is a vigorous market."

Bad Times Offer Opportunity

Tumultuous times present both challenges and opportunities for car dealers, says RJF's Curtis. She says that both car dealers and car manufacturers are likely positioning themselves for growth as the U.S. recovers from the economic downturn. Just how many and who will be left standing is difficult to say.

"It's hard to say how the overall numbers will turn out when you include the potential of new brands and changes in distribution networks," Curtis said, adding "there are still many challenges ahead for the dealers that remain." Despite these challenges, Curtis believes the surviving dealers will come out stronger, leaner and with advanced business tactics.

Insurance providers need to be there and ready when the turnaround happens, as well.

"Insurance providers will need to continue to provide creative, thoughtful and comprehensive products that fit each individual dealer group's risk management strategy," Curtis said.

From his risk manager's seat, Beery says one way brokers can help their auto dealer clients in today's tough times is by making sure in auditable policies that the rating basis is correct and the dealer is not overpaying during the policy period.

"Some insurers, like Zurich, do audits on a monthly reporting form, so it is what it is every month, but some (carriers) offer only annually audited policies," Beery said. "Since we've seen so much downsizing, brokers need to make sure that the downsizing is being taken into account during the policy period and maybe even adjust the policy rating basis during the policy period to provide appropriate pricing and improved cash flow."

Curtis adds that as dealers tackle today's challenges — the economy, credit markets, the rising cost of oil — they have to be very nimble with their product and so do their insurance providers.

"During this time there are opportunities for dealers to purchase other locations and take on other franchises," Curtis said. "And we need to be able to act just as swiftly as they can — and we are — we are trying to give them at least one board to stand on so they can take on all the rest of these issues that they are confronting today." IJ