

Automotive News

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F&I products cater to ride-hail drivers

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As the number of drivers for ride-hailing services such as Uber continues to grow, so likely will the availability of inclusive policies.

The coronavirus pandemic has reduced demand for ride-hailing, but experts expect gig driving to thrive long after the crisis.

The coronavirus pandemic has reduced demand for ride-hailing, but experts expect gig driving to thrive long after the crisis. Therideshareguy.com founder Harry Campbell said in late April that many surveyed drivers switched to driving for Instacart and other delivery services.

For dealership finance and insurance desks and providers of aftermarket F&I products such as vehicle service contracts, extended warranties and GAP coverage, ride-hail drivers are a growing opportunity – but one that's hard to unlock because of its shifting numbers. Another hurdle is that using a vehicle for commercial purposes has nullified F&I products purchased at point of sale.

Beginning around 2018, Ed Morse Auto Group, based in Delray Beach Fla., began getting repeated requests from ride-hail drivers for higher-mileage warranty plans. Those requests also were punctuated by customer complaints about the lack of clarity with regard to commercial-use ride-hail exceptions.

"That creates bad will and nobody wants that," said Randy Hoffman, vice president of the auto group, which operates 21 dealerships in Florida, Oklahoma and Texas.

MEETING A NEED

What ride-hail drivers wanted:

- Higher-mileage warranty plans

- Contract clarity for vehicle commercial use

What F&I providers learned about ride-hail drivers:

- More miles driven didn't mean more risk
- They maintained their vehicles better than regular drivers
- Risk pattern the same as for regular drivers, just accelerated; easier to predict and price products

The result:

- More F&I providers are rewriting products to be ride-hail-inclusive
- F&I providers expect to attract more ride-hail drivers as customers in the future

Changing course

To cater to these customers and to help limit complaints, the company reexamined its policies and customer approach. The Morse group's service managers noticed that ride-hail drivers covered more miles than regular drivers but weren't appreciably more of a risk. The cars are driven more but "the drivers tend to maintain them better," Hoffman said.

After beginning to honor some claims that had been excluded, the group changed its policy to automatically cover ride-hail drivers. It also created new warranties, up to a 48-month, 100,000-mile plan. The group hasn't seen additional costs from the move, he said.

The pandemic has reduced sales and service business, but Hoffman says the proportion of customers asking for gig-related products has remained steady. He plans to continue catering to them.

Most dealerships don't have their own products to draw on, and even the Morse group uses vendors, primarily National Auto Care, to provide ancillary products such as GAP insurance, wheel and tire coverage and vehicle service contracts. Those providers have had a broadly similar experience to the Morse group in the past three years. National Auto Care rewrote its contracts in 2019 to be ride-hail-inclusive, part of a new wave of F&I products in the space. Properly assessing risk is key to making these products work.

The new models

Safe-Guard Products, which partners with many automakers to offer white-label F&I solutions, had its actuarial team research its portfolio to determine a ride-hail driver's real impact. The company found that those drivers can quadruple the utilization rate of a vehicle, increasing the risk of losses from things such as mechanical breakdowns or accidents.

"But when you spread that risk over the entire customer base of an OEM, the actual impact dollar-wise on the products is pretty small, like, single-digit dollars," said Safe-Guard Chief Marketing Officer David Pryor.

These risk patterns also follow those of regular customers, Pryor said, just on an accelerated timeline. This makes it easier to predict and price products, reinforcing the company's decision to waive ride-hail exceptions without raising prices on most of its offerings in mid-2019.

Preferred Warranties Inc., a part of automotive-information and auction-services provider KAR Global, also announced ride-share-inclusive products in late 2019.

"Service contracts are very commoditized, very similar," said Edmund Field, president of Preferred Warranties. "So from a key differentiation perspective, [adding ride-hail] was something that we wanted to do."

Commercial grade

Instead of waiving exclusions for regular policies, warranty provider EasyCare tailored a commercial-use product into a ride-share-inclusive suite of policies in 2018 at the request of a New York City-area dealer.

"We didn't feel we had an adequate product for commercial use so we developed one for them," says Pete Lee, EasyCare executive vice president of business performance.

The pilot store wanted several products bundled, including a service contract and pre-paid maintenance.

The plan provided discounted maintenance that drivers used regularly while ensuring that the vehicles came back for resale in good condition.

More than 100 dealerships now sell EasyCare's ride-hail-specific products, Lee added, mostly in metro areas where ride-hailing is common.

Small but growing

The number of ride-hail drivers actively using inclusive ancillary F&I products is still small, and the full impact of COVID-19 has yet to be determined.

But with the overall pool of drivers expanding, the market is likely to grow — though the drivers likely will continue to be hard to identify.

Morris: Plans added as default

Otis Morris, general manager at McDaniels Auto Group in Columbia, S.C., said the dealership doesn't have a large number of ride-hailing customers that it knows of but was glad to include the new Preferred Warranties plans as a default.

"We can include [ride-hail] use if they want it later and most customers are happy about that opportunity," he said, noting that it eliminates any surprises.

Preferred Warranties said it was starting to get traction on its ride-hail products when the coronavirus hit. Two percent of its warranties were ride-hail-related as of late February, and Field said that while that number has held steady during the crisis, "from a forecasting standpoint we expect that number to grow."

Field points out that as dealers get more comfortable offering the products, high unemployment may lead to increases in requests for them.

"Many people facing economic uncertainty may consider alternative employment like Lyft or delivery services," he said. "I can see us being well-placed to accommodate those customers."

Inline Play

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