Inflation and F&I Profitability

Where we are and what's ahead in 2024

Get Started

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Inflation and dealer F&I profitability: the ripple effect

Today, automotive retail is under pressure from a range of shifting market conditions. Many effects of the COVID-19 pandemic continue to linger. Inflation continues to impact dealer profitability. High prices and interest rates also persist. To make matters worse, an ongoing pre-owned inventory shortage, triggered by supply chain issues, has created an older, higher mileage retail mix with increased claims and severity. This inventory is only getting older. A decrease in leased vehicles from 2020 to 2022 has reduced near-new used inventory even further, which continues to increase the average age of used vehicles being sold.

We expect the current high-mileage, high-risk profile for used vehicles to persist for three to four years. This could continue to drive claims severity higher and increase parts and labor rates, which are already elevated thanks to a technician shortage and inflation. On a more positive note, repair pricing, which also influences severity, is likely to moderate but remain elevated.

Currently, production has normalized. But high sticker prices and interest rates are dampening customer demand. As a result, dealers are now facing a surplus in new car inventory. And, since OEM production focused on high-price-point vehicles during the chip shortage, there are more high-end vehicles on the market than ever before. This is especially troublesome at a time when more consumers are seeking value. In fact, 50% of middle-income Americans delayed a vehicle purchase in 2023 due to cost.[1] In response, we expect more OEMs to introduce incentives and affordable models to drive demand.

Maintaining profitability in this environment will require dealers to be well-informed and quick on their feet, and to follow a defined sales process. This will enable them to build value at every step of the transaction and provide a best-in-class customer experience. Dealers who excel here stand to grow F&I profits regardless of market conditions.

As a leading provider of protection products in the U.S., Assurant has leveraged our extensive database and expertise to develop the Assurant Inflation and F&I Profitability Report to share insights about claim costs, frequencies, and other relevant trends impacting the performance of our F&I products.

2023 mechanical repair claim costs: up 14% from 2022[2]

Driving performance in an inflationary environment takes an optimized sales and F&I process.

[1]Source: S&P Global Mobility 2024
[2]Assurant Mechanical Repair claim experience

The way forward: maintaining F&I growth and profitability

In 2023, we've seen inflation drive auto repair costs and F&I claims even higher than 2022's record highs. All inflation drivers increased, with labor leading the way due to increased repair demand, a reduced technician force, and labor hours increased by vehicle age and complexity. Parts also continue to rise in cost thanks to higher demand driven by vehicle age and supply chain constraints. And, while inflation is cooling, it's forecast to remain elevated well above historical norms for motor vehicle repair, normalizing to 4% at the end of 2024.[3] This has resulted in the continued need for rate increases on service contracts.

Maintain a sustainable and profitable F&I program

To keep up with market changes, dealers should assess pricing in their product set regularly, set appropriate rates for each odometer band, and help control costs with benchmarks and best practices. Dealers should be cautious, however, as rate increases will only go so far before negatively affecting customer demand. Beyond pricing changes, it's vital for dealers to monitor vehicle reconditioning standards and balance repair labor costs while retaining technician talent. Having the right F&I partner is also important. Specifically, one that has efficient, yet robust, claim adjudication practices supported by loss management field support.

Adjust pricing and optimize F&I costs — especially around service.

Create a playbook for your sales team

To sustain reliable growth moving forward, dealers need a holistic plan to optimally sell and service both electric vehicles and internal combustion engine vehicles, starting with their sales and F&I processes. Easy sales during the COVID-19 pandemic created a void in the skillsets of sales consultants, and many dealers outright abandoned what were once essential sales playbooks. We've seen a tremendous amount of interest from dealers who want to level set their sales process.

Maintain a well-defined sales strategy through change.

Build deals that maximize customer value

Right now, proper deal communication with the customer is more critical than ever. That means getting back to the basics of employee engagement and reinforcing a high-performing sales process to meet elevated customer expectations. Dealers need to offer a wider variety of F&I products — including an EV offering — with more options and price points to meet consumer needs, increase deal efficiency, and keep claims costs down. Additionally, products should be tailored for cash or lease, and offer multiple coverages and deductible options. By giving customers more flexible options, dealers can accommodate a wider range of budgets, helping them offset the impact of vehicle pricing increases.

Maximize customer value to compensate for rising prices.

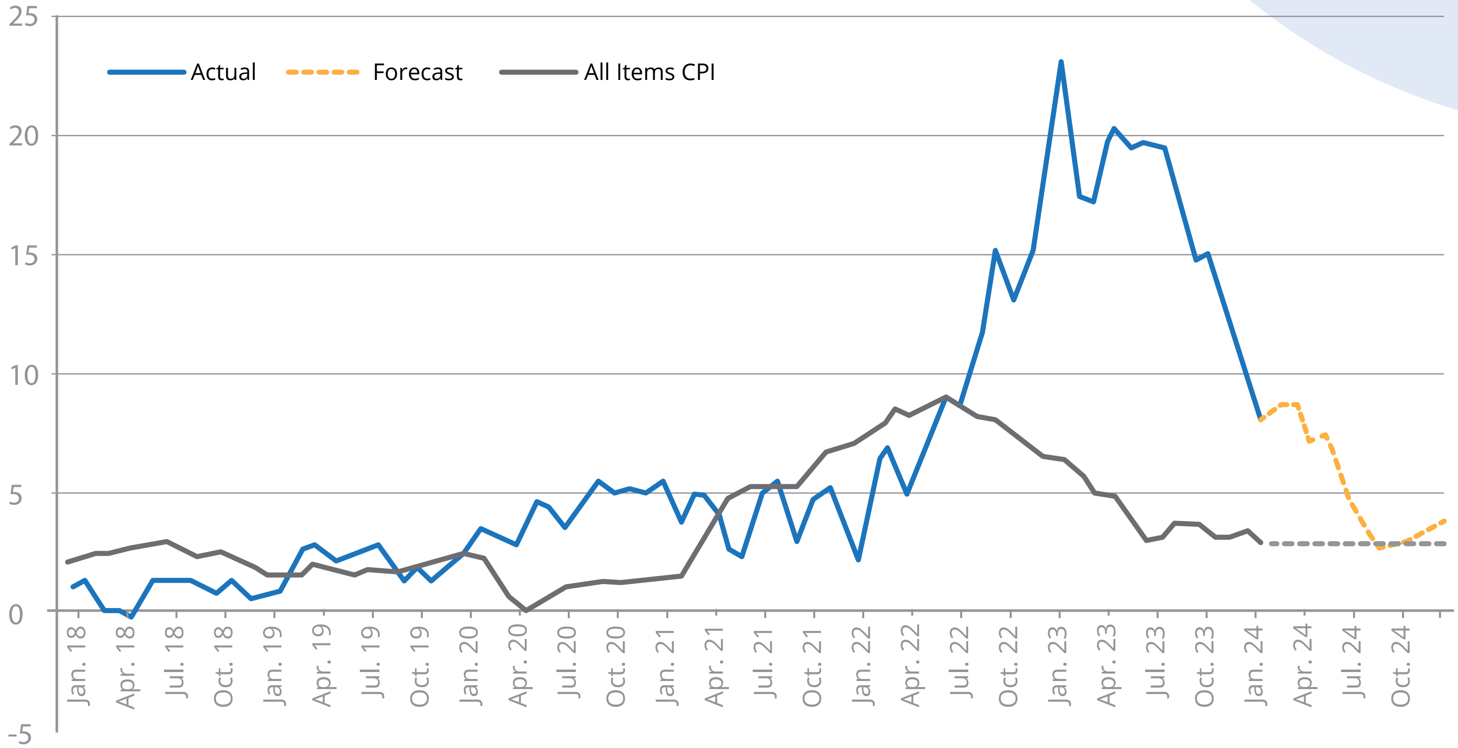
[3] Assurant forecast 2024

Unprecedented inflation is cooling, but still elevated.

Inflation
Motor Vehicle Repair Consumer Price Index

- Auto repair inflation had extraordinary spike starting mid-2022
- Inflation down significantly in 2023 vs. 2022 but well above historical norms
- 2024 annual motor vehicle repair inflation forecasted to normalize at 4%

Expect inflation to normalize, but monitor and align product pricing with forward-looking expectations.



2021	2022	2023	2024F
+4%	+20%	+10%	+4%

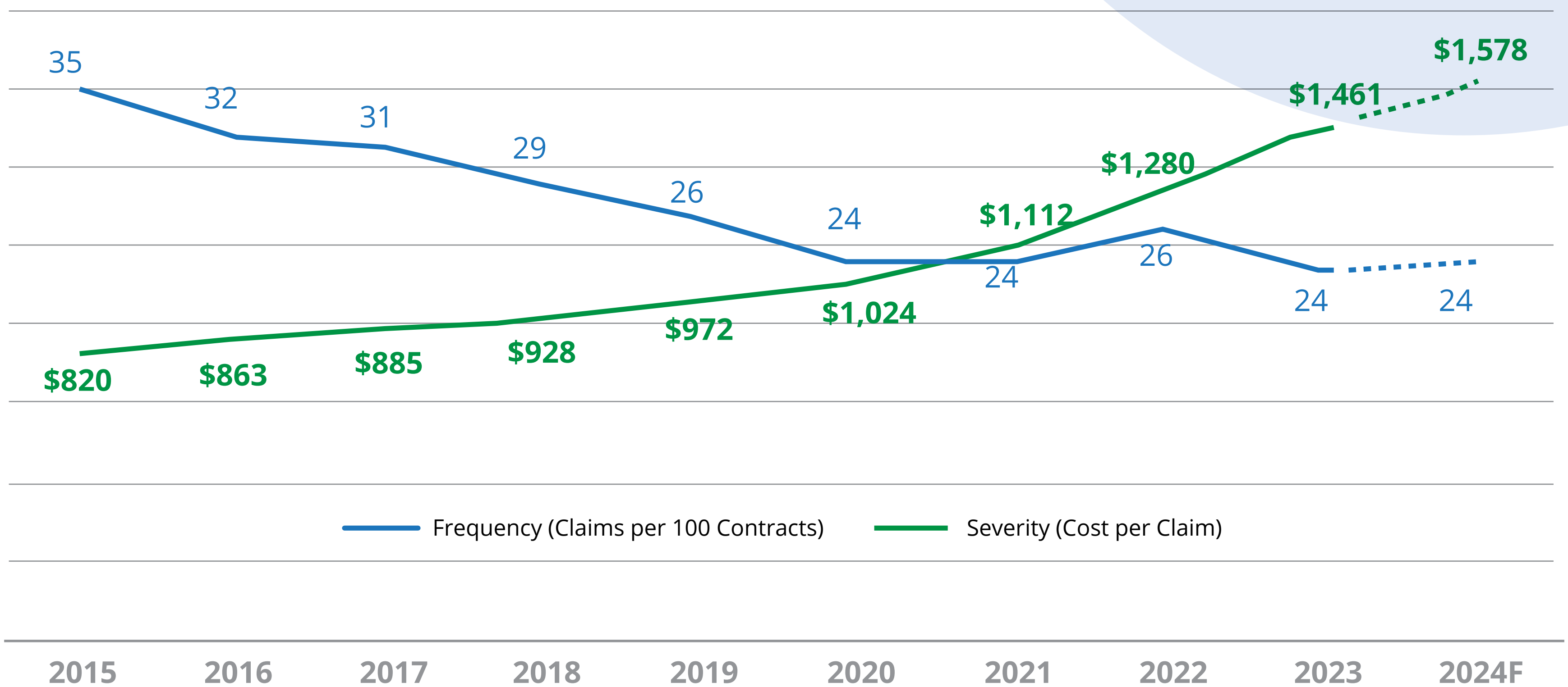
Source: Bureau of Labor Statistics; Assurant forecast
Note: Annual growth based on final month of current year to final month of prior year

Severity has climbed while frequency has leveled out.

Claim Severity & Frequency

- Declining frequency offset severity increases prior to the COVID-19 pandemic
- Erosion of frequency benefits post-COVID exacerbates impact of recent increased severity (+14% vs. 2022 and +50% vs. 2019, +8% forecast for 2024)

Prepare for claim cost increases to impact margins unless thoughtful rate and risk management actions are taken.



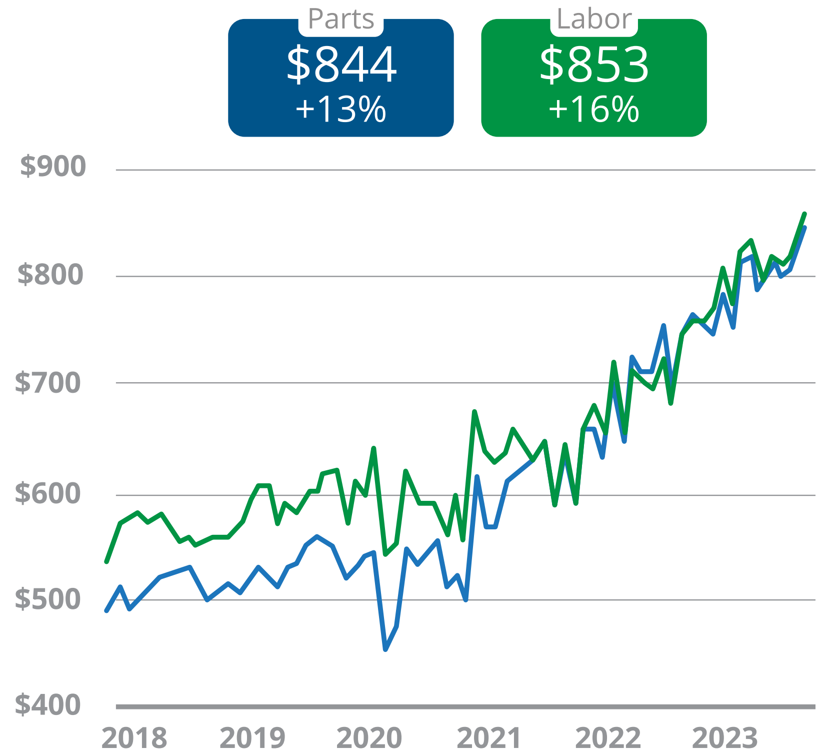
Source: Assurant Mechanical Repair claim experience; Assurant 2024 forecast
Note: Cost per claim is comprised of all costs (parts, labor, etc.) less deductible

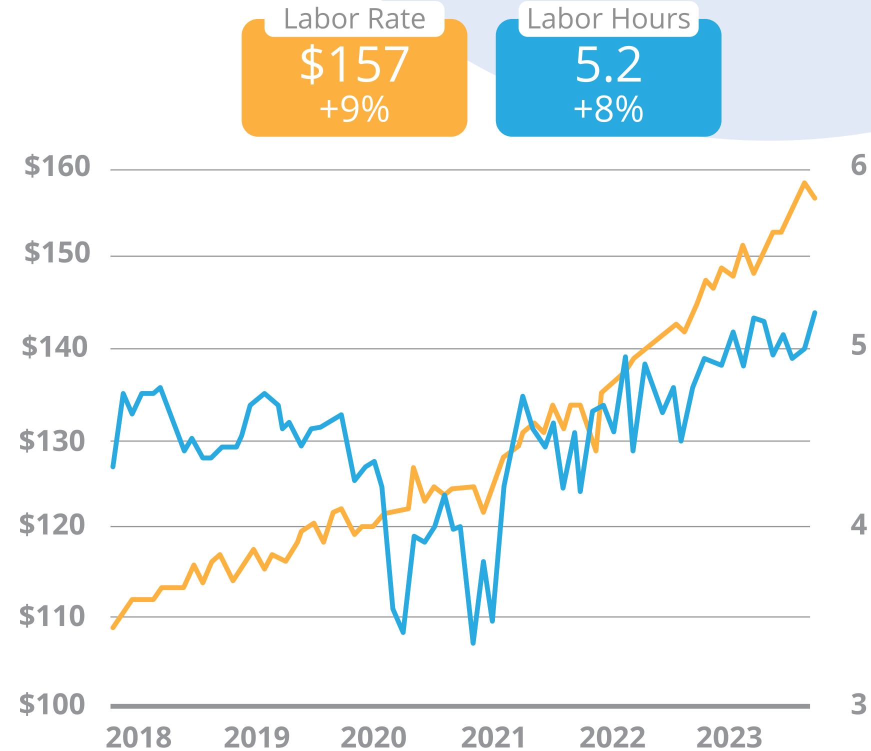
All severity drivers are up in 2023, and labor costs leads the way.

Claim Severity
Parts & Labor

- Labor once again surpassed Parts as largest driver of Cost per Claim in 2023
- Labor driven by both Labor Rate (decrease in technician supply + increase in repair demand) and Labor Hours (increased complexity/vehicle age)
- Parts cost driven by higher demand due to vehicle age + supply chain constraints

Establish best practices and benchmarks to manage costs with data-driven insights and loss control management experts.





Source: Assurant Mechanical Repair claim experience
Note: Annual growth based on final month of current year to final month of prior year

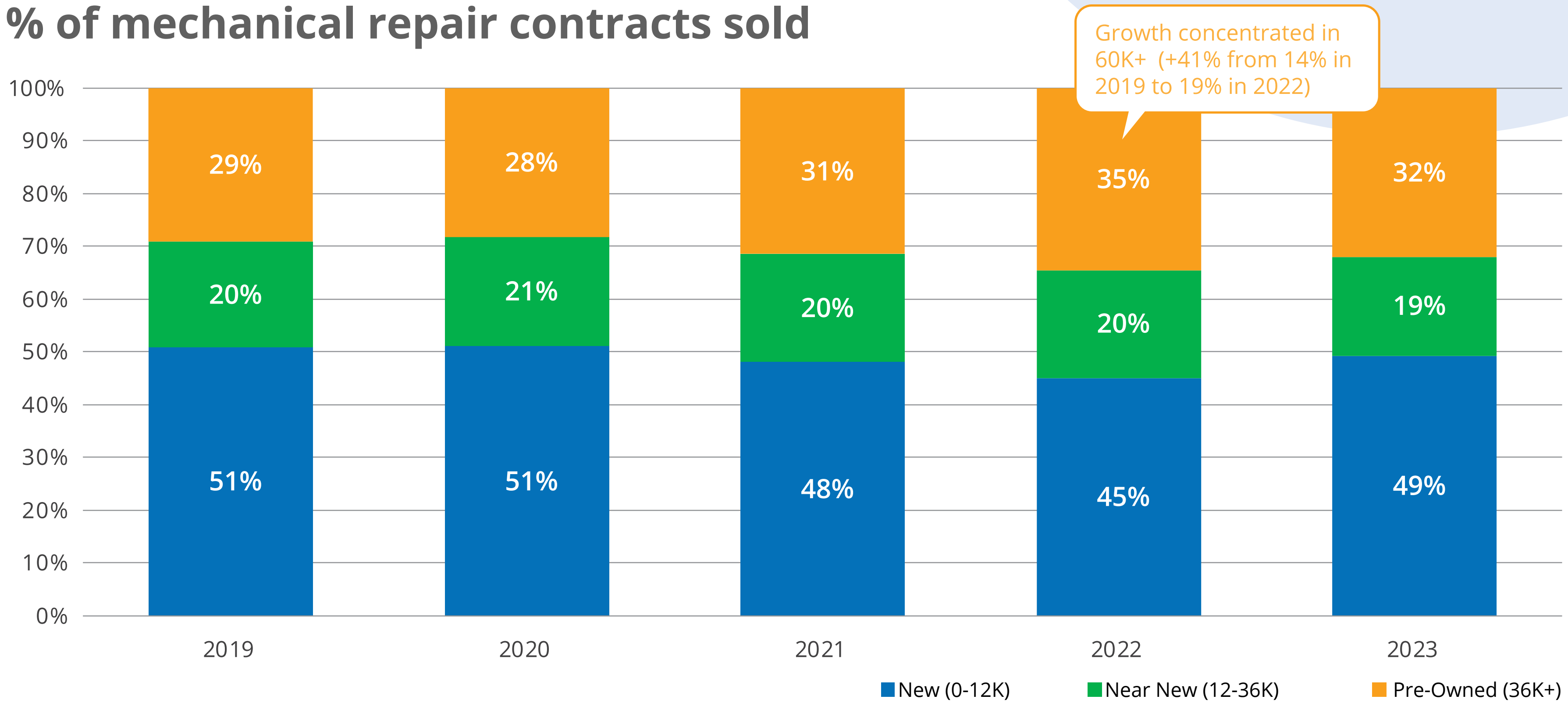
Sales mix shift to higher mileage vehicles also impacts trends.

Sales Mix by Odometer Band

- Constrained new supply and affordability challenges caused sales mix of Pre-Owned vehicles to increase 6 pts from 2019 to 2022
- Started to moderate in 2023 but remains 3 pts above 2019 levels

Monitor sales mix and adjust F&I product pricing accordingly to remain competitive.

% of mechanical repair contracts sold



Source: Assurant Mechanical Repair sales experience

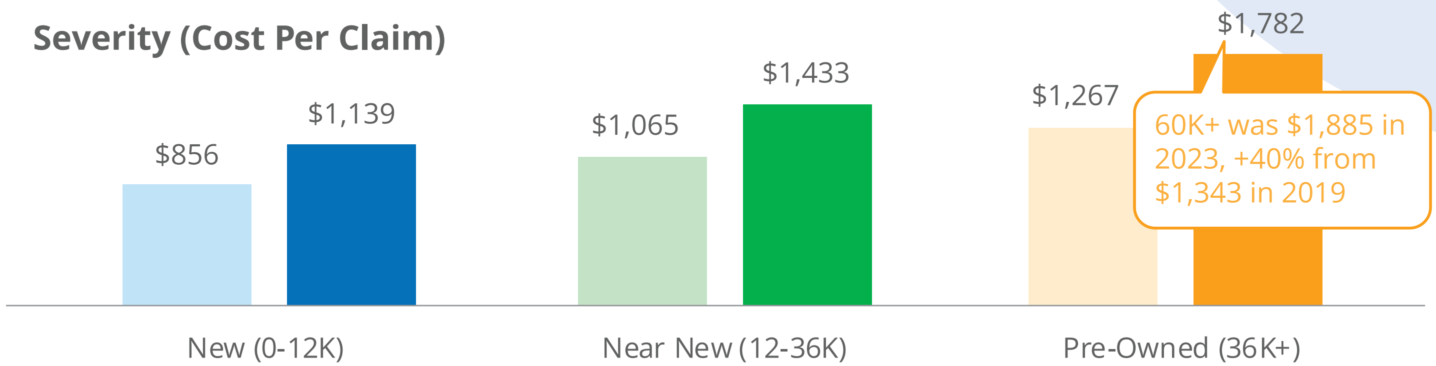
Severity and frequency increase with vehicle mileage.

Claim Severity & Frequency by Odometer Band

- Severity: Pre-Owned has highest cost per claim (+24% vs. Near New and +56% vs. New in 2023) and delta has expanded since 2019
- Frequency: Pre-Owned has highest claims per 100 contracts (+23% vs. Near New and +113% vs. New in 2023) but delta has improved since 2019

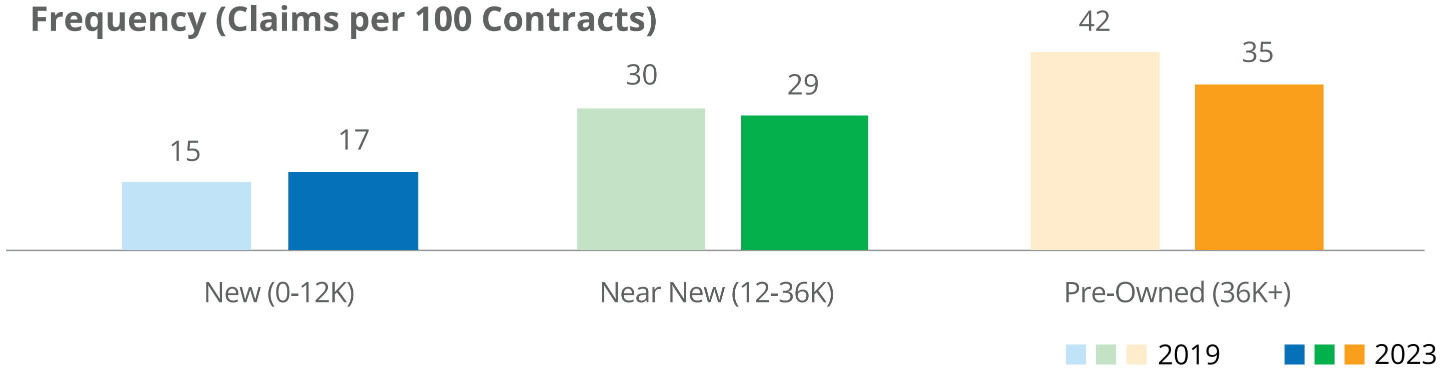
Monitor and adjust product pricing at a granular level to maintain profitability.

Severity (Cost Per Claim)



New +33%
Near New +35%
Pre-Owned +41%

Frequency (Claims per 100 Contracts)



New +13%
Near New -5%
Pre-Owned -16%

Source: Assurant Mechanical Repair claim experience

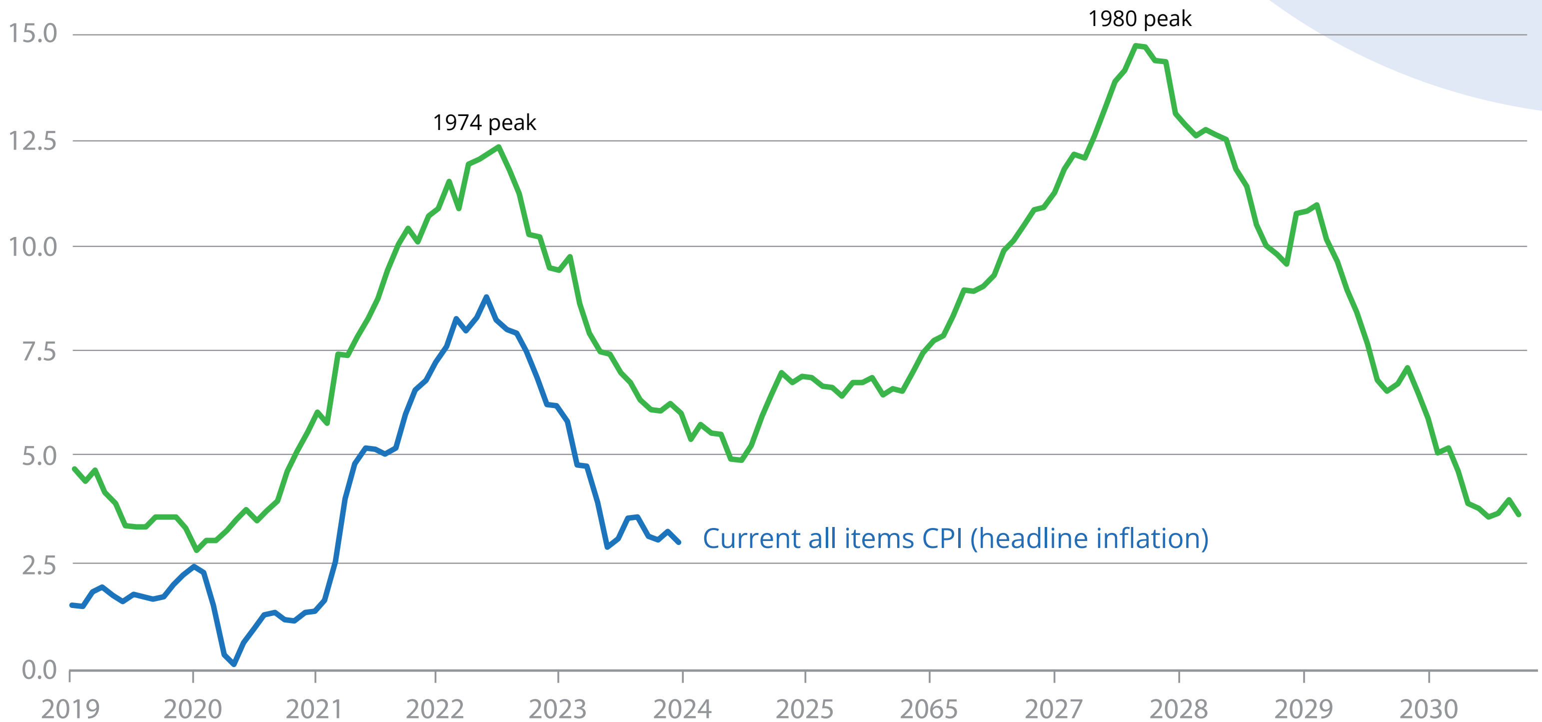
While inflation is cooling, might history repeat itself?

Inflation
Overall CPI

- 2020s CPI movements have mirrored the 1970s – will auto repair normalize at a higher than historical inflation rate or return to recent historical levels?

Inflation is cooling, but we're not out of the woods yet — always be nimble and prepared for market fluctuations.

U.S. Inflation: The 1970s versus Today



Source: Bureau of Labor Statistics

Dealer F&I profitability: how dealers should prepare and how Assurant can help

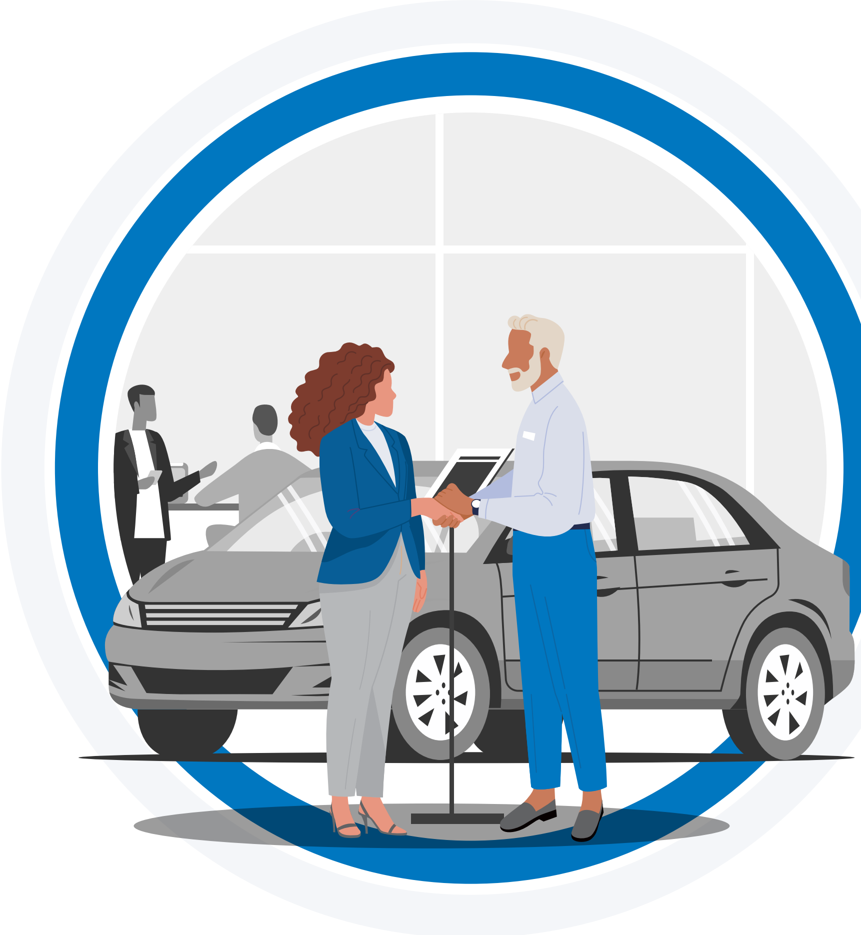
Faced with the lingering effects of inflation, normalizing inventory, and increased competition, dealers need a plan to maximize profitability and drive customer satisfaction. Dealer staff will need to understand and meet the needs of today's customers (who have more vehicle-buying options than in 2023) while mitigating the issues of affordability and higher overhead. Thoughtful dealers will need to refocus on basic skills, with a concentration on sales and F&I training. They'll also need to pair customers with the right type of vehicle as EVs continue to become a bigger part of the conversation. Other priorities should include making sure their product set is inflation-adjusted, and that their profit participation supports their strategy.

Train your teams to exceed customer expectations

Now is the time for dealers to reinforce fundamental processes throughout their dealership, from sales and F&I to service and compliance. To continue to grow F&I profitability, they need to do a better job of identifying customer needs and matching budgets with vehicle affordability. Assurant can help with training blueprints, including an immediate-impact F&I blueprint that helps increase PVR and a hands-on in-dealership five-step sales blueprint that's focused on developing a more personalized customer experience. There are also blueprints for optimizing the service lane, EV sales, leadership, compliance, digital retailing, and more.

Seek opportunities to grow PVR across all F&I products

Dealers need well-designed products that are both customer-optimized and correctly priced so they can maximize profitability and customer satisfaction, even in inflationary environments. Assurant supports dealers in this regard with Assurant Vehicle Care, an optimized product line that offers customers more vehicle coverage, more flexibility and transparency, and a better overall experience. It also features an easy-to-use digital car care and contract management experience. Plus, its pricing is optimized for inflation.



Evaluate your profit participation strategy

Dealers should carefully evaluate their current participation strategy to be sure it aligns with their current needs, goals, risk tolerance, and sales volume. That should be followed by a consultation with an experienced advisor who understands the unique potential, risks, and benefits of each model while providing real-time performance insights. Each participation structure offers unique benefits, which is why Assurant Dealer Services doesn't promote one option over another. Instead, we offer all five participation vehicles, from NCFCs and CFCs/ Small P&Cs to DOOCs, Retro, and Dealer Obligor. We're flexible and transparent in how we partner with dealers to find the best model for their goals. As their needs change, we help them adjust their participation position without any switching costs or loss of productivity at the dealership.

Prepare for the EV future

While widespread EV adoption may take time, forward-thinking dealers will be assessing their readiness and taking appropriate steps in 2024. This entails readying their sales and F&I teams to be proactive with EV-specific products and training, and ensuring they can inspire confidence in the purchase. Assurant supports dealerships with EV solutions that drive revenue and build value for EV customers, including customer-centric EV sales training, protection products, and hassle-free home charger installation.

Speak to an Assurant expert about optimized F&I solutions and training that help drive growth in any economy.

Talk to an Expert

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