

Automotive News

FINANCE & INSURANCE

GMAC BETS ON GREATER DEMAND FOR WEAR-AND-TEAR PLANS

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AUTOMOTIVE NEWS

OCTOBER 12, 2009 - 12:01 AM ET

As **General Motors Co.** returns to vehicle leasing, its former finance company again is promoting wear-and-tear insurance to customers as a way to prevent unexpected charges at the end of a lease -- and to dealers as a way to build loyalty and repeat business.

SmartLease Protect, offered by GMAC Insurance, provides limited coverage of as much as \$5,000 for wear and tear on a leased GM car or truck. The insurance also waives the lease customer's security deposit.

The retail price of the coverage ranges from \$539 to \$639, based on the length of the lease. GMAC declined to disclose the wholesale price of the insurance, although some retailers and vendors say the typical dealer markup on wear-and-tear coverage is about \$300.

Most other major automakers' finance companies and many independent providers offer similar coverage. Dealers and insurers say customers who are surprised by a big wear-and-tear charge when they turn in a leased vehicle often are less likely to lease or buy another vehicle from the dealership. "You send somebody a \$2,500 bill, you'll take a fair amount of heat," says Greg Greenwood, a Chevrolet dealer in Youngstown, Ohio. SmartLease Protect, he says, "is a product to address that. Customers actually ask for it. It's in my best interest to have a happier customer."

Before GM largely abandoned leasing last year during the credit crunch, Greenwood says, nearly 60 percent of his lease customers bought wear-and-tear coverage. The nationwide take rate for SmartLease Protect was 10 to 15 percent, GMAC says -- about 10,000 to 15,000 contracts a month.

Wear it's at

Key features of GMAC's SmartLease Protect program of wear-and-tear insurance for leased vehicles

- Provides limited coverage of up to \$5,000 for wear and tear
- Waives lease customer's security deposit
- Retail cost of coverage: \$539 for 12- to 27-month leases; \$639 for 28- to 48-month leases

Source: GMAC Insurance

Poised for growth

Some dealers say that although they would like to sell wear-and-tear insurance, many lenders remain reluctant to finance it. Other dealers say they often avoid adding insurance products to a lease to limit monthly payments, especially on vehicles with low residual values.

But Tom Callahan, executive vice president of GMAC Insurance's dealer products and services group, said he thinks SmartLease Protect will prove more popular among customers now than it was before GM stepped away from leasing. He said his company aims to work with dealers to persuade more than 20 percent of lease customers to choose wear-and-tear coverage.

"It makes the lease turn-in process trouble-free from the customer and dealer standpoint," Callahan told *Automotive News*. "It impacts the decision to lease or buy a new vehicle from the dealer. It just takes away a lot of potential hassles, and it helps dealers grow their business."

Callahan said GMAC, which also finances Chrysler Group vehicles, is talking with Chrysler about providing wear-and-tear coverage as the automaker gets back into leasing with its 2010 models.

"The product will follow the lease marketplace," he said. "If there is growth in the lease market, you'll see growth in the lease wear-and-tear product to support the market."

Independent vendors say wear-and-tear insurance remains a moneymaker for them. Al Ranieri, president of American Auto Guardian Inc., of suburban Chicago, says he expects to sell 50,000 wear-and-tear contracts this year, about the same level as last year.

The product Ranieri's company offers costs \$500 to \$700 for leases of up to 72 months. The insurance remains especially popular among luxury lease customers, he says.

Ranieri sells the insurance to about 2000 dealerships and estimates that 30 to 60 percent of lease customers buy the coverage, depending on the store. "It's perceived as a very valuable product with a lot of customer appeal."

Game-changer?

Buzz Doering, an automobile leasing consultant in Milwaukee, calls wear-and-tear insurance "the best-kept secret in the world." He estimates that 75 percent of franchised dealerships that lease cars and trucks don't offer the coverage.

"It's a fabulous product, an unbelievable product, but a lot of salespeople don't even know it's available," Doering says. "If I were an F&I manager, I would present it to every customer. Instead of nickeling and diming at the end, you're helping to put the customer in a new lease vehicle."

Some dealers are less convinced that wear-and-tear insurance is a game-changer. Bob Tasca Jr., president of Tasca Automotive Group, of Cranston, R.I., says his stores don't sell a lot of the coverage even though they emphasize leasing.

"We recommend it, it protects the consumer, but it's not really a big deal," Tasca says. "It's more of an accommodation for the customer than a profit center for the dealer."