

Most people don't think of their insurance expenses as an investment, much less consider that this investment might carry an interest return to it. But insurance companies are always looking for ways to figure out which of their clients will be the ones to have losses and which will not. Sometimes the actions that the insurance companies take can leave you, the auto dealer with some very nice options.

Used car dealers insurance is really not very different from other types of insurance policies when it comes to risk selection by the insurance companies. These insurance companies will make a lot more money if they can figure out in advance, which of their potential clients will turn out to be loss free over the long haul and which potential clients are going to generate huge, costly losses for the insurance company. In the past insurance companies have relied heavily on several factors to choose which auto dealers to accept as clients and which ones to walk away from. Some of these factors are obvious, like the driving records of the dealers, or the past loss history of the dealers or the practices of the dealers. Others are less obvious, like running a credit check on the dealer. But one thing that the insurance companies have at their disposal is a huge data base. So if they begin to suspect that something like a credit score check might isolate the risky dealers from the safer ones, all they have to do is go back and test this theory against their past records with their past customers. If the check proves overwhelmingly to show that one type of dealer is safer than another, most companies will implement the new risk criteria in their underwriting process.

One such clever company, one that insures many, many used car dealers in lots of states is Auto Owners Insurance Company. One of the things that they have found is that dealers who pay their garage insurance in full at renewal tend to have fewer losses than dealers who pay for their garage insurance on a monthly or quarterly pay plan. Someone at the home office probably came up this idea based on the fact that dealers with better credit tend to have fewer losses, then got their boss to allow them to back check the data and voila, a new underwriting criteria is born.

Once Auto Owners realized that they could segregate lower risk dealers by choosing those that paid in full, they simply had to come up with an incentive for the dealer to actually pay in full. What they came up with, I think, is very generous. Auto Owners now allows a 10% discount to all dealers who pay in full on their garage liability and dealers blanket insurance policies. Now if you are a dealer and you purchase your insurance from Auto Owners, take a moment to consider what this means. A 10% discount for getting all of your money up front at first blush sounds pretty good. And it is. It would appear that this would be like receiving a 10% return on your investment money. But actually it is even better than that. If your policy premium is \$1000 and you only have to pay \$900 for the policy if you pay in full, then that is a quick 10% return.

But if you compare this to paying 10 monthly payments of \$100 each then the return is much greater than 10%. This is because each month that you pay off the balance, you have less and less left to invest somewhere else to obtain some return. So in the long run a 10% discount might generate as much as 12% or more return, depending on how many payments you have and how quickly you pay off your garage policy.

If you look at it this way, you would be absolutely crazy not to take them up on the 10% paid in full discount. Where else can you get that kind of return on your investment these days with the federal funds rate below one quarter of a percent? Now, over time I suspect that Auto Owners or any other insurance company that tries this approach may find that some of the higher risk, pay by the month dealers will be persuaded to find a way to borrow the money to pay in full to get the discount. Does this then mean that all of the sudden these dealers have become safer? Of course not. So over time this discount may fade away. But for now, I would advise every dealer out there with a chance for the 10%, paid in full discount, to take them up on their offer.

At Clinard Insurance Group, we insure over 300 dealers, all across North Carolina, South Carolina, Tennessee, Virginia and Georgia. If you would like help with your garage insurance or your dealers bond, please call us, toll free, at 877-687-7557. We are excited to have the opportunity to help you save money while still getting the protection that you want.