



CALIFORNIA USED CAR DEALER INSURANCE BUYER'S GUIDE

Attention California Used Auto Dealers! You need to read this in its entirety.

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California Buyer's Guide for Purchasing Used Car Dealer Insurance

The Car Buyer's Bill of Rights affects wholesalers, auto brokers, and retail auto dealers across the state of California. Regardless of dealership size or license type, used car dealers often fall into the trap and pay dearly for it in the end.

The California Department of Motor Vehicles (DMV) has a variety of rules and regulations demanded of an individual seeking to obtain or renew a dealer license. A car dealer bond is required in the amount of \$10,000 or \$50,000 depending on the dealer type and sales volume. You would think that this extends over to auto dealer insurance also, right? WRONG!

No such insurance requirement exists so licensed used car dealers across the state never buy dealer insurance. This puts the public in harm's way and creates dozens, if not hundreds, of unpaid claims annually. The nature of a used car dealer is to never waste money. Therefore, if the inspector is not asking for it, then there is no need to buy it.

How many Licensed Motor Vehicle Dealers do not have a Dealer Insurance Policy?

At least 45% at any given time and as much as 60% when times get tough. There are hundreds of wholesalers across the state that think that their personal auto policy is going to extend to vehicles that they bought under their business license. These dealers are sorely mistaken! The rude awakening hits them when they read the exclusion section of their personal insurance policy and see the business purpose exclusion. This means that any claims that happen while operating your business autos will not be paid.

Make sure the wholesalers you are buying your inventory from have insurance. The dealers that don't carry insurance are typically the ones with the worst loss history.



Finding the Right Insurance Producer

Most producers do not specialize in Used Car Dealership Insurance nor have access to companies who write this insurance line. It is imperative you search around to find one who not only is knowledgeable with this product, but that is also prepared to build a policy that is specifically for your dealerships needs.

Experience matters and you get what you pay for when it comes to finding the most knowledgeable insurance producers to insurance your dealership needs. Deductibles, sub-limits, minimum limits, aggregate exposure, total insured value, prior damage. These are just a few of the most common terms that a well-informed insurance producer will understand and be able to explain to you in plain terms. If you are going to spend thousands of dollars on insurance every year, you should be getting your money's worth!

New in Business (aka New Ventures)

New dealers (i.e. operations in business less than 36 months) generally provide a resume and/or experience questionnaire substantiating their experience in the garage automotive industry. In addition to industry experience, the insurance companies ask how much capital has been invested and other info that it typically contained in a business plan.

New Ventures will typically be surcharged 10 – 20%, depending on the rating plan of your insurance carrier. It makes sense since this segment of the industry creates the most insurance claims.

Leverage your Dealer Insurance

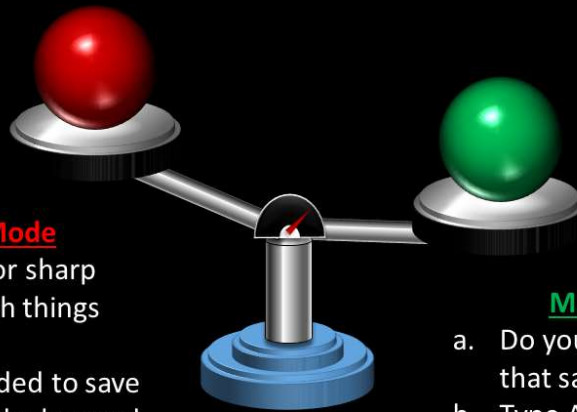
Get creative of how to utilize your insurance policy to set yourself apart from some of your competitors that may be offering similar vehicles for less. After all, a car dealer that doesn't carry insurance is putting his customers in harms' way from day one.

Loss Runs

Loss runs are free of charge and they are reports provided by your insurance company that certify the claim activity on each of your policies.

- To obtain loss history, the request must come directly from the insured and in writing (mailed request, fax, or email.) The date the insurance company receives your request, they have up to 10 business days to fulfill your request.
- If you plan to switch your insurance company for your next policy term of insurance, request loss runs for the previous 36 months and approximately 45 days prior to your policy expiration date. Your new insurance company will request loss history when reviewing to provide a quote.

Are you in “**Save a Buck**” Mode or “**Make a Buck**” Mode? It’s tough to be in both at the same time



Save a Buck Mode

- a. Do you have a razor sharp focus on how much things cost?
- b. Time is usually traded to save money. Conserve dealers and the “deep-thinkers” in the industry tend to lean this way.

Make a Buck Mode

- a. Do you subscribe to the theory that sales fixes all problems?
- b. Type A personalities and the “go-for-broke” owners naturally live in this mode.





5 quick-tips to consider if you are purchasing dealer insurance:

1) Inventory Coverage –

- Includes purchase price and the reconditioning on your autos, but does not include expected profit. Example:
 - o you buy a car at the auction for \$2,000 and put in \$500 to get it ready for sale.
 - o then you can only claim at much as \$2,500 if this vehicle is a total loss.
 - o You would likely have a \$1,000 deductible that the insurance company would cut you a check for \$1,500 if you had a total covered loss.
- * It does not matter how much you were planning on selling that vehicle for since your “expected profit” is not covered.

2) Why every dealer needs Garagekeepers Coverage?

- Garagekeepers Coverage is designed to protect you against claims arising out of physical damage to vehicles owned by others that are left in your care, custody, or control. This includes vehicles that are being serviced, repaired, stored, and **test-driven**.

3) How Medical Payments Coverage is useful even if I have medical insurance?

- Medical Payments Coverage covers medical expenses sustained by you and/or your passengers if involved in an accident in a Covered Auto. It can also be used for small claims on your premises such as a trip and fall by a customer.

4) What is Scheduled Vehicle Coverage & why would I purchase it?

- Scheduled Vehicle Coverage provides Liability and Physical Damage Coverage to vehicles specifically listed on your policy. This coverage



should be considered when you own a personal vehicle in yours or your spouse's personal name, rather than the business name.

- In most cases, it makes most sense to dissolve your personal lines auto insurance policy that you carry through Geico or Progressive. Insuring those personal exposures under your car dealer policy can result in having more coverage for less money. The icing on the cake is being able to write off the cost as a legitimate business expense.

5) What is Contents Coverage & why would I purchase it?

- Contents Coverage provides replacement cost for your personal property, including leased business personal property you have a contractual responsibility to insure in the event of a fire, burglary, vandalism, and collapse. Consider your computers, tools, furniture, fixtures, machinery and equipment.

Coverages to Consider for Reasons Less Discussed

- Damage to Rented Premises Coverage (DTRP)
 - Also known as Fire Legal Liability, provides liability coverage for property damage caused by a fire to premises leased or rented to you and arising out of your negligence.
- Broad Form Drive Other Car Coverage
 - For businesses not individually owned this coverage may be used to extend the garage policy to insure partners or corporate officers when they borrow or rent cars in their name and do not have protection of their own personal auto policy. The individuals named in the endorsement become insureds while using autos they do not own.
- Broad Form Products



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- Provides coverage for property damage to its product(s) even if the resulting damage was caused by a defect existing in the product at the time it was sold to a customer.
 - False Pretense Coverage
 - Provides coverage in the event the insured is tricked or schemed into voluntarily parting with a covered auto or the insured acquires an auto from a seller who did not have legal title.

What Should I Expect During an Inspection?

Also known as a loss control or a loss prevention inspection. These in-depth inspections are scheduled and conducted generally within 30 days from your policy effective date. Inspectors write up an extensive report about your dealership and report back to the insurance company. The insurance company then compares the report to what's disclosed on your application and looks for hazards threatening your business.

Inspections can help you save money on your dealership insurance and keep you and your employees safe. The fewer the hazards means you are less of a risk to the insurance company, which means your premiums could be lower. Remember, an inspection of your business for insurance purposes is nothing to be nervous about. If an inspector finds something that you need to fix to maintain your insurance rates, you'll be given plenty of opportunity to do so before any action is taken.

7 Great Safe Practices to Follow:

1. Keys to your vehicles should be secured in a safe hidden place during business hours and in a lock box during non-business hours.



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2. Do not allow drivers to operate your vehicle if they are not listed on your policy.
 3. Posting restricted area signs in sections of your buildings/premises where only employees are allowed.
 4. Prior to an accompanied test drive, you take a photo copy of the customer's driver's license and personal auto policy. Have the individual sign a test drive agreement that indicates their insurance is primary. You should also limit the drive to 30 minutes and on a predetermined route.
 5. Report all new hires to your insurance company immediately upon hiring.
 6. Have your fire extinguishers serviced on an annual basis by a licensed contractor or by the local fire department.
 7. Do not loan your dealer plates to anyone under any circumstances.

Purchase Price Disclosure for Items Included in the Monthly Payment

The dealer must provide a written document with the price of specified items purchased and their effect on installment payments (California Civil Code §2982).

- Items requiring disclosure include a service contract, insurance product, debt cancellation agreement ("gap" insurance), theft deterrent device, surface protection product, and contract cancellation option agreement.
- No charges may be added to the contract without full disclosure and your consent.
- The document must include the cost of the monthly installment payments with and without items listed.



Prohibited "Certified" Used Vehicles

Used cars advertised as "certified" must meet specific requirements. The dealer must perform a complete inspection of the vehicle **and** provide consumers with a copy of the inspection report.

Dealers are prohibited from advertising a vehicle as "certified" if the:

- Odometer does not indicate the actual mileage of the vehicle.
- Vehicle was reacquired by the manufacturer or dealer under state or federal warranty law (i.e. "lemon law").
- Vehicle was damaged by a collision, fire, or flood unless repaired to safe operational condition prior to sale.
- Title was branded as a lemon law buyback, manufacturer repurchase, salvage, junk, non-repairable, flood, or similar designation.
- Vehicle has frame damage or was sold "as is".
- Seller failed to provide the buyer with a complete inspection report of all components inspected.

Important:

- Check www.safercar.gov to find out if your vehicle has a safety recall notice that has not been repaired.

Record of Complaint Form

If the dealer fails to comply with their legal obligations, please complete and mail a Record of Complaint Form (INV 172A) to the Department of Motor Vehicles at one of the addresses listed on the form. These are the rotten apples that spoil a bunch and have given this industry a bad name for decades. With that said, be prepared to have to prove your case to a DMV Investigator so you had better have your ducks in a row.

Dealer-to-Dealer Disputes

When possible, attempt to resolve the problem with the other party or firm. If unable to obtain a resolution, completing and mailing the Record of Complaint Form (INV 172A) to the Department of Motor Vehicles will usually trigger an investigation.

Contacting a private attorney, pursuing a judgment through the small claims division of your local county court, or a legal aid group for assistance are always options as well. Refer to the County

Government section of your local telephone directory for the county court in your area.

Dealer Disputes



California Used Car Dealer Insurance Buyer's Guide Disclaimer.

I've seen a need to clarify a variety of hundreds of situations and misunderstandings for dealers over the years. California used car dealer have always had tons of insurance questions that I hope to answer here. In addition, while I was attempting to be thorough without diving into too much detail, this Buyer's Guide was designed to be exactly that...a guide. The California Department of Insurance and the California Department of Motor Vehicles websites should be referenced for information that is more official.



Please give me your thoughts and be brutally honest.

If you can appreciate the work that went goes into developing a document like the California Used Car Dealer Insurance Buyer's Guide, let me know. Let me know how we can improve this and future content for you.

I can go into as much detail as you folks would like to see. I just need the feedback from my dealer friends out there to kick me in the right direction on what information that would like me to include in future revisions or separate documents.

Not enough info or do you think I can help your business? I am here to serve.

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Also check out the Your Car Dealer Podcast available on iTunes: <https://ycdb.us/YCDB-Podcast>

or click here to hear it on Stitcher Radio: <https://ycdb.us/Podcast-Stitcher>

