

Inflation and F&I profitability:

A look at where
we've been and
what's ahead



ASSURANT®

Dealer Services



Dealership F&I: A major profit center under pressure

In times of rapid change, F&I is a critical tool for maintaining dealer profitability. This is especially pertinent in 2023 as a range of competing trends create a challenging — and constantly shifting — picture for the industry. Rising vehicle inventory, a potentially cooling economy, and rising rates may mean F&I has to play a more prominent role once again. But this vital profit center is also under pressure from another troubling trend — inflation. In fact, rising prices in automotive parts and repairs has caused a double-digit increase in mechanical repair claim costs that could hinder the profitability of vehicle service contracts.

Today, inflation appears to be stabilizing. But the effect of higher prices has already begun to appear in dealer balance sheets. In response, many in the industry have begun to institute contract rate increases — up to 10% in some cases. Inflation is also affecting consumer behavior. Buyers are less likely to purchase a new vehicle at inflated prices. But, when they do buy, they may be more inclined to protect their investment with an F&I product. Dealers that can quickly adapt their F&I strategies to these new realities — without negatively affecting their customer experience — will be in a unique position for continued growth.

As the leading provider of protection products in the U.S., Assurant's actuarial team has leveraged our extensive database and expertise to develop the Assurant Global Auto Mechanical Repair Inflation Report to track claim costs, frequencies, and other relevant trends impacting the performance of our F&I products.

**2022 mechanical repair claim costs:
up 13% from 2021¹**

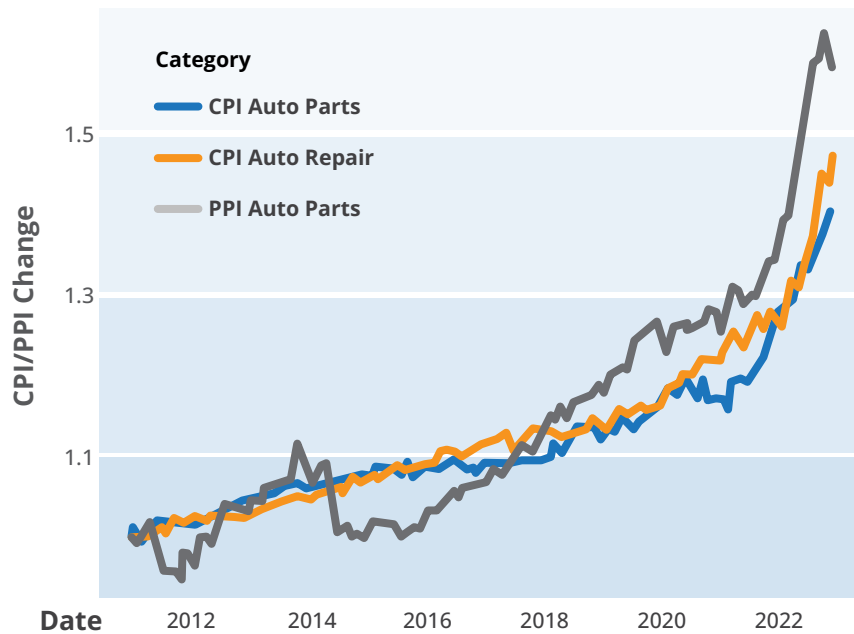
¹Bureau of Labor & Statistics

Automotive inflation on the rise

Auto repair inflation experienced historic increases in 2022, outpacing inflation in the general economy. Vehicle purchase prices also reached record highs in 2022, but have recently leveled off. Rising rates and easing of shortages likely played a role in price stabilization.

Vehicle Repair Consumer Price Indices

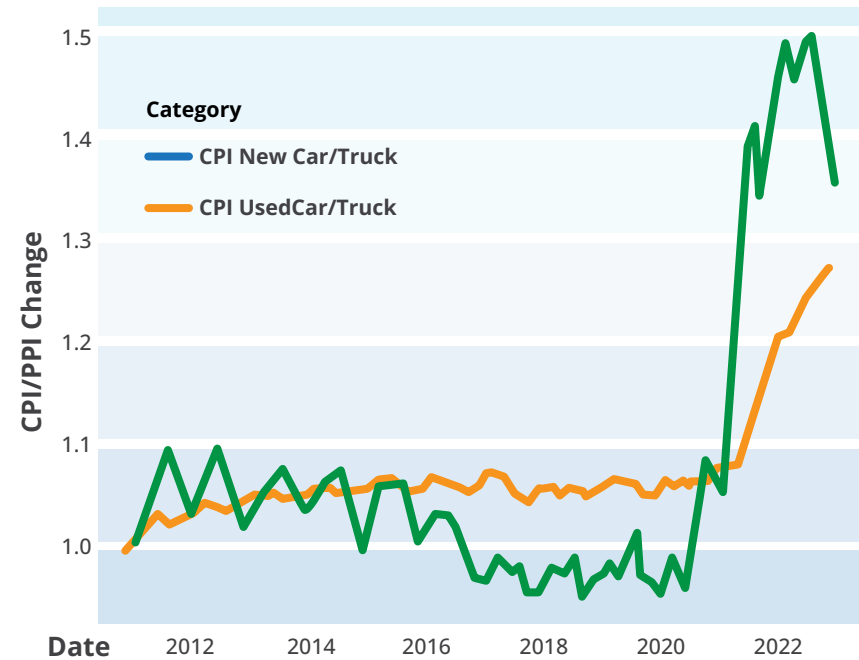
- Auto Repair & Parts CPI outpacing overall inflation (up 13.0% & 9.8% respectively)
- Producer Price Index down from October high which could be leading indicator of slow down to come in Auto CPI



Bureau of Labor & Statistics

Vehicle Price Consumer Price Indices

- Used vehicle prices have fallen quickly over the last few months from their highs as rising interest rates took a bite out of demand
- New vehicle prices showing signs of stabilizing, but will likely remain elevated as shortages persist



Date

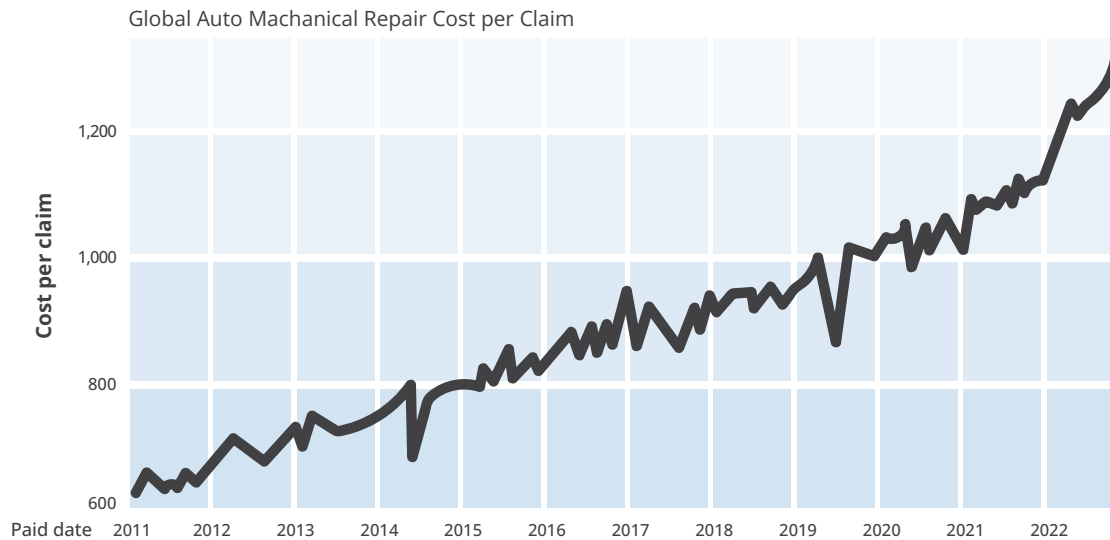
Cost per claim up

In 2022, repair claim costs increased by a whopping 13% from 2021. That's twice the rate that claims typically rise in a one-year period.² Claim costs stabilized in Q3 2021 before resuming their climb in Q4.

As repair costs increase, so does the need for high-quality F&I protection products.

Cost per Claim

- Claim costs experienced another spike in 22Q4 after stabilizing in Q3
- Q4 average claim cost 4.4% higher than Q3



Cost per Claim	Y-o-Y change
2020 \$1,023	+\$47 +5%
2021 \$1,093	+\$70 +7%
2022 \$1,236	+\$143 +13%

Bureau of Labor & Statistics

²Automotive News

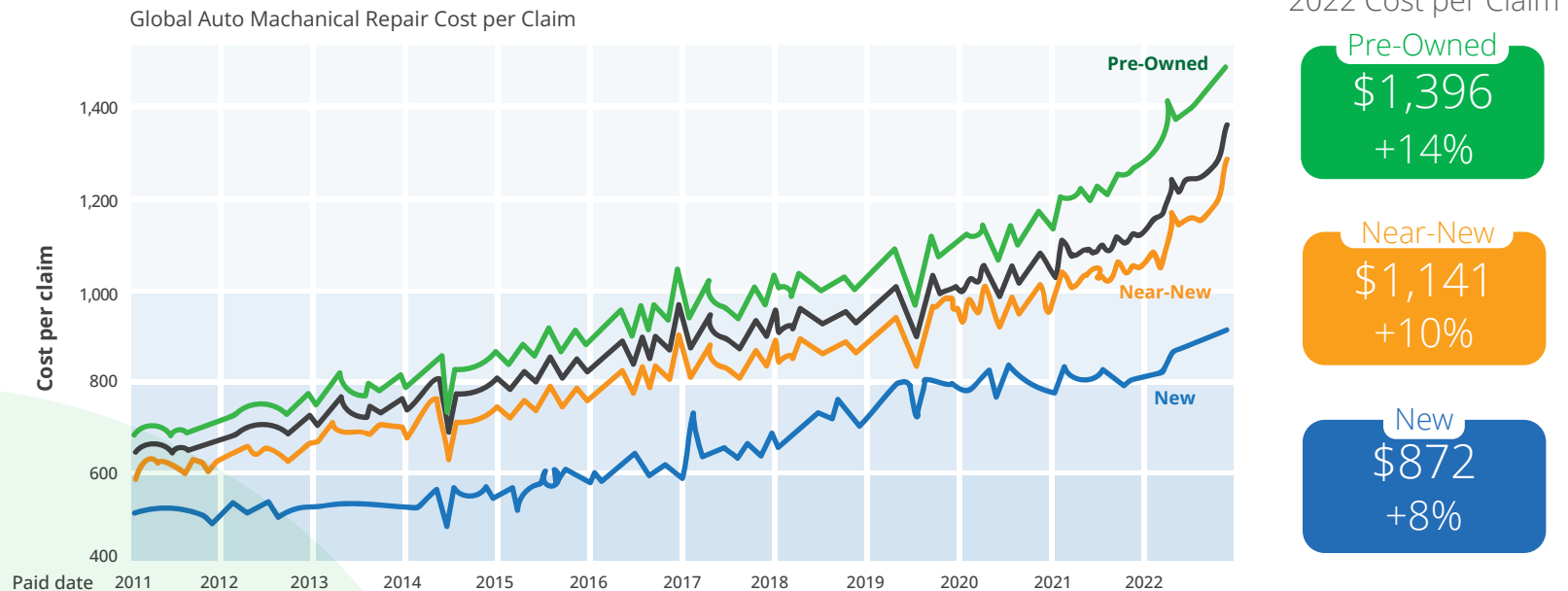
Rising repair prices could potentially increase vehicle service contract demand

Pre-owned and near-new vehicle repair claims experienced double-digit growth in 2022. This can make vehicle service contracts more attractive to consumers as repairs become more expensive. Though the number of claims was down, the severity or cost per claim was up significantly.

Cost per Claim New vs Used



- Spike in claim costs in Q4 driven by near-new and pre-owned vehicles



Bureau of Labor & Statistics

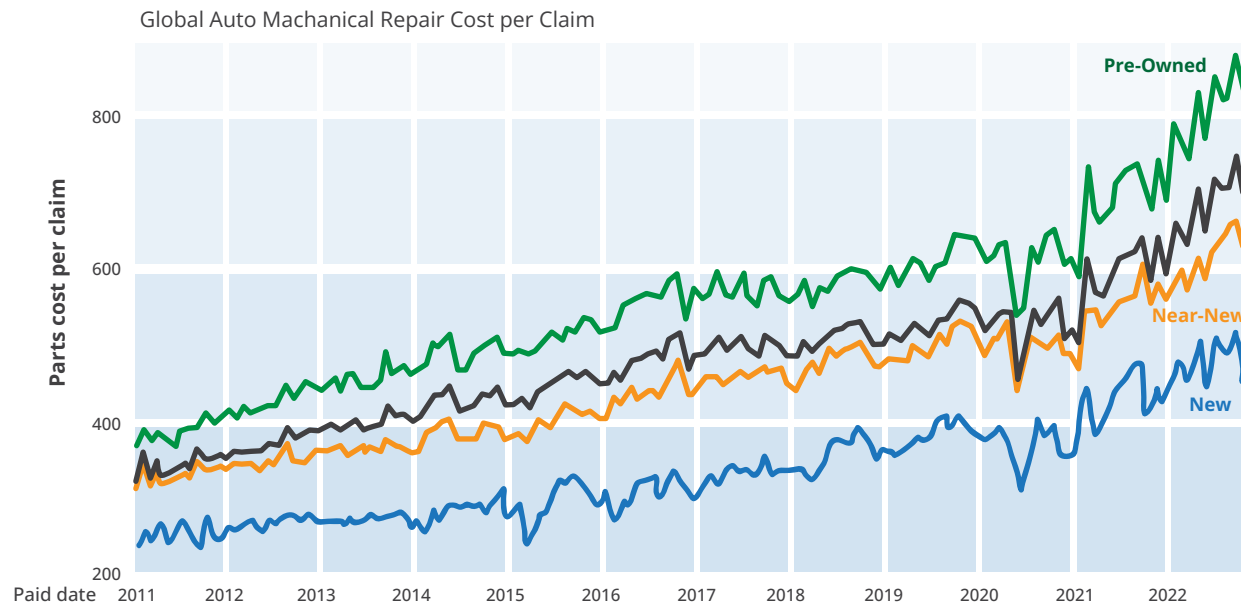
As repair costs rise, more consumers may be more inclined to purchase F&I products as a hedge against inflation.

Parts inflation the biggest factor

The cost of parts was the single biggest contributor to repair inflation. Pre-owned parts experienced an eye-watering 17% jump year over year. Near-new parts came in at second with a 12% increase. And new vehicle parts spiked at 13%.

Cost per Claim Parts: New vs Used

- Near-new and pre-owned parts costs continue to climb in Q4



2022 Parts Cost
per Claim

Pre-Owned

\$814
+17%

Near-New

\$621
+12%

New

\$486
+13%

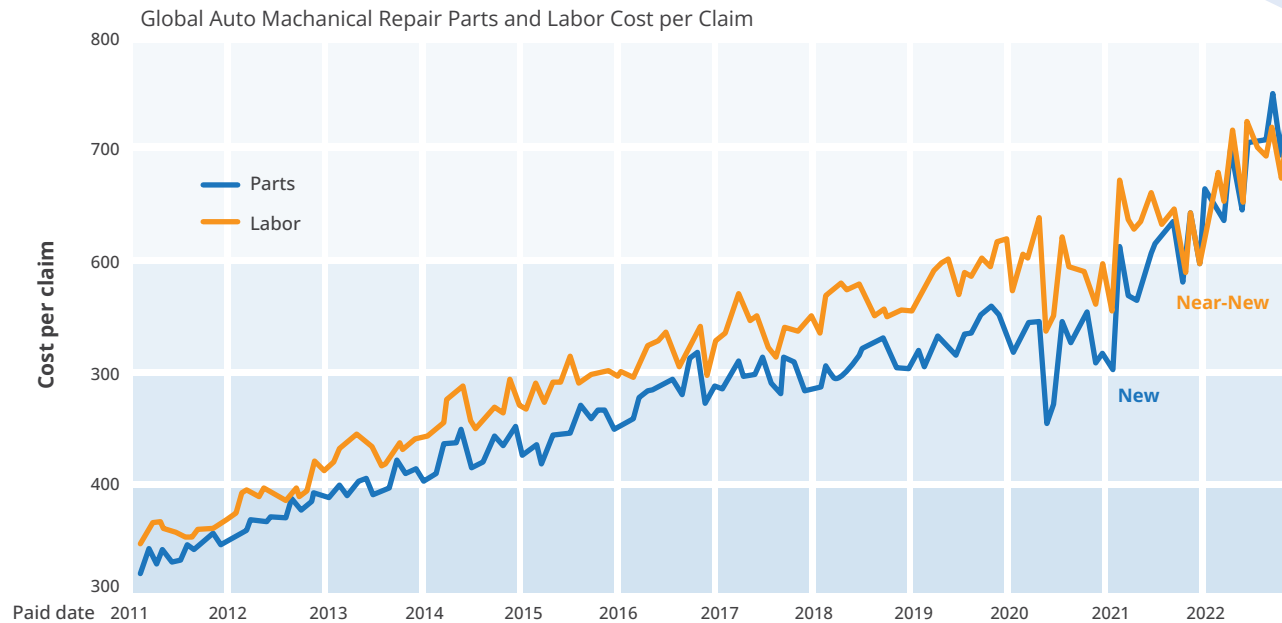
Labor vs. parts inflation: a reversal

In 2022, dealers paid more money for labor in their dealership, as labor costs jumped 11%. However, the cost of parts rose even faster. Notably, the cost of parts exceeded the cost of labor for the first time since 2011.

For the first time since 2011, the cost of parts exceeded the cost of labor.

Cost per Claim Parts & Labor

- Parts costs continue to rise at a faster pace than labor
- Average parts costs now higher than labor



2022 Parts & Labor
Cost per Claim

Parts
\$694
+17%

Labor
\$692
+11%

Auto repair labor trends drive dealership costs

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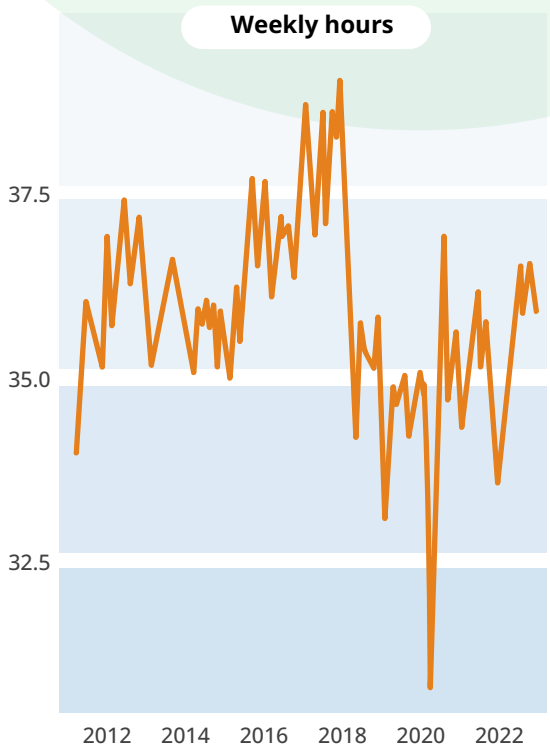
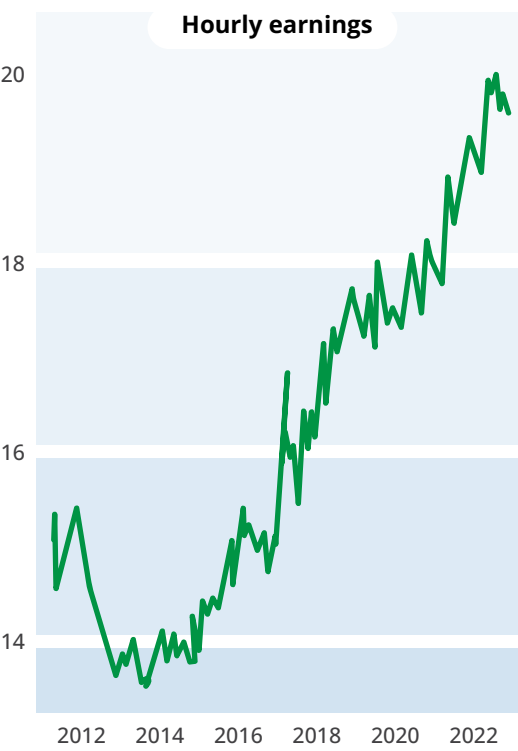
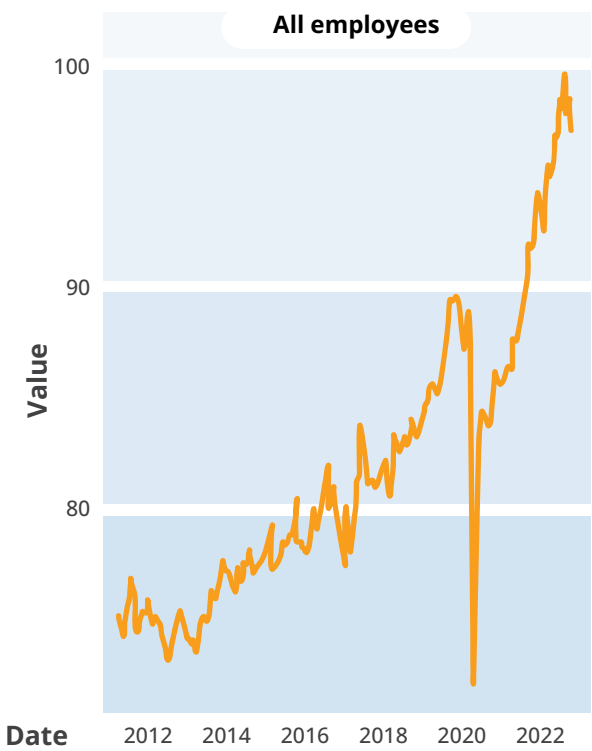
High employment and rising hourly rates resulted in higher overhead for dealers.

Auto Repair Labor Trends

Employment level index down from all time high, but remains historically high; some movement due to seasonality

Average hourly earnings have also come down from historic highs

Productivity and labor utilization remains stable, but below 2017 levels



The road ahead: maintaining F&I growth and profitability

In 2022, we've seen inflation drive auto repair costs and F&I claims to an all-time high. Parts were the single biggest contributor to this trend, especially in near-new and pre-owned vehicles. In fact, average parts costs are now higher than labor for the first time since 2011. As a result, inflation has become the single largest risk to profitability in the F&I office, a critical revenue center for dealerships already challenged by low inventory, supply chain shortages, and recessionary headwinds.

To maintain robust growth in the F&I office, action must be taken now. So far, the industry has responded with rate increases, but this isn't without its own risk. Rate increases, while necessary, can get complicated and should be augmented by measures that optimize the overall F&I program and add real, tangible value for the customer. This can help dealers strike a balance between the immediate need for improved revenue with the long-term need for a positive customer experience and long-term growth. Flexible pricing structures can go a long way here. By providing customers with greater flexibility in product coverage and deductibles, dealers can tailor more efficient options for their customers, helping them offset the impact of increases. Additionally, optimizing the service network, when the dealer isn't an option, can go a long way in lowering costs, which can then be passed on to the consumer.

Optimized F&I programs drive profit in inflationary environments.



F&I and inflation: how Assurant Dealer Services can help

Maintaining profitability in an inflationary environment isn't easy, as consumers have less spending power and overhead is higher. Having a fully optimized F&I program in your corner can go a long way in helping you manage this complex challenge. We've recently introduced Assurant Vehicle Care, an innovative suite of F&I products and tools designed to meet the needs of modern vehicle owners. This game-changing product line offers customers added value through a superior customer experience, expanded coverage, and pricing flexibility that maximizes the customer's budget, giving dealers more attachment potential.

Assurant Vehicle Care is also strategic and surgical on rates, with coverage that's optimized by brand and other factors that influence claims costs, helping dealers maintain a high-performing program. It also includes a suite of omnichannel needs-based marketing tools that builds value by system and coverage level. This is critical during inflationary periods because it helps consumers choose the right product for their lifestyle and driving habits, which maximizes their investment.

Assurant Vehicle Care is an optimized F&I program that can help you manage inflationary risk to F&I profitability in five ways.

1. Flexible pricing structure
2. Optimized, efficient coverage
3. Better customer experience with digital-forward claims processing
4. All reinsurance options aligned to your needs for today and tomorrow
5. Extensive boots-on-the-ground support from our experts in F&I

Training is also critical to maintaining F&I growth. Continue to train your F&I and sales staff on how to effectively build value in these solutions. Your sales team is the first point of contact for customers, and they play a crucial role in promoting and selling F&I products. Make sure they're knowledgeable about the various options available and the benefits they offer to customers.

Your F&I staff is responsible for presenting and selling F&I products to customers, so it's important that they're skilled at this task. Providing training on how to effectively sell and overcome objections can help increase the number of F&I products sold and, in turn, drive higher profit margins. The Automotive Training Academy by Assurant offers industry-leading training for your F&I team that's proven to help drive PVR, overall revenue, and CSI scores.

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



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