

February, 2008

## **Incentives & The Impact on GAP Sales Success**

### **Need for GAP Coverage and Fee Income Increases**

Most Credit Unions offer GAP coverage on their auto loans because of the Fee Income opportunity and to protect their members from the financial hardship that can occur if their vehicle is stolen or deemed a total loss. GAP coverage has quickly become the most successful loan related product sold by Credit Unions and an important source of fee income.

GAP coverage has also become an important “risk management tool” for Credit Unions. The combination of more aggressive Lending habits (higher LTVs and longer loan terms) by Credit Unions and the dramatic Depreciation of many new vehicles has increased the need for Credit Unions to protect against the potential of large Total Loss GAP situations.

### **Intangible Factors Impacting GAP Sales Success**

Frost Financial Services (Frost) serves more than 800 Credit Unions nationwide and is constantly monitoring the key factors that impact sales success with our clients. Although there are always some exceptions to the following basic guidelines, here is a quick summary of the major factors related to cross-selling success.

#### **Credit Union Profile**

Frost has found that there are several key characteristics that greatly impact the success Credit Unions have selling GAP coverage. Where does your credit union fit in the following categories?

- 1.) **Size of Credit Union** – Very large Credit Unions with lots of branches generally have lower sales penetration rates. Mid Sized and small Credit Unions will generally have higher penetration rates, but the reason is not just because of size. Here are some “**average**” penetration rates based on size:
  - ◆ Large Credit Unions – 15% to 25%
  - ◆ Medium Size Credit Unions – 25% to 35%
  - ◆ Small Credit Unions – 20% to 30%

- 2.) **Sales Culture at Credit Union** – Everyone talks about developing a Sale Culture, but creating a true sales culture can be very elusive and somewhat ambiguous. Large Credit Unions with lots of branches seem to have the hardest time implementing a true sales culture. Mid Size Credit Unions are generally the most successful in this area. Sales Culture is very important to sales success, but it is hard to quantify and everyone thinks they have one.
- 3.) **Lending Culture, Conservative or Aggressive** – Credit Unions with an aggressive lending culture will generally be more successful selling GAP because their borrowers have a greater need for the coverage. Here are some of the key parameters we consider in this category;
  - ◆ Longer Loan Terms – i.e. 60, 66, 72 and 84 months
  - ◆ High Loan to Value limits – Greater than 100% LTV
  - ◆ Credit Quality – B, C, D and E Credit
- 4.) **Call Center or Face to Face** – It is much easier to cross-sell GAP when you are face-to-face with the member. Most large Credit Unions generate a significant portion of their loans through a call center. GAP Sales can be made in a call center environment, but it does create some obstacles. Here is a suggestion to increase GAP sales in a call center environment.
  - ◆ Pay both the Seller and Closer. Many call center originated loans are closed at a branch and the closer needs to be rewarded for helping to close the deal.
- 5.) **Indirect Lending** – Loans made through an Indirect lending channel reduces the number of opportunities for your staff to cross-sell GAP coverage. Valid or not, many loan officers will resent the Indirect lending channel and have a hard time accepting the prices charged by the Auto dealers.

### **Incentives Work!!!**

Based on the real life results of our Credit Union clients, there is nothing complicated about the correlation between Incentives and Sales penetration. In a nutshell, **“Pay more, Sell more”**. With very few exceptions, GAP sales penetration levels are directly related to the amount of incentives paid for cross-selling the coverage.

Large Credit Unions can achieve good sales results, but they generally have to have a strong sales culture and need to pay bigger Incentives. Larger Credit Unions that pay \$35 to \$50 per GAP waiver can achieve penetration rates of 30% to 40%. Larger credit Unions that pay \$5 to \$15 per GAP waiver will generally have penetration rates of 10% to 20%. Medium Sized Credit Unions can often achieve high penetration rates with incentives of \$20 to \$30. Medium sized Credit Unions that pay \$35 to \$50 can hit penetration rates of 50% to 60%.

### **Incentives and Price to the Member**

Credit Unions consistently offer the best value for GAP coverage compared to Auto Dealers and Banks. The average price charged by Auto Dealers is now around \$545 and Banks will typically charge \$295 to \$395. While most of our Credit Union clients have gradually increased the price of GAP coverage to their members, the average price is still only about \$245.

Because consumers today are much more aware of the need for GAP coverage, the perceived value has also increased dramatically during the last few years. Credit Unions also have found that GAP coverage is an important “risk management tool” and that it is in their best interest to have their auto loan portfolio insured. The solution is to balance the Incentive and Price to the member to maximize sales success.

Based on our experience working with more than 800 Credit Unions, **“Every dollar (\$1) spent on incentives will generate more than five dollars (\$5) in additional fee income.”** Sale success will vary by Credit Union for the reasons discussed earlier, but the major reason for “success or mediocrity” is Incentives!!