



*THE WAY*  
**FORWARD**

*Driven by* COX AUTOMOTIVE

# Are You Prepared For What Is To Come On Product Cancellations?

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YOUR PRESENTERS



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# F&I Products are big business – and so are cancellations

Active aftermarket product providers\*

**565+**

\*Internal F&I Express Data

Vehicle Service Contract industry\*

**\$35B**

\*Colonnade, Vehicle Service Contract Industry, Market Commentary – January 2019

Number of F&I aftermarket products part of the final deal\*

**2**

**\$2,500 (avg consumer cost)**

\*2019 Dealertrack & F&I Express transaction data

Average cancellation refund to consumer

**\$433.08**

\*Internal F&I Express Data

Cancellation refunds may amount to\*

**\$4B**

\*Using Dealertrack and F&I Express 2019 transaction data, cancellation refunds may theoretically amount to, or even exceed, a \$4B/yr industry

To best frame what's to come, let's understand where you are today

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## Poll Questions:

1. Do you believe you are responsible to ensure an aftermarket refund to the consumer in the event of an early loan payoff or early termination?
2. How many dedicated employees (FTE) do you have assigned to work on aftermarket contract cancellations?

# Refunds on Ancillary Products

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- GAP Waivers
- Service Contracts
- Credit Life Insurance Policies

# What are the Key Issues?

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- Contract Terms
- State Law Requirements
- Party Responsible for Refund
- Timing
- Calculation Methodology



# INTRODUCTION to GAP Waiver Refunds

Primarily considered non-insurance products under state law

GAP waiver contract waives buyer's or lessee's liability in the event of a total loss where insurance proceeds are less than early termination liability

Majority of states require a refund in the event of GAP waiver cancellation

**10** States place an affirmative obligation regarding the refund on the creditor

Typical refund calculation is a pro-rata refund of the unearned portion of the purchase price following expiration of the "free-look" period

State Law Summaries: Colorado, New Jersey, and Texas

# GAP Waiver Refunds: **Colorado**

- **Party Responsible for Refund:** Creditor
- **Timing:** 30-day “free-look” period
- **Calculation Methodology (Within Free-Look Period):**  
Full refund so long as no loss
- **Calculation Methodology (After Free-Look Period):**  
Any unearned portion of the purchase price as specified in GAP contract



# GAP Waiver Refunds: **New Jersey**

- **Party Responsible for Refund:** Creditor (or must cause administrator or retail seller to provide refund)
- **Timing:** 30-day “free-look” period; refund is due within 60 days of the event terminating the finance agreement or within 60 days of the receipt of borrower’s cancellation of GAP waiver
- **Calculation Methodology (Within Free-Look Period):** Full refund
- **Calculation Methodology (After Free-Look Period):** Pro rata refund of the purchase price less any cancellation fee no greater than \$50



# GAP Waiver Refunds: **Texas**

- **Party Responsible for Refund:** Creditor or administrator
- **Timing:** 30-day “free-look” period
- **Calculation Methodology (Within Free-Look Period):**  
Full refund if total loss or theft has not occurred
- **Calculation Methodology (After Free-Look Period):**  
Terms of the contract control



# INTRODUCTION to Motor Vehicle Service Contract Refunds

Primarily considered non-insurance products under state law

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States require the service contract provider to issue the refund

3 States mandate that if a provider fails to provide consumer with a refund then consumer may request performance from the insurer

Typical calculation is a full refund of the purchase price if the contract is returned and cancelled within 20 days or cancelled within 10 days following delivery of the contract

State Law Summaries:  
Arizona, Florida, and North Carolina

# Motor Vehicle Service Contract Refunds: **Arizona**

- **Party Responsible for Refund:** Statute does not expressly obligate a specific party
- **Timing:** Specific timeframes not expressly provided in statute
- **Calculation Methodology:** Pro rata refund after deducting for benefits paid and administrative expenses associated with the cancellation



# Motor Vehicle Service Contract Refunds: **Florida**

- **Party Responsible for Refund:** Service contract provider
- **Timing:** Any service agreement is cancellable by purchaser within 60 days after purchase
- **Calculation Methodology (Within 60 Days):** 100 percent of the gross premium paid less any claims
- **Calculation Methodology (After 60 Days):** Not less than 90 percent of the unearned pro rata premium less any claims



# Motor Vehicle Service Contract Refunds: **North Carolina**

- **Party Responsible for Refund:** Not expressly provided in statute
- **Timing:** Consumer may cancel the contract at any time after purchase
- **Calculation Methodology:** Pro rata refund less any claims paid, less a reasonable administrative fee not to exceed 10%



# Credit Life Insurance Policy Refunds

- **ALL 50 STATES REQUIRE CREDIT LIFE INSURER TO PROVIDE THE REFUND**

- **CALIFORNIA**

- **Timing:** Refund is due promptly to the insured
- **Calculation Methodology:** Formula must be filed with and approved by the commissioner

- **MASSACHUSETTS**

- **Timing:** Specific timeframes not expressly provided in statute
- **Calculation Methodology:** Refund of any unearned charges for life insurance must be computed on a method which is at least as favorable to the borrower as the actuarial method

- **OHIO**

- **Timing:** Refund is due promptly to the insured
- **Calculation Methodology:** Formula must be filed with and approved by the superintendent

# Compliance Risks

- Individual Actions
- Class Actions
- Regulatory Reviews



# Compliance Checklist

A man in a dark suit and tie is sitting at a desk, talking on a white mobile phone. He is looking at a laptop screen. The background is a blurred office setting. The overall tone is professional and focused.

- Contract Terms
- State Law Requirements
- Party Responsible for Refund
- Timing
- Calculation Methodology

# Has your opinion changed...

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## Poll Question:

1. Do you believe you are responsible to ensure an aftermarket refund to the consumer in the event of an early loan payoff or early termination?
2. How do you handle aftermarket contract cancellations today?

# A New Mindset to Meet the Needs of the Market

Market  
Transparency

Collaboration  
& Data Sharing

Consumer  
Focus

Constructive  
Engagement

Process  
Upgrades

# Loan Lifecycle: CONTROL POINTS



# Loan Lifecycle: **ORIGINATIONS**

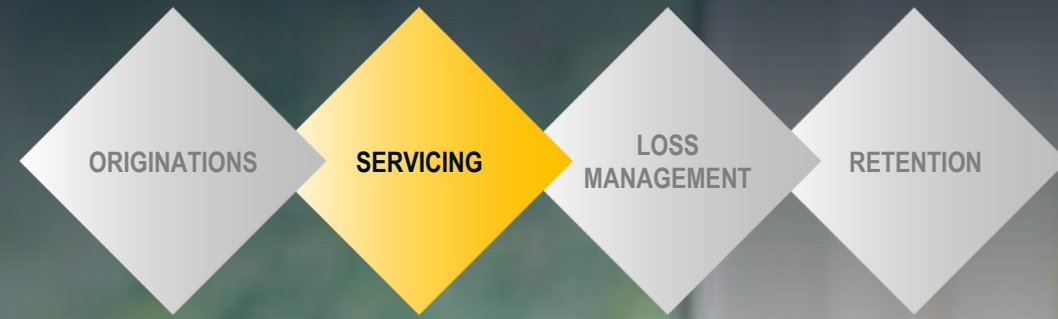


**1** Capture information at time of funding

**2** Review policies for dealerships and products

**3** Monitor dealership behavior on pricing

# Loan Lifecycle: **SERVICING**

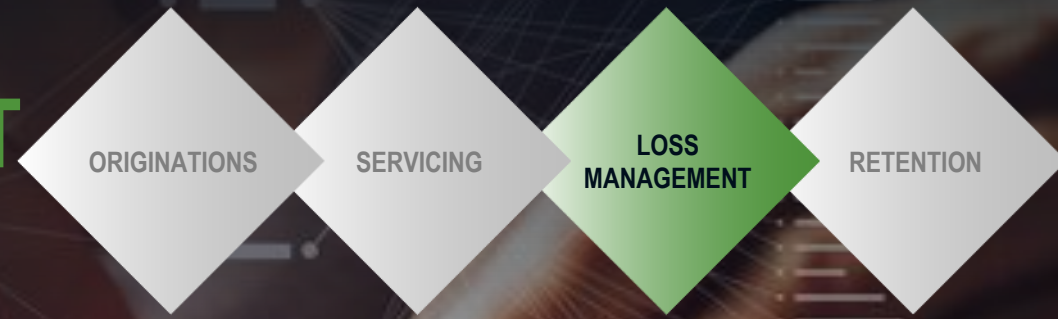


**1** Electronically file cancellation requests

**2** Continuously monitor “refunds owed”

**3** Use exact cancellation refund amounts

# Loan Lifecycle: **LOSS MANAGEMENT**



**1** Ensure follow-through on cancellation funds

**2** Charge dealer reserve to improve refund collections

**3** Arm dealerships to aid in collection

# Loan Lifecycle: **RETENTION**

ORIGINATIONS

SERVICING

LOSS  
MANAGEMENT

**RETENTION**

**1** Real-time cancellation  
refund quotes for  
dealerships

**2** Apply refunds as  
additional down  
payment in new deals

**3** Modify policies –  
allowing dealerships to  
remit the payoff of  
refund

# Encouraging Initiatives Happening Now

- ✓ Re-engineering internal processes
- ✓ Automating the cancellation process
- ✓ Obtaining exact cancellation refund amounts
- ✓ Using dealership reserve chargeback for refunds

# Q&A

## THE WAY FORWARD

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# Thank You!



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