

Service Contracts:

How to efficiently process claims and
maintain customer satisfaction



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As a service department professional, you know how important your service department is to your dealership. Not only is it an important source of revenue, but it's also an opportunity to positively impact customer satisfaction. Your department's ability to consistently produce satisfied customers can maximize the lifetime value of a customer and lead to customer retention and increased service department sales.



When your customer's repair is covered by a service contract or warranty, it demands special consideration because it typically requires your service department to file a claim with the service contract administrator to authorize work. If processed correctly, this step is seamless to the customer. If processed poorly, this step can cause the repair to take longer than anticipated and lead to unhappy customers.

This article will offer some suggestions to help your service department achieve optimal efficiency when working on mechanical repairs covered by service contracts.

Why should I care about processing service contract claims?

Service contract claims are unique in that they give the service department the opportunity to upsell service and generate sales while creating satisfied customers. It's a win-win situation – additional services can be performed at the time of the repair which could be a cost savings to your customer and commission for the service advisor.

In addition, your service department may complete repairs for a customer who purchased their vehicle and service contract at another dealership. You can earn this new customer for both your service department and the new or used vehicle sales department by making sure the customer's time is valued and the processing of the claim is as efficient as possible.

Risks for improperly processing claims

Giving the customer bad news is never fun, but sometimes can't be avoided due to unforeseen circumstances. The last thing you want to do is tell a customer there is a problem with their repair due to the claim being processed improperly. Your service department's inability to efficiently process the claims process can lead to:

- Failure for the claim to be covered
- Claim not being paid to the full extent of coverage
- Multiple calls with the service contract administrator
- Repair delays resulting in extended time in the service area and capacity issues (hours or days)
- Negative customer service scores
- Decreased service department revenue
- Loss of a valued customer

Rewards for efficiently processing claims

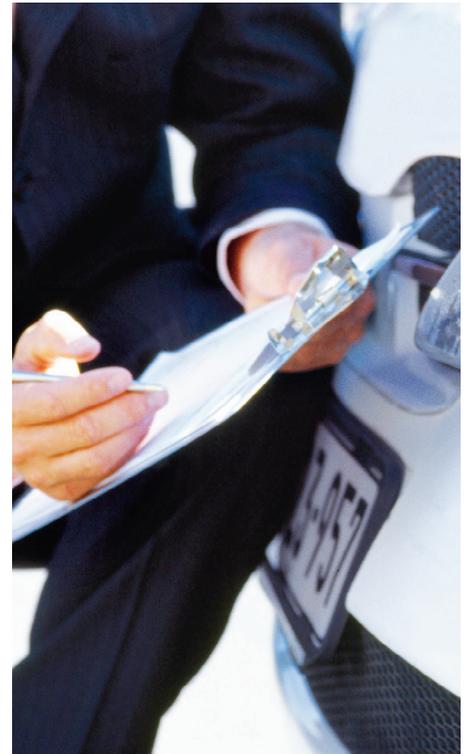
Knowing how to efficiently and accurately process service contract claims is within your control and can result in:

- Fast claim approval
- Quick turn around on claim payments
- High customer satisfaction scores
- Increased service department revenue
- Customer retention
- Customer referrals and new business

What products require a claim to be filed?

The most common types of products that require a claim to be filed are service contracts, road hazard tire & wheel, and limited warranties. Below is a brief description of each:

- Service contract – Covers the costs for repairs to certain systems and components as defined by the coverage terms of the contract. This coverage is typically purchased by the customer at the time of vehicle purchase. Different contracts have different coverage levels. Although sometimes called an "extended warranty," a service contract is not a warranty.
- Road hazard tire & wheel – Provides coverage for the repair or replacement of wheels and /or tires damaged as a result of a road hazard such as potholes and debris in the road.
- Limited warranty – Covers the costs for repairs to certain systems and components as defined by the coverage terms of the warranty. Typically comes with a used vehicle and is included in the purchase price.





Suggestions for effectively managing service contract claims

Our recommendations for effectively managing the claims process can be categorized into four segments – preparation, communication, investigation and follow up. Keep in mind the suggestions presented below are not in chronological order and can occur simultaneously.

Preparation

Service contract claims all begin with the customer dropping off their vehicle for service. Simple claims can progress from first notice of loss to a coverage decision in minutes, while complex claims – like drive train components – can take days. So when initiating a claim, preparation and information gathering are critical. Most service contract administrators require pre-authorization before repairs can begin, so the goal should be first call resolution. Having all the basic information regarding the vehicle ready helps the administrator make a quick decision and expedite the claims process, so you can begin repairs.

- Gather key information needed to initiate the claim with the service contract administrator:
 - Contract Number
 - Customer's full name
 - Customer's address
 - Last 6 or 8 digits of the VIN
 - Current mileage on the vehicle
 - Date and number of the repair order
 - Description of breakdown, its probable cause, and the extent of the repairs needed
 - Accurate estimate, including covered parts and related labor
 - If applicable, sublet shop's name, phone number and contact person
- Document all of the customer's repair issues and concerns in detail.
- Ask the customer if they have a service contract, especially if the vehicle is out of factory warranty – sometimes the customer momentarily forgets, and this will remind them to grab their contract.
- Check the vehicle repair history.
- Call in all claims to the service contract administrator even if you are sure the component is not covered. In situations where the failure does not appear to fall under the term of the contract the customer purchased, you can set the customer's expectations that the part is most likely not covered and advise them you will call the administrator to confirm.
- Submit completed estimates to the service contract administrator including parts and labor, and make sure to consider all needed fluids (coolant, oil, automatic transmission fluid etc.), sealants and torque to yield bolts.
- If a large repair is needed such as the engine, transmission or differential, provide the customer and service contract administrator with multiple repair options.

Communication

The most important thing you can do during the service contract claims process is maintain open lines of communication between the service advisor, technician and customer. This will help you understand their repair issues and concerns, set expectations and resolve their claim quickly and efficiently. Before the mechanical breakdown has been diagnosed, it's important to communicate with both the customer and the service contract administrator:

- Contact the service contract administrator if you have any questions related to the coverage of a repair under the customer's contract – the customer may call the contract administrator with questions.
- Encourage the customer to contact the service contract administrator with questions about benefits such as rental car, towing or trip interruption coverage – each administrator may have different benefits.
- Commit to a repair completion date only after a diagnosis is made and the claim has been submitted
- Accurately set the customer's expectations regarding the repair completion date – larger repairs will take more time to investigate and complete.
- Document the customer's concerns during all phases of the process, even if they are small.

- Be specific about what repairs are covered – don't speak in generalities regarding coverage such as "it should be covered" or "the service contract administrator will not cover that."
- Diagnose trouble codes – if the service advisor sees something odd on the technician's notes, then it will likely be questioned by the claims adjuster.

Investigation

The investigation process includes the communication with the service contract administrator to diagnose the mechanical breakdown, confirm coverages and ultimately close out the claim:

- Work with the service contract administrator to actively investigate the cause of the failure and the extent of damage.
- In the event an inspection is assigned by the service contract administrator, provide appropriate access for the inspector to verify and document concerns. While the inspector does not make coverage decisions, they are the eyes and ears of the service contract administrator.
- For complex issues or repeating problems, conduct a customer interview to gather information that will help determine the failure.
- If you have a unique or rare failure that your technician is having difficulty diagnosing, consider contacting the service contract administrator. With the large volume of claims the administrator's handle, the cause of a unique failure might be common knowledge to the administrator and they can assist your technician with the diagnoses.

Follow up

After the mechanical breakdown has been diagnosed, claims have been submitted and repairs are in progress, it's important to follow up with the customer to keep them informed of the repair status:

- Keep the customer informed of any delays in the repair process such as an independent inspector assigned to examine the car, parts back ordered or shipping delays.
- Review the final repair order with the customer to explain any customer pay portions not covered by the service contract.
- Discuss payment options on covered claims to ensure the claim is paid quickly and the customer gets their vehicle back as soon as possible.
- Communicate quickly with the customer when the vehicle is repaired to prevent excessive rental car charges.



How to prevent losing a sale from large ticket repairs

Most vehicle service contracts will have limits to the amount that can be paid for an individual claim or for all claims paid during the contract's term. In addition, many vehicle service contracts have a limit of the Actual Cash Value (ACV) of the vehicle for an individual claim and the vehicle purchase price for all claims paid during the contract term. If you have a vehicle that needs a large repair, such as an engine replacement, and the ACV of the car is less than the repair cost, what are your options?

In some cases, the factory Original Equipment Manufacturer (OEM) part simply costs more than what can reasonably be paid to repair the car. For example, the vehicle ACV is \$5,000 and the factory OEM engine costs \$6,000. As customers drive their cars longer and vehicle service contract terms extend to 8-10 years in length, this situation is likely to occur.

If this happens, it's recommended to conduct a vehicle owner interview. Ask the owner questions such as how much longer do they plan on keeping the vehicle or how do they use the vehicle? If the customer has long-term plans for the vehicle such as keeping it well past the contract expiration or passing it along to a relative, they may be willing to pay the difference to use the factory OEM part.

Using a collaborative approach, you may be able to negotiate with the service contract administrator, your parts department and the vehicle owner to share the additional cost difference between an aftermarket part and the factory OEM part to make the sale. If the customer does not want to share the cost, make sure to have viable parts options available. Reputable recyclers will often provide parts and labor warranties on their used parts. The mileage of the donor vehicle (the source of the used part often referred to as a Like Kind and Quality (LKQ) part) can be verified with online sources such as CARFAX® and AutoCheck®.

Additionally, there are many reputable re-manufacturers of engines and transmissions that offer parts and labor warranties which often match the factory OEM warranty at a reduced cost. It's important to give the customer all repair options and have a discussion so the customer feels part of the decision on how their car is going to be repaired.

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A-112005612-A (05/15) 112005612

