

Auto Dealers Market Gives Rise to **New Challenges**

The auto dealers market is becoming increasingly complex. Higher valuations have raised borrowing costs, and more frequent natural disasters are straining profitability and reshaping coverage needs. Consequently, auto dealers are tightening their belts and need coverage, such as environmental pollution exposures, which are often overlooked until it's too late.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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Pollution liability

Weather and theft are significant risks, but environmental liability is also a major concern. Laws like the [Resource Conservation and Recovery Act \(RCRA\)](#) make hazardous waste generators liable from cradle to grave, regardless of disposal method. For auto dealers, pollution liability risks are associated with their servicing operations that can extend beyond their locations. While on-site, risks such as leaks from hydraulic lifts, wash bays, containers, and storage tank systems can require extensive remediation. In addition, they may be responsible for participating in the cleanup of contaminants that their outside vendors remove and dispose of on their behalf. For example, if a third-party environmental service provider has an accident and spills used motor oil into a nearby stream while in transit, the auto dealer where the product originated may be required to participate in the cleanup.

While claims like this may be infrequent, the potential severity can't be overstated. Pollution coverage is an increasingly important factor within a dealer's risk portfolio, especially as proof of protection becomes standard.

Natural disasters and availability

Hail, floods, and wind brought about by catastrophic weather events are undoubtedly reshaping the dealers' open lot (DOL) market space. Whether it's consolidation, which leads to increased potential loss value, or the presence of newer vehicles with lighter materials, open lots are incredibly vulnerable to storm damage of all types.

Insurers have responded so far by adjusting terms. Lowering limits, raising premiums, or withdrawing from high-risk regions are a few of the most common trends. The Midwest and High Plains are especially prone to hail, while coastal areas are more likely to experience flood and wind risks. While coverage is still available, affordability and breadth in these regions are becoming constrained.

For example, a hailstorm in the central U.S. that causes overwhelming damage to dealer inventories would impact thousands of vehicles in a matter of minutes. Losses of this scale are why carriers have become more restrictive in their approach to placements within those high-risk zones.

While some dealers have considered hail nets or indoor storage, these solutions can quickly become cost-prohibitive. Many dealers must balance premium costs with exposure and available coverage.

Natural disasters can also result in increased pollution liability exposures. For example, rising waters can cause underground hydraulic lift reservoirs to overflow. In addition, underground and aboveground tanks, as well as containers of products ranging from new lube oil to windshield washer fluid, can leak due to flooding at their locations.

Innovation through captives

Within these arrangements, the business assumes a portion of its own risk with the potential to share in underwriting profits if claims are managed appropriately.

While captives have understandably gained popularity within the DOL space under current market conditions, they do not include pollution liability coverage options. At best, they may include very limited pollution liability options.

With interest rates increasing, borrowing costs rising, decreased consumer demand, and high vehicle valuations, the balance sheet is extremely challenging. Larger inventories also carry the added risk of theft, as perpetrators become increasingly sophisticated in their methods. Vandalism is another potential risk associated with these larger inventories that can create pollution liability issues at their locations.

Captives can provide a needed cost savings and allow for greater control for larger operations that have sufficient capital and risk management resources. However, smaller dealerships may find the financial commitment and potential volatility of losses difficult to predict and manage. Therefore, the long-term viability of captives in this space may be limited.

Takeaway

The auto dealer market faces tighter margins, volatile weather, and ongoing environmental liability issues. Captives may be a solution for some entities, but finding the right fit is crucial. Our team at Amwins Program Underwriters, with more than 30 years of experience through DealerGuard and the Auto Dealers Pollution Liability programs, is here to guide you. If challenges arise, contact us for the support you need to stay ahead.

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