

XtraRide, a Fully Insured Extended Service Contract

Not all extended service contract (ESC) programs are alike. Generally speaking, they fall into one of two categories; fully insured or not insured.

Insured programs, such as Protective's RVDA-endorsed XtraRide program, explicitly identify the insurance backing on every ESC, said Bill Koster, Vice President of Recreation Vehicles & Specialty Products for Protective.

Meanwhile, the programs that are not insured are financially backed by a risk retention group (RRG). An RRG may be comprised of the various dealers selling the ESC. Such a group will purchase insurance to limit its financial risk and the structure is usually invisible to the ESC purchaser.

RRGs were originally permitted under Federal law as an alternative to the high cost of product liability insurance faced by manufacturers. Over time, the RRG law has changed to permit ESC programs and other types of "casualty insurance." As RRGs are covered by Federal law, the groups avoid the arduous filing requirements an insured program faces in each state.

However, things have changed in the last few years. More and more states are making it difficult for the groups/programs to operate due to the recent failures of automobile ESC programs backed by RRGs. California is the most noteworthy example of the recent change impacting RRGs in the RV ESC industry.

Dealers should be aware of the differences between an insured ECS and a RRG ESC program. Likewise, RV owners should know if their ESC is not backed by a traditional insurance policy. This is not intended to criticize RRGs because there are some RRGs that are larger than insurance companies. But dealers should ask these basic questions of either their insurer or RRG:

1. What is the financial strength of the insurer (asset size, surplus, *AM Best* rating) or the RRG (asset size, net worth, rating). Both licensed insurance companies and RRGs must prepare financial statements.
2. What reinsurance company (if any) provides additional backing?
3. What is the reinsurance company's financial strength?
4. If the insurer or reinsurer fails, what liability would I have as a dealer?
5. What tax implications are there for me as a dealer?
6. Is the RRG or insurer approved to do business in my state?

There are many more questions beyond the scope of this article, but if your insurer or RRG cannot answer the above, find another ESC program as fast as you can.

Service agreement programs are, by nature, very detailed, so it can be difficult for dealers and their customers to absorb all the potential benefits that the XtraRide program provides, according to Koster. So, watch this space for more “Did You Know” articles that can help your dealership sell more service agreements. – The End --