



FINANCE AND INSURANCE

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F&I in your Dealership: Protecting Customers, Protecting You

How would you feel if someone came to your house to repossess a boat that you didn't buy... and this was how you learned that your identity had been stolen. We never stop to think about how much today's world relies upon personal information. A simple credit card transaction, a receipt for a purchase...the electricity bill...these are just some simple examples we see in our everyday lives. In the marine industry, we also depend on the ability to securely collect, transfer and store information, especially when it comes to our customers and their finances. Within your dealership, there is no department where this is more true than in your F&I Department.

When working with a customer, an F&I Manager must have the following information on file:

- Social Security Number
- Date of Birth
- Current Address
- Previous Address
- Employment History
- Phone Number
- Credit History

The finance process is a two way street. When customers obtain financing through your dealership, they trust that their personal information will be handled with care. Likewise, when talking with customers, we expect them to be honest and provide accurate information. Your F&I Department must protect both your customers and your dealership.

Protecting Customers

How well is your F&I Department protecting your customers? If your dealership does not handle your customers' personal information with care, you could be putting your customers in harm's way.

Identity theft is said to be America's fastest growing white collar crime. According to the Federal Trade Commission, it is the single largest category of fraud. In 2005, 37% of all fraud complaints were due to identity theft. There were 255,565 cases were reported last year alone. For a criminal, identity theft is a low risk crime that can be very rewarding. But to the victim, it is devastating and can take years to undo. Boat dealers need to make sure that the finance process they offer is as secure as possible. Anything less is doing a disservice to our customers. Let's examine some of the ways in which you or your F&I service provider can ensure customers are protected.

Federal Trade Commission Consumer Fraud and Identity Theft Complaint Data January – December 2005. Source: Data from the Consumer Sentinel and the Identity Theft Clearinghouse

Standard Operating Procedures. Your F&I Department should have standard operating procedures that they follow relating to hiring and information access. How well are potential

employees screened? Many of the cases of identity theft are perpetrated by employees with access to the organization's information. Professional thieves have been known to hire into places specifically to steal customers' personal information. Your F&I professional should perform background checks for employees that will be helping customers with their finances. They should also restrict access to sensitive information. Only the employees who *need* to view a customer's file should be able to. Also, F&I departments should have a standard agreement for these employees to sign stating that they understand pertinent credit laws and operating procedures. Employees must also understand the consequences of violating the agreement.

Document Storage and Disposal. Your dealership should have appropriate procedures for maintaining and destroying records that contain customer information. Physical security of data and documents is often taken for granted. For example, businesses will back up their secure data, but will not store the backup tapes in a secure location. Or, they take every measure to ensure their network is secure, but dispose of old computer hardware without first "wiping" the hard drive of all data. For paper records, one good practice is to shred all documents before placing them in the trash. Believe it or not, "dumpster diving" is one of the most common ways that identities are stolen. This method is also one of the easiest, especially when thieves target businesses where there is information on several different people.

Technology. As technology continues to integrate into our daily operations, security should be at the forefront of our minds. It's common knowledge that our computers should all be equipped with firewalls, antivirus software, and antispyware. In addition to these standard safety measures, there are other aspects of technology that your F&I Department should be aware of.

E-mailing. Because e-mail is used so frequently, we often forget about its vulnerability. Your F&I Department should never e-mail a customer's personal information or request that a customer send information to them. It is not secure enough to transmit financial documents. Let your customers know that you, or any other legitimate business, will never ask that sensitive personal information be supplied via email. Many fraudulent emails are sent out requesting personal information or credit card numbers. These emails appear legitimate, asking the reader to validate an account or claim their prize or reward. This is known as 'phishing' and often catches the unsuspecting customer off-guard.

Online Application. Many customers search online to find a loan. Hackers are known to create phony websites to gather information illegally. In fact, internet-related complaints accounted for 46% of all reported fraud cases in 2005. If you offer your customers an online application they should be confident the website they are using is legitimate. Don Gerard, a Sr. Software Developer and Certified Programmer designing proprietary software for clients in the marine industry, talks about https and security on the web. "Whenever you are doing anything online, one of the most important things you can do is make sure your site has a Secure Sockets Layer (SSL) Certificate, especially when information is being shared back and forth." An SSL Certificate means that your online application uses the https: secure protocol. Customers will know that the site is secure when they see the padlock icon at the bottom right of their screen.

Hacking. As previously mentioned, firewalls, antivirus software and spy ware prevention are standard measures everyone should take against hacking. In order for these to work properly, they require regular maintenance and updates. "People tend to have a false sense of security when they buy products at the local store. Simply installing the hardware or software is not adequate," said Mark Siler, VP of Technology for Priority One Financial Services. "We brought in certified network engineers to install and configure our security hardware and software. We also tested our

network using ‘white hats’, a term for ‘good’ hackers, to create a real life scenario that our network might face. When it came to securing our data, we took every precaution.”

It is also important to have your database password protected and encrypted. Hackers will have to breach multiple levels of security in order to use the information. Frank Marinelli, a Sr. Software Developer and Certified Programmer working with Don Gerard, talks about other safety measures they have implemented in the proprietary project. “An added security that we’ve built in the database allows only certain individuals to change specific things. A database should also have an audit trail. This is another level that enables us to keep track of all the changes that are made. It shows what the information was before, what it is now and who is responsible for the changes. Basically, it gives you a trail of accountability.”

Protecting Your Dealership

On the surface it may appear that our customers are the only ones at risk. However, nothing could be farther from the truth. Did you know that in cases of identity fraud, the dealer can be held responsible for the loan contract. Protecting customers is a priority that should be taken seriously. But when customers are dishonest, your F&I department must also be responsible for protecting your dealership.

Professional Management. Having a trained professional manage your F&I Department is probably the single most important thing you can do to protect your dealership. For dealers who feel they can’t, or don’t want to, dedicate resources to an F&I department, they may find that F&I outsourcing is a great option. Dealers using an F&I Service Company gain all the benefits of having a trained manager, without the expensive overhead. In particular, one of the greatest benefits of working with the right F&I outsource company is knowing that security measures and practices are in place to protect your dealership. Many people believe that helping a customer obtain a loan means simply submitting an application. This belief is not only naïve- it’s dangerous. F&I is a profession that takes years to master. The complexity of the finance process lies in the details.

Credit Discrepancies. Whether your F&I is done in-house or you direct customers elsewhere, your F&I manager must know what to look for when examining credit bureaus. Any discrepancies are a red flag that the identity on the application may not be the customer. Unfortunately, many identities are stolen not by complete strangers, but by family members. Usually the name will be similar, or in some cases it is exactly the same. When this happens, the date of birth on the credit bureau may differ from that given on the application. Any discrepancy in a customer’s personal information should require that copies of both the Social Security Card and driver’s license be given.

The Smallest Details. Even the smallest detail must be reviewed. What if the address is just one number different? Did the customer just make an honest mistake while filling out the credit application, or did you just become a victim of fraud? The truth must be verified, even in situations where it is believable that the customer simply made an error. In this case you would want to request a copy of a utility bill confirming the correct address. Because fraud and identity theft is prevalent, your F&I Department should have a customer verification program in place. This is a standard process used to review every customer that is purchasing a boat. There are services and products available that allow you to access multiple sources to validate a customer’s proof of I.D. or check. Salespeople often feel more comfortable having their F&I Manager talk to customers about sensitive credit issues or discrepancies. Sometimes, being the F&I Manager means asking the hard questions.

Fraud Alerts. Fraud alerts on credit bureaus should be noticed and taken seriously. Unfortunately, when there is a fraud alert reported to one credit bureau, many times it will not be present on the other bureaus. Bureaus also differ in how they report a fraud alert or discrepancy. Because of these and other detailed differences, credit bureaus are best reviewed by a trained and experienced F&I manager. In addition, a fraud alert may be accompanied by a consumer statement. This statement often provides instructions on how the customer would like their credit inquiry handled. It is usually accompanied by a phone number to call for verification. When you call to verify the person's identity, you'll want to ask questions that only the real person would know such as "What department stores do you have credit accounts with currently?" or, "What is the monthly payment on your car loan?" An F&I department's ability to ask the right questions is key in preventing your dealership from being a victim of fraud.

Lender Agreements. It is crucial that your F&I Manager know all of the requirements of your lenders to help protect your dealership from fraud. Each lender differs slightly in their requirements. Some lenders require that all paperwork is signed at the physical location where the collateral is being sold. Some require that an employee of the dealership act as a witness to the signatures. Lender agreements also differ from state to state. For example, Vermont requires that all credit applications be signed by the applicant. California has also made efforts to prevent fraud by requiring two forms of valid picture I.D.

Jim Coburn, Senior Vice President of the Recreation Finance Division for National City Bank explains how important it is for dealers to make every effort to avoid a fraud occurrence. "Once fraud has occurred, a fraud report is made. From there, an investigation is conducted which can involve specialists, attorneys, special investigations companies and/or law enforcement. They use every resource possible to investigate or 'connect-the-dots.' We, the line of business, then make decisions that involve the extent of criminal prosecution and litigation. At times, it can be a tedious process," said Coburn. "That's why we continuously try to train F&I Managers about regulations and the liabilities to them. We want to educate dealerships about fraudulent applications and what constitutes 'bad' paperwork and non-compliance."

What's at Stake

The risks we face from fraud and identity theft are significant. The threat is sure to continue to grow with time as thieves become more sophisticated and illusive. In the past, proving that efforts were made to verify a customer's identity was enough. But as losses become greater and more frequent, lenders continue to place the responsibility on dealers to catch incidents of fraud before possession of the boat is taken. Dealers who are not proactive about preventing fraud will pay for it later when they are held liable for the loan contract. And for those honest customers that have trusted us with their personal information, they deserve to be reassured that their identity and credit history are in good hands.

It's up to your F&I department to prevent your customers, your lenders, and your dealership itself from becoming victims. As fraud becomes more pervasive, many dealers choose to utilize the expertise of an F&I outsource company for handling the sensitive information that crooks love to steal. No matter how your dealership deals with this troubling issue, one thing is certain: Failure to put the required checkpoints in place can prove quite costly for everyone involved.

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