



Association of British Insurers

Guaranteed Asset Protection Insurance

A Voluntary Good Practice Guide for Providers

February 2011

Foreword

Many customers benefit from the peace of mind afforded by Guaranteed Asset Protection (GAP) insurance, including the cover of losses incurred in the event of a newly-purchased vehicle being written-off or stolen. The two most common variants of GAP insurance cover the difference between the market value of the vehicle at the time of theft or accident, and either the original purchase price of the vehicle (known as Return to Invoice GAP insurance), or the balance of the finance arrangement on the vehicle (known as finance GAP insurance).

However, the benefits and limitations of GAP insurance products are not always well understood by customers. This can mean that customers end up buying a product that either does not provide the cover they thought, or is one they do not need.

This voluntary guidance sets out examples of good practice for all GAP insurance providers to help ensure customers are able to choose the right product for their needs.

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Introduction

The purpose of the guidance

The guidance sets out a series of high-level standards that all GAP insurance providers should seek to achieve in order to ensure customers are able to make an informed decision about the right product for their needs.

There are already a number of regulations governing the sale of GAP. The Financial Services Authority's (FSA) Treating Customers Fairly (TCF) initiative requires that:

- Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly. (TCF Outcome 2)
- Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale (TCF Outcome 3)
- Where consumers receive advice, the advice is suitable and takes account of their circumstances (TCF Outcome 4)
- Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect (TCF Outcome 5)

This guidance does not seek to replace existing regulations, but aims to ensure customers are treated fairly by ensuring that all providers are aware of their responsibilities. Through existing regulation, the insurer has an obligation to ensure that the customer – via the retailer - is provided with sufficient information so that they may choose the right product for their needs.

The recommendations in this guidance are for all providers of GAP insurance. The guidance is intended to strengthen existing practice in the way GAP insurance is regulated.

The status of the guidance

This is not FSA-confirmed guidance. This is a voluntary good practice guide for providers of GAP insurance.

Authors of the guidance

The guidance has been developed by the Association of British Insurers (ABI), in consultation with:

- Finance and Leasing Association
- Society of Motor Manufacturers and Traders
- Motor Codes Ltd

Implementation

The guidance is available to all providers of GAP insurance. We recommend stakeholders to implement the necessary changes by 31 August 2011. The guidance is not intended to be applied retrospectively to policies sold before this date.

Review and update

Although the guidance is voluntary, we believe that the high-level standards it sets out will help ensure that customers are treated fairly, and as such should be implemented as far as practicable by all providers. The ABI will therefore carry out regular reviews to establish how widely it is being implemented, and to identify any new issues that need to be incorporated into it, after consultation with stakeholders.

Format of the guide

The guidance establishes standards in the following areas:

- Product design
- Point of sale
- Policy details
- Complaints
- Training and competence
- Post-point of sale & renewals

Treating Customers Fairly

FSA regulation requires firms to be able to demonstrate that they are consistently delivering fair outcomes to customers. The table below illustrates the responsibilities of insurers under the six TCF outcomes:

Table 1

TCF Outcomes	Insurers' Responsibility
Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.	It is the insurer's responsibility to ensure that their corporate culture ensures fair treatment of customers.
Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.	Insurers should ensure their products are designed to meet customers' needs and continue to review products accordingly. The products should also be tested to ensure the correct customer needs have been identified.
Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.	It is the insurer's responsibility to ensure the retailer is provided with sufficient product information, and is kept appropriately informed if any changes are made to the product cover.
Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances.	Insurers should provide retailers with all necessary information to help inform the customer on the suitability of the product.
Outcome 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.	It is the responsibility of the insurer to ensure they provide clear information on the product's key features to the retailer.
Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.	Insurers should ensure customers are provided with clear routes of redress, and flexibility in their ability to change product, make a claim or switch providers.

GAP Insurance

PRODUCT DESIGN

Current regulation:

Providers of GAP insurance are subject to the following regulations on product design:

- Treating Customers Fairly Outcome 2

Annex A provides more detail on existing regulations.

Good practice

The recommendations set out in Table 2 strengthen existing practice under the current requirements for providers of GAP insurance:

Table 2

Aim: to ensure that customer needs are at the heart of the product design process

Providers should consider use of qualitative research and quantitative data to assess the needs of target markets.

Providers should work closely with retailers to design products and assess whether the retailer has the capability to understand the product.

Providers should consider employing external agencies and focus groups to assess the suitability of a product and customer understanding of the product and accompanying literature.

Providers should ensure that policies offer the customer an entitlement to cancel the policy at any time during the term and obtain a refund.

Providers should identify complaint trends (through information provided by the retailer) to help develop/improve product design and the information that is provided to customers to enable them to make an informed decision about whether a GAP product is right for them.

POINT OF SALE (POS)

Current regulation:

Providers of GAP insurance are subject to the following regulations on the information that must be made available to customers at the point of sale:

- Treating Customers Fairly Outcomes 3 & 5
- Insurance Conduct of Business Sourcebook (ICOBS) 2.2

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 3 strengthen existing practice under the current requirements for providers of GAP insurance:

Table 3

Aim: To improve transparency at the point of sale so that customers may make an informed decision about the suitability of GAP insurance for their needs

Providers should ensure the retailer is provided with the following key contract terms of the product(s) to help inform the customer of the key features of the product at point of sale:

- The period of cover
 - The limit of insured amount and the fact that additional costs related to the vehicle are not insured (for example insurances, road fund tax, negative equity from previous finance agreements or other extras).
 - The level of cover provided
 - Any restrictions on the age or mileage of the vehicle either at policy inception or up to policy expiry
 - Any restrictions on the usage of the vehicle – for example, use for hire or reward, driving school vehicles etc
 - That any claim is dependent upon a vehicle being declared a total loss under a fully comprehensive insurance policy
 - That the GAP insurer reserves the right to adjust the claim if the motor insurer's payout for the total loss is less than the value at the date of loss. In order to minimise the risk of this occurring the GAP insurer will normally ask the customer for permission to negotiate with the motor insurer on his/her behalf.
 - That, if the customer refuses an offer from a motor insurer to replace his vehicle following a total loss, then that is likely to affect any GAP claims.
 - The rules that will be applied for any cancellations or refunds under the policy.
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Providers should provide retailers with additional sources of information about GAP insurance where available.

Providers should take steps to ensure there is appropriate governance in place for financial promotions used by retailers.

POLICY DETAILS

Current regulation:

Providers of GAP insurance are subject to the following regulations on policy details:

- Treating Customers Fairly Outcome 3
- Insurance Conduct of Business Sourcebook (ICOBS) 6.1

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 4 strengthen existing practice under the current requirements for providers of GAP insurance:

Table 4

Aim: Customers should be presented with clear terms and conditions and cancellation rights when purchasing a GAP insurance product

Providers should take steps to ensure the product documentation clearly lists what the policy covers.

Providers should ensure that the terms and conditions of each product clearly state what the product covers and list any key exclusion(s) which may apply.

Providers should ensure the retailer is made aware of transferring cover (if applicable) so that they are able to inform customers. For example, are customers able to transfer cover to a new vehicle if the motor insurer has replaced the original vehicle in the event of a total loss. Do policyholders have the ability to transfer cover to a new owner following the sale of the vehicle?

Providers may want to consider providing the retailer with a list of Frequently Asked Questions that cover all common scenarios, for all types of GAP policies, that can be passed on to the customer at point of sale.

Providers should ensure that the policy details provide clear information on how and when to claim (examples of acceptable/unacceptable claims may be helpful), and provide customers with a list of Frequently Asked Questions.

Providers should ensure that the policy details provide clear information on cancellation rights and the method of calculating refunds.

COMPLAINTS

Current regulation:

Providers of GAP insurance are subject to the following regulations on redress:

- Insurance Conduct of Business Sourcebook (ICOBS) 6.2
- Dispute Resolution Complaints (DISP) 1

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 5 strengthen existing practice under the current requirements for providers of GAP insurance:

Table 5

Aim: Customers should understand the routes to redress

Providers should identify complaint trends (through information provided by the retailer) to help develop/improve product design.

TRAINING AND COMPETENCE

Current regulation:

Providers of GAP insurance are subject to the following regulations on training and competence:

- Treating Customers Fairly Outcome 4
- Insurance Conduct of Business Sourcebook (ICOBS) - 6 Annex 1
- SYSC 5.1.12

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 6 strengthen existing practice under the current requirements for providers of GAP insurance:

Table 6

Aim: Customers should be satisfied that sales staff are trained and competent to assist them in their purchase of GAP insurance

Providers should check retailers' training material for factual accuracy.

POST-SALE / RENEWALS / CANCELLATIONS

Current regulation:

Providers of GAP insurance are subject to the following regulations on post-sale services and/or renewals:

- Treating Customers Fairly Outcome 6

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 7 strengthen existing practice under the current requirements for providers of GAP insurance:

Table 7

Aim: To remove any unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim, cancel the policy or make a complaint.

Providers should take steps to ensure the retailer is provided with adequate information on whether and how the customer is able to:

- Change the product
 - Switch provider (and effect a cancellation)
 - Make a complaint
 - Cancel the policy
 - Obtain a refund
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Providers should make retailers aware of refunds available and the basis on which the amount of any refund is calculated (to help the retailer inform the customer).

ANNEX A

TCF

Outcome 1	Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
Outcome 2	Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
Outcome 3	Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
Outcome 4	Where consumers receive advice, the advice is suitable and takes account of their circumstances.
Outcome 5	Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
Outcome 6	Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.
TCF in Product Design	Report published by the FSA setting out examples of good practice: http://www.fsa.gov.uk/pubs/other/tcf_product_design.pdf

ICOBS

2.2	Communications to clients - When a firm communicates information, including a financial promotion, to a customer or other policyholder, it must take reasonable steps to communicate it in a way that is clear, fair and not misleading.
6.1	Informing the customer – The customer must be given appropriate information about a policy in order that they can make an informed decision about the product. This includes taking account of the customer’s level of knowledge, the policy terms and its complexity (ICOBS 6.1.7) and providing information on price (ICOBS 6.1.6).
6.1 – Annex 1	Connected Goods contract – Insurer’s responsibility to ensure customer is provided with adequate information.
6.2.2	Consumer redress - Before a <u>contract</u> is concluded, a <u>firm</u> must inform a <u>customer</u> of the relevant complaints procedure and the existence of a complaints body (FOS).

SYSC

5.1.12	Sales staff performing regulated activities – In selling an extended warranty, retail staff are performing a ‘regulated activity’ and should therefore be aware of the procedures they must comply with when carrying out their duties.
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DISP

DISP 1	Firms should deal promptly and fairly with complaints in respect of business carried out in the United Kingdom or by certain branches of firms in the EEA.
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