



Association of British Insurers

# **Guaranteed Asset Protection Insurance**

**A Voluntary Good Practice Guide for Retailers**

**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 retailers 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 retailers 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 all retailers are aware of their responsibilities. While most retailers are not regulated in the same way as insurers, the recommendations in this guidance are for retailers of GAP insurance.

Currently, many motor warranty administrators adhere to the Motor Industry Code of Practice for Vehicle Warranty Products<sup>1</sup>. This guide reflects the recommendations of the Motor Codes Ltd. Code of Practice, but also goes beyond existing regulations and is intended to strengthen existing practice in these areas but is not a definitive guide.

### The status of the guidance

This is not FSA-confirmed guidance. This is a voluntary good practice guide for GAP retailers.

<sup>1</sup> The Code is operated and administered by Motor Codes Ltd, a subsidiary company of the Society of Motor Manufacturers and Traders—[http://www.motorcodes.co.uk/images/stories/documents/vehicle\\_warranty\\_products\\_code\\_\[web\].pdf](http://www.motorcodes.co.uk/images/stories/documents/vehicle_warranty_products_code_[web].pdf)

## 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 retailers of GAP insurance. We encourage 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 retailers. 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

Even though retailers are not regulated in the same way as insurers, the table sets out the high level objectives retailers should aim for to help ensure customers are treated fairly:

**Table 1**

TCF Outcomes	Retailers' Responsibility
<b>Outcome 1:</b> 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 retailer's responsibility to ensure that their corporate culture ensures fair treatment of customers.
<b>Outcome 2:</b> Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.	Retailers should work with insurers to ensure the products they distribute meet customers' needs and continue to review products accordingly.
<b>Outcome 3:</b> Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.	It is the retailer's responsibility to appropriately inform customers of the key features of the product (i.e. product exclusions, cancellation rights, refunds etc) before, during and after the point of sale.
<b>Outcome 4:</b> Where consumers receive advice, the advice is suitable and takes account of their circumstances.	Retailers are responsible for their staff giving advice to customers on the suitability of the product.
<b>Outcome 5:</b> 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 retailer's responsibility to ensure they manage customers' expectations of the product by providing them with clear, fair and not misleading information.
<b>Outcome 6:</b> Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.	Retailers should ensure customers are provided with clear routes of redress.

## GAP Insurance

### PRODUCT DESIGN

#### Good practice

The recommendations set out in Table 2 go beyond existing requirements for retailers of GAP insurance:

**Table 2**

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

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Retailers should work with providers to help assess whether their staff have a good understanding of the GAP insurance product.

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

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Retailers should investigate complaints internally and take action where it is clear that a product has been mis-sold to the customer.

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## POINT OF SALE (POS)

### Good practice:

The recommendations set out in Table 3 go beyond existing requirements for retailers of GAP insurance:

**Table 3**

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**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**

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Retailers should take steps to ensure customers are provided with the following key contract terms of the product(s) 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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Retailers should take steps to ensure commission arrangements are not incentivising inappropriate sales behaviour and high-pressure selling techniques, e.g. all retailers must have adequate management of their conflicts of interest process to ensure they are not incentivised to sell the product due to commission differentials, and that the achievement of performance targets for the core products are not dependent on the sale of the GAP products.

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Retailers should take steps to ensure customers are directed to additional sources of information about GAP insurance where available.

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Retailers should take steps to ensure that the customer is eligible for the policy recommended and that it meets their requirements.

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## POLICY DETAILS

### Good practice:

The recommendations set out in Table 4 go beyond existing requirements for retailers of GAP insurance:

**Table 4**

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

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Retailers should take steps to ensure that customers are made aware of transferring cover (if applicable). 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?

Retailers should consider providing the customer with a list of Frequently Asked Questions that cover all common scenarios, for all types of GAP policies at point of sale.

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Retailers should clearly inform customers on how and when to claim (examples of acceptable/unacceptable claims may be helpful), and provide customers with a list of Frequently Asked Questions.

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Retailers should take steps to ensure the customer is clearly informed about their cancellation rights and the method of calculating refunds is clearly explained.

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## COMPLAINTS

### Good practice:

The recommendations set out in Table 5 go beyond existing requirements for retailers of GAP insurance:

#### **Table 5**

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**Aim: Customers should understand the routes to redress**

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Retailers should ensure customers are made aware of the redress process through information provided at point of sale.

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## TRAINING AND COMPETENCE

### Good practice:

The recommendations set out in Table 6 go beyond existing requirements for retailers of GAP insurance:

#### **Table 6**

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

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Retailers should take steps to ensure that staff selling GAP insurance receive adequate training. Retailers may want to consider the following:

- Creating guidance notes that can act as quick reference sales guides and can be included within the distributors' own training and competency programmes and sales support materials

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Retailers should take steps to validate GAP insurance training material with providers.

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## POST-SALE / RENEWALS / CANCELLATIONS

### Good practice:

The recommendations set out in Table 7 go beyond existing requirements for retailers of GAP insurance:

#### **Table 7**

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**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.**

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Retailers should take steps to ensure the customer is provided with adequate information on whether and how they are able to:

- Change the product
  - Switch provider (and effect a cancellation)
  - Make a complaint
  - Cancel the policy
  - Obtain a refund
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Retailers should make customers aware of refunds available and the basis on which the amount of any refund is calculated.

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## ANNEX A

### TCF

<b>Outcome 1</b>	Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
<b>Outcome 2</b>	Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
<b>Outcome 3</b>	Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
<b>Outcome 4</b>	Where consumers receive advice, the advice is suitable and takes account of their circumstances.
<b>Outcome 5</b>	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.
<b>Outcome 6</b>	Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.
<b>Society of Motor Manufacturers and Traders</b>	The SMMT has developed a Consumer Code that sets out standards for all retailers selling motor warranties. The code focuses on advertising, point of sale obligations, complaints, clarity of information, dispute resolution and disciplinary action. <a href="http://www.motorcodes.co.uk/images/stories/documents/vehicle_warranty_products_code_[web].pdf">http://www.motorcodes.co.uk/images/stories/documents/vehicle_warranty_products_code_[web].pdf</a>