



Association of British Insurers

Making Sense of GAP Insurance – How To Mind Your GAP

Customer Fact Sheet
– Guaranteed Asset Protection

June 2012



What is GAP insurance?

If you're thinking about buying a vehicle, you may want to consider purchasing Guaranteed Asset Protection (GAP) insurance too.

The moment you buy a vehicle, its value starts to decrease. Different vehicles depreciate at different rates, but whichever make and model you choose, no matter how old the vehicle is, depreciation is likely to knock off a proportion of the original price, particularly during the first few years¹.

If you are in an accident or your vehicle is stolen, and your motor insurer deems your vehicle a write off, they will compensate you to the amount that your vehicle was worth at the time of the loss – also known as 'market value'. Because of depreciation, this will be lower than the price you paid. GAP insurance can cover you against this, more or less filling the 'gap' between the vehicle's market value (what it would cost if put on the market just before the accident) and the vehicle's value when you purchased it, as well as any outstanding finance debts, if applicable.

Where can I buy GAP insurance?

When you buy your vehicle, you will probably be offered GAP insurance with it. However, because cover differs between policies and providers, it is important to shop around to make sure the policy you purchase is the most appropriate one for your needs. GAP insurance is available from a variety of sources, including:

- The vehicle retailer
- Insurance companies
- Insurance brokers (including online comparison websites)
- Finance and leasing companies
- Banks.

To sell GAP Insurance they must be authorised and regulated by the Financial Services Authority (FSA). You can check the FSA register of authorised companies at <http://www.fsa.gov.uk/register/>.

How do I choose the right GAP policy for me?

GAP insurance is available for new, used, leased, business-owned or privately purchased vehicles. There are several different types of policies, the main being RTI Combined (also known as Return to Invoice/Financial Shortfall combined product) and Return to Invoice (also known as Invoice Price Protection) GAP. Other types of GAP include Finance GAP, Return to Value GAP and Equivalent Value/Replacement GAP. Make sure that you buy the type of policy that best suits your needs.

¹ <http://www.which.co.uk/cars/choosing-a-car/buying-a-car/car-depreciation/calculating-depreciation/>.

GAP policies are only normally available if the vehicle is insured under a fully comprehensive insurance policy. They will come into play once your motor insurer declares your vehicle a total loss due to being involved in an accident or stolen. Some GAP policies may even cover up to a certain level of excess on your motor insurance policy.

Irrespective of which cover you choose, if you have paid for your vehicle in instalments, both your GAP insurer and your comprehensive motor insurer are likely to pay the finance company first. You will usually receive any extra after your loan has been paid back.

RTI Combined GAP insurance

RTI Combined pays the difference between the vehicle's market value at time of loss and the amount you initially paid for the vehicle (the invoice amount), which could cover any outstanding finance you have left to pay. The Return to Invoice element of the cover is usually provided for up to 3 years and the Finance element for 5 years.

	Written off at 6 months	Written off at 30 months	Written off at 42 months
The original price you paid²	£10,000	£10,000	£10,000
Example market value at time of loss	£8,000	£4,950	£2,500
Outstanding Finance at time of loss	£9,200	£5,250	£3,300
Motor insurer's settlement amount (market value minus excess e.g. £250)³	£7,750	£4,700	£2,250
Total shortfall paid by the GAP insurer (difference between original price and market value at time of loss)	£2,000	£5,050	£800
Shortfall paid to finance company (difference between outstanding finance and market value at time of loss)	£1,200	£300	£800 ⁴
Shortfall paid to you	£800	£4750	£0

² The Car Purchase Price excludes any payments you have made for things such as warranties, VAT, accessories etc. You can find more information under "What is excluded under a GAP insurance policy?".

³ These figures apply where the customer is required to pay a motor insurer's excess of £250. Some GAP insurance providers will pay an amount towards this excess. Please check your GAP insurance policy for details.

⁴ After 3 years' cover, only the finance element will be paid.

If you have bought your vehicle on finance, you may want to consider buying Return to Value Combined GAP Insurance. In the event of a total loss you would have the money to buy a new car, and you would have no outstanding finance payable.

Return to Invoice (or Invoice Price Protection) GAP insurance

Return to Invoice GAP insurance pays the difference between the vehicle's market value at time of loss and the amount you initially paid for the vehicle (the invoice amount). Cover is usually provided for 3 years.

	Written off at 6 months	Written off at 30 months
The original price you paid ⁵	£10,000	£10,000
Example market value at time of loss	£8,000	£4,950
Motor insurance settlement amount (market value minus excess e.g. £250) ⁶	£7,750	£4,700
Shortfall paid by the GAP insurer to you (difference between original price and market value at time of loss)	£2,000	£5,050

If you have bought your vehicle in one payment, or if you have paid a large deposit on your finance agreement, you may want to consider buying Return to Invoice GAP. In the event of a total loss you would have the money to buy a new car.

⁵The Car Purchase Price excludes any payments you have made for things such as warranties, VAT, accessories etc. You can find more information under "What is excluded under a GAP insurance policy?".

⁶These figures apply where the customer is required to pay a motor insurer's excess of £250. Some GAP insurance providers will pay an amount towards this excess. Please check your GAP insurance policy for details.

Finance GAP insurance

You can buy Finance GAP insurance for vehicles bought under a finance agreement⁷. It pays the difference between the vehicle's market value at time of loss, and the amount outstanding on your finance agreement. The shortfall amount will often be paid directly by the insurer to your finance company.

	Written off at 6 months	Written off at 30 months
The original price you paid⁸	£10,000	£10,000
Example market value at time of loss	£8,000	£4,950
Motor insurance settlement amount (market value minus excess of e.g. £250)⁹	£7,750	£4,700
Outstanding Finance at time of loss	£9,200	£5,250
Shortfall paid by the GAP insurer to you (difference between outstanding finance and market value at time of loss)	£1,200	£300

If you bought your vehicle on finance, and you paid a very small or no deposit, you may want to consider buying Finance GAP. In the event of a total loss you would have no outstanding finance payable.

Return to Value GAP insurance

Return to Value GAP insurance pays the difference between the vehicle's market value at time of loss and the market value of your vehicle at the time you took out the policy (instead of the invoice price).

If you bought your vehicle privately, second-hand, or if you have already owned your vehicle for several months, you may wish to consider purchasing Return to Value GAP.

⁷ The finance agreement can include hire purchase, lease purchase, conditional sale, or personal contract purchase.

⁸ The Car Purchase Price excludes any payments you have made for things such as warranties, VAT, accessories etc. You can find more information under "What is excluded under a GAP insurance policy?".

⁹ These figures apply where the customer is required to pay a motor insurer's excess of £250. Some GAP insurance providers will pay an amount towards this excess. Please check your GAP insurance policy for details.

Equivalent Vehicle/Replacement GAP insurance

Replacement GAP insurance covers the cost of replacing your vehicle with exactly the same make/model or equivalent as you originally bought. This can normally only be bought for new or ex-demo vehicles. The GAP insurer will pay the shortfall either to you or directly to the vehicle dealer, depending on whether you bought the policy with your vehicle or separately.

If the same model is no longer available, the insurer will base the settlement figure on an equivalent vehicle.

Lease GAP

Lease GAP is available for vehicles on any form of contract hire, personal contract hire or lease agreement where the title of the vehicle does not transfer to the customer. Lease GAP pays the difference between the market value at time of loss and the balance outstanding to the lease company (the Early Termination charge). Cover is available for periods up to 5 years, and can sometimes be included under a Finance GAP policy but it is important to check the terms and conditions.

If you have bought your vehicle on a lease arrangement of more than 1 year you may want to consider buying Return to Invoice GAP.

Other types of GAP insurance

Some policies offer you a mixture of different GAP insurances described above, or can provide additional cover such as for increases in Value Added Tax or manufacturers' price increases. Make sure you are clear what type of GAP policy is best for you.

What should I ask when thinking about buying GAP insurance?

Before buying any insurance policy, you should always read the policy summary to ensure you understand exactly what it does and does not cover. Questions to ask the retailer might be:

- *When will the policy start and how long it will last?*
- *Is there a time limit within which I have to make a claim after a total loss?*
See section entitled "**How do I make a claim?**".
- *What is excluded from cover?*
See section entitled "**What is excluded under a GAP insurance policy?**".
- *What is the market or retail value of my vehicle?*
Many GAP insurance policies refer to 'market value' when calculating claim payments, so it is important to understand what this means.

- *If I sell my vehicle, can I transfer my policy to the new car?*
- *Can I cancel my GAP policy?*
See section entitled "**Can I cancel my GAP policy?**".
- *Have the GAP insurer and retailer adopted the ABI's voluntary good practice guide?*
The ABI's voluntary good practice guidance for GAP insurers and retailers explains how to treat customers fairly. It includes suggestions on providing clear information, offering cancellation rights, dealing with complaints fairly, and other details.

You may also wish to check your *motor* insurance policy document for the following:

What does my motor insurance policy say about replacing my vehicle?

Some motor insurance policies will replace your vehicle in the event of total loss, but only within the first one or two years, and this may also be conditional on factors such as where and to whom the vehicle was first registered, the mileage at the time of write-off/theft, and the age and condition of the vehicle. Some GAP policies commence after the replacement vehicle benefit expires. You should be aware that if you refuse an offer from your motor insurer to replace your vehicle after a total loss, this may affect any claims you wish to make on your GAP insurance policy.

How does my motor insurer calculate 'market value' when my vehicle is written off?

It is important to be aware that your motor and GAP insurer may come to a different conclusion as to what your vehicle was worth before being declared a total loss. GAP insurers usually reserve the right not to pay the full difference if you accept your motor insurer's offer without checking with your GAP insurer first, because sometimes the GAP insurer will consider the motor insurer's offer to be too low. A GAP insurer will normally ask you for permission to contact your motor insurer on your behalf in order to reach an agreement that eliminates, or at least significantly reduces, any shortfall.

What is excluded under a GAP insurance policy?

Cover will vary between different types of GAP policies, and different providers, so make sure you always read the policy summary carefully. Some common exclusions are:

- dealer-fitted accessories or options (as they may not have any value at time of loss)
- warranty costs
- fuel
- paintwork protection applications
- insurance premiums
- road fund licence or road tax
- charges for excess mileage
- arrears
- other additional amounts included in the invoice.

What are my responsibilities?

It is essential that you read the policy document and make sure you understand the cover that is being provided, including any details about cancellation charges, valuation methods, any exclusions, and any instructions on what you need to do in order to claim.

Can I cancel my GAP insurance policy?

When you buy a GAP insurance policy, you will be granted a 'cooling off' period of at least 14 days, which means that if you cancel your policy during that time, and haven't made any claims, you will get a refund (though this refund could be reduced by reasonable administration charges). Once the cooling off period has expired, some providers may not provide a refund.

However, insurers and providers who fully support the ABI Good Practice Guide for GAP insurance should provide you with a refund (minus administration charges) for policies sold after 30 June 2012. You can find a list of these insurers on the ABI's website: http://www.abi.org.uk/Information/Consumers/General/GAP_insurance.aspx.

How do I claim on my GAP policy?

A GAP Insurance claim is dependent on your motor insurer declaring your vehicle a total loss, whether written off or stolen. There is usually a time limit indicated in your GAP policy document within which you need to claim. This is particularly important to note if you have bought a finance GAP policy with your finance lease agreement on your vehicle, as the GAP policy will not automatically pay off any outstanding finance you still owe on the vehicle unless you make a claim, even if you bought the GAP policy at the same time as making your finance or leasing arrangement. Most GAP insurers would strongly encourage contacting them before accepting a claim payment from your motor insurer.

How can I complain?

If you have a complaint, first contact your GAP or motor insurer, and if you are still not satisfied with the way your complaint has been handled, you can contact the Financial Ombudsman Service (FOS). The FOS is the official independent expert in settling complaints between customers and businesses who provide financial services. It is a free service for customers to use, and while its rulings are not binding on customers, financial services firms are legally obliged to follow them.

Where can I get more information?

For details of member insurance companies:

Association of British Insurers

Tel: 020 7216 7455

www.abi.org.uk

For complaints about your insurance company's complaints process:

The Financial Ombudsman Service

Tel: 0800 0 234 567

www.financial-ombudsman.org.uk



For more information, contact:

Association of British Insurers
51 Gresham Street
London EC2V 7HQ

020 7600 3333
www.abi.org.uk