

Top 10 Gap Insurance Buying Tips



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Why do I need to read 'Tips' on buying Gap Insurance?

These tips are provided free to help you make an informed decision when choosing Gap Insurance. Far too many assumptions and mistakes are being made. A few minutes reading these tips will provide everything you need to know to make an informed decision.

The information is designed to help you understand and consider some of the less obvious features that could prove to be vitally important to you when you make a claim - and potentially very costly if they are ignored.

If you are not intending to read this entire document or if you only have time to absorb just one tip, please read tip number 1 - it could save you hundreds, perhaps thousands of pounds.

Why are these 'tips' necessary?.

In a recent episode of the BBC's consumer protection program 'Don't Get Done - Get Dom', a WhatCar spokesman suggested that buyers of Gap Insurance should visit on-line retailers to consider what is available to them.

In that programme, motor dealer Gap Insurance sales methods were heavily criticised. Whilst the programme proved Gap Insurances do work well and are extremely popular, it confirmed dealers were simply not selling them transparently or fairly enough. Clearly, the general public assume the policies sold by dealers are a reliable option and will perform how the dealer describes. Yet as the program proved, many have found to their cost the policy provided by their dealer was not as good as it could have been and did not perform as the dealer described.

It is a fact that most dealer provided policies seriously lack scope and customer protective features deep within the terms and conditions. It's not deliberate ploy on their behalf, they are simply not professional insurance brokers and can only sell what they have available to them. Buy it on impulse and you may not buy the protection you need.

Before you buy anywhere, you need to know what to look for and what to avoid. This is where these tips could save you a great deal of money if or when you make a claim.

We sincerely hope these tips help you avoid the potential pitfalls and buy like an expert !

Assumptions are easy to make, so are mistakes.

1. Our Most Important Tip.

A LITTLE KNOWN FACT.

A 3yr, £10,000 cover level Return To Invoice policy from one retailer is NOT the same as a 3yr, £10,000 cover level Return To Invoice policy from another retailer !!

Even if both retailers use the same insurer, the terms and conditions, inclusions and exclusions are nearly always different and this is vitally important and will only become evident when it comes to making a claim.

On-line brokers generate substantial national sales for insurers and for this reason they have the influence to 'tailor' their terms and conditions specifically to their requirements or preferences. Some brokers might choose to pay the insurer a little more for their policies to provide more features for their customers, whilst others may choose to strip features out to achieve a cheaper price or higher profit margin. The differences only affect one party – **YOU**, when you make a claim.

The tip here is not to buy entirely on price when you compare. The differences are in the detail not the description – so take a little time to understand those differences and how they might affect you when you come to make a claim. We highlight some of those differences a little further on in this guide.

2. The Retailers.

Motor Dealers

Gap Insurance is a hugely profitable sale for motor dealers. In many dealerships it is aggressively sold and without too much explanation of what it will and won't do for you in the event of a claim. Dealers refer to insurance products, paint treatments and finance plans as 'add ons', which means the sale of these products 'add on' to the profit they have already made on the vehicle sale. Motor dealers are not professional insurance brokers and will often try a number of motor trade tactics to assumptively 'sell' you cover. Dealer staff are targeted by their employers to achieve a high level of sales and profitability from Gap Insurance and this can often lead to mis-selling and sales of inappropriate policies. Insurance should not be sold that way. If this has happened to you and you do not wish to purchase or continue with their cover, be aware you have a legal right to cancel and receive a full refund within 14 days of purchase.

As the BBC program 'Don't Get Done - Get Dom' confirmed, dealer policies often have weaknesses they do not emphasise at point of sale for fear of jeopardising the sale. The very least you should do when considering Gap Insurance is to make at least one comparison.

On-Line Retailers



On-line brokers take a more professional and customer needs focused approach and will spend as much time as you require to help you understand what the cover will do for you and what the potential exclusions might be in the event of a claim. Customers are increasingly buying on-line where there is no pressure and they know it's a fair and transparent deal. On-line retailers make their full policy terms and conditions available to view, download or print to enable you to make an informed decision – in your own time.

On-line brokers sell considerably more gap insurance products than dealers and for that reason they are able to negotiate considerably lower premiums and better policy features. On-line brokers pay just 6% Insurance Premium Tax, while dealers have to pay 20%. These are just two reasons why on-line retailers prices are considerably lower than dealers, but as you know - the third and most significant difference is how much profit the dealer tries to make per policy.

Don't make the mistake of assuming the policy your dealer offers is better or more secure than an on-line policy. In some cases, the on-line retailers policy will be the same insurer with better features. Whether you choose to accept your dealer's policy or one from an on-line broker is a matter for you to decide, but you should only do so when you are fully informed and have made some feature comparisons.

Our Opinion

On-line policies are better featured and provide greater choice at considerably less than the dealers offering. On-line brokers provide all the required information and tools to enable you to buy in the non-pressurised environment and comfort of your own home or office.

3. Rest Assured.

FSA regulation and the Financial Services Compensation Scheme - your peace of mind !

All providers of Gap Insurance products will be FSA authorised and their policies will be covered by the FSA's Financial Services Compensation Scheme. This means if an insurer becomes unable to meet its financial obligations to its customers, the FSCS will consider compensating the policyholder. More details can be found on the FSCS web site at www.fscs.gov.uk.



We are not aware of any insurance broker, administrator, or insurer providing Gap Insurance policies that are not FSA authorised or offer policies not covered by the Financial Services Compensation Scheme (FSCS). As such, your premiums and policy will be as safe as it can be. There are normally three parties involved in providing and administering your policy;

Broker

An insurance broker is an intermediary who retails the policy to you. Where you purchase an insurance from a motor dealer, the dealer will be acting as a broker too. Neither the motor dealer or vehicle manufacturer has any further involvement or influence, and that is the same also for on-line brokers. Most major or long established (non dealer) brokers will have designed the policy terms and conditions with the insurer and insurers administrator to be able to offer better features than their competitors - that is why our very first tip is so important.

Insurers administrator / agent

Major Gap Insurers do not normally involve themselves with the day-to-day sale, administration of policies, claims handling or claims payment. They use an appointed independent administration company to perform those duties and manage the 'book of business' on their behalf. The administrators only administrate, they do not retail policies. The administrators will be your point of contact for any change of policy details, insurance claims and payment of claims. As such, the administration company is the most important part of your insurance contract.

The Insurer

The insurer plays a very passive role in your policy. The insurer only becomes involved if or when the value of claims paid exceeds the total of the premiums collected and that unlikely potential is sometimes reinsured within the insurance markets to reduce their financial risks.

4. Exclusions.

All Gap Insurance policies have exclusions and it is critical you check these before buying. The exclusions differ between cover for new vehicles and cover for used vehicles. NEVER buy on a verbal assurance from a dealer or broker. ALWAYS make sure what you want appears in the policy Terms and Conditions as that is the only legally binding agreement.

Check the policy you are considering does NOT exclude things you need to have covered;

New vehicle cover;

- * Factory fitted options,
- * Dealer fitted accessories,
- * Paint and upholstery treatments the dealer may have applied to the vehicle,
- * Delivery charges, number plates, & first registration fees,
- * Insurance premiums and any non transferable warranty costs.

Used vehicle cover;

- * Any sum you originally paid for the vehicle over its recommended retail price**
- * Dealer fitted accessories,
- * Paint and upholstery treatments the dealer may have applied to the vehicle,
- * Insurance premiums and any non transferable warranty charges.

** This may sound a little complex but it is well worth taking a minute or two to understand this, as it could be an unexpected and significant claim deduction;

In the event of a claim, a policyholder should reasonably expect a Return To Invoice Gap Insurance to pay the difference between; a) what the motor insurer pays and b) the original invoice price.

However, in reality there are potential exclusions and deductions the policyholder may have overlooked and one of the largest can be any amount you pay for the vehicle over and above its recommended retail price. The recommended retail price is determined by and acknowledged to be the motor industry’s Glasses Guide publication. Some Gap Insurers provide a degree of flexibility to allow for price fluctuations by stating they will not pay over say, 110% of recommended retail price. Therefore finding a policy with the highest % is to your benefit.

Easier still, find a policy that does not impose this clause. They are available. Never accept the dealer or brokers assurances – always check the policy Terms and Conditions and you’ll have no surprises when the cheque arrives!

For example, if you have agreed to purchase a vehicle for £17,500 and it has a recommended retail price of £15,000, you will have paid nearly 17% over the Glasses Guide valuation. If the Gap Insurance policy will not pay more than say, 110% - the Gap Insurance payout will be reduced in this example by £1,000.

You can see from the above exclusions that any one or a combination could still leave you with a significant financial shortfall. The tip therefore is; check the exclusions and make sure the policy will cover everything you need it to. Gap Insurance works, but there are some poor policies with many exclusions out there – particularly within motor dealers.

General Exclusions

Some Gap Insurances exclude theft where prior access has been gained to the vehicle keys. Our advice would be to immediately disregard policies with this exclusion. A major insurer published that 93% of its theft related write offs involved the thief first gaining access to the keys. It is a major cause of vehicle write off’s.

5. Claim limit / Cover level risk.

What is a “Claim Limit” or “Cover Level” ?



When purchasing Gap Insurance, you must first estimate the depreciation you are likely to suffer in the event of a write off. As an example, lets assume you purchase a £15,000 vehicle with the intention of keeping it for 3 years. Estimate what you think your insurer might pay (the market value) in the event of a write off in the last year of your expected ownership, in this example year 3. Let’s say your best guess is £6,000. To calculate the minimum level of cover required, use this simple calculation;

Purchase price of vehicle	£15,000.00
Minus estimated write off value in last year of cover	£ 6,000.00
Depreciation to be covered (minimum claim limit / level of cover needed)	£ 9,000.00

Nearly all Gap Insurance policies offer a choice of cover levels. It is your responsibility to choose the correct amount. Get this wrong and you may still have a financial shortfall. When motor dealers offer Gap Insurance, they

usually offer what they believe to be the correct level, or only what they have available to them. Again, the risk is yours – not theirs.

Policies without a claim limit are rare, but a few on-line brokers have developed with their insurer a “No Claim Limit” policy to help remove the risk from the customer. You may need to pay a little more, but even these policies are cheaper than the basic dealer policies where you carry the risk. Buying a No Claim Limit policy means you do not bear the risk of choosing a claim limit and the policy will perform as you expect it to.

6. Period Of Cover.

Gap Insurance is not renewable. What does mean to you? If for example you purchase a 3 year Return To Invoice Gap Insurance, its cover will end after 36 months and cannot be renewed with the same level of benefit. In this example, if you decide to keep your vehicle for a fourth year - you will no longer have the ability to enjoy a true Return To Invoice protection in the fourth year.

You may however, be able to purchase what is known as an “Agreed Value” Gap Insurance when your Return To Invoice policy expires. Be aware, in the event of a claim, the Agreed Value policy will only pay the difference between what your insurer agrees to pay in the event of a write off - and the Market Value at the time of purchasing the Agreed Value policy - and that of course will be substantially less than the invoice price you had originally protected.

The tip therefore is to take out a policy for the period of expected ownership and also consider adding a year just in case you decide to keep the vehicle longer than anticipated. Bear in mind some motor dealers do not offer 4 year cover as most of them only have access to a three year policy. Don't be sold short on this issue because it cannot be reversed.

7. Finance Consideration.

If you are considering a Return To Invoice or Vehicle Replacement Gap Insurance and have used a Hire Purchase, Lease Purchase or PCP (Personal Contract Plan) to finance your purchase, you might wish to consider whether the policy you are reviewing will settle your finance if the lenders settlement figure is higher than the original invoice price. It can and does happen.

A Gap Insurance policy that meets that need is known as a “Combined Return To Invoice” or “Combined Vehicle Replacement Gap” Insurance policy. Not all brokers or dealers have this feature available to them and those that do may or may not charge a little extra.

8. Transferable Policy.

There are a number of circumstances under which you may wish or need to change your vehicle. If you do, you might wish to transfer the balance of your Gap Insurance to your next vehicle. Not all policies are transferable so do check the policy Terms and Conditions.

Most policies provide a free transfer in the first year if your fully comprehensive insurer provides a replacement car under a new for old arrangement. Beyond the first year not many Gap Insurers provide a transferable feature. They do exist, you just need to find the right broker. Do not accept your retailers assurance, only accept the transfer conditions within the policy Terms and Conditions by which the insurer will be legally bound.

On a slightly morbid note, check within the policy Terms and Conditions what happens if the policyholder dies. Some Gap Insurances end in these circumstances, but a rare few will provide transfer to a next of kin. Again, do not accept the dealers or brokers assurances – check the Terms and Conditions for yourself.

9. What happens to your policy when you make a claim?.

All Gap Insurances end when you make a claim and the claim is paid. The downside is that if you make a claim 18 months into a 4 year policy – you will need to buy Gap Insurance again for the replacement vehicle. So, great to know the policy has provided the financial protection you required, but not so good that you have not received the full benefit of the cover you paid for.

One on-line broker offers an industry unique feature they call the Full Term feature. Make a claim on the policy and they will pay for a new policy for the period remaining on the original policy.

10. Who receives the money when you make a claim?.

If you purchase Gap Insurance from a motor dealer, there is normally a reciprocal trading arrangement in place between the dealer and insurers administrator. In this agreement the dealer agrees to sell the insurers cover, and in return, the administrators agree to pay any claims directly to the dealer. This works well for the dealer as this turns claimants into captive customers.

However, those 'captive' customers may not wish to buy another vehicle of the same brand or indeed use the same dealer – so this typical arrangement can be limiting for some Gap Insurance buyers.

Some on-line brokers insist upon a different arrangement. An arrangement that requires the Gap Insurers administrator to pay claims directly to the claimant. In that way, the Gap Insurance policyholder can choose an alternative brand or a different dealer with total freedom.

When comparing Gap Insurance policies, check the insurers Terms and Conditions to establish what their claim settlement period commitment is. Some of the more transparent administrators will commit to pay within a stated period and that enables you to plan ahead for your replacement. Again, do not accept the broker's assurances – check the insurers Terms and Conditions.

11. Other important features to consider. (ok, it's the eleventh top 10 tip!)

Eligibility Period

To enjoy the full benefits of Return To Invoice or Vehicle Replacement Gap Insurance, you must purchase the policy within a specified period. Normally this period is 180 days from date of vehicle delivery. Beyond this you may only be eligible for an Agreed Value Gap Insurance. So, if you want full protection for your vehicle, don't miss the cut off point and in the meantime be mindful you are still at risk of depreciation in a write off.



For new vehicle buyers, your motor insurer might tell you that you are entitled to new for old replacement during the first year. Our claims experience tells us that in reality this is rarely the case. There are a considerable number of Gap Insurance claims during the first year of ownership and this confirms that fully comprehensive insurers may not be performing as they promised to, or the buyer did not familiarise themselves with the Terms and Conditions before purchase.

Deferred Start Policies

If you are a new vehicle buyer and happy that your insurer will provide new for old cover in the first year, you can purchase a Gap Insurance policy and defer the start by up to 12 months.

Motor dealers do not usually have this feature available to them and it is not available from every on-line broker, but it is available. Some brokers policies cost a little extra for the deferral, some include it free.

All Named Drivers

Some Gap Insurance policies will provide cover for any driver named on the fully comprehensive insurance policy. Others do not. When checking this feature, do not accept the dealer or brokers assurances – make sure it appears within the policy Terms and Conditions.

Motor insurance Excess

Some Gap Insurances will provide a contribution to your fully comprehensive motor insurers excess. This is small but worthwhile benefit - normally £250, so again check the policy Terms and Conditions.

Modifications

This is often overlooked and could be a potential issue. Most Gap Insurances will not pay where a 'modification' is made to the insured vehicle, and in most cases the insurers do not specify their interpretation of a 'modification'.

Where you can and if you feel it is appropriate, choose a Gap Insurance that will cover modifications. They are rare but they are available. Those that do will say that providing the fully comprehensive policy will cover the modification - so too will the gap insurance cover.

Once again, and importantly, do not accept the verbal assurances of the broker or dealer - always make sure it appears within the insurers Terms and Conditions.

And Finally !

We hope these tips help you understand the risks and how these policies can differ. Unlike your fully comprehensive insurance – you do not have the benefit of being able to review and change your Gap Insurance every year. It is therefore extremely important you choose right first time.

If these tips have created questions, please feel free to call us from 9am – 5pm Monday to Friday or email us at enquiries@car2cover.co.uk between 8.30am – 10pm – 7 days a week!

We leave you with a few facts.

Gap Insurance works and is excellent value protection – regardless of where you buy it.

Why? Because your fully comprehensive insurers risk is reducing every year in line with vehicle depreciation – but their premiums do not reduce accordingly. Recent industry statistics suggest that motor insurers premiums have risen by 35% in 2011 despite increases in depreciation.

On the other hand, a Gap Insurers risk increases year on year in line with accelerating depreciation and yet the total premium they receive is substantially less than the fully comprehensive insurer.

According to the ABI (Association of British Insurers) over 500,000 vehicles are written off every year. That equates to 57 vehicles per hour, every hour, night and day, 365 days per year.

Almost everyone has experienced or knows someone who has experienced an insurance write off due to fire, accident or theft. It can be an extremely costly experience and the risk is not as rare as you might like to think.

These tips are provided as impartially as possible by people with over 30 years experience in the retail motor and insurance industry. Our business is called CLICK2protect is authorised and regulated by the Financial Services Authority. Our FSA register number is 462408.

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