

A Good Gap Guide

**Do not buy anywhere
until you read this.**

Everything you need to know.
Expert Buying Tips and a useful checklist to help
save you £'s

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This guide is designed to help you make informed decisions on your potential Gap Insurance requirement. We hope you find it useful. Before you make a decision to buy Gap Insurance, we think you should know a little more about;

- what it does,
- what your Gap Insurance choices are,
- how it can benefit you,
- **and more importantly what to look for and consider.**

Gap Insurance differs from most other insurances in that by design, Gap Insurance provides greater customer benefits when taken for 2, 3, 4 or even 5 year terms. In these cases, the option to review, compare and renew annually is not available to the customer. Therefore choosing the right broker, underwriting insurer and product type is more important than any other annually reviewable insurance product.

What does Gap Insurance do?

Gap Insurance is an optional supplementary insurance which provides various protections against risks not covered by a normal 'fully comprehensive' motor insurance policy.

Gap Insurance can benefit motorists who use cash, finance, or a leasing facility.

If fully comprehensive motor insurance was truly 'fully comprehensive' there would be no place for Gap Insurance, but regrettably fully comprehensive motor insurance allows insurers to reduce their risk/your cover annually by applying depreciation whilst potentially charging you little more each year.

This is unlike any other asset protecting insurance we buy. For example, most home or office contents insurance will replace insured items on a new for old – like for like basis for the period of the policy and throughout year on year renewals. It's called 'betterment' in the insurance industry. It means that you benefit when making a claim, eg a 3 year old computer would be replaced with a new one.

To illustrate this further, if you damaged a three year old television beyond economical repair, your insurer would supply or pay for a brand new replacement - you will receive 'betterment'. If home or office contents insurance behaved in the same way as motor insurance – they would send you or buy you a three year old replacement TV ! That simply would not be acceptable would it?

Many well respected motoring publications will confirm that vehicles lose anywhere between 34% - 90% of their value in three years and on average 65%. When those percentages are converted to £'s in real situations, vehicle owners lose out substantially.

For those and many other reasons Gap Insurance is no longer viewed with the apathy it was some 10 years ago. Today many thousands of motorists insist on the additional protection Gap Insurance provides and that protection comes in three distinct forms.

What are your Gap Insurance choices?

- Finance Gap
- Return To Invoice Gap
- Vehicle Replacement Gap

Finance Gap

Finance Gap is specifically developed to help motorists cover any potential negative equity in the event of an insurance write off. Let's take a look at how this might typically work;

Mr Smith buys a vehicle for an agreed inclusive price of £15,000.00

He pays a deposit of £ 1,000.00

And finances with the dealer's finance company the balance of £14,000.00

Financing at 5% per annum over 5 years the interest is £ 3,500.00

On the day he drives away, Mr Smith owes the lender £17,500.00

Sadly, after 24 months of happy motoring Mr Smith's car is stolen and written off by his insurer.

To settle his finance agreement on the car he no longer has, Mr Smith is required to pay his lender £ 9,750.00

But Mr Smith's insurer will only pay £ 7,500.00

Mr Smith therefore needs to pay his lender the difference of £ 2,250.00

If Mr Smith had purchased Finance Gap, the policy would have paid £2,250.00 to his lender on his behalf.

Negative equity cases are potentially far worse on finance agreements where 'balloon payment' or 'option to purchase' figures are a feature - because the level of capital repaid each month is less and therefore finance settlement figures are higher.

To summarise, Finance Gap will pay the difference between what a finance company require to end the loan and what the motor insurer agrees to pay, up to the claim limit you choose and for the period you require.

Finance Gap will help clear outstanding finance but will not recover any deposit the motorist originally paid.

Finance Gap is sometimes referred to as Leasing Gap or Contract Hire Gap because it will help repay the outstanding rentals due to the leasing company, up to the claim limit you choose and for the period you require.

Return To Invoice Gap

Return To Invoice Gap is a Gap cover designed to help motorists recover the full original purchase invoice price in the event of an insurance write off. Let's take a look at how this might typically work;

Mr Green buys a vehicle for an agreed inclusive price of £15,000.00

Sadly, after 24 months of happy motoring Mr Green's car is stolen and written off by his insurer.

Mr Green's insurer agrees to pay £ 8,000.00

In this case Mr Green has suffered a financial loss of £ 7,000.00

If Mr Green had purchased Return To Invoice Gap, the policy would have paid £7,000.00 to enable him to buy a replacement car for the same price he originally paid without using his own funds.

To summarise, Return To Invoice will pay the difference between what you pay for your vehicle and what your motor insurer agrees to pay, up to the claim limit you choose and for the period you require.

The payout received from a Return To Invoice Gap claim can also be used to clear any outstanding finance agreement and may leave a surplus to be used as a deposit for your replacement car.

Return To Invoice Gap is not normally used for Leasing or Contract Hire agreements because the hirer has little financial interest in the original invoice price. However if a high level of advance rentals were paid, Return To Invoice cover should be sufficient to recover those to help fund a replacement car. It is rare for Return To Invoice Gap to be used in this way.

Return To Invoice Gap is also referred to and known as;

- RTI
- Back To Invoice cover
- Vehicle Replacement Insurance
- Vehicle Replacement Protection
- VRI
- VRP
- Shortfall Insurance
- Shortfall Cover
- Total Loss Gap

Return To Invoice Gap is often the product offered to car buyers by motor dealers at point of sale.

Vehicle Replacement Insurance Gap

Vehicle Replacement Gap will pay the difference between the amount you receive from your motor insurance policy and the purchase price of the nearest equivalent specification of the original vehicle. Let's take a look at how this might typically work;

Mr Brown buys a vehicle for an agreed inclusive price of £15,000.00

Sadly, after 24 months of happy motoring Mr Brown's car is stolen and written off by his insurer.

Mr Brown's insurer agrees to pay £ 6,500.00

In this case Mr Brown has suffered a financial loss of £ 8,500.00

The situation is worse than that for Mr Brown, the manufacturer has since discontinued his specification and the nearest equivalent is now

£17,000.00

If Mr Brown had purchased Vehicle Replacement Gap, the policy would have paid his financial loss of £8,500.00 and the extra £2,000.00 he needs to buy the nearest equivalent specification.

To summarise, Vehicle Replacement Gap will pay the difference between what you need to purchase an equivalent specification replacement and what your motor insurer agrees to pay, up to the claim limit you choose and for the period you require.

The payout received from a Vehicle Replacement Gap claim can also be used to clear any outstanding finance agreement and may leave a surplus to be used as a deposit for your replacement car.

Vehicle Replacement Gap is not normally used for Leasing or Contract Hire agreements because the hirer has little financial interest in the original invoice price, or equivalent replacement price. If a high level of advance rentals were paid, Vehicle Replacement Gap cover should be sufficient to recover those to help fund a replacement car. It is rare for Vehicle Replacement Gap to be used in this way.

Vehicle Replacement Gap is also referred to and known as;

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Vehicle Replacement Gap is sometimes offered to car buyers by motor dealers at point of sale.

How can Gap Insurance benefit you?

When motor dealers offer their customers Gap Insurance, one of the most common answers will be;

"I know vehicles depreciate and have come to expect that. I don't expect the insurer to pay new for old in the third or fourth year of ownership, so I don't see the benefit of Gap Insurance."

That view is missing the point.

If we buy a car and plan to replace it in four years time, we financially prepare for the depreciation by saving for another car in the meantime, or saving for another deposit to finance the replacement.

Far too often that intention does not go to plan. Replacement can be brought forward unexpectedly due to theft, accident or fire. That is when Gap Insurance delivers and takes care of the loss. Motorists cannot and do not budget for the accelerated depreciation loss or negative equity loss on a finance agreement that insurance write off imposes.

Why would you need Gap Insurance in your first year of ownership ?

Most fully comprehensive motor insurers provide a new for old – like for like cover in the first year, so why would Gap Insurance be necessary or a benefit in that first year?

There are two reasons. Firstly, the major benefit of Gap Insurance is the protection of the original purchase price or 110% of Glasses Guide value of the insured vehicle when it was purchased, i.e. all of your original investment in your vehicle. If Gap Insurance is purchased in the second year of ownership, Gap Insurance will only pay up to 110% of Glasses Guide value at the time the Gap Insurance policy was purchased, i.e. after one year's depreciation has been incurred.

For example, same car, same owner, different point of Gap purchase;

RTI Gap Insurance purchased within 180 days of vehicle purchase;

Vehicle purchase price	£20,000.00
Motor insurer pays out on write off after 2 years ownership	£10,000.00
Gap Insurance pays the owner the balance of	£10,000.00
In that case the total payout received by the owner would be	<u>£20,000.00</u>

If RTV Gap Insurance is purchased one year after vehicle purchase;

Same vehicle purchase price	£20,000.00
But Gap Insured value @110% of Glasses Guide 1 year later	£15,400.00
Motor insurer pays out on write off after 2 years ownership	£10,000.00
Gap Insurance pays the owner the balance of	£ 5,400.00
In that example the owner would receive a total of	<u>£15,400.00</u>

By delaying the purchase of Gap Insurance for one year reduces its benefit by £4,600.00 in the above example. Note also that the cost of a Gap Insurance in both cases would be the same and yet in the second example it would pay £4,600.00 less and therefore would not represent such good value.

Some Gap Insurances can be purchased at any time during ownership but will only pay up to the Glasses Guide value at the time the Gap insurance is purchased.

Secondly, despite a generalisation that insurers pay new for old in the first year, there are circumstances under which some may not. We have seen motor insurance settlement deductions of up to 20% in the first year of ownership in cases where vehicles have been stolen and thieves gained access to the vehicle keys by first breaking into the home. Similar deductions have been applied where the thief gained possession of the vehicle and keys in 'car jacking' incidents.

Gap Insurance is of greatest benefit when purchased at or as soon after taking delivery.

Gap Insurance is available to protect you against the unforeseen. An insurance write off is a financial loss that is rarely considered in advance but one that regrettably occurs over 500,000 times every year. Police and Home Office statistics tell us 57 cars per hour – every hour – every day (and night) are written off in the UK as a combined result of theft, accident or fire.

Due to its portable nature and black market value, our car is one of our most desirable and yet valuable assets. It is also at much greater risk than other valuable assets. It is subjected to busy roads used by some erratic and careless drivers, left alone in crowded car parks, and sits appealingly on our drive. Yet despite those risks some motorists accept the shortcomings of 'fully comprehensive' insurance – an insurance under which the insurer can charge you more each year for a reducing level of cover!

If you pay your motor insurer £400 per year for your 'fully comprehensive' policy, you will pay your insurer £1,600 (assuming no increases or build up of no claims bonus) in that period. They will collect £1600 for a **reducing** level of cover, whilst your four year Return To Invoice Gap policy will pay up to £25,000 of the **increasing** depreciation risk for somewhere near £335 in total. Which is the better value and which policy is truly more desirable?

As you have seen in the previous section, Gap Insurance can clear your debt in a negative equity situation, provide sufficient funds to return all of your original investment, or buy the nearest equivalent specification if your car has been superseded or has increased in price since you purchased it.

Gap Insurance is a benefit which increases during your ownership. Motor Insurance is a legal requirement with reducing benefit.

If your motor insurer will not take the depreciation risk – should you?

How can Gap Insurance be of benefit if a vehicle is acquired under a Lease or Contract Hire agreement ?

Leasing and Contract Hire agreements differ from all other forms of finance in that the sum required to settle an agreement is usually substantially higher than other traditional methods of financing such as Hire Purchase, Balanced Payment, PCP and Lease Purchase agreements.

In fact, most Contract Hire agreements contractually require all remaining rentals to be paid upon a write off. In reality, some leasing companies may deduct a few payments as a gesture of goodwill but that can still leave a considerable balance to pay. How ? Take a look at this example;

When calculating a contract hire or lease settlement in the case of a leased vehicle being written off due to theft or accident, a leasing company would perform a calculation similar to this. Let's assume the vehicle cost them £20,000.00 (pre vat) and the lease payments are £375.00 plus vat per month over a three year term.

Vehicle stolen and written off after 18 months;

1.	Outstanding payments due = 18 x £375.00	=	£ 6,750.00
2.	They would have expected to sell the vehicle at the end of the contract for say 40% of purchase price	=	£ 8,000.00
	Total expected income for remainder of agreement	=	£14,750.00
	Less insurance company agreed write of settlement	=	£11,000.00
	Customer must now find a deposit for new agreement plus		£ 3,750.00

This figure could be £4931.25 if you are required to pay the vat.

Do bear in mind under a leasing agreement such as that above, the total of the 36 payments before vat plus the expected end of contract sale proceeds will exceed the original purchase price – otherwise the leasing company will not make a profit !!

In the above example at the start of the agreement the leasing company would expect to collect 18 x £375 = £13,500.00, plus the proceeds from sale at the end of the contract of £8,000 = total £21,500.00. Their profit/funding costs would therefore be £1,500.00 over the three year period.

Why do you need to know this when considering Gap Insurance? Because you need to be aware that in the event of a write off, the leasing company will not bear the loss. They will expect to recover all the payments and incomes contractually due to them under your agreement, otherwise they will not make their profit.

The loser in those circumstances will be you.

Before buying Gap Insurance it is crucially important to know what to look for and what to consider. These notes are provided to highlight the major considerations.

If you think you have a need or requirement for some form of Gap Insurance you need to understand one more thing before you buy.

Not all Gap insurers or policies are the same....

Brokers and insurers agree different terms within their policies to drive their product down to an optically attractive price. There are a few technical differences that you need to be aware of;

[UK based insurer or Offshore insurer ?](#)

Some insurance intermediaries may choose an offshore insurer to provide the underwriting for their Gap Insurance products. They do so because the offshore insurer may have lower property and staff overhead costs and corporate taxation may be less in their country. Part of those cost savings may be passed on by way of slightly lower policy prices and therefore greater broker margins.

If you are tempted by an insurance product offered by an offshore insurance company do first check with the Financial Services Authority or Department of Trade and Industry what rights and protections you might have in the event of a claim dispute or if the insurer becomes insolvent and ceases to trade. You can contact the FSA on 0845 608 2372. Details of the insurer will always be found within the policy terms and conditions and these must be easily accessible from the broker or motor dealer. We recommend you do not buy without knowing who the insurer is and where they are based.

Gibraltar for example is not governed by UK law, and the Department Of Trade and Industry and the Financial Services Authority may have no jurisdiction over your chosen insurer in that country. Here in the UK, FSA authorised and regulated insurers provide customers with valuable protections under the Financial Services Compensation Scheme and the Financial Ombudsman Service.

If in any doubt, consider paying a few more pounds for your policy for the protections available to you when buying a UK insurance. Gap Insurance should be there for you when you need it most.

We highly recommend you view this link to read an article called 'Perils Of Letting Cover Go Offshore' written by Teresa Hunter of the financial web site called Money.Scotsman.Com, in which Teresa reports on stories of monies lost to offshore insurers. Click on this link;

http://money.scotsman.com/scotsman/articles/articledisplay.jsp?article_id=3409241§ion=Insurance&prependForce=SM

Here are some helpful tips on 'what to look for' when choosing Gap Insurance.

- Be cautious of the fact some policies have an exclusion under which the insurer will not cover theft of a motor vehicle where the thief gains access to the keys. Think carefully about this clause. The theft of a vehicle by first stealing keys from the home or office is an increasingly common scenario. If you think Gap Insurance is a worthwhile investment we recommend you buy a policy which will cover you in these circumstances.
- Some Return To Invoice Gap policies do not provide for circumstances where the finance settlement figure might be higher than the original purchase price of the vehicle. Those are rare cases but can occur where the buyer finances the entire cost of the car, uses a balloon payment plan and the write off occurs early in his/her ownership. If you are not financing, this is not a consideration for you.
- Finance Gap and Return To Invoice Gap insurances limit their payout to a pre-determined figure, which can be found within the insurer's policy document. Some insurers will pay out up to the Glasses Guide retail value, others will pay up to 110% of Glasses Guide retail value. If your vehicle has a number of factory fitted options such as leather upholstery, satellite navigation, etc, Glasses Guide retail value of the standard car may not be sufficient. In that case we would recommend you consider the higher payout limit of 110%. There is generally no Gap Insurance price difference for the higher level of cover.
- Within a Gap Insurance policy the insurer will normally agree to cover some level of dealer fitted extras that were fitted at time of purchase. This can range from £0 - £1,500. If for example your dealer fitted a tow bar, body kit, DVD system etc, a Gap Insurance policy may provide some cover for those too. Again, policies with accessory cover is no more expensive than one without.
- We do not recommend purchasing a Gap Insurance policy which applies an excess deduction or annual payout reduction. Insurers have been known to reduce their liability by applying an annual payout reduction of 10%. If your car is covered by one of these policies and is written off in year three, the insurer will reduce the sum due to you by 30% !!
- At the supplying dealers request some GAP Insurance policies will only pay the sum due to the original supplying dealer to enable you to buy from them again. This in our view is restrictive. In the event of a write off we believe you should have the freedom of choice and not be restricted to the same dealer and same brand. Consider finding a Gap Insurance policy that will pay you the sum due to enable you to buy a vehicle of your choice from a dealer of your choice.
- When reading terms and conditions of the policy, we suggest you avoid using insurers who wish to pay 'the lesser' of any two figures. Instead choose an insurer that will pay 'the greater' of those same two figures. This relates to;

Original invoice price and outstanding finance
Glasses Guide retail price and original invoice price

Gap Insurance Buyers Check List

Having given you some useful hints and tips to help you choose a good Gap Insurance policy, please bear in mind at car2cover we have heeded our own advice and have developed what we believe to be the best Gap Insurance products on the market which meet the standards we suggest you look for. Remember a big name insurer does not mean best product. So shop carefully – we do when we choose our insurers !

To help you compare us with another provider you might be considering use this handy check list. These are not exhaustive but probably the most critical features one must look for in a Gap Insurance.

<i>Tick where the answer is YES, cross where it is NO</i>	car2cover	Competitor
Is the insurer UK based ?	✓	?
Does the policy pay if theft occurs with use of keys ?	✓	?
Is the policy free of excess or payout deductions ?	✓	?
Does the policy pay up to 110% of Glasses Guide ?	✓	?
Does the policy provide £1,500 accessory cover ?	✓	?
Does the policy clear the finance if the settlement figure exceeds the car value ?	✓	?
In the event of a claim will you be paid the funds ?	✓	?
Does the policy use 'the greater of' term ?	✓	?
Does the broker provide 30 day money back offer ?	✓	?
Will the RTI policy clear outstanding finance too ?	✓	?
Can RTI be taken as late as 180 days after purchase ?	✓	?
Live email help 7 days a week 8.00am – 11.30pm, Put us and our competitors to the test. Who will be there for you ?	✓	?

If you find a competitor who can say YES to all of these questions, you have found another good Gap Insurance policy. It's not easy – we've been looking for some time !

We hope you have found this guide helpful and informative. If you have any questions please feel free to email us at enquiries@car2cover.co.uk. We would welcome any suggestions you may have to make this guide even more helpful.

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