

Our final rules will empower consumers when making decisions about purchasing add-on GAP insurance, and limit the point-of-sale advantage of add-on distributors

FCA Guaranteed Asset Protection insurance: competition remedy – June 2015

Our previous bulletins have largely focused on the FCA regulation of the Consumer Credit market (which came in to effect in April 2014), and helping dealers navigate their way through the requirements in order to become and remain authorised to conduct finance business.

This bulletin is on a different topic, but one that is still closely related to reminding and helping dealers meet their regulatory obligations, namely the sale of Guaranteed Asset Protection Insurance or GAP Insurance as it is more commonly referred.

Those of you who keep abreast of developments within the FCA's remit will know that in June 2015 the FCA published their final rules on GAP, following a market study on General Insurance Add-ons and a specific consultation paper on GAP.

As part of their original market study the FCA found that;

- Almost two-thirds of add-on customers (59%) reported not having thought about buying GAP insurance until the day they bought it.
- Add-on GAP insurance customers had a worse understanding of the product than standalone GAP insurance purchasers.
- Almost half of customers reported being unaware that they could have bought GAP insurance other than at the point of sale. Add-on GAP insurance customers were the least likely to shop around relative to purchasers of the other four sampled (add-on) products in the Market Study (only 19% of respondents said they did).
- Shopping around is likely to be particularly worthwhile. Add-on GAP insurance prices can be significantly higher than stand-alone prices. Furthermore, the stand-alone share of the market is very small in comparison with add-on GAP sales, which further underlines the advantage held by add-on distributors.
- Evidence suggests that GAP insurance sold as an add-on is often poor value for customers, with only 10% of retail premiums for add-on GAP insurance being paid out in claims. This is a very low claims ratio relative to other products

The FCA proposed a market-specific remedy because they believed issues in the GAP market were more significant than other insurance products studied.

The FCA entered in to a consultation process in relation to their proposed competition remedies in Dec 2014, and published their final rules in June 2015. The new rules will come in to force on **1 September 2015** at which point all distributors of GAP insurance will be required to comply. The new rules will apply to customers who were presented with the product pre-1st September but will not conclude the contract until 1st September or later. This is obviously a particularly relevant point given the forthcoming peak in car sales volume the UK market experiences with the biannual new registration plate.

Deferred Opt-in

From the 1st September 2015 a GAP contract cannot be concluded between a firm and its customer until at least **2 clear days** have passed since the customer has been provided with the prescribed information (covered below) which is designed to help the customer make an informed decision as well as encouraging them to shop around for alternative GAP products.

The exception to this is if the customer initiates the conclusion of the contract on the day after the prescribed information has been provided to them and confirms that they understand, and accept, that they are choosing not to be subject to the deferred opt-in period.

It is important to note that the dealer cannot initiate any further conversation regarding the purchase of the GAP policy prior to the end of the four day period, neither can they encourage the customer to break the deferred opt in period sooner than four days. The FCA have provided a very clear break down of what is required in terms of time delay between giving the customer the prescribed information and concluding the GAP contract:

- Day 1: The prescribed information is provided to the customer
- Day 2: 1st clear day
- Day 3: 2nd clear day
- Day 4: The GAP contract can be concluded with the customer

Prescribed information

The FCA's remedies stipulate that before an add-on GAP insurance contract (GAP that is sold alongside the motor vehicle) is concluded the distributor (dealer/retailer) must provide the customer with the following information as a minimum in order to trigger the start of the deferred opt-in:

- The total premium of the add-on GAP insurance policy, separately from other prices
- The significant features and benefits, significant and unusual exclusions or limitations, and cross-references to the relevant policy document provisions
- That GAP insurance is sold by other distributors
- The duration of the GAP insurance policy
- Whether the GAP insurance policy is optional
- When the GAP insurance contract can be concluded by the firm, including the date on which the prescribed information was provided so that it is clear to the customer when the 'clock' has started

The prescribed information must be provided in writing or another durable medium. In addition, and in line with existing ICOBS 2.2.2., *"when a firm communicates information . . . it must take reasonable steps to communicate it in a way that is clear, fair and not misleading."*

The full FCA Policy Statement PS15/13 'Guaranteed Asset Protection insurance: competition remedy', can be found by following the link below.

<https://www.fca.org.uk/static/documents/policy-statements/ps15-13.pdf>



For those dealers who currently sell the Santander branded GAP insurance product you will receive a separate communication which details how the administrator, TWG (The Warranty Group Ltd), is amending their Connection system from late August to allow dealers to continue to sell GAP within the new rules. In the interim if you have any specific questions please contact your dedicated Hyundai Capital Business Development Manager

Kind regards

A handwritten signature in black ink, appearing to read 'Daniel Lee'.

Daniel Lee
Managing Director
Hyundai Capital (UK) Limited

THE CONTENT OF THIS BULLETIN IS FOR INFORMATION ONLY AND IS GIVEN IN GOOD FAITH. IT DOES NOT CONSTITUTE LEGAL ADVICE. IF LEGAL ADVICE IS REQUIRED, PLEASE REFER TO YOUR OWN LEGAL COUNSEL.

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HCUK|August 15