

Guaranteed Asset Protection insurance: competition remedy

Including feedback on CP14/29
and final rules

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In this Policy Statement we report on the main issues arising from Consultation Paper 14/29 *Guaranteed Asset Protection insurance: a competition remedy* and publish the final rules.

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Abbreviations used in this document

Add-on GAP	GAP sold alongside a motor vehicle (see also definitions in the final rules attached to this Policy Statement)
CONC	Consumer Credit Sourcebook
FCA	Financial Conduct Authority
GAP	Guaranteed Asset Protection
ICOBS	Insurance Conduct of Business Sourcebook
Market Study	The General Insurance Add-ons market study
PCWs	Price comparison websites

1. Overview

Introduction

- 1.1** In our final findings report on the General Insurance Add-ons Market Study (Market Study), we stated our significant concerns about competition in the Guaranteed Asset Protection (GAP) insurance market and our intention to remedy this. We are now publishing final rules to give effect to this commitment. 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.
- 1.2** Firms distributing GAP insurance in connection with the sale of a motor vehicle (add-on GAP) will be required to:
- provide customers with prescribed information to help them shop around and be more engaged when making decisions about purchasing the product
 - introduce a deferral period, which means GAP insurance cannot be introduced and sold on the same day
- 1.3** We expect to see better customer outcomes from more informed purchasing decisions and improved competition between add-on and standalone distribution channels as a result of these measures.
- 1.4** This policy statement sets out an overview of the consultation feedback, our response and final rules. We have revised parts of the cost benefit analysis and clarified certain issues related to the implementation of the remedy in response to feedback. The final rules do not significantly differ from the draft rules we consulted on.

Who does this affect?

- 1.5** This policy statement and the final rules affect firms distributing add-on GAP insurance. It also affects insurance firms that underwrite GAP insurance products, and other intermediaries involved in the distribution.
- 1.6** Firms involved in the sale of stand-alone GAP insurance, motor finance, motor insurance and motor vehicles more generally will also be interested.

Is this of interest to consumers?

- 1.7** The rules will affect how firms engage with retail consumers and commercial customers (together described as ‘customers’ in this paper) when selling GAP insurance alongside a motor vehicle. So this policy statement should be of interest to customers who have purchased add-on GAP insurance in the past, or who may do so in the future.
- 1.8** Our reasons for including sales to commercial customers within the scope of the rules are set out in Chapter 2.

Context

- 1.9** The Market Study was announced as the Financial Conduct Authority’s (FCA) first market study in July 2013.¹ Our objective was to test whether competition in the markets for general insurance add-ons was effective. GAP insurance was one of five products we examined.²
- 1.10** In our final findings report of July 2014, we stated that the add-on mechanism has a clear impact on consumer behaviour and often affects consumers’ decision-making, weakening engagement.³ This, in turn, strengthens a structural point-of-sale advantage. We also observed that many consumers are getting poor value not just from some add-on products but also from stand-alone purchases, and there is a lack of transparency and comparability about the value provided by general insurance products.
- 1.11** While our findings applied across all general insurance markets, we had significant concerns about the impact of the add-on mechanism in the GAP insurance market. We found that:⁴
- 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.
 - Our 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.

¹ www.fca.org.uk/news/general-insurance-add-ons-market-study

² The other insurance products examined in the Market Study were travel, personal accident, gadget and home emergency.

³ FCA, General insurance add-ons: final report – confirmed findings of the market study (Market Study – Final Report), www.fca.org.uk/your-fca/documents/market-studies/ms14-01-final-report

⁴ Market Study – Final Report

1.12 We proposed a market-specific remedy because issues in the GAP insurance market were more significant than for the other products studied. The initial proposals, set out in the provisional findings report, were for a deferred opt-in and improved information.⁵

1.13 The refined proposals for the GAP insurance remedy were set out for consultation in December 2014 in *CP14/29 Guaranteed Asset Protection insurance: a competition remedy*.⁶

Summary of feedback and our response

1.14 We received 22 responses to our consultation, primarily from firms involved in the sale of add-on GAP insurance either as distributors or insurers. Four trade bodies, one professional standards industry body, one consumer organisation and one individual also responded. The non-confidential respondents to the consultation are listed in Annex 1.

1.15 We are grateful for the feedback received and thank all those who responded. We carefully considered the responses before deciding on the final policy approach and rules.

1.16 Respondents were generally sceptical about the deferred opt-in remedy and questioned whether it would achieve its intended outcomes and/or avoid disproportionate costs to firms and customers. Concerns were also raised about individual elements of the deferred opt-in proposal and clarification was sought on the practicalities of implementing the remedy.

1.17 We discussed possible remedy options and issues with industry participants at meetings and a workshop during the policy development process.

1.18 The following table provides an overview of the feedback received and our response, which we describe more fully in subsequent chapters.

Feedback received	Our response
<p>Disagreement with the remedy package – some respondents did not agree that there were issues in the market or did not see the deferred opt-in as an appropriate solution. Alternative remedies were proposed.</p>	<p>There are significant competition issues in the GAP insurance market as described above. Our remedy package directly tackles the point-of-sale advantage and impact of the add-on mechanism on customers' decision-making. Alternative remedies do not directly or proportionately address these issues. We are therefore implementing our proposed remedy package.</p>
<p>Extending the implementation timetable – most respondents said the implementation date of 1 September 2015 was too soon. Other dates were proposed, with many preferring 1 January 2016.</p>	<p>We recognise that add-on distributors will be busy up to and over September due to increased vehicle sales. However, we want to implement the rules in time for those customers who are purchasing during this time to benefit from the remedy. On balance, we consider that the rules should come into force on 1 September 2015 as proposed. It should be possible for firms to make the changes by then.</p>

⁵ FCA, General insurance add-ons: provisional findings of market study and proposed remedies (Market Study – Provisional findings report), www.fca.org.uk/your-fca/documents/market-studies/ms14-01

⁶ FCA, CP14/29: Guaranteed Asset Protection: a competition remedy (CP14/29), www.fca.org.uk/news/cp14-29-guaranteed-asset-protection-insurance

Feedback received**Our response**

Shorter deferral period for firm-initiated sales – almost all respondents disagreed with the proposal for a four day deferral period. Most preferred a shorter period, arguing that that the FCA is limiting consumer choice to purchase immediately and risking people being uninsured, and that the impact on the used vehicle market would be much greater.

Our key focus was to introduce enough time to allow customers to consider options and shop around. We took into account the potential inconvenience for customers as well as the risk of being uninsured, and the impact on firms. We consider that the proposal of four days in total, including the option to conclude the day after (the start of the deferral period) for customer-initiated sales, should be sufficient and strikes the right balance.

Customers should be able to completely waive the deferral period – related to the point above, some respondents suggested that customers, and particularly repeat customers, should be able to immediately purchase GAP insurance after being given the prescribed information. In effect, customers would waive the deferral period at their own initiative.

Allowing firms to conclude the sale of add-on GAP insurance immediately after the customer has received the prescribed information would undermine the remedy. The point-of-sale advantage would remain and customers would not be taking the time to consider the information and shop around. We consider that repeat customers can also benefit from shopping around and may not have done so before the prescribed information has been provided.

Interaction of the remedy with consumer credit rules – concerns were raised that the GAP insurance premium cannot be financed by credit because the remedy and consumer credit rules conflict, or could be detrimental to customers because two credit checks would be needed.

Although firms may need to change their practical arrangements for agreeing and documenting credit to finance GAP insurance premiums, the remedy is not incompatible with the Consumer Credit Sourcebook (CONC) or the Consumer Credit Act. Our assessment is that the rules should not prevent customers from purchasing GAP insurance on credit.

Expanding the list of prescribed information – respondents suggested a number of additions to the list of information we set out.

We do not propose to expand the list of prescribed information. The list is not meant to be exhaustive and is additional to existing ICOBS requirements. Our final rules will not prevent firms from providing additional information to customers, subject to the wider requirements in our Handbook.

Concerns about the cost benefit analysis – issues were raised on a number of points, particularly the underestimation of implementation costs for firms selling add-on GAP and overestimation of benefits.

In response to the feedback, we have revised our cost estimate from £5m up to £20m. However, these costs are within a reasonable range and do not change our conclusion that the policy generates significant and ongoing net benefits for consumers. Estimated ongoing benefits to consumers is £31m – 54m per year.

Next steps

- 1.19** The rules set out in appendix 1 will come into force on 1 September 2015 and firms will be expected to comply from that date.

2. General remedy issues

- 2.1** This chapter covers feedback about general issues relating to our proposals. This includes views on alternative remedy options, implementation timing, and equality and diversity implications. Specific matters relating to the deferred opt-in, prescribed information and cost benefit analysis are covered in later chapters.

Effectiveness of the remedy package

- 2.2** A number of responses addressed the effectiveness of the remedy package. One respondent stated their full support for the overall direction of the proposals, in particular the idea of enabling consumers to make informed purchasing decisions. However, most respondents were sceptical that the remedy would achieve its stated outcomes or do so at a proportionate cost.
- 2.3** Some respondents doubted that the deferred opt-in would result in increased competition, and instead considered that it would result in reduced take-up of GAP insurance overall. Potential unintended consequences were also highlighted, such as the risk of customers being uninsured because they cannot immediately purchase add-on GAP insurance. One respondent considered the deferred opt-in to be similar to the point of sale prohibition imposed by the Competition Commission on sales of payment protection insurance, and considered that our analysis had not taken sufficient account of the impact that the prohibition has had on the market.
- 2.4** Most of the issues raised relate to the deferred opt-in. In particular, many considered that:
- There was a lack of benefit to the customer from the deferred opt-in, particularly those customers who want to purchase immediately and will be inconvenienced by the deferral period. The deferred opt-in was considered by some respondents to be a restriction on consumer choice.
 - The remedy would not allow, or would make it difficult for, the GAP insurance premium to be included in a consumer credit arrangement before the GAP insurance sale had been completed.
 - Intermediary firms would leave the market in response to the deferred opt-in, which would result in customers not knowing about GAP insurance and consequential impact on the stand-alone market.

Our response

In refining the remedy in the period before consultation, we reviewed the findings of the Market Study and considered the drivers for poor competition in the GAP insurance market. The key driver we found was that add-on distributors

had an advantage over other distributors because they could sell the product to the customer alongside a vehicle sale. The add-on mechanism has a clear impact on consumer behaviour, exploiting biases affecting decision-making and weakening engagement in the purchasing process. Our consumer research for the Market Study found that add-on buyers are less likely to shop around, less effective when they do shop around, and less sensitive to price.⁷

Further, the research shows that add-on buyers are:

- more likely to show poor awareness of owning the product and poor price recollection shortly after purchasing insurance
- more likely to state they had not thought about buying the product in question until the day of purchase
- passive buyers, with less than a third enquiring about the product themselves, and
- less likely to consider whether they had other insurance policies which may provide similar cover.

We set out our analysis in the Market Study reports, the market failure analysis attached to CP14/29 and in Chapter 4 in response to feedback.

We considered a range of remedy options. Our conclusion was that the prescribed information and deferred opt-in are the most effective and proportionate remedy package. The deferred opt-in limits the point of sale advantage and, alongside the prescribed information, encourages customer engagement in the purchasing process. We do not accept that the deferred opt-in is a point of sale ban, which we consider would mean that firms are prevented from selling add-on GAP insurance.

We have considered the concerns about limiting consumer choice and customers seeking immediate cover. However, our consumer research for the Market Study found that customers can react poorly to the add-on mechanism. We believe that our remedy enhances consumer choice by overcoming behavioural biases at the point of sale, so that customers will be aware that GAP insurance can be purchased elsewhere, will purchase in a more purposeful way having considered their options, and will shop around and benefit from lower prices. This has informed our decision to introduce the deferred opt-in. We also note that customers can continue to purchase GAP insurance immediately from stand-alone providers and can initiate the purchase of add-on GAP insurance the day after being provided with the prescribed information. So we think that customers' choices and outcomes will change for the better as a result of the deferred opt-in.

We have reviewed the interaction between the remedy and consumer credit rules but do not agree that the remedy is incompatible with either CONC or the Consumer Credit Act and therefore do not propose any changes. We consider that firms have options for how they practically comply with regulatory and legal requirements if a customer seeks to cover the cost of the GAP

⁷ Market Study – Provisional findings report.

insurance premium on a consumer credit arrangement. It is for firms to decide whether changes are required to how they currently agree and document this arrangement. We note that firms may already have processes in place because it is plausible that customers may already ask for the GAP insurance premium to be covered on credit after making a credit application.

We acknowledge the concern that, if two credit reference searches are made, this could leave two 'footprints' on the customer's credit record. However, we are not persuaded that this will be a necessary consequence of our remedy. We would invite firms to consider whether there are steps they can take to mitigate this issue for customers.

Finally, we are aware of the potential for firms to leave the market because of our intervention. However, an intended outcome of the remedy is that there will be more competitive pressure on add-on distributors/providers as customers are told about the potential to purchase from other distributors. This benefits customers through lower prices and increased choice through shopping around. We also consider that the increased shopping around by customers will improve the market overall, including for stand-alone providers.

Alternative remedy proposals

- 2.5** Respondents suggested a number of alternatives to the deferred opt-in. One suggestion was to improve the status quo by making compulsory some of the voluntary activity already undertaken by firms, such as providing enhanced information about the product and mandating a 30-day cooling off period. Some respondents preferred remedies that we rejected during the policy development phase.⁸ A number suggested a comparison website as a viable alternative option, and noted that this was an agreed undertaking by certain retailers and accepted by the Office of Fair Trading in the market for extended warranties on domestic electrical goods.⁹
- 2.6** Some respondents were also interested in understanding more about why we thought that the remedy package consulted on was the best option and why we rejected the other options. A respondent suggested that the remedy should be subject to a sunset clause and reviewed after three years.

Our response

We set out above why we believe our preferred remedy package is best to tackle the competition issues we have found. We did consider the alternative remedy options proposed by respondents, however do not believe that these other options would be as effective because they do not directly or proportionately address the issues identified.

In CP14/29, we explained why we rejected a remedy of extended cancellation rights and a post-sale reminder to customers. This was an option favoured by many industry participants in their responses to the Market Study.

⁸ CP14/29, p 9.

⁹ <https://www.gov.uk/government/publications/argos-limited-and-dsg-retail-limited-undertakings>. See also the Compare Extended Warranties website: <http://www.compareextendedwarranties.co.uk/>

In response to CP14/29, respondents suggested other options, and particularly the introduction of a comparison website or comparison tables or additional disclosure.

We were not convinced that a comparison website would be successful as a stand-alone remedy in this market. Commercial comparison websites already include comparisons of some GAP insurance products. Furthermore, our research showed that consumers did not tend to think about GAP insurance until the day they purchased it (59%) and did not tend to shop around (only 19% said they did). We therefore do not believe that a comparison website by itself would address the issues we found unless the awareness of GAP insurance was first raised and consumers had time to review the website and consider their options. We considered whether a GAP-specific comparison website could be mandated in addition to the deferred opt-in, but we concluded that this would not be proportionate given the anticipated additional costs to firms.

We similarly considered that additional disclosure, for example of commission rates, on its own would not be sufficient to overcome the particular concerns we found with the GAP insurance market. That is why we have put forward the prescribed information together with the deferred opt-in as the remedy package. Stakeholders should be aware that we are currently considering value measure options to apply to the wider general insurance market. We will shortly be publishing a Discussion Paper on this matter.

Given our significant concerns with the effectiveness of competition in this market, we will not limit the application of the remedy using a sunset clause.¹⁰ However, we will consider whether to review the remedy at a later date.

Implementation timing

2.7 In CP14/29 we asked for feedback on the following question:

Q1: Do you have any comments on the proposed timing of the coming into force date for the finalised rules?

2.8 The date that we proposed was 1 September 2015. We stated that one of the reasons for choosing this date was to capture the September peak in add-on GAP insurance sales, due to new vehicle registrations. This would mean that those customers buying in that period would benefit from the new requirements.

2.9 Some respondents were comfortable with the timing and raised no problems with a September date. However, many said September 2015 would be too soon for firms to implement the changes to their systems and processes. A number of issues were raised, including staff training, time to make IT changes, and industry-wide reliance on a few suppliers who would be in high demand due to the proposed timeframe for changes. Furthermore, some respondents said it would be a difficult time for firms to implement the remedy because of the peak registration

¹⁰ A sunset clause is a provision within a rule (such as a statute, regulation or other law) that sets out an 'expiry date' once the rule has been made. These types of clauses are included when it is felt that the rule-maker should have the chance to decide on the merits of the rule again after a fixed period.

period and summer holidays. Of those who suggested an alternative date, most suggested 1 January 2016.

Our response

We have considered the feedback about the difficulties for firms in implementing the remedy in September 2015. However we are not persuaded to extend the implementation date. We were told that, in 2014, 22% of vehicle sales took place in September. We therefore believe it is important that the remedy should apply from September, so that the increased number of customers purchasing vehicles will benefit from the remedy.

Firms are expected to comply from 1 September 2015. This means all add-on GAP insurance contracts (as defined in the rules) must be sold in compliance with the remedy. Where a firm has begun discussing the product with the customer but will not conclude the contract until 1 September 2015 or after, this sale must also comply with the remedy.

Scope of the remedy – commercial customers and assets

- 2.10** One respondent questioned the application of the remedy to sales of add-on GAP insurance for commercial customers because of the potential costs to commercial customers if they were uninsured, and that these would be higher than for retail consumers.
- 2.11** It was also argued that it is inconsistent to impose a deferred opt-in on GAP insurance sales to commercial customers for vehicles only, when commercial GAP insurance covers a range of assets (such as machinery).

Our response

Our analysis suggests that the driver of poor outcomes is the add-on mechanism and particularly how this affects competition where GAP insurance is sold alongside a motor vehicle. As such, we shaped the remedy around the motor vehicle sales process. We also applied it to sales to all customers rather than just retail consumers so all customers can benefit from the prescribed information and time to consider options and shop around.

The risks to customers of being uninsured has been taken into account in our analysis, and we have taken steps to mitigate this risk. Commercial customers can continue to be covered immediately because they can take out GAP insurance from stand-alone distributors and can buy GAP as an add-on on the day after they get the prescribed information.

Equality and diversity implications

- 2.12** We welcomed views on the potential equality and diversity implications of our proposals, but did not receive any specific feedback. We do not consider that the final rules will raise any material issues.

3. The deferred opt-in

- 3.1** This chapter sets out the consultation feedback about how the deferred opt-in should work and our response. In CP14/29, we asked questions about the three key design features of the deferred opt-in: when the deferral period starts, the length of the deferral period (for the distributor), and the length of the deferral period (for the customer).

Start of the deferral period

- 3.2** In CP14/29, we asked stakeholders:

Q2: Do you agree with our proposal to start the deferral period once key information (prescribed information) about GAP insurance has been provided? If not, how would you start the deferral period?

- 3.3** Most respondents agreed with our proposal to start the deferral period once the prescribed information about GAP insurance has been provided to the customer by the add-on distributor.
- 3.4** Respondents liked the freedom that the proposal gave distributors to start the deferral period at a time of their choosing during the vehicle sales process, which brings some flexibility to accommodate distributors' processes.
- 3.5** However, respondents raised some questions about how this proposal would work in practice. Specifically:
- What happens if changes to the vehicle order affecting the GAP insurance are made after the prescribed information has been provided? Also, what would happen if there is a long delay between the start and end of the deferral period?
 - How should firms record that prescribed information has been provided on a particular date?

Our response

The deferral period will start when the distributor provides the prescribed information. As we stated in CP14/29, this approach is designed to trigger the start of the deferred opt-in at the point when the customer has the necessary information to consider the purchase and compare against other products. It also allows the distributor to introduce the product and highlight the risks covered by add-on GAP insurance with the customer, thereby raising awareness.

We also said in CP14/29 that our proposal allows distributors to start the deferral period at a time of their choosing during the vehicle sale that suits their internal processes. Firms should note our guidance set out in the final rules that they should have regard to the information needs of the customer and consider whether it would be in the customer's interest to receive the prescribed information again. Situations that may trigger the firm to issue the prescribed information again include changes to the price or terms of the policy, or because of a long delay. The firm can look to our guidance at ICOBS 6.1.7 and ICOBS 6.1.8 in terms of factors to take into account. Firms should note that the prescribed information must include information on how the deferred opt-in works, including the date the prescribed information was provided.

In response to the question of how firms prove they provided the prescribed information on a specific day, we have not set out specific record-keeping rules as part of the remedy. Firms should, however, refer to our guidance in ICOBS 2.4.1 and other regulatory obligations.

Length of deferral period before the distributor can complete the sale

3.6 In CP14/29, we asked the question:

Q3: Do you agree with the proposal that the deferral period should be four days (including the day on which the prescribed information is provided) before the distributor can contact the customer to conclude the GAP insurance sale? Will there be significant differences in impact between the new and used car markets?

3.7 Most respondents disagreed with the proposal for a four-day deferral period. About half of those disagreeing with the proposal suggested alternatives, with one respondent suggesting a longer period and others suggesting a shorter period.

3.8 The respondent who thought that the deferral period should be longer suggested that it should be ten days. The respondent stated that customers will feel that our proposed period would be too short to allow customers to conduct a search without being under pressure, and as a result would not shop around.

3.9 The reasons given by respondents for a shorter deferral period were that:

- The impact on the used vehicle market would be much greater, as used vehicles are more likely to be purchased within a shorter time period. It is possible for vehicle sales to be completed in one day from beginning to end. Some respondents thought that this would create a two-tier system, as different sales processes for GAP insurance would be needed for new versus used vehicles. Respondents also stated that we could distinguish between so-called 'premium vehicle' sales and new (mass appeal) vehicles and used vehicles.
- There was a concern that the four-day deferral period would expose customers to the risks associated with being uninsured. Furthermore, there was a concern that post-sale inertia would mean that customers would not purchase GAP insurance if the deferral period ended after the vehicle sale had concluded.

- 3.10** Some respondents suggested shorter deferral periods, with most suggestions being that it should be possible to conclude the GAP insurance sale on the day after the prescribed information is provided (two days in total). Additionally, some respondents suggested a two-tier approach, agreeing that four days is workable for new vehicle sales but proposing a shorter period for used vehicles.
- 3.11** Finally, concern was expressed about firms circumventing the remedy, and a need to define the term 'sales process' rather than allow distributors to determine this.

Our response

In light of the consultation feedback, we have considered the length of the deferral period before a distributor can contact the customer to conclude the GAP insurance contract. Our conclusion is that our proposal of four days in total should be implemented.

We want customers to have enough time to consider options and shop around. As noted by a respondent, we want to avoid the situation where customers feel pressured by a deferral period that is too short and as a result fail to shop around. This approach takes account of the fact that not all customers will have the time or inclination to review the information or shop around on the day that the prescribed information is provided to them.

While we agree that the remedy is likely to have a greater impact on the used vehicle market, we were not convinced that it would be appropriate to shorten the deferral period for all add-on GAP insurance sales or have different deferral periods depending on vehicle type. Introducing a different deferral period for contact by add-on distributors about new versus used vehicles, in addition to the deferral period for customer initiated sales, would be complicated to explain and understand. We also note that the distinction between new and used vehicles may not be the right one, for instance because some new mass-appeal vehicle models are more likely to be readily available and the sales process more akin to that for used vehicles in this instance.

Customers wishing to purchase add-on GAP insurance on day two, as suggested by some respondents, will be able to do so by initiating the sale themselves. Customers also have the ability to buy stand-alone GAP insurance at any point. The ability of customers to initiate the purchase of GAP insurance or buy a stand-alone product also mitigates the risks of being uninsured.

Length of the deferral period – customer-initiated completion of the sale

3.12 The last of our specific questions in CP14/29 about the deferred opt-in proposal was:

Q4: Do you agree that customers should be able to initiate contact to conclude a GAP insurance sale and end the deferral period early on the day after receiving the prescribed information?

3.13 About a quarter of respondents agreed with our proposal that customers should be able to conclude the GAP insurance sale on the day after the prescribed information is provided by initiating the purchase themselves. However, one of these respondents said this should apply to both customers and distributors.

3.14 A further half of respondents agreed with the general principle of the proposal, but thought the customer should be able to completely waive the deferral period and immediately purchase GAP insurance after being given the prescribed information. Some of the reasons for this suggestion were similar to why the deferral period for distributors should be shortened: that it would limit customer choice and customers would be exposed to the risk of being uninsured. Additional reasons included that customers have a cancellation period to rely on, and that the prescribed information provides a level of assurance that customers are making an informed decision. The ability to conclude a sale immediately in this way was particularly suggested for customers who have previously purchased GAP insurance.

3.15 Some respondents provided feedback on the statement in CP14/29 that we would expect firms to monitor high levels of customer-initiated completed sales and that we do not want customers to be encouraged by distributors to shortcut the deferral period and therefore circumvent the rule. One respondent's view was there was cause for concern because dealers may package products and make the purchase of the package contingent on the GAP insurance sale, thereby encouraging the customer to initiate the sale.

3.16 A request was made for clarification about what the FCA would consider to be high levels of customer-initiated completed sales and what evidence would be expected of firms to demonstrate that a customer has initiated the sale.

3.17 Finally, there were mixed views about who should monitor the compliance of the sales with the remedy. One respondent considered that the FCA should conduct more active supervision of intermediaries, because the weight of monitoring adherence to the remedy, and associated costs, would fall on insurers. However, another respondent stated that this is to be expected of insurers, who should exercise oversight and governance on their products.

Our response

We have considered the feedback and have not made changes to the customer initiated deferral period proposal. This means that distributors can conclude the sale of add-on GAP insurance if the customer initiates this on the day after they receive the prescribed information.

In our view, the policy objective will be undermined if it is possible for customers to immediately waive the deferral period after receiving the prescribed information. In this situation, customers would not have time to review or act on the information to shop around and consider their options. As such, this

suggestion would allow a situation not dissimilar to the current add-on GAP insurance sales process.

We also considered whether to amend the rules so that repeat customers can immediately buy add-on GAP insurance. However, this would add complexity to the remedy in a similar way that having deferral periods for different vehicle types would. Furthermore, it is likely to be difficult for firms to prove that a customer has previously purchased GAP insurance unless that customer has bought it from the same distributor. If the customer has purchased it from the same distributor, this is arguably a reason why they should be shopping around to ensure they are aware of the range of options available.

We do not consider the existence of cancellation rights as an argument in favour of a waiver. As stated in CP14/29, we want customers to make an informed decision at the time of purchasing GAP insurance about whether it is needed and to shop around for the right policy. Reliance on cancellation rights will not sufficiently negate the strong point-of-sale advantage, and instead it would be up to customers to take action by cancelling the policy and switching. We felt that this was not behaviourally informed as it does not take account of customers' tendency towards post-sale inertia.

Finally, we would be concerned if firms exert undue pressure on customers to initiate the sale, including if this was because of bundling of GAP insurance with other products as an unbreakable package. Firms should be aware that the rules must be complied with if add-on GAP insurance is part of an unbreakable package of products.

As part of firms monitoring customer-initiated sales, we would expect firms to set their own tolerances and expectations about what would be high levels of sales and what would trigger a review. For instance, a firm may do this if they find that a particular dealership or staff member had sales that were out of the normal range. Both distributors and insurers have responsibilities in this area. We have a range of tools at our disposal should breaches occur.

4. Information to encourage shopping around

- 4.1** This chapter sets out the consultation feedback on how we propose to encourage shopping around and our response. In CP14/29, we asked stakeholders two questions about our proposal for prescribed information: what information must be provided, and how should it be provided?

What information must be provided?

- 4.2** In CP14/29, we proposed that add-on GAP insurance distributors must provide customers with the following information as a minimum to trigger the deferred opt-in:
- a.** The total premium of the add-on GAP insurance policy, separately from other prices
 - b.** The significant features and benefits, significant and unusual exclusions or limitations, and cross-references to the relevant policy document provisions
 - c.** That GAP insurance is sold by other distributors
 - d.** The duration of the GAP insurance policy
 - e.** Whether the GAP insurance policy is optional
 - f.** 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
- 4.3** We asked stakeholders:

Q5: Is there anything you would add or remove from the proposed list of prescribed information or amend?

- 4.4** About one third of respondents agreed with the proposed list of prescribed information without amendment. A further small group of respondents agreed with the list, but asked us to clarify whether the information needs to be personalised to the customer. In particular, respondents suggested that distributors may not be able to provide an accurate premium ahead of the point of sale.
- 4.5** Another third of respondents agreed to the list with amendments. A range of amendments were suggested, including the introduction of a mandatory small print checklist to help customers assess the differences between policies, information about cancellation rights, and different options for disclosing the premium and cost information.

Our response

We have considered the feedback on what should be included in the prescribed information, including the suggested amendments. We have decided not to expand the list of prescribed information for two main reasons. First, the list is not meant to be exhaustive and firms are not prevented from providing additional information. The second reason is that the requirement to provide this information is in addition to existing ICOBS requirements and therefore some suggestions are already covered. For instance, ICOBS 6.2.5R already requires a firm to provide a consumer with information on the right to cancel a policy.

The prescribed information should be appropriate to the circumstances of the customer and specifically brought to the attention of the customer when provided. For example, the stated premium should be what the customer will be expected to pay once the deferral period has ended and if they choose to purchase the product. So firms will need to consider this when developing their prescribed information materials and processes and timing for delivering the information.

How should the information be provided?

4.6 In CP14/29, we asked:

Q6: Do you have any comments on how the prescribed information should be provided?

- 4.7** Most of the respondents were in general agreement with our proposed approach of highlighting the information to bring it to the customer's attention and communicating the information in writing. The main point of contention appeared to be whether the prescribed information must be provided in writing or whether any durable medium would suffice.
- 4.8** Some respondents suggested that the prescribed information should be incorporated into the Key Facts Document, or alternatively that the FCA should hold a workshop with firms to agree the format.
- 4.9** Finally, one respondent queried whether an unregulated firm could provide the prescribed information on behalf of the firm providing the insurance together with the documentation for the credit agreement.

Our response

The draft rules that we consulted on state that firms can provide the prescribed information in writing or any durable medium. The term 'durable medium' is defined in our Handbook Glossary. We have not changed the final rules in response to this matter.

We will also not require that the prescribed information should be provided according to a specific format. As noted by one respondent, we do not want

to constrain how the information is provided as it could limit innovative approaches. However, we are open to the industry developing a common template if they choose.

The requirement to provide the prescribed information applies to a firm as defined in the final rules. Firms can outsource to third parties, subject to our regulatory requirements.

Finally, firms should be aware that the information must be drawn to the customer's attention and it must be clearly identifiable as key information.

5. Cost benefit analysis

- 5.1** We set out our assessment of the costs and benefits of the deferred opt-in in CP14/29 (including the technical annex).¹¹ Here we discuss the issues that respondents raised and how they affect our assessment.

Benefits to customers

Differences between add-on and standalone GAP insurance

- 5.2** Some of the benefits to customers that we estimate occur due to customers switching from add-on to stand-alone GAP insurance. A number of respondents disagreed with this approach due to differences in the levels of insurance premium tax that are imposed, with add-on sales attracting a rate of 20 per cent, compared to six per cent for stand-alone GAP. One respondent argued that levels of insurance premium tax should be the same for both add-on and stand-alone GAP products, and estimated that the remedy would cause HMRC to lose around £10 million per year in insurance premium tax revenue.
- 5.3** Some respondents also questioned our statements that stand-alone providers have to incur greater costs to identify relevant customers to sell their policies and that the £150 price of stand-alone GAP insurance is closer to costs. One respondent said that the costs to motor dealers of selling add-on GAP insurance are significantly higher, as they have to train their employees.

Our response

As part of our estimate of the benefits to customers of the policy, it is entirely appropriate to compare total premiums of add-on and stand-alone GAP insurance, including insurance premium tax, as this is what customers have to pay. The level of insurance premium tax that products attract is not set by the FCA.

We acknowledge that there may be falls in tax revenue but we note that the overall amount is very modest relative to overall insurance premium tax take.

We emphasise that the statement on the costs of identifying customers refers to the incremental costs to dealers of identifying potential customers of add-on GAP insurance, which are zero because customers are already in the dealership in the process of buying a vehicle. Stand-alone dealers need to incur some cost, such as an internet presence, in order to make themselves known to customers.

¹¹ The technical annex was published alongside CP14/29 and can be accessed here: <http://www.fca.org.uk/your-fca/documents/consultation-papers/cp14-29-technical-annex>

More generally, some of the costs that add-on GAP insurance sellers incur in selling GAP insurance would be incurred in any case in the process of selling vehicles (e.g. premises, administration), so the incremental costs are lower. We set out in the Market Study an analysis of distributor profitability showing that profits for add-on distributors are higher than for stand-alone distributors.¹²

Lower take-up of GAP insurance

- 5.4** Some respondents argued that our analysis did not take sufficient account of the potential for the remedy to lower the take-up of GAP insurance. Some argued that, if distributors ceased to sell GAP insurance due to the imposition of the remedy, potential customers would have less awareness of the GAP insurance product and so would buy fewer add-on and stand-alone policies. Others said that even where customers were aware of GAP insurance as a product, the inconvenience to customers of no longer being able to buy the product at the point-of-sale as well as post-sale inertia would have similar effects.

Our response

Our analysis explicitly incorporated some customers that currently buy GAP insurance as an add-on ceasing to buy it as an add-on at current prices. At present, many customers buy low-value add-on GAP with little awareness of other options and without having previously thought about their purchase. Introduction of a deferred opt-in will enable customers to make more considered decisions, and some that would have bought add-on GAP in the show room may decide not to do so when they have more time and opportunity to consider their options. This will be beneficial as customers do not buy an expensive product that, with greater consideration, they would not have bought.

We acknowledge the concern expressed that add-on distributors may withdraw from the market. However, we do not consider the one-off costs of the remedy to be significant enough to lead to this. The one-off costs of the remedy are modest even with our revised estimate while the ongoing costs are limited and distributors will still be able to pursue GAP insurance sales actively with their customers and retain the advantage of already being in contact with potential customers from the vehicle sales process. Distributors would therefore continue to be able to sell GAP profitably and so have an incentive to remain in the market.

We do not expect this remedy to have a material impact on customer convenience as it is designed in a way that enables the presentation of information and confirmation of sale to fit with the vehicle purchase journey to an extent. Indeed, we note that when the Competition Commission examined the effect of a delay on customer convenience in the case of its point-of-sale prohibition for payment protection insurance, consumers overall had a stronger preference for a delay, rather than buying at the point-of-sale. Although customers that switch from add-on to stand-alone GAP may need to spend time shopping around, they will make large savings in the amount that they pay for GAP insurance.

¹² Market Study – Provisional findings report, p46

Other issues

- 5.5** One respondent said that our assumption that 25 per cent of customers would shop around was not justified by the survey evidence that we cited, because the survey evidence covered only add-on GAP insurance consumers. One respondent said that most add-on GAP insurance policies now include a 30-day cooling off period (rather than the minimum of 14 days as required in ICOBS), which was not the case when the FCA examined GAP insurance in the Market Study.
- 5.6** One respondent said that the benefits of the policy were understated because they did not take into account interest costs in the approximately 70 per cent of cases in which GAP insurance is added to vehicle finance agreements. In addition, one respondent said that it would be helpful to highlight the inherent uncertainty of our estimates and the assumptions used in the cost benefit analysis.

Our response

Given that the information provision component of the remedy will give information on the existence of alternatives to all potential customers, we expect that some customers will now shop around. As add-on customers bought the product at a high price and are likely to place a premium on buying at the point-of-sale, we think it is conservative to base our estimate of the proportion of customers that would shop around on survey evidence of these customers.

As we set out in CP14/29, the data received suggested that the volume of consumers that cancel add-on GAP insurance products is low. More add-on GAP insurance policies including a 30-day cooling off period makes no difference to our analysis of the costs and benefits of the policy.

We agree that accounting for interest would increase our estimate of the amount customers currently pay for add-on GAP, though we note that by paying interest customers also benefit from being able to finance purchases that they might not otherwise have been able to make. We are unable to incorporate this explicitly into our estimate of the benefits of the policy as we do not have sufficiently detailed evidence on the interest rates used in these customer finance arrangements.

We think that our cost benefit analysis and technical annex set out fully the assumptions underlying our calculations. We examined the effect of uncertainty on our estimate of benefits in our sensitivity analysis, and showed that the policy would generate net benefits even when we vary our assumptions.

Costs

Estimate of one-off costs

- 5.7** Some respondents stated that they considered the costs of the policy to be greater than we estimated. In particular, one respondent to the consultation argued that our estimate of one-off costs to firms of up to £5 million understated the costs of the policy and argued that the actual cost was likely to be higher, from £25 million up to £50 million. The respondent said that distributors' costs of training and IT systems changes would be more burdensome than we had

estimated. We also received additional information from respondents about anticipated costs of the remedy.

Our response

In the cost benefit analysis in the consultation, we estimated the implementation costs of the remedy to be at most £5 million. This was on the basis of an ex post assessment of the implementation costs of a similar remedy, the Supply of Extended Warranties on Domestic Electrical Goods Order 2005. The Order required sellers to display prominently freely available leaflets containing specified information; to display price and duration information about extended warranties adjacent to the price of the primary product; upon request by a purchasing customer, to provide a written quotation that guarantees that the extended warranty will be available on the same terms for 30 days if the customer chooses not to buy it at that time; to allow customers to cancel an extended warranty with an initial period of more than one year and receive a full refund for 45 days after purchase and a pro rata refund after this.

The point-of-sale information provision requirements of this remedy are likely to involve firms incurring similar costs meeting the requirements that we will impose on firms selling GAP insurance. The other requirements concerning the availability of extended warranties on the same terms for 30 days are somewhat similar to a deferred opt-in in that they require customers to have a set time in which to consider their purchase, the difference being that our proposal also prevents sales from taking place and firms from pro-actively contacting customers for a short period. The estimated costs of this remedy were around £4.9 million. As this was for a larger market than add-on GAP insurance (£671 million in 2005), we expected £5 million to be an upper bound.

We think that the respondent to the consultation who estimated costs to be as high as £50m over-estimated the number of firms that sell GAP insurance. Correcting for this would reduce the upper bound of the estimate from £50 million to £20 million on the basis of the respondent's estimate of the firm-level costs of the remedy. Given the similarities of this remedy with the extended warranties remedy, we do not think it is likely that the costs of this remedy would be four times as large. However, we cannot completely rule out that firm-level costs would be as high as the respondent argued, albeit for a smaller number of firms. We have therefore revised our upper estimate of the costs of the policy from up to £5 million to up to £20 million.

Finance deals

- 5.8** Some respondents questioned our assessment of costs related to arranging finance for add-on GAP insurance in the presence of a deferred opt-in. Some respondents told us that the deferred opt-in would mean that they would have to run the process by which they agreed a finance agreement with a customer twice; once at the point of order, without the GAP insurance premium, and once at the point of delivery, including the GAP insurance premium. They said that this would result in higher costs for distributors, which would have an extended sales process, and finance providers, which would have to run their checks on customers twice. Some respondents also argued that the deferred opt-in would require customers to be subject to two credit checks, which could affect their credit score.

Our response

In practice we think the costs associated with arranging finance will be limited. We were told that distributors and finance companies are able to manage changes to finance agreements occurring due to GAP insurance cancellations relatively easily. Further, we were told that if a customer, having initially declined to buy add-on GAP insurance, subsequently requested it at the point of delivery, they could arrange finance without difficulty.

Some firms suggested that it would be difficult to modify finance agreements, or enter into new agreements, in ways that comply with Consumer Credit Act and CONC requirements. However, we are not persuaded that this is the case – firms would have a number of potential options, and although these may add some costs to the overall process, we do not consider these to be significant.

Although the additional amount to finance GAP would require a further assessment of creditworthiness, this need not necessarily involve a further credit reference agency check. For example, the firm may have sufficient information from a previous check, or may be able to satisfy itself on creditworthiness in other ways.

Other issues

- 5.9** One respondent commented that our estimate of uninsured customers' losses was wide. Related to this, one respondent said that inconvenience caused to customers as a result of the remedy could result in franchised dealers receiving poor scores in surveys of customer satisfaction. As manufacturers use these surveys to determine remuneration to dealers, this could cause dealers to lose money.
- 5.10** One respondent said that much of the costs of the remedy would fall on underwriters, who have ultimate responsibility for the insurance contract.

Our response

We note the potential for losses due to customers' being uninsured, however these are outweighed by the overall benefits to customers of £31m to £54 million. We emphasise that no customer wishing to take out GAP insurance will be prevented from doing so, as the customer can purchase immediately from a stand-alone provider.

As we set out above, we do not expect the remedy to have a material effect on customer convenience and so we do not think that the remedy would have a material effect on customer satisfaction scores. Further, we question whether customer satisfaction is enhanced by selling low-value, add-on GAP insurance. Dealer remuneration outside of financial services sales remain a commercial matter for the manufacturer and dealer.

We do not think it is plausible that the costs of the remedy would fall primarily on underwriters as the remedy applies to the point-of-sale of add-on GAP insurance and therefore is focussed on the interaction between customer and distributor.

Our estimates of the other costs of the policy remain unchanged.

Revised cost benefit analysis

- 5.11** Apart from the change to our estimate of one-off costs, our estimates of the costs and benefits of the policy remain the same as in the cost benefit analysis in CP14/29. The table below displays our estimates, including the revised estimate of one-off implementation cost. The benefits for consumers are an increase in consumer surplus of £31 million to £50 million, depending on whether there is an add-on price fall. Some of this comes from reduced profits for add-on sellers, with £20.3 million from savings to direct switchers between add-on and stand-alone GAP insurance and another £20.3 million from savings to add-on customers in the event of a price fall. Stand-alone firms' revenues also increase by £40.5 million, of which £20.3 million comprises switching from add-on customers. Firms selling add-on GAP incur up to £20 million in implementation costs and lose £45 million to £58.5 million in revenue. Losses for uninsured customers are £90,000 to £493,000. Paying insurance premium tax means that stand-alone firms would not keep all of any increase in their revenues and add-ons sellers would not bear the full burden of any reduction.

Table 1: Table of costs and benefits

Benefits	One-off	Ongoing (annual)
Benefits to customers	–	£31 million to £54 million
Costs	One-off	Ongoing (annual)
Potential losses for uninsured customers	–	£90,000 to £493,000
Compliance costs to firms	Up to £20 million.	Not significant

Annex 1

List of non-confidential respondents

Aioi Nissay Dowa Insurance Company of Europe Limited

AMS Insurance Services Limited

Association of British Insurers

British Insurance Brokers' Association

Car Care Plan Limited

Close Brothers Limited, trading as Close Motor Finance

Close Brothers Limited, trading as Close Brothers Asset Finance

Finance & Leasing Association

Financial Services Consumer Panel

Inchcape Retail Ltd

Institute and Faculty of Actuaries

Jackson Lee Underwriting

James Smith

MAPFRE ABRAXAS and MAPFRE Asistencia UK (joint submission)

Mondial Assistance (UK) Ltd, trading as Allianz Global Assistance

National Franchised Dealers Association

Ratecoast Ltd, trading as Norths Motors

The Warranty Group

UK General Insurance Ltd

Appendix 1

Made rules (legal instrument)

**INSURANCE: CONDUCT OF BUSINESS SOURCEBOOK (GUARANTEED
ASSET PROTECTION CONTRACTS) INSTRUMENT 2015**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137D (FCA general rules: product intervention);
 - (c) section 137T (General supplementary powers); and
 - (d) section 139A (Power of the FCA to give guidance); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 September 2015.

Amendments to the FCA Handbook

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Insurance: Conduct of Business sourcebook (ICOBS) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Insurance: Conduct of Business Sourcebook (Guaranteed Asset Protection Contracts) Instrument 2015.

By order of the Board of the Financial Conduct Authority
4 June 2015

Annex A**Amendments to the Glossary of definitions**

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

- GAP contract* a guaranteed asset protection contract; this is a *contract of insurance* covering a *policyholder*, in the event of total loss to a *vehicle*, against the difference between:
- (a) the amount claimed under the *policyholder's vehicle policy* in respect of that loss; and
 - (b) an amount defined in, or calculated in accordance with, the *GAP contract*.

Annex B

Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Annex 1 Application (see ICOBS 1.1.2R)

...

Part 4: Guidance		
...		
3		Insurance Mediation Directive: effect on territorial scope
3.1	G	The <i>Insurance Mediation Directive's</i> scope covers most firms carrying on most types of <i>insurance mediation</i> . The rules in this sourcebook within the Directive's scope are those that require the provision of pre-contract information or the provision of advice on the basis of a fair analysis (see <i>ICOBS 4</i> (Information about the firm, its services and remuneration), <i>ICOBS 5.2</i> (Statement of demands and needs), <i>ICOBS 5.3.3R</i> (Advice on the basis of a fair analysis), and <i>ICOBS 6</i> (Product information) <u>and <i>ICOBS 6A.1.4R</i> (Ensuring the customer can make an informed decision)</u>).
...		
4		Non-Life Directives: effect on territorial scope
...		
4.2	G	The rules in this sourcebook within the Directives' scope are those requiring the provision of pre-contract information or information during the term of the contract concerning the <i>insurer</i> or the insurance contract (see <i>ICOBS 2.2</i> (Communications to clients and financial promotions), <i>ICOBS 4</i> (Information about the firm, its services and remuneration), <i>ICOBS 6</i> (Product information), <u><i>ICOBS 6A.1.4R</i> (Ensuring the customer can make an informed decision)</u> and <i>ICOBS 8</i> (Claims handling), except <i>ICOBS 8.2</i> (Motor vehicle liability insurers)).
...		
7		Distance Marketing Directive: effect on territorial scope
7.1	G	In broad terms, a <i>firm</i> is within the <i>Distance Marketing Directive's</i> scope when conducting an activity relating to a <i>distance contract</i> with a <i>consumer</i> . The rules in this sourcebook within the

		Directive's scope are those requiring the provision of pre-contract information (see <i>ICOBS 2.2</i> ((Communications to clients and financial promotions), <i>ICOBS 4</i> (Information about the firm, its services and remuneration), and <i>ICOBS 6</i> (Product information), <u>and <i>ICOBS 6A.1.4R</i> (Ensuring the customer can make an informed decision)</u>), the cancellation <i>rules</i> (see <i>ICOBS 7</i>) and the other specific <i>rules</i> implementing the Directive (see <i>ICOBS 3.1</i>).
...		

...

Insert the following new chapter after *ICOBS 6*. The text is not underlined.

6A Product specific rules

6A.1 Guaranteed asset protection (GAP) contracts

Application

6A.1.1 R This section applies to a *firm* which sells a *GAP contract* to a *customer* in connection with the sale of a *vehicle* by:

- (1) the *firm*; or
- (2) a *person* connected to the *firm*.

6A.1.2 G There is a sufficient connection between the *GAP contract* and the sale of a *vehicle* if the *GAP contract* is sold in connection with other goods and services, for example a *credit agreement*.

6A.1.3 G A *person* connected with a *firm* includes acting as an *introducer* or *appointed representative* for that *firm* or if, regardless of *authorisation* status, it has a relevant business relationship with the *firm*.

Ensuring the customer can make an informed decision

6A.1.4 R (1) Before a *GAP contract* is concluded, a *firm* must give the *customer* the following information:

- (a) the total *premium* of the *GAP contract*, separate from any other prices;
- (b) the significant features and benefits, significant and unusual exclusions or limitations, and cross-references to the relevant policy document provisions;
- (c) whether or not the *GAP contract* is sold in connection with *vehicle* finance, that *GAP contracts* are sold by other distributors;

- (d) the duration of the *policy*;
 - (e) whether the *GAP contract* is optional or compulsory;
 - (f) when the *GAP contract* can be concluded by the *firm*, as described in *ICOBS 6A.1.6R* and *ICOBS 6A.1.7R*; and
 - (g) the date the information in (a) to (f) is provided to the *customer*.
- (2) This information must be communicated in a clear and accurate manner and in writing or another *durable medium*, and made available and accessible to the *customer*.
 - (3) This information must be drawn to the *customer's* attention and must be clearly identifiable as key information that the *customer* should read.
- 6A.1.5 G A *firm* must also comply with the *rules* in *ICOBS 6* (Product Information).
- Deferred opt-in for GAP contracts
- 6A.1.6 R Except as specified in *ICOBS 6A.1.7R*, a *GAP contract* cannot be concluded by a *firm* until at least 2 clear *days* have passed since the *firm* complied with *ICOBS 6A.1.4R*.
- 6A.1.7 R A *firm* can conclude a *GAP contract* the *day* after providing the information in *ICOBS 6A.1.4R* to a *customer* if the *customer*:
- (1) initiates the conclusion of the *GAP contract*; and
 - (2) consents to the *firm* concluding the *GAP contract* earlier than provided for in *ICOBS 6A.1.6R*, and confirms that they understand the restriction in *ICOBS 6A.1.6R*.
- 6A.1.8 G Before concluding a *GAP contract*, a *firm* should have regard to the information needs of its *customers* and consider whether it would be in the *customer's* interest to receive the information in *ICOBS 6A.1.4R* again, for example, if a long time has passed between providing the information and the conclusion of the contract.

Financial Conduct Authority



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