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# ***FCA GAP Insurance research***

## **Narrative report**

*Measuring the  
impact of the FCA's  
intervention in the  
add-on GAP  
insurance market*

*July 2018*

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# 1. Introduction

## 1.1. Glossary of terms

Throughout this document, the following terms are used:

### **GAP insurance**

Guaranteed Asset Protection insurance – a product which covers the potential gap between the market value of the car (which standard motor insurance will pay out if the car is written off or stolen) and the amount remaining on the car finance.

### **Add-on insurance**

An insurance product which is sold alongside another main purchase. It is typically packaged as part of the main purchase and sold as 'linked'. In this report, add-on will refer to GAP insurance purchased through a car dealership during the process of purchasing a vehicle.

### **Standalone insurance**

An insurance product which is purchased independently of another product. In this report, standalone will refer to GAP insurance purchased from a provider directly, and separately from any interaction with a car dealership.

### **Participants**

Collective terms to describe people who took part in this research project. In this case, all participants purchased a car in the 12 months prior to completing the survey.

## 1.2. Background

The FCA, in its public 'Mission'<sup>1</sup> document, sets out that evaluation is part of its decision making framework. It states that testing the effectiveness of its interventions can help the organisation make better decisions and add more public value.

In 2014, the FCA undertook a general insurance (GI) add-ons market study<sup>2</sup> to analyse the effectiveness of competition in the add-on GI markets and to identify reasons why competition might not be working well. In the GAP insurance market, results suggested that: i) the product was not offering value to consumers and ii) car dealers were benefiting from a clear point-of-sale advantage, which allowed them to sell the product alongside car finance. This has the potential to result in low levels of shopping around, lower levels of product knowledge, and low levels of engagement with the purchasing process. These factors can, in turn, increase the likelihood of sub-optimal consumer outcomes, for example, paying too much or not getting the right cover.

In response to these findings, the FCA implemented two measures in September 2015. These measures<sup>3</sup> outline that firms selling GAP insurance in connection with the sale of a motor vehicle must:

- Provide consumers with specific information helping them to shop around, with a view to increasing engagement around the purchase decision.
- Implement a deferral period so that GAP insurance is not introduced and sold on the same day.

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<sup>1</sup> <https://www.fca.org.uk/publication/corporate/our-mission-2017.pdf>

<sup>2</sup> <https://www.fca.org.uk/publications/market-studies/general-insurance-add-ons-market-study>

<sup>3</sup> As set out in the FCA's handbook: <https://www.handbook.fca.org.uk/handbook/ICOBS/6A/1.html>

These measures were designed to help limit the point-of-sale advantage enjoyed by car dealerships and to provide consumers with the time to engage more actively with the purchasing process. The FCA expected that this intervention would lead to better consumer outcomes from more informed purchasing decisions and improved competition between add-on and standalone GAP insurance sellers.

In 2018, the FCA commissioned PwC Research to undertake a quantitative consumer survey to investigate the impact of its GAP insurance market intervention. This forms part of the FCA's work in monitoring the effectiveness of the two measures (deferred opt in and prescribed information). The findings of this research are covered in this report.

### *1.3. Objectives*

The overall objective of the research was to assess the extent to which the FCA's intervention in the GAP insurance market, based on its competition market study, has delivered benefits to consumers such as more informed purchasing decisions and increased competition in the market. This research focuses on consumers' experience of the two measures.

Specifically, the research aimed to:

- Explore consumers' recall and experience of the remedies.
- Understand consumer propensity to shop around for GAP insurance.
- Assess consumer confidence in their knowledge of the features of their product and their understanding of GAP insurance.
- Investigate the relative impact of the two measures on the consumer decision making process.

### *1.4. Methodology*

The research consisted of four main stages:

#### **1. Design and testing**

A new questionnaire was developed for this research project, using the survey conducted for the 2014 GI add-ons market study as a starting point. Some questions were asked in a consistent way to allow results to be compared against those recorded in 2014, but the PwC Research and FCA project teams also worked together to develop further questions to allow the implementation of the two measures to be assessed. Because GAP insurance can be a complex product, descriptions were also developed to help consumers to understand what the research was asking about. A small amount of cognitive testing was completed before fieldwork started to ascertain whether consumers understood the new questions and these descriptions in particular.

#### **2. Quantitative research – Phase one**

The fieldwork was conducted online, with eligible participants screened through an online panel. In phase 1, the survey was sent to a nationally representative sample of UK adults. Controls were applied so that the proportion of consumers starting the survey matched this national profile. Potential participants were then screened out if they had not purchased a car in the last 12 months. In total, 409 surveys were completed as part of phase one out of a total of 2028 starting the survey.

#### **3. Quantitative research – Phase two**

In the second phase of fieldwork the screening criteria were updated, so that only those who had purchased GAP insurance were allowed to complete the survey. The aim of this stage was to boost the number of GAP insurance purchasers within our sample to provide a large enough base for a statistically robust analysis. The profile of GAP insurance purchasers from phase 1 was shared with the panel provider to help them to target this phase more effectively. A total of 600 surveys were completed in phase 2.


#### **4. Analysis and reporting**

Data analysis included cross tabulations and significance testing. Phase 1 data was used to provide information on the take up of add-on and standalone GAP insurance and the proportion of recent car purchasers who

considered but chose not to take out the product. Data from phases 1 and 2 were combined to investigate the experience of purchasing GAP insurance, reaction to the remedies and to allow an assessment of consumers' understanding of the GAP insurance they had bought.

### 1.5. Important points to note

In this report, phase 1 data (representative sample of car purchasers) is used in the discussion of the profile of research participants. Data from phase 1 and phase 2 combined is used to provide a more robust measure of GAP insurance purchasers.

 Highlights statistically significantly higher results between groups at the 95% level of confidence. The circle illustrates the larger of the comparable figures. The smaller figure is highlighted with a \*.

### 1.6. Comparison with 2014 results

Within this report, comparisons will occasionally be made with research<sup>4</sup> conducted in 2014 prior to the introduction of the two measures (deferred opt-in and prescribed information). This research was used to inform the FCA's GI add-ons market study. While the identification of any change over time is a key point of interest, it is important to note that the design and implementation of the 2014 study was different in a number of ways:

1. In 2014, the FCA issued a data request to sellers of add-on and standalone insurance products, asking them to provide lists of recent purchasers. In contrast, the 2018 research adopted a free-find method in which participants were screened out if they told us they had not purchased a car/GAP insurance. This difference in sampling approach may have a number of important implications when comparing the data:
  - a. Because firms provided consumer lists in 2014, the FCA knew before the research began that every consumer listed had taken out GAP insurance recently. However, the research also showed that consumer awareness of this fact could not be assumed. Even accounting for the fact that those unaware of their product holding were only asked to complete the profiling questions in 2014, it is reasonable to expect that the data was more likely to include consumers with very little knowledge of their purchase. In 2018, because it was necessary to free-find GAP purchasers, a more detailed screening process was applied. Because of this, it is likely that any consumers who were unsure or less confident about their product holding will not have been included in the research. Theoretically, this might be expected to result in higher levels of product understanding in 2018.
  - b. In 2014, approaching firms for lists allowed a greater level of control over the time between their purchase experience and the interview. Without access to a specific list of GAP insurance purchasers in 2018, a widening of the acceptable window to 12 months between the purchase and the interview was required in order to find enough eligible consumers to participate in the research. This may have an impact on some areas of specific recall, although analysis of the 2018 data did not show any clear drop off in awareness or knowledge between those with more recent and distant purchase experiences.
2. The 2014 survey was completed on the telephone, while the 2018 research was conducted online. The choice of an online approach reflected the need to free-find GAP insurance purchasers. The survey methodology can have an effect in a number of ways, but perhaps most importantly it can impact on questions relating to knowledge. When asked to rate their own knowledge, it can be less discomfiting to admit to low levels of understanding in an online survey where there is no personal interaction with an interviewer, so we might expect to see a slight drop in results for these metrics. However, when it comes to assessing knowledge by asking participants to choose from correct and incorrect answers, a different effect may be expected; online research participants may be more likely to guess at the answer if they are unsure, rather than to use the 'not sure' option.

Because of these differences in approach it is important to apply caution when comparing the 2014 and 2018 data.

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<sup>4</sup> <https://www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-quantitative-consumer-research-report>

However, a valid comparison can still be made, as long as the impact of these differences are considered. In particular, where differences are larger or patterns are consistent, it is still possible to make meaningful comparisons. In this report, results from the two surveys have been compared to identify any changes which might be attributed to the FCA's market intervention. Where comparisons have been included in this report, these are presented in shaded boxes. We have not made specific references to the caveats in these boxes, but they stand wherever 2014 and 2018 results are compared.

### *1.7. Understanding add-on purchasers*

When analysing the findings for add-on GAP insurance purchasers, it can be challenging to identify a consistent pattern of responses, particularly when compared against standalone purchasers or those who did not purchase. This is likely to reflect lower levels of homogeneity among the add-on purchaser group.

As this is the case, we have also looked for specific behavioural subgroups within the add-on purchaser results. Three groups were identified and are referred to elsewhere in this report:

1. Habitual purchasers: those who had purchased GAP insurance previously, didn't shop around and made the decision to purchase before they started looking for a car (12% of add-on purchasers).
2. First time unplanned purchasers: those who hadn't purchased GAP insurance previously and decided to purchase during the process of looking for/purchasing a car without shopping around (17% of add-on purchasers). As we set out below, this group is smaller than in the 2014 study.
3. Engaged purchasers: those who shopped around for GAP insurance before deciding to take out their add-on policy (45% of add-on purchasers).

Approximately 25% of add-on purchasers did not fit within any of these categories.

## 2. Summary

### 2.1. Results suggest GAP insurance is becoming a more standard consideration for consumers buying cars

Overall, 54% of those who purchased a vehicle in the last 12 months discussed or considered GAP insurance. Most of the GAP insurance policies bought were purchased as an add-on from the dealer (82%) while around a fifth (18%) were standalone purchases.

At a total level, this means that 26% of all consumers who purchased a vehicle also took out GAP insurance (22% add-on and 5% standalone).

Two thirds of add-on purchasers and almost six in ten standalone purchasers have bought GAP insurance before for a previous vehicle. These figures have increased substantially since 2014 when the majority of both groups had not held GAP insurance before. The proportion of add-on consumers who had decided to buy GAP insurance before they started looking at vehicles has also risen from 33% to 49%, illustrating that the product is becoming a more standard consideration during the process of purchasing a new vehicle.

### 2.2. Recall of the purchase process was mixed

The research assessed recall of the two key FCA market remedies: the requirement for dealerships to provide written information on GAP insurance and the implementation of a 2 clear day delay between the introduction of the product and the finalisation of the sale.

Among those who were offered GAP insurance at a dealership, three quarters remembered being given written information. Consumers were most likely to recall being provided with details on the cost, duration and features of the policy, as well as confirmation of the optional nature of the purchase. Recall was lower for information on significant exclusions and the fact that GAP insurance could be purchased elsewhere. Almost all consumers read the written information at least in part, with standalone purchasers the most likely to read it thoroughly. Most felt the information content was useful, particularly the detail on the duration and cost of the product.

Recall of the delay between the introduction and sale of add-on GAP insurance was much lower. Over six in ten (63%) believed the sale was finalised on the same day as it was first discussed. Initially, this figure seems worryingly high, as it could indicate that dealerships are not implementing the deferred opt-in measure correctly. However, further exploration may be required to fully understand whether this result is influenced more by consumer recollection (a decision may be finalised in a consumer's mind some time before this is formalised by signing forms) or whether dealerships might not always be implementing the measure accurately and/or following its spirit.

### 2.3. Some positive changes in consumer behaviour and attitudes are evident

Nearly half of those who purchased add-on GAP insurance (45%) shopped around before finalising their purchase. Notwithstanding the differences in method, this result has more than doubled since 2014 when the corresponding figure sat at just 17%. Results showed a clear pattern by age whereby those aged 18-44 (those who reached early adulthood when the internet was established as a resource) were much more likely to shop around than those aged 45 and older. Given this pattern, it is reasonable to expect that this behaviour could continue to increase naturally over time, although this is unlikely to have resulted in an increase of this magnitude over the last 4 years.

Results also suggested that, among consumers with an add-on product, confidence in their understanding of the product had increased over time. In 2014, there was a clear difference in confidence levels between those with an add-on product compared with those with a standalone product: 79% and 94% respectively expressing confidence in their understanding. The 2018 research did not show this difference, the figures now being 95% and 97% respectively.



## *2.4. Consumers view the measures as useful, but the indirect impact on shopping around behaviour is perhaps the most positive outcome*

When asked about features that made up elements of the FCA's market intervention, most GAP insurance purchasers believed that they were useful in helping them make a decision. Add-on purchasers were more likely to find the written information provided at the dealership useful (88% compared with 64% of standalone purchasers). This difference may suggest this information acts in a reassuring way, rather than only as a trigger to prompt shopping around.

Having time to think about buying GAP insurance before making a decision was rated useful by 83% of those taking out standalone GAP insurance and 76% of add-on purchasers. The perceived usefulness of the delay was not influenced by a participant's awareness of the required time between the introduction of the product and the finalisation of the purchase.

Both measures were viewed as particularly useful by those who had purchased GAP insurance before for a previous vehicle. This group were almost twice as likely as those purchasing for the first time to rate each measure as 'very useful' in helping them make a decision.

The finding of greater shopping around is potentially one of the most positive outcomes of the intervention; regardless of the final decision made (to buy add-on or standalone GAP insurance, or not to take out the product at all), almost nine in ten respondents rated the information they found while shopping around as useful.

## *2.5. Clear differences still exist between how add-on and standalone consumers purchase GAP insurance*

When asked why they shopped around, standalone GAP insurance purchasers tended to place most focus on checking prices or looking for best value. For add-on purchasers, the pattern was less clear cut, with other factors including policy coverage and understanding whether it was worth buying proving equally important.

For standalone GAP insurance purchasers, the final choice of which provider to buy from was most likely to be influenced by the cover offered, while important secondary factors included brand reputation, price and a desire to be covered straight away. Add-on purchasers reported a wider range of influences, with the approach of the salesperson, advertising and convenience more likely to have had a bearing on their final decision. A fifth of add-on consumers also mentioned a lack of awareness of other options.

## *2.6. Add-on GAP insurance purchasers are not a homogeneous group*

The responses provided by add-on purchasers tended to be less consistent, suggesting that the group may not be homogenous in nature. Further analysis illustrated that distinct subgroups can be identified among the add-on consumer group, including: i) consumers displaying more habitual purchase patterns (following what they have done previously); ii) consumers who had never purchased GAP insurance before and are persuaded of its value during the sales process; and iii) more engaged consumers who shop around during the sales process (specifically, during the deferred opt-in period). The first two groups combined account for approximately three in ten of all add-on purchasers and are among the most likely to be influenced by non-product or brand related factors.

## *2.7. The remedies may have provided reassurance, but have not yet helped improve knowledge*

The increased levels of confidence in their product knowledge recorded among add-on GAP insurance purchasers did not translate into higher levels of actual understanding. Across both add-on and standalone groups, four in ten were able to answer fewer than half of the knowledge based questions correctly. Looking

only at questions asked consistently in both surveys, the 2018 results show no improvement from 2014. In this instance we might have expected the 2018 result to be higher, even absent the intervention, because the approach is less likely to pick up those who do not know that they have the product. If this had the potential to result in the 2018 participants having a slightly better product knowledge on average, this is not evident: in 2014, analysis of the questions asked consistently showed that 46% of the answers of add-on policy holders and 38% of the answers of those with standalone GAP insurance were not correct (i.e. incorrect or 'not sure'). The comparative figures for 2018 were 49% and 45% respectively.

There was evidence to suggest that consumers who shopped around had a better understanding of how GAP insurance works alongside comprehensive car insurance, but they were less able to accurately identify the false statements included in the questions designed to explore consumer knowledge.

# 3. Profile of research participants

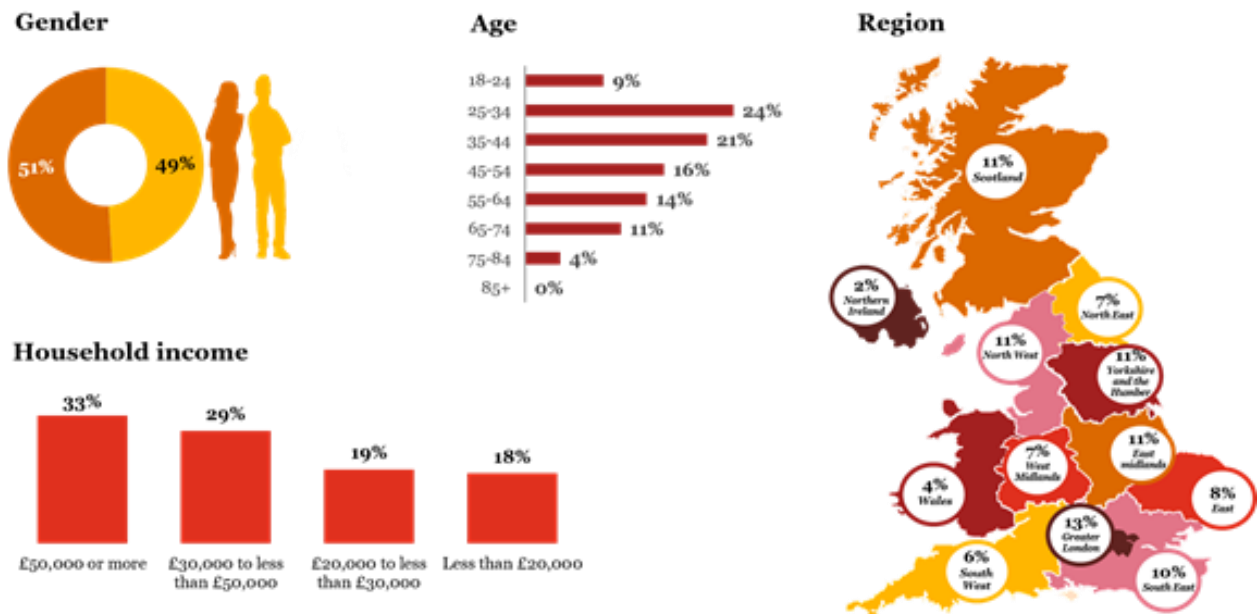
## 3.1. Car purchase

Over eight in ten (82%) purchased their car from a dealership, with 18% purchasing somewhere else. Over half reported paying the sales price in full at the time of purchase. Other finance options utilised included Personal Contract Purchase (14%), credit cards (11%), a personal loan (11%) and Hire Purchase (7%). There were no differences between add-on and standalone GAP insurance buyers in terms of the type of finance option used to purchase their car.

## 3.2. Demographics

The demographic profile of new car purchasers is illustrated in Figure 1 below.

Figure 1: Demographic profile of car purchasers



Base: All phase 1 participants (409).

The survey achieved a range of responses across all demographic groups. While the age split broadly reflected the UK adult population, car buyers were more likely than average to have higher household incomes, and were slightly less likely to fall into the youngest or oldest age groups. Geographically, the proportion of responses from each region fell within four percentage points of the profile of UK adults.

## 3.3. Awareness of GAP insurance

At the beginning of the survey, participants were asked the following question:

*'Have you ever heard of the term Guaranteed Asset Protection (GAP) insurance in relation to vehicles? You may also have heard to it referred to as Total Loss Cover.'*

Following this, a further description was shown to all participants, before asking again whether they were aware of the product:

*'If your car is written off or stolen, your standard motor insurance will usually pay you the market value of your car at that time. Sometimes this amount is not enough to pay off the car finance, which results in a 'gap'. GAP insurance covers this gap. It is sometimes called Total Loss Cover. Please note: GAP insurance is **not** a part of your standard motor insurance.'*

Six in ten (61%) had heard of the term at the initial question. This increased slightly to 65% once the longer description was shown. There were particular groups that were more familiar with GAP insurance: men compared with women, buyers of more expensive cars and older consumers. Only four in ten (42%) of those who did not consider GAP insurance were aware of the product.

### 3.4. Purchase of GAP insurance

In total, 26% of phase 1 participants reported taking out GAP insurance following their vehicle purchase. Most of these purchased their insurance as an add-on (22% compared with 5% buying a standalone product). A further 28% considered GAP insurance before deciding not to purchase, while 45% did not consider the product at all.

Likelihood to take out GAP insurance increases significantly as the value of the car itself rises. Only 7% of those purchasing a car for under £10,000 took out the product, compared with 44% of those purchasing a car for £20,000 or more.

At the total level, some differences in demographic profile existed between GAP insurance purchasers and those who chose not to take out the product. GAP insurance purchasers were more likely to be male (55% compared with 48% of non-purchasers) and had a higher household income on average (24% over £70,000 a year compared with just 11% amongst non-purchasers). Non purchasers were more likely to fall into the youngest age category (10% of this group were aged 18-24 compared with 4% of purchasers).

There was no evidence to suggest any key demographic differences exist between add-on and standalone GAP insurance purchasers.

#### **Comparison with 2014 research**

The main difference in the demographic profile of the 2014 and 2018 data sets relates to the age of GAP insurance purchasers. In 2014, there was more of a skew towards younger groups, with only 27% of add-on purchasers and 19% of standalone purchasers aged 55 or over. In 2018, these proportions were 35% and 41% respectively. The skew towards male policy holders has also lessened slightly over time: in 2014, almost two thirds of participants were male across both add-on and standalone groups.

In total, around a half of both add-on and standalone consumers had decided to take out GAP insurance before they started looking for a vehicle. This behaviour was notably more common among younger consumers (68% of those aged up to 44, compared with 32% of those aged 45 or older).

There was also a considerable proportion of add-on GAP insurance purchasers who made the decision during the sales process (43% compared with just 27% of standalone purchasers). A fifth of standalone purchasers (20%) made the decision after they had purchased their vehicle, possibly reflecting their decision to look elsewhere for GAP insurance instead of taking it out at the dealership.

### *3.5. Previous experience of purchasing GAP insurance*

Evidence suggests that GAP insurance is becoming a more standard consideration for new car buyers. In 2018, the majority of those who had purchased GAP insurance had bought the product before (66% of add-on GAP insurance purchasers and 57% of standalone purchasers). This was even higher amongst those who made their decision before they started looking for a vehicle at 87%. Those purchasing a higher value car were also among the most likely to make the decision about GAP insurance before looking for their vehicle.

The high level of repeat purchasing is coupled with evidence of habitual behaviour playing a role in the decision making process. Two thirds of those who had purchased GAP insurance before had made the decision to do so again this time around before they started looking for a car, compared with just one fifth of those buying the product for the first time. There was little evidence to suggest major disruption to habitual behaviour, but a fifth of those who considered GAP insurance but did not take out the product had held this type of insurance previously.

#### ***Comparison with 2014 research***

The latest results represent a substantial change from the pattern reported in 2014. In the pre-intervention research, only 35% of add-on GAP insurance purchasers and 36% of standalone GAP insurance buyers had held the product before. The change for the add-on group is particularly noteworthy, having doubled over the four year period. This is perhaps reflected in the proportion of add-on consumers reporting that they had decided to buy GAP insurance before they started looking for a car (up from 33% in 2014 to 49% in 2018).

## 4. Experience of the remedies

### 4.1. Written information

Over half (54%) of those who purchased their car from a dealership could remember being offered GAP insurance during the process of buying their new vehicle. Recall was slightly higher at 67% for those who purchased their car in the 3 months prior to taking part in the research.

Among those who did discuss GAP insurance at the dealership, recall of the written information is relatively high at 74%. Levels of recollection were significantly higher for those who went on to take out add-on insurance from the dealership than for both those purchasing standalone GAP insurance and those who considered GAP insurance but decided not to take out a product (78% compared with 65% and 63% respectively). While those purchasing add-on GAP insurance were more likely to remember the written information, it was standalone purchasers who were more likely to read the information thoroughly (58% compared with 36%) although 96% of both groups reported reading the information at least briefly.

Figure 2: Recall and perceived usefulness of the written information provided by the car dealership.

Information content	Add-on purchasers		Standalone purchasers	
	Recalled information (%)	Information was useful (%)	Recalled information (%)	Information was useful (%)
The duration of the policy	88	42	91	40
The fact that the purchase of GAP insurance is optional	85*	38	94	28
The total cost of GAP insurance separate from any other price	85	47	79	57
Any significant features and benefits of GAP insurance	82	43	81	42
Any significant and unusual exclusions	62	27	49	17
The fact that GAP insurance can be purchased from other providers	55	24*	60	42

Base: All who discussed GAP insurance at the dealership (add-on purchasers 455; standalone purchasers 53)

A large proportion of the GAP insurance purchasers who discussed their product at a car dealership remembered receiving written information on the policy cost, features and duration, regardless of whether they went ahead and purchased a policy from the dealer or not. Recall of information confirming that purchasing GAP insurance is optional was also high, particularly for standalone insurance purchasers.

GAP insurance purchasers were less likely to remember receiving information about significant and unusual exclusions or that the product could be purchased from other providers.

Both add-on and standalone GAP insurance purchasers rated the information about the cost as most useful, followed by details on the policy features and duration. Unsurprisingly, those who went on to purchase standalone GAP insurance were more likely to find it useful to be told that the product can be purchased elsewhere.

## 4.2. *Delayed decision*

The FCA's second remedy requires dealerships to implement a deferral period so that the sale of GAP insurance happens at least two days after it is first introduced. The survey explored GAP insurance purchasers' recollection of this process by asking about the length of time between the product's introduction and the finalisation of the sale.

Over six in ten add-on GAP insurance buyers (63%) believed that the sale was finalised on the same day as it was introduced, with a further 15% saying the two stages were only one day apart. Only 16% reported recalling the desired gap of two days or more between initial discussion and purchase. Belief that the purchase was finalised on the same day as its introduction was higher among those who had decided to purchase GAP insurance before they started looking for a car (75%) and those who had purchased the product before for a previous vehicle (72%).

Having almost two thirds of add-on GAP insurance purchasers believing the sale was finalised on the same day as the product was introduced is potentially worrying as it could indicate that some dealerships may not be applying the measure in the spirit in which it was intended. This is difficult to establish using survey data alone, however, as it can be challenging for consumers to separate the point at which they decided on a course of action from the time when they signed papers to formally confirm their purchase. This might particularly be true of consumers who had an up-front expectation that they would take out GAP insurance as part of the process of purchasing a new vehicle from a dealership, especially if they did not change their mind at any time.

Among standalone GAP insurance purchasers who purchased their car from a dealership, under half (45%) made the decision not to purchase an add-on product on the same day it was introduced. However, a similar proportion made their decision at least a day after its introduction (50%). This could suggest that the deferral period has some impact in providing time for car buyers to consider their options and engage with the market.

## 5. Behaviour during the purchase

### 5.1. Shopping around

Nearly half (45%) of those who purchased add-on GAP insurance from a car dealership shopped around before making their purchase. While the timing of the decision to take out GAP insurance and previous product ownership may have indicated the influence of habitual factors on the decision making process, this did not necessarily lead to lower levels of engagement throughout. Shopping around was actually more common among those who had already decided to purchase GAP insurance prior to looking for their new car (75% compared with 32% of those who made the decision during or after they started looking at vehicles). Similarly, those who had purchased GAP insurance before were more likely to have shopped around this time (61% compared with 46% of first time purchasers). This suggests that repeat behaviour does not necessarily imply uninformed decision making.

#### Comparison with 2014 research

While shopping around remained stable among standalone purchasers, the 2018 research showed a marked increase in this behaviour for those who bought add-on GAP insurance. In 2014, only 17% of this group shopped around before finalising their purchase. This has more than doubled to 45% in 2018.

Figure 3: Proportion of participants who shopped around – By age.

Age group	Shopped around (%)
18-34	82
35-44	73
45-54	36
55-64	31
65+	28

Base: All who considered GAP insurance (18-34 222; 35-44 193; 45-54 113; 55-64 166; 65+ 126)

As illustrated above, likelihood to shop around was much higher among younger participants, specifically those aged up to 44. Those aged 45 or older were only half as likely as their younger counterparts to have shopped around. The position of this drop-off loosely splits consumers into the younger group who might have had access to the internet during early adulthood and the older group who did not. Assuming that shopping around behaviour is more commonplace amongst digital natives, further increases may be expected to occur naturally over time.

There is evidence to suggest there is a link between recall of information from the dealership and shopping around. Of those who remember receiving written information, 55% went on to shop around before they bought GAP insurance, compared with 32% of those who did not remember receiving information. This pattern is even stronger when we look at the stated impact of the written information on consumer understanding. Among those who felt the information improved their knowledge 'to a great extent', 72% shopped around. This dropped to 53% of those who thought their knowledge was improved 'to some extent' and 40% among those who either didn't read the written information or felt it did not improve their knowledge.

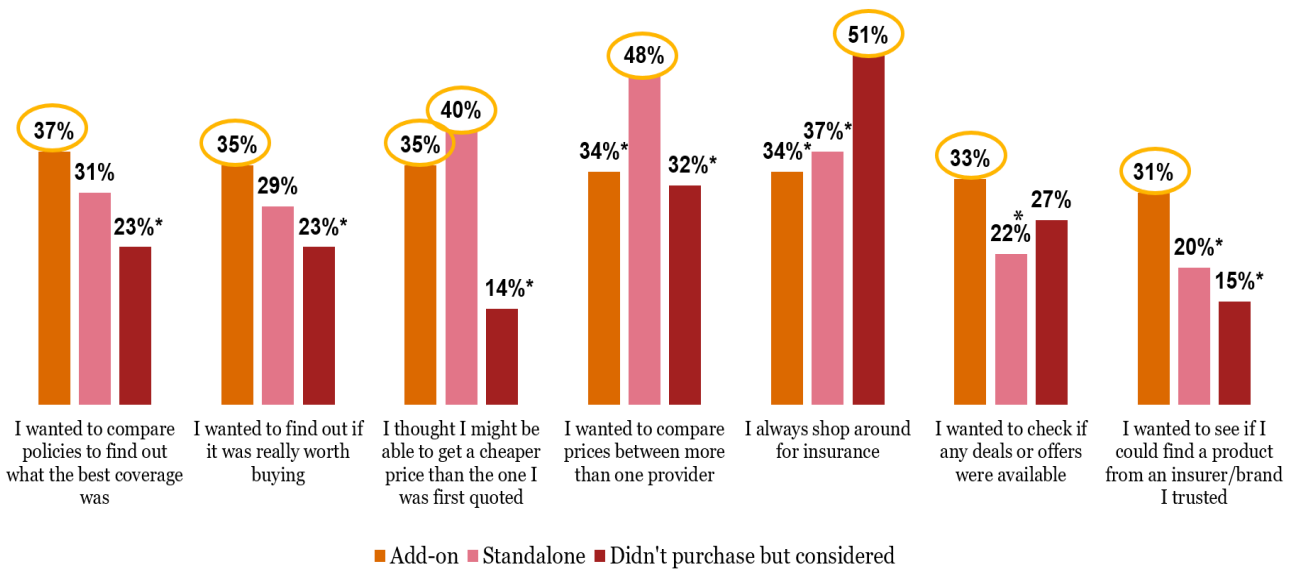
The most common methods of shopping around were searching on individual company websites, using price comparison sites and consumer advice websites. While this held true across all subgroups, there were some differences: the use of individual company websites and price comparison sites was significantly higher for standalone purchasers (40% and 45% respectively, compared with 30% and 28% for add-on buyers). Those who



considered GAP insurance but decided not to take out a product were more likely to have received informal advice from family or friends (12%) than those who took out add-on insurance from the dealership (4%).

When we explored the reasons for shopping around, the answers given by standalone GAP insurance purchasers indicated a focus on getting the best price. Half of this group (48%) shopped around to compare prices generally, while 40% specifically felt they might be able to get a cheaper quote. Conversely, those who didn't purchase GAP insurance but considered it were more likely to shop around out of habit, with over half of this group (51%) stating that they always shopped around for insurance. The pattern of responses for add-on GAP insurance purchasers was much less clear, with all the options provided being selected by between 37% and 31% of this group.

Figure 4: Reasons for shopping around



Base: All who shopped around for GAP insurance (add-on purchasers 267; standalone purchasers 109, considered 74).

The time spent shopping around was most commonly between 30 minutes and two hours (75%). Add-on purchasers were significantly more likely to spend less than half an hour shopping around when compared with those who didn't purchase but considered (16% compared with 8%).

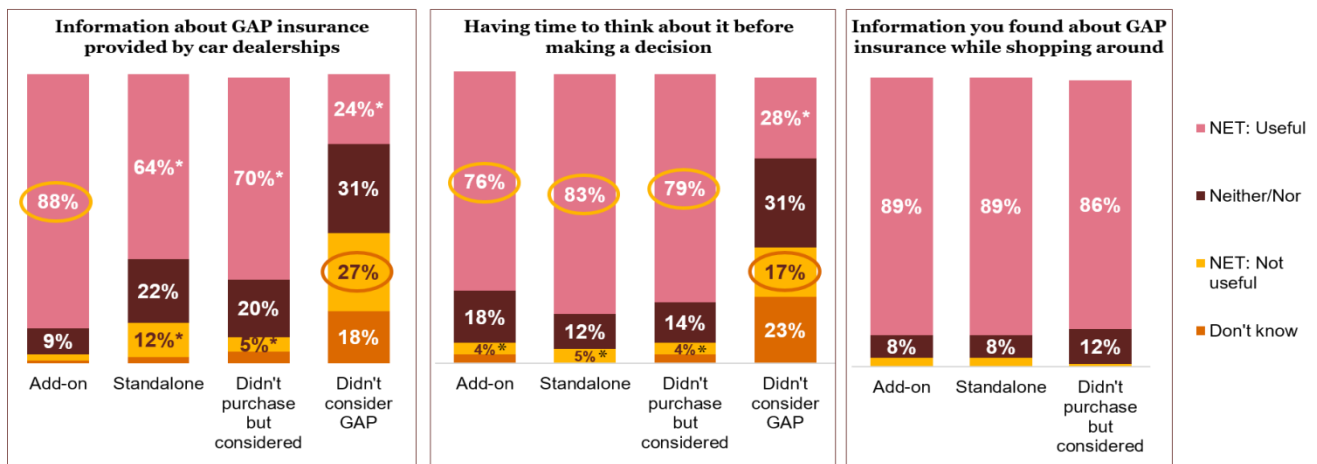
Those who purchased GAP insurance but did not shop around were asked to explain their reasons for not doing so. Being generally happy with the price they were quoted was the most common reason provided (32%). This was higher still amongst those aged 65+, those who had bought GAP insurance before and those who made the decision to purchase GAP insurance prior to looking for their car (44%, 39% and 43% respectively). Over a quarter (28%) were not aware they could purchase from another provider, although this did drop slightly to 20% among those who thoroughly read the written information provided by the dealership. Meanwhile, a fifth of participants were not planning on purchasing GAP insurance until it was offered to them, rising to 26% among first time purchasers.

## 5.2. Factors influencing decision to purchase GAP insurance

The factors considered most important in helping make the decision to purchase add-on GAP insurance included the level of cover (93%), providing peace of mind (93%) and the cost (89%). These three elements were equally important among those who purchased standalone GAP insurance, at 95%, 93% and 93% respectively.

When asked to select the most important factor influencing their decision, nearly four in ten standalone purchasers chose the level of cover offered (36%) compared with 26% of add-on purchasers. In contrast, those who shopped around for GAP insurance were more likely to say cost was the most important factor (41% compared with 13% for those who did not shop around).

Figure 5: Usefulness of information in helping consumers make a decision



Base: All participants (add-on purchasers 587; standalone purchasers 121; considerers 115, non-considerers 186).

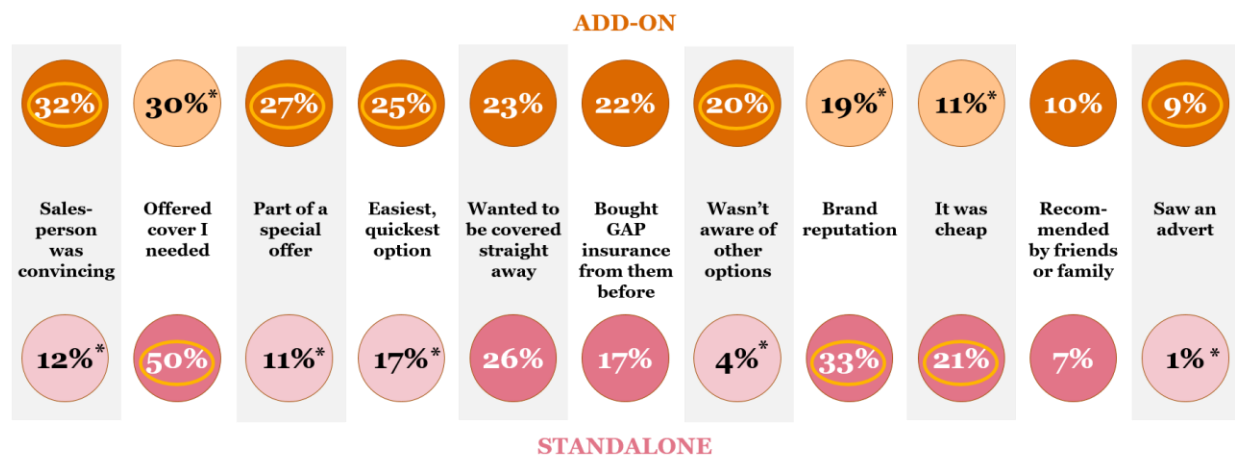
Although most participants did find all aspects of the intervention useful, views did vary slightly by consumer type. The information found when shopping around was scored most consistently, with 89% of add-on purchasers, 89% of standalone purchasers and 86% of those who didn't purchase but considered GAP insurance rating it as useful.

Of the two measures implemented by the FCA, the information provided by dealers was viewed as more useful by add-on GAP insurance purchasers while those buying a standalone product were more likely to find the deferral period useful. The high rating of the information provided by dealerships among add-on purchasers could reflect that it provides reassurance about the purchase in general, not just that it provides them with the means to understand whether the product is right for them.

### 5.3. Factors influencing choice of provider

When we explored the reason for the choice of GAP insurance provider, key differences between add-on and standalone consumers were again evident. For standalone purchasers, level of cover was the key factor, mentioned by 50%, with brand reputation (33%), a desire for immediate cover (25%) and cost (21%) secondary factors. The pattern for add-on purchasers was much less clear cut, with seven factors being mentioned by at least a fifth of participants. Results did suggest, however, that the decision to purchase add-on GAP insurance is more likely to be influenced by the salesperson, special offers or advertising, while this group was also among the most likely to mention a lack of awareness of other options.

Figure 6: Main reasons for provider choice



Base: All who purchased GAP insurance (add-on purchasers 587; standalone purchasers 121).

Breaking the add-on results down by the three subgroups illustrates how a range of different attitudes are evident within the add-on group. First time unplanned purchasers were much more likely than any other group to be influenced by the salesperson. Almost half of habitual purchasers bought GAP insurance from the same place they used before. Engaged purchasers (those who shop around) placed greater importance on brand reputation but were also more likely to be influenced by advertising or informal recommendations.

Figure 7: Main reasons for provider choice – key add-on subgroup differences

Reason	Habitual purchasers %	First time unplanned purchasers %	Engaged purchasers %
It was cheap	6*	4*	19
Bought GAP insurance from them before	47	2*	23*
Recommended by family/friends	1*	1*	20
It was advertised	0*	1*	19
The salesperson made it sound worthwhile	15*	49	25*
Reputable brand	17	10*	28

Base: All who purchased GAP insurance (habitual 72; first time unplanned 101; engaged 267)

### 5.4. The decision not to take out GAP insurance

In total, 28% of car buyers considered GAP insurance but opted not to purchase the product, while a further 45% neither considered nor purchased. Unsurprisingly, these two groups displayed different behaviours in terms of the way they dealt with the product. Higher than average levels of shopping around were evident for those who considered but did not purchase GAP insurance (64%) and around a half took at least a day to decide not to take out the product after it was first introduced. This may suggest that the decision not to purchase the product was often an informed one for this group. Conversely, those who did not consider GAP insurance were much more likely to make the decision not to purchase the product on the same day it was introduced, making the decision quickly without shopping around.

Differences were also evident in the reasons the two groups gave for not purchasing GAP insurance. Those who considered the product were more likely to conclude that they did not need it, that the product was too expensive or that they were unsure of its purpose (49%, 32% and 25% respectively compared with 31%, 17% and 9% of non-considerers). Those who did not even consider the product were not reacting to the cost alone; the main reason for not purchasing GAP insurance among this group was not having heard of the product before (41%, compared with 14% for those who did consider).

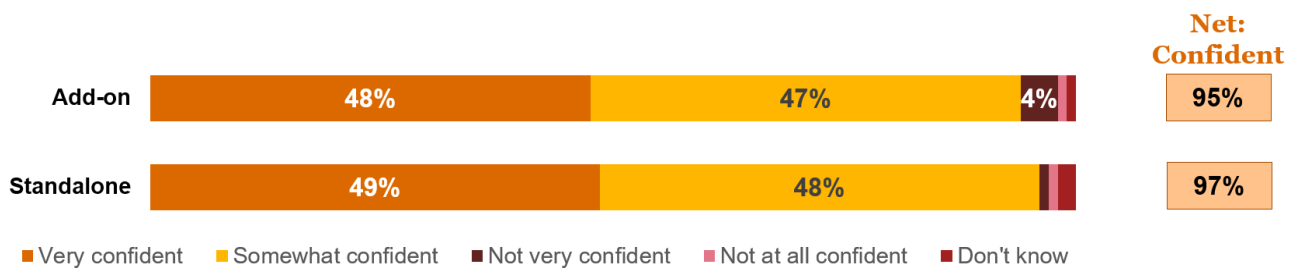
Of those who were offered GAP insurance at the dealership but didn't take it and had a deferral period, around four in ten reported changing their mind during the process. A similar portion stated they had already decided not to get it before the deferral period, while around a fifth could not remember.

# 6. Knowledge of product features

## 6.1. Consumer confidence

In addition to exploring consumers’ experience of the GAP insurance purchase process, the survey also aimed to gauge their level of confidence in their understanding of the product and then to further assess their actual product knowledge.

Figure 8: Confidence in purchasers’ level of understanding of their GAP insurance product



Base: All who took out GAP insurance (add-on purchasers 587; standalone purchasers 121).

Regardless of the purchase mechanism used, almost all participants were at least ‘somewhat confident’ in their understanding of the level of cover provided by their GAP insurance product. There was no evidence to suggest any difference in confidence levels between add-on and standalone purchasers at the overall level, although those who had shopped around before selecting a product (61%) and those who had purchased GAP insurance before (57%) were amongst the most likely to say they were ‘very confident’ in their understanding.

Among the add-on purchaser subgroups, the first time unplanned buyers were the least confident overall (30% very confident, 64% somewhat confident), while the engaged purchasers displayed the highest levels of belief in their product understanding (66% very confident, 32% somewhat confident).

### Comparison with 2014 research

Comparing these results with those recorded in 2014 illustrates that confidence in their product knowledge has increased markedly among add-on GAP insurance purchasers. In 2014, 79% of this group reported being confident, compared with 94% of those buying standalone GAP insurance. In 2018, this difference between the two groups has largely disappeared, as illustrated in Figure 8 above.

## 6.2. Actual product knowledge

Compared with the high levels of confidence, the consumer knowledge results were more mixed. In total, 9 statements were shown and GAP insurance purchasers were asked to indicate whether they thought each statement was true or not (a ‘not sure’ option was also provided).

Figure 9: Overall performance – Knowledge questions

Performance	Add-on purchasers %	Standalone purchasers %
8-9 correct answers	3*	12
6-7 correct answers	22*	31
5 correct answers	34	18*
0-4 correct answers	40	39

Base: All who took out GAP insurance (add-on purchasers 587; standalone purchasers 121).

Standalone purchasers performed more strongly on the knowledge questions, with over four in ten getting the majority of the answers correct compared with just a quarter of add-on GAP insurance purchasers. However, there was still a considerable proportion of both groups answering fewer than half of the questions correctly. There was no evidence to suggest that the amount of time that had elapsed since the car purchase was linked to consumers’ ability to provide correct answers at these questions.

**Comparison with 2014 research**

While the gap in confidence reported in 2014 has reduced, there is no evidence to suggest that this has translated to an improvement in actual product knowledge. Looking only at statements asked consistently across both surveys, in 2014, 46% of the responses given by add-on GAP insurance purchasers and 38% of those provided by standalone purchasers were not correct (i.e. either incorrect or ‘not sure’). The respective figures recorded in the 2018 research were 49% for add-on purchasers and 45% for those with a standalone product.

For add-on purchasers the 2018 result reflects a drop in the proportion of ‘not sure’ answers (from 26% to 17%) but a similar increase in incorrect answers (from 20% to 32%). A move of this nature might be at least partly explained by the differences in research method between the two years. For standalone consumers, the proportion of ‘not sure’ responses has remained stable at 17%, but the percentage of incorrect answers has risen slightly from 21% to 27%.

Looking at the individual questions asked also illustrates that knowledge is much stronger in some areas than others. As shown in Figure 10 below, at least two thirds of both groups were able to correctly identify that GAP insurance only pays out if there is a difference between the amount paid by the motor insurance policy and the cost of a new car. Similarly, at least 7 in 10 of both groups were aware that a valid motor insurance claim is required before a GAP insurance claim can be made. However, regardless of their purchase mechanism, well under half were aware that GAP insurance does not cover the motor insurance excess and that comprehensive car insurance will usually pay for an equivalent new car if it is under a year old at the time of the accident.

Figure 10: Performance on individual knowledge statements (% giving correct answer shown)

Statement		Add-on purchasers %	Standalone purchasers %
GAP insurance will only pay the claim if it agrees there is a difference between the payout from your motor insurance and any outstanding finance and/or the cost of a new car	True	72	67
GAP insurance will only pay out if I make a valid claim on my motor insurance	True	70	74
GAP insurance is a requirement if you take out finance to buy the car	Not true	58	65
I must have comprehensive car insurance in order for my GAP insurance to be valid	true	55	58
GAP insurance will cover my car payments if I become unemployed or am unable to work through sickness	Not true	51*	63
Comprehensive car insurance usually covers the cost of replacing your current car with an equivalent car after an accident	True	45	41
Comprehensive car insurance will usually pay to replace my car with an equivalent new one if it is less than one year old	True	40	40
GAP insurance always covers the same period of time as a finance deal	Not true	33*	52
GAP insurance covers the motor insurance excess in full	Not true	33	37

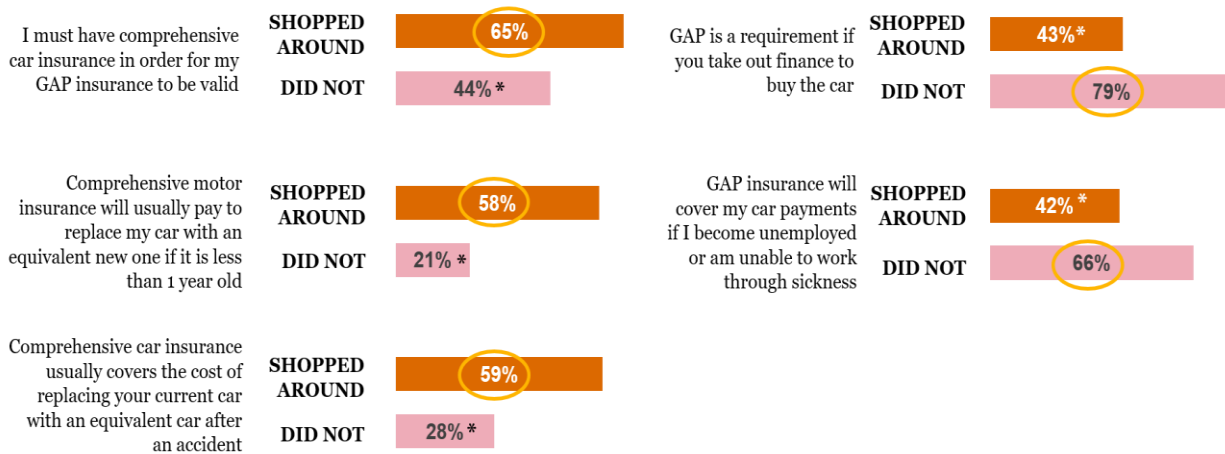
Base: All who took out GAP insurance (add-on purchasers 587; standalone purchasers 121).

Figure 10 also illustrates that there were two statements where standalone GAP insurance purchasers performed significantly better than their add-on purchasing counterparts. These differences occurred on two of the statements which were not true.

Earlier in this report, we saw that nearly half of add-on purchasers reported shopping around before they finalised their GAP insurance purchase. It is therefore interesting to explore whether shopping around had any impact on knowledge. Overall, those who shopped around were more likely to answer questions correctly than those who did not shop around, although this was most apparent in the proportion of each group who answered correctly for fewer than 5 statements (34% of those who shopped around compared with 47% of those who did not). There was no clear difference in the proportion answering correctly 8-9 times (5% and 3% respectively).

Looking at answers given to the individual statements did highlight areas where the differentiation between those who shopped around and those who did not is wider. Those who shopped around performed consistently better when it came to statements covering the link between GAP insurance and comprehensive motor insurance. However, those who did not shop around were more likely to be able to correctly identify some of the incorrect statements included in the survey.

Figure 11: Impact of shopping around on knowledge



Base: All who took out GAP insurance (shopped around 376; did not shop around 333).

A similar pattern was also illustrated when looking at the answers given by the add-on subgroups. Engaged purchasers who had shopped around before deciding to take out their add-on product were among the most likely to identify the correct answer for the statements about comprehensive car insurance, but less likely than the habitual purchasers or first time unplanned buyers to be able to identify which statements were not true. At an overall level, the three groups performed broadly equally, with the variation on a question by question basis largely cancelling itself out.

### 6.3. Impact of written information on understanding

The majority of add-on GAP insurance purchasers who remembered receiving written information from the dealer believed this helped them to improve their understanding of the product (49% to a great extent, 32% to some extent). This in turn led to increased levels of confidence about their product understanding: 77% of those who felt the written information improved their knowledge to a great extent went on to say that they were 'very confident' in their understanding of the product they took out, compared with just 48% among all add-on consumers and 66% for add-on purchasers who shopped around.

For standalone GAP insurance purchasers, the written information they received at the dealership was felt to be less impactful. Only 15% of this group felt it improved their understanding to a great extent and 40% to some extent. There was also less of a link with confidence among standalone consumers, although many of this group already claimed to have a good understanding of GAP insurance before making their purchase.

However, where participants reported that the written information improved their knowledge, this was not reflected in their likelihood of being able to identify correct statements about GAP insurance. Of those who felt the written information helped improve their understanding to a great extent, just 19% got the majority of the knowledge questions correct. This compared with 34% of those who said their knowledge was improved 'to some extent' and 39% among those who claimed they already had a good knowledge of GAP insurance.

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# 7. *Appendix*

The questionnaire used in this research is provided below.



Microsoft Word 97  
- 2003 Document



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