

FCA GAP insurance research

Technical annex

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

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1. Introduction

This technical report details a quantitative research study commissioned by the Financial Conduct Authority (FCA) as a post intervention follow-up to the 2014 study into the sales of add-on general insurance products.

1.1. Background

The FCA, in its public ‘Mission’¹ 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 study² 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 insurance³ 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 measures⁴ 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.

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.

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

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

³ <https://www.handbook.fca.org.uk/handbook/glossary/G3465g.html>

⁴ As set out in the FCA’s handbook: <https://www.handbook.fca.org.uk/handbook/ICOBS/6A/1.html>.

2. Sampling process

The target population for this research study was consumers who had recently purchased a vehicle, with specific emphasis on those who had also bought GAP insurance.

2.1. Sample source

When pre-intervention research was commissioned in 2014, the FCA approached firms selling add-on general insurance products to provide lists of recent purchasers to approach to take part in the research. In 2018, an alternative sampling approach was adopted, which involved free-finding those who had recently purchased a new vehicle. Because comprehensive lists of car purchasers and GAP insurance purchasers were not commercially available, it was necessary to check the eligibility of potential respondents up front.

Based on reported figures of new and used car sales, and taking into account the second hand market, the incidence of car purchasers within the last 12 months was expected to sit between 10%-15% of the UK's adult population. Within this subgroup, around a quarter were anticipated to have taken out GAP insurance based on the FCA's previous and ongoing work in this area, and data sources available in the public domain. In order to achieve a robust number of completed surveys with recent GAP insurance purchasers, we understood it would be necessary to approach and screen a large number of adults in the absence of any form of targeting.

Because of this, an online methodology was used, which allowed us to approach adults effectively in the required volumes within a short period of time. Research Now's online panel was selected as the sample source for this project.

In coming to the decision to use an online methodology, the potential downsides of this approach were carefully considered. In particular, we recognised that the method excludes anyone who does not have internet access, and that this group is more likely to contain older or potentially vulnerable consumers. In order to assess the potential impact of this, we looked at the latest ONS internet penetration statistics¹. This showed that even among 65-74 year olds, internet use is common with 78% having done so in the last 3 months. Internet use only starts to fall substantially among those aged 75+, but new car purchasing is also likely to be lower for this group.

2.2. Defining eligibility

In considering the eligibility criteria to apply to this research project, it was necessary to strike a balance between two important factors:

- Recency of experience – Minimising the time between the purchase process and the research approach helps to maximise the extent to which each participant can clearly recall the process they went through.
- The ability to find participants who meet the eligibility criteria in sufficient numbers to allow for meaningful analysis.

In order to help define the most appropriate approach, PwC Research ran a feasibility test with its panel provider in advance of finalising the approach. This involved completing 250 surveys amongst those who had purchased a car within the last 24 months. Results of this test showed:

- 36% of car purchasers claimed to have bought GAP insurance, 27% add-on and 9% standalone.
- 61% of car purchasers claimed to be able to remember the experience of completing their recent car purchase 'very well'.

¹ <https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/internetusers/2017#recent-internet-use-for-those-aged-65-and-over-is-catching-up-with-younger-age-groups>.

As this was a short and limited feasibility test, we were not able to include clarification statements or questions to make sure participants were definitely thinking about the correct product. The 36% figure was potentially a high estimate. However, we felt confident from the feasibility test that it would be possible to use the panel to target a sufficiently large number of GAP insurance purchasers, and that tightening the eligibility criteria from those purchasing a vehicle in the last 24 months down to the last 12 months was possible. Using a 12 month window also meant that those purchasing their vehicle during both March and September, when car sales are typically at their highest, would be eligible to participate in the research.

2.3. Phase 1 – Representative view

In addition to specifically recording the opinions of those who bought GAP insurance, the first part of the survey was also designed to incorporate the views of those who did not purchase the product (including those who had considered and rejected the product and those that had not considered it at all). Phase 1 was therefore designed to deliver a representative view from those who had purchased a vehicle in the last 12 months. Because no up to date, reliable statistics were available on the demographic profile of UK car buyers, an alternative approach was required allowing us to achieve a representative sample of this audience:

- Research Now sent survey invites to a representative sample of UK adults from their panel.
- They monitored the number of click-throughs to the survey, to monitor and address any skewing between the invitation and uptake stages.
- Age and gender questions were also asked up-front to monitor the fall-out of those starting the survey (regardless of whether they completed or screened out).

Through these measures and by releasing invitations in small batches during the fieldwork period, we were able to control the profile of survey starts so that it was representative of all UK adults.

Subsequent screener questions removed any respondents who had not purchased a car within the last 12 months, leaving us with a representative sample of car buyers.

2.4. Phase 2 – Boost of GAP insurance purchasers

Phase 2 specifically targeted those who had bought GAP insurance within the last 12 months. To aid this process, we provided Research Now with details of the profile of GAP insurance purchasers in phase 1 to aid their targeting processes.

3. Questionnaire

3.1. Initial design

The FCA provided PwC Research with a questionnaire that was used in 2014 along with a series of thoughts on improvements. Using this, PwC Research provided an updated questionnaire which kept some questions from 2014, to allow comparisons to be made with the previous findings. New questions completed the questionnaire to assess the implementation of the new rules.

During the design process, care was taken to structure the questions in a way that avoided using complex industry language, while still providing the FCA with relevant, reliable information.

Because the survey needed to identify GAP insurance purchasers within the questionnaire, a detailed description of GAP insurance was included to help those less sure to distinguish between it and standard motor insurance.

3.2. Cognitive testing

Before the questionnaire was finalised, a small cognitive test was completed to assess customer understanding of the revised survey tool. This consisted of nine teledepths – in depth interviews completed over the telephone (three each with add-on purchasers, standalone purchasers and those who bought their car through a dealer but did not buy GAP insurance). The interviews each lasted about 30 minutes. Each section of the questionnaire was gone through, probing to gauge understanding and how the questions were being interpreted.

As a result of the cognitive testing, a number of changes were made to the questionnaire as detailed below (question numbers refer to the final questionnaire that can be found in the appendix):

- Specifying the channels used to make contact during shopping around (Q13).
- Introduction of a code to capture the number of people who didn't shop around because they simply didn't think about it (Q15b).
- Updating the wording on a question which asked respondents to give their main reason for their choice of provider, to make it explicitly clear that this was about provider choice rather than their reason for choosing to purchase GAP insurance (Q18).
- Changing the question which looked to measure the importance of the different types of information customers had received to ask about usefulness (this proved easier to rate) (Q20).
- Changes made to the classification section, to remove questions which felt less relevant.

3.3. Content of the final questionnaire

The final questionnaire was designed to take up to 15 minutes to complete, although those who did not purchase GAP insurance were asked fewer questions. The survey covered the following:

- Demographic questions and a screeners to confirm that participants had purchased a vehicle in the last 12 months.
- Details on the car purchase (where it was from, how they paid for it).
- Awareness of GAP insurance as a product, before and after a description was shown on screen for a minimum of 10 seconds.
- Whether participants purchased GAP insurance, whether this was add-on or standalone, whether non-purchasers considered GAP insurance and how well they recall the process.
- Whether purchasers and considerers shopped around and if so, how and why.

- Reasons for deciding to purchase GAP insurance and for choosing the brand they selected.
- Recall and experience of the FCA's remedies.
- Confidence in product knowledge.
- A knowledge test in which participants had to state whether they thought 9 statements about GAP insurance were true or not.
- Classification questions including further demographics and questions covering financial confidence, attitudes and the value of the car they purchased.

4. Fieldwork

4.1. Fieldwork summary

The survey was carried out online, with sample sourced through Research Now's online panel. PwC Research hosted the survey, while Research Now managed the process of sending out invitations to panellists.

Fieldwork launched on the 14th February and closed on 23rd February, 2018. Phase 1 was completed between the 14th and the 19th of February, with phase 2 starting on the 20th February.

4.2. Soft launch

The first day of fieldwork acted as a soft launch in which only a small number of invitations were sent out. In total, 57 surveys were completed as part of this soft launch process. On the morning of the 15th February, the survey was closed temporarily, while the PwC Research team carried out a full review to make sure the questionnaire was working as intended. No issues were identified by this review, so fieldwork was launched fully on the afternoon of 15th February.

4.3. Data cleaning

At regular points during fieldwork, data exports were reviewed for quality control purposes. Participants were removed from the data and replaced if they had completed the survey in less time than a third of the median interview length. This was calculated separately for those purchasing GAP insurance and those who did not, since the non-purchaser route through the survey was considerably shorter. Responses were also checked for quality with any obvious low quality responses removed and replaced.

During phase 1 this process was undertaken every other day and results were shared with the panel provider so that the demographic targeting could be adjusted accordingly.

4.4. Fieldwork statistics

In total, 409 phase 1 surveys were completed with adults in the UK who had purchased a vehicle in the last 12 months. As part of phase 2, a further 600 surveys were completed by people who had purchased GAP insurance. The table below illustrates the performance at each stage of the research process.

Outcome	Phase 1	Phase 2
Outcome reached	2,028	7,881
Screened out	1,572	7,095
Suspended part way through survey	47	186
Completed	409	600

Overall, 85 responses were removed from the data during the cleaning process, and replaced in line with the process described above.

The profile of the final data is summarised below.

Group	Phase 1	Phase 2
Purchased add-on GAP insurance	89 (21.8%)	498 (83.0%)
Purchased standalone GAP insurance	19 (4.6%)	102 (17.0%)
Did not purchase GAP insurance, but considered it	115 (28.1%)	-
Did not purchase GAP insurance and did not consider	186 (45.5%)	-
Total completed	409	600

5. Analysis

5.1. Analysis summary

Cross tabulations were specified and used to analyse the data. Phase 1 data alone was used to provide a read on the profile of recent car buyers and on metrics such as awareness of GAP insurance. Phase 1 and 2 data combined was used to create a higher base for analysis of all questions asked only of those who experienced the process of purchasing GAP insurance. This larger base size allows for more robust analysis and confidence in the results.

The table below illustrates the maximum confidence intervals for the key subgroups referenced in the report. All key subgroups have more than 100 responses, which is enough to allow for analysis. GAP insurance purchasers were deliberately boosted in phase 2, to improve the robustness of the data for this important group.

Group	Number of survey responses	Confidence interval
All participants (Phase 1 and Phase 2 combined)	1,009	+/- 3.1%
Representative sample of car buyers (Phase 1 only)	409	+/- 4.9%
Add-on GAP insurance purchasers	587	+/- 4.0%
Standalone GAP insurance purchasers	121	+/- 8.9%
Considerers of GAP insurance (non-purchasers)	115	+/- 9.1%
Non-considerers of GAP insurance (non-purchasers)	186	+/- 7.2%

5.2. Comparison with 2014 results

Within the narrative report, comparisons have occasionally been made with research⁶ 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

⁶ <https://www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-quantitative-consumer-research-report>

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 discomforting 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. 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 the narrative report, results from the two surveys have been compared to identify any changes which might be attributed to the FCA's market intervention.

Appendix

Appendix

The questionnaire used in this research is provided below:



FCA - GAP insurance
research questionnair

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