

Mind the GAP - FCA warning to GAP insurers

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[< Previous](#)

The Word, September 2023

[Next >](#)

Motor insurers have been warned by the FCA that they have three months to improve the value they give customers in products that top up coverage or face potential sanctions. Matt Brewis, the FCA's Director of insurance, has said:

Death and disgrace policies: What can insurers learn from the allegations against Russell Brand?

Matt Brewis

Director of Insurance, FCA

"If the firms are unable to prove they're providing fair value to their customers, they should expect further action from the regulator."

On 20 September 2023 the FCA published its latest Insurance Value Measures Data (January to December 2022), which revealed concerns over whether products are providing fair value to customers. Products highlighted include Guaranteed Asset Protection Insurance (GAP) and Excess Protection (for Motor Insurance).

According to FCA data, for GAP ads-on products only 4% of premium payments were ultimately paid out in claims for standalone GAP products the figure was slightly higher, but still only 7%. GAP motor insurance covers the difference between a vehicle's purchase value and its current market value. It does not usually pay back the vehicle's original value at purchase or the remaining finance value (if the vehicle was bought on finance). For Excess Protection (for Motor Insurance) only 15% of the amount customers pay in premiums is currently paid out in claims. ([General insurance value measures data 2022](#))

The FCA's consumer duty came into force in July 2023, setting a higher standard for consumer protection and requiring firms to act to deliver good value for consumers. Firms must deliver and assess four outcomes under the Consumer Duty, including price and value. Fair value assessments must be undertaken to demonstrate that a price a consumer pays for a product or service is reasonable compared to the overall benefits.

Also on 20 September 2023, the [FCA sent a series of "Dear CEO" letters](#) highlighting its priorities for Retail Insurance, Wholesale Insurance, Life Insurance and Funeral Plans. The focus of this article is on Retail Insurance letter.

Urgent action needed

For insurers of GAP and excess protection products, urgent action is required to review the value provided by such products (including an assessment of the distribution chain and the charges applied by others involved in the sale of these products) and make any amendments required to ensure customers receive fair value.

Contents

<u>The Word, September 2023</u>	→
<u>Mind the GAP - FCA warning to GAP insurers</u>	→
<u>Death and disgrace policies: What can insurers learn from the allegations against Russell Brand?</u>	→
<u>Extreme weather leading to a rise in property claims</u>	→
<u>The RAAC crisis: Is it really back-to-school this September?</u>	→
<u>A new digital safe space – How does the EU Digital Services Act affect insurers?</u>	→
<u>Insurance and the Automated and Electric Vehicles Act 2018</u>	→
<u>CyberCube's Global Threat Outlook: The evolving threat of cyber operations</u>	→
<u>"TOBA traps" - general exposure risk under existing TOBAs</u>	→
<u>Making numbers easy - complying with the Customer Understanding objective</u>	→

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