

August 21, 2006

What does your Gap policy say?

by Gil Van Over

There is a reason dealers aren't reinsuring Gap coverages like they are service contracts. Gap is a money loser for the underwriter if not structured properly. Many underwriters have solved this issue in the last five years by restricting the coverage available. Some dealers have not updated their Gap promotional materials or selling word tracks to be consistent with the coverages, leaving themselves open to potential litigation.

gap's premise was simple when it first hit the market in the mid-nineties. Collect a premium from the consumer in return for covering a potential deficiency balance if the consumer totaled his vehicle and owed more than the insurance settlement.

The captives' longest retail term was 60 months. The maximum advance was considered MSRP plus tax, title and license. The average repo deficiency was \$3,000.

Then loan terms started stretching, moving up to 84 and 96 months. Some finance companies will now advance 150% of MSRP or retail book. Average deficiencies are closer to \$8,000. Adverse selection also plays a big role. As does the fact that premiums are normally the same for every vehicle, from a compact, low balance vehicle to a luxury SUV.

Gap became a money loser using the simple premise of collecting a premium and covering a potential deficiency balance.

Underwriters started restricting coverages, such as term and amount in excess of MSRP that they would provide coverage for.

Some policies restrict coverage to 120% of MSRP or NADA retail. More liberal policies cover up to 150% of MSRP or NADA retail.

With negative equity, advance policies and aftermarket sales, more and more retail contracts are written at terms that exceed coverages. Yet many menus continue to state that Gap "covers the difference between loan payoff and insurance settlement in the event of total loss."

This statement is simply not true anymore. A class action lawsuit is working its way through the courts now alleging that the dealer did not adequately explain the Gap coverage to the consumer.

Solution: Check the language on your menu and your Gap promotional materials. Ask your F&I Manager to recite his word tracks he uses when selling Gap.

Make any corrections necessary to ensure that the consumer knows that some limitations may apply to Gap coverage.

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