Evaluation Paper 18/1: An evaluation of our guaranteed asset protection insurance intervention

July 2018

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Executive summary

Evaluating the impact of our add-on guaranteed asset protection (GAP) insurance market intervention

Evaluations inform our decision-making

Evaluation is part of our Mission's decision-making framework. Testing the effectiveness of our remedies helps us make better decisions.

In April 2018, we published Discussion Paper 18/3 on our proposed framework for post-intervention impact evaluations. This is one of the ways we assess the impact of our interventions. Post-intervention impact evaluations differ from other approaches as they focus on quantifying the impact of our intervention.[1]

In our 2018/19 Business Plan and the proposed evaluation framework, we said that we would conduct 3 pilot evaluations to measure the impact of past interventions in a way that controls for factors that may have influenced the market.

An evaluation of our September 2015 add-on[2] GAP insurance intervention is part of this pilot.

What is GAP insurance?

GAP insurance is predominantly sold as an add-on when someone buys a vehicle. It provides cover for a financial shortfall that can happen when:

- a customer's vehicle is written off or stolen
- the motor insurance pay-out does not pay back its original value at purchase or the remaining finance value (if the vehicle was bought on finance)

Our 2014 market study highlighted concerns about add-on GAP insurance

In July 2014, we published the final report from our general insurance add-on products market study. The study found consumer harm in the add-on GAP insurance market. It estimated total consumer overpayment for add-on GAP insurance of around £76 million to £121 million a year (out of an estimated market size of £152 million).

We found that:

- vehicle sellers enjoyed a strong point-of-sale competitive advantage, meaning that there was little or no pressure on sellers to lower the price
- a lack of information, including about alternative providers, prevented consumers from being able to compare products
- many consumers did not know that they could buy GAP insurance separately ('standalone') elsewhere, often at a lower price

1 The proposed framework sets out how we intend to use ex post impact evaluation (EPIEs), or post-intervention impact evaluations, to assess the impact our interventions have had on consumers, firms and markets. Evaluations feed back into our decision-making and how best to use our diagnostic and remedy tools.

2 Consumers can buy GAP insurance when buying a vehicle (add-on) or separately (standalone).

- as with other add-on products, consumers' focus on the main product (in this case, the vehicle) led to many buying add-on GAP insurance when they may not have wanted and/or needed it

We introduced measures to deal with these concerns

To address this, we intervened in 2015 by:

- making it mandatory for vehicle sellers to provide sufficient information to consumers
- requiring a pause in the sale ('deferred opt-in'), meaning that vehicle sellers can start the sales process but cannot conclude the GAP insurance sale for 2 clear days

We believed that having both time and information would enable consumers to decide whether they need GAP insurance, and to shop around if they do.

We expected:

- improved competition between add-on and standalone sellers
- better consumer outcomes during the purchasing process, including:
  - an overall decrease in add-on GAP insurance sales, given our concern about consumers buying, potentially, unsuitable add-on products
  - more consumers shopping around and buying GAP insurance from standalone providers

Evaluation relies on a range of evidence

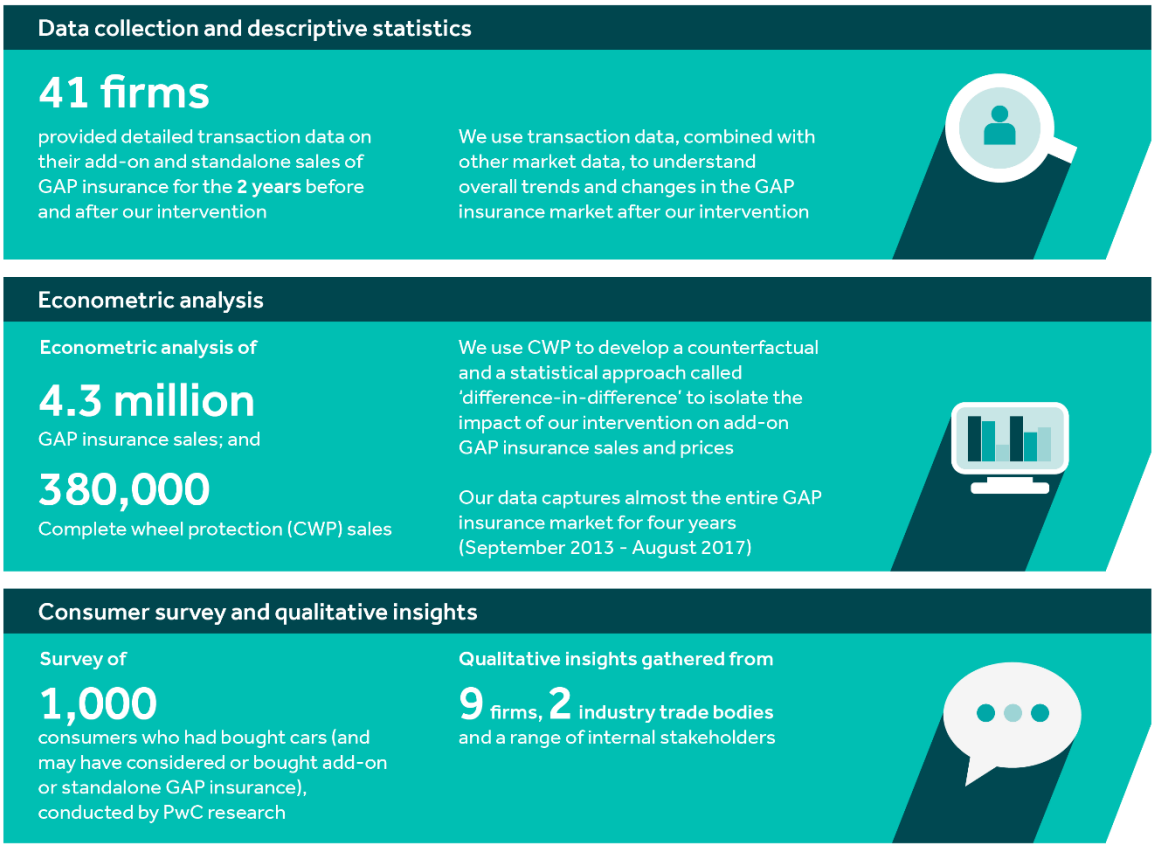
Our evaluation follows the post-intervention impact evaluation framework's high-level approach and focusses on quantifying the impact of our intervention. We do this with reference to our pre-intervention expectations, which are based on the cost benefit analysis (CBA) in the GAP insurance Consultation Paper (CP14/29).[3]

Figure 1 summarises our evaluation approach. We use a mix of transaction-level data, consumer survey insights, other publicly available data, and insight from firms and trade bodies to evaluate the impact of our intervention. To understand these data, we conduct descriptive statistical and econometric analysis.[4]

3 A post-intervention impact evaluation does not consider all aspects of the intervention or re-run a CBA. For example, compliance costs are not a central focus of our analysis, though we do present some high-level figures as provided to us by the National Franchised Dealers Association (NFDA).

4 We do this to diagnose the relationship between: a data series of interest (eg sales volumes); and a range of factors that affect these data series at the same time. This approach helps us to isolate, given a level of statistical confidence, the underlying correlation between many variables and the one of interest.

Figure 1: Our evaluation approach



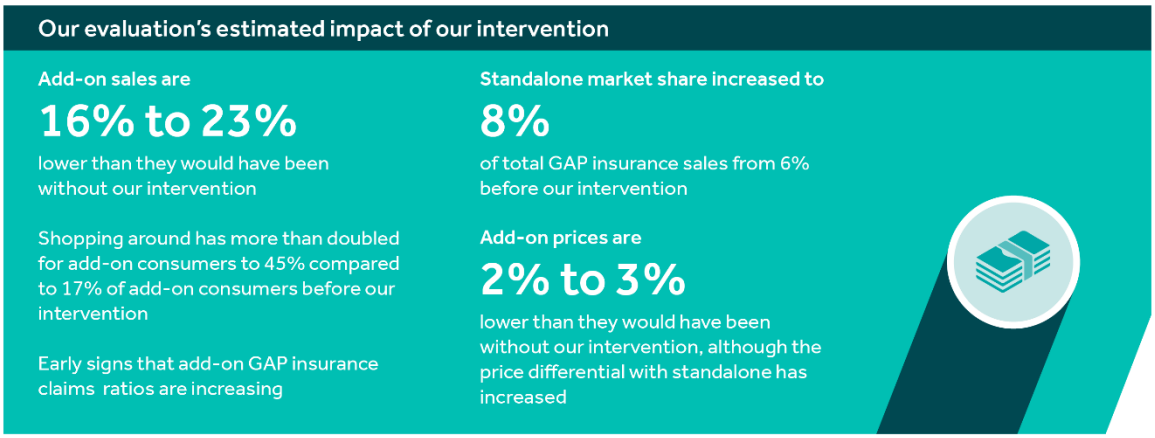
Source: FCA

Our intervention has had a positive impact, but less than we expected before intervening

Overall, we find that our GAP insurance intervention has had a positive impact. We summarise our main findings in Figure 2.

After our intervention, consumers are more engaged decision-makers and shopping around has more than doubled. Add-on GAP insurance sales are 16% to 23% lower than they would have been without our intervention. Some of the reduction in add-on sales is accounted for by higher standalone sales, which have increased from 6% to 8% of all GAP insurance sales. The evidence suggests that some consumers decide, on reflection, not to go ahead with the purchase.

Figure 2: Our main results



Source: FCA

Our intervention has helped to reduce considerable harm in the market. We estimate that there are around £26 million to £28 million of ongoing consumer benefits a year after our intervention. This exceeds firms' total costs of implementing our intervention, including a one-off cost of £5 million to £8 million and an ongoing cost of £1 million a year.

Our intervention has achieved its objectives, although not by as much as we expected. Due to our intervention, we expected that:

- add-on sales would be up to 32.5% lower
- the share of sales of standalone would increase to up to 40%
- add-on prices would be up to 17% lower, with the price differential between add-on and standalone narrowing

In particular, the impact on the standalone's share of total sales and on add-on prices has been much less pronounced than we expected.

Our findings are consistent with recent academic literature on demand-side interventions. The literature indicates that although well-designed demand-side remedies can be effective, their impacts tend to be modest. That said, even modest impacts can represent significant gains for consumers.

Lessons learned

We view evaluations as an opportunity to learn from previous interventions and to feed any insights into our current and future work.

The main lessons we learned from this evaluation are:

- This intervention had a far greater impact on sales than prices:
  - In the case of sold products (goods or services a consumer was unaware of before the seller introduced them) with a point-of-sale advantage, we are likely to reduce total purchases, rather than diverting consumers to the non-point-of-sale market, if we try to break the point-of-sale advantage
  - Add-on sellers play an important role in introducing the product to buyers, so the standalone market might be smaller in their absence
- Pre-intervention expectations should be based on a range of evidence. Our consumer survey overstated the impact of the intervention on switching to the standalone market, and underestimated the number of consumers who would make a more considered purchase given the information and time to do so. This evaluation will help to provide useful evidence when thinking about similar future interventions.

1 Why we are evaluating our guaranteed asset protection insurance intervention

This section provides an overview of the intervention that we evaluate in this report. We also set out the report's scope and structure.

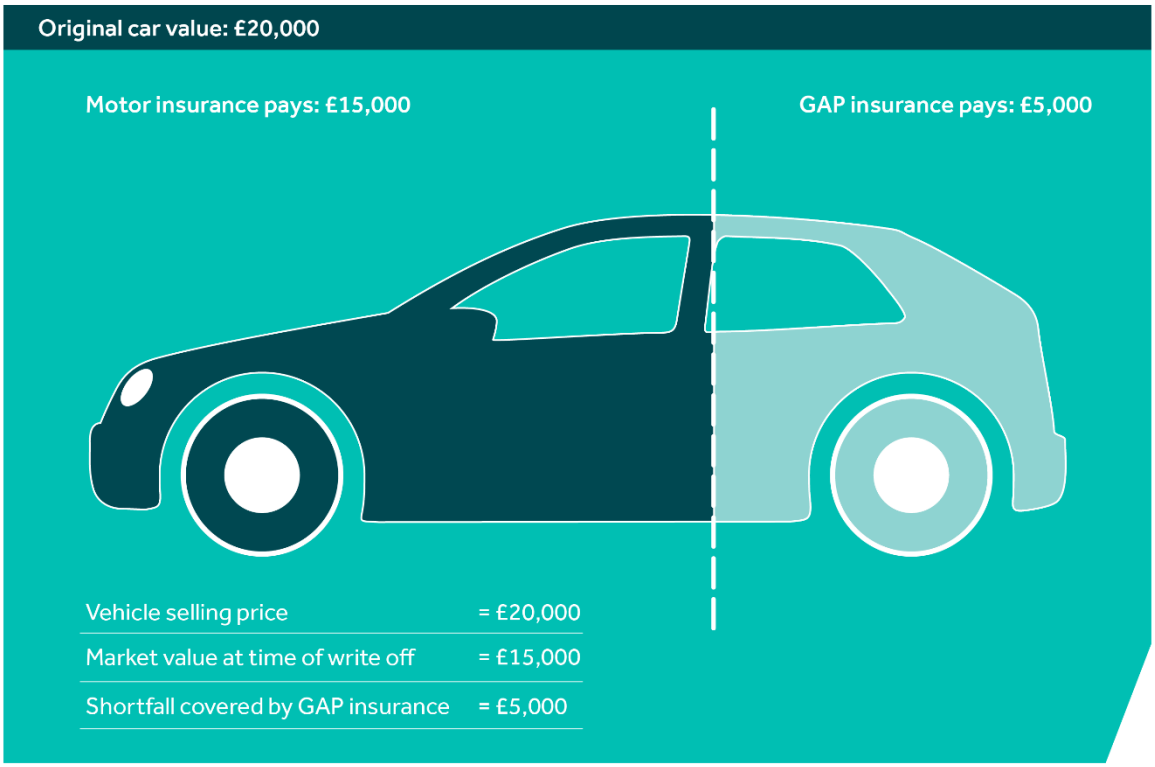
What is guaranteed asset protection (GAP) insurance?

GAP insurance is predominantly sold as an add-on when someone buys a vehicle. It provides cover for a financial shortfall that can happen when:

- a customer's vehicle is written off or stolen
- the motor insurance pay-out does not pay back its original value at purchase or the remaining finance value (if the vehicle is bought on finance)

Figure 1.1 gives an example of how this might work.

Figure 1.1: How GAP insurance works



Source: FCA

GAP insurance is available for new, used, leased, business-owned and privately-bought vehicles. Consumers can buy GAP insurance in connection with buying the vehicle (an add-on buy) or separately (a standalone buy).

Our concerns about add-on GAP insurance

In July 2014, we published our general insurance add-on products market study final report, examining how selling general insurance products as an add-on to a primary product affects competition.

The study found significant consumer harm in the add-on GAP insurance market. We concluded that consumers received poor value for money from this product.

We found that:

- on average, only £10 in every £100 paid in add-on GAP insurance premiums was paid out in claims (ie an average 'claims ratio' of 10%, which was much lower than other general insurance products[5]) between 2008-2012[6],
- of the 5 add-on products considered, GAP insurance accounted for over half of the estimated overpayment of add-on premiums[7]
- consumers often bought add-on GAP insurance without having previously thought about the product or shopped around for alternatives[8]

We set out the following reasons for these findings:

- vehicle sellers enjoyed a strong point-of-sale competitive advantage, meaning that there was little or no pressure on them to lower the price
- a lack of information, including about alternative providers, prevented consumers from being able to compare products
- many consumers did not know that they could buy GAP insurance separately (as a standalone), often at a significantly lower price, elsewhere
- similar to other add-on products, consumers' focus on the main product (in this case, the vehicle) led to many buying add-on GAP insurance when they may not have wanted and/or needed it, with the add-on mechanism weakening consumers' decision-making and engagement[9]

We introduced measures to deal with these concerns

In 2015, we proposed 2 measures for add-on GAP insurance sellers to address the identified harm:

1. Providing written information on GAP insurance ('prescribed information'). This means that add-on GAP insurance sellers (also known as distributors) must provide information to potential buyers. This should encourage consumers to shop around, including by advising them that they can buy the product elsewhere.

5 We used a conservative estimate of a competitive baseline using other general insurance products of 30% to 50% for a claims ratio. This was based on the 2012 average claims ratio for general insurance products of 64%. Guaranteed Asset Protection insurance: a competition remedy, CP14/29, page 5

6 General insurance add-ons: Provisional findings of market study and proposed remedies, MS14/1, Table 5.1

7 £76 million to £121 million a year of the estimated total overpayment across five add-on insurance products – travel, personal accident, home emergency, GAP, and gadget – of £108 million to £216 million a year). GAP insurance was c.30% of the estimated add-on market size of the five products considered. General insurance add-ons: Provisional findings of market study and proposed remedies, MS14/1, Table 6.1

8 General insurance add-ons: Provisional findings of market study and proposed remedies, MS14/1, page 56

9 General Insurance add-ons: Final report – confirmed findings of the market study, MS14/1

2. A pause in the sale ('deferred opt-in'). This means that add-on GAP insurance sellers can start the sales process but cannot conclude the GAP insurance sale for a set amount of time (2 clear days)[10]. This gives consumers time to consider whether they need the product at all and to shop around if they do.

These measures came into force on 1 September 2015. We believed that these tools (time and information) would enable consumers to better assess whether they needed GAP insurance and to shop around if they did.

As a result of our intervention, we expected:

- improved competition between add-on and standalone sellers of GAP insurance, with standalone sales increasing relative to add-on sales
- better consumer outcomes, namely better-informed and more active decision-making during the purchasing process

Assessing the impact of our GAP insurance intervention

As stated in our Mission, evaluation is a critical part of getting our interventions right. Finding out what impact past interventions have had helps develop a strong evidence base to guide our decisions.[11] These decisions can include which issues to prioritise and how best to intervene to tackle harm.

We published a proposed framework outlining the way we measure the causal impact of our interventions in April 2018. The framework explains:

- why we do post-intervention impact evaluations[12]
- how we choose specific interventions to study
- how we ensure that our evaluations are robust, impartial, and, therefore, credible

This report follows the proposed approach to post-intervention impact evaluations, and is one of three pilot evaluations. We chose it, in part, because the deferred opt-in element was a novel measure to address the harm found in the FCA's first market study.

The aim of this work is to understand:

1. the impact of the 2 measures
2. whether the intervention met its objectives
3. whether our pre-intervention cost benefit analysis (CBA) was able to accurately capture the scale of the intervention's impact

We focus on the main expected changes after our intervention. As set out in the proposed evaluation framework, we do not re-run our pre-intervention CBA.

10 Consumers can make contact with the vehicle seller to complete the GAP insurance sale the day after it is introduced.

11 We note that: i) FSMA requires us to have regard to the FCA exercising its functions as transparently as possible when making policy; and ii) the principles for regulators under Legislative and Regulatory Reform Act refer to regulators being both transparent and accountable.

12 We refer to post-intervention impact evaluations, or ex post impact evaluations, as 'evaluations' in this report.

Report structure

We structure this report as follows:

- Section 2 sets out an economic framework for this evaluation
- Section 3 summarises the market context
- Sections 4 and 5 show what has happened to GAP insurance sales and prices, respectively, before and after our intervention (with further details of the analysis set out in the Technical Annex)
- Section 6 looks at possible explanations behind our findings through a consumer survey (with further details of the analysis set out in Annex 2 and Annex 3)
- Section 7 comments on how overall outcomes have changed in the market after our intervention
- Section 8 concludes with the main lessons that we have learned from this evaluation

2 Our evaluation approach

This section sets out how we evaluate our GAP insurance intervention, including:

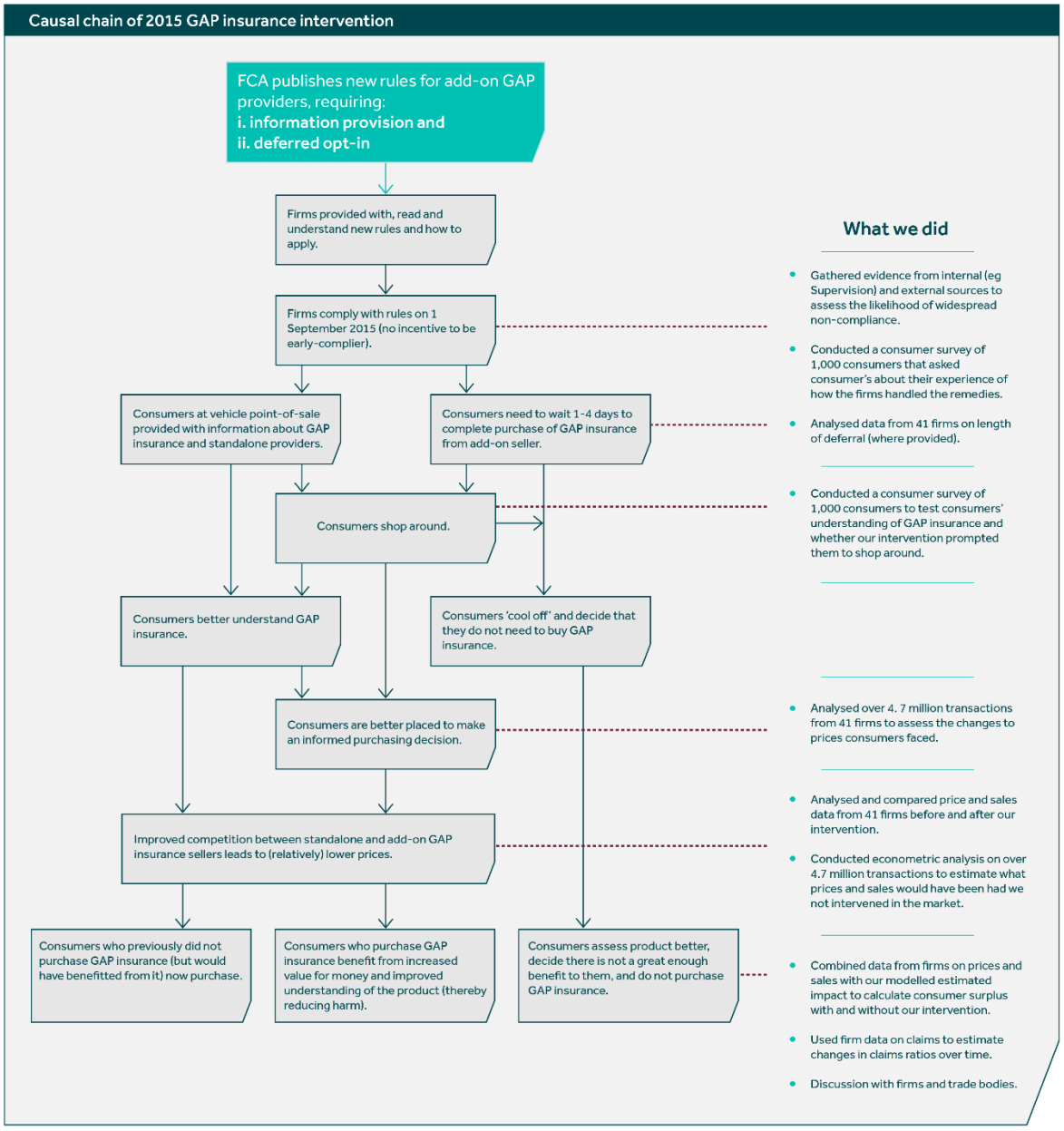
- how we expected our intervention to work
- the available evidence on compliance
- the pre-intervention expectations we tested to see how well our intervention has worked
- the methods and data that we used to test these pre-intervention expectations

How we expect our intervention to work

Figure 2.1 below sets out a causal chain of our GAP insurance intervention. A causal chain, pathway, or logic model in this context describes the way that an intervention addresses the identified market failure and reduces harm, leading to costs and benefits. It does this by linking the intended intermediate and final outcomes with the intervention inputs, activities, processes, and theoretical assumptions.

Figure 2.1 shows how our 2 measures achieve the intervention's intended objectives.

Figure 2.1: Causal chain of our 2015 GAP insurance intervention



Source: FCA

We have developed the evaluation approach, set out in this section, with reference to Figure 2.1.

Evidence suggests that firms have implemented the measures

The first stage in Figure 2.1 is to consider the evidence on how far firms have broadly complied with our intervention (process evaluation).

Evidence on compliance is important for supporting the causality in our analysis. But we need to be careful how we interpret any lack of evidence or widespread non-compliance:

1. No knowledge about compliance: If we had no information on compliance and our intervention appeared to have had no impact, it might be that nobody complied with our intervention. Our conclusion about the intervention's efficacy would then be based on an incomplete evidence base and could be wrong.
2. Evidence of widespread non-compliance: Our estimates may understate[13] the intervention's potential impact, which could have been greater if more firms had complied.

Our focus has been on establishing an evidence base on compliance so we can conclude whether there is widespread non-compliance. We do not need to know whether there is 100% compliance to draw valid conclusions.

For the GAP insurance measures, we have considered a range of evidence, including:

- transaction-level data from firms, capturing dates to understand the deferred opt-in measure's implementation
- consumer survey insights, capturing both measures (see Section 6)
- existing work and knowledge within the FCA's Supervision division
- informal engagement with firms and trade associations

Based on the available evidence, there does not appear to be widespread non-compliance with our intervention. We are confident that our findings are not influenced, at least to a material extent, by a lack of compliance.

We test our intervention against our expectations

To see how well our intervention has worked, we begin by testing outcomes against our pre-intervention expectations (see Table 2.1). These are based on Figure 2.1.

But this analysis would not isolate the impact of the intervention. This is because we need to assess how well our intervention has worked relative to what would have happened without it. This is our counterfactual. For many reasons, it can be hard to identify a counterfactual so we highlight these instances throughout the report. In these cases, we provide reasons why we cannot establish a counterfactual, and an analysis of how the market has changed over time (ie a non-causal analysis).

Having considered the effects above, we assess the benefits of our intervention and compare them to the costs.

There are many other ways to measure the impact of an intervention beyond expressing the costs and benefits in monetary terms. We base the pre-intervention expectations in Table 2.1 on a series of measurable metrics, such as sales volumes, prices, and consumers' survey responses.

These metrics are helpful in assessing our intervention's impact. But they should be considered with this market in mind. If, for example, consumers are shopping around more after our intervention, then this is likely to be a positive development. This does not mean that, to its extreme, we think that all consumers should shop around in this market (or any market). Throughout the report, we present our view of what has

13 It could overstate the intervention's impact if the analytical approach did not control for other market-wide changes that may have influenced, for example, add-on GAP insurance sales. We use econometric techniques to isolate the impact of the intervention from other changes. Hence, we do not consider that this is a likely outcome.

happened to these metrics. We do this to show whether observed changes after our intervention are, in our view, positive or negative outcomes.

Table 2.1 sets out these pre-intervention expectations. Each row in Table 2.1 sets out:

- a question that, when answered, will help understand the extent to which our intervention has worked
- our pre-intervention expectation, as informed by the CBA
- where, in this report, we present findings from our analysis to address the question

Table 2.1: Questions to answer and pre-intervention expectations to test

#	Question to answer	Pre-intervention expectation	Report section where we present findings
1	Has the share of add-on GAP insurance sales to total GAP insurance sales decreased?	For a given number of GAP insurance sales (which was based on the total number of car sales), the share of add-on GAP insurance sales to total GAP insurance sales falls. This means that the share of standalone GAP insurance sales increases.	4
2	Has the share of add-on GAP insurance sales to car sales decreased?	Our pre-intervention CBA assumed, implicitly, that car sales would remain constant. Our intervention reduces add-on GAP insurance sales (all other things being equal). It does this in two ways: • some people choose not to buy the product • some people switch to standalone GAP insurance[14] Hence, the share of add-on GAP insurance sales to car sales falls.	4
3	What has happened to add-on and standalone GAP insurance prices?	The price of add-on GAP insurance either: • does not change, or • falls[15] because of lower demand after our intervention, partly due to increased competition from the standalone market[16] We set no pre-intervention expectation about the price of standalone GAP insurance. Hence, it stays the same.	5
4	What has happened to the average[17] GAP insurance market price?	This depends on what has happened to: • the share of sales between add-on and standalone GAP insurance • prices in the individual segments Based on pre-intervention expectations 1-3, the average market price falls.	5

14 There were 600,000 add-on GAP insurance sales a year in our pre-intervention CBA. We estimated that: i) 10% (60,000) sales would be lost due to add-on consumers no longer buying GAP insurance at all; and ii) 22.5% (135,000) add-on sales would move to the standalone market (under the 'no price change' scenario). Hence, we estimated that 32.5% of add-on GAP insurance sales would no longer take place owing to our intervention.

15 Our pre-intervention CBA set out two scenarios for add-on GAP insurance prices: i) no price change; and ii) a fall in price of 16.7%.

16 Even if there are factors such as adverse selection that might lead to, on average, riskier purchasers buying the product following our intervention.

17 In this report, we use the mean as our average measure unless we state otherwise.

5	What has happened to consumers' likelihood of shopping around?	More people shop around (our pre-intervention CBA estimated this at around 25% of add-on GAP insurance consumers). As a result, more people buy the cheaper standalone GAP insurance.	6
6	What has happened to consumer engagement and awareness of GAP insurance after our intervention?	Consumers are more aware of the product and engage more with the purchasing process than they did before.[18]	6
7	What has happened to consumer understanding of the add-on GAP insurance product?	This was not explicit in the pre-intervention CBA. But it is a matter of interest for the post-intervention analysis. Add-on GAP insurance consumers understand the product better than before. Product understanding no longer differs materially between add-on and standalone GAP insurance consumers.	6
8	What has happened to consumer surplus after our intervention?	Consumer surplus[19] increases after our intervention, relative to a 'no intervention' scenario. In the pre-intervention CBA, we estimated this to be in the region of £31 million to £54 million a year.	7
9	What has happened to the average add-on GAP insurance claims ratio?	This was not explicit in the pre-intervention CBA. But it is a matter of interest for the post-intervention analysis. The add-on GAP insurance claims ratio increases. This assumes that, all other things being equal, add-on GAP insurance prices have fallen.	7
10	What were the costs of complying with the intervention?	Our pre-intervention CBA estimated the one-off compliance costs to be between £2 million and £5 million. This was revised upwards after consultation to fall between £5 million and £20 million, with minimal ongoing compliance costs. One-off compliance costs are in line with this revised figure. Ongoing compliance costs are minimal.	7

Source: FCA

We use various methods and data to test these pre-intervention expectations

The rest of this section sets out the different methods and data used to test the pre-intervention expectations in Table 2.1.

Table 2.2 summarises the analytical methods we used for each pre-intervention expectation (ticks indicate method used). We also use qualitative insights from stakeholder (eg firms, trade bodies) engagement across most of the pre-intervention expectations. This helps us understand the impact of our intervention from firms' perspective and provides a valuable sense-check of our data analysis.

18 In our pre-intervention CBA, we considered that around 30% of add-on GAP insurance consumers who did not shop around pre-intervention would do so post-intervention (based on their answers to a consumer survey).

19 Consumer surplus is an economic measure of consumer benefit. It is the difference between the highest price that a consumer is willing to pay and the price set by a firm for a good or service.

Table 2.2: How we address each pre-intervention expectation

Pre-intervention expectation #	a) Descriptive statistics	b) Econometric analysis of firms' data	c) Consumer survey insights
1	✓	✓	
2	✓	✓	
3	✓	✓	
4	✓	✓	
5			✓
6			✓
7			✓
8	✓		
9	✓		
10	✓		

Source: FCA

We explain these methods in further detail below.

a) Descriptive statistics

Descriptive statistics provide context on what has happened in the market. They set out overall trends and changes after our intervention. We can, therefore, see whether our intervention is *associated* with changes in the market.

We collected GAP insurance transaction-level data from 41 firms (underwriters[20] and distributors[21]) operating in the GAP insurance market.[22] These data covered the period between September 2013 and August 2017 (ie two years either side of the intervention date).

We also requested data on complete wheel protection (CWP) from firms selling[23] GAP insurance. CWP is an add-on product that covers tyre and alloy wheel repair costs. We did this to help build our counterfactual.

Our Technical Annex sets out further details about the data that we collected from firms and how we have used them.

We summarise these data using summary statistics, charts, and tables throughout the report. When doing this, we present any currency-based data (eg prices, economic variables such as income) following an adjustment for inflation (ie in real terms).[24]

20 Underwriters take on the insurance risk and meet the obligations of paying out if a consumer makes a successful GAP insurance claim.

21 Distributors provide GAP insurance either directly to consumers (ie standalone) or to the final retail seller (eg a vehicle dealership).

22 We did not request data from vehicle dealers, but we know which dealers sold GAP insurance in our data. The Technical Annex outlines our approach in further detail.

23 Firms distributing or underwriting CWP policies.

24 When diagnosing how changes in price levels affect the consumption of a product or service, it is common practice to strip out the effects of general inflation and express price changes in 'real terms'. That is, changes in

b) Econometric analysis of firms' data

Econometric analysis helps us diagnose whether there is evidence that our intervention has led to changes in the market.

We use a specific type of regression model to help identify our intervention's causal impact on sales and prices. A difference-in-difference ('DiD') model compares how trends in outcomes change between 'treated' (ie affected by an intervention) and 'untreated' (ie unaffected by an intervention) groups over a period relevant to the intervention. Unobserved factors might affect the outcome. But, if they do not affect trends in the outcome, then the trends for both groups in the absence of a policy will be the same. It is a well-known, often-used econometric approach when evaluating policy interventions.[25]

We use CWP as our untreated product to compare to add-on GAP insurance, which is the treated product. CWP was not affected by our intervention (see further explanation in the Technical Annex).

c) Insights from consumer surveys

The results from consumer surveys help us to understand why we see the outcomes from the analytical approaches set out in a) and b).

We build on answers to GAP insurance-specific questions in our 2017 Financial Lives Survey by presenting findings from a consumer survey that we commissioned as part of this evaluation. The survey focused on consumers' experience of our intervention and the extent to which it affected behaviours and outcomes in line with the intervention's objectives.

PwC Research conducted the survey of 1,000 consumers in February 2018. Details of the survey are summarised in Section 6 and presented in full in Annex 2.

prices over and above the general effects of inflation. We present these figures in April 2018 prices, unless stated otherwise. By doing this, the data may appear to be different to other publications. The difference is due our real terms adjustment.

25 'Untreated' is also called 'control'. Examples of DiD approaches include: Ashenfelter & Card, 1985, Using the Longitudinal Structure of Earnings to Estimate the Effect of Training Programs; Meyer, Viscusi & Durbin, 1990, Workers' Compensation and Injury Duration: Evidence from a Natural Experiment; and Card, 1994, Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania.

3 Results: Market context analysis

Section summary

Our analysis shows that the various factors that might influence GAP insurance sales – household disposable income, access to finance and new vehicle sales – have all moved in such a way that we would expect GAP insurance demand to have increased. Access to finance is most likely to have had the most significant impact on demand.

This section sets out the wider context to the GAP insurance market. We provide an overview of the market's demand drivers, describe the recent trends of these drivers, and discuss what impact they are likely to have had on GAP insurance demand.

The main drivers of GAP insurance demand

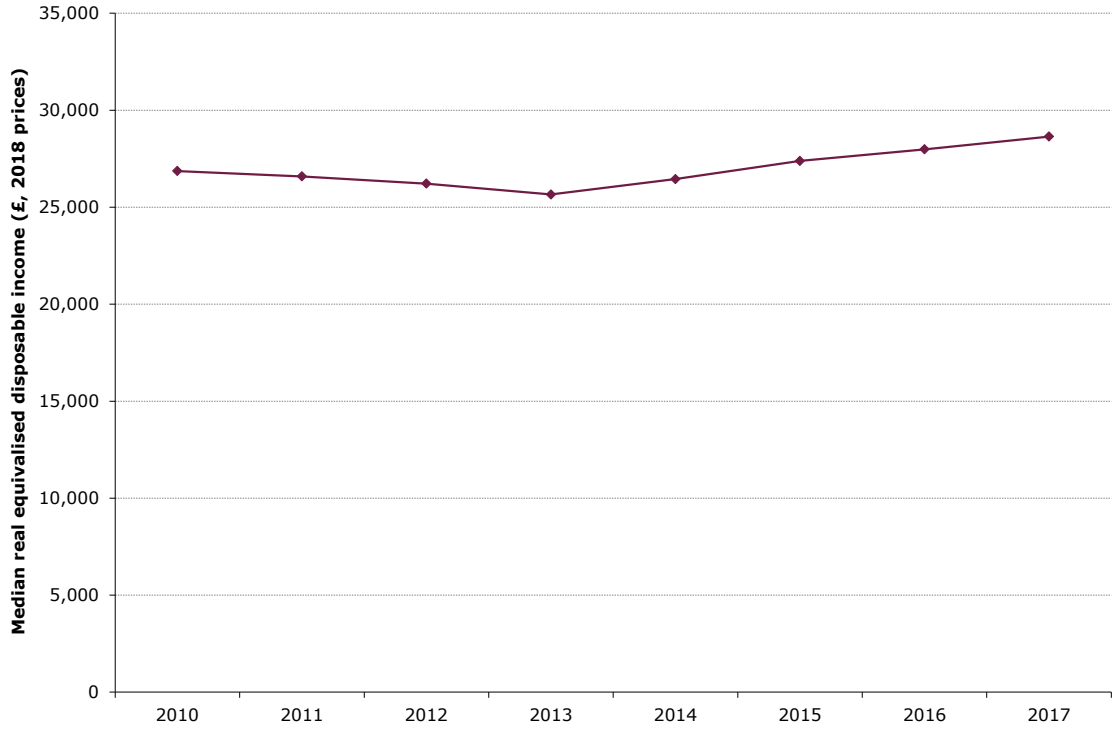
Vehicle ownership is the main demand driver for GAP insurance. In turn, vehicle purchases depend upon consumers' ability to afford a vehicle, due to their disposable income and access to finance among other things.

Household disposable income and access to finance

Figure 3.1 shows that median disposable household income increased over the period before and after our intervention. This was a total increase of around 12% from 2013 to 2017 (£25,700 to £28,600). This might lead to a rise in demand for vehicles[26], as consumers have more money to afford them.

26 Assuming vehicle prices have not increased by proportionately more than incomes.

Figure 3.1: Median real household disposable income

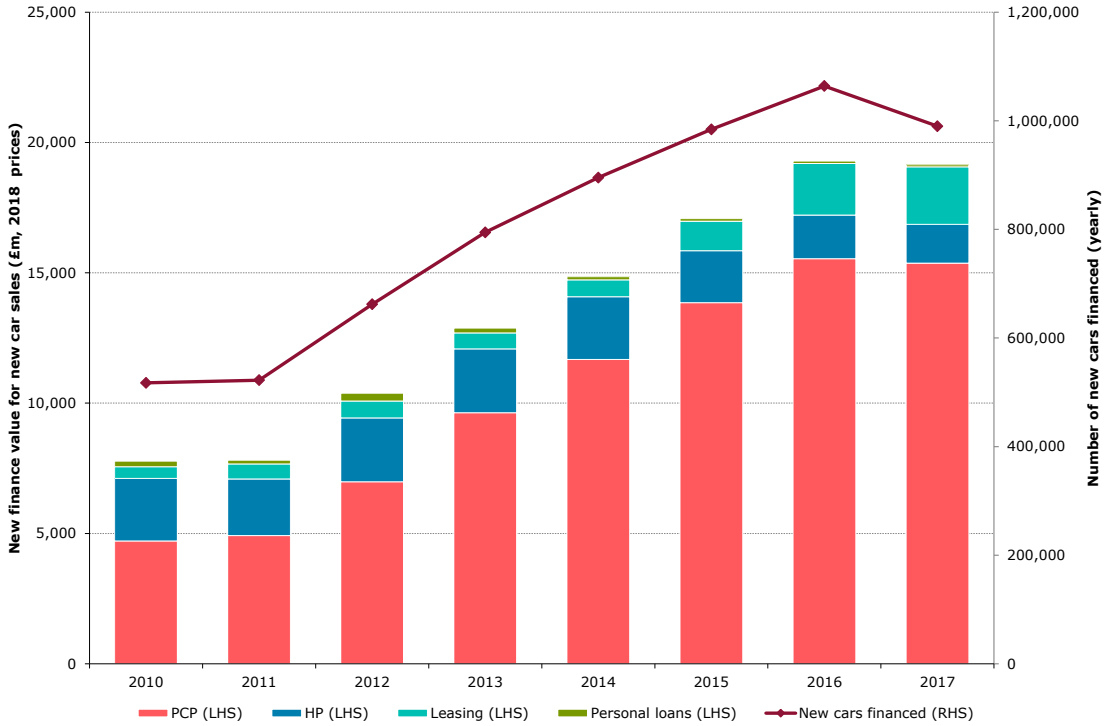


Source: Office for National Statistics (ONS) data, FCA analysis

The new car[27] finance market has more than doubled during the past 7 years. The value of point-of-sale new car finance increased from £7.8 billion in 2010 to £19.1 billion in 2017 (Figure 3.2). Over the same period, the number of new cars bought using point-of-sale finance almost doubled from 517,000 to 990,000 a year. Many firms thought that increasing access to car finance has significantly increased car sales and GAP insurance sales in recent years.

27 Throughout the report, we focus our analysis, where possible, on vehicle sales. We do this because GAP insurance can be purchased on a range of vehicle types, not just cars. However, finance data are only available on car sales. We therefore analyse financing against car sales. We note that vehicle and car sales trends track extremely closely.

Figure 3.2: New point-of-sale finance by product

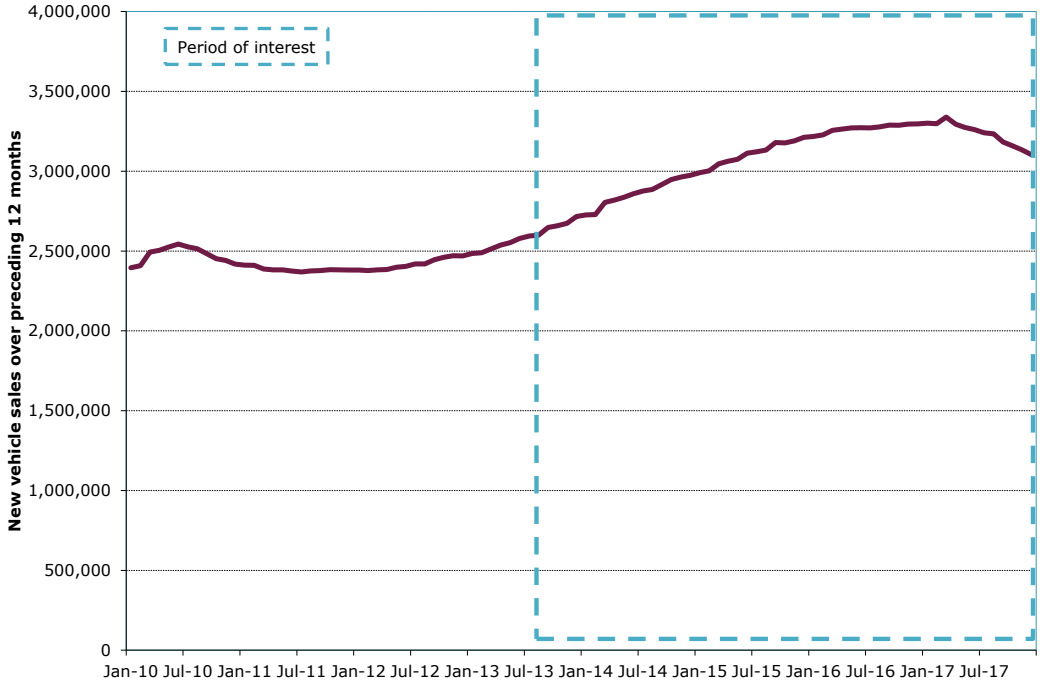


Source: ONS data, Finance & Leasing Association data, FCA analysis
Note: PCP refers to personal contract purchase; HP refers to hire purchase.

Vehicle sales have increased since our intervention

Figure 3.3 shows that new vehicles sales grew, on average, by around 5% a year between 2010 and 2016, and fell by nearly 6% between 2016 and 2017.

Figure 3.3: Yearly new vehicle sales



Source: Driver and Vehicle Licensing Agency (DVLA) data, FCA analysis

Consumers' ability and willingness to pay for GAP insurance

Figure 3.1 and Figure 3.2, respectively, show that:

- disposable household income has increased
- consumers' ability to buy a vehicle (and, by implication, GAP insurance at point-of-sale) on finance has increased significantly

These factors together increase consumers' ability to afford and need to buy GAP insurance. Higher income may, however, reduce GAP insurance demand through an increased ability to self-insure. That said, given the relatively small income increase, we expect that this impact is limited. We do not expect that it is large enough to outweigh any GAP insurance demand increases caused by consumers having more income.

Table 3.1 sets out factors affecting consumers' willingness to pay for GAP insurance.

Table 3.1: Consumers' willingness to pay for GAP insurance

Factors affecting consumers' willingness to pay	Available evidence and likely impact on GAP insurance sales through impact on consumers' willingness to pay
The likelihood of the vehicle being written off or stolen	We have no evidence to suggest that this has changed in recent years.
Whether the vehicle is new/high value and the vehicle's depreciation[28] rate	New vehicles, typically, face the fastest depreciation rates. The depreciation rate slows as the vehicle ages. So, GAP insurance is most valuable to those buying new vehicles. Figure 3.3 shows that new vehicle sales have increased in recent times (though it slowed in 2017). Hence, we expect consumers' willingness to pay for GAP insurance to have increased overall.
The amount and form of financing taken	Figure 3.2 shows that: • buying vehicles on finance has increased significantly in recent years • the growth has been driven, almost entirely, by personal contract purchase (PCP) agreements[29] PCPs are typically designed to minimise consumers' vehicle loan repayments during the term of the loan agreement. This leaves a 'balloon payment' at the agreement's end (ie a large sum of money owed on a consumer's finance agreement when new vehicles depreciate the fastest). As such, we expect PCP's high share of finance to increase consumers' benefits from holding GAP insurance further, and, therefore, increase their willingness to pay for it.
Consumers' aversion to risk[30]	We have no evidence to suggest that this has changed in recent years.

Source: FCA analysis

28 Depreciation captures the vehicle's loss in value due to general ageing and 'wear and tear'. It is the difference between a vehicle's value when it is bought and when it is sold.

29 PCP is a form of finance where, at the end of an agreed term, the consumer has the option to buy the car at a predetermined value or return it.

30 This is a function of loss aversion. This is when people strongly prefer to avoid losses than receive gains because of hard-wired emotions (fear of losses). The degree of loss aversion varies across people and situations. It can lead to distorted attitudes to risk (eg to avoid risk from the fear of loss, consumers may pay for 'peace of mind', even if the negative outcome has a very low probability).

GAP insurance demand drivers indicate that total sales would likely have increased without our intervention

Table 3.2 summarises the changes to the market-level demand drivers (direct and indirect) of GAP insurance.

We expect that these factors would have increased consumers' demand for GAP insurance without our intervention. We expect that this would have raised total GAP insurance sales and/or prices over the evaluation period.

This informs our wider analysis of our intervention's impact. We could, potentially, misinterpret its true impact if we do not control for these underlying market changes (in particular, the significant increase in consumers' access to finance and the type of finance that they are using). This is why we use econometric analysis to complement other methods (as set out in Section 2).

Table 3.2: Changes to the demand drivers for GAP insurance

Demand driver	Impact on demand
Household disposable income	✓ Marginal increase
Access to finance	✓✓ Significant increase
New vehicle sales	✓ Marginal increase

Source: FCA analysis

4 Results: Sales analysis

Section summary

Add-on GAP insurance sales are 16% to 23% lower because of our intervention.

Competition between add-on and standalone GAP insurance markets, as measured by standalone's share of total sales, has improved, albeit only marginally.

This section summarises our analysis of how GAP insurance sales (total, add-on and standalone) have changed after our intervention. First, we set out our pre-intervention expectations for GAP insurance sales. Next, we present evidence on how total, add-on and standalone GAP insurance sales trends have changed after our intervention. We conclude with our analysis of what would have happened to add-on GAP insurance sales had we not intervened.

We expected total GAP insurance sales to increase

Table 2.1 gives an overview of our pre-intervention expectations. Table 4.1 sets out further details of our sales-based pre-intervention expectations.

Table 4.1: Our pre-intervention expectations for GAP insurance sales

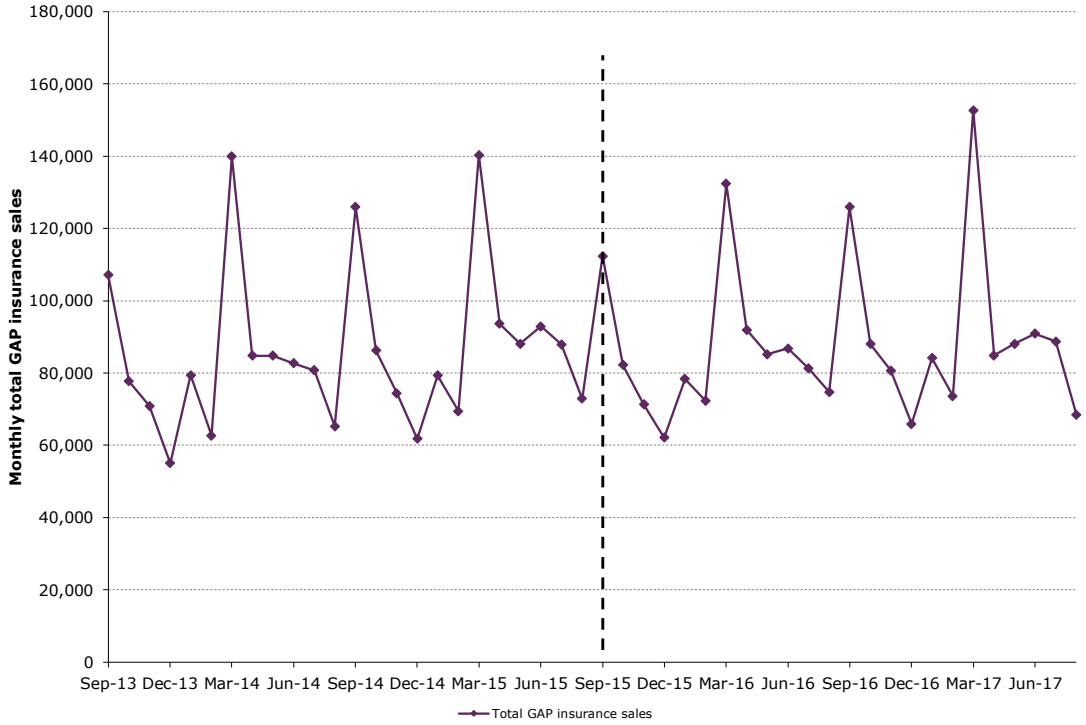
Metric	Pre-intervention expectation
Total GAP insurance sales	Increase by between 12.5% (no add-on price change scenario) to 35% (add-on price fall scenario).
Add-on GAP insurance sales	Fall by 32.5% (no add-on price change scenario). This is the sum of: • 22.5% of sales moving to the standalone GAP insurance market • 10% of sales lost (ie consumers no longer buy GAP insurance) Fall by 10% in the add-on price fall scenario.
Add-on GAP insurance sales share of total GAP insurance sales	Make up 60% (no add-on price change scenario) to 67% (add-on price fall scenario) of the total GAP insurance market.
Standalone GAP insurance sales share of total GAP insurance sales	Make up 33% (add-on price fall scenario) to 40% (no add-on price change scenario) of the total GAP insurance market.

Source: CP14/29

Total GAP insurance sales after our intervention

Figure 4.1 shows that total GAP insurance sales have been relatively constant after our intervention.[31] Total GAP insurance sales fell from just under 1.1 million a year[32] before our intervention to just over 1.0 million a year[33] after our intervention. This is a fall of around 4%. Total GAP insurance sales returned to just under 1.1 million a year in the 12 months leading up to August 2017.

Figure 4.1: Monthly total GAP insurance sales



Source: FCA analysis of firms' GAP insurance transaction data

Total GAP insurance sales as a percentage of vehicle sales

Figure 4.2 shows the monthly total GAP insurance penetration rate (ie GAP insurance sales as a percentage of total new vehicle sales).[34] After our intervention, the GAP insurance penetration rate (total and add-on) appears to dip noticeably in the months when new vehicle registration plates are released (March and September). Given what we know about vehicle sales (Figure 3.3), it looks like GAP insurance sales, in these months, have been unable to keep up.

Table 4.2 summarises the monthly movements by taking the average across 12-month intervals before and after our intervention.

31 GAP insurance sales display seasonal sales patterns. Sales spike in March and September in line with new vehicle sales. This spike occurs in the months that the latest number plate variations are released.

32 Total of GAP insurance sales in the 12 months before our intervention.

33 Total of GAP insurance sales in the 12 months after our intervention.

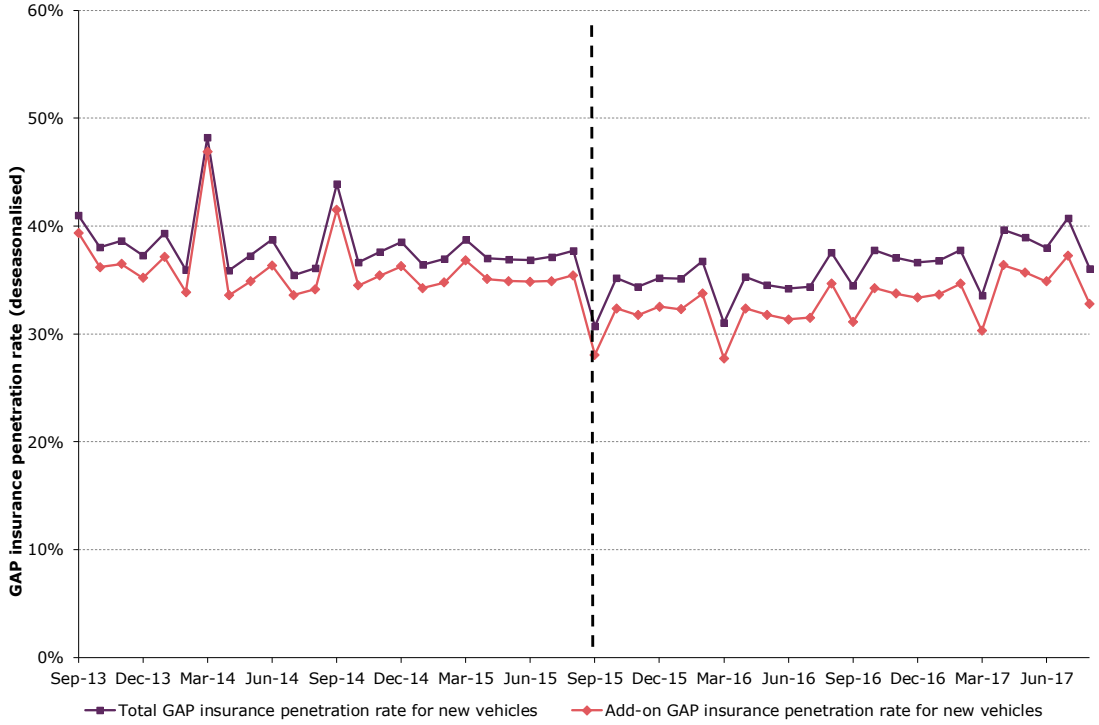
34 The penetration rate measures the proportion of total GAP insurance sales (both for new and used vehicle sales) relative to the number of total new vehicle registrations. Used vehicle sales data were not available for the full period (September 2013 to August 2017). The trends in the chart were similar to those for new car sales only, which, on average, made up 81% of all new vehicle registrations over the period.

Based on Table 4.2, we see that:

- The total GAP insurance penetration rate fell after our intervention. This was due to a small fall in total GAP insurance sales, as well as higher car sales (Figure 4.2). It has recovered subsequently. This has happened due to a small increase in total GAP insurance sales, as well as a slight drop in vehicle sales.
- The add-on GAP insurance penetration rate, similarly, fell after intervention. Although it has recovered since then, it has not returned to its pre-intervention level.

The lower add-on GAP insurance penetration rate is consistent with our expectation in Table 2.1.

Figure 4.2: Seasonally-adjusted monthly total and add-on GAP insurance sales penetration rate[35]



Source: FCA analysis of firms' GAP insurance transaction data and DVLA vehicle registration data

Table 4.2: Average GAP insurance penetration rates

GAP insurance market	12 months before intervention (September 2014 – August 2015)	12 months after intervention (September 2015 – August 2016)	12 months to August 2017 (September 2016 – August 2017)
Total	38%	35%	37%
Add-on	36%	32%	34%

Source: FCA analysis of firms' GAP insurance transaction data and DVLA vehicle registration data

35 We adjust the monthly data to remove sales' seasonality (eg the sales spikes in March and September).

Standalone GAP insurance sales after our intervention

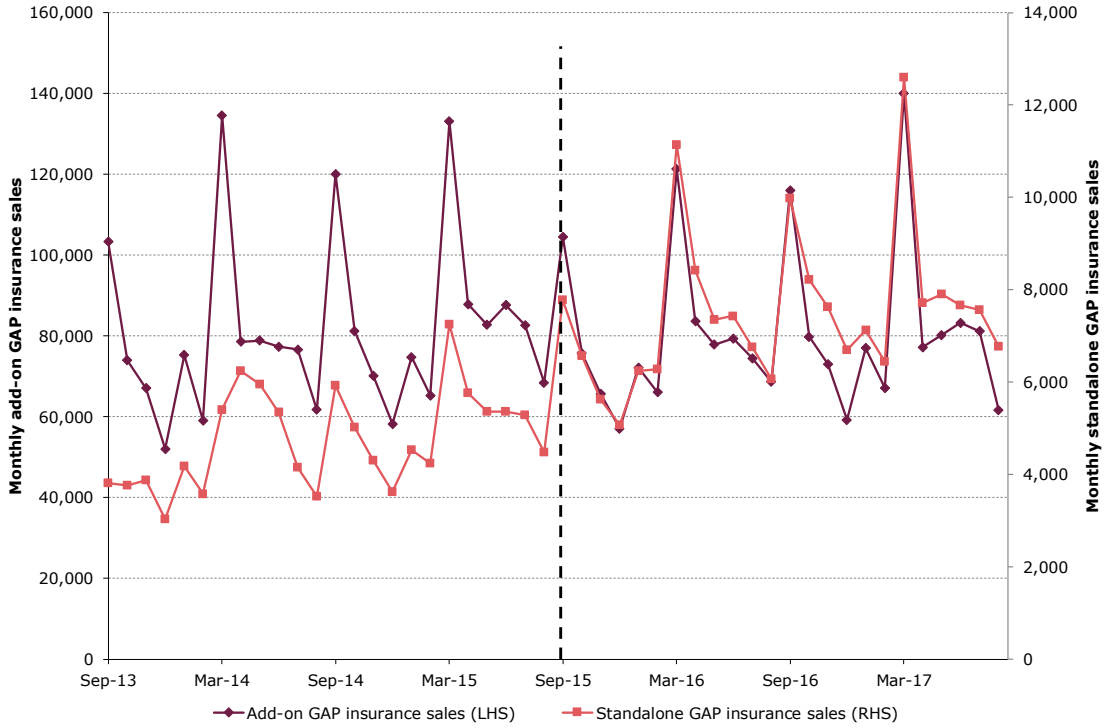
Although total GAP insurance sales have been constant, the trends in add-on and standalone GAP insurance sales have differed after our intervention.

Figure 4.3 shows monthly add-on and standalone GAP insurance sales figures. Table 4.3 presents the annual data before and after our intervention.

Table 4.3 highlights that post-intervention add-on GAP insurance sales are similar to those pre-intervention. Add-on GAP insurance sales fell, initially, by around 6%. They have recovered to be 2% lower than before our intervention. Our analysis and discussions with firms suggest that this is not due to our intervention causing firms not to offer add-on GAP insurance. Figure 4.3 shows that add-on GAP insurance sales display the same monthly fluctuations across the pre- and post-intervention periods, with spikes in March and September.

Standalone GAP insurance sales have increased significantly after our intervention, starting from a relatively low base. Hence, the percentage changes in Table 4.3 are relatively large. Figure 4.3 shows that standalone GAP insurance sales have developed a seasonal sales pattern similar to add-on GAP insurance sales after our intervention. There was no clear seasonality for standalone GAP insurance sales before our intervention.

Figure 4.3: Monthly standalone and add-on GAP insurance sales



Source: FCA analysis of GAP insurance transaction data provided by firms

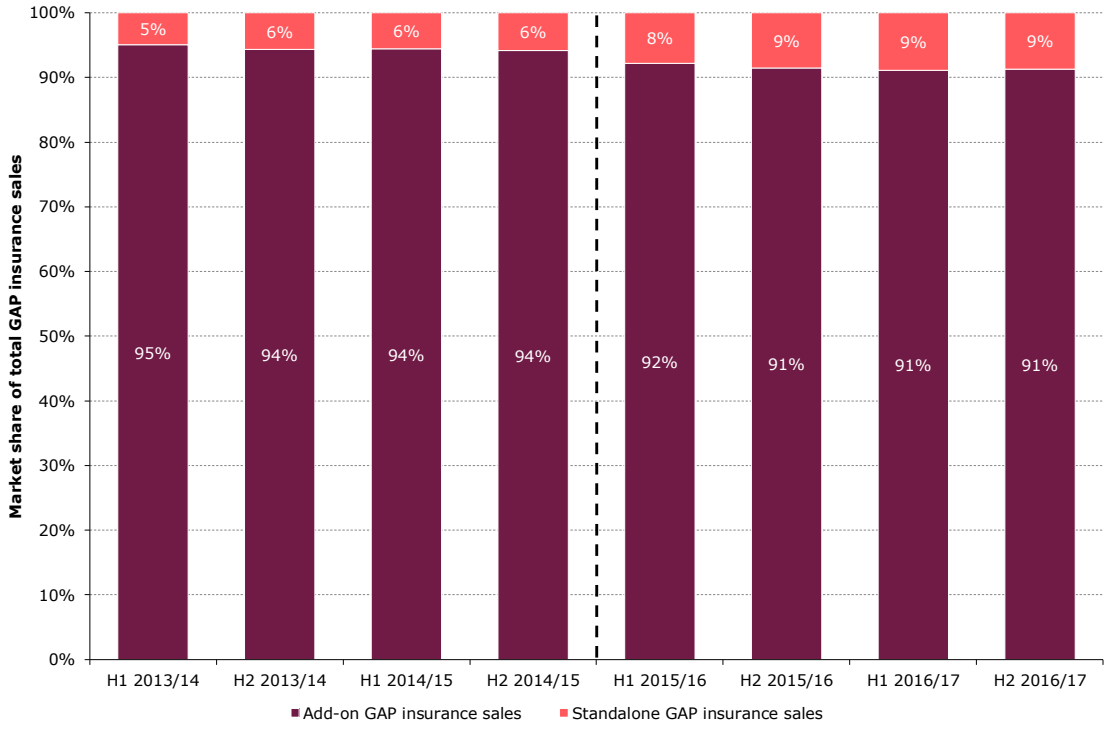
Table 4.3: GAP insurance sales volumes

GAP insurance market	12 months before intervention (September 2014 – August 2015)	12 months after intervention (September 2015 – August 2016)	12 months to August 2017 (September 2016 – August 2017)
Add-on	1,012,000	946,000 (-6%)	996,000 (-2%)
Standalone	61,000	85,000 (39%)	96,000 (57%)

Source: FCA analysis of GAP insurance transaction data provided by firms
Note: Figures rounded to the nearest thousand; percentage changes are relative to the pre-intervention sales figures.

Figure 4.4 shows the split of half-yearly total GAP insurance sales between add-on and standalone sellers. It shows that standalone's share of total sales has increased from around 6% in the 2 years before our intervention to around 9% in the 2 years after. Higher standalone GAP insurance sales (absolute and as a percentage of total GAP insurance sales) explain the difference in total and add-on GAP insurance penetration rates in Figure 4.2.

Figure 4.4: Half-yearly shares of standalone and add-on GAP insurance sales as a proportion of total GAP insurance sales



Source: FCA analysis of GAP insurance transaction data provided by firms

Our intervention's impact on add-on sales

We use econometric analysis to estimate our intervention's causal impact

Econometric analysis isolates our intervention's impact from other factors[36] that may have also influenced add-on GAP insurance sales. Full details of our analysis are available in the Technical Annex. Our analysis shows that sales of add-on GAP insurance and CWP followed similar trends before our intervention. We use this to assume that add-on GAP insurance sales would have followed a similar trend to CWP sales had we not intervened. The intervention's impact is the difference between our estimate of what would have happened had we not intervened and what actually happened.

Add-on GAP insurance sales are 16% to 23% lower than they would have been without our intervention

Table 4.4 summarises the results of our econometric analysis. We estimate that add-on GAP insurance sales are between 16% and 23% lower due to our intervention.[37] Our pre-intervention expectation was that, all other things being equal, add-on GAP insurance sales would fall by between 10% and 32.5%.

Table 4.4: Our intervention's estimated impact on add-on GAP insurance sales[38]

Estimate	Estimated impact on add-on GAP insurance sales	Pre-intervention estimated impact on add-on GAP insurance sales
Lower bound estimate	-16%	-10% to -32.5%
Central estimate	-19%	
Upper bound estimate	-23%	

Source: FCA analysis of transaction data provided by firms; CP14/29

The results also indicate that, all else being equal, the add-on share of total GAP insurance sales would have been higher had we not intervened. We are unable to estimate by how much because some of these add-on GAP insurance sales could have been:

- substituted to the standalone GAP insurance market
- lost altogether (ie consumers choose not to buy GAP insurance)

We do not know the precise split between these two groups.

Consumer switching to the standalone market

Table 4.3 suggests that the substitution effect from add-on to standalone GAP insurance sales has been small.

36 These factors may be observable (eg changes in car sales) or unobservable (eg consumer risk preferences or dealers' commercial incentives).

37 The econometric analysis estimates a statistically significant point estimate of a 19% reduction in add-on GAP insurance sales relative to the comparator product CWP. The range quoted is the 95% confidence interval around this point estimate.

38 See Technical Annex for details of how we test our econometric analysis. Overall, these checks indicate that the size and direction of our intervention's estimated impact are stable and statistically robust.

Even if all the increase in standalone GAP insurance sales is due to substitution alone, this would account for only 8% to 13% of the estimated fall in add-on GAP insurance sales. This is much lower than the fall in add-on GAP insurance sales that we estimated would move to the standalone market as part of our pre-intervention CBA (ie 70%, which is 22.5% divided by 32.5% in Table 4.1).

Our range of 8% to 13% is likely to be the upper threshold. This is because some standalone GAP insurance sales may have been to consumers new to the market (ie consumers that did not move over from the add-on GAP insurance market).

Add-on GAP insurance sales that did not happen due to our intervention

The results indicate that our intervention had a notable effect on add-on GAP insurance sales. This appears to be due to consumers not buying GAP insurance at all, rather than, as we had expected, buying standalone GAP insurance instead. Figure 4.2 shows that the GAP insurance sales penetration rate dipped in the months where vehicle sales are normally highest. This also suggests that our intervention may have reduced GAP insurance sales that might otherwise have happened.

The analysis does not capture which of the intervention's policy measures had the greater relative impact (see Section 6).

We estimate that add-on GAP insurance sales are 16% to 23% lower due to our intervention. This causal impact is likely to have affected the following consumer groups:

1. Consumers for whom buying GAP insurance is an unsuitable product choice: our intervention has caused these people not to buy add-on GAP insurance
2. Consumers for whom buying add-on GAP insurance is an unsuitable purchase, but buying standalone GAP insurance is a more appropriate choice: our intervention, it appears, caused only a relatively small number of these people to buy standalone GAP insurance
3. Consumers for whom buying add-on GAP insurance is an appropriate product purchase: we felt, before intervening, that there were very few of these people in the market. But, our intervention may have caused this group of people not to buy something that they valued correctly. Although it might appear that add-on GAP insurance is never a suitable purchase (eg because it can be bought elsewhere for a much cheaper price), it might be appropriate for consumers who value:
   - convenience
   - not searching for a standalone policy
   - the peace of mind in knowing that they are covered
   - being able to buy GAP insurance in person (rather than on the phone or online)

The largest positive impact of our intervention happens if the causal impact is predominantly among the first consumer group. In contrast, the most negative impact of our intervention occurs if the causal impact is among the third consumer group. We do not know precisely how our estimated causal impact is distributed across the 3 consumer groups.

However, our market study's findings, and our basis for intervening in the first place, lead us to think that our impact has been, predominantly, among the first 2 consumer groups. Before intervening, we thought that many consumers who bought this product

did not need it. For example, we found that 59% of people who bought add-on GAP insurance had not considered buying it before the day of purchase. That is not to say that all these consumers did not value the product and/or truly needed it. But we believed that many were buying a product that they did not need.

As a result, we consider that our causal impact on sales is, overall, a positive outcome of our intervention.

Summary of GAP insurance sales analysis

We summarise the findings of our GAP insurance sales analysis in Table 4.5.

Table 4.5: Summary results from our analysis of GAP insurance sales

Outcome	Pre-intervention expectation	Observed outcome after our intervention	Estimated causal impact of our intervention
Percentage change to total GAP insurance sales	+12.5% to +35%	-4%	N/A
Percentage change to add-on GAP insurance sales	-10% to -32.5%	-2% to -6%	-16% to -23%
Add-on GAP insurance sales as a share of all GAP insurance sales	60% to 67%	92% (94% before intervention)	N/A
Standalone GAP insurance sales as a share of all GAP insurance sales	33% to 40%	8% (6% before intervention)	N/A

Source: FCA

5 Results: Price analysis

Section summary

Average add-on GAP insurance prices have continued to increase after our intervention, although they would have been even higher without it.

Average standalone GAP insurance prices fell by 5% after our intervention.

The price difference between average add-on and standalone GAP insurance prices, therefore, has increased after our intervention.

This section summarises our analysis of how GAP insurance prices[39] (total, add-on and standalone) have changed after our intervention. First, we do so by setting out details of our pre-intervention expectations for GAP insurance prices. Next, we present evidence on how total, add-on and standalone GAP insurance price trends have changed after our intervention. We conclude with our analysis of what would have happened to add-on GAP insurance prices had we not intervened.

Before intervening, we expected lower average GAP insurance prices if add-on prices fell

Table 2.1 gives an overview of our pre-intervention expectations. Table 5.1 shows sets out details of our pre-intervention expectations for GAP insurance prices.

Table 5.1: Our pre-intervention expectations for average GAP insurance prices

Metric	Pre-intervention expectation
Average add-on GAP insurance prices	Scenario 1: No price change Scenario 2: Price falls by 17%
Average standalone GAP insurance prices	No price change

Source: FCA CP14/29

Average overall GAP insurance retail prices show little change after our intervention

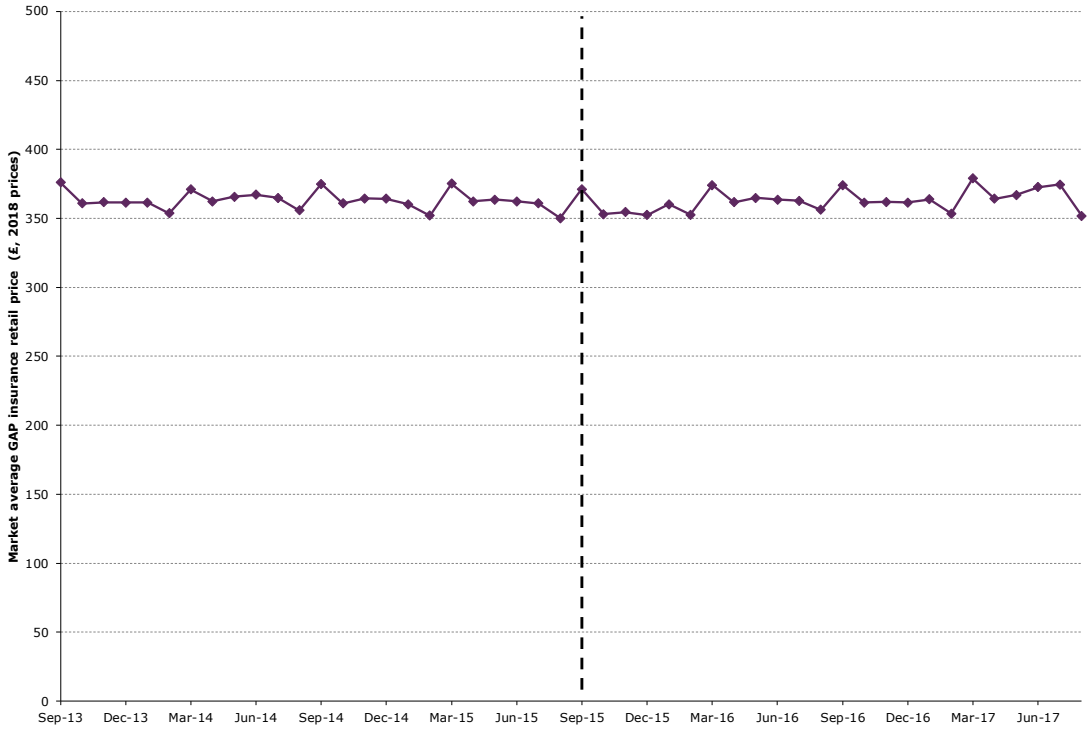
Based on the analysis in Section 3 and the rationale set out at the beginning of Section 4, we expect GAP insurance prices to be higher after our intervention. The increase in disposable income and access to finance suggest that, all else being equal, consumers would be willing to pay more for GAP insurance. We expect that this would lead to higher average GAP insurance prices.

39 We focus on the final price charged to the consumer (including tax), which we call the 'retail price'.

Figure 5.1 shows that the average GAP insurance price has increased by a small amount, in real terms, after our intervention. The average price remained almost unchanged between the 12 months before and after our intervention. It decreased from £363 to £362 in real terms.[40] The average price then increased to £367 for the 12 months ending August 2017 (also in real terms).

To understand why this might have happened, the rest of this section considers what has happened to average prices in the add-on and standalone markets, and other factors that might influence GAP insurance prices.

Figure 5.1: Monthly market average GAP insurance retail price



Source: FCA analysis of GAP insurance transaction data provided by firms

Add-on and standalone prices show diverging trends

Section 3 suggests that there has been a large impact on add-on, rather than standalone, GAP insurance prices. This is because consumers are buying more vehicles on finance, thereby reducing consumers' financial constraints at the point of buying the vehicle. This, in turn, might have increased consumers' ability to pay for add-on GAP insurance. As such, we also look at average price changes between the different markets (ie add-on and standalone).

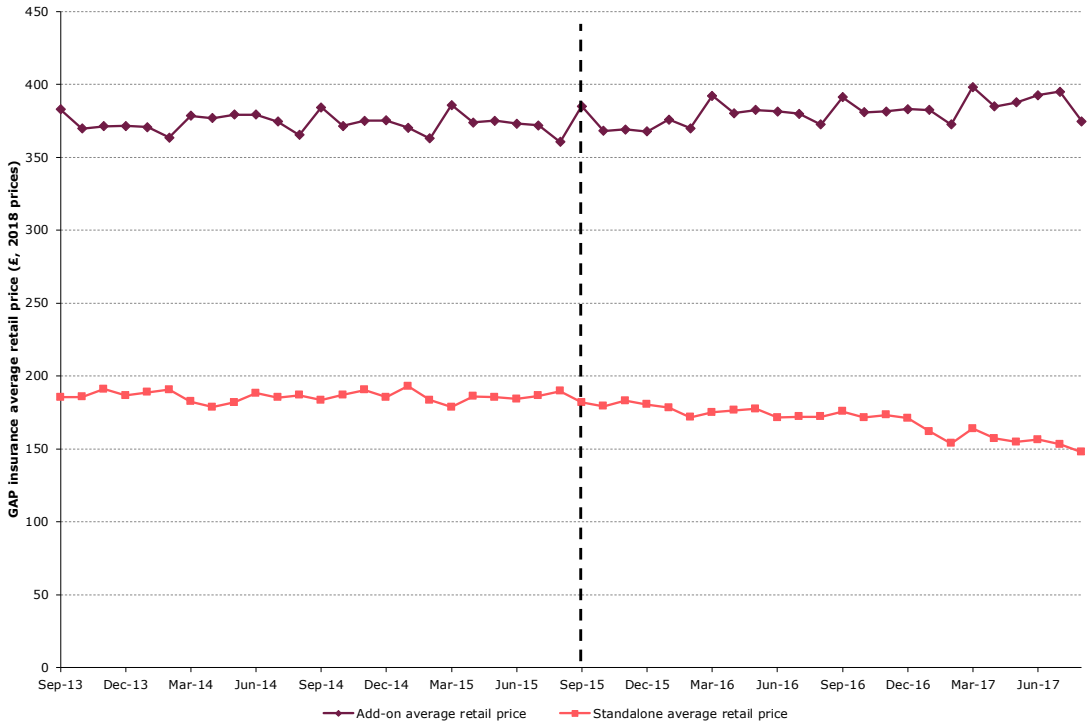
Figure 5.2 shows the monthly average add-on and standalone GAP insurance price. Table 5.2 summarises the monthly movements by taking the average across 12-month intervals before and after our intervention.

40 All 12-month prices are weighted averages. We calculate this as the average price for each month multiplied by the number of policies sold in that month, which is then divided by the total number of policies sold in the 12-month period.

The data highlight that average add-on and standalone GAP insurance prices diverged after our intervention. This has happened to such an extent that the average add-on GAP insurance price is, now, almost two and a half times the average standalone GAP insurance price. The average standalone GAP insurance price fell despite Insurance Premium Tax (IPT) rates increasing for standalone sellers over the period.[41]

These average price changes are contrary to our pre-intervention expectations (Table 2.1 and Table 5.1). We consider why this has happened in the rest of this section.

Figure 5.2: Monthly average GAP insurance retail price by market segment



Source: FCA analysis of GAP insurance transaction data provided by firms

41 Standalone GAP insurance sellers face the standard rate of IPT. This increased from 6% to 9.5% on 1 November 2015, then to 10% on 1 October 2016, and, finally, to 12% on 1 June 2017. Add-on GAP insurance sellers also face the lower rate of IPT when the GAP insurance product is directly and solely related to a finance contract. For other types of GAP insurance, add-on sellers face the higher rate of IPT, which has been 20% since 4 January 2011. IPT is expressed as an additional percentage to the retail selling price (excluding tax). See HMRC's guidance.

Table 5.2: Average GAP insurance price (segment and price difference), 2018 prices[42]

Metric	12 months before intervention (September 2014 – August 2015)	12 months after intervention (September 2015 – August 2016, % change to pre-intervention figure)	12 months to August 2017 (September 2016 – August 2017, % change to pre-intervention figure)
Add-on	£375	£379 (+1%)	£387 (+3%)
Standalone	£186	£176 (-5%)	£162 (-13%)
Add-on and standalone price difference	£189	£202 (+7%)	£225 (+19%)

Source: FCA analysis of GAP insurance transaction data provided by firms

Changes to policy coverage

One possible reason behind the different add-on and standalone GAP insurance average price trends could be changes in the policy coverage offered, and sold, by firms.

We see changes in policy coverage in our data that could explain part of what we see. Table 5.3 presents changes in average policy coverage in the 12 months before and after our intervention.[43] However, these changes do not appear large enough to explain the full extent of the price changes in Figure 5.2.

Table 5.3: Changes in average policy coverage by market segment (12 months before and after our intervention)

Coverage factor	Change[44] for add-on GAP insurance	Change for standalone GAP insurance
Policy duration	+0.3 months	-0.7 months
Value of car insured (real terms)	+1.9%	+5.8%
Proportion of policies covering financed cars	-1.6 percentage points	-8.3 percentage points

Source: FCA analysis of GAP insurance transaction data provided by firms

We do not find that other costs are contributing to the divergence in add-on and standalone GAP insurance prices after our intervention:

- It does not appear that add-on GAP insurance prices are higher because of ongoing compliance costs (Section 7)

42 Figures are rounded to the nearest currency unit. Any differences are due to calculations that are not based on the rounded figures presented here. Percentage changes in brackets are rounded and relative to the figures before intervention.

43 See Technical Annex for charts illustrating the change in these factors over time.

44 Change is calculated as the difference between the averages of the relevant factors over the 12 months following our intervention and the 12 months prior to our intervention.

- Our intervention may have, indirectly, lowered the average cost of selling standalone GAP insurance. For example, fixed costs (such as IT and customer support) are now spread across a larger number of policies, given higher standalone GAP insurance sales, after our intervention. However, this effect is likely to have been small.

Changes in underlying risk

GAP insurance is a risk-based product. This means that the riskiness of those being insured influences part of the cost of providing GAP insurance. A possible explanation of post-intervention add-on and standalone prices could be changes to the riskiness of the people buying these GAP insurance products.

For example, we might expect that consumers who no longer buy add-on GAP insurance (Section 4) may have a lower need for GAP insurance. This might be because, for example, they are less risky than other consumers. As such, the remaining add-on GAP insurance buyers would be riskier on average. This could lead insurers to raise prices to cover the increased perceived risk among the remaining add-on GAP insurance buyers.

This is consistent with what we see in firms' data. Add-on GAP insurance underwriter prices[45] increased by 12% in the 12 months after our intervention, when compared to the 12 months beforehand. Underwriter prices for standalone GAP insurance fell by 9% over the same period.

We expect that some of this is a result of policy coverage changes (Table 5.3). However, even when we control for policy coverage changes, we still see a small increase (1.4%) in add-on GAP insurance prices and a small decrease (0.4%) in standalone GAP insurance prices. Our analysis of consumers' probability to claim (see Section 7) also confirms this higher riskiness among remaining add-on GAP insurance buyers.

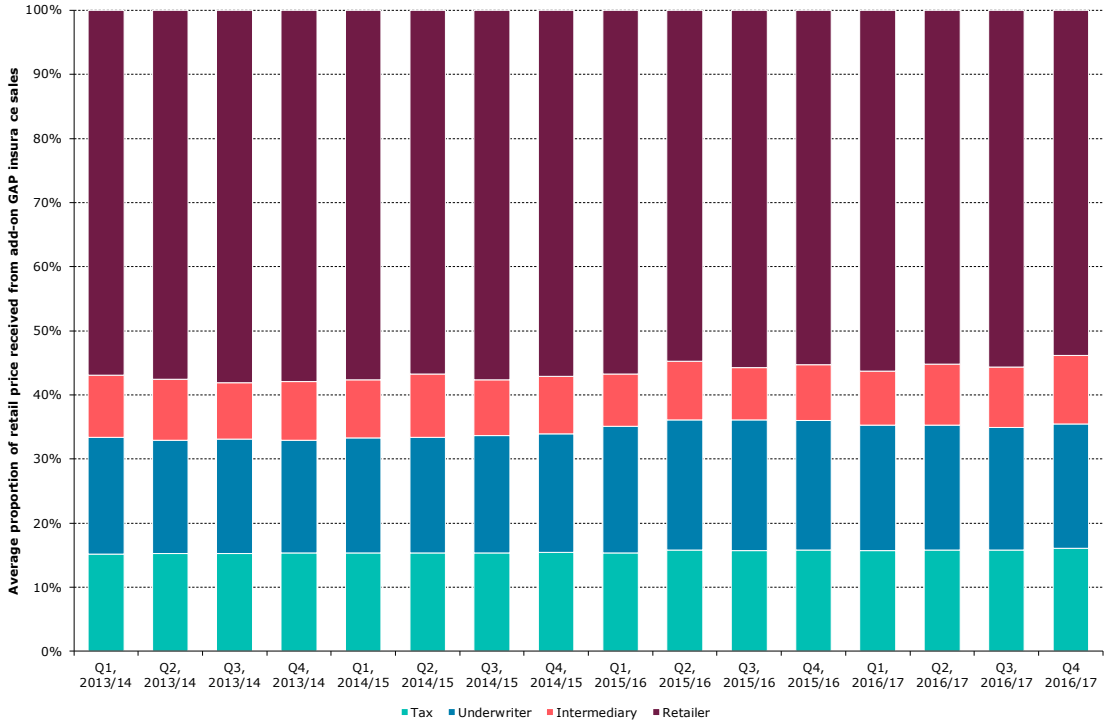
How add-on GAP insurance prices are split

Another factor that may affect the average GAP insurance retail price is the margin that the seller charges above their costs. This is a function of the value taken by the various parts of the distribution chain, and the underlying cost of insuring the expected risk.

Figure 5.3 shows the different elements that form the average add-on GAP insurance retail price.

45 We use underwriter prices as a proxy for the risk-based cost of providing the insurance. From discussions with firms, we understand that the GAP insurance underwriting market is relatively competitive.

Figure 5.3: Proportion of the average add-on GAP insurance retail price received by each part of the distribution chain



Source: FCA analysis of GAP insurance transaction data provided by firms
Note: Due to our data collection, the quarters are: Q1 – September-November; Q2 – December-February; Q3 – March-May; and Q4 – June-August.

Figure 5.3 shows that add-on GAP insurance sellers keep a similar proportion of the final retail price before (58% in the 12 months before our intervention) and after our intervention (56% in the 12 months after our intervention).

This suggests that add-on GAP insurance sellers still hold a strong position in the distribution chain and can pass on supplier costs to consumers whilst maintaining their margin.

Our intervention's impact on add-on prices

We take the same econometric approach as in Section 4 to estimate our intervention's impact on add-on GAP insurance prices.[46] We compare price trends of add-on GAP insurance and CWP for which the price trends are broadly common before the intervention.[47]

The intervention's average price impact is the difference between our estimate of what would have happened had we not intervened and what actually happened.

Table 5.4 summarises the results of our econometric analysis. We estimate that average add-on GAP insurance prices are between 2% and 3% lower than they would have been

46 See Technical Annex for supporting further details, assumptions, and evidence, including a chart on pre-intervention price trends for add-on GAP insurance and CWP.

47 Section 4 set out why our estimates might over- or underestimate the true impact of our intervention. The same logic applies to our price analysis.

had we not intervened.[48] This impact falls within the bounds of our pre-intervention expectations, and is at the lower end of our expected impact scale.

As with our sales analysis, we have run checks on the results of our econometric analysis (see Technical Annex). Overall, these tests suggest that we should be cautious in assigning a causal impact of our intervention to price changes.

Table 5.4: Estimated reduction in add-on GAP insurance retail prices as a result of the intervention

Estimate	Estimated impact on add-on GAP insurance prices	Pre-intervention estimated impact on add-on GAP insurance prices
Lower bound estimate	-1.8%	0% to -16.7%
Central estimate	-2.7%	
Upper bound estimate	-3.4%	

Source: CP14/29; FCA analysis of transaction data provided by firms

Our analysis in Section 4 indicates that more consumers appear to have left the GAP insurance market entirely rather than move to the standalone market (see Section 4). This might explain why our intervention had a limited impact on add-on GAP insurance prices.

Rather than increasing competition between the add-on and standalone GAP insurance markets, the intervention may have heightened segmentation between the two markets. The remaining buyers that add-on sellers face, after our intervention, have, on average, a higher willingness to pay. However, these buyers should be better informed about GAP insurance after our intervention, so this might reduce their willingness to pay.

While the two markets compete for some consumers, it is likely that they serve entirely different types of consumers. Add-on sellers face limited competition for their consumers due to their point-of-sale advantage. An add-on buyer takes GAP insurance from their vehicle seller. In contrast, standalone buyers search across the standalone market without being tied to one seller. These differences in how firms and consumers interact might also help explain why prices have diverged between the two markets.

The average standalone GAP insurance price might have fallen even further if new firms had entered the market. However, we do not note any significant change in the number of standalone GAP insurance sellers. Alternatively, it might be that, after our intervention, existing standalone sellers have competed more vigorously for the greater number of consumers.

Informal engagement with GAP insurance underwriters and distributors provided useful insight. We found that standalone sellers are, to some extent, reliant on add-on sellers informing consumers about the existence of GAP insurance. Without add-on sellers raising GAP insurance's profile (and the fact that it can be bought elsewhere with the prescribed information), firms felt that the standalone market might have a far lower presence.

48 The econometric analysis estimates a statistically significant point estimate of a 2.7% reduction in add-on GAP insurance price relative to the comparator product CWP. The range quoted is the 95% confidence interval around this point estimate.

Summary of GAP insurance price analysis

We summarise the findings of our average GAP insurance price analysis in Table 5.5.

Table 5.5: Summary of price changes in the GAP insurance market

Outcome	Pre-intervention expectation	Observed changed	Estimated causal impact
Add-on GAP insurance prices	0% or -17%	+1% to +3%	-2% to -3%
Standalone GAP insurance prices	0%	-5% to -13%	N/A

Source: FCA CP14/29

6 Results: Consumer survey findings

Section summary

More consumers claim to recall receiving the prescribed information than the deferred opt-in.

Shopping around has increased for some consumers, but not all. Consumers, overall, appear to be more engaged with the decision-making process when considering whether to buy GAP insurance or not and, if so, where to buy it. Our intervention is likely to have affected a subset of consumers, with some having made their decision about buying GAP insurance before buying the vehicle. High levels of repeat purchasing indicate habitual behaviour playing a role in the decision-making process, making GAP insurance more of a standard consideration for car buyers.

Add-on buyers are more confident about their GAP insurance knowledge. The knowledge gap between add-on and standalone GAP insurance buyers' has reduced after our intervention. We were concerned, before intervening, about the presence of this knowledge gap.

The prescribed information measure was more memorable than the deferred opt-in measure. But, having time to think about buying GAP insurance was generally perceived as more useful than the prescribed information. Consumers found the information gathered whilst shopping around as most useful when reaching their decision.

This section sets out how consumers experienced our intervention's two measures (ie prescribed information and the deferred opt-in). We do this to understand how, and to what extent, our intervention has changed consumer outcomes during the purchasing process.

The analyses set out in Sections 4 and 5 provide an overall, market-level impact of our intervention. We complement these analyses, in this section, by providing a sense of consumers' experience of our intervention.

In line with our pre-intervention expectations in Table 2.1, we consider:

- consumers' recall and experience of the two measures
- consumers' decision-making process (including their propensity to shop around for, their general awareness of, and engagement with GAP insurance)
- the impact of the intervention on consumers' perceived and actual knowledge of GAP insurance

To do this, we draw on:

- PwC Research's survey of 1,000 car buyers, conducted on our behalf in February 2018 (which we refer to as 'the survey' throughout this document)

- a consumer survey that was part of the general insurance add-on products market study, published in 2014
- our 2017 Financial Lives Survey (FLS)

We summarise the main insights from these sources here.[49] Detailed findings and methodology from PwC Research's work are available in Annex 2 and Annex 3, respectively.

Why and how we compare the 2014 and 2018 surveys

We draw on comparisons between the 2014 and 2018 consumer surveys for useful pre- and post-intervention perspectives. This gives us a sense of how our intervention might be associated with changes in consumer behaviour (insofar as we consider the same topics in both surveys).

The comparison is not straightforward as there are differences between the surveys. For example:

- The 2018 survey includes car buyers who were offered, but did not buy, GAP insurance. Findings from this consumer group are useful for our evaluation, as they also experienced our intervention. The 2014 study did not include these consumers.
- In 2014, we issued a data request to sellers of add-on and standalone insurance products, asking them to provide lists of recent buyers. In contrast, the 2018 research adopted a free-find method in which the approach screened out participants if they told us they had not bought a car / GAP insurance.

Despite these differences, we can make valid comparisons. In particular, it is possible to make meaningful comparisons where differences are larger or patterns are consistent. Full details are set out in PwC Research's report.

Our 2018 survey considered 4 types of car buyers

We considered four types of consumers:

1. those who bought GAP insurance as an add-on product
2. those who bought GAP insurance as a standalone product
3. those who did not buy GAP insurance, but did consider it
4. those who did not buy GAP insurance and did not consider doing so

Table 6.1 sets out selected summary statistics of our survey's overall consumer profile.

49 The rest of the section refers to PwC Research's survey, unless stated otherwise. We do not reference findings from this survey with each mention of a figure or finding.

Table 6.1: Summary statistics of our survey's overall consumer profile

	Percentage of consumers
54%	Purchased a vehicle in the last 12 months and discussed or considered GAP insurance.
45%	Did not consider buying GAP insurance at all.
28%	Considered buying GAP insurance, but did not.
26%	Bought GAP insurance. This is made up of 22% of add-on GAP insurance consumers and 5% of standalone GAP insurance consumers (difference due to rounding).
82%	Bought GAP insurance as an add-on (of those who bought GAP insurance in total).
18%	Bought GAP insurance as a standalone (of those who bought GAP insurance in total).

Source: PwC Research

Consumers' recall and experience of the measures was mixed

Consumer recall of the prescribed information was relatively high

Table 6.2 shows that consumers' recall of receiving the prescribed information was relatively high. It also shows that nearly all consumers claimed to have read the prescribed information at least briefly.

Table 6.2: Recall of and engagement with the prescribed information measure by consumer type

Consumer group	Percentage of consumers that recalled receiving the prescribed information	Percentage of consumers that claimed to have read the prescribed information 'thoroughly'	Percentage of consumers that claimed to have read the prescribed information at least 'briefly'
Car buyers who were offered GAP insurance	74%	37%	55%
Add-on GAP insurance buyers	78%	36%	96%
Standalone GAP insurance buyers	65%	58%	96%
Car buyers who considered but did not buy GAP insurance	63%	44%	86%

Source: PwC Research

However, recall of the deferred opt-in was much lower

Nearly two-thirds (63%) of add-on GAP insurance buyers believed that the sale was finalised on the same day as the product was introduced.

This could point to some dealerships not applying this measure in its intended spirit. If this were the case, we might see the findings in Section 4 as an understatement of our intervention's true impact (see Section 2).

However, this is difficult to prove using survey data alone. It might be hard for consumers to separate the time at which they decided to buy GAP insurance from the

time when they signed papers to formalise their purchase. This might be most true of consumers who had an upfront expectation, and did not change their mind, that they would buy GAP insurance from the dealer when buying the vehicle.

Impact on shopping around and purchase consideration

Before the intervention, we expected that shopping around would increase and that consumers would make more considered purchases.

These expectations were assumptions based on the 2014 survey about how add-on GAP insurance consumers might change their behaviour in the future. For example, we assumed that 10% of add-on GAP insurance consumers would choose not to buy GAP insurance again after our intervention. We also thought that nearly a quarter (22.5%) of add-on GAP insurance consumers would shop around and buy standalone GAP insurance in the future.

We cannot, in this survey, compare our findings directly to these estimates, as we are not making a like-for-like comparison. The previous survey asked GAP insurance buyers whether they intended to buy GAP insurance in the future. We do not ask these questions in the 2018 survey. However, we do set out relevant, comparable information below. For example, we know how many people who did not buy GAP insurance this time did buy it in the past.

Deciding to buy GAP insurance before buying the vehicle

Table 6.3 shows that nearly half of all consumer types had decided, before buying a vehicle, whether they were going to buy GAP insurance. This means that our intervention's impact on these consumers was probably limited.

Table 6.3 also demonstrates that some consumers might have been influenced by our intervention. For example, 20% of standalone GAP insurance consumers indicated that they made their decision to buy GAP insurance after buying the vehicle.

Table 6.3: Proportion of consumers deciding whether to buy GAP insurance across different stages of the sales process

	Percentage of consumers deciding whether to buy GAP insurance		
Consumer group	**Before buying a vehicle**	**During buying a vehicle**	**After buying a vehicle**
Add-on GAP insurance buyers	49%	43%	8%
Standalone GAP insurance buyers	53%	27%	20%

Source: PwC Research

The results show that GAP insurance is more of a planned purchase than before. Our market study found that 59% of add-on GAP insurance buyers reported not having thought about buying the product until the day they bought it. It appears that consumers are making more appropriate purchasing decisions after our intervention.

Shopping around was higher than average (64%) among consumers who considered, but did not buy, GAP insurance. Nearly half of these consumers decided not to buy GAP

insurance before buying the vehicle. Among the remaining consumers, around half took at least a day to reach their decision not to buy. This shows that this group's decision not to buy GAP insurance was, at least to some extent, an informed one.

There is also evidence that the deferred opt-in affected consumers who were offered GAP insurance but did not buy it. Around 40% of these consumers (ie consumers who intended to buy GAP insurance and recalled a delay in the sales process) reported changing their mind during the process.

Although these findings relate to a small subset of consumers, they are potentially useful for our future work. We might assume that, without our intervention, these consumers would have bought add-on GAP insurance. However, potentially because of our intervention, they chose not to. Note that we cannot tell, from a survey, what caused these consumers not to buy GAP insurance at the point-of-sale. But we do think that our intervention had a role in their decision.

High levels of repeat buying

Table 6.4 shows that a greater proportion of consumers who previously bought GAP insurance are deciding to buy it again. This is consistent with Table 6.3 where 49% of add-on GAP insurance buyers had decided to buy it before buying the vehicle (up from 33% in 2014). The evidence indicates that new GAP insurance buyers are now more likely to buy standalone rather than add-on GAP insurance than before.[50]

Table 6.4: Proportion of consumers who had bought GAP insurance before

Consumer group	Pre-intervention survey (2014)	Post-intervention survey (2018)
Add-on GAP insurance buyers	35%	66%
Standalone GAP insurance buyers	36%	57%
Non-GAP insurance buyers	N/A – not surveyed in 2014	20%

Source: PwC Research

This repeat buying behaviour also influences consumers' decision-making. Two-thirds of previous GAP insurance buyers decided to buy it again before they started looking for a car. By contrast, 20% of first-time GAP insurance buyers reached the same decision before buying a car.

There was little evidence to suggest major disruption to habitual behaviour. 20% of consumers who considered GAP insurance but did not take out the product had bought GAP insurance previously.

Shopping around

Table 6.5 shows that shopping around more than doubled for add-on GAP insurance consumers after our intervention. Again, relative to our market study findings, this suggests that consumers are more engaged with the decision-making process after our intervention. This is a positive impact of our intervention in this market.[51]

50 Before our intervention, the percentage of repeat purchases for add-on and standalone GAP insurance was similar. However, the repeat purchasing behaviour is more prevalent among add-on GAP insurance consumers.

51 Notwithstanding that we know that shopping around takes time.

Table 6.5: Proportion of consumers who shopped around

	Pre-intervention survey (2014)	Post-intervention survey (2018)
Add-on GAP insurance buyers	17%	45%

Source: PwC Research

Table 6.6 shows that repeat behaviour and prior commitment to buying GAP insurance is not associated with a lack of shopping around (and, therefore, engagement with the decision-making process).

Table 6.6: Proportion of consumers who shopped around in 2018, by consumer group

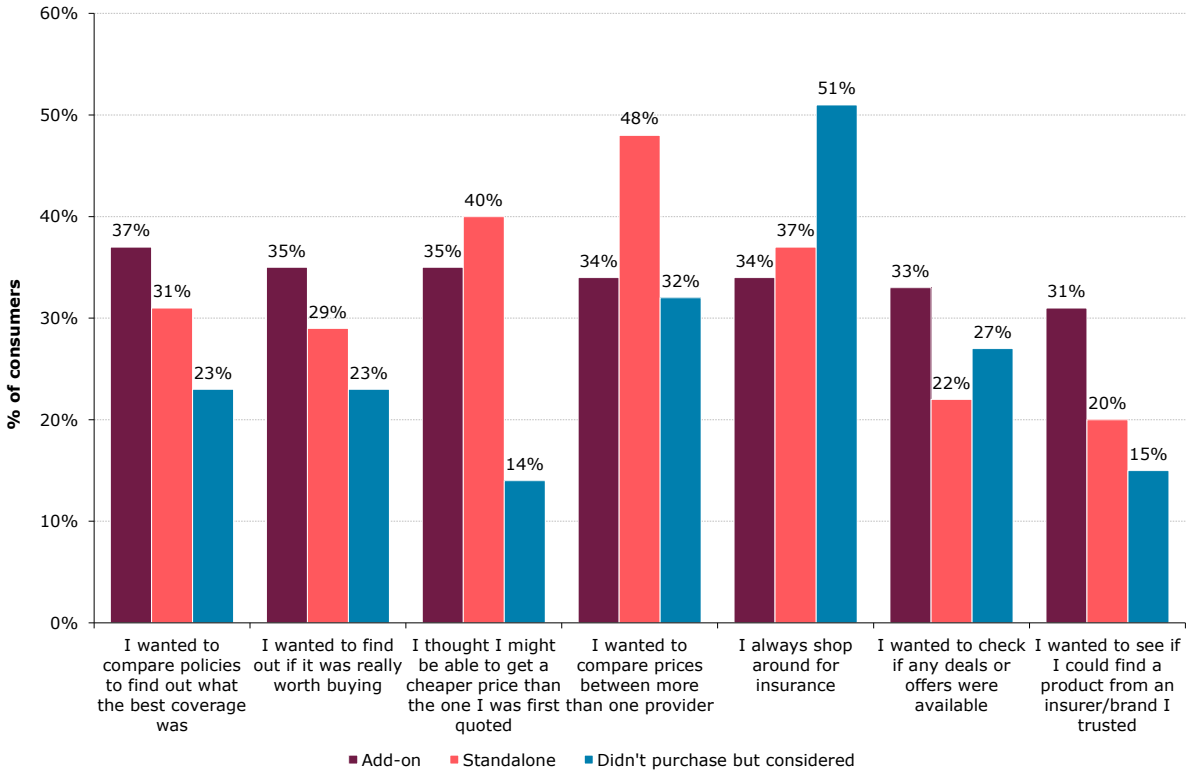
Consumer group	Percentage of consumers who shopped around
Consumers who decided to buy GAP insurance before buying a vehicle	75%
Consumers who decided during/after buying a vehicle	32%
Previous GAP insurance buyers	61%
First-time GAP insurance buyers	46%

Source: PwC Research

Figure 6.1 sets out reasons why consumers decided to shop around. Standalone GAP insurance buyers' focus was on getting the best price. Consumers who considered, but did not buy, GAP insurance tended to shop around out of habit. There were many reasons for add-on GAP insurance buyers shopping around, with no clear single reason.

Around 75% of consumers spent between 30 minutes and 2 hours shopping around. Add-on buyers were significantly more likely to spend less than 30 minutes shopping around when compared with standalone buyers and those who considered, but did not buy, GAP insurance (16% compared with 10% and 8%, respectively).

Figure 6.1: Reasons for shopping around



Base: All who shopped around for GAP insurance (add-on purchasers 267; standalone purchasers 109, considered 74)
Source: PwC Research, chart recreated by FCA

For those who bought GAP insurance but did not shop around, the main reason given was being happy with the price quoted (32%).

However, 28% of these buyers were unaware that they could buy GAP insurance from another provider. This might, for example, suggest a lack of engagement with the information provided by the dealership. This response appears to contradict consumers' claim to have read the information, at least briefly. The figure drops to 20% for those who claimed to have read the written information provided by the dealership thoroughly.

There are many explanations why consumers may have been unaware, despite having claimed to have read the information thoroughly. Possible explanations may include:

- the information is not being included by all dealerships
- the information is included, but is not prominent
- the information is included, but consumers do not understand it
- some consumers could have overstated how thoroughly they read the information

Within the limits of the survey, it is difficult to say what potential impact each of the above may have had. What we can tell is that, despite our intervention, a proportion of consumers remain unaware of an alternative way to buy GAP insurance.[52]

Another possible explanation is the influence of the salesperson. The salesperson being convincing was the top response (32%) among add-on buyers when asked about why

52 As in Section 4, this is not to say, however, that all of these consumers would choose to buy elsewhere (eg some may choose to buy the higher-priced add-on option due to wanting to avoid shopping around).

they chose their GAP insurance provider. This represents a change from our pre-intervention survey in two ways:

- 78% of add-on buyers indicated that the salesperson had convinced them in our pre-intervention survey
- the salesperson's influence was very closely followed by other reasons (eg the cover amount and convenience) in the post-intervention survey, which is unlike the pre-intervention survey

It appears that salespeople remain influential in consumers' decision-making, but to a lesser extent than before our intervention.

Add-on buyers are more confident about GAP insurance

Our survey asked all GAP insurance consumers:

- how confident they were in their understanding of GAP insurance
- to respond to 9 true/false statements, based on facts that they would have received in the prescribed information, about GAP insurance to test their actual knowledge

Confidence in GAP insurance knowledge

Table 6.7 shows add-on GAP insurance buyers are more confident in their GAP insurance knowledge after our intervention. There is now little difference between their confidence and that of standalone GAP insurance buyers.

Table 6.7: Proportion of consumers that were 'somewhat confident' in their GAP insurance knowledge

Consumer group	Pre-intervention survey (2014)	Post-intervention survey (2018)
Add-on GAP insurance buyers	79%	95%
Standalone GAP insurance buyers	94%	97%

Source: PwC Research

There is some evidence to suggest a link between consumer confidence and engagement in the purchasing process. Confidence appeared to be highest (ie 'very confident') among consumers that: recalled the sales process 'very well' (74%); had bought shopped around (61%); or had bought GAP insurance before (57%).

Add-on buyers' GAP insurance knowledge is now similar to standalone buyers'

We had concerns about the knowledge gap between add-on and standalone GAP insurance buyers. Before our intervention, we found that add-on buyers were far more likely to answer questions incorrectly (40%) than standalone buyers (31%).

We find that, using two approaches, GAP insurance knowledge has narrowed between the two consumer groups after our intervention:

- There is only a 1 percentage point difference between the groups when looking at what proportion of consumers answered the majority of questions correctly (60%

add-on, 61% standalone). Those who shopped around were more likely to respond correctly than those that did not.

- The difference in incorrect answers (ie incorrect and 'not sure') is now 4 percentage points (relative to 8 percentage points in 2014[53]). This is a more comparable figure to the 2014 work than the 'correct' answers figure. This is because the 2014 survey looked at incorrect answers only.[54]

Time to shop around and gather information

It is helpful to consider the relative efficacy of our intervention's 2 measures (ie prescribed information and the deferred opt-in). We do this to understand which measure was more effective and to what extent. This, in turn, helps us develop a strong evidence base on what works when intervening to tackle harm.

The measures were designed to work together. The prescribed information provides the prompt to shop around, and the deferred opt-in offers a window in which to do so. Nevertheless, it may be that one measure is more effective than the other in helping consumers achieve better outcomes. In this case, and in line with Figure 2.1, we expect consumers to reach these better outcomes, in part, through shopping around.

While the econometric analysis provides insight about the intervention's total impact on sales and prices, it cannot tell us about each measure's impact. Therefore, we use the consumer survey to help us with this.

Consumers' views on the usefulness of the measures

We asked consumers to rate how useful they found the 2 measures.

The written information was seen as most useful by add-on GAP insurance buyers. The deferred opt-in was most favourable to standalone GAP insurance buyers.

Figure 6.2 sets out consumers' views on how useful the different measures were in helping them to make their decision.

However, consumers' view that the prescribed information improved their understanding was not reflected in their likelihood of being able to identify correct statements about GAP insurance. For add-on GAP insurance buyers, in particular, this may suggest that the prescribed information acts as a prompt to shop around and reassurance, rather than improving understanding noticeably.

53 This is different to 40% less 31%. In the 2014 survey, 46% of add-on consumers' responses were either incorrect or 'not sure', compared to 38% for standalone consumers.

54 It appears that consumers, overall, are answering a greater proportion of questions incorrectly after our intervention. For example, 45% of standalone consumers' responses are incorrect (compared to 38% in 2014). However, a comparison of levels over time is not reliable here due to differences in our survey approach and the questions asked.

Figure 6.2: Usefulness of our measures in helping consumers make a decision

Base: All participants (add-on purchasers 587; standalone purchasers 121; considerers 115, non-considerers 186).
Source: PwC Research, chart recreated by FCA

In summary, a high percentage of all consumers found that the deferred opt-in was useful in helping them reach their decision. The perceived usefulness of the deferred opt-in was unaffected by consumers' awareness of the time required for an add-on seller between introducing GAP insurance and finalising the sale.

Consumers appear to be making more informed choices

Previous GAP insurance buyers rated both measures as particularly useful. This group were almost twice as likely as first-time buyers to rate each measure as 'very useful' in helping them to make a decision. This suggests that previous GAP insurance buyers made a more informed purchase this time.

Information gathered while shopping around

Regardless of the final decision made (to buy add-on or standalone GAP insurance, or not to take out the product at all), almost 90% of consumers rated the information they found while shopping around as useful.

7 Results: Overall effects

Section summary

Consumer benefits have improved after our intervention.

The one-off compliance costs associated with our intervention have been toward the lower end of our expected range. Ongoing compliance costs are higher than we anticipated, but are significantly less than the benefits of our intervention.

Overall, we find that the benefits of our intervention exceed its compliance costs.

This section summarises our analysis of the intervention's overall impact. We do so by, first, describing changes in the value consumers receive from GAP insurance before and after our intervention. We then summarise firms' costs in complying with the intervention. We end with an analysis of how overall consumer surplus, a measure of consumer benefits, has changed after our intervention.[55]

Measuring the value of GAP insurance to consumers

Table 7.1 outlines the measures of insurance products' value that we considered as part of the general insurance add-on products market study.

Table 7.1: Measures of insurance product value considered in MS14/01

Measure	Description
Claims ratios	The claims ratio shows the value of claims paid out as a percentage of the premiums paid. It shows what financial benefit consumers might expect to receive on average for every £1 that they spend on a product.
Claims frequency	The claims frequency shows the number of claims paid out as a percentage of policies sold. It shows what probability there is of a consumer making a successful claim.
Mark-ups on net rates	The net rate is the amount charged by an insurer to the distributor for a product. This rate reflects the insurer's expected claims costs (including settlements and claims handling), operating costs and the insurer's expected profit. Comparing the net rate with retail prices allows us to examine the expected mark-up from net rate to retail price for a product, and tells us something about the ability of distributors and/or retailers to raise price above the core insurance costs they pay.

Source: MS14/01: General insurance add-ons: Provisional findings of market study and proposed remedies

55 Our pre-intervention CBA set out two additional costs to consumers. These were that: i) consumers might suffer uninsured loss due to the deferred opt-in, valued at between £90,000 and £490,000; and ii) consumers might be inconvenienced in being unable to conclude the GAP insurance sale on the same day, which was valued as 'minimal'. We do not consider these costs in detail here. There is no evidence to suggest that these consumer costs are significantly different to our pre-intervention expectations.

We use the claims ratio as our main measure of value. This is consistent with the market study which estimated that, between 2008 and 2012, add-on GAP insurance had an average claims ratio of 10%.[56] We concluded that this was *"exceptionally low, indicating very poor value for money"*.[57]

Our pre-intervention expectation was that the claims ratio for GAP insurance would increase after our intervention (Table 2.1).[58]

Our core measure of consumer value has improved after our intervention

We have used a different approach to the market study when calculating the claims ratio. This helps us compare the claims ratio of policies sold before and after the intervention. We estimate the cumulative claims ratio for all policies sold in each period, rather than taking an average claims ratio at a given point in time, for policies sold in different periods.[59]

Most GAP insurance policies (98%) have a cover length of 3 or more years. However, our claims data extend to only 2 years after our intervention (post-intervention data cover September 2015 to August 2017). Our evaluation has happened too early for us to draw conclusive findings about claims ratios.

To account for this, we estimate the claims ratio for a policy's first 12 months of cover, for all policies where cover length is equal to or longer than 12 months. This approach helps us to compare claims ratios on a like-for-like basis both before and after the intervention.[60] This is different to the claims ratio definition provided above. Our definition used for this analysis indicates what financial benefit consumers might expect to receive on average in the first 12 months for every £1 that they spend on a product.[61]

Due to these data constraints, our analysis cannot show full claims ratio movements after our intervention. The analysis presented here is an initial indication of what has happened. This approach does not tell us, definitively, how the policy lifetime claims ratio has changed.

Figure 7.1 shows that the average 12-month add-on GAP insurance claims ratio[62] was already increasing before our intervention, albeit from a low base. Before intervening, it had increased from 1.2% (policies sold in September 2013) to 2.9% (policies sold in August 2015).

56 In MS14/01, we calculated claims ratios as: claims incurred (net of reinsurance and excluding claims management costs) in a given year divided by net earned premium (plus IPT, net of reinsurance but including distributor commission) in a given year. The market study estimated an average claims frequency between the years 2008 and 2012 of 0.3% for add-on GAP insurance which was considered to be very low. See: Annex B: Methodology and analysis of firm data, MS14/01, Page 11

57 General insurance add-ons: Provisional findings of market study and proposed remedies, MS14/01, Section 1

58 This was not an explicit pre-intervention expectation. However, it is a matter of interest. This would be driven by: a potential reduction in average GAP insurance; and more appropriate consumer purchasing.

59 In this evaluation, we calculate claims ratios as the total value of claims incurred divided by the sum of the retail price to the consumer including IPT for all policies sold in a given period.

60 Conversations with firms, who provided us with data, informed this finding.

61 The likelihood of claiming on a GAP insurance product, and thus its 'value' to consumers, increases with time. As such, this definition is likely to underrepresent GAP insurance's true value to the consumer.

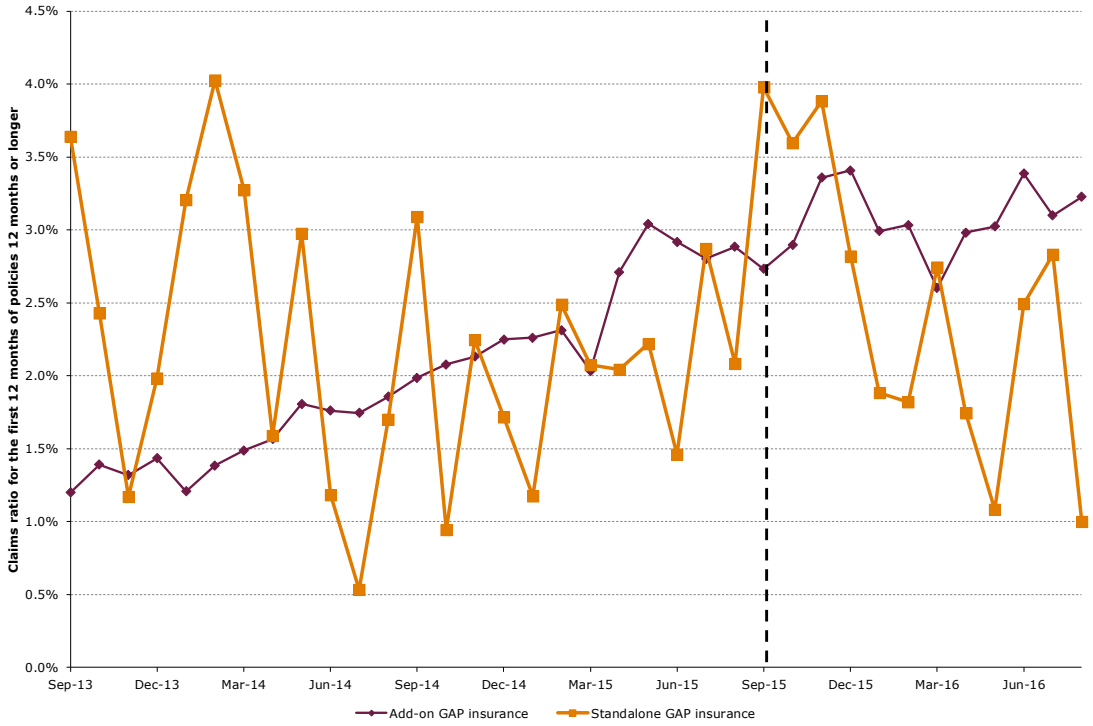
62 We use the term 'claims ratio' as short-hand for '12-months claims ratio' in the rest of this sub-section.

Table 7.2 compares changes in the average 12-month claims ratio for the 12 months before and after our intervention. It shows that the average add-on GAP insurance claims ratio increased from 2.5% to 3.1%. This shows that the claims ratio has increased after our intervention, although only by a small amount (and notwithstanding the data limitations).

This increase is driven by a higher claims frequency rate. The claims frequency rate for add-on GAP insurance increased from 0.7% to 0.9%.

Our informal engagement with firms provided useful views to support our analysis of a claims ratio 12-month proxy. The overall view was that add-on GAP insurance claims ratios have increased both before and after our intervention.

Figure 7.1: Add-on and standalone GAP insurance 12 month claims ratio



Source: FCA analysis of GAP insurance transaction data provided by firms

Table 7.2: Average add-on and standalone GAP insurance 12 month claims ratio

GAP insurance market	12 months before intervention (September 2014 – August 2015)	12 months after intervention (September 2015 – August 2016)
Add-on	2.5%	3.1%
Standalone	2.0%	2.5%

Source: FCA analysis of GAP insurance transaction data provided by firms; FCA MS14/01: General insurance add-ons: Provisional findings of market study and proposed remedies

One-off and ongoing compliance costs

Our pre-intervention CBA indicated that firms would incur one-off costs of complying with our intervention. These costs include revisions to consumer sales literature and changes to systems and processes. We acknowledged that firms might incur some incremental ongoing costs such as staff training, but thought that such costs were unlikely to be significant.

Table 7.3 shows our CBA's costs estimates. We have used the following data to estimate the actual one-off and ongoing costs attributable to our intervention:

- data requested from the National Franchised Dealers' Association (NFDA)[63]
- data requested from a sample of insurers and distributors of GAP insurance
- GAP insurance transaction data provided by firms[64]

Table 7.3 shows how firms' actual costs (one-off and ongoing) of complying with our intervention compare to our pre-intervention expectations.

Table 7.3: Estimates of one-off and ongoing costs to firms as a result of our intervention

Estimate source	One-off costs	Ongoing costs
CP14/29	£5.0 million	Minimal
PS15/13	£5.0 million to £20.0 million	Minimal
Post-intervention assessment of firm costs	£4.8 million to £8.2 million	£1.4 million

Source: CP14/29; PS15/13; FCA analysis of data provided by firms and the NFDA

We estimate that the actual one-off cost to dealers of complying with our intervention was £4.8 million to £8.2 million.[65] The lower end of the range is 4% less than our pre-intervention lower end of the range of £5m, while the upper end of the range falls within our pre-intervention expectation range. Examples of these costs include: IT development costs; lower, but still significant, costs in updating documentation; putting in place governance arrangements; and running initial training sessions for staff.

We estimate that the actual ongoing costs to dealers of complying with our intervention is £1.4 million.[66] Ongoing costs appear higher than the minimal significance we expected

63 The NFDA represents its members, which collectively operate around 4,100 franchised dealer sites. Between April and May 2018, they voluntarily collected information from some of their members on the costs associated in complying with our intervention. They provided us with two sources of information: i) a detailed breakdown of costs provided by a dealer group with over 100 dealer sites; and ii) an aggregated cost estimate provided by a number of dealer groups which collectively operate over 300 dealer sites.

64 Using transaction data from firms, we estimate that there are around 7,900 dealer sites in the UK which sell add-on GAP insurance.

65 The detailed breakdown return suggested an average one-off cost of £547 per dealer site. The aggregated return suggested an average one-off cost of £982 per dealer site. We multiply these cost estimates by the total number of dealer sites in the UK which sell add-on GAP insurance (7,900). We then add total incremental one-off compliance costs for add-on GAP insurance underwriters and distributors where this was provided in response to our data request. The sum of these costs came to £0.45 million. This approach provides a range for total one-off costs of £4.8 million to £8.2 million.

66 The detailed breakdown return suggested an average ongoing cost of £181 per dealer site. We multiply this cost estimate by the total number of dealer sites in the UK which sell add-on GAP insurance (7,900). We then add the total incremental ongoing compliance costs for add-on GAP insurance underwriters and distributors where this was provided in response to our data request. The sum of these costs came to £0.02 million. This approach provides a total ongoing costs figure of £1.4 million. The aggregated return suggested an average ongoing cost

to find. We see the difference as being driven by the higher than anticipated ongoing costs of training staff. Other ongoing costs mentioned by dealers related to customer transaction[67] and governance costs.

Consumer surplus has improved after our intervention

In our pre-intervention CBA, we estimated our intervention's impact on consumers by calculating how their consumer surplus might change when compared to a scenario of no intervention. Consumer surplus is a measure of consumer benefits.

We expected consumer surplus to improve through:

- some add-on GAP insurance consumers making more appropriate purchasing decisions
- some add-on GAP insurance consumers shopping around and finding a better price for the same coverage in the standalone market
- there being greater awareness that GAP insurance can be bought as a standalone product, leading to a subsequent increase in standalone sales

We calculate how consumer surplus changes after our intervention by using a similar approach and assumptions[68] that we used in the pre-intervention CBA. We do, however, use updated and more comprehensive data for these calculations.

To estimate consumer surplus, for both add-on and standalone GAP insurance, in the year before and after intervention, we:

1. observe annual metrics, including sales and average prices
2. estimate the demand curve for that year using these market metrics
3. calculate consumer surplus as the area between the demand curve and price
4. subtract the deadweight loss associated with any over-purchasing

Our analysis indicates that consumer benefits have increased by £26 million to £28 million a year after our intervention (see Annex 1 for our calculations). This is a positive outcome and consumers are, overall, better off after our intervention.

Table 7.4 summarises our estimates of consumer surplus before and after our intervention.

of £1,403 per dealer site, suggesting total ongoing costs of £11.1 million. Following feedback from the NFDA, we consider that this cost estimate is an outlier and includes costs which are not solely attributable to the incremental impact of our intervention (ie they appear to be ongoing costs associated with selling GAP insurance, rather than specifically those attributable to our intervention).

67 This includes, for example, the cost of the additional time taken by staff in discussing GAP insurance with consumers following our intervention.

68 As we set out in Annex 1, we update the assumption around initial over-purchasing. We update the assumption to 20% in line with updated information from our firm data analysis (ie claims ratios) and assumptions used in recent interventions (see CP 18/12).

Table 7.4: Estimates of consumer surplus in the GAP insurance market

	Pre-intervention expectation[69]	Observed change
Percentage change in consumer surplus after our intervention	70% to 125% (Range based on the two different price change scenarios in Table 5.1)	33% to 35%

Source: FCA analysis of GAP insurance transaction data provided by firms

We find that the consumer surplus has increased after our intervention. However, this increase is not by the same proportion as we thought it would be before intervening.

Reasons for these differences are primarily due to:

- no fall in add-on GAP insurance prices after our intervention
- the lower than expected increase in standalone GAP insurance sales (either from substitution or new consumers entering into the GAP insurance market)[70]

Higher consumer benefits outweigh the costs

Our analysis finds that consumer benefits (£26 million to £28 million a year) after our intervention exceed firms' total costs of implementing our intervention. This includes one-off costs of £5 million to £8 million and ongoing costs of £1 million a year.

After the first year of our intervention, we estimate that the ongoing net benefits[71] are approximately £25 million to £27 million a year.[72]

69 Annex 1 explains that we update CP14/29's CBA approach with updated pre-intervention data. This is to ensure that the baseline consumer surplus figures are consistent. We have adjusted one of our pre-intervention assumptions based on updated information. Not adjusting this assumption would be likely to decrease our estimate of our intervention's impact on consumer surplus. However, it would remain positive.

70 This is in line with our findings in Section 4. Based on our calculation approach, consumer surplus would have been higher if there had been more standalone GAP insurance sales. The calculation assumes that some consumers value buying GAP insurance (be that as an add-on or as a standalone). Consumer benefits would be far higher, for example, if we assume that all add-on GAP insurance sales that did not happen because of our intervention should not have happened.

71 Some of the net benefits figure may be a transfer from firms to consumers.

72 Estimated as the increase in consumer surplus of between £26 million a year and £28 million a year, minus the ongoing cost to firms of £1 million a year.

8 Lessons learned

The learnings from this evaluation are a function of our intervention in this specific market. Our lessons here may not read across directly to, for example, a similar intervention in another market. Nevertheless, they provide useful insight in helping us anticipate potential ways of reducing harm and the likely impact of doing so. We set out the main lessons learned in Table 8.1.

Table 8.1: Main lessons learned from our evaluation

#	Lesson learned	Comments
1	Our intervention has had a stronger impact on sales than prices	We did expect this before intervening. We were unclear on how prices might change. In practice, the sales effect has been far greater, with very little impact on prices.
2	Attempts to break the point-of-sale advantage for a 'sold' product are likely to reduce total purchases, rather than diverting consumers to the non-point-of-sale market	The reduction in add-on sales has, largely, been due to consumers no longer buying GAP insurance rather than being diverted to buying standalone GAP insurance. We think this is because of the interaction between how consumers make decisions and the deferred opt-in measure. The efficacy of a deferred opt-in measure is likely to be a function of the specific context, including how buyers and sellers interact. We set out, in Sections 4 and 6, that although some suitable sales may not have taken place, overall, we see this reduction in add-on sales as a positive outcome for consumers.
3	Pre-intervention expectations should be based on a range of evidence	It is possible that our pre-intervention evidence (namely, the consumer survey and how it was used): • overstated the impact of the intervention on switching to the standalone market • underestimated the number of consumers who would make a more considered purchase given the tools (information and time) to do so Recent academic literature in this area points to demand-side remedies having a more modest impact on competition. Our analysis, especially on the small increase in the standalone market's share of total sales, is in line with the research. It is likely that our intervention had an impact among a subset of consumers. Our expectations implied a much larger impact on consumers.
4	Add-on sellers play an important role in introducing the product to buyers – in their absence, the standalone market may be smaller	Add-on sellers make consumers aware about GAP insurance. One of our potential interventions was to ban the sale of add-on GAP insurance. Had we done this, some consumers, for whom GAP insurance might be a valuable purchase, may not know that the product exists.

#	Lesson learned	Comments
5	The salesperson still plays an important role in convincing consumers to buy any add-ons	This type of intervention cannot remove a point-of-sale advantage – it can only look to reduce it. The salesperson's influence has fallen noticeably after our intervention and consumer outcomes appear to have improved too. We might need to consider alternative measures in markets where we are concerned about poor product value and the strong effect of salespeople on consumers' decision to buy a potentially unsuitable product.

Annex 1: Consumer surplus

Our pre-intervention CBA's approach to calculating consumer surplus

In our pre-intervention CBA, we converted our intervention's impact on consumers into monetary terms. We did this by estimating how their consumer surplus might change relative to a scenario of 'no intervention'.

The pre-intervention CBA estimated the pre-intervention consumer surplus for the add-on GAP insurance market only. This is because there were little data available on the standalone market. We used annual sales and average price data that we could observe at the time. We then made many simplifying assumptions to helps us estimate consumer surplus.

The main assumptions were:

1. the demand curve for GAP insurance is linear
2. the standalone market is perfectly competitive (ie price equals marginal cost)
3. the price elasticity of demand (ie the sensitivity of sales to price changes) is the same in the add-on and standalone GAP insurance markets

Our approach adjusted the estimate to account for those who may not buy GAP insurance if they considered their needs in more depth (one of the intended outcomes of the intervention). We applied an estimate of 10% to account for this in the consumer surplus calculation approach in the add-on GAP insurance market.[73] That is, we assumed that 10% of sales were made to consumers who, based on their preferences, did not need add-on GAP insurance.

Our approach to calculating post-intervention consumer surplus

We use a similar approach to the pre-intervention CBA. We do this for consistency and comparability between the pre- and post-intervention estimates. However, we use updated and more comprehensive data received from firms as part of this evaluation.

The pre-intervention CBA estimated consumer surplus for 2 scenarios:

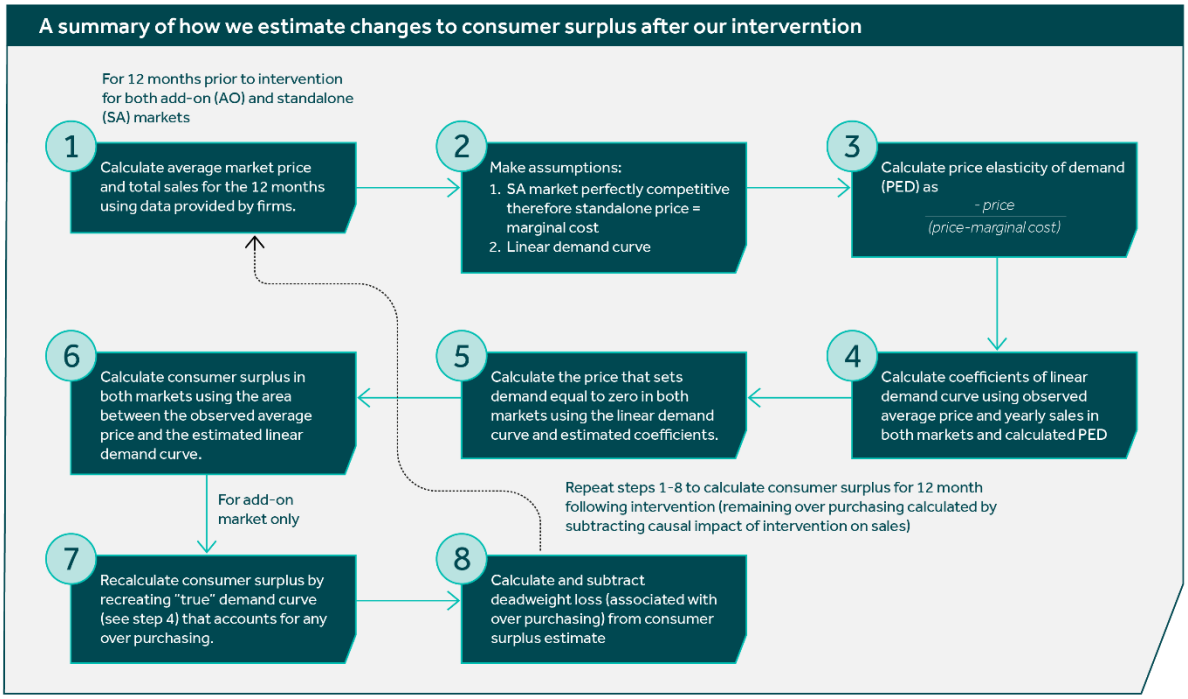
1. no change in add-on price
2. a fall in add-on price by 16.7%

We only estimate consumer surplus for a single price scenario. This is because we see the actual change in average add-on GAP insurance prices.

Figure 8.1 sets out the different components of our consumer surplus calculation.

73 This was based on consumers' indication of regret during our market study's consumer survey.

Figure 8.1: A summary of how we estimate changes to consumer surplus after our intervention



Source: FCA analysis; CP14/29

Although the calculation approach is similar pre- and post-intervention, there are some additional steps and assumptions that we need to make/change.

#	Update	Comments
1	We calculate consumer surplus for the standalone market	We did not previously calculate consumer surplus for the standalone market due to data availability. We collected pre-intervention data in the evaluation. This allowed us to calculate consumer surplus for the standalone market.
2	We update our assumption around consumers making more considered purchasing decisions	We have collected data and made recent interventions which suggest that our assumption that 10% of consumers may make more considered purchasing decisions might have been too low. We based our estimate on consumer responses to a survey question on whether they would buy add-on GAP insurance again if offered the chance. Consumer survey responses can, at times, be influenced by consumer behavioural biases (ie confirmation bias) and other factors (ie time elapsed since purchase). We consider that the appropriate approach is to update this assumption to 20%.
3	We do not assume that over-purchasing is fully removed	Our causal analysis provides us with an estimate of our intervention's impact on add-on GAP insurance sales. We can estimate to what degree we have reduced over-purchasing. We do this by comparing the estimated percentage fall in add-on GAP insurance sales with the assumed percentage of over-purchasing.

We take two approaches to calculating consumer surplus after our intervention to provide our estimated range:

- One approach assumes that add-on customers that become standalone customers take on the demand characteristics of standalone customers.
- The other approach assumes that add-on customers keep their demand preferences.

We set out a summary of our calculations in the Table 8.2 and Table 8.3. The difference between row 5 in the two tables below represents the lower end of the range change (ie £26 million). In Figure 8.2, we also provide an illustration of how the different factors in the tables relate to a demand curve.[74]

Table 8.2: Summary table for pre-intervention CBA calculations (September 2014 to August 2015 data)

	Add-on	Standalone	Total	Comments
(1) Price	£375	£186		Firms' data, weighted monthly average
(2) Quantity	809,508	61,149	870,657	Firms' data, annual sales; add-on sales reduced by 20% based on assumed over-purchasing from consumer survey
(3) Price elasticity of demand	-1.98	-1.98		= add-on price / (add-on price - marginal cost); marginal cost = standalone price; assumed that these are the same in both markets
(4) Price that makes quantity demanded = 0	£564	£279		(quantity = a + b*price, therefore price = (0 - a) / b); b = (3) * [(2) / (1)]; a = (2) - b*(1); Additional calculations required for add-on to compare observed sales and over-purchasing assumption
(5) Consumer surplus	£71,694,581	£8,298,783	£79,993,365	= 0.5 * [(4) – (1)] * (2); Additional calculations required for add-on to compare observed sales and over-purchasing assumption

Source: FCA analysis of GAP insurance transaction data provided by firms; CP14/29

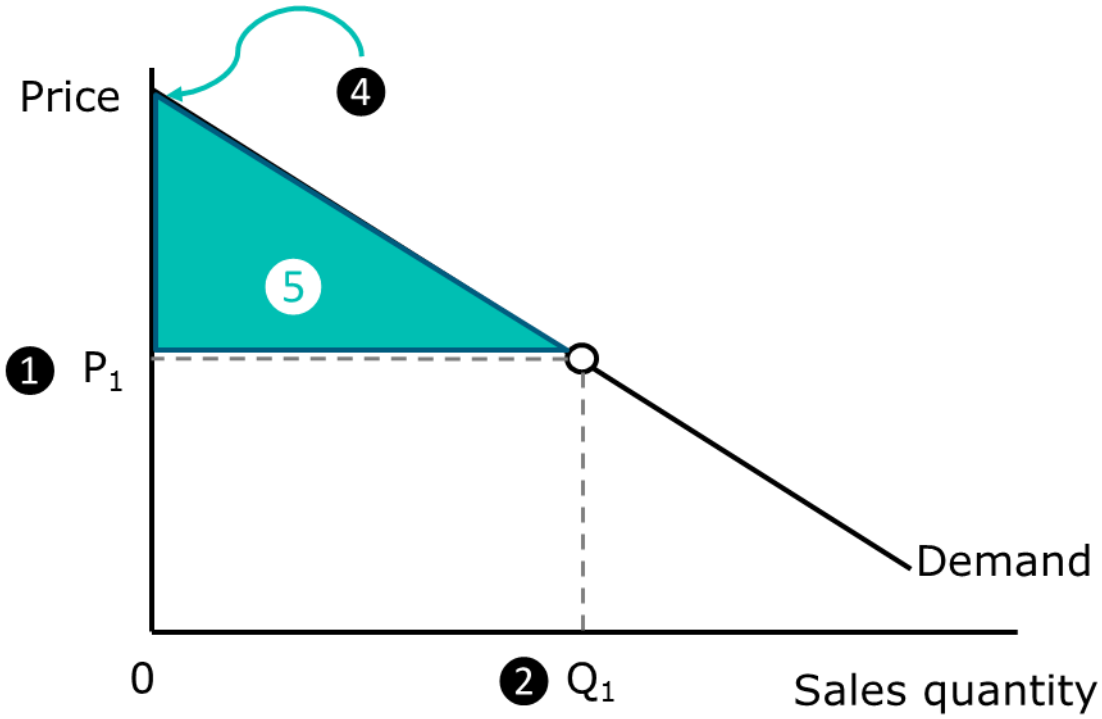
74 At higher prices, consumers are willing to buy less of a good or service. As the price falls, they buy more. Therefore, the demand curve is downward-sloping.

Table 8.3: Summary table for post-intervention calculations (September 2015 to August 2016 data)

	Add-on	Standalone	Total	Comments
(1) Price	£379	£177		Firms' data, weighted monthly average
(2) Quantity	940,856	84,721	1,025,577	Firms' data, annual sales; add-on sales reduced by 19.4% based on causal sales analysis
(3) Price elasticity of demand	-1.87	-1.87		= add-on price / (add-on price - marginal cost); marginal cost = standalone price; assumed that these are the same in both markets
(4) Price that makes quantity demanded = 0	£581	£271		(quantity = a + b*price, therefore price = (0 - a) / b); b = (3) * [(2) / (1)]; a = (2) - b*(1)
(5) Consumer surplus	£95,027,977	£11,128,005	£106,155,981	= 0.5 * [(4) - (1)] * (2). Additional calculations required for add-on to compare observed sales and remaining over-purchasing

Source: FCA analysis of GAP insurance transaction data provided by firms; CP14/29

Figure 8.2: Illustration of the different rows in Table 8.2 and Table 8.3



Source: FCA analysis
Note: We do not show the price elasticity of demand on the graph. It is the change in the slope as we move along the demand curve.

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