

The complaint

Mr R complains that he was mis sold GAP insurance by Carfinance247 Limited

What happened

In October 2023 Mr R was supplied with a car and entered into a hire purchase agreement with Blue Motor Finance (referred to in this decision as “the finance company”). The finance agreement was brokered by Carfinance247, who also provided information about a Guaranteed Asset Protection (GAP) insurance policy.

Mr R decided to take out the GAP insurance on the basis of his understanding that the policy would cover any shortfall between the amount due under the finance agreement and the value of the car in the event the car was written off.

In May 2024 Mr R contacted the finance company and advised them that the car had been involved in an accident. The car was declared a write off. On 14 May 2024 an early settlement figure of £13,293.20 was generated by the finance company.

Mr R’s insurance company offered a settlement figure of £13,323.00 for the car. Mr R decided that he would keep the car.

Mr R’s car insurance company subsequently transferred a payment of £9659.00 to the finance company. This figure was calculated by deducting the salvage value of the car of £3064.00 and an excess fee of £600 from the insurance settlement figure.

This left Mr R with a balance to pay under the finance agreement.

Mr R raised a complaint with Carfinance247. He said that when he had discussed the GAP insurance with them, he’d been advised that the GAP insurance would cover the full balance due under the finance agreement if the car was written off or stolen. Mr R was unhappy that he’d been left with a balance to pay under the finance agreement which he couldn’t afford as he’d had to pay to have the car repaired. He said the GAP insurance had been mis sold to him. Mr R also raised a complaint that he’d been charged an additional £25.99 for GAP insurance after he’d claimed on it, that he wasn’t made aware of the Paint and Upholstery Kit included with his finance agreement and that he wasn’t made aware that he needed to sign an agreement with Premium Credit Limited (“PCL”) after the sale of his GAP insurance and wasn’t made aware that there was a charge of £25 if the PCL agreement wasn’t signed.

Carfinance247 didn’t uphold the complaint. It said it had reviewed the call between Mr R and its agent dated 31 October 2024 and that Mr R had been advised that in the event of the car being written off or stolen, the GAP insurance would pay the difference between the market value of the car and what Mr R had paid for the car including any accumulated interest at the point the vehicle was written off. It said that Mr R had also been advised about the £25 charge if the PCL agreement wasn’t signed within 28 days. Carfinance247 said it didn’t agree that it had done anything wrong in relation to these aspects of the complaint. In relation to the part of the complaint about the additional charge of £25.99 for the GAP insurance Carfinance247 said it had cancelled the GAP insurance and direct debit payments

and refunded £51.98 to Mr R's bank account. In relation to the Paint and Upholstery Kit, Carfinance247 said it agreed that this hadn't been properly disclosed to Mr R. It apologised and said it was issuing a refund of £199.00.

Mr R remained unhappy and brought his complaint to this service. His main complaint is about what he believes was a mis sale of the GAP policy. The other issues have largely been resolved.

Our investigator didn't uphold the complaint. They said they had listened to the call where the GAP policy was sold to Mr R and they were satisfied that Mr R had a clear understanding of how the policy would work and that he had been sent information which he needed to review and agree to. The investigator said the information provided to Mr R clearly stated that the policy did not cover the salvage value of the car where ownership of the car wasn't transferred to the insurance company and said that by retaining the car, Mr R had retained an asset with value. The investigator said they were also satisfied that Mr R had been advised during the call that there as a charge of £25 if he didn't sign and return the PCL agreement within 28 days.

Mr R didn't agree so I've been asked to review the complaint.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I know it will disappoint Mr R, but I agree with the investigators opinion. I'll explain why.

I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant. If I don't comment on any specific point its not because I've failed to take it on board and think about it but because I don't think I need to comment on it in order to reach what I think is the right outcome.

The complaints which Mr R raised regarding the additional £25.99 he was charged for the GAP insurance after he'd claimed on the policy and the inclusion of the paint and upholstery kit in the finance agreement have been resolved with refunds already issued to Mr R. So, I'll limit this decision to the sale of the GAP policy and the £25 charge for not signing the agreement within 28 days.

For the avoidance of doubt, I won't be looking into the insurance settlement payment or how the payment under the GAP policy was calculated. If Mr R is unhappy about the calculations for the settlement, he will need to raise a complaint directly with the finance company and/or the GAP insurance provider.

It may help if I explain briefly how GAP insurance works. Insurance providers will usually pay the current market value of a car in the event of a total loss claim. GAP insurance covers the difference (or the "gap") between the amount the insurance provider pays and the amount you would need to buy an equivalent car. So, for example, if someone buys a new car for £30,000 and it is written off within the first year, an insurance provider might only pay £25,500 as a total loss payment. If the driver has GAP insurance, they can expect to receive £30,000 as a total loss payment. This is a simplified explanation and there are different types of GAP insurance which work in different ways. Where a car is financed (as is the case with Mr R's vehicle) GAP insurance cover aims to pay the difference between the insurers valuation of the car at the time of total loss and the amount outstanding on the finance agreement at the time of the claim.

I've reviewed the call in which the GAP insurance policy was sold to Mr R. The agent advised Mr R that if the car was written off or stolen, the GAP policy would pay the difference between the market value and what he purchased the car for. Based on what I've heard in the call, Mr R understood how the GAP policy worked.

During the same call, the agent advised Mr R that he would receive an email inviting him to register on a website and review the agreement and sign it within 28 days otherwise a £25.00 charge would be incurred. Mr R didn't return the agreement within 28 days so I'm satisfied that the charge was correctly applied.

Mr R has said that he was advised that the GAP insurance would cover the whole balance due under the finance agreement. Having listened to the call, I haven't found any evidence that this was said, although I do agree that this is the principle behind GAP insurance on a financed vehicle as I've explained above.

What makes Mr R's case different is that he chose to retain the vehicle after it had been declared a total loss. I've reviewed the information which was provided to Mr R about the GAP insurance, and it makes it clear (under the heading "What you are not covered for") that the salvage value of the insured vehicle is not covered by the GAP insurance where you are not required to transfer ownership of the vehicle to the motor insurer.

Based on what I've seen, I'm satisfied that Mr R was made aware that he wouldn't be covered for the salvage value of the vehicle, which was (according to the information I've seen) £3064.00.

By retaining the car, Mr R has kept a car which has a value, notwithstanding that it was declared a total loss for insurance purposes.

I appreciate that Mr R wasn't expecting to owe money under the finance agreement and that he was expecting the GAP insurance to cover any sums he owed. But Mr R's decision to retain the car means that a balance is payable.

Taking everything into consideration and based on the information I've reviewed, I'm unable to say that Carfinance247 made an error or treated Mr R unfairly here. Nor have I found any evidence to suggest that the GAP insurance was mis sold. Because of this, I won't be asking Carfinance247 to do anything further.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask to accept or reject my decision before 27 January 2025.

Emma Davy
Ombudsman