

Auto dealers selling GAP cover for 'upside down' price protection

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NEW YORK (Dow Jones/AP) — Car dealers are peddling more insurance to fill the gap between the value of a car and how much its driver owes.

Once almost exclusively used in lease contracts, GAP insurance is creeping into more traditional car loans. GAP — which stands for guaranteed auto protection — promises to pay the difference between a vehicle's value and the loan balance if the car is totaled or stolen.

The policies help address a dilemma that car buyers are increasingly finding themselves in, dealers and insurance executives said. Thanks to generous incentives, no-money-down deals and long-term loans, more consumers are finding themselves "upside down" — industry parlance for owing more than the vehicle is worth — for a longer period. That means that if their car is stolen or totaled in an accident, they may actually have to write a check to the bank.

"There's a yawning gap that's developing between the actual cash value of the car and what you still owe on it," said Bob Hartwig, economist at the Insurance Information Institute.

Needing GAP insurance can mean someone is stretching to own more car than their finances can handle. Or, the buyer may have been tempted to take on a longer-term loan to reduce the monthly payments — a strategy that has its downside since they'll be carrying the payments as the car's value dwindles.

Sales of these policies are growing and becoming an increasingly important profit center for dealerships and specialty insurers.

For example, City Toyota of Daly City, Calif., sells the GAP policies for between \$395 and \$495 which would be added to the cost of a car, according to owner Jim Wardy.

Allstate Corp. entered the business when it acquired American Heritage Life Insurance Co. and its First Colonial Insurance Co. division in 1999. At First Colonial, which starting underwriting GAP policies for dealerships about three years ago, sales now make up more than 60 percent of its business, up from less than 5 percent two years ago, said president Tony Wanderon.

The financing and insurance arms of General Motors Corp., Ford Motor Co. and DaimlerChrysler AG offer GAP policies through their dealers, typically capped at about \$500. Sales of GAP policies offered through GMAC Insurance, for example, have been doubling each year and are currently on a pace to exceed 60,000 contracts a year.

"The product itself is probably the second most popular purchased product behind extended service contracts over the last two years," said Dean Grant, divisional manager at American Financial & Automotive Services Inc., a League City, Texas, seller of GAP insurance to dealerships and banks.

Dealers typically sell its GAP policies on about 37 percent of the contracts they finance, an increase of almost 30 percent over the last two years, he said. Payouts have also increased: The average GAP claim is about \$2,200, up from \$1,900 two years ago.

For the buyer, prices of GAP policies can vary widely, depending on state regulations, the vehicle type and loan amount. Many dealerships sell the policies for about \$500, but better deals might be offered by local credit unions or insurance carriers.

For owners of cars with coveted vehicle parts or reckless drivers, the GAP policies could make sense, especially if they frequently trade in their vehicle and tend to roll over existing loan balances into new loans, experts said.

But the policies aren't for everyone. Drivers should to think through the probability that they'll need the coverage, keeping in mind that these policies typically pay out only if the vehicle is totaled, not just damaged.

Owners probably won't need GAP if they put down a large enough down payment.

"If you put down 20 percent on a car, you're going to be ahead of the depreciation curve," said Jeff Ostroff, chief executive of Carbuyingtips.com of Fort Lauderdale. □