DEPARTMENT OF CONSUMER & BUSINESS SERVICES

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Guaranteed Auto Protection and Credit Insurance Disclosures

Senate Bill 273

Background: Guaranteed Auto Protection (GAP) insurance protects drivers against losses that can arise when the amount of compensation received from a total loss does not fully cover the amount the driver owes on their vehicle's financing or lease agreement. GAP coverage is required in vehicle leasing contracts and is strongly encouraged in situations such as purchasing a vehicle with little to no down payment. Although this form of insurance provides a level of protection if a vehicle is totaled, many consumers are unaware of its different nuances or fail to receive effective disclosures regarding the coverage. For instance, GAP insurance can only be used while loan or lease payments are being paid and does not cover items such as auto insurance deductibles. GAP insurance also would not cover balances beyond an auto insurance policy's portion of the physical damage settlement, which may affect consumers whose vehicles are overfinanced due a prior vehicle loan being rolled into the new vehicle's loan. While GAP insurance is most often purchased from a dealership as part of a sales contract, few customers are aware that there often are less expensive GAP coverage options available from their own or another auto insurance carrier.

Credit insurance works in a similar fashion for goods purchased with credit such as furniture purchased through in-store financing. This type of insurance covers damages to goods purchased through a credit transaction or used as collateral for the transaction.

The Insurance Code grants the Department of Consumer and Business Services very limited authority over these types of insurance products.

Concept: SB 273 provides transparency and protections for consumers who buy GAP or credit insurance coverage. Examples of the concept's provisions include:

- requiring the acceptance of GAP or credit insurance coverage from other sources beyond their recommended entity in which the vehicle or property item is purchased, such as a consumer's insurance carrier;
- standardizing the way that total loss is calculated for GAP policy settlements;
- listing insurance charges separately from any other loan charges;
- limiting the period of coverage to the beginning and end of the loan transaction;
- limiting charges to the period of effective coverage; and
- requiring a fair notice of coverage renewal or cancellation.

The proposed increased protections are based on National Association of Insurance Commissioners (NAIC) model law language.

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