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Thanks to confusion about agreed values and [gap insurance](#), thousands of drivers are being short-changed every year because of an anomaly between what they think they'll be paid in the event of an insurance claim and what they'll actually get.

It works like this: when you take out a motor insurance policy, you will be asked by the insurer what you consider to be the insured value of the [car](#). This is then stated on your policy. But if your car is written off, you will hardly, if ever, get this.

Insurance expert Peter McKenna, managing director of the AMS Group, explained: "The term insured value is meaningless in the event of a claim as the motor insurer is not obliged to pay this amount unless it's an agreed value policy, usually only available on classic cars with an additional premium. They will generally only pay what they consider to be market value."

You won't be surprised to hear that what insurers consider to be market value tends not to be market value and is always lower than the insured value. So what do you do to get a fair settlement? The only thing you can do if you feel hard done-by is lodge a complaint about your insurer with the Financial Ombudsmen Service.

Car owners cottoning on to this have contributed to a boom in Gap insurance. This cover is designed to make up the difference between what your regular insurer pays out to write your car off and the car's original purchase cost, or any outstanding finance if it's been bought on credit. But given regular motor insurers' reluctance to pay market value, you also have to make sure Gap insurers aren't exploiting the same loophole. There is a product called Insured Value Gap. But this only covers the difference between what you paid for the car and its insured value. And as we've seen, the insured value is frequently significantly more than what an insurer will actually pay out. The result is you could be paying extra for Gap insurance and still be out of pocket if your car's written off.

How to buy the best gap insurance

Gap insurance can be beset with terms and conditions, but what are the main pitfalls to look out for?

"If you are taking out Gap insurance, it's important to make sure it covers the difference between what you paid for the car and the motor insurance settlement you will actually get, not the insured value," McKenna said.

Gap cover is beset with terms and conditions, caveats and disclaimers. In order to spot policies that are worth taking out - or avoiding - I asked McKenna, whose company has been supplying this cover since 1992, to guide me through the ins and outs. He explained: "Gap provides very worthwhile cover, but only if you choose the right policy. As onerous as it might sound you do need to read the full policy wording. The old adage of insurers giving it to you in the big print but taking it away in the small is sadly very relevant in many Gap policies.

"Frequently Gap cover may look competitively priced. But as with any other insurance, concentrate on the actual cover you're getting rather than the price you're paying. Cheap policies, usually through small online brokers, frequently don't cost much because they will have terms in them designed to allow the cover provider to wriggle out of paying.

"Look out for, and steer clear of, 'Limited claim periods'. These can be unrealistically short, usually only 30 days, and mean you may not be able to claim on your Gap cover if, for example, your car has been stolen and isn't recovered within the limited claim period. Avoid Pre-approval too. This doesn't allow you to accept an offer from the vehicle's insurer without the Gap company's permission. It effectively means the Gap provider can avoid paying out by continually rejecting offers from the vehicle's main insurer.

"Also, find out which underwriter the Gap provider uses. You don't want to be using a Gap provider with a small off-shore underwriter. This could mean you may not have the same consumer protection as with a UK-registered underwriter. And finally, if a Gap broker, insurer or comparison website has a five-star rating, don't take any notice of it. Frequently Gap brokers pay for these and they tend to be based purely on the price charged rather than the cover provided."