

Consumer Alert

October 21, 2008

Risks Associated with Purchasing Group Creditor Insurance Products through Vehicle Dealerships

The Superintendent of Financial Institutions (“FICOM”) has recently observed some market conduct practices, in the sale of vehicle financing group creditor insurance products in British Columbia, which may impact consumers. This alert is provided to consumers to remind them of the risks associated with purchasing group creditor insurance products through vehicle dealerships.

What is Group Creditor Insurance?

Vehicle dealerships often sell group creditor insurance to cover vehicle loan or lease payments if the purchaser dies or becomes ill. It's usually offered when consumers are arranging the financing or leasing for a vehicle.

Group creditor insurance may provide benefits such as life, disability or critical illness coverage, subject to the terms and conditions of the Certificate of Insurance. Benefit payments are made directly to the lender and may consist of a lump sum benefit for certain types of claims (for example, paying off a loan), or for other types of claims, benefits can help make the required payments on a loan or lease for a period of time.

These policies usually contain a pre-existing condition provision which is a form of exclusion from insurance coverage. This exclusion typically provides that for a certain time after the insurance takes effect, no benefits will be payable for some claims resulting from medical, or other conditions that existed before the insurance was taken out.

The contractual provision may differ among products and insurers. If the particular policy contains a pre-existing condition exclusion, full details will be contained in the certificate of insurance provided to the borrower at the time of enrolment in the plan. This allows individual borrowers to determine if they have any medical conditions that may be excluded from a claim.

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Risks Associated with these Products

The insurance is designed and priced on a group basis. This means that unlike many kinds of individual insurance, there is very limited medical underwriting, if any, so most borrowers will qualify for coverage. The initial application for this type of coverage generally asks the borrower to answer only a few health questions. In some cases, the borrower is not asked to answer any health questions at all. If health questions are asked, consumers must answer them truthfully and completely, as failure to do so may result in coverage being void.

If the policy holder dies or becomes ill, and the cause of death or illness was related to a pre-existing medical condition, the policy may not pay out.

FICOM is concerned that the sellers of this insurance don't always inform the buyer about or understand the pre-existing condition clauses often found in the policy's fine print. Even though these people are exempt from licensing, they have a duty to advise consumers about the terms of these policies and whether consumers should purchase them. Finance arrangers make large commissions selling this kind of insurance.

Things to Consider before Purchasing these Policies

- Consumers are advised to check their existing life insurance policies first, to determine how much coverage they have and assess whether that amount is sufficient to meet their objectives, including paying off debts, like a car loan or lease.
- Consumers are advised to thoroughly review the limitations and exclusion provisions contained in the insurance certificate so they can determine whether or not this product is suitable for their particular circumstances before purchasing where ever possible. These policies are often sold to people who may not qualify medically or otherwise.
- Insurance sellers should discuss the pre-existing conditions with the consumer. If the seller is unable to explain everything satisfactorily, call the insurance company or a licensed insurance agent or salesperson.
- If there are any doubts about a policy, consumers should be aware that most group creditor insurance policies allow a minimum of 10 days for the consumer to examine their Certificate of Insurance after they enroll and choose to cancel it. When coverage is cancelled during this "free look" period, 100% of the premium collected is usually returned to the consumer.

What to do when Consumers have Complaints against an Insurance Company?

If you do have a complaint about the insurer, the first step is usually to attempt to resolve it directly with the insurer. Most insurers have an internal complaints handling

process that is designed to ensure that customer complaints are handled in a timely, professional, fair, and efficient manner. Contact the insurer directly and ask for information on its complaints handling procedures or ask to speak with its complaints officer, internal ombudsperson or person responsible for complaints.

If you are unable to resolve the matter with the insurer directly, there are other resources that may be able to assist you.

The Canadian Life and Health Insurance OmbudService (“CLHIO”) offers a national industry-based dispute resolution system for consumers of financial services provided by life insurance companies. This service deals with concerns about life and health insurance products and services that have not been resolved through a company’s internal dispute resolution system.

The CLHIO’s dispute resolution service can be reached at:

Canadian Life & Health Insurance OmbudService
20 Toronto Street, Suite 710
Toronto ON M5C 2B8

Telephone: 1 888 295-8112
Facsimile: 1 416 777-9750
Web URL: <http://www.clhio.ca/>

If you still have not been able to resolve the matter to your satisfaction or you believe the insurer has failed to comply with the legislation or is engaged in practices that are harmful to consumers, please provide your complaint to this office:

Financial Institutions Commission
1200 – 13450 – 102nd Avenue
Surrey BC V3T 5X3

Telephone: 604 953-5300
Facsimile: 604 953-5301
Web URL: <http://www.fic.gov.bc.ca>

FICOM does not intervene in claims disputes. It is neither our role nor is it appropriate for FICOM to mediate, arbitrate or otherwise attempt to obtain to resolve a consumer claims disputes. However, if the insurer is engaged in practices prohibited by the legislation or inappropriate behaviour, we may investigate your complaint.