

Secondary insurance: Do consumers have all the useful information?

Executive summary and final report (condensed version)

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Consumers are highly solicited by insurers and financial institutions vying to offer them new insurance products. Insurance is thus offered to consumers that is relevant and necessary, insurance that is interesting and at times useful, insurance that covers minor needs, but at times insurance that is of highly dubious usefulness. With few exceptions, no insurance can be evaluated at first sight; an anxious consumer may feel the need to obtain coverage deemed useless by another consumer; a subscriber may find a premium insignificant if it gives him peace of mind, whereas the same amount may upset the budget of a consumer with a lower income.

Consumers seek peace of mind and financial security from insurance. Insurers don't hesitate to advertise their products in line with those needs, and emphasize consumers' fears of a dramatic incident that could occur and turn their lives upside down, even if the risk is almost nonexistent, or if the advertised benefits are almost impossible to obtain or don't match the subscriber's expectations.

In some cases, a more complete policy, which the consumer may already have, would better cover the risk. The insurer likely doesn't know that without having taken the time to learn about the consumer's actual needs and situation. Other policies cause more problems than they solve, and provoke a lot of consumer dissatisfaction and complaints.

What do consumers need in terms of information about secondary insurance? What are the main problems that consumers experience with such insurance? Does the information they receive from promotions and other representations inform them adequately of all the essential elements of a contract? Do consumers consider themselves, and are they really, able to make an informed decision when taking out secondary insurance?

Our research aimed mainly at learning whether current Canadian regulations and practices ensure that consumers have adequate information – particularly on prices, actual coverage, exclusions – for making informed choices when purchasing secondary insurance.

We selected five secondary, supplementary or incidental insurance products, to examine their actual coverage, their usefulness and the companies' advertisements; whether such coverage posed specific or recurrent problems; and whether Canadian regulations sufficiently protect against problematic aspects. We also explored whether foreign legislation had adopted better regulations for those problems, and would thus deserve closer attention.

Our analysis of five types of insurance – covering credit card balances, accidental death, serious illness, life insurance for children, and identity theft – revealed cases of dissatisfied consumers, as reported by traditional and social media and by consumer rights groups. Many consumers and experts reported that some of those policies are not relevant, depending on a subscriber's particular situation – especially when existing insurance already covers the risk.

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Some secondary insurance policies are considered as practically useless, others as poor investments, and others as misleading, given the many exclusions not disclosed to subscribers or that more benefits are presented to consumers than are actually provided. Moreover, some secondary insurance policies are so restrictive as to cover much less than many consumers believe.

Credit card balance insurance, which is widespread, appears to entail more problems (denial of compensation, ineligibility, belated discovery, etc.) than protection for consumers experiencing difficulties, and in any case the benefits would be very limited.

However, with few exceptions, no insurance is totally useless. Usefulness depends on the subscriber's particular situation, existing coverage, and values and priorities. Still, our analysis of secondary insurance policies demonstrates that some policies should be at the bottom of a list of policies that people would purchase, given the many exclusions, the high cost compared to potential benefits, possible overlapping with coverage already held by the consumer, etc.

Among policies of limited use, many commentators include life insurance for children. Such policies become useful only if they allow the child to retain his coverage upon reaching the age of majority and to increase the amount of his life insurance.

Many critics think secondary insurance and the companies' sales methods, along with their premiums, should be strictly regulated.

Our survey of stakeholders (financial institutions, insurers and consumer oversight and/or protection organizations) obtained data on the number and nature of complaints about the various secondary insurance policies examined. The data provided by the AMF show that insurance policies covering serious illness and credit card balances generate the most complaints, mainly about problems related to claims. Complaints about representations and sales are also frequent.

For the majority of the policies examined, no data on penetration rates was publicly available. And apart from data provided by the AMF, we obtained no information on complaints received by insurance companies. In addition, in relation to the policies examined, no data on penetration rates was publicly available. But despite the difficulty in obtaining data, our survey enabled us to draw a portrait of the examined policies' subscription rates and the problems they can entail.

It was found that many consumers hold secondary policies (almost 40% of respondents hold accidental death insurance and almost 25% hold serious illness insurance). The survey's results point to a major problem regarding pre-purchase information: on average, one-quarter of respondents discovered important information about their policy by reading documentation after their purchase. Between one-third and half of respondents discovered information or the list of exclusions after purchasing insurance, since that information had not been disclosed to them at the time of purchase. Moreover, the survey demonstrated that between 7 and 17% of respondents had encountered a problem with their insurance. All this confirms the importance of

a strict regulatory framework, especially since consumers are greatly solicited regarding those types of insurance.

Our findings show that existing legislation, although it may help mitigate some problems, is clearly insufficient in dealing with the actual or potential problems we identified. Our analysis of applicable regulatory frameworks in Canada indicates many shortfalls, all the more apparent when Canadian regulations are compared with those of some foreign jurisdictions.

Our research leads us to conclude that a better regulatory framework for everything related to information could solve almost all the problems we identified. To effectively counter those problems and ensure that consumers are well informed when secondary insurance is offered or when they decide to subscribe to it, certain principles must be applied.

First, the information provided to consumers before they take out insurance must clearly identify what is covered and excluded by the policy. Those essential aspects must be fully defined, in a manner understandable to the consumer. It is important to avoid giving the consumer false expectations regarding what is covered. He must also know precisely that certain elements likely included in the coverage's definition are excluded elsewhere by specific rules, or that certain circumstances would make the coverage inapplicable.

The benefits that may be paid to the consumer, and the circumstances that would enable those benefits, must also be defined precisely.

That information must be offered to the consumer at the opportune time, i.e. before or at the moment he takes out the insurance. The consumer must have at hand the complete information that will enable him to make an informed choice. It's not at the moment of filing a claim that the consumer should learn what is covered or what he is entitled to, but before he decides whether or not to subscribe. A claim should never be refused for a reason the consumer could not reasonably expect.

Given the nature of insurance products, it seems obvious that only the insurer is able to inform the consumer adequately. So the insurer should bear the entire burden of informing consumers, and of ensuring that they are able to clearly understand a product's essential features. The insurer should be bound at all times by its representations about its insurance product, and the contract, including those representations, should always be interpreted in favour of the consumer.

The insurance seller should always act in the consumer's best interests. The number of policies of doubtful usefulness that we identified shows clearly that this is not always the case, despite the ethics rules that should apply. Given the product's complexity and the risks taken by a consumer who believes he's covered, but will discover that he isn't, it must be ensured that the insurance seller has no conflicts of interest. It must also be ensured that the seller collects sufficient information from the consumer to be capable of offering him a product that meets a need, is appropriate, and is the best possible one in the circumstances.

Consumers must have access to the same quality and quantity of information, and to equivalent protections, however they gain access to secondary insurance.

The insurer is more able to determine the information required to assess its risks, so in all cases it should be responsible for obtaining information from a consumer who wants to take out insurance. Thus, it would be appropriate to restrict the consumer's responsibility to disclose information, and to prohibit the insurer from rejecting a claim because some information it did not expressly request was not provided to it.

Our recommendations pertain to concrete applications of those principles, so that a sounder and more balanced insurance market may emerge that better protects consumers.

Recommendations

Regarding information

- Whereas many secondary insurance products are complex and include restrictive coverage with multiple exclusions;
- Whereas the coverage of many secondary insurance policies is not sufficiently explicit to enable consumers to clearly understand what is and what is not covered;
- Whereas the exclusions of many secondary insurance policies are not disclosed clearly enough to enable consumers to make informed decisions;
- Whereas many secondary insurance policies present definitions (of the illnesses covered, notably) that consumers are unlikely to understand;
- Whereas an insurance offer that does not sufficiently specify the coverage or benefits offered is likely to mislead the consumer and have him believe that the insurance is more valuable than in reality;
- Whereas consumers could see their financial situation seriously harmed if in the end they are not eligible for the insurance to which they subscribed, or if the benefits they expected are not those offered by the insurance;
- Whereas the consumer will be correctly informed and will be able to make an informed choice only if the information is provided to him in a timely manner and is accurate, exhaustive and understandable;
- Whereas the information provided to consumers about secondary insurance policies is not always presented in such a way as to inform them adequately of all the essential elements of a contract (coverage and exclusions, notably);
- Whereas provincial provisions already exist that regulate the information that must be provided to customers;
- Whereas the information presented to consumers remains problematic, despite current regulations;
- Whereas the problems most often reported and publicized pertain to claims related to the definitions and exclusions of contracts;
- Whereas the existence of clear guidelines and provisions regarding the disclosure of precontractual information would likely ensure that consumers receive information that is more complete and adequate;
- Whereas Europe's Insurance Distribution Directive (IDD) requires that a standardized, precontractual, 2-page information document be provided that includes the products' main guarantees, exclusions and restrictions;
- Whereas our survey revealed that: more than half of Canadians hold secondary insurance; a significant proportion estimate that they did not receive all necessary information before subscribing; and more than half report having obtained some important information after their purchase;
- Whereas our survey also revealed that missing information usually pertains to exclusions, cancellation, what must be declared, and possible overlapping with other policies already held;

Union des consommateurs recommends that provincial lawmakers require insurers to further simplify (clear and plain language) insurance contracts and other information documents related to insurance;

Union des consommateurs recommends that provincial lawmakers require insurers to provide consumers with a standardized, precontractual, 2-page document that would include the main guarantees, exclusions and restrictions of products and benefits; it would be mandatory that the document be signed or initialled by the consumer, and opt-out consent should be strictly prohibited;

Union des consommateurs recommends that provincial lawmakers decree that any insurance contract that has been entered into without such a document, in compliance with the prescribed model, be deemed to be nil;

Union des consommateurs recommends that provincial lawmakers prohibit any refusal of compensation on the basis of an exclusion that had not been disclosed expressly and in a manner clearly understandable to the consumer;

Union des consommateurs recommends that provincial lawmakers prohibit any compensation limit on the basis of a restrictive interpretation of the coverage and benefits that had not been disclosed expressly and in a manner clearly understandable to the consumer;

Regarding representations

- Whereas in many cases, insurance agents' representations don't enable consumers to evaluate correctly whether an secondary insurance product is suitable for them;
- Whereas policies are generally products sold rather than shopped for;
- Whereas consumers are at times doubly or triply insured for the same risk;
- Whereas certain sales practices lead consumers to take out insurance they don't need or to which they aren't eligible;
- Whereas consumers are poorly informed of statistics that would enable them to assess the actual risk against which insurance is offered to them;
- Whereas insurance advisors and agents should always act in the best interests of consumers, take their needs into account and only offer them products that best meet their needs;
- Whereas our survey revealed that almost one-third of its respondents have found in their account statement certain fees for coverage they had not known existed;
- Whereas strict interventions by regulatory authorities in foreign jurisdictions have had the effect of disciplining the market;

Union des consommateurs recommends that the responsible monitoring and regulatory organizations exercise greater vigilance regarding precontractual offers and representations made for secondary insurance, to ensure compliance with the letter and spirit of the law and to intervene quickly when such is not the case;

Union des consommateurs recommends that provincial lawmakers adopt a regulation requiring insurers to perform an analysis of a customer's needs before selling him secondary insurance;

Union des consommateurs recommends that provincial lawmakers provide by law that insurers are bound at all times by the representations they make about their insurance products,

and that secondary insurance contracts, along with those representations, are always interpreted in favour of consumers;

Union des consommateurs recommends that regulatory and monitoring organizations strictly apply, notably, regulations regarding false or misleading representations, penalize offenders and impose fines when laws are violated;

Union des consommateurs recommends that insurers as well as insurance advisors and agents be obliged always to act in the consumer's best interests, to avoid practices likely to generate conflicts of interest, and to offer the consumer only the product that best meets his needs;

Regarding the possibility of acquiring secondary insurance via different distribution channels

- Whereas consumers acquire various insurance policies via different distribution channels;
- Whereas information provided to consumers may differ according to the distribution channel through which they acquired insurance;

Union des consommateurs recommends that lawmakers ensure that consumers have the same level of information and equal protections, whatever the distribution channel;

Regarding the information imbalance

- Whereas the consumer is currently responsible for disclosing any information likely to affect his insurability;
- Whereas nondisclosure of information by an insured party when taking out insurance is one of the reasons regularly cited by insurers for rejecting a claim;
- Whereas the insurer should be responsible for making sure to request specifically all the information it wants to obtain;
- Whereas French, British and New York legislation has provided regulations ensuring a better balance regarding those requirements;

Union des consommateurs recommends that provincial lawmakers restrict, in the context of consumer contracts, the information disclosure burden imposed on consumers;

Union des consommateurs recommends that provincial lawmakers prohibit insurers from terminating a contract or refusing compensation because a consumer has not provided them with information they did not expressly require;

Union des consommateurs recommends that the federal government ensure that provincial legislation be harmonized so that all Canadians can benefit from the highest possible insurance protection.

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