

Credit card balance insurance

From: Financial Consumer Agency of Canada

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What to know about credit card balance insurance

~~Credit card balance insurance can be expensive. It's often marketed and sold in a way that does not take all your needs and circumstances into consideration. It may not offer you the best insurance coverage.~~

~~Credit card balance insurance, sometimes known as balance protection insurance, is a type of credit or loan insurance which pays down or pays off your outstanding balance (subject to any limits in the policy) or makes monthly payments on your behalf to your credit card issuer if a covered occurrence happens to you.~~

~~If you already have enough term life insurance, disability insurance, job loss insurance, critical illness insurance, and rainy day/rainy-day funds in place, you may not need credit card balance insurance. However, if you wouldn't have enough money to continue making your minimum monthly payments on your credit card if your income was reduced or interrupted by unforeseen circumstances, credit card balance protection insurance is an option to consider.~~

~~Credit card balance insurance is not sold by a licensed insurance representative; therefore it does not include a full analysis of your financial circumstances and insurance protection needs as financial institutions are not legally permitted to offer consumers advice when offering credit card balance-of insurance or other types of credit and loan insurance. As with the purchase of any type of insurance coverage, you should consider whether it is appropriate insurance coverage for you.~~

Commented [BW1]: This opening assertion does not take into account the legal and regulatory restrictions which FRFIs face in distributing insurance products to consumers. Banks are only permitted to promote Authorized Insurance Products; they are not permitted to conduct insurance needs assessments with consumers, nor can they refer consumers to licensed insurance agents or insurance companies who would be able to provide other types of insurance products. The tone of this opening assertion may mislead consumers into thinking that banks have the ability to offer other types of insurance products (such as term life insurance or individual disability insurance) or have the ability to conduct an insurance needs analysis with consumers but choose not to do so, when that is not the case.

This opening statement may also deter consumers from even considering creditor insurance altogether, including those consumers who may not be eligible for other types of insurance coverage. There are many factors which a consumer should consider in deciding upon the insurance option that best meets their needs. For example, some consumers with health complications would be declined for individual insurance coverage but may be accepted under a creditor's group insurance policy. Consumers should be encouraged to review their options and should be given guidance on how to equip themselves to make an informed decision.

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Commented [BW2]: Many consumers prudently decide to have both individual insurance and/or group insurance (such as through their employment or an Association) and credit insurance as well as complementary coverage. The individual insurance is intended to cover lost income, final expenses, survivor support, children's education, etc. The credit insurance, in contrast, is purposefully chosen to provide coverage for paying down or paying off a debt obligation. Please see "CAFII Outreach Questions & Answers on Creditor's Group Insurance and Alternate Distribution" which is an integral Appendix to this submission. CAFII would like to meet with FCAC officials to discuss and clarify the content of that Appendix, as it addresses many misperceptions and ... [1]

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You may be offered credit card balance insurance when you apply for a credit card, or are activating a credit card. ~~This is also called balance insurance. Balance insurance is a type of credit and loan insurance.~~

~~B~~Credit card balance insurance is optional insurance that's a separate product from your credit card. You don't need to buy credit card balance insurance to be approved for a credit card.

~~Credit card balance insurance can reduce the burden of making payments to your credit card issuer and help protect your good credit rating, should a covered occurrence such as job loss, disability, critical illness, or death happen to you.~~

Credit card balance insurance commonly includes the following types of coverage that may help make credit card payments if you:

- ~~job loss insurance~~lose your job
- ~~disability insurance~~become injured or disabled
- ~~become critically ill~~ness insurance
- ~~die~~ life insurance

The amount and the duration of benefits under credit card balance insurance vary depending upon the particular insurance product designed by the credit card issuer. For example, if you lose your job or become injured or disabled, credit card balance insurance may pay a set percentage of your credit card balance per month (for example 5% to 10% of your balance) up to a maximum amount every month for a period of 10 to 24 months. Or, if you become critically ill or die, credit card balance insurance will pay off your balance in full or up to a maximum amount.

As with all types of insurance, it is important that you read the your certificate of insurance for the credit card balance insurance you're being offered, to ensure that you fully understand the coverage provided, and any limitations and exclusions. Ask questions if you don't understand what's covered. Credit card balance insurance has important limiting definitions and exclusions on related to the coverage it provides. For example, just as with individual critical illness insurance policies, under some certificates of insurance for credit card balance insurance policies, not all types of cancer may be included in the definition of "critical illness" for which a benefit will be paid. As with any type of insurance that you're considering purchasing, you should read your insurance certificate policy carefully and ask questions if you don't understand what's covered.

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~~For some people, depending on how much coverage they have in place for life insurance, disability, job loss and critical illness, they may not feel that they need credit card balance insurance. This is a personal decision as everybody's needs and circumstances are unique. Compare the credit card balance insurance coverage you are being offered and its cost with other insurance options which you already have in place or could purchase, to determine if this coverage is right for you and is within your budget. For example, a term life insurance policy, disability insurance policy, or the insurance provided by your employee benefits plan may already provide you with similar coverage; but there may be a difference in cost. Credit card balance insurance might not be suitable or necessary right for you if you have already have enough term life insurance, disability insurance, job loss insurance, critical illness insurance, and rainy day funds in place coverage from another insurance policy. Compare the coverage you would get with other insurance options. For example, a term life insurance policy, disability insurance policy or your employer's insurance plan may already provide you with similar coverage.~~

~~If you have enough savings to pay your balance, or if you pay your balance in full each month, you may not need credit card balance insurance.~~

~~Read the terms and conditions of the credit card balance insurance certificate. If you do not understand what is or isn't covered, ask questions. and ask questions to understand what is and isn't covered.~~

~~Understand the terms and conditions of credit and loan insurance of credit and loan insurance before buying agreeing to be signed up and enrolled in credit card balance insurance.~~

~~Understand your rights and responsibilities before you buy agree to be enrolled in credit card balance insurance.~~

Find out if you have credit card balance insurance

~~You must agree to sign up for and be enrolled in credit or loan insurance before you can be charged for it. This is known as giving your express consent.~~

To find out if you have credit card balance insurance you can:

- check your credit card statement for a balance insurance premium listed under optional products
- check your credit agreement for any optional products
- ~~and their cost~~

Commented [KM(3): This will link to a new section: "Understand terms and conditions of credit and loan insurance" on "Credit or loan insurance." (<https://www.canada.ca/en/financial-consumer-agency/services/insurance/credit-loan.html>)

- check for a certificate of insurance that was issued to you after you agreed to be signed up and enrolled in credit card balance insurance~~came with your credit agreement~~
- contact the financial institution that provides your credit card to ask if you have credit card balance insurance

Find out more about how to check for credit ~~or~~ loan insurance

Signing up for~~Buying~~ credit card balance insurance

You can ~~apply~~sign up for credit card balance protection insurance in person, over the phone or online through:

- banks
- credit unions
- caisses populaires
- stores and other companies that offer credit cards

You can sign up for credit card balance insurance when you are activating a new credit card. Or, you can add it at any time after you've received your card.

If you want to have credit card balance insurance on more than one credit card account, you ~~would~~must need to apply separately buy a separate insurance policy for each card account.

When you get credit card balance insurance, federally regulated financial institutions, such as federally chartered banks, must give you certain information ~~both before you agree to purchase the coverage and after you have been enrolled in the coverage~~both before and after you have been enrolled in the coverage. policy takes effect.

Distributors of credit card balance insurance, such as banks, also can't mislead you about the insurance when you give consent. This means that credit card balance insurance must be explained to you in a way that is accurate, clear and simple.

Commented [KM4]: This will link to a new section: "Find out if you have credit and loan insurance" on "Credit or loan insurance" (<https://www.canada.ca/en/financial-consumer-agency/services/insurance/credit-loan.html>)

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Learn more about eligibility and applying for credit card balance insurance, a type of credit and loan insurance.

Understand your rights and responsibilities when you sign up for ~~buy~~ credit card balance insurance.

Cost of credit card balance insurance

~~For some consumers, c~~credit card balance insurance may be more expensive than other insurance options. ~~However, f~~For other insurance options such as term life insurance, the cost will pricing may depend But that will depend upon your age, gender, and lifestyle habits such as whether you are a smoker or not.

For credit card balance insurance, you usually pay a monthly fee called a premium, usually monthly. You usually pay a monthly fee for credit card balance insurance. This is also called a premium. Premiums vary from one financial institution to another. The amount of the premium depends upon your credit card balance. The higher your balance, the higher your premium. Your premium will change each month depending on the amount you owe. Your premium will be charged to your credit card and will appear on your monthly credit card statement.

Premiums are ~~either~~ calculated ~~either~~ based upon your final monthly balance or as an average of your daily balances. ~~This means that even if you pay off your credit card in full every month, you may still be charged a premium if your card had a balance on it at the end of any day during the previous month.~~

Example:

(See alternate CAFII-proposed Example, Step 1 below, which we believe is easier to understand and more consumer-friendly, following the FCAC-proposed Example for job loss credit card balance insurance. Steps 2 and 3 of CAFII's more consumer-friendly example will need to be calculated.)

Say you have signed up for credit card balance insurance and your monthly premium is \$0.95 per \$100 you owe. This example shows how your premium would be calculated for the month of December, which has 31 days, using the average daily balance method.

Step 1: Find out the total of interim average ~~amount of~~ daily balances

Commented [KM(5): This will link to "Eligibility" section on the page "Credit or loan insurance" (<https://www.canada.ca/en/financial-consumer-agency/services/insurance/credit-loan.html>) This will be a new section on Credit and loan insurance.

Commented [BW6]: This comment, as drafted, could mislead a consumer into thinking that he/she would pay a premium but would not be eligible for a benefit because the statement balance was paid in full at the end of the month. In actual fact, the consumer would be charged a premium but would also be eligible for a benefit even if the credit card balance had been paid in full. For example, if the consumer had a \$2,000 monthly statement balance for January that was paid in full by the due date of February 10, and then the consumer became totally disabled on February 15, he/she would be eligible for the monthly disability benefit of generally 10% of the \$2,000 January monthly statement balance, even though the statement balance was paid in full.

Number of days	Balance amount for that number of days	Interim Average Sum of Daily Balances
5	\$1000	\$5,000
5	\$2000	\$10,000
21	\$4000	\$84,000

Total of ~~Interim Average~~ ~~Daily Balances~~ \$99,000

Step 2: Find out the average daily balance

Take the ~~T~~total of ~~Interim Average~~ ~~Daily Balances~~ and divide it by the number of days in the month to get the average daily balance:

\$99,000/ 31 days in December = \$3193.54 is the average daily balance.

Step 3: Find the cost of credit card balance insurance for the month of December:

Next, you multiply the average daily balance by the premium rate: $\$3193.54 \times 0.0095 = \30.33
(this calculation does not include the PST on the insurance premium which is payable in some provinces).

In this example, you'd pay \$30.33 for your monthly premium. If your average daily balance amount stays the same for the year, you'd pay more than \$360 in insurance premiums for the year.

Example of benefits you may get from credit card balance insurance

Here are examples of benefits that may be included in a credit card balance insurance policy. The examples assume you are eligible to make a for the claim. Keep in mind there's usually a maximum amount of benefit that you'll be able to claim.

Example 1: Credit card balance insurance benefits if you lose your job

Suppose you have a credit card balance of \$1,000. You pay 19% annual interest on your balance, which means you'll be charged about ~~\$15.83~~16.58 per month in interest.

If you lose your job:

- your insurance company pays 105% of your outstanding credit card balance, or ~~\$101.58~~106.58 a month, for up to 10~~12~~ months (until your entire insurance balance is paid in full)
- your balance at the end of the first month after the claim would be \$9~~14.25~~15.83
- your balance at the end of 12~~10~~ months, if you make no additional purchases, would be ~~\$414.33~~658.94

Commented [BW7]: Ten percent or 20% are the industry standards. If 10%, the maximum number of months the benefit would be paid is 10 months.

CAFI's Proposed Alternate Example

Say you have signed up for credit card balance insurance and your monthly premium is \$0.95 per \$100 you owe. This example shows how your premium would be calculated for the month of November, which has 30 days, using the average daily balance method.

Daily balance from day 1 to day 15 is \$1,000

Daily balance from day 16 to day 20 is \$1250

Daily balance from day 21 to day 30 is \$1500

Therefore, the Total of interim average daily balances for this month is calculated as follows:

\$1,000 x 15 = \$15,000

\$1250 x 5 = \$6,250

\$1500 x 10 = \$15,000

TOTAL \$36,250

Average Daily Balance = \$36,250 ÷ 30 days = \$1208.33

Monthly Premium = \$1208.33 ÷ \$100 = 12.08 x \$.95 = \$11.48 + \$0.92 PST (8% in Ontario) = \$12.40

Example 2: Credit card balance insurance benefits if you become critically ill

Suppose you have a credit card balance of \$1,000. You pay 19% annual interest on your balance, which means you'll be charged [about \\$165.83](#) per month in interest.

If you become critically ill:

- your insurance company pays [an amount equivalent to the outstanding balance, on the date of loss, or \\$1,000](#)~~your entire outstanding credit card balance of \$1,000~~
- your credit card balance, if you make no additional purchases, would be zero

[Find out more about making a credit card balance insurance claim.](#)

Cancelling credit card balance insurance

You can cancel credit card balance insurance at any time. Check your certificate of insurance policy for the steps to take.

~~Usually you need to contact the insurance company. Keep in mind that the insurance company is often a different company than the financial institution that issued your credit card.~~

Financial institutions offer a “free look period” or “review period” for credit card balance insurance, which is usually a 30 day period after your coverage starts. This period provides you with the opportunity to consider the purchase in light of your financial needs and circumstances.

Commented [BW8]: The offering of a review period should apply to all financial institutions as doing so is required under provincial insurance legislation in most provinces; and under CLHIA Guideline G7: Creditor’s Group Insurance.

During the review period, you can cancel the credit card balance insurance and get a full refund of any premiums you’ve paid to that point. After 30 days, your financial institution will continue to charge you an insurance premium and the premiums will not be refunded if you decide to cancel at a later date.

~~If you cancel credit card balance insurance within the “free look” trial period, you’ll be refunded the premium you paid.~~

~~Some financial institutions offer trial periods for balance insurance. There’s often a 30-day trial period after your coverage starts. During this time, you can cancel the policy and get a refund for any premiums you’ve paid. After 30 days, your financial institution will start charging you the premiums every month.~~

It’s best to understand credit card balance insurance and whether it’s right for you before agreeing to be enrolled in purchase it, even for a review trial period.

[Find out more about cancelling your insurance.](#)

Making a complaint about credit card balance insurance

Distributors of credit card balance insurance ~~Federally regulated financial institutions~~, such as banks, can’t enrol you in or charge you for credit card balance insurance if you haven’t agreed to sign up for it ~~don’t agree to it~~.

If you notice a credit card balance insurance charge on your credit card statement, but you didn’t agree to sign up for it, contact the insurance company at the phone number provided in your certificate of insurance. ~~financial institution that issued your credit card.~~

[Find out the steps to take to make a complaint.](#)

[Make a complaint about your insurance provider.](#)

Related links

- [Determining your insurance needs](#)
- [Credit ~~or~~and loan insurance](#)
- [Disability insurance](#)
- [Life insurance](#)

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