



## **Guideline G7 CREDITOR'S GROUP INSURANCE**

*This Guideline has been approved by the Board of Directors of the Canadian Life and Health Insurance Association Inc. (CLHIA). Member Companies are expected to adopt this CLHIA Guideline having regard to the company's structure, products and business processes, including distribution channels. Member Companies are urged to incorporate this Guideline into the company's ongoing compliance program.*

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## **Guideline G7**

### **CREDITOR'S GROUP INSURANCE**

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#### **1. PURPOSE**

This Guideline protects the interests of Debtors by promoting consistent practices for insurers and by providing operating and disclosure standards for the transaction of Creditor's Group Insurance.

#### **2. SCOPE**

This Guideline applies to all member companies with respect to Creditor's Group Insurance. This Guideline does not override any responsibility established by legislation. In the event of any conflict between the provisions of this Guideline and any applicable law, the law takes precedence over the Guideline to the extent of the conflict.

#### **3. GENERAL PRINCIPLES**

##### **Customer-focused approach**

Insurers should promote a culture of treating customers fairly. The principle includes promoting outcomes such as:

- providing consumers with accurate and sufficient information before, during and after the sale;
- avoiding the risk of sales which are not appropriate to the customer's situation;
- handling claims in a timely and fair manner; and
- dealing with customer complaints and disputes in a timely and fair manner.

##### **Clear disclosure**

Information should be communicated clearly, regardless of the medium of communication (e.g., face-to-face, telephone, direct mail, electronic).

##### **Insurer accountability**

Where an insurer uses a third party to perform specific functions, the insurer retains ultimate responsibility and, accordingly, must use contractual or other means to ensure that the third party is performing those functions and to require behavior from the third party that is consistent with this Guideline.

#### **4. DEFINITIONS**

In this Guideline,

**"Application"** means the process by which a Debtor enrolls for insurance or for the reinstatement of insurance coverage, and includes documents used in that process.

**"Certificate"** means a document provided to the Debtor that sets out the particulars of the insurance.

**"Consumer Premium"** means the amount that a Debtor is charged for the cost of Creditor's Group Insurance. It may not exceed that portion of the total Group Policyholder Premium attributable to the Debtor. A Consumer Premium exists when:

- (a) an identifiable charge for insurance is levied upon the Debtor, or disclosed to the Debtor in the credit or other instrument which sets out the financial elements of the Credit Transaction; or
- (b) there is a differential in any finance, interest, service or other charge made to Debtors depending only on whether they are insured or not.

**"Creditor"** means:

- (a) a lender of money;
- (b) a vendor or lessor of goods, services, property, rights or privileges, for which payment is arranged through a Credit Transaction; or
- (c) any successor to the right, title or interest of any such lender, vendor, or lessor.

**"Creditor's Group Insurance"** means insurance effected by or on behalf of Creditors in respect of the lives or well being or both of Debtors and other persons essential to the ability of the Debtors to meet their obligation to the Creditor, whereby they are insured individually under a single contract.

**"Credit Transaction"** means any of the following:

- (a) a loan;
- (b) an agreement to lend money;
- (c) an agreement that a Debtor will pay later for goods, services or properties purchased or leased.

**"Day"** means a calendar day.

**"Debtor"** means:

- (a) a borrower of money, co-borrower, guarantor, endorser or the spouse of any of these persons; or
- (b) a purchaser or lessee of goods, services, property, rights or privileges, for which payment is arranged through a Credit Transaction.

**"Group Policyholder Premium"** means the amount an insurer charges for Creditor's Group Insurance. It includes:

- (a) any sum paid to the group policyholder for collection of Consumer Premiums; and
- (b) any reimbursement of expenses incurred by the group policyholder in connection with the administration of Creditor's Group Insurance.

**"Indebtedness"** means, at any point in time, the amount then owing by a Debtor to a Creditor in connection with a Credit Transaction, and may include any incidental expenses and related fees, interest and penalties.

## **5. AMOUNT OF CREDITOR'S GROUP INSURANCE**

- (1) Insurance under a contract of Creditor's Group Insurance must be related to a specific contract of Indebtedness between the Creditor and a Debtor and must not provide for an amount of insurance that exceeds the Indebtedness.
- (2) Notwithstanding subsection (1), where a debt is in respect of a small business or a farm, fishery or ranch, a contract of Creditor's Group Insurance may provide for an amount of insurance equal to all or part of the amount of the credit limit of a line of credit.

For the purpose of this section, "line of credit" means a commitment on the part of a Creditor to lend to a Debtor, without a predetermined repayment schedule, one or more amounts, where the aggregate amount outstanding does not exceed a predetermined credit limit, which limit does not exceed the reasonable credit needs of the Debtor.

## **6. DURATION OF CREDITOR'S GROUP INSURANCE**

- (1) If a contract of Creditor's Group Insurance, under which a Consumer Premium is levied to the Debtor, does not require the Debtor to submit evidence of insurability, then subject to the terms of the Application, the insurance starts on the later of the dates when:
  - (a) the Debtor completes the Application; and
  - (b) the Debtor enters into a Credit Transaction.
- (2) Where evidence of insurability is required, the terms upon which the insurance will start should be communicated to the Debtor at the time of Application.
- (3) Where the insurance is for an existing Indebtedness, a description of the date on which the insurance will start should be communicated to the Debtor at the time of Application.
- (4) If the Indebtedness is paid out early, and if the Consumer Premium had been paid in a single sum, the term of such insurance shall not extend more than 15 Days beyond the scheduled maturity date of the

Indebtedness except when extended without additional cost to the Debtor; but the term of such insurance may be less than the term of the Credit Transaction to provide modified or partial coverage, or extend beyond the maturity date to provide coverage for delinquencies, extensions or other repayment variations.

- (5) Except where the insurance is portable (whether between Creditors and/or between Credit Transactions with the same Creditor), if the Indebtedness is discharged due to renewal or refinancing before the scheduled maturity date, the insurance in force ends. Unless specifically required in a group policy or Certificate, the individual Debtor's consent is not required to end their insurance in this case.

## **7. CANCELLATION OR NON-RENEWAL**

If a contract of Creditor's Group Insurance is cancelled by the insurer or is terminated or not renewed by the group policyholder (e.g., the Creditor):

- (1) if the Consumer Premium has been paid in a single sum, the Debtor continues to be covered with respect to the outstanding debt obligation as if the contract of Creditor's Group Insurance were still in force; or
- (2) if the Consumer Premium is payable in instalments or if the contract insured a revolving credit obligation, the insurer must ensure that at least 30 Days notice of the end of the insurance is given to the Debtor.

## **8. CHANGE OF INSURER**

- (1) A Debtor should be protected from loss of insurance caused solely by the group policyholder changing insurers. This does not apply to any changes in the insurance or benefits that result from plan design changes reflected in the replacing contract made at the request or with the agreement of the group policyholder.
- (2) No Debtor who is receiving benefits under the terminating contract may receive duplicate benefits under the replacing contract.

## **9. DISCLOSURE TO DEBTOR: DURING APPLICATION**

- (1) This section applies only when there is a Consumer Premium.
- (2) Application for enrolment under a contract of Creditor's Group Insurance may be made at the same time that the Credit Transaction is being negotiated or entered into, or afterwards. Application for enrolment may be made in person, by telephone, by mail, electronically or by other means. These disclosure practices apply in all situations.
- (3) The Creditor's Group Insurance enrollment must be clearly distinct from the Credit Transaction, either through a separate Application for insurance or by other means that separates the transactions.

- (4) The Application must clearly identify the Debtor(s) for whom insurance is being sought and, for each such person, indicate the insurance being applied for.
- (5) A copy of the Application or confirmation of the Application, as the case may be, shall be delivered to the Debtor at the time of the Application or in a timely manner thereafter and, subsequently, upon request.
- (6) The following information must be provided to the Debtor at the time of Application:
  - (a) the insurance coverage provided by the product (e.g. life insurance, disability insurance, critical illness insurance);
  - (b) a statement about who is eligible to apply for the insurance;
  - (c) a statement that the insurance is voluntary;
  - (d) a statement that the Debtor has a specified period of time, to be not less than 20 Days, after receipt of the Certificate described in section 10, to review the insurance during which time the insurance can be cancelled for a full refund;
  - (e) a statement that the insurance can be cancelled by the Debtor at any time;
  - (f) if applicable, a statement that there are terms and conditions which might limit or exclude coverage, and clear disclosure of significant exclusions, restrictions and limitations such as, but not limited to, pre-existing conditions and consequences of misrepresentation;
  - (g) either:
    - (i) the amount of the Consumer Premium; or
    - (ii) a description of the basis for determining the Consumer Premium in sufficient detail to enable the Debtor to calculate it;
  - (h) if applicable, a statement that the insurance is subject to acceptance of the Application by the insurer, and setting out:
    - (i) any further steps the Debtor(s) must take;
    - (ii) the insurer's obligation to notify the Debtor(s) if the insurance is declined; and,
    - (iii) the terms upon which the insurance starts, if the Application is accepted;

- (i) the name of the insurer and instructions as to how to contact the insurer to obtain further information or clarification; and
  - (j) the circumstances under which the insurance ends.
- (7) In some situations, the Debtor may initiate changes in the financing or other terms and conditions of a credit arrangement (e.g. refinancing) that could result in the need to apply for new insurance. In such situations, it should be disclosed to the Debtor that the financing change may affect or end their insurance, and that the Debtor should check their existing certificate for details on the impact of the change.

## **10. DISCLOSURE TO DEBTOR: CERTIFICATES**

- (1) All Creditor's Group Insurance must be evidenced by a Certificate which the insurer must issue for delivery to the Debtor.
- (2) The Certificate must be sent to the insured Debtor within 20 Days of when the insurance comes into force.
- (3) Each Certificate must set forth:
  - (a) the name and address in Canada of the insurer and sufficient identification of the contract of Creditor's Group Insurance;
  - (b) the Debtor(s), as named in the Application, or a description of the individuals eligible for insurance in sufficient detail to enable the applicant to determine whether he or she is covered;
  - (c) a description of the insurance coverage, including the amount, duration, and all conditions involving eligibility, exclusions, restrictions and limitations (information about exclusions, restrictions and limitations such as, but not limited to, pre-existing conditions and the consequences of misrepresentation should be clearly described and appear in such a manner that their fact and import are apparent.);
  - (d) a statement that the insurance is voluntary, if applicable;
  - (e) if applicable, either:
    - (i) the amount of the Consumer Premium; or
    - (ii) a description of the basis for determining the Consumer Premium in sufficient detail to enable the Debtor to calculate it;
  - (f) the circumstances under which the insurance starts;
  - (g) the impact of changes in the credit arrangements on the insurance and the circumstances under which the insurance ends;

- (h) the procedures to be followed in making a claim, including:
  - (i) to whom and where claims should be made; and
  - (ii) the time limit within which a claim must be made or within which a notice or proof of claim must be submitted;
- (i) a statement that the benefits will be paid to the Creditor to reduce or extinguish the unpaid Indebtedness;
- (j) a description of when the duration of the insurance may be less than the term or amortization period of the loan, or when the amount of insurance may be less than the Indebtedness, where such is the case;
- (k) where and from whom more detailed information such as benefits, exclusions, restrictions and limitations including pre-existing conditions or other provisions relevant to the Debtor may be obtained;
- (l) how to find information about the insurer's complaint process; and
- (m) a description of the circumstances under which the Debtor is eligible for a refund (e.g. if the Indebtedness is paid off early), the method by which refunds are calculated and how to apply for a refund.

## **11. TRAINING AND MONITORING**

- (1) The insurer must establish reasonable procedures to train those offering its insurance products. In the event that the insurer contracts with a third party distributor and does not provide training directly, it must use contractual or other means to require the distributor to establish reasonable procedures for training.
- (2) Training must include information about:
  - (a) the insurance;
  - (b) eligibility, exclusions, restrictions and limitations including pre-existing conditions;
  - (c) the potential impact of changes in the credit arrangements on any existing insurance;
  - (d) the Application and enrolment process;
  - (e) the role of those handling the enrolments, including their obligations and limitations;
  - (f) the claims submission process;



- (g) complaint procedures; and
  - (h) details of the services available to the Debtor from the insurer.
- (3) The insurer must establish reasonable procedures to monitor the activities of those handling enrolments. In the event that the insurer uses a third party distributor, it must use contractual or other means to require the distributor to establish reasonable procedures for monitoring the activities of those handling enrolments.

## **12. REFUNDS**

- (1) Where the insurance has been cancelled, or where the Application has been declined, the insurer is responsible for ensuring that any refunds owed to Debtor(s) be made promptly.
- (2) Calculations are to be based on the Consumer Premium paid by the Debtor and on the method described in the Certificate [c.f. section 10(3)(m)].

## **13. CLAIMS**

- (1) The insurer is responsible for ensuring that all claims are settled in a timely manner and in accordance with the terms of the contract of Creditor's Group Insurance.
- (2) An insurer may designate a third-party representative to settle claims on its behalf, and, if so, that representative must act in accordance with section 13(1).
- (3) The insurer must maintain, or cause to be maintained, adequate claims files, which must be retained for a reasonable period of time.

## **14. COMPLAINTS**

Insurers must have policies and processes in place to handle complaints in a timely and fair manner.