



The offering of insurance products by automobile
and recreational and leisure vehicle dealers in Québec

2019 Insurer Disclosure Analysis Report

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Introduction

The Autorité des marchés financiers (the “AMF” or the “Authority”) is pleased to present the 2019 Insurer Disclosure Analysis Report on the offering of insurance products by automobile and recreational and leisure vehicle dealers (the “dealers”) in Québec.

This report is a follow-up to the [previous report](#),¹ which provided a picture as at December 31, 2018 of the market for insurance products offered by automobile dealers as well as the background to the report’s publication, including the AMF’s prior work and actions.

This report confirms the issues raised and continued appropriateness of the objectives set out in that report.

In light of the data for 2019,² the AMF intends to continue to increase its actions, [as announced](#).

October 2020

1 [The offering of insurance products by automobile and recreational and leisure vehicle dealers in Québec – 2016–2018 Insurer Disclosure Analysis Report](#).

2 Appendix 1 of this report presents the collected and consolidated data for 2019.

Background

In 2019, 13 insurers were active in the market for insurance products distributed through dealers offering 110 insurance products to Québec consumers.

As at December 31, 2019, insurers had disclosed a total of 2,512 dealers to the AMF as distributors of debtor life, health and employment insurance (“DLHE”) and replacement insurance (“Q.P.F. No. 5”) products.³

The year 2019 was marked, in particular, by the coming into force of the *Regulation respecting Alternative Distribution Methods*⁴ (the “RADM”), which further clarifies the obligations of insurers and distributors with regard to distribution without a representative.

The data for 2019 was disclosed in the summer of 2020 by insurers active in the market for insurance products offered by dealers. In the wake of the COVID-19 pandemic, the period for disclosing data for 2019 was extended.

Furthermore, the AMF obtained preliminary data on pandemic-related claims, for the period from March to June 2020, in order to perform an exploratory assessment of the impact of certain dealer-offered products on consumer protection in the context of the pandemic.

3 These two types of insurance products are described in Appendix 2 of this report.

4 CQLR, c. D-9.2, r. 16.1

2019 highlights

In 2019, sales of DLHE and Q.P.F. No. 5 insurance products by dealers represented

\$392,563,490

in premiums written, down 8% from the previous year.

The decline in the market was due mainly to a 13% drop in the volume of premiums associated with DLHE products sold by dealers in Québec, which amounted to

\$233,838,765

in 2019.

The average cost of the premium for a Q.P.F. No. 5 product was higher in 2019 than in 2018, increasing from \$2,005 to \$2,026.

The AMF's *2019 Annual Report on Financial Institutions* (in French only) shows that the difference between the average value of the premium for a Q.P.F. No. 5 product when it is purchased through a dealer and the average value of the premium for an identical product when it is purchased through a certified representative fell from

62% in 2018 to **44%** in 2019.⁵ This decrease was due to the fact that the average premium written by insurers doing business with dealers increased about 1%, whereas the average premium written by insurers distributing this policy through certified representatives rose nearly 15%.⁶

5 The difference between the average premium values was computed on the entire set of premiums and contracts issued in 2019, regardless of policy term. This difference varies by average premium based on policy term. The difference between the average premiums stood at 41% and 36%, respectively, for 4-year and 5-year policies, which were the terms most frequently chosen by consumers in 2019.

6 The average premium for a Q.P.F. No. 5 product offered through a certified representative increased from \$1,225 in 2018 to \$1,404 in 2019.

Remuneration paid to dealers and third party administrators (“TPAs”) for DLHE and Q.P.F. No. 5 products amounted to \$213,033,510, or

54%

of all premiums paid by consumers.

The average value of indemnities paid to consumers increased 17% for Q.P.F. No. 5 products, from \$2,851 in 2018 to

\$3,327 in 2019.

Indemnities paid to consumers for dealer-sold DLHE products totalled \$38,821,995. Claims for these types of products sold by dealers were denied in

26%

of all cases in 2019.

While the total number of cancellations decreased in 2019, the average percentage of contracts cancelled before expiry remained

one in four.

The shift in the timing of DLHE product cancellations observed in 2018 continued: most cancellations still occurred

**after the first
181 days**

following enrolment in the contract.

1- DLHE products

In 2019, Québec consumers enrolled in 111,630 dealer-distributed DLHE products, compared with 130,728 in 2018, representing a 15% decrease in the number of DLHE product certificates issued by dealers.

1.1 PICTURE OF THE SITUATION IN QUÉBEC

In 2019, 9 insurers offered consumers 102 DLHE products. Insurers' market shares remained stable.

The volume of DLHE premiums sold by dealers in Québec totalled \$233,838,765 in 2019, a 13% decline in DLHE product premium volume from the previous year.

The average cost of the insurance premium for a DLHE product increased 2%, from \$2,054 in 2018 to \$2,095 in 2019.

1.2 INDEMNITIES

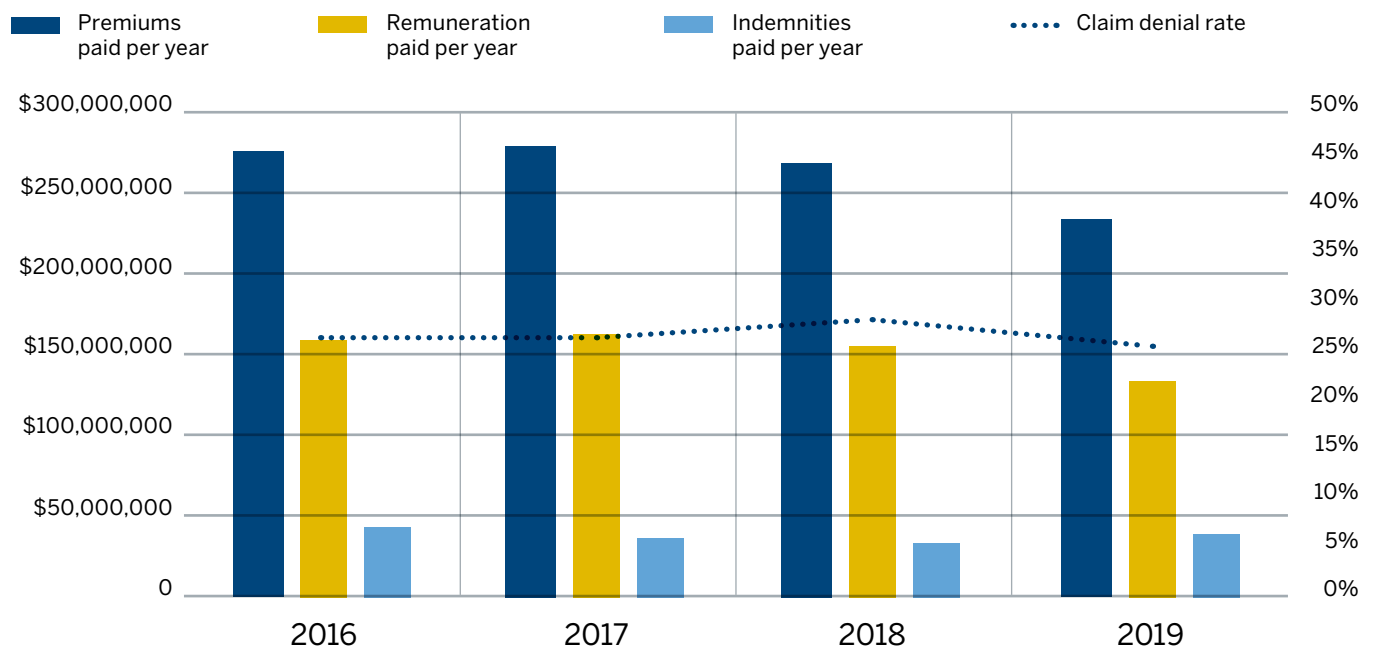
In 2019, 10,354 claims were processed by insurers for DLHE products.

Indemnities paid to consumers for dealer-distributed DLHE products totalled \$38,821,995 in 2019, up 15% from \$33,671,984 in 2018.

The average value of indemnities paid to consumers for DLHE products was \$5,063 in 2019, compared with \$7,951 in 2018.

Claims for DLHE products were denied in 26% of all cases in 2019, compared with 29% in 2018. Of the 10,354 claims processed in 2019, 2,686 were denied.

DLHE premiums, remuneration and indemnities



1.3 DEALER AND TPA REMUNERATION

Remuneration paid for DLHE product sales totalled \$125,325,517 for dealers and \$8,690,898 for TPAs, for a total of \$134,016,415, down from \$155,254,725 in 2018. Total remuneration accounted for 57% of the volume of DLHE product premiums sold by dealers in 2019. This level of remuneration is concerning, since it represents a substantial percentage of the premiums paid by consumers.

Average dealer remuneration for each DLHE product sold in 2019 was \$1,123, compared with \$1,110 in 2018.

TPA remuneration as a percentage of the volume of DLHE product premiums sold was 4%, the same as in 2018.

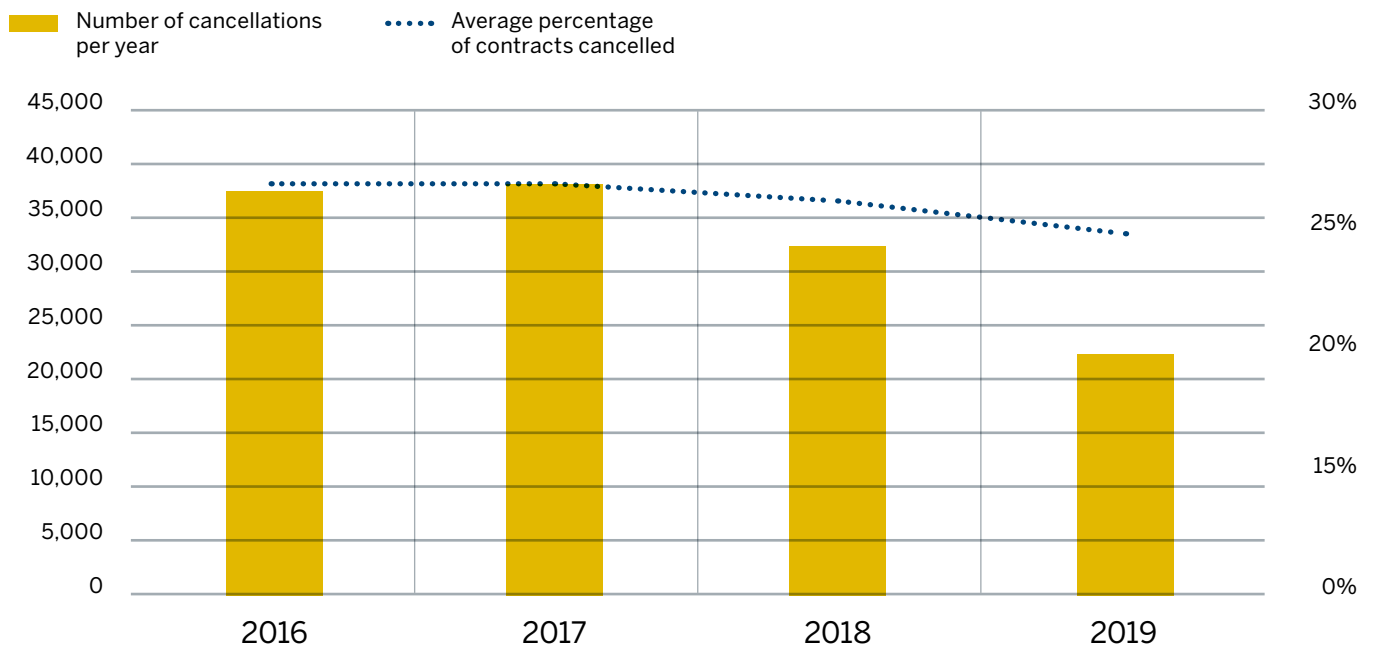
Training and the solicitation of new dealers to be distributors continued to be the activities most frequently outsourced by insurers in 2019.

1.4 CANCELLATION

In its previous report, the AMF expressed concern regarding the percentage of certificates or policies that were cancelled before expiry where payment was made through a single premium. The average of one out of every four contracts cancelled before expiry held steady, despite the decrease in the total number of DLHE product cancellations in 2019.

The total number of DLHE product cancellations before expiry fell 31%, from 32,256 in 2018 to 22,398 in 2019.

DLHE product cancellations



In its previous report, the AMF had noticed a trend reversal in the timing of most cancellations.⁷

This trend reversal from previous years was still apparent in 2019: 23% of DLHE product cancellations occurred in the first 180 days following enrolment, compared with 77% on or after the 181st day. This observation is consistent with some reports from consumers that their dealer had indicated that they should wait at least 180 days before cancelling their insurance.

The RADM states that no insurer may enable the distributor to keep its remuneration within a time period not commensurate with the term of the product, which time period may not be less than 180 days.



⁷ The statistics based on 2016 and 2017 data show that DLHE product cancellations occurred in the first 180 days following enrolment. In 2018, this trend reversed, with most DLHE product cancellations occurring after the 181st day following enrolment.

2- Q.P.F. No. 5 products

In 2019, Québec consumers purchased 78,339 Q.P.F. No. 5 products distributed through dealers. In 2018, the figure was 77,792. The market was therefore relatively stable.

2.1 PICTURE OF THE SITUATION IN QUÉBEC

In 2019, 5 insurers offered consumers Q.P.F. No. 5 products through dealers. Insurers' market shares remained stable for the distribution of this product.

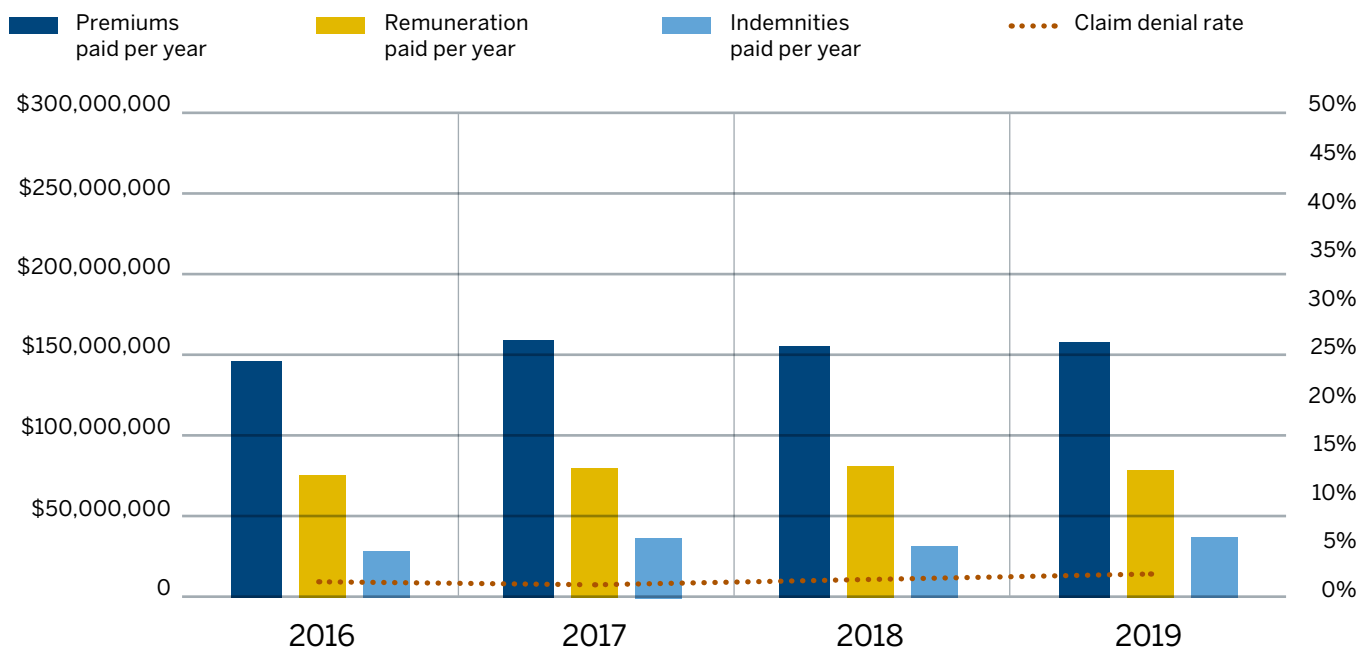
In 2019, 9% of Q.P.F. No. 5 policies were purchased for leased vehicles, a very similar level to previous years.

The volume of Q.P.F. No. 5 premiums sold by dealers in Québec was \$158,724,725 in 2019, compared with \$155,956,868 in 2018.

The average cost of the insurance premium for a Q.P.F. No. 5 product purchased through a dealer increased approximately 1%, from \$2,005 in 2018 to \$2,026 in 2019.

The AMF's [2019 Annual Report on Financial Institutions](#) (in French only) shows that the difference between the value of the average premium for a Q.P.F. No. 5 product purchased through a dealer and the value of the average premium for the same product purchased through a certified representative narrowed to 44% in 2019 due to a nearly 15% increase in the average premium for a Q.P.F. No. 5 product offered through a certified representative. Automobile insurance premiums have increased across the industry for all types of products, not just Q.P.F. No. 5 products.

Q.P.F. No. 5 premiums, remuneration and indemnities



2.2 INDEMNITIES

The value of indemnities paid to insureds for Q.P.F. No. 5 products totalled \$37,111,492 in 2019,⁸ compared with \$31,210,645 in 2018, for a year-over-year increase of 19%.

In 2019, 78,339 consumers spent an average of \$2,026 to purchase a Q.P.F. No. 5 product through a dealer, while 11,155 consumers received an average indemnity of \$3,327. In 2018, the 77,792 consumers who purchased this product through a dealer paid an average premium of \$2,005, while the average indemnity was \$2,851. The average value of indemnities paid to consumers increased 17% for Q.P.F. No. 5 products. Despite the visible change in these figures, as in 2018, the difference between the average premium and the average indemnity raises some questions about the actual value of the product for consumers.

In 2019, 11,434 claims were processed by insurers for Q.P.F. No. 5 products, compared with 11,174 in 2018. Claims for Q.P.F. No. 5 products were denied in 2% of all cases in 2019, the same as in 2018.

2.3 DEALER AND TPA REMUNERATION

Dealers' remuneration for Q.P.F. No. 5 product sales amounted to \$69,439,372 in 2019 and TPA remuneration stood at \$9,577,723, for a total of \$79,017,095. Total remuneration paid in 2018 for Q.P.F. No. 5 product sales amounted to \$81,403,156. In 2019, the total value of remuneration paid represented 50% of the volume of Q.P.F. No. 5 premiums sold by dealers.

TPA remuneration for Q.P.F. No. 5 products in 2019 represented 6% of the total premium volume for this product, 1% lower than in 2018. TPA remuneration remained higher for Q.P.F. No. 5 products than for DLHE products in 2019.

Training and the solicitation of new dealers to be Q.P.F. No. 5 product distributors continued to be the activities most frequently outsourced by insurers in 2019.

⁸ The value of indemnities paid is a separate market indicator from a product's loss ratio. The [2019 Annual Report on Financial Institutions](#) (in French only) presents the changes in the loss ratio for replacement insurance in table 74 (page 238).

Insurers must also assume claim settlement costs, in addition to the value of the indemnities paid.

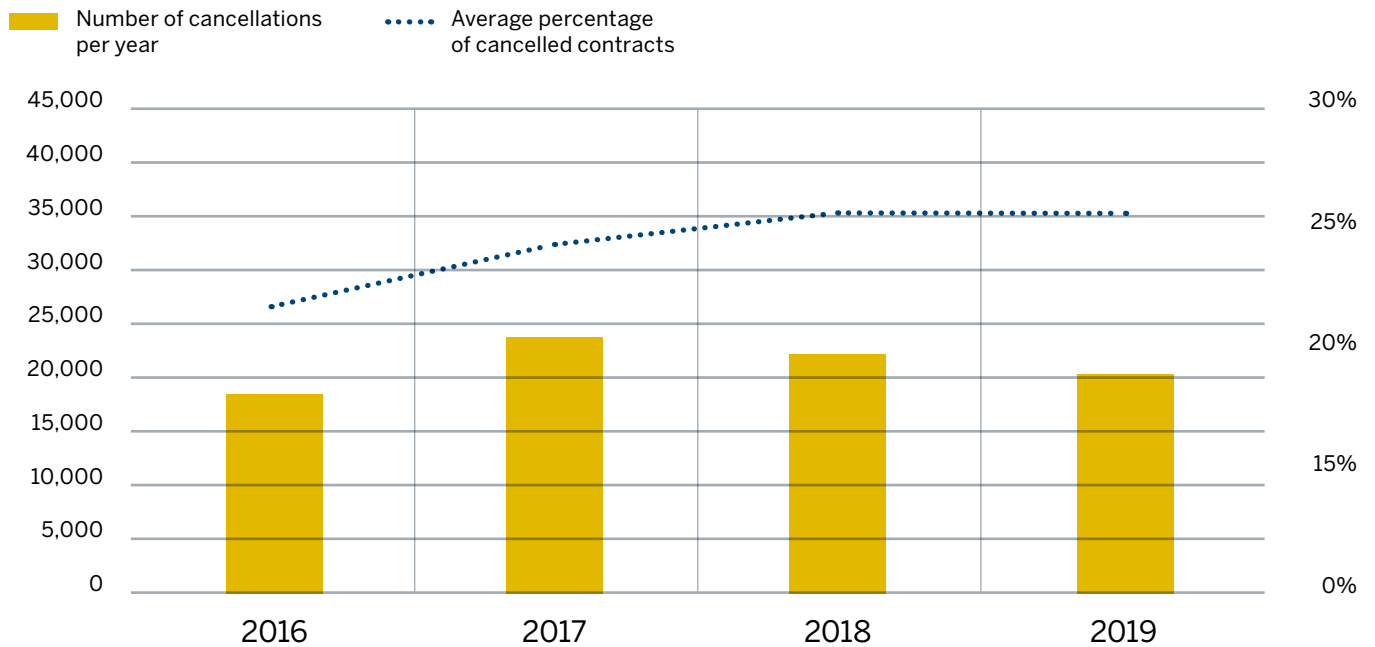
2.4 CANCELLATION

Total Q.P.F. No. 5 product cancellations before the expiry date declined 9%, from 21,997 in 2018 to 20,104 in 2019.

Although total cancellations decreased in 2019, cancellations before expiry remained unchanged at one out of every four.

The distribution of cancellations by number of days following contract signing remained consistent for Q.P.F. No. 5 products, with the percentages varying only very slightly between 2016 and 2019.

Q.P.F. No. 5 product cancellations



3- COVID-19 pandemic – preliminary data

When financing the purchase or lease of a vehicle by a consumer, dealers are authorized to offer a DLHE insurance product covering an amount up to the value of the loan, such as a life insurance product enabling the repayment of the amount owing upon the insured person's death. The DLHE insurance product may cover a certain number of monthly loan payments during, for example, a period of disability or a period when an insured is jobless.

In the summer of 2020, the AMF took an interest in the role that dealer-distributed DLHE products play in consumer protection, as these products provide consumers with coverage that is relevant for them in the context of a pandemic. The AMF therefore obtained preliminary data in order to assess the impact of these products during this particular period of time.

Based on an analysis of that preliminary data, the value of the indemnities paid for claims related specifically to COVID-19 appears to be limited. The 2020 annual insurer disclosure will provide comprehensive data, including all claims that will be received later in the year.



Conclusion

In its [2016-2018 Insurer Disclosure Analysis Report](#), the AMF discussed some of the issues it had observed in the market for insurance products offered by dealers. Despite visible changes in some of the figures for 2019—particularly, the decline in total DLHE product cancellations and the increase in the total value of indemnities and average indemnity paid for Q.P.F. No. 5 products, the AMF found that the issues identified in its last report still exist:

- Dealer and TPA remuneration levels continue to be concerning.
- The denial rate for DLHE product compensation claims continues to fall outside observed standards for comparable products.
- There continues to be a significant difference between the average premium paid for Q.P.F. No. 5 products purchased through a dealer and that paid for identical products purchased through firms registered with the AMF.
- The percentage of insurance contracts that are cancelled before expiry remains high, with the premiums for such contracts being paid, in most cases, through a single payment and consumers having issues with the refunding of those premiums.

In light of this data, the AMF intends to continue to increase its actions and maintain the objectives set out in the previous report.

The AMF reiterates the four objectives that will be the focus of those actions:

- Requiring insurance products offered to consumers through dealers to have a similar added value to that of comparable products currently offered through a traditional distribution network:
 - Premiums paid must be comparable
 - Claim denial rates must be comparable
- Requiring remuneration practices that promote the fair treatment of consumers and mitigate conflict of interest risk
- Pursuing initiatives to educate and improve disclosures to consumers, particularly regarding the consequences of single-premium financing
- Having a significant deterrent effect on improper sales practices

Appendix 1

Consolidated data

2019	DLHE	Q.P.F. No. 5	Combined total
Number of insureds	111,630	78,339	189,969
Premiums paid	\$233,838,765	\$158,724,725	\$392,563,490
Average premium paid per product	\$2,095	\$2,026	N/A
Indemnities paid	\$38,821,995	\$37,111,492	\$75,933,487
Number of claims processed (paid and denied)	10,354	11,434	21,788
Average indemnity per claim	\$5,063	\$3,327	N/A
Claim denial rate	26%	2%	N/A
Dealer remuneration	\$125,325,517	\$69,439,372	\$194,764,889
TPA remuneration	\$8,690,898	\$9,577,723	\$18,268,621
Total remuneration (dealers and TPAs)	\$134,016,415	\$79,017,095	\$213,033,510

2019 Market share breakdown

(as a percentage of premium volume)

DLHE	2019	2018-2019 change In percentage points
iA Financial Group	75.4%	-1.41
SSQ Assurance	21.6%	+1.45
Other insurers (7)	3%	-0.04

Q.P.F. No. 5	2019	2018-2019 change In percentage points
iA Financial Group	78.7%	-2.21
SSQ Assurance	21.1%	+2.03
Other insurer (1)	0.2%	+0.18

		PREMIUMS	CERTIFICATES OR POLICIES	
		\$	Number	Average unit value of premium
2016	DLHE	\$275,120,508	138,917	\$1,854
	Q.P.F. No. 5	\$147,251,393	83,601	\$1,761
2017	DLHE	\$279,975,211	141,808	\$1,974
	Q.P.F. No. 5	\$159,471,239	87,725	\$1,818
2018	DLHE	\$268,524,672	130,728	\$2,054
	Q.P.F. No. 5	\$155,956,868	77,792	\$2,005
2019	DLHE	\$233,838,765	111,630	\$2,095
	Q.P.F. No. 5	\$158,724,725	78,339	\$2,026

		INDEMNITIES		
		\$	Number of claims paid	Average unit value of indemnities
2016	DLHE	\$43,707,697	5,949	\$7,347
	Q.P.F. No. 5	\$27,629,790	10,772	\$2,565
2017	DLHE	\$36,564,118	5,354	\$6,829
	Q.P.F. No. 5	\$36,533,757	12,860	\$2,841
2018	DLHE	\$33,671,984	4,235	\$7,951
	Q.P.F. No. 5	\$31,210,645	10,949	\$2,851
2019	DLHE	\$38,821,995	7,668	\$5,063
	Q.P.F. No. 5	\$37,111,492	11,155	\$3,327

		INDEMNITIES		
		Number of claims processed (paid + denied)	Number of claims denied	Claim denial rate
2016	DLHE	8,198	2,249	27%
	Q.P.F. No. 5	10,914	142	1%
2017	DLHE	7,362	2,008	27%
	Q.P.F. No. 5	13,040	180	1%
2018	DLHE	5,945	1,710	29%
	Q.P.F. No. 5	11,174	225	2%
2019	DLHE	10,354	2,686	26%
	Q.P.F. No. 5	11,434	279	2%

		PREMIUMS	DEALERS' REMUNERATION	
		\$	\$	%
2016	DLHE	\$275,120,508	\$144,295,019	52%
	Q.P.F. No. 5	\$147,251,393	\$67,286,066	46%
2017	DLHE	\$279,975,211	\$151,528,390	54%
	Q.P.F. No. 5	\$159,471,239	\$72,185,059	45%
2018	DLHE	\$268,524,672	\$145,094,019	54%
	Q.P.F. No. 5	\$155,956,868	\$70,635,490	45%
2019	DLHE	\$233,838,765	\$125,325,517	54%
	Q.P.F. No. 5	\$158,724,725	\$69,439,372	44%

		PREMIUMS	TPA REMUNERATION	
		\$	\$	%
2016	DLHE	\$275,120,508	\$15,222,476	6%
	Q.P.F. No. 5	\$147,251,393	\$8,609,020	6%
2017	DLHE	\$279,975,211	\$10,870,996	4%
	Q.P.F. No. 5	\$159,471,239	\$7,594,992	5%
2018	DLHE	\$268,524,672	\$10,160,706	4%
	Q.P.F. No. 5	\$155,956,868	\$10,767,666	7%
2019	DLHE	\$233,838,765	\$8,690,898	4%
	Q.P.F. No. 5	\$158,724,725	\$9,577,723	6%

		CANCELLATIONS				
		Total number	In the first 180 days		On or after the 181st day	
2016	DLHE	37,472	24,458	65%	13,014	35%
	Q.P.F. No. 5	18,295	2,009	11%	16,286	89%
2017	DLHE	38,148	24,934	65%	13,214	35%
	Q.P.F. No. 5	23,529	2,643	11%	20,886	89%
2018	DLHE	32,256	6,749	21%	25,507	79%
	Q.P.F. No. 5	21,997	3,292	15%	18,705	85%
2019	DLHE	22,398	5,241	23%	17,157	77%
	Q.P.F. No. 5	20,104	2,440	12%	17,664	88%

Appendix 2

Dealer insurance products

Dealers may, pursuant to Title VIII of the Act respecting the distribution of financial products and services⁹ (D-9.2) (the “Distribution Act”), act as distributors and offer certain insurance products, including:

1- DEBTOR LIFE, HEALTH AND EMPLOYMENT INSURANCE PRODUCTS

When financing the purchase or lease of a vehicle by a consumer, dealers are authorized to offer a DLHE insurance product covering an amount up to the value of the loan, such as a life insurance product enabling the repayment of the amount owing upon the insured person’s death. DLHE insurance may cover a certain number of monthly instalments on the loan.

DLHE products are not standardized. Insurers offer a range of diversified products covering all or part of the amount owing.

2- REPLACEMENT INSURANCE PRODUCTS

When selling or leasing a vehicle to a consumer, dealers are authorized to offer a replacement insurance product in a form and at conditions approved by the AMF, i.e., the [Q.P.F. No. 5 – Complementary Insurance for Damage Caused to Insured Vehicle Form \(Replacement Insurance\)](#).

Coverage under Q.P.F. No. 5 is complementary—that is, it merely complements the coverage under the policyholder’s primary insurance contract ([Q.P.F. No. 1 – Owners’ Form](#)), which generally covers the actual cash value of the vehicle on the date of the loss, not the price paid for the vehicle. In this sense, the right to an indemnity exists only when, on the date of the loss, the insured holds a primary insurance contract covering the described vehicle and the primary insurer has paid an indemnity to the insured. In particular, the Q.P.F. No. 5 product covers the vehicle’s depreciation.

Dealers cannot offer primary insurance. Only firms registered with the AMF may, through a damage insurance agent or broker or via a digital space, offer primary insurance. Firms may also offer Q.P.F. No. 5 products. It is therefore up to consumers to decide which distribution channel they prefer to use for a Q.P.F. No. 5 product.

9 CQLR, c. D-9.2