

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notice To All Motor Vehicle Warranty Insurance Agents

REQUIREMENT TO COMPLY WITH REFUND PROVISIONS ON VEHICLE WARRANTY INSURANCE CONTRACTS

The Insurance Council of British Columbia (“Council”) recently learned that some motor vehicle dealers (“Dealership”), licensed to sell third party vehicle warranties, may not be complying with the refund provisions set out in their vehicle warranty insurance contracts with insurers. This has resulted in consumers receiving smaller refunds than they are entitled to under the terms of the vehicle warranty insurance policies sold by the Dealerships. The purpose of this Notice is to bring awareness to this issue so Dealerships can review their refund procedures and ensure compliance with the terms of the vehicle warranty insurance policies.

Vehicle warranty insurance policies can be cancelled by consumers before expiry of the warranty period, necessitating the issuance of a refund. The vehicle warranty insurance policy sold by a Dealership sets out the circumstances under which consumers are entitled to refunds and the method used to calculate the amount of the refund. The Dealership’s contract with the insurance company sets out who is responsible for issuing refunds to consumers and the proportion of the refund each party is obligated to contribute. In most cases, a Dealership is obligated to return a prorated amount of the commission originally earned on the sale of the vehicle warranty insurance.

The commission earned from the sale of a vehicle warranty is often split between the Dealership and salesperson conducting the transaction, and is paid at the time of sale. When a warranty is cancelled, it can be difficult for a Dealership to collect a portion of the commission back from the salesperson, particularly if the salesperson is no longer employed by the Dealership. As a consequence, early cancellation of vehicle warranty insurance policies can result in financial loss to Dealerships. To mitigate this loss, some Dealerships have adopted practices which do not comply with the provisions of their contracts with the insurers providing the warranties.

Dealerships are obligated to comply with the terms and conditions of their contracts and ensure that consumers receive the full refund they are entitled to upon cancellation of vehicle warranty insurance policies. Dealerships should address any concerns they may have regarding contractual refund provisions with their third party administrators or insurance companies.



Dealerships are directed to review their practices to ensure they are in compliance with their insurance contracts and vehicle warranty insurance policies. Should a Dealership identify any discrepancies with their practices they should correct them immediately and identify any clients who may have been affected by these practices and take the appropriate action to correct the situation.

January 13, 2004
ICN#04-001