



# The growing importance of high-quality debt protection for Canadian automotive consumers

# Table of Contents

## Negative equity, a growing epidemic in Canada ..... 4

- What does negative equity look like in Canada?
  - How to combat negative equity

## How are Canadian consumers buying their vehicles? ..... 5

- How are consumers paying for vehicle purchases?
  - Are consumers buying new or used vehicles?
  - How much are consumers spending on vehicles?

## Canadian consumers lack confidence ..... 6

- What factors are influencing consumer purchasing decisions?
  - What would make consumers feel more confident?
  - Who are consumers most comfortable buying debt protection products from?

## How can high-quality debt protection help increase confidence and decrease negative equity? ..... 8

- Dealing with the unexpected: WALKAWAY Finance Protection™



A person wearing a dark suit jacket and a light-colored shirt is holding a car key fob in their right hand. The background is a solid blue color. The text is overlaid on the image.

# 86%

of consumers say  
they want the  
option to return  
their vehicle, and

# 79%

want the option  
to have vehicle  
payments made  
for them.

# Negative equity, a growing epidemic in Canada

According to Statistics Canada, Canadian household debt as a percentage of disposable income rose to 171% in 2020.<sup>1</sup> **Canadians now owe \$1.71 for every dollar of disposable income they earn.**<sup>2</sup> With these statistics, it comes as no surprise that **the average Canadian has \$20,000 worth of automotive debt.**<sup>3</sup>

**A** bigger problem is that a lot of this automotive debt is negative equity. Negative equity occurs when the value of your vehicle falls below the outstanding balance on your auto loan. You can calculate negative equity by taking your vehicle's current market value and subtracting the remainder of your auto loan. If you are left with a negative value, that is the negative equity of your vehicle. Automotive debt is different from other forms of debt because the value of a vehicle depreciates much quicker than the value of other assets. On average, your vehicle will drop over 20% in value within the first 12 months.<sup>4</sup>

## What does negative equity look like in Canada?

Not only do Canadians have an average of \$20,000 worth of automotive debt, but 53% of automotive financing agreements are 84 months or longer - that's up 50% from five years ago.<sup>5</sup> Longer auto-loan terms increase the average amount of negative equity because vehicle values depreciate faster than the loan is paid. In some cases, the difference between the vehicle's value and the remaining balance of the loan is rolled into new vehicle loans, compounding the negative equity. It's a vicious cycle, unfortunately.

## How to combat negative equity

There are only two main options to avoid accumulating negative equity: put more money down upfront or invest in high-quality debt protection.

Even if you can't afford to purchase a vehicle outright, you can significantly shorten the financing terms by putting more money down. Because cars are built to last longer than they were 20 years ago, if you can decrease your loan term to three or four years and drive your vehicle for seven to eight years, you will get the best value for your vehicle over the shortest time period.

**40% of Canadians surveyed plan to finance their vehicles through the dealership, with only 10% planning to lease. A high number of respondents (32%) are planning a cash purchase.**

However, for some Canadians, putting down a lot of money may be unrealistic. Our recent market research shows that 40% (the majority) plan to finance their next vehicle through the dealership. In this case, consumers need to strongly consider structuring their leases or loans with a proven, high-quality debt protection product.

<sup>1</sup> <https://globalnews.ca/news/7515946/household-debt-disposable-income-canada-q3-2020/>

<sup>2</sup> <https://globalnews.ca/news/3916523/amount-canadians-owe-household-income-new-high/>

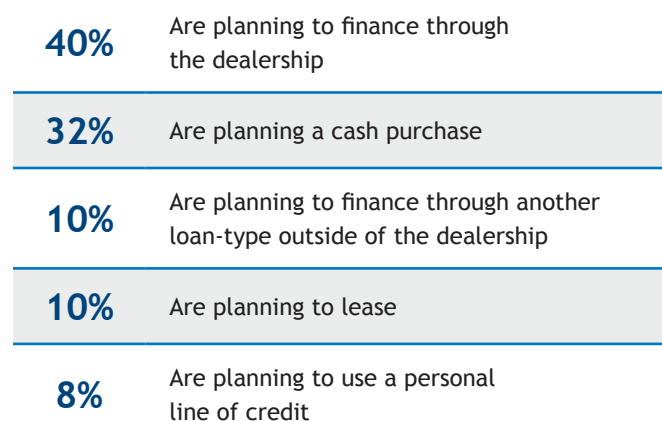
<sup>3</sup> <https://globalnews.ca/news/6076159/car-payment-auto-loan-negative-equity/>

<sup>4</sup> <https://www.carfax.com/blog/car-depreciation>

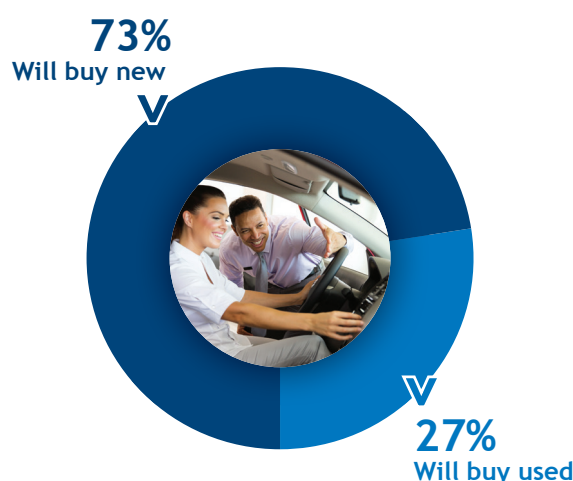
<sup>5</sup> <https://www.cbc.ca/news/business/debt-car-loans-long-term-1.4863737>

# How are Canadian consumers buying their vehicles?

When asked how consumers are planning to purchase a vehicle, here is what respondents had to say:

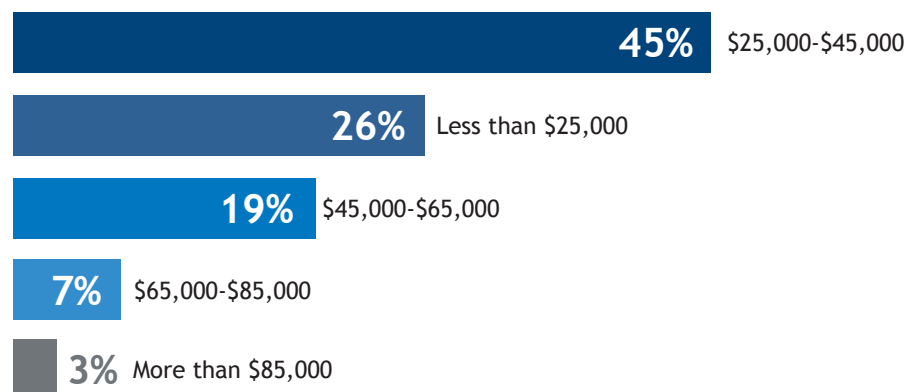


When asked if consumers are buying a new or used vehicle:



More participants selected new vehicle purchases in every age group; However, 35% of respondents aged 18-29 plan to purchase used vehicles.

When asked how much consumers are planning to spend on their next vehicle, respondents said:



# Canadian consumers lack confidence

When asked which factors make Canadian consumers feel concerned about their next vehicle purchase, most cited the current state of the economy, with over 30% also selecting potential job loss.



**60%**

Current state of the economy



**31%**

Potential job loss



**17%**

Environmental impacts



**17%**

Their age



**14%**

Potential critical illness



**9%**

Potential physical disability



**5%**

Self-employed personal bankruptcy

60% of Canadians surveyed say the economy's current state makes them concerned about their next vehicle purchase.

**86%** of consumers want the option to return their vehicle

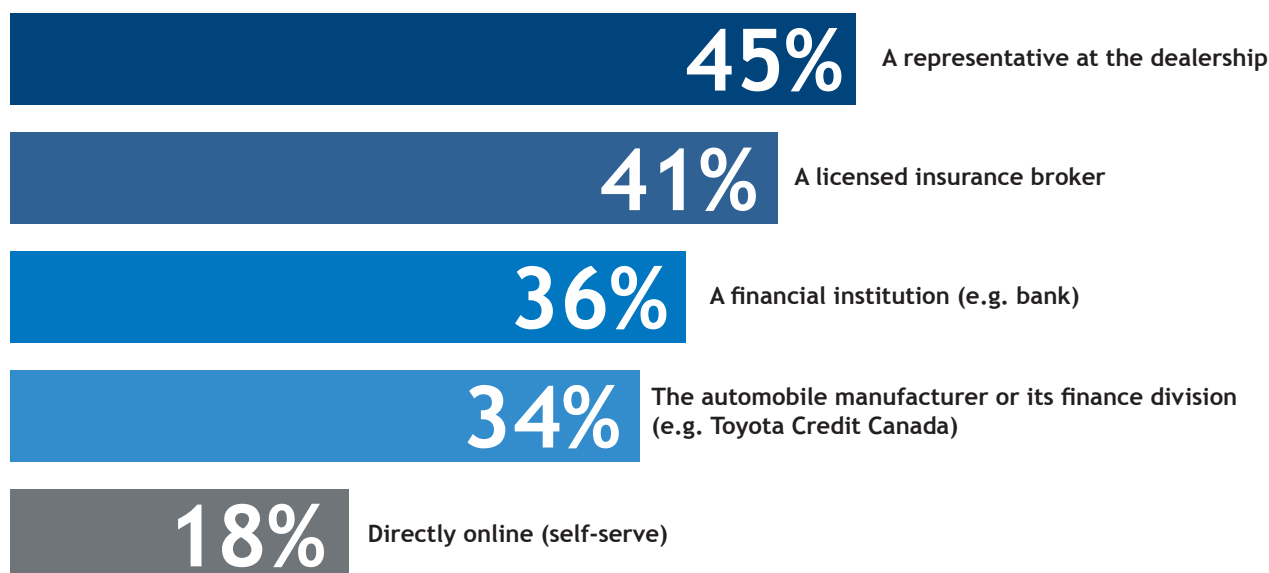
We asked consumers if they would feel more confident in their next vehicle purchase knowing it came with coverage that would allow them to return their vehicle should something unexpected happen (e.g. job loss, critical illness, physical disability), and 86% said yes.

**79%** want the option to have vehicle payments made for them

We asked consumers if they would feel more confident in their next vehicle purchase knowing it came with coverage that would make their monthly payments for them if something unexpected happened (e.g. job loss, critical illness, physical disability) and 79% said yes.



Who would consumers feel comfortable purchasing these types of debt protection products from?



45% of Canadians surveyed feel most comfortable purchasing debt protection products from a representative at the dealership, and 41% through a licensed insurance broker. Consumers trust their dealership and insurance representatives to provide and showcase the products they need.

While the majority of those surveyed would prefer to purchase these products directly from the dealership:

**41%** Aged 45-60 were just as likely to purchase from a licensed insurance broker.

**48%** The youngest respondents (18-29) were most likely to purchase from the automobile manufacturer.

**81%** of respondents would pay up to \$50 a month for debt protection products

**19%** would prefer complimentary coverage

# How can high-quality debt protection help increase confidence and decrease negative equity?

**W**ith the increase in negative equity affecting Canadian consumers every day, the need for high-quality debt protection solutions for the average vehicle purchaser becomes more relevant than ever before. As Canadians continue to spend more, take on more debt, and embrace longer financing or leasing terms, high-quality debt protection is the safest way to counter the effects of negative equity should something unforeseen happen.

## Dealing with the unexpected

WALKAWAY Finance Protection™ is the world's first debt-protection program that provides consumers with the financial flexibility they need when an unexpected life event occurs. It offers consumers a cost-effective way of structuring their automotive lease or finance contract, so they have options in a time of need. WALKAWAY Finance Protection™ is the original vehicle return program that pioneered a new industry. WALKAWAY Finance Protection™ products help people get out of vehicle loans and leases when they experience one of the life events the program covers.

**WALKAWAY Finance Protection™ covers 13 real-life events. Depending on your level of coverage, these unexpected events would be covered:**



Involuntary Unemployment



Physical Disability



Loss of Driver's Licence due to Medical Condition



International Job Transfer



Accidental Death



Self-Employed Personal Bankruptcy



Critical Illness Requiring Hospitalization



Death Due to Critical Illness



Temporary Unemployment



Mental disability



Employer-approved Leave of Absence



Self-Employed Physical disability



Self-Employed Mental Disability

This represents a summary of coverages and does not form a part of the certificate of insurance. Please consult your certificate for complete details regarding how you qualify. Employment-related coverages (excluding disability) begin on the 91st day. International Job Transfer is not available to residents of Alberta or Saskatchewan. Accidental Death is not available to residents of British Columbia. ‡Self Employed Bankruptcy is not available to residents of Saskatchewan. Insurance Insight Inc. is the brokerage, and Trisura Guarantee Insurance Company and The Empire Life Insurance Company are the insurers of WALKAWAY Finance Protection™. Copyright © 2021, under licence to Insurance Insight Inc. All rights reserved, unauthorized use, reproduction, or disclosure is prohibited.



We've  
protected over  
**\$12B**  
of debt  
internationally.

We've helped  
settled over  
**\$130M**  
worth of debt  
across Canada.



## **Who is Insurance Insight Inc.?**

Insurance Insight Inc. is a 100% Canadian, licensed, specialty insurance brokerage offering a variety of high-quality products and solutions. We work with automotive dealers, manufacturers, and lenders to distribute both life and general insurance products.

## **Our Mission:**

We strive every day to make a real difference in the lives of our people, our customers, and our partners through innovative and comprehensive products designed to provide essential protection for automotive consumers. We believe in people over profits, our customers come first.

## **Our Vision:**

We are consistently growing and evolving the way in which we serve our customers to become the best provider of the highest quality insurance products and services - period.



**Find out more:  
[insuranceinsight.ca](https://insuranceinsight.ca)**

This white paper is provided for information only and is not a substitute for professional advice. We make no representations or warranties regarding the accuracy or completeness of the information and will not be responsible for any loss arising out of reliance on the information. This represents a summary of coverages and does not form a part of the certificate of insurance. Please consult your certificate for complete details regarding how you qualify. Employment-related coverages (excluding disability) begin on the 91st day. International Job Transfer is not available to residents of Alberta or Saskatchewan. Accidental Death is not available to residents of British Columbia. Self Employed Bankruptcy is not available to residents of Saskatchewan. Copyright © 2021, under licence to Insurance Insight Inc. All rights reserved, unauthorized use, reproduction, or disclosure is prohibited.