You Shouldn't Be Caught Dead With a Bank's Mortgage Insurance

Rino Racanelli

You just bought a house and the bank approved your mortgage. Now the bank tries to sell you their mortgage life insurance. You're excited about your new home and you want to protect your family in case something should happen to you, so you buy the insurance thinking you got a good deal. Not necessarily.

Bank mortgage insurance, more commonly referred to as creditor insurance, is loaded with fine print that homeowners never read, but if they did and compared it to other insurance plans, they'll find out there's a huge difference and they've wasted a lot of their hard-earned money.

What is creditor insurance?

A creditor insurance policy is a group policy sold by an insurance company to a lending institution. That lending institution, the bank, owns the policy and then issues certificates to individual borrowers. Because the bank buys the policy from the insurance company, the insurance company structures and markets the product to the lender and not the borrower – you, the person who pays for the product. This will lead the insurance companies to bid for the lender's business offering the bank higher commissions and compensation. Competition for the bank's business usually leads to higher prices of creditor insurance to you, the borrower.

Consumers are unaware of the workings of creditor insurance. They simply purchase the product believing that all insurance policies are created equal and the creditor insurance they bought at the bank will protect their family should something happen to them. Most people are simply too busy to review their coverage and they've probably never read what they purchased. One of my responsibilities as an independent insurance advisor is to read and review insurance contracts. After reviewing and researching the bank's creditor insurance contract, I came up with the top seven reasons I believe you should avoid the bank's creditor insurance product.

REASON 1
Your insurance decreases every year but your cost remains the same.

The amount of insurance protection available through a mortgage lender is limited to the outstanding mortgage balance. Your insurance protection decreases with each mortgage payment made, but your cost will remain the same.

REASON 2
The bank is the beneficiary of your policy, not your loved ones.

In other words you can't choose your own beneficiary for the insurance proceeds. Because the bank is lending you the money for your home, they automatically become the beneficiary of all proceeds under a creditor insurance group contract. Unlike personally owned term insurance, your family cannot use the insurance proceeds upon death to cover needs other than the mortgage.

REASON 3
Your insurance rates are not fully guaranteed in the contract. Your bank can change your rates at any time.

With creditor insurance your premiums are paid on a group basis, which means your rates can be increased at any time if the experience of that group becomes unfavourable. Simply put, if the bank isn't making enough money on the product they will increase your rates.

REASON 4
Non-smokers pay smoker rates.

Most mortgage insurance available through the bank only considers your age to determine your cost of insurance. There is no preferred pricing for better health risks. If you are in good health and don't smoke, be prepared to pay the same insurance rates as someone with poor health and who smokes.

REASON 5
If you switch banks for a better rate, you lose your insurance policy.

Mortgage insurance contracts do not allow portability, which means you can't take the insurance policy with you if you change mortgage lenders. You will need to re-apply and qualify for new coverage with the cost based on your new age. Not only will you be paying more for your insurance coverage because of your increased age, but if your health has changed you might not even qualify for the coverage you and your family needs, leaving your loved ones in a vulnerable position. All that insurance money you paid the bank is gone forever with no return.

REASON 6
You receive poor advice because most bank employees are not licensed insurance advisors.

Most if not all service representatives with the banks are not licensed insurance advisors and, therefore, cannot offer expert advice regarding your family's insurance needs.

REASON 7
Your bank can cancel your insurance policy at any time!

That's right. Most, if not all creditor insurance is a one-way contract. Since the bank owns and holds the contract with the insurance company, they control every aspect of the plan. If, at any time and for any reason, the bank decides to remove this product from the shelf, then they have every right to do so. Your insurance protection is gone and the money you spent is lost and can never be recovered. Of course, the representative at the bank can tell you that they don't think this would ever happen. But the contracts I have read are quite clear that this option is available to the bank and there's nothing you can do about it.

These are the top seven reasons I found, but not exhaustive by any means. There are other important factors to consider. One being that creditor insurance has no conversion privilege. That means if you decide to extend your insurance coverage beyond the mortgage period or extend your coverage beyond a certain age (i.e., 70), you are not allowed to do so. The bank is "banking" on the fact that you will live to 70 years of age, which means they don't have to pay you anything. Simply put, you cannot change your coverage to a permanent plan that must pay out no matter how long you live. Most concerning is the fact that if your health changes past their expiry date, then you will never be able to buy another insurance plan for the rest of your life.

In conclusion, creditor insurance in Canada continues to be big business for the bank's insurance division and in my opinion continues to be a big rip-off for mortgage borrowers. It's not surprising that in the years past, there have been several enforcement actions and lawsuits against credit insurance providers for unfair and deceptive product and sales practices.

Many home mortgage borrowers are aware of the pitfalls of creditor insurance and turn to personally owned life insurance policies to cover their insurance needs. In contrast, a personally owned insurance plan can offer you:

- **Guaranteed insurance rates.**
- **Insurance coverage that remains level for the term you chose.**
- **A beneficiary of your choice.**
- **A portable plan that you own and can take with you wherever you go.**
- **A cost that is based on your individual health status, which means you will pay less if you don't smoke and are in good health.**
- **Advice from a provincially licensed insurance agent.**
- **Control of your policy. As long as you pay for your insurance plan the insurance company can never cancel your policy.**

Purchasing life insurance is an important decision. Choosing the right plan is essential for protecting your family home. With an individually owned insurance plan you get better protection, more flexibility, and more value.

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