Mortgage Coverage With Your Bank May Put You at Risk

If you purchase a home, you probably have a mortgage with a bank or other lending institution. Like a majority of Canadians, you were offered insurance to cover your mortgage responsibility in the event you pass away, become disabled or are diagnosed with a Critical Illness. This offer makes sense, since your ability to refund a mortgage usually relies on a steady flow of funds or uninterrupted income. The decision to purchase coverage to help deal with the unforeseeable, secures your financial situation and that of your family. The strength of this promise is what drives people to purchase coverage …assuming, of course, that the bank meets its part of the contract.

Right now, banks are offering coverage through their mortgage advisors based on a simple, straightforward questionnaire comprised of a few questions. If you answer "NO" to them, you will be told you are approved and premiums start being deducted. One could legitimately assume that if you are paying premiums, the bank is obliged to pay the benefit. So what's wrong with this picture? People don't realize that their application has not effectively been underwritten – it will only be reviewed if a claim is filed. No claim, no review. This process is called Post-Claim Underwriting. For the applicant, this translates into a cold hard fact:

YOU MIGHT NOT BE COVERED EVEN IF YOU'RE PAYING PREMIUMS.

Traditionally when you apply for a policy directly with an insurance company, you deal with a licensed insurance agent. Once you have decided on the coverage you want, you are required to go through a stringent underwriting process based on your age and insurance volume. This underwriting process will be quite detailed and can include: medical and lifestyle questions, family history, and medical evidence (blood work, urine samples, ECGs, etc.). The goal of this process is to determine <u>beforehand</u> if you will be covered. Once you are approved, a physical policy is issued to you. This contract will be owned by you (you will be naming your beneficiary) and is typically reviewed at delivery with the help of your licensed insurance agent. Such an underwriting process can be expensive to an insurance company; a bank realizes that cutting corners can save money. Based on their knowledge that only a small percentage of their clients will actually end up in a claim situation, banks appear quite willing to roll the dice and play the lucrative numbers' game. Unfortunately, the financial lives of many of their clients are literally hanging in the balance.

From a consumer's perspective, there is a danger in the bank's offer. Let's suppose you misinterpret or misread one of the questions asked of you when applying for their coverage…Such an oversight could spell disaster, since it is this application that will be used to assess your eligibility to the benefit. As well, claims often take place many years after the initial mortgage was taken out, so that an oversight might go un-noticed until it's tragically too late.

For many, the single issue of underwriting is sufficient to tip the balance for personal policy ownership. Nevertheless, there are other pitfalls to the bank's coverage. On the next page is a table that addresses the main differences between the bank's coverage and a personal policy as it applies to the most common mortgage coverage, life insurance.

LIFE INSURANCE	BANK coverage	Personal Policy
Who owns the policy?	**The Bank**	**You**
Who is the beneficiary?	**The Bank**	**You decide**
Are my premiums guaranteed & level?	**NO**	**YES**
Does my insurance amount stay level?	**NO**	**YES**
Will my coverage follow me if I switch banks?	**NO**	**YES**
Can my coverage continue once the mortgage is paid?	**NO**	**YES**
Can my coverage be converted to a Permanent policy?	**NO**	**YES**
Can I get better rates than standard rates if I'm very healthy?	**NO**	**YES**
Will I need to pay taxes on the premiums?	**YES**	**NO**
When does the actual underwriting take place? **When will I know if I'm covered?**	**<u>At claim time</u>, my file will be assessed to determine if I'm covered**	**<u>BEFORE</u> I start paying premiums**

The flexibility and the freedom provided by a personal policy are undeniable, case in point:

- With the bank, premiums usually increase based on age bands. Premiums may also increase at any time. A personal policy typically has level premiums for 10 years or more (you make that decision)
- With the bank, as your mortgage decreases so does your coverage. A personal policy provides a level amount of coverage (with no link to your mortgage)
- With the bank, the simple ability to carry forward your coverage to another mortgage lender is lost. Imagine if your health is lost and you could no longer qualify for coverage elsewhere, you could be hand-cuffed to this bank, knowing insurance coverage is not available elsewhere
- With the bank, once your mortgage is paid, you cannot keep coverage. With a personal policy, you can prolong coverage through the renewal of a Term policy or through a conversion, thus providing yourself with potential lifetime protection
- Under a personal policy, you may be considered for better than standard rates. Banks have only one rate. When compared, a personal policy may be considerably cheaper.

Seriously, when it comes to insurance, is a bank really working in your best interest ?

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