April 22, 2009

"Mortgage insurance not always a sure thing"

– CBC News, Market Place
Feb 6, 2008

Inside this Issue

Ian David Clark,
CFP, BSc., BA Economics
Insurance Specialist
PI Financial Services

Mortgage Insurance versus Life Insurance

What you ought to know!

I have provided advice on many occasions to my clients over the years that insurance is a vital part of everyone's financial plan; it is meant to protect you and your family should an unexpected loss of life happen. However, many families unfortunately have found out that it doesn't always end up that way. The issue here is Mortgage Insurance sold by banks and mortgage brokers.

Working in the insurance industry for over 18 years as a Licensed Insurance Specialist and Certified Financial Planner, I have seen too many families being unaware of the dangers of mortgage insurance. Whether it is your first home or re-mortgaging, it is common that clients rush through the process of insurance in the attempts to complete the details of securing the financing on their house. Insurance is a complicated topic and the mortgage professionals who sell these products are usually not trained or licensed to sell life insurance let alone provide the proper advice. I strongly recommend that you do your homework and seriously consider the pitfalls of any insurance offered by your mortgage lender.

In this article, I will draw attention to the differences between the insurance you purchase with your mortgage and a policy you own and purchase directly from an insurance company.

Post Claim Underwriting

The biggest problem with insurance from the bank is that they carry out post claim underwriting, simply put, it means that the underwriting will be completed after a claim has been submitted. Technically you could be declared uninsurable after you have submitted a claim and your claim is denied. If you purchase it directly from a qualified and licensed Insurance advisor, all underwriting will be done at the time a policy is issued. Therefore you know you have a binding legal contract between you and the insurance company and that the claim will be paid out when needed according to the terms of your contract, unless fraud can be proven.

continued...

Other issues with Mortgage Insurance

1. The beneficiary is the lender. With life insurance, you select the beneficiary.
2. The insurance amount decreases with your mortgage, but the premiums stay the same. With life insurance, your coverage and premiums remain the same.
3. Not transferable to a new lender. Life Insurance is fully portable.
4. With the banks, the payout can be used only to pay the mortgage. With Life Insurance, your beneficiaries decide how to use the insurance proceeds.
5. You cannot change your policy if your situation changes. A Life Insurance policy can be modified as needed.
6. The bank can decide to cancel the contract at any time or change the terms of the coverage. With Life Insurance you own a binding legal contract with the Insurance company.

Here is a side by side comparison

Credit Mortgage Insurance	Individual Life Insurance
Post-Claim Underwriting: Unlike individual life insurance, credit insurance sold through the bank is usually not underwritten until a claim is made. This means the insurance company may determine you are not eligible for a payout even though you have been paying premiums. For instance, a claim may be denied because an investigation of your medical records indicates you once had high blood pressure or high cholesterol that you did not disclose.	**Underwriting:** When you apply for individual insurance through a licensed insurance broker your medical history will be examined before a policy is issued and you start paying premiums. The insurance broker will ask detailed questions and may arrange for a nurse to conduct a physical. You will know upfront whether or not you are covered.
Standard premiums: The mortgage insurance policy sold at the bank is a one size fits all policy. This means everyone who qualifies is considered to be of equal risk. The premiums you pay on mortgage insurance are a fixed amount based on your age and the amount of your mortgage. There is no discount for non-smokers or for women. The premium does not reduce as the mortgage is paid down.	**Individual premiums:** With an individual life insurance policy, the premiums you pay are based on your individual risk. Your health history and exam will help to determine how high or low your premiums are. Non-smokers and women pay a lower premium. The face amount of the coverage remains level.
Decreasing payout: The mortgage insurance sold at the bank covers a decreasing amount. While your premiums remain the same the amount left on your mortgage decreases. Mortgage insurance will only pay off the balance of your mortgage when you make a claim.	**Fixed payout:** When you purchase an individual insurance policy you pay premiums for a pre-determined amount of coverage. Therefore, if you pay premiums for $100,000 of coverage your beneficiary will receive $100,000.
The bank gets the payout: Mortgage insurance is designed to pay off the bank if anything happens to you. Therefore the insurance payout will be made directly to the bank	**You choose who gets the payout:** With an individual policy you are free to choose the beneficiary or beneficiaries. If something happens to you, it is up to your beneficiaries to decide what to do with the insurance proceeds.

If you need insurance to protect your family, speak to a qualified insurance advisor to determine the appropriate insurance coverage for your family. Many opt for mortgage Insurance because of the ease and convenience but this may come at a huge risk and your family may not have the mortgage protection you had planned for them.

You may also want to check out a story that CBC Marketplace ran on this topic, contact your Investment Advisor* for details.

For more information to find out whether you are properly covered, contact your PI Financial Corp Investment Advisor* today.

*Insurance products are only sold by licensed advisors through PI Financial Services Corp. in Alberta and British Columbia.