February 6, 2008

The show this week

Mortgage insurance: Not always a sure thing

If you have a mortgage on your home, chances are good you also have mortgage insurance. The idea is that if you should become seriously ill or die before paying off the mortgage, the coverage will kick in and pay it off for you. It's meant to offer peace of mind and to reassure you that your family will be able to stay in your home if anything should happen to you.

The reality falls a little short of that. In this week's Marketplace investigation, we meet two families who bought the coverage and thought they were protected, only to have their claims denied when they became sick or died. In each case, the insurer said the applicant person had lied on their initial application form.

It turns out a routine test at the doctor could be reason to deny your claim, if you don't mention it. Had a cuff inflated on your bicep? That counts as being tested for high blood pressure.

As Erica Johnson reports, the bank staffers selling mortgage insurance are unlicenced and rarely trained to explain the details and legalities of those insurance products. The result is people who pay premiums and think they are covered, only to realize later that they are not.

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Tips

How to buy insurance that really will protect you

Be sure you qualify.

- There are many terms and exclusions associated with credit insurance policies. Learn what they mean and how they apply to you.
- Call the insurance company directly (NOT the bank that sold you the coverage) for clarification about pre-existing medical conditions.

- Call your doctor to clarify details of any pre-existing medical conditions you may be concerned about.

Know that you can get out.

- You usually have 10-30 days to review your policy after the initial purchase (this is known as a "cool-down" or "free look" period).
- If you have already purchased your credit insurance you can cancel anytime. Keep in mind, however, that you may lose premiums already paid.

Shop around.

- Consider buying from a licensed insurance broker who will explore any medical issues upfront.
- Consider buying or topping up an individual life insurance policy to cover your mortgage.

Know your coverage.

- You may already have adequate insurance coverage through your work or other policies. Insurance experts say it's better to buy one traditional insurance policy than purchase a number of small policies for a variety of products.

Be sure you need it.

- The purpose of credit life mortgage insurance is to protect your loved ones from making mortgage payments if something were to happen to you. This type of insurance may not be applicable if you do not have any dependents who would need to keep your home if something happened.

Alberta Insurance Council vs. the banks

Alberta is the only province in Canada that requires anyone selling credit insurance, including banks, to be licensed. Under the Alberta regulations, banks are required to follow set requirements for training staff and disclosure to customers. When the Alberta Insurance Council first implemented this regulation in 2001, the banks fought back, pursuing the matter all the way to the Supreme Court of Canada. In May 2007 the Supreme Court ruled against the banks and said the province of Alberta was within its rights to regulate the sale of this insurance and protect the consumer.

A copy of the judgment in the case, *Canadian Western Bank v. Alberta*, is available online.

To date, no other province requires banks selling insurance to be licensed. **This page offers a list of the provincial and territorial regulators** who would have that power, if enabling legislation were passed in their respective jurisdictions.

Mortgage life insurance vs. traditional individual life insurance

According to insurance and financial experts we spoke with, an individual life insurance policy may be preferable to a credit insurance policy. Here are the key differences between the two types of insurance.

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.

The application forms

The mortgage insurance application forms are similar across all the big five banks. In each, there are relatively few health questions, but each question covers a large range of medical conditions, as well as a wide range of situations (ranging from consulting a doctor, to receiving advice, to actual diagnosis.)

Click on a bank's logo to see its mortgage insurance application form. (*These will open in a new browser window.*)

Who to call

Several bureaus are set up to receive complaints from and offer advice to consumers about banking and insurance issues.

The Canadian Life and Health Insurance OmbudService (CLHIO) is an independent service set up to assist consumers with concerns and complaints about life and health insurance products and services.
www.clhio.ca
1-888-295-8112

The Ombudsman for Banking Services was set up to resolve disputes between participating banking services and investment firms and their customers if they can't solve them on their own.
www.obsi.ca
1-888-422-2865

The Financial Consumer Agency of Canada (FCAC) provides consumers with information about financial products and services, and informs Canadians of their rights and responsibilities when dealing with financial institutions. FCAC also ensures compliance with the federal consumer protection laws that apply to banks and federally incorporated trust, loan and insurance. If you are having difficulty finding out about your institution's complaint-handling process or if you are experiencing delays when using it, call FCAC. However, FCAC does not provide redress or compensation and does not get involved in individual disputes.
www.fcac-acfc.gc.ca
1-866-461-3222

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