Mortgage insurance: the insurer or the bank

Two ways to insure the same mortgage: the coverage offered across the counter at your financial institution, or a policy issued in your own name by an insurer. What each one covers, who receives the benefit, and why the difference tends to surface at the worst possible moment.

Jean Carrière

Financial security advisor

Group insurance and annuity plans representative

Scholarship plan representative

Independent representative — AMF certificate 259457

Montréal, Québec · 438 889-6474 · info@maprime.ca · maprime.ca

What this guide covers

Two products share almost the same name and do entirely different jobs. This guide explains which does what, without caricaturing either one.

1. Two products, opposite purposes

The question is not "which one is better." It is "who is protected."

When you sign a mortgage, you are almost always offered insurance across the counter. The form is short, there is often no medical examination, and coverage begins immediately. It is efficient, and it is designed to be.

This product is called **creditor insurance** — sometimes "mortgage loan insurance" or "balance protection insurance." It is not the same thing as an individual life insurance policy, and the difference comes down to a single sentence: **the beneficiary is not your family, it is the lender.**

> **The lender, not your loved ones**
>
> Under creditor insurance, the benefit pays off the mortgage balance and goes directly to the financial institution. Your estate receives nothing and decides nothing.

With an individual policy, the reverse is true: the benefit is paid to the person you designate. That person may pay off the mortgage — or choose not to, and use the money to live on, fund an education, or simply keep a reserve while the mortgage rate remains low.

A wording problem that confuses almost everyone

In Canada, the expression "mortgage insurance" refers to two completely different things. First, there is **CMHC mortgage loan insurance** — mandatory when the down payment is under 20 % — which protects the lender against your default and covers you in no way whatsoever. Second, there is the life or disability coverage attached to the loan, which is the subject of this guide.

> **Worth checking in your own paperwork:** these two premiums sometimes appear on the same statement. Know which one you are paying, and what it protects.

2. Creditor insurance from the financial institution

This is not a bad product. It is a product whose mechanics you should understand before signing.

Its legal nature

It is generally a **group creditor insurance** contract. The financial institution is the policyholder; you join as an insured person. You therefore do not hold a personal policy: you are a member of a group, and the terms of that group can change.

Element	What it means for you
Beneficiary	The lending institution. The benefit repays the balance; nothing is paid to your estate.
Amount of coverage	Equal to the mortgage balance. It **decreases** as you pay the loan down.
Premium	Usually calculated on the original loan amount and your age when you enrolled. It generally does not decrease as the balance falls.
Underwriting	A few health questions, sometimes none at all. Enrolment is quick and coverage takes effect immediately.
Portability	Attached to the loan. If you change lenders, refinance or move, the coverage ends and you must enrol again, older than before.
Termination	The group contract may be amended or terminated by the insurer or the institution, in accordance with its terms.

> **What it does very well:** it immediately covers someone who has just signed a mortgage and holds no protection at all, with no waiting period and no paperwork. Between this coverage and nothing, it is better than nothing — and that is a point some advisors leave out.

3. The policy issued by an insurer

A term life insurance policy issued in your name, often paired with disability coverage.

How it is built around a mortgage

You choose an **amount** — generally the mortgage balance, plus other debts, plus a reserve for the family — and a **term** that spans the period during which the need exists: 20 or 25 years, often aligned with the amortization.

Element	What it means for you
Beneficiary	The person you designate. That person decides how the funds are used.
Amount of coverage	Level throughout the term. After twenty years, it is the same as on day one.
Premium	Level throughout the term you choose.
Underwriting	Full questionnaire, sometimes a medical examination, before the policy is issued. Allow a few weeks.
Portability	The policy follows you. Changing lenders, selling or buying again has no effect on your coverage.
Conversion	Most contracts can be converted to permanent insurance before expiry, with no new evidence of insurability.

The disability component, often overlooked

Statistically, a prolonged disability is more likely than death during the years you are repaying a mortgage. Individual disability insurance replaces part of your income — not only the mortgage payment — and lets you decide what to pay first.

> **Worth comparing carefully:** the disability coverage offered across the counter usually covers the mortgage payment for a limited period, under a definition of disability that may be more restrictive than the one in an individual contract. That clause deserves your attention before the premium does.

4. The comparison table

Eleven criteria. None is decisive on its own; together they form the picture.

Criterion	Creditor insurance — the bank	Individual policy — the insurer
Beneficiary	**The lender**	**The person you designate**
Coverage over time	**Decreases with the balance**	**Level for the whole term**
Premium over time	Generally level despite falling coverage	**Level for a level amount**
When health is assessed	**Sometimes at the time of claim**	**Before the policy is issued**
Certainty of being covered	**Confirmed when a claim is made**	**Confirmed on issue**
Portability	**Ends if you change lenders**	**Follows you everywhere**
Conversion to permanent	**No**	**Generally available**
Control of the contract	**The institution is the policyholder**	**You are the policy owner**
Speed of setup	**Immediate**	**A few weeks**
Underwriting effort	**Minimal**	**Questionnaire, sometimes an examination**
Access with health issues	**Often granted without close scrutiny**	**May be declined or rated**

The last two rows matter. An individual policy is not available to everyone, and the institution's coverage is sometimes the only protection a person can obtain. A comparison that omitted this would be dishonest.

5. Advantages and drawbacks of each

Both columns, for both products. Read them in full before drawing a conclusion.

Creditor insurance from the financial institution

ADVANTAGES

- **Immediate** coverage, on the day you sign
- Simplified underwriting: few or no health questions
- Available to people an insurer would decline individually
- No separate process, no appointment
- Easily covers two borrowers under a single enrolment
- Premium collected with the mortgage payment

DRAWBACKS

- The **beneficiary is the lender**, not your family
- Coverage **shrinks** with the balance; the premium rarely does
- Health may be assessed only when a claim is made
- **Not portable**: you lose it when you change lenders
- Cannot be converted to permanent insurance
- The group contract can be amended without your consent
- No value once the mortgage is repaid

Insurer's policy — term life and disability

ADVANTAGES

- You choose the **beneficiary**, and that person chooses how to use the funds
- **Level** coverage: in year twenty, it is untouched
- Insurability **confirmed on issue**, not at death
- Portable: it follows the person, never the loan
- Convertible to permanent with no new evidence of health
- You own it; no one else can change it
- Comparable across several insurers before you sign

DRAWBACKS

- A few weeks to issue
- Full medical questionnaire, sometimes an examination
- May be **declined or rated** depending on your health
- Requires a process separate from the mortgage
- Premium managed separately from the mortgage payment
- The term can expire before the amortization ends if poorly set

6. Post-claim underwriting

If you take away only one thing from this guide, let it be this.

> **The principle.** Under many creditor insurance contracts, the full medical assessment is not carried out when you enrol: it is carried out **when a claim is made**. This is known as post-claim underwriting.
>
> The consequence is that you pay premiums for years believing you are protected, and the insurer verifies only at your death or disability whether you were eligible. If an answer on the brief enrolment questionnaire turns out to be inaccurate — even in good faith, even on a condition that seemed minor — the claim can be denied.

Why this happens

The enrolment questionnaire is deliberately brief, because speed is the product's selling point. A broad question such as "have you ever consulted a physician for a cardiovascular condition?" may cover an old episode the borrower does not connect to their current health. Nothing fraudulent — but a single inaccuracy is enough to open a dispute at the worst possible time.

> **How to protect yourself if you keep this coverage:** keep a copy of the signed enrolment form. Answer the questions broadly rather than narrowly, and when in doubt, disclose. An unnecessary disclosure costs nothing; an omission can cost you the coverage.

How an individual policy differs

Underwriting is done **before** the policy is issued. The insurer asks its questions, requests an examination or a physician's report if needed, then decides. Once the policy is in force, and subject to the contestability period provided by law, your insurability is no longer in question.

> **This is the real value of an individual policy:** not a lower price — that is not always the case — but the certainty of being covered, obtained on the day the policy is issued rather than discovered on the day of the claim.

7. The coverage that shrinks

A mortgage gets paid down. The premium, more often than not, does not.

Under creditor insurance, the amount of coverage tracks the balance. In year one it covers nearly everything you borrowed. By year fifteen it covers only what remains. Meanwhile, the premium is generally still based on the original loan.

The cost per dollar of protection rises every year

Same premium, shrinking coverage: mechanically, you pay more and more for less and less protection.

What this changes in practice

Consider two households that borrowed the same amount over twenty-five years. The first is covered by its lender's insurance; the second by a 25-year term policy with a level amount.

If death occurs in...	Creditor insurance	Level term policy
Year 2	The mortgage is cleared. The family keeps the house, and nothing more.	The mortgage can be cleared, **and capital remains** to live on.
Year 15	Only the remaining balance is repaid — a fraction of the original amount.	The benefit paid is the same as it was in year one.
After repayment	There is no coverage left: it ended with the debt.	Coverage continues to the end of the term, whatever the debt.

This table illustrates a mechanism, not a price projection. Actual premiums depend on age, health, smoking status and insurer. A comparison based on your own situation takes only a few minutes.

The other side of the argument

Decreasing coverage is not absurd in itself: the need may decrease too. A family whose children have left home and whose mortgage is nearly paid off objectively needs less capital than it did at thirty. The problem is not the decrease — it is paying a level premium for it, and believing the protection has stayed intact.

8. When the bank's coverage is the right choice

A guide that concluded "never" would be a sales pitch, not a guide.

When health makes an individual policy unavailable

Someone who has been declined by an insurer, or heavily rated, can usually enrol in their lender's coverage. In that case it is not second best: it is the only option, and it genuinely protects the family from losing the home.

As interim protection

Issuing an individual policy takes a few weeks. Between signing the mortgage and receiving the policy, there is a window during which you are not covered. Enrolling in the lender's coverage during that period, then cancelling once the policy is in force, is a perfectly sound strategy.

> **One rule only:** never cancel the institution's coverage before you have the individual policy **in hand and in force**. Not at the application stage — at issue.

When the amount is modest and the process disproportionate

For a small residual balance over a short period, the difference in value between the two arrangements may not justify full underwriting. It is a question of proportion, to be assessed case by case.

As a complement, not a replacement

Nothing prevents you from keeping both. An individual policy covers the family's overall need; the lender's coverage can remain in place for a specific portion of the debt. The question to ask is always the same: **am I paying twice for the same risk?**

9. How to decide

Six questions. The answers are yours; the analysis we do together.

#	The question
1	If I died tomorrow, do I want the money to go **to the bank** or **to my family**, who will then decide what to do with it?
2	Fifteen years from now, how much coverage will actually remain under my current protection?
3	Has my insurability been **assessed and confirmed**, or will it be assessed only when a claim is made?
4	If I change lenders at the next renewal, what happens to my coverage — and how old will I be then?
5	Am I covered in the event of **disability**, and under exactly which definition?
6	Am I already paying elsewhere for the same risk — through a group plan at work, or an existing policy?

What I can do

As an independent representative, I am not tied to any insurer. In practice, for a mortgage, I can:

- Establish the amount and term actually required, taking your other coverage into account
- Compare contracts from several insurers for the same protection
- Read the definition of disability and the exclusions with you **before** you sign
- Check whether this duplicates coverage you already hold — and tell you if it does
- Coordinate the effective dates so that no gap in coverage ever occurs

> **What falls outside my licence.** I do not hold a licence in **damage insurance**: the home insurance your lender requires does not go through me, and I refer those requests to Lussier. I am not a **mortgage broker** either: I do not negotiate the rate or the terms of the loan.

Check my registration. The registration of any representative in Québec can be verified free of charge in the register of the Autorité des marchés financiers: **lautorite.qc.ca/en/general-public/registers** — search for "Jean Carrière" or certificate **259457**.

Scope of this guide. General information, current as of the date of publication. It constitutes neither personalized advice nor a product recommendation. Underwriting practices, definitions and exclusions vary from one insurer and one institution to another: the terms that apply to you appear in your contract and your certificate of insurance, which alone govern. A needs analysis is required before any recommendation is made.

To discuss your situation: 438 889-6474 · info@maprime.ca · maprime.ca