

Brad Brain: Your family deserves proper insurance protection

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Brad Brain: "Don't get me wrong, I am a big believer in insurance. But please don't make the mistake of assuming all insurances are created equal." | Romolo Tavani/Getty Images

One of my LinkedIn acquaintances has been gleefully bashing creditor insurance lately, and I gotta admit, I am doing a bit of cheerleading.

Don't get me wrong, I am a big believer in insurance. But please don't make the mistake of assuming all insurances are created equal.



Creditor insurance is where you go to your financial institution for a loan or a mortgage and they say, "Would you like insurance with that?" as if they were offering to supersize your fast-food order. Convenient? Sure. But wouldn't you rather have a policy that actually meets your needs?

Now, I don't have a beef with bankers. In fact, my first job out of university was working at a bank.

I do, however, have a problem with bankers who think they are insurance agents. They are not. When it comes to the sale of insurance, they don't have the training, the credentials, the continuing education requirements, or the errors and omissions insurance that a professional licensed insurance agent has.

This is the important part of this article: it's the distinction between personal insurance and creditor insurance. Personal insurance is insurance on you. Creditor insurance is insurance on your debts. There are some important differences.

My friends, it is time to introduce you into the unsavoury world of post-claim underwriting.

When you buy a personal insurance policy on yourself it normally involves some type of medical investigations into your health. Depending on the size of the policy and your medical history it might be as simple as a health questionnaire, and it might be as involved as an electrocardiogram. The point is, the insurance company is going to look you over before they issue the policy. And once the policy is issued you can have confidence that the insurance company that they will live up to their end of the bargain.

Contrast that with creditor insurance on your debt, which typically involves merely saying "no" to three or four questions, such as have you had cancer, heart attack, or stroke. Say "no" to these questions, and you can start paying your premiums.

But the reason that it is so easy to start is because the insurance company hasn't looked at you yet. But they will. They will look at you if you make ever make a claim on your policy.

That's right. They will underwrite the policy after a claim has been made. That's post-claim underwriting.

After you die or become is disabled is when the insurance company is going to get real interested in anything that might be a pre-existing condition, or something that wasn't fully documented, or anything that might be a bit ambiguous. And what is the document that has to stand up to this level of scrutiny? That four question, yes or no answers only, application form.

That's post-claim underwriting. Why does it exist? Because it's cheaper for the insurance company to not spend money underwriting policies that don't produce claims.

Now, if creditor insurance were any good, then I can see why people would apply for it. But it's not good, it's just convenient.

With personal insurance you can pick your own beneficiaries, get the amount of coverage and the length of the policy that fit your needs, make changes to your debts or your insurance without affecting both, benefit from preferred pricing if you are in superior health, have joint coverage underwritten individually, and convert from a term to a permanent policy as your needs evolve

With creditor insurance you get none of that.

But creditor insurance must be cheaper, right? Nope, its often more expensive than a proper personal policy. That's right. Creditor insurance is often an inferior product at a higher price. That's what your convenience costs.

Creditor insurance is better than no insurance at all, but that's like saying flip flops in winter are better than no boots at all. It might be true, but just go get some proper winter boots. If you have insurance on your mortgage and you are in good health do yourself a big favour and book an appointment with a professional life insurance agent.

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