Credit or~~and~~ loan insurance

From: Financial Consumer Agency of Canada

On this page

What to know about credit or loan insurance

Credit or loan insurance -- also known as credit protection Insurance, creditor insurance, creditor's group insurance, credit insurance, balance protection insurance, balance insurance, or debt insurance -- is used to pay out a mortgage or loan balance (up to the maximum specified in the certificate of insurance) or to make/postpone debt payments on the customer's behalf in the event of death, disability, job loss or critical illness. It can be obtained for a variety of debt obligations, including mortgages, consumer loans, lines of credit and credit cards.~~Credit and loan insurance can be expensive. It's often marketed and sold in a way that does not take all your needs and circumstances into consideration. It may not offer you the best insurance coverage.~~

Credit or loan insurance is not sold by a licensed insurance representative; therefore it does not include a full analysis of your financial circumstances and insurance protection needs as financial institutions are not legally permitted to offer consumers advice when offering credit card balance insurance. As with the purchase of any type of insurance coverage, you should consider whether it is appropriate insurance coverage for you.

Your financial institution may offer~~suggest~~ you ~~take~~ credit or~~or~~ loan insurance when you get a mortgage, line of credit, credit card or other loan with them. ~~This type of insurance is also known as:~~

- ~~creditor insurance~~
- ~~balance protection insurance~~
- ~~balance insurance~~
- ~~debt insurance~~

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Credit or loan insurance is optional insurance that's a separate product from a loan or credit card. You don't need to agree to be enrolled in this insurance to be approved for a loan or credit card.

~~Credit and loan insurance is a separate product from a loan or credit card. You do not have to take this insurance to be approved for a loan or activate your credit card.~~

Credit or~~and~~ loan insurance may help you cover your loan payments if you can't make payments due to illness, accident, or death, usually up to a maximum amount. Benefits are paid to your creditors. Your creditors are the companies to which~~hat~~ you owe money~~ to~~. For example, if you have credit card balance insurance, a benefit is paid to the financial institution or retailer that issued you the credit card and will~~to~~ pay part, or all, of your credit card balance, usually up to a maximum amount.

Not all credit or~~and~~ loan products will offer the same type of insurance coverage. For example, you may be able to get life insurance and critical illness insurance coverage on a line of credit, but not disability insurance.

Like with all types of insurance, it is important that you read the certificate of insurance for credit or loan insurance to ensure that you fully understand the coverage provided, and any limitations and exclusions. Ask questions if you don't understand what's covered. For example, under some forms of certificates of insurance for credit or loan insurance, not all types of cancer are considered a critical illness.

~~There are important exclusions on credit and loan insurance that determine if your claim will be approved. Exclusions are anything that aren't covered by your insurance policy. For example, certain types of cancer will not be eligible for coverage.~~ Understand the terms and conditions before purchasing credit or~~or~~ loan insurance to make sure it's the right type of insurance for you.

~~In most cases, c~~Credit or~~and~~ loan insurance applies to a specific loan or specific credit card. If you'd like insurance on multiple loans or credit cards, ~~you'd need to get insurance for each loan or card.~~you must enrol in credit or loan insurance separately for each loan or credit card.

Find out if you have credit or loan insurance

You may have credit or loan insurance on a loan or credit card. This type of insurance is an optional and separate product. It is not a feature of a loan or credit card.

Even if you didn't purchase this type of insurance when taking out a loan or applying for a credit card, you may have agreed to a "free look"~~trial~~ period that usually lasts for 30 days. You have to cancel the coverage~~trial~~ within the "free look" trial period~~first 30 days~~ to be refunded any premium you've paid. If you don't ask your financial institution to cancel credit or~~or~~ loan insurance after the 30 day trial, you will continue to be charged a premium for it.

You can find out if you have credit or loan insurance by:

- checking your credit or loan agreement for information about optional services
- contacting the financial institution or other issuer where you took out your loan or credit card

[Find out how to check for balance protection insurance on your credit card.]

How to cancel credit or~~and~~ loan insurance.

Commented [KM1]: This will link to "How to cancel" section in this document

Decide if you need credit or~~and~~ loan insurance

Before you agree to the “free look” period ~~take a trial~~ or agree to be enrolled~~sign up~~ for insurance on your credit or loans, make sure you receive and review information about this type of insurance. Important information about the cost of insurance, what’s covered and what isn’t covered, and the type of benefit you may receive is included in the certificate of insurance. You can get a certificate of insurance for the credit or loan insuance from the financial institution or other issuer that provides you with a loan or credit card. You don’t need to sign up for this type of insurance or agree to the “free look” period~~take a trial~~ in order to get the certificate of insurance.

You can determine if this insurance provides the best coverage and is affordable for you by:

- checking to see if you already have insurance coverage through an individual plan or your employer in case of death, illness or disability, which could be used to pay off outstanding debts
- comparing the coverage offered by other insurance products, such as term life and health insurance, to see which product meets your needs and offers the best value
- understanding what’s covered and what isn’t covered by reading the certificate of insurance
- understanding if you’ll be eligible for credit and loan insurance by reading about exclusions in the certificate of insurance

Exclusions are anything that aren’t covered. Be aware that credit and loan insurance coverage can change over time depending on your age and whether you develop certain medical conditions.

You can also check the certificate of insurance for the maximum benefit you’d be eligible for if you make a claim. For example, if you lose your job or become injured or disabled, balance insurance may pay 5% to 10% of your credit card balance up to a maximum amount every month, for a certain number of months, usually 10 to 24 months. Or, if you become critically ill or die, balance insurance will pay off your balance in full or up to a maximum amount.

If you have any questions about being approved or what the insurance will cover, contact the insurance company directly before buying credit or loan insurance. The insurance company will be listed on the certificate of insurance. It is a different company than the financial institution providing you with a loan or credit card.

Getting credit or~~and~~ loan insurance

You usually get credit or loan insurance at the financial institution where you get your loan, line of credit, credit card, or mortgage. This includes:

- banks
- credit unions
- caisse populaires
- stores that offer credit cards

This type of insurance is optional. Be aware that federally regulated financial institutions aren't allowed to pressure you into taking this type of insurance as a condition for getting a loan or credit card from them. This practice, called coercive tied selling, is illegal in Canada.

At federally regulated financial institutions, such as banks, you must give your permission to purchase credit or loan insurance before you can be charged for it. This is known as giving your express consent.

Giving your express consent means that you clearly agree to purchase credit or loan insurance. You can give consent:

- verbally
- in writing on paper
- in writing using an electronic format

Using a product or service does not mean that you've given consent.

Federally regulated financial institutions, such as banks, also can't mislead you about credit or loan insurance when you give consent. This means that credit or loan insurance must be explained to you in a way that is accurate, clear and simple.

Learn more about coercive tied selling.

Learn more about giving your express consent for financial products and services.

Understand the terms and conditions of credit and loan insurance

The terms and conditions of credit and loan insurance can vary depending on the insurer. The terms and conditions will also tell you what type of claims you can make. Make sure you understand the terms and conditions before you sign up for balance insurance.

The terms and conditions will tell you:

- the maximum benefit you may get
- the illnesses covered by the insurance policy
- what is considered a disability
- if there's a minimum number of hours you need to work to qualify for a benefit after you lose your job or become injured
- whether you'd qualify for a job loss benefit if you're self employed

Even once you've been approved, not all injuries, illnesses or periods of unemployment will be covered. For example, you might not be covered if:

- you have a pre-existing condition that gets worse
- you had symptoms of a disease when you applied
- you were fired from your job with cause
- you resigned
- you were working on a contract

If you have any questions, contact the insurance company before buying credit card balance insurance.

Eligibility for credit and loan insurance

You will be required to answer a short questionnaire of 'yes' or 'no' questions to determine if you're eligible for credit and loan insurance. Based on your answers, you may be approved right away or you might need to take a medical exam before you can be approved.

Your insurance won't be valid if you do not provide accurate answers on this questionnaire. This means you won't get any money if you try to make a claim, even if you have paid premiums. Take your time to understand if you're eligible for coverage and ask questions if you have any. Take the documents home with you or consult with a medical professional if needed.

Credit or loan insurance often has exclusions relating to pre-existing health conditions. This means the insurance may not provide coverage for certain illnesses. For example, asthma, high blood pressure or heart disease might be excluded from coverage. An exclusion is anything not covered by your policy.

Depending on the type of loan you're insuring, you may not be eligible for credit or loan insurance if any of the following apply:

- you have not worked the minimum number of hours required to qualify for a benefit, are self-employed or a seasonal employee
- you have a pre-existing medical condition
- you're above the maximum age to qualify (often between 65 and 70 years old)
- you're under the minimum age to qualify (often 18 years old)
- you're over your credit limit
- you owe any payments that are past the due date
- you have recent dishonoured payments on your account (dishonoured payment happens if an automatic payment does not go through because you've reached your credit limit)

Keep in mind that after you make a claim, the insurance company that provides insurance can more fully investigate and change your coverage. This means that the insurance company may take a close look at whether you are eligible to receive money after you make a claim. In some cases, your claim may not be approved for something you thought would be covered.

Cost of credit or loan insurance

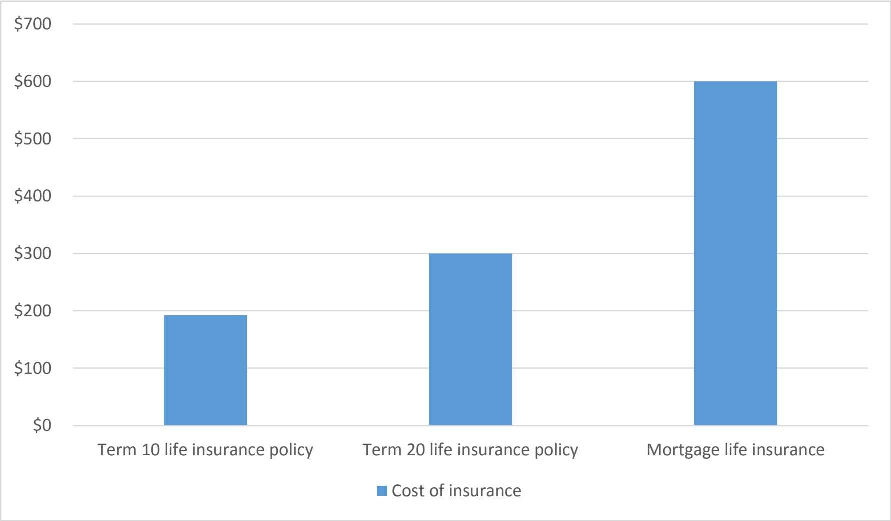
When you get credit or loan insurance, you either pay a monthly premium or a one-time premium depending on the product you're insuring and the financial institution that is providing your insurance. If you're charged a one-time premium, you usually pay this at the time your loan is approved. Monthly premiums are usually calculated based on the average daily balance of the previous month.

Credit or loan insurance may be more expensive than other types of insurance coverage.

Figure 1: Comparing the annual cost of mortgage loan insurance and term life insurance

For example, on a $250,000 mortgage with a fixed term of 5 years, at an interest rate of 5%, a 37-year-old woman would pay $600 a year to get mortgage life insurance, a type of credit and loan insurance.

To insure the same amount the woman would pay $190 a year for a life insurance policy with a 10-year term or $300 a year for a life insurance policy with a 20-year term.



Keep in mind that loans that have fixed amounts, such as a mortgage, the premiums are based on the original amount of the loan. As you pay down your loan, the premiums generally remain the same even though you'll owe less on your loan. The death benefit will decrease as you make payments and the outstanding balance is reduced.

Types of credit and loan insurance

Life insurance to pay off credit or loans

This type of life insurance covers your loan payments in the event of your death. Your insurance company will use the death benefit to pay the remaining balance on the loan. The money from your death benefit will go to your creditor. The money won't go to your family or beneficiaries.

If you want your family or beneficiaries to receive a death benefit in the event of your death, you'd need to buy a separate life insurance policy.

[Learn about the types of life insurance available.](#)

Critical illness insurance on credit or loans

This type of insurance will ensure the outstanding balance on your credit or loan will be paid if you're diagnosed with one of the critical illnesses specified in your insurance policy.

Your policy lists:

- which illnesses are covered
- what you need to qualify for the insurance

For example, cancer is usually one of the illnesses covered. However, some policies may cover only for certain types of cancer.

Pre-existing illnesses are usually not covered. However, some policies will pay benefits if you've been free of the illness for a period of time. This will be defined in your policy’s terms and conditions.

Learn about supplementary health insurance to help you replace your income in the case of critical illness.

Disability insurance on credit or loans

This type of insurance ensures that the required minimum payments on your loan or credit card will be made for a certain period of time if you get an unexpected illness or have an accident that leaves you unable to work and earn an income. It generally doesn't pay off the full outstanding balance of your loan.

You'll still be responsible for paying the balance on your loan:

- when you recover
- after the coverage period ends

Your policy will define the disabilities that would make you eligible for benefits. It will also have other terms and conditions. These include:

- the amount of the payments the insurance company will make toward your credit or loan
- the length of time the insurance company will make payments toward your credit or loan

Some policies will include job loss insurance in addition to disability insurance. Job loss insurance may make the minimum payment if you can't work because of involuntary job loss. Involuntary job loss usually means if you were laid off, dismissed without cause, or if you're involved in a legal strike or walk out.

Learn about disability insurance to replace your income if you become unable to work.

If you become injured, disabled or lose your job, credit card balance insurance may make the minimum payments on your credit card or pay a specified percentage of your monthly balance.

If you die or have a critical illness, the insurance company will pay off the credit card balance owing at the time of your illness or death.

Make sure you read your policy carefully and understand what is covered and what is not.

Learn more about credit card balance insurance.

How to make a claim

Check your policy for the steps to make a claim.

Usually, you start your claim either online or over the phone through your financial institution. You will likely be asked to complete claims forms and you may be required to provide more information and take a medical exam.

Most policies require that claims are made within a certain timeframe, usually ranging from 90 days to a year, depending on the type of claim you're making. You'll find information about the timeframe to make your claim in your policy. It's important that you begin your claim during this timeframe or your claim might be declined and you will not be paid any insurance benefits.

Keep in mind that even if your claim is accepted, you will not be refunded the premiums you've already paid.

Find out more information about making an insurance claim.

Cancelling credit and loan insurance

You can cancel credit and loan insurance at any time. Check your policy for the steps to take.

Usually you need to contact the insurance company. Keep in mind that the insurance company is often a different company than the financial institution where you signed up for insurance.

Some financial institutions offer trial periods for credit card balance insurance. When your coverage starts, there's usually a 30-day trial period. During this time, you can cancel the policy and get a refund for any premiums you have paid. If you don't want credit or loan insurance you are responsible for cancelling it. After 30 days, your financial institution will start charging you the premiums every month.

Find out more information about cancelling your insurance.

Making a complaint about credit or loan insurance

Federally regulated financial institutions, such as banks, can't charge you for credit card balance insurance if you don't clearly agree to it.

If you notice a credit card balance insurance charge on your credit card statement, but you didn't sign up for it, contact the financial institution that issued your credit card.

Find out the steps to make a complaint.

Make a complaint about your insurance provider.

Related links

- Credit card balance insurance
- Getting an insurance policy