

Mortgage protection insurance promises security, yet disputes over renewals and responsibility are exposing structural gaps.

BY DEOGRATIUS WAMALA & JULIET KIGONGO

When you take out a home loan, protecting your family and your investment is a priority. Mortgage Protection Insurance (MPI) is designed to pay off your mortgage if you die, become seriously ill, or are permanently disabled.

Unlike private mortgage insurance, which protects the lender against default, MPI protects your family by ensuring they are not left with unaffordable debt. It pays the lender directly, not your heirs.

"At its core, mortgage protection insurance is a risk management tool. Mortgages are long-term loans, often 10 to 25 years, during which the probability of death, disability, or serious illness cannot be ignored. From a bank's perspective, this represents credit risk," explained a banker that sought anonymity due to the sensitivity of the matter.

"If a borrower dies without insurance, the loan could default, the family may lose the home, and the bank incurs losses. MPI ensures that if the borrower dies or becomes permanently disabled, the outstanding loan is paid off. The family keeps the house, and the bank recovers its funds," the banker added.

MPI is often embedded in loans to protect mortgage portfolios from large-scale defaults, prevent borrowers from leaving unmanageable debt, and simplify claims. Many banks partner with insurers under bancassurance arrangements to streamline settlement.

The product emerged because long-term lending without protection against death or disability created systemic vulnerability. According to the same banker, MPI has helped expand home financing, reduce non-performing loans, stabilise capital requirements, and support property market growth.

MPI typically covers only the outstanding principal and interest. Property taxes, homeowners insurance, and other costs remain the borrower's responsibility unless optional riders are added. It does not provide extra funds beyond clearing the loan.

As the mortgage balance declines, both the bank's exposure and the insurer's risk fall. However, premiums often remain level while coverage reduces. Over time, borrowers pay the same premium for a shrinking benefit. If death occurs near the end of the loan term, the payout may be modest.

MPI can still offer peace of mind. It is often easier to obtain than term life insurance because it may not require a medical exam, which can help borrowers with pre-existing conditions. When a valid claim is made, the insurer pays the lender directly, helping prevent foreclosure.

However, MPI has limits. Proceeds can only settle the mortgage and cannot fund living expenses, education, or other debts. Like all insurance contracts, it contains conditions that affect claims, including non-disclosure of medical history, undisclosed pre-

What home owners need to



Condominiums in Lubowa, a Kampala suburb. MPI is often embedded in loans to protect mortgage portfolios from large-scale defaults. PHOTO/FILE

existing conditions, suicide within an initial waiting period, fraud or misrepresentation, and lapsed premiums.

Although MPI can be affordable, especially for younger borrowers, it is often more expensive than comparable term life insurance because the no-exam feature increases insurer risk.

Whether to take MPI depends on your finances, health, and priorities. For borrowers who cannot qualify for term life insurance, it can be a practical way to protect the home.

When a borrower dies

When someone with MPI dies, a common question follows: why didn't the insurance pay out?

Mr Nicholas Wavamuno, the Business Intelligence and Growth manager at SanlamAllianz Life Insurance Uganda Ltd, says the real issue is not whether insurance existed, but who was responsible for keeping it active.

A mortgage creates three risk positions: the borrower carries repayment risk, the bank carries credit risk, and the family or business carries continuity risk. MPI is meant to transfer the risk that a borrower cannot repay due to death, disability, or critical illness before the loan is cleared. If it works, the insurer pays the outstanding balance, the bank recovers its funds, and the family keeps the home.

But design and execution often diverge. "Many people think mortgage insurance is just about death, but it's actually about consistent process discipline over time. A 10- or 20-year loan is not a one-time transaction; it is a multi-year administrative process. Insurers know that processes fail more often than products do," Mr Wavamuno explains.

Coverage gaps usually stem from five structural weaknesses: unpaid renewal premiums, health

deterioration leading to repricing or denial, incomplete documentation, cover being recommended rather than mandatory, and—most commonly—borrowers assuming the bank manages renewals while banks assume the borrower understands their responsibility. As Mr Wavamuno notes, "assumptions are the real risk vector."

Several bankers interviewed echoed this concern. They said banks typically manage the master policy linked to the mortgage, collect premiums through loan repayments, and monitor its status. However, if the policy is not properly maintained or responsibilities are unclear, families may remain liable for the mortgage despite believing it was insured.

Many borrowers assume, "If the bank arranged it, the bank is managing it." When roles are undefined, that assumption becomes risk.

If a policy lapses or expires, there is no active cover and no obligation for the insurer to settle the loan. The mortgage remains payable by the estate or family. Purchasing insurance once does not extinguish the debt.

The deeper question is whether

insurance and banking systems are designed to protect families automatically, or whether they depend on flawless administration for decades.

Mr Wavamuno proposes three structural reforms. First, where life cover is mandatory, premiums should be embedded in loan repayments to eliminate renewal friction. Second, large exposures should not lapse silently; banks and insurers can implement joint lapse alerts and escalation triggers. Third, borrowers should leave origination with clear, written confirmation of whether cover is mandatory or optional, how renewals work, and who is responsible.

"Trust is earned when expectations are explicit," Mr Wavamuno emphasises.

Insurers increasingly acknowledge that long-term failures arise from the assumption that borrowers, balancing mortgages, jobs, families, and limited attention, will flawlessly manage annual administrative requirements for 10 to 20 years. Embedding protection into the financial system is key to preventing painful lapses.

In the case of the late Cedric Ndilima Babu, whose family is fighting to

keep their Kololo home after Kenya Commercial Bank (Uganda) Limited allegedly failed to renew his mortgage protection insurance (MPI), the High Court Commercial Division has issued a temporary order, stopping the bank from selling the house until the case is heard fully.

Assistant Registrar Mulondo Mastula ruled that Babu's estate had raised serious questions about whether the bank was required to ensure the insurance linked to the mortgage stayed active.

The case was filed by Babu's mother, Ms Olive Zaitun Kigongo, and his widow, Alison Gallagher, who manages his estate. The property is Condominium Unit No. 2 at Plot 1, Fumu Lane, Kololo, where the family lives.

Court records show Babu took the mortgage in July 2023. After his death in May 2025, the bank demanded payment of about \$182,710 (around Shs655 million).

The family argues that under Clause 7.17 of the loan agreement, the bank was supposed to ensure the mortgage insurance was renewed through its bancassurance arrangement. They say that if the policy had been renewed, the insurer would have cleared the loan.

The bank says renewal was the borrower's responsibility and that the policy lapsed in August 2024 after funds were not provided.

At this stage, the court said it was not deciding who is right, only whether... there is a real issue to be tried.

While the agreement states the borrower must insure the property, it also says renewals "shall be placed through the KCB Bancassurance" and that if the borrower fails to renew, the bank will automatically renew and charge the cost.

The court also noted that losing a family home cannot easily be fixed with money. "The potential eviction of a spouse along with three dependent children constitutes a material

MPI VS LIFE INSURANCE

Mortgage Insurance

- Pays off the outstanding mortgage only

- Payment goes directly to the lender

- Cover reduces as loan balance declines

- Often renewed annually

- May not require medical exam

- Cannot cover school fees, living

costs or other debts

Term Life Insurance

- Pays a fixed sum assured to beneficiaries

- Family decides how to use the payout

- Coverage amount remains constant

- Typically cheaper per shilling of cover

- Requires medical underwriting

Know about mortgage insurance



Protazio Sande, Director of Planning, Research and Market Development at IRA,

jury that goes beyond the measurable market value of the property," the registrar said. The bank is now temporarily barred from advertising or selling the property until the main case is decided.

The dispute highlights a wider issue around mortgage protection insurance.

One thing many people miss is unlike short-term credit insurance, where the premium is paid once upfront for the full loan period, mortgage insurance is typically renewed annually. That single structural difference, for a 10-20 year commitment broken into annual renewal periods; is where most of these disputes are born," explains Mr Avamuno.

The system doesn't fail because people are negligent. It fails because its design isn't optimised to account for human behaviour over time," he adds.

In simple terms, if a mortgage insurance policy expires, there is no active cover. The insurer does not have to pay the loan, and the debt remains. The mortgage agreement itself still stands.

The solution

Protazio Sande, Director of Planning, Research and Market Development at the Insurance Regulatory Authority of Ireland (IRA), says most mortgage protection policies are structured on an annual basis because they cover the risk of death within a specified period.

If the policyholder survives a year, the premiums paid are deemed utilised and the policy lapses at the end of the policy period, requiring renewal.

So, technically, the obligation to renew lies with you, the mortgage owner. However,

loan structured in line with the annual premiums required. It is often easier for a borrower to service a loan than to plan for yearly premium payments," Mr Sande adds, noting that the arrangement would also serve the bank's interests.

He explains that when a bank grants a mortgage facility, its interest should not be to repossess and sell the property.

The question then arises: whose

responsibility is it to renew the policy; the policyholder, the bank, or the insurer?

Mr Sande explains that the bank has a fallback position: "if you have not paid and you die, then they will sell the property."

However, he believes "it is in the best interest of the client to ensure that there is protection all the time because for you, the client, you don't have any fallback position."

To reduce the risk of lapse and ensure

the mortgage is repaid regardless of what happens, several structural improvements can be adopted.

These include system-driven renewal alerts with consent capture before expiry, digital integration between banks and insurers to continuously confirm policy status, and automatic deduction of premiums alongside loan repayments, with funds remitted directly to the insurer.

under the bancassurance framework, banks are expected to ensure that the mortgage is protected for the entire loan term. If the mortgage runs for 10 years, then the bank's interest should be covered for all those 10 years," he explains.

He notes that paying premiums for the entire mortgage period upfront is not practical, as it would be prohibitively expensive. Instead, banks can structure what is known as insurance premium financing.

What he says. "So, technically, the obligation to renew lies with you, the mortgage owner. However, under the bancassurance framework, banks are expected to ensure that the mortgage is protected for the entire loan term. If the mortgage runs for 10 years, then the bank's interest should be covered for all those 10 years," **Protazio Sande, Director of Planning, Research and Market Development at IRA**

"This means that when the bank grants you a 10-year mortgage facility, it can also extend a form of loan to cover the insurance premiums over that same period. The premiums would then be recovered from you annually," he says.

Under such an arrangement, the borrower effectively services a structured loan that caters for the insurance premiums, rather than worrying about making separate annual premium payments.

"In that case, what you are paying is essentially a