WHATS IS INSURANCE?

Insurance involves the transfer of risk. By paying premiums to an insurer, you transfer the risk of loss from yourself to the insurer.

The insurance process is a mechanism for spreading risks or sharing losses of the few among the many. Individuals (policyholders) pay a fee (the premium) to an insurance company (insurer) in return for a benefit in the event of a loss that might occur as a result of certain agreed events (a claim).

The terms and conditions are set out in the “insurance contract” (policy document).

It is important to understand that insurance for risk is not a savings product. Insurance involves the payment of the premium in exchange for cover. You will only receive a benefit if you have a legitimate claim for a loss that is specified in your policy document.

HOW DOES INSURANCE WORK?

WHAT IS RISK?

A risk is the chance of an event resulting in financial loss – for example, something valuable getting stolen, damaged, destroyed or lost; or a person getting injured, sick or dying.

The risks that you will face are not exactly the same as those faced by others. Risks grow out of your particular situation, such as your job, the size of your household, the number of people that are dependent on you, your savings and income, your assets or your age. Your risks will also change as your circumstances change, such as you get a loan to buy a car, a property or other assets or you have family responsibilities.

WHAT IS A PREMIUM?

A premium is an amount of money you pay to an insurer for insurance cover. The premium you pay is the financial value of the risk being transferred from you to the insurer.

The amount of premium you pay depends on a number of factors, including:

- the type of insurance cover, the level of risk that you are looking to insure for, some types of insurance, the level of excess you take, your personal information (history, lifestyle, etc), your age, etc.

- administration costs and taxes and levies.

Generally, the higher the risk of loss, theft, damage, injury or death, the higher the premium you will pay.

Example 1:

Car insurance for young drivers will generally carry a higher premium reflecting statistical data that shows younger drivers are higher risk due to their limited driving experience. For example, the premiums paid by a 22 year old would generally be higher than that paid by someone who is over 30 years of age.

Example 2:

People who participate in hazardous recreational activities or sports (such as scuba diving or skydiving) will often carry a greater risk, which may be reflected in a 'pastime loading' in their life insurance. This means that these people may pay higher premiums because they face an increased chance of suffering from a serious or potentially life threatening event.

People who smoke will pay higher premiums than people who don't smoke.

It is important for you to disclose your pastimes to your insurer – this is part of your 'duty of disclosure'. Your insurer will use your personal information to assess your level risk. Information about your pastimes may not have an impact on your premium or eligibility for cover, but it is in your interests to fully disclose to your insurer.

WHAT IS A DEDUCTIBLE?

A deductible is the amount of the loss you must pay out of your own pocket before the insurer begins to compensate you. Many types of general insurance (e.g. comprehensive motor vehicle or home contents insurance) may include a deductible. Some insurers make a deductible compulsory, while others will allow you to use an excess to reduce the premium. A deductible can act as a deterrent against frivolous claims and so keeps the cost of premiums down for most customers.

Generally, the higher the deductible, the lower the premium.

WHAT IS A BENEFIT?

A benefit is when you receive an amount of money, or in the case of some insurance, replacement or repair of your belongings from the insurer because an event covered in your insurance policy has taken place. For example, you suffer an illness and are unable to work for a period of time and you have income protection insurance, you will receive a monthly income stream from your insurer.

WHAT IS A CLAIM?

A claim is when you contact your insurer seeking a benefit for an event covered by your insurance policy. For example, there is a fire in your home and you have home contents insurance and you make a claim to replace your furniture and other personal possessions.

TIP
You should shop around for the right insurance product for you and read the policy document carefully so you know what's covered and what's not covered.

WHY HAVE INSURANCE?

Insurance provides you with a way to deal with the risk of financial loss which has occurred through an unexpected event. Insurance doesn't remove the risk of accident, illness, injury or disaster, but it does provide protection, compensation and financial security to you and your family.

Insurance protects you so you can replace those assets you have accumulated, whether those assets are your belongings or your capacity to earn income. Insurance helps you manage those unexpected events that may otherwise mean you have to dive into your savings or find other ways to make ends meet.

It doesn't matter whether you have a low income or high income – insurance is a way to avoid the risk of losing your assets or finding yourself in financial difficulty.

INSURANCE CAN GIVE YOU PEACE OF MIND.

- Helps you manage the unexpected and stay financially stable.
- Protects you against having to pay the full cost of a loss.
- Means you don't have to dive into your savings or investments, or borrow money, or ask family or friends or others for financial assistance, or sell assets to pay outstanding debts and day-to-day living expenses.
- Helps protect your family or other dependents from the financial consequences of your death.
- Gives you confidence that you and your family will be taken care of in times of need.
- Premiums on some insurance policies are tax deductible.
- Insurance policies can be tailored to provide cover relevant to your needs.

TIP
Some people think insurance is a luxury. But the cost of replacing your assets and possessions can be substantial, and if you had to, you probably wouldn't be able to afford it. The cost of replacing your ability to earn is beyond most people's reach.

WHAT INSURANCE DO YOU NEED?

Your need for insurance will change as you move through different stages of your life.

Everybody's circumstances are different – however, insurance can be important for everybody. The amount of insurance cover you need will be influenced by your level of income, your assets, your liabilities, and your personal circumstances, such as whether you are married, have children or other dependents.
You should shop around to make sure you find the right insurance product for you.

An insurer, insurance broker or financial adviser will be able to help you if you're not sure about what insurance best suits your needs and circumstances.

It is important that you are familiar with the inclusions and exclusions before you purchase insurance, so you know what's covered and what's not covered more details

WHEN SHOULD YOU PURCHASE INSURANCE?

When the loss is beyond what you could afford to pay in replacement costs, for example, replacing all your household items or the building itself if they were lost in a fire. When you purchase a motor vehicle or a new property. When you move into a new home or rental property.

To protect against a loss that may be uncommon but would be catastrophic if it occurred, such as the death or loss of earning ability of the main income earner or the person who cares for the family and home, especially if you have children or other dependents including elderly parents

Some of the more important risks that could threaten you or your household are:

- Damage or loss/theft of personal belongings
- Fire or damage to your home
- Damage done to your vehicle
- Liability for damages done by your vehicle
- Liability for damages suffered by someone on your property
- Loss of your income
- Illness or accidents in the family
- Total or partial disability of a family member
- Death of a family member