TOPIC 7

What is insurance?

This topic helps you to:

- find out what insurance is;
- understand compulsory and voluntary insurance;
- list the types of insurance and assurance;
- understand the risks of not having insurance;
- explain important insurance principles.

What is insurance?

Insurance is a payment 'just in case' something bad happens. We pay insurance companies because if something bad *does* happen, it will cost lots of money to deal with it ourselves.

A person buys an 'insurance policy' from a company that agrees to take on certain **RISKS** in return for a **PREMIUM**.

Bob buys an insurance policy to insure his home against the risk of it catching fire.

He pays the insurance company a premium of £250 a year.

In return, the insurance company agrees to pay for damage to Bob's home if it does catch fire.

Who provides insurance?

Many types of company offer insurance. They all have to follow rules, train their staff and give customers accurate information.

An '**INSURANCE BROKER**' can be paid a fee to find a good insurance product for a customer.

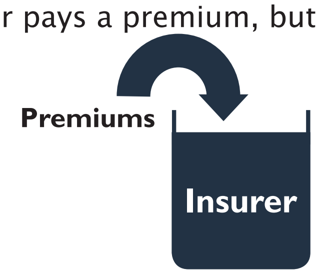
Insurance providers include:

- Insurance companies
- Banks and building societies
- Supermarkets
- Motoring organisations

How do insurers make money?

Insurance companies take on many risks and have millions of customers.

Every customer pays a premium, but not every customer has something bad happen.



The insurer only pays out money for events that happen. It keeps all the other premiums.

Bob never needs to claim on his insurance policy.

He pays the insurance company a total of £6,250 in premiums over 25 years.

Bob thinks . . .

If there had been a fire, the insurer would have paid out much more than I paid in premiums

The insurer thinks . . .

The risk of a fire was small, so there was a good chance we would never have to pay out any money on Bob's policy

Compulsory insurance

Some insurance is compulsory: you *must* buy it if you use particular products.

Car insurance is compulsory if you own a car. It is illegal to drive a car without any insurance.

Emily buys '**third-party**' car insurance. This is the legal minimum. It covers injury and damage to third parties – people who are not Emily – as a result of her driving.

Voluntary insurance

Other types of insurance are voluntary: it is up to you whether you buy them or not.

Steph buys '**comprehensive**' car insurance.

This covers injury and damage to third parties, *plus* damage to Steph's own car and injury to herself while driving.

Travel insurance is voluntary, but it is highly recommended. It covers people against loss of property while they are on holiday, and pays medical costs if they become ill.

House insurance is important for people who own property, because the cost of damage is high.

- **Buildings insurance** covers damage to the house caused by events such as flood or fire.
- **Home contents insurance** covers loss or damage to the contents of your home. For a higher premium, you can also cover items that are taken outside the home, such as laptops.

Pet insurance covers you against the cost of certain vet's bills.

Bills are usually covered for an accident or a serious illness.

Health insurance covers you for private health treatment if you have an injury or need an operation.

If you have to go to hospital, you can also choose the date of your operation instead of taking the dates offered by your local National Health Service (NHS) hospital.

What is life assurance?

'Insurance' and 'assurance' have slightly different meanings.

- **Insurance** is for an event that *might* happen.
- **Assurance** is for an event that *will* happen, the only such event being death.

Life assurance pays out a lump sum to the people left behind if you die.

To take out life assurance on another person, you must have an 'insurable interest' in their life.

> **Frieda** and **Kayleigh** are civil partners.
>
> They have an insurable interest in each other.
>
> **Phil** and **Don** have never met.
>
> They *do not* have an insurable interest in each other.

The life of the person being covered is the '**LIFE ASSURED**'.

There are different types of life assurance.

Whole-of-life assurance

This cover pays out an agreed sum whenever the life assured dies, as long as the premiums were paid.

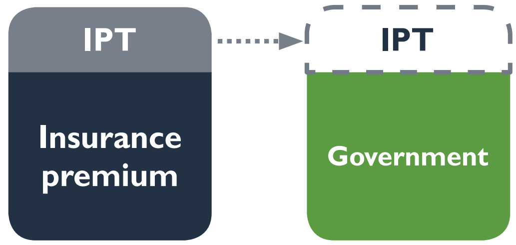
Term assurance

This cover pays out an agreed sum only if the life assured dies within a certain period of time. Otherwise, no sum is paid.

Insurance premium tax (IPT)

All insurance premiums are taxed. Insurance companies add this amount to their customers' premiums, making them more expensive.

The company then passes IPT to the government.



What are the risks of not insuring?

If some insurance is voluntary, why do lots of people still buy it?

They weigh up the cost of insuring against the risk of *not* insuring.

Steph

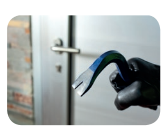
Comprehensive car insurance is expensive, but I want to be covered in case the car is ever badly damaged

Think about travel insurance. If you had an accident in another country and were not insured, you might have to pay expensive medical costs.

Should you buy travel insurance for a holiday? Decide with the **Cameron's holiday** video activity.

We insure voluntarily to protect what is ours, whether it is a car, a home or an expensive item.

Theft



Most items can be stolen, such as by muggers on the street or by burglars from a home.

For example, smartphones are easy to steal, but costly to replace.

So if you have a smartphone that you do not insure, you *risk* having to pay to replace the phone if it is stolen.

Accidental damage

Most items can be broken. You might drop a tablet computer, or have an accident in your car.

Because Emily only has third-party insurance, she *risks* having to pay an expensive repair bill if her car is damaged.

Important principles

Customers should remember some important principles when buying insurance.

An insurance provider's price for premiums is based on assessing risk. It does this using the information you give, so the information must be accurate.

Material facts

A 'material fact' is something the insurance company should expect to be told.

If Sandi wants to insure her house against fire damage, it is a **material fact** to tell the insurer that she lives next to a fireworks shop.

In good faith

'In good faith' means not keeping information from the insurer on purpose.

If Sandi failed to tell the insurer about the fireworks shop, this would be **not in good faith**. ✗

Indemnity

'Indemnity' means you can't make a profit out of insurance.

You can only be put back in the same position you were in before the event happened.

Nadia bought her car three years ago for £12,000.

Recently it was damaged beyond repair. But the car's value fell ('**depreciated**') over the three years Nadia used it.

So her comprehensive car insurance paid out what the car would be worth *now* – not the £12,000 originally paid for it.

How do we get good insurance deals?

When you choose to buy insurance, it is a good idea to shop around. Look at what different insurance companies offer and for what price.

Price comparison websites let you compare some insurance deals on offer. You enter your details and then get a list of deals to choose from.

Online Activity

Compare the insurance deals on offer in **activity 7**.

Further . . .

Complete the Topic 7 activities online.