



Insurance

What is insurance?

It's a way of protecting yourself against the risk of unforeseen events such as accidents, theft or illness that can cause financial loss. To get insurance you take out a **policy** (an agreement between you and an insurance company) to agree what you're insuring against and pay an amount of money called a **premium**. If the event happens and you're covered (insured) you can make a **claim** for the financial loss including the cost of replacement, repair or other expensive bills e.g. if you have buildings and contents insurance for your home and there's a fire, you can claim for replacing damaged goods, redecoration and even temporary accommodation if needed. Every policy is different so you should always check the details!

You have to have some forms of insurance by law and others are optional. You need to consider the cost of the insurance and think about how likely it is that something will happen. For example, if a family pet gets sick veterinary bills can be very expensive and families can't always afford them. Some people choose to take out pet insurance. They pay a small amount each month so that the insurance company will pay the vet's bills if the pet is ill. The insurance company will work out the cost of the premium based on how likely it is that the pet will need the vet's services. The insurance company makes money by calculating the 'risk' correctly. Insurance can be paid in regular amounts or as a one-off payment (lump sum).

Why take out insurance?

- It can give you peace of mind so you don't need to worry about having to spend a lot of money if something happens.
- Some insurance is compulsory – for example 'third party' vehicle insurance for car drivers.
- You can end up paying out just as much in insurance over a number of years as the cost of the event, but the payments are spread out rather than hitting you all in one go.

Types of Insurance

Health

- The UK's health service (the NHS) is free but some people choose to take out private medical insurance. If they get sick or injured, the insurance company will cover the cost of private medical treatment.

Home

- The two main types of insurance for the home are **buildings insurance** (which covers damage to the building itself) and **home contents** insurance (which covers damage or theft of the furnishings, appliances, clothing and other items in the home). Policies may also cover accidents that could happen at the home (such as a guest falling down the stairs and breaking an ankle).
- Buildings insurance is usually compulsory for people taking out a mortgage to protect the person or organisation lending the money if anything happens to the property.
- The cost of the insurance policy depends on the cost of replacing the house or contents and what the policy covers.
- The insurance policy shows the types of events that are covered. Usually events such as 'Acts of God' (e.g. earthquakes and floods) are not.
- There is a third type of insurance for homes that covers maintenance services. **Homecare insurance** covers the cost of things like unblocking drains, servicing central heating or electrical appliances, internal plumbing, etc.

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Insurance cont'd

Life

- The insurance company pays a person's family an amount of money if he or she dies or becomes critically ill.
- Life insurance may include cover for death-related expenses, such as the funeral.
- There have been cases in which people have broken the law by faking their own death in order to claim the insurance money, such as the case of the canoeist, John Darwin. This is known as insurance 'fraud'.

Motor

- Motor insurance is purchased for cars, trucks, and other vehicles. It protects motorists if they cause injury to themselves, their passengers or other drivers; if their vehicle is stolen or damaged; and if they damage other vehicles.
- The Road Traffic Act 1988 states that drivers must have at least 'third party insurance', covering injuries to others and for damage caused by the driver to others' property.

Pet

- Pet insurance covers expensive veterinary bills if a pet is sick or injured.

Travel

- Travel insurance usually protects people from unexpected costs they may have while travelling. These could include medical expenses; financial losses (for example, holidays being cancelled, travellers' cheques being stolen, lost or damaged baggage/possessions, replacing lost items).
- You can take out travel insurance to cover a particular trip or all travel within a certain period (e.g. a year).
- You can usually buy travel insurance from travel insurance companies, travel agents, post offices or directly from tour operators.
- Travel insurance companies sometimes provide helpful services like 24/7 travel assistance and advice.

Extended warranties for products

You might have been asked if you want an 'extended warranty' when buying something (e.g. a CD player). This is a type of insurance. Most products come with a **guarantee** that they will be fixed or replaced if they break within a year. But what if they go wrong after the year is up? Paying for an 'extended warranty' covers the product for a longer period of time.