

The prudent concepts of Insurance

What is insurance?

Insurance is a way of protecting yourself, your family and your belongings against particular adverse events, for example, a burglary, or losing your income because of illness. If this happens, insurance will pay out an agreed amount; or an amount to cover the damage, as appropriate.

Why do you need insurance?

It is because the unexpected always happens. You have to decide whether you're willing or able to take that risk. The most decisive factor is whether you can bear the serious financial consequence of the event. This can affect yourself or your family members dependent on you. For example, are you willing to see your family would lose your home?

How does insurance work?

The purpose of insurance is to help to manage the negative effects of risks on your personal and working lives. Insurance is a highly effective risk-transfer mechanism because it allows for the effects of the risk, to be passed from the individual to the insurance companies. In return for accepting the risk, the insurer charges a premium that reflects the level of risk it is accepting.

The amount you pay for insurance will be based on the information you give the insurance company and the type of risks you want to insure. Insurance companies use underwriting criteria, for example, where you live, if you smoke or what type of events or activities you would like to be covered for to help them work out the price (premium) of the insurance. It is important that you give the insurance company the correct information when buying insurance as incorrect information might affect your claim.

You pay either a sum for the whole year, called a single premium, or a regular premium, usually monthly, for the policy. Most insurance products are very complicated; you should use a reliable professional broker to help you shop around from reliable insurers.

Most people think that most of the insured events will not happen to them and therefore they do not bother to purchase insurance. No matter how small is the chance, the unwanted events can happen to you. The most important decisive factor is whether you can bear the serious financial result of not insured? The major decisive factor is not the cost. Some insurance products are relative expensive. It is not because of the greediness of the insurer. Because of competition of UK market, the insurers need to provide competitive quote. Otherwise, they cannot obtain the business. Why some insurance products are expensive? It is because the risk of claim is relative high. With higher risk and serious consequence, you should cover it even at a higher cost. If you have a tight budget, use a reliable and professional insurance broker to shop around for you from reliable sources and choose the right combination of protections suitable to your own situation. Most insurance products are very complicated; make sure you choose the professional and reliable broker.

Types of insurance

Pure protection insurance for mortgage and family includes:

- term life assurance;
- critical illness insurance;
- income protection insurance;
- payment protection insurance; and

- building and content insurance.

Other common general insurance includes:

- travel insurance;
- private medical insurance;
- motor insurance; and
- pet insurance.

Buying insurance - Get the keyfacts

Insurance differs in what it covers and what it doesn't (the exclusions). Read the keyfacts policy summary that the insurance company give you to find out exactly what you're getting and use it to shop around and compare other policies.

Whatever type of insurance you decide to take out, always:

- ensure the referent firm is authorised by government to sell insurance;
- make sure the broker is professional and reliable;

- disclose the full facts when applying for insurance – if you don't, you could invalidate your policy and the insurance company will not pay out in the event of a claim;
- read the keyfacts policy summary for exclusions – to ensure that you choose the right policy for you; and
- shop around using the keyfacts documents to ensure you get the best deal for you. Some policies might be cheaper than others, but they may not offer the same level of protection. Sometimes, choosing a reliable insurer is more important than a cheaper insurance.

Some critical concepts of insurance

“To borrow large sum of money or having mortgage without sufficient insurance is more dangerous than driving car without insurance; the latter may only wrecks a car, but the former could wreck a family.”

“Most people insured their house, their car and house contents but they forget the most important asset, themselves. They are the money printing machine of their family. If they stop working due to accident, illness or unemployment, the family income stops.”

“If your income stopped suddenly, cross off the monthly items that would have to go because you can not afford them: Mortgage payment, car expenses, current bills, schooling costs, food, clothes, transport, savings, entertainment, and holiday? You have to think seriously. What can you cross out? How much can you save? Not much, isn't it? Income protection insurance can help to solve the problem!”

“You've got a car. Is it insured for third party only; or is it insured for third party, fire and theft; or is it comprehensively insured? Most people choose comprehensive. Is it the same with your life insurance? Life cover (third party cover) only pays if you die, add critical illness cover (fire and theft cover) and it pays if you are unluckily suffered critical illness as well. Make it comprehensive and it'll pay out if you die, or become critically ill, or need an income (income protection cover) when you cannot work due to accident or illness. Most people treat themselves not as good as to their own car. They don't realise that they are money printing machine in their family and their car is only an expenses. Their car does not earn money at all.”

“Suppose you were made redundant and at forty years of age applied for a new job. As you look through the job columns you find two jobs that would suit your experience. The first job offers you £32,000 and the usual fringe benefit; retirement plan etc., and undertakes to pay you your income if you are ill for six months. The second job will pay you £31,400, also provides the retirement plan and fringe benefits, but guarantees to pay you your income until you are recovered or to age 65 if you are unable to work due to illness or accident. Which job would you choose? Most people choose second job because of the long term stability. If you don't have the chance to find this second job, you may able to purchase the income protection cover yourself with less cost. Contact your insurance broker for income protection cover now. ”

“Your critical illness cover will pay out a lump sum that will pay your medical expenses or pay off your mortgage. It pays for your medical expenses or your home mortgage. Your income protection cover pays you an income each month for monthly mortgage payment so that you can stay in your house.”

“Most people treat acceptable insurance cost as an absolute amount; say £30 per months. No matter what your cover figure will be, it is not appropriate. Many people may have insurance at young age to cover for a small cover. They expect the insurance cost will always be the same without change. They have forgotten that they have purchased larger house with high mortgage and thus a higher amount of insurance cover. Their age increased and thus the risk to pay by insurers too. Therefore the cost of insurance is gradually increased during your life time. Don't forget, your incomes have increased and thus your insurance cost would increase too.

In developed countries, the prudent monthly amount for a comprehensive covers can be 5% to 10 % of your income or mortgage payment, depend on your age and the term of cover required and other factors. To save the insurance cost, the best way is to ask your reliable and professional insurance broker to shop around for the best deal.”

“Most people think that they are young and do not need any life insurance. At young the risk is low; they prefer to start the policy at a later date when the risk is higher. They believe they can save money for that. The reality is not like that. For example, the premium for a term life insurance cover of £200,000 for 40 years (up to retirement age 65) for a young non smoker male age 25 is £9.28 pm*. For comparison, the premium for a life cover of £200,000 for 20 years for a non smoker male age 45 is £22.13 pm*. Both life policies are up to age 65. The total premium paid by the young male is £4,454.40 (£9.28 x 12 months x 40 years), while the total premium paid by the older male is £5,311.20 (£22.13 x 12 months x 20 years). The younger will pay less and cover for 40 years while the older male will pay more and cover for only 20 years. I prefer to start at younger age. In this case the younger pay less and got extra 20 years cover. What would you prefer? It is just the cost of insurance will increase in line with age. In this case, you save nothing for defer your insurance.

Besides, if either you or your family got some adverse medical history before you start the policy, the insurer may not accept your insurance application or increase your monthly cost substantially. No one would like that happen. Don't delay!

* Premium based on quote in 4/2016"

"Most people might have insisted the saving plan life assurance. It seems a good idea to combine saving and protection. Perhaps, you may feel comfortable because you will have some return even this may have negative return.

The poor publicity of endowment policy had revealed the drawbacks of this kind of policy. Because it is mixed, it is difficult to compare the investment result and the cost of the life policy. This is not good for comparison for cheaper insurance or for the investment performance. Most of these policies tie you up to the end of the policy; otherwise, you may lose a portion of your investment return. This is not fair. You approved the insurer to tie you up and punish you if you cancel the policy.

Separate life policy and saving plan can give you a clear comparison with other competitors. You can change products provider at any time for cheaper premium or for better investment performance. You control your own flexibility and freedom. Term life assurance is always the cheaper one."

"Some people mixed up insurance and maintaining contract. Insurance is for unexpected events and not for normal wear and tear of property. For large amount of insurance claim, most insurers will appoint independent investigator, if the investigator find the loss or damage is caused by lack of maintenance or repair, the insurer may decline your claim or pay out a portion of the claim. If the insurance needs to cover normal maintaining, the cost will be very high."

"Some lenders compulsorily require building insurance and life insurance. They may need the policies actually issued before they will send out their mortgage money. Make sure you allow sufficient time for the arrangement. If you have some medical history in the past, or the cover amount is high; the insurer may require a simple medical test or report from your family G.P. This may take month(s)."

"If you don't pay the price for insurance regularly, one month at a time, you and your family may need to pay the whole price of the unexpected disaster all in one goes."

"Some insurance products are very complicated, some may not suitable to your situation at all, some are relative expensive and you need a suitable combination of different products. The most important is that you need a professional and reliable insurance broker to arrange the insurances for you."

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4/2016 update