

INSURANCE: PROTECT YOURSELF

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OK, everyone knows insurance is one of those subjects that's REALLY boring... that's until something unexpected happens and you find you REALLY need it.

At the moment you won't have much need for insurance – your parents probably take care of it. But soon you'll be looking at buying a car for example, and you'll be introduced to the world of insurance.

So what's it all about? Insurance basically means paying a small amount each year, so that if the unexpected does happen, you don't have to outlay a huge pile of money all at once. It's like a safety belt that helps you handle any risks you may face.

Unexpected things that happen include your house burning down, having a car crash or being in an accident. You can get insurance for all these risks and more.

We'll start with some insurance basics so you're clear on how it all works...



Rate the following indicating how important they are to you - most important (1) to least important (5).

Car

House

Income

Health

Possessions

You can get insurance to protect all of these.

Handling risk

Risk is the chance that something unexpected will occur. Risk management means that you use various ways to deal with potential personal or financial loss. You basically have three options:

- 1. Avoid risk altogether.** Not go on a holiday, not go snowboarding, not own a car. It's probably not realistic, but if it's that important to you to avoid a certain risk altogether, it can be done.
- 2. Minimise risk.** If you must travel in a car, wear a seatbelt and buy a car with safety features. You're still taking the chance of being involved in an accident, but you are lowering the risk of being seriously hurt.
- 3. Pay for someone else to take on the risk.** That's where insurance companies come in, and many people choose this approach to help them manage their big financial risks.

Insurance policy. When you agree to pay an insurance company to take on your risk, the company will issue you with a policy. It sets out the details of your agreement.

Premium. An insurance premium is the regular payment you make to an insurance company in exchange for its promise of protection and help against unexpected “large losses.” What exactly is a large loss? For most people, a house burning down is a large loss. Or spending weeks in a hospital recovering from an accident creates medical bills that pile up to become a large loss.

To rebuild a house from a fire might cost tens of thousands of dollars. But to insure that house against a fire might only cost several hundred dollars a year. Most people can't afford to rebuild a house with money out of their own pocket. Instead, they choose to transfer the potential cost of rebuilding their home to an insurance company for a small payment.

Most companies allow you to elect how you want to pay your premiums – monthly, quarterly, twice a year or annually.

Excess amount. Most types of insurance come with an excess. The excess is the amount of the loss you must pay out of your own pocket before the insurance company begins to reimburse you. It could be as low as \$100 or as high as a \$1000 or more. The higher the excess, the lower your premium.

Maximum cover. Every insurance policy has a limit on the amount that an insurance company will pay in the event of a claim. Maximum cover amounts can be just a few thousand dollars, or a few million. As you might expect, the more cover you want, the higher the premium.

Claim. When something bad happens and you have an insurance policy, you can make a claim to receive a payment from your insurance company. The company will assess your claim and let you know whether it has been accepted or rejected.

Been rejected 😞

If your insurance company rejects your claim and you are unhappy with this decision, you can do something about it. You have the right to request your insurer review your case. You may first want to get some legal advice though, because in some cases, there may be legal reasons why your insurer should pay. A legal expert can help you to assess the details of your case to see whether any of the reasons apply to you.

If your insurer has reviewed your claim and you're still unhappy with their decision, you can either go to court or use an alternative body to resolve the issue, such as the General Insurance Enquiry and Complaint Scheme (IEC) or the Financial Industry Complaints Service (FICS), which have been set up by the government for this very reason.

Benefit or payout. If you make a claim and it's accepted, you will receive an amount of money from the insurance company. This is known as a benefit or payout. You may receive this either all at once or as a regular stream of payments, depending on your insurance policy.

Renewals. Each year you will need to renew your policy. Your insurer will send you a renewal notice. Make sure you let them know about any changes in your circumstances that could affect your cover. The questions you were asked for your original policy application are a guide to the information you might need to tell them when you renew. If in doubt – ask your insurer.

Keeping your costs down

Your premiums might sometimes be larger than you'd like. Car insurance for teenagers can be thousands of dollars each year. This stuff's not cheap, but there are strategies to help you lower your costs.

- 1 Minimise your risks**

The more you do to minimise your risks, the lower the premium charged by the insurance company. This could simply be putting locks on the windows of your house to make it harder to break into or installing a fire extinguisher. Check with insurance companies to find out what you can do to lower your rates.
- 2 Check the premium before you buy**

The sort of car you own or where your home is affects the premiums you pay. Choosing a car or a house with lower insurance costs can save you a lot of money.
- 3 Pay a higher excess**

Increasing the excess you would pay if you did make a claim will lower your costs. You need to weigh up whether it's better to pay more now in the form of premiums, or a higher excess if you make a claim.
- 4 Use one insurer for all your needs**

Often you can save if you take out more than one policy with the same insurer. If, for example, you have car and home insurance with one company, ask if there are discounts available.

Would you pay?

When you make a claim it's important to be straightforward about what has happened and tell it like it is.

Here are some examples of what not to do – and yes, scarily enough, they are real statements made by people making car insurance claims.

“I collided with a stationary truck coming the other way.”

“As I approached the intersection a stop sign suddenly appeared at a place where no stop sign had ever appeared before. “

“The guy was all over the road. I had to swerve a number of times before I hit him.”

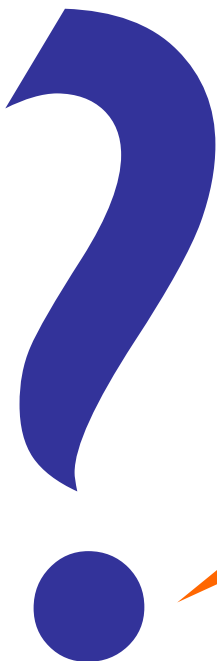
“The accident occurred when I was attempting to bring my car out of a skid by steering it into the other vehicle.”

“An invisible car came out of nowhere and struck my vehicle and vanished.”

“A pedestrian hit me and went under my car.”

“I thought I could squeeze between two trucks when my car became squashed.”

“The telephone pole was approaching fast. I was attempting to swerve out of its path when it struck my front end.”



Start thinking about it now

You may think that you don't have to worry about insurance until much later in life, but there are some things that you'll need to start insuring in the very near future – the main one being your car.

Car insurance

It's as simple as this – if you own or drive a car, you need insurance.

Owning and driving cars is a risky business. Cars can cause damage to other cars, people and property. As the driver of a car, you are liable for any damage you cause when you are behind the wheel. That is a big risk to take, particularly if you permanently injure or even kill someone unintentionally. And, aside from the damage cars can cause, car theft is one of the most popular criminal offences.

So how can you protect yourself against these things if you own a car? In Australia you must have a certain level of insurance before you can even register a car, so it's important to know about compulsory insurance and what additional insurances you might need.

What types are there?

There are three main types of car insurance in Australia:

Compulsory Third Party or Third Party Insurance.	<p>Otherwise known as CTP, 'green slips' or TPI.</p> <p>This insurance covers against injuries to people caused by your car. The government has made it illegal to drive a car without this insurance. In Queensland and Victoria the cost of this insurance is included in the car's registration, whereas in other states it is bought separately.</p>
Third Party Property.	<p>This is the minimum insurance you can take out (in addition to CTP).</p> <p>Third Party Property insurance covers you against damage caused by your car to someone else's car. What it doesn't cover is damage to your own car. However, with some policies you can get additional 'third party fire and theft insurance' which provides limited cover for your own car.</p>
Comprehensive insurance.	<p>Comprehensive insurance cover is the most common type of car insurance.</p> <p>It is designed to provide the highest level of insurance for your car and covers:</p> <ul style="list-style-type: none">• someone else's property (usually car) in an accident caused by you• your car in an accident• your car against theft, fire or other damage

How much can you be covered for?

The amount will depend on the insurer and the type of car insurance you have. Generally:

1. If you damage property (car) or injure someone else, your insurance will cover car repairs, replacement or medical bills up to a certain amount. Remember *maximum cover*?
2. If you or the driver of your car are injured, then your insurance will cover medical bills up to your maximum cover.
3. If your car is damaged your insurer will pay for repairs, unless the car is written off, which means it costs more than the value of the car to repair it. In that case, your insurance will cover you to replace your car based on its market value. Market values change because they are determined by the year your car was manufactured, the make and model, the condition of the car, and any additional improvements or features you may have added. Alternatively, some insurers will agree with you on the value of your car, and that agreed value would be stated on your insurance policy.

Remember, everything you just read is completely dependant on the type of insurance you have.

So, when you are ready to get insured...

Where can you get it?

You can buy car insurance through several different sources.

- Go directly to the insurer by phoning their call centre, visiting a branch or using their website.
- Use an insurance broker, who will do the ringing around for you and can help explain what the different policies do or don't cover.

How much will it cost?

The cost of car insurance depends on many things. The following factors can raise or lower premiums:

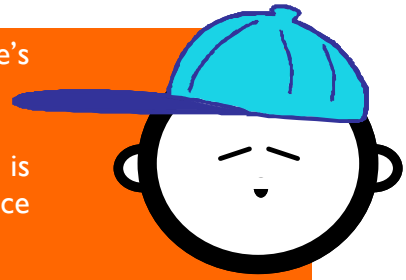
Age	The younger you are, the higher the premium. Statistically, young people have higher percentages of accidents than other drivers. Rates fall as you get older and gain driving experience.
Gender	Males under the age of 25 have significantly higher accident rates than females under age 25. So male drivers pay higher premiums than females.
Type of car	Sports cars, powerful cars (yes, that includes V8 utes) and cars with modifications cost more to insure. This is because their theft rate is higher and they tend to be involved in more accidents than family cars.
Car features	Safety devices such as airbags, and antitheft alarms and equipment often lower a car's insurance costs. This can mean that some older cars may have higher premiums because they don't have the new safety or security features.
Where it's made	Foreign cars typically cost more to repair, since foreign parts cost more to make and ship. Local brands tend to have lower repair costs, which also means lower premiums.
Location	The odds of an accident occurring or a car being stolen are statistically greater in a highly populated city compared to a small town in a rural area. Residents of towns with small populations pay lower premiums, and if you live in the city, then you can pay lower premiums if the car is parked in a garage rather than being parked on the street.
Driving record	Drivers who haven't had any accidents have lower premiums than drivers who've had multiple accidents. Insurance companies think that a driver with a history of accidents is more likely to be involved in future accidents.
Insurance history	In Australia, there is a system in place called a "no claim bonus". If you've never made a claim, insurers offer you a bonus in the form of lower premiums. No claim bonuses can more than halve the cost of your premiums. Generally it takes more than five years to gain the top no claim bonus of 60%. And, if the amount you are going to claim is small, consider whether it's worthwhile paying the bill yourself and keeping your premiums low.

Let's go back to Daniel and his dream car. Remember? He's found an old Holden HZ ute.

Now it's time for Daniel to find out how much insurance is going to cost. He thinks it might be a bit expensive, but since the car is old, it probably won't be too much...

Daniel has a look on the Internet and works through a quote. He finds that insurance is going to be quite a bit more than he expected. How much more? Well, comprehensive cover is going to cost him around \$1,800 and that doesn't factor in rego or third party!

Maybe Daniel needs to rethink his choice of car... or perhaps decide not to add the mags and sports kit... every little reduction could help Daniel with this one.



Your dream car...

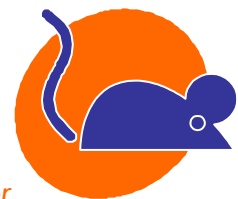
Use the Internet, find the car of your dreams – www.carpaint.com.au or www.drive.com.au can help.

Then, like Daniel did, find out how much it's going to cost to insure it. Most general insurance websites have quoting tools, which give you an idea of what your premiums might be.

Work through the tools and write down how much it's going to cost for:

Type of insurance	Annual premium
Compulsory Third Party (Third Party Insurance)	
Comprehensive car insurance	

Scary? What if you change a few things to see if you can lower the premium? What if the engine size was smaller, the car was newer or you installed a car alarm?



What happens if...?

This might sound like we're getting on your case, but here are some situations that you should know about. Seriously.

Driving under the influence of alcohol or drugs.

If you cause an accident and you are over the legal alcohol limit or under the influence of drugs, you are not insured. This means that if you do damage to someone else's car, your own car or even injure someone else, you are going to have to pay for it yourself.

Driving without a licence.

If you don't have a driver's licence or your driver's licence has been suspended, then you are not insured to drive a car. As with driving under the influence of alcohol, your insurance won't pay and you are going to have to pay for damages yourself.

Driving someone else's car.

If you own the car then chances are, you are going to know what you are insured for. But when driving someone else's car it's important to remember these things:

- ✓ Check that the car is registered so you know that it has third party personal insurance.
- ✓ If you are under age 25, check the insurance. The owner of the car has to advise the insurance company if a person under the age of 25 will be driving the car.

Why should you remember these two points? Well, as the driver of the car, you are liable for any damage you cause to people, cars and property. That includes the car you are driving and the people in it.

If you don't have insurance, you then become responsible for paying damages – and this could cost you a lot of money.

Health insurance

Health insurance pays the medical bills in case you, or your family members, become sick or injured. Routine medical expenses easily cost hundreds of dollars, and more serious problems can cost thousands of dollars.

The Australian government has set up a universal health care system called Medicare that covers some doctors, hospitals and medicines. It allows every Australian to be treated at no charge in a public hospital. But there are some restrictions so many people pay for private health insurance as well.

Private health insurance may cover benefits like:

-  choice of doctor
-  choice of hospital (both public and private)
-  ambulance
-  glasses and contact lenses
-  dental treatment
-  physiotherapy
-  natural therapies and medicines
-  sporting equipment and shoes
-  fitness courses and gym memberships

You may be included on your parent's private health insurance, but before you know it, you may have to look at getting your own cover. Some insurers will let you stay on your parent's policy up to age 22, whereas others won't allow you past age 18. There are also different rules depending on whether you are working or are a full-time student.

Once you're beyond your early twenties, the stuff to insure will start to add up. Think buying a house, starting a family, or even making more money! All these things mean you'll probably need some additional insurance.

Home and contents insurance

Home insurance pays you an amount of money to make repairs or rebuild again if your home is completely destroyed. Home insurance policies provide cover for damage from specific events such as fire, flood or earthquake, and losses from accidents such as wine spilling on your carpet.

Contents insurance protects your material possessions – your stuff – such as clothes, stereo, TV, appliances, furniture, mountain bike, computer equipment and so on. Your material goods can be damaged in a variety of ways, including fire, flood or theft. If you're a renter you only need to worry about contents insurance to protect your furniture and things. Usually your landlord will have insurance for the building itself, but not what you've put inside.

You have the option to combine home and contents insurance together – usually you'll receive a 10% discount on the premiums.



Life insurance

Life insurance protects people who depend on you financially in the event of your death. It pays them a fixed sum of money. While you are single and no one is dependent on you, you probably don't need life insurance. If you marry, and your spouse works and could get by without your income, you still may not need life insurance. But anytime someone else depends on you to help pay the bills, you need life insurance.

It can be tricky calculating how much money you would need if anything happened – and obviously the more cover you have the higher the cost. If you do take out life insurance, think about getting some expert help in working out the fixed sum you need.

Disability insurance

Disability insurance pays you income if you are sick or injured and unable to work for long periods of time. If you have been away from work too long, employers generally don't pay you, regardless of the reason. But you still have living expenses, like food and rent. How do you keep paying?

That's when disability insurance comes in handy. There are three types:

Insurance through super

Many superannuation funds offer life and disability insurance cheaply – because they're big they can get group discounts. So if you need life insurance and have a super fund, remember to compare what your fund offers before you make a decision.

Total and Permanent Disablement (TPD)

Typically provides one large payment of the amount you are insured for if you are declared totally and permanently disabled by your insurer.

Income Protection

Typically pays up to 75% of your previous income on an ongoing basis if your insurer declares that you are unable to work. Payments are often made monthly and may continue for one or two years, or until you turn 65.

Trauma

Typically covers you by paying a one off amount in the event of a serious medical condition or procedure such as blindness, coma, heart attack or cancer.

To sum it all up, insurance is one of those things that may seem really boring and unnecessary... until something happens and you're in a tight spot. Then you'll be VERY interested in insurance and how it can help you!

The more responsibility you have and the more you take on in life, the more important a role insurance will play for you. In the meantime, remember it's one of those "necessary evils" that you need to factor into your plans. Especially if you're dreaming about buying a car of your own in the near future...

Circle the answer you think is correct.

1. What are some ways to manage the risk of losing your TV?
 - (a) Keep it in a safe – all the time
 - (b) Give it away
 - (c) Take out an insurance policy
 - (d) All of the above

2. The higher the excess amount...
 - (a) the higher your premium
 - (b) the lower your premium
 - (c) the higher cover you have
 - (d) the lower cover you have

3. When you renew your comprehensive car insurance policy each year, you need to tell your insurer if:
 - (a) You're over 25 and have changed sex
 - (b) You've put on new tyres
 - (c) You've had parking fines during the year (and you've paid them)
 - (d) You've added mag wheels and a spoiler

4. To lower your house and contents premiums, you can:
 - (a) Get a guard dog
 - (b) Never leave the house
 - (c) Keep a detailed list of everything you have
 - (d) All of the above

5. What does Compulsory Third Party insurance cover you for?
 - (a) Damage caused by your car to someone else's car
 - (b) Theft of your car
 - (c) Injuries to people caused by your car
 - (d) Damage to your car

6. Some private health insurance policies allow you to claim for:
 - (a) New sports shoes
 - (b) Sunscreen
 - (c) Facials
 - (d) Water filters

7. If you have a bad accident and can't work for six months, what sort of insurance will pay you an income until you get better?
 - (a) Total and Permanent Disablement
 - (b) Trauma
 - (c) Income Protection
 - (d) Death