

January 2009

Our **MONEY**madeclear™ guides –
here to help you

This guide is part of our **Everyday money** series.



Available from our Consumer Helpline or website
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If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.



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**No selling.
No jargon.**
**Just the facts
about
insurance.**

MONEYmadeclear™
from the Financial Services Authority (FSA)

With our **MONEY**madeclear™ range of guides, we cut out the jargon and give you just the facts about financial products and services, helping you to make an informed decision.

Just the facts about insurance.

We try to ensure that the information in this guide, some of which comes from sources outside the FSA, is correct at the time of print. It is possible that some of it is oversimplified, or may become inaccurate over time, for example because of changes in the law. You should check the current position before you take any action.

This is general information to help you make financial decisions. It is not advice, and cannot take account of your individual circumstances. When making decisions about your own circumstances you should consider whether to consult a financial or other professional adviser.



The Financial Services Authority (FSA) set up by government to regulate financial services and protect your rights.

This guide is for you if

You want

to protect your family, health, income and/or possessions.

It's about insurance and:

- sets out what it is and when you might need it;
- explains some of the different types available;
- suggests what you should think about when buying it; and
- answers some of the questions you may have.

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What is insurance?

Insurance protects you against the unexpected. If you're burgled, it can pay for you to replace the things that were taken. If you need medical treatment, it can pay for private healthcare, or it can replace some of your income if you can't work. If you die unexpectedly, insurance can pay money to your family.

Of course, not all of these may happen, and only you can decide whether you're willing or able to take the risk. If they do happen, you may have enough savings to be able to manage, but in case you don't, insurance may help.

See the *Jargon buster* on page 28 for an explanation of some of the words you may come across.

Do you need insurance?

There are lots of different types of insurance available and it can be confusing.

Motor insurance is compulsory if you drive, as is liability insurance if you run certain types of business. All other types of insurance are optional. Although buildings insurance is not compulsory, most mortgage lenders will insist you have it.

You may consider different types of insurance at various stages in your life. For example, if you're buying or own a house, or starting a family, you may want to consider protecting your income, borrowing, health and possessions. But if you're single, have no dependants and are renting or living at home, you may not need all of these.

Use the following checklist to see what insurance you might need. For more information about the different types of insurance available, what they cover, and what to look out for, see *Types of insurance*.

Insurance checklist

Do you need insurance?	Use our online Budget calculator to help you see how much money you've got coming in against all your outgoings – see <i>Useful contacts</i> . This will help you work out how you would cope if something unexpected happens. Think about whether you need insurance when your circumstances change, for example if you buy a home or start a family.
What if your household income decreased, through illness, disability or unemployment?	Certain insurance, sometimes known as protection insurance , can pay out in these instances, but they usually only pay out for a limited time and don't cover all circumstances – see pages 6-8. State benefits may help but most don't start immediately and usually only last for a fixed period.
What would happen if you or your partner died suddenly?	Life insurance provides some financial security for people who depend on you, in case you die unexpectedly – see page 9. It's also a good idea to check what your pension plans will pay out when you die.
Are you a home owner?	Most mortgage providers insist that you take out buildings insurance , but it's worth checking that the amount covered is enough to rebuild your house – see page 10. There are also mortgage protection policies to cover your mortgage interest payments if your income stops due to accident, sickness or redundancy – see page 8.
What about your belongings?	Whether you own your home or are renting, it's your responsibility to insure your belongings. Contents insurance covers the loss of, or damage to, the contents of your home and other items you take outside your home – see page 11.
Do you drive?	The law requires that you have basic motor insurance if you drive – see page 12.
What about your pets?	Pet insurance can pay towards vets' bills, and some schemes will pay for you to advertise if your pet has been lost, or for kennel/cattery fees if you suddenly have to go into hospital – see page 13.
And don't forget the holiday	Travel insurance can cover you against mishaps while you're abroad, from lost luggage and theft to flight delays and medical bills – see page 17.

What is insurance?

How insurance works

The amount you pay for insurance will be based on the information you give the insurance company and the type of risk you want to insure. Insurance companies use certain criteria (such as where you live, if you smoke, and what you would like to be covered) to help them work out the price (premium) of the insurance.

The insurance company agrees to pay out if the event you're insuring against happens. It is important that you give the insurance company the full facts when buying insurance, as incorrect information could invalidate your policy and mean the insurance company won't pay out.

You can choose for yourself which company's policy to buy, or you can go to an insurance broker who'll help you choose – see *Useful contacts*.

When buying insurance, always compare what a policy covers, not just the price. Some might be cheaper than others, but they may not offer the same level of protection.

The FSA's role

We regulate sales of most insurance products. However, our selling rules don't currently cover the sale of extended warranties on non-motor goods (such as on electrical goods) where the person selling the insurance is also providing the goods.

Even if our rules don't cover the sale of a policy, they do cover the insurance company providing the policy, as long as they are based in the UK and are regulated by us.

Regulated firms and their agents are listed on our **Register** and have to meet certain standards – see *Useful contacts*.

Always check that the firm you're dealing with is on our **Register**. If they aren't regulated by us and things go wrong, you won't have access to complaints and compensation procedures.

We can't tell you what to buy or where to buy it from, but this guide will help you think about what insurance you might need.

Key points

- Check whether you need the insurance – most insurance is optional.
- Find out whether you're already covered by an existing policy.
- Always give the full facts, so that the company can work out the correct premium for you.

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Types of insurance

Protecting your income or borrowing

Once you take out any kind of loan, it's very important that you make all the repayments in full and on time. If your loan is a mortgage or other loan secured on your home, you could risk losing your home if you don't keep up the repayments. It could also affect your credit rating.

These products are designed to protect your income or borrowing:

- critical illness insurance;
- payment protection insurance;
- mortgage payment protection insurance;
- income protection insurance; and
- life insurance.

If you are an employee and you fall ill, in most cases your employer must pay statutory sick pay for up to 28 weeks, though this will probably be a lot less than your full earnings. After that, you may have to rely on State benefits.

However, some employers arrange group income protection insurance for their employees as a benefit of their job, and this can pay out an income after the statutory sick period. So check what your employer offers.

Critical illness insurance

This pays out a lump sum if you're diagnosed with a critical illness. Most critical illness policies cover cancer, strokes, and heart attacks, and most policies cover many other conditions as well. Check the policy conditions carefully, however, as some policies may only cover one or two of these illnesses.

You can use the payout for medical treatment, to pay off your mortgage or for anything else.

You will need to ensure you disclose any pre-existing medical conditions.

Check – read your insurer's terms carefully, not just for the range of illnesses they cover but also how these are defined and the level of severity required to meet the definition.

Payment protection insurance (PPI)

Also known as accident, sickness and unemployment (ASU) insurance.

It is usually sold with a loan or credit card and aims to help you keep up your loan repayments if you can't work because of redundancy, accident or illness. A typical policy will start to pay an agreed amount one month after your income stops due to redundancy, accident or illness. It will pay out for a set time only – usually 12 or 24 months.

You do not need to take out PPI to get a loan, but the lender may add it to the loan automatically. If they do, and you don't want it, ask for it to be removed.

Check – if you decide you do want it, look at the terms and conditions carefully, and check that it covers your circumstances. For example, you would not need unemployment cover if you were not working when the policy was taken out, and some may not cover you for pre-existing medical problems.

Check – if you buy a single premium policy, check whether the insurance will be added to the loan you are taking out. If it is, you will be paying interest on the insurance as well as on the loan.

Check – make sure you shop around. Use our impartial comparison tables to compare the features and cost of PPI products – see *Useful contacts*.

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Types of insurance

Mortgage payment protection insurance (MPPI)

Also known as accident, sickness and unemployment (ASU) insurance.

This is similar to PPI but specifically covers mortgage interest repayments. It usually starts one month after your income stops due to redundancy, accident or illness, and continues to pay out for 12 months.

Check – look at the terms and conditions carefully, and check that it covers your circumstances. For example, check whether or not the policy would cover any medical problems you may have had in the past if they started again.

Income protection insurance

Also known as permanent health insurance (PHI).

It replaces part of your income if you are unable to work for a long time because of illness or disability. It continues to pay out until you return to work, die, or the policy term expires, whichever happens first.

These products usually offer a choice of waiting periods before they will start to pay out (usually 4, 13, 26 or 52 weeks). The longer the waiting period you agree to, the lower your premiums will be, so it is important you find out what income you would get from your employer and other insurance products during the waiting period.

Check – this cover might not be available to you if you have existing health problems or a dangerous job.

Life insurance

If you die unexpectedly, this provides some financial security for people who depend on you.

There are two main types of life insurance: whole-of-life insurance and term insurance.

Whole-of-life insurance pays out an agreed sum whenever you die.

Term insurance is the cheaper of the two, as it pays out the agreed lump sum only if you die within the term you've agreed. Once the term has ended, you get nothing.

Life insurance (especially term insurance) can be taken out to cover mortgage repayments. It is worth noting that endowment mortgages automatically include life cover.

Mortgage protection insurance is a type of term insurance where the amount of cover decreases over the term of the policy. It is usually designed to tie in with the outstanding amount on a repayment mortgage.

Family income benefit is the cheapest type of term insurance, which pays out an income (rather than a lump sum) for the rest of the term.

Check – if you don't have any dependants, you will probably not need life cover.

Types of insurance

Protecting your possessions

There is insurance to protect your home and your possessions. The following products are designed for these circumstances:

- buildings insurance;
- contents insurance;
- motor insurance; and
- pet insurance.

Buildings insurance

If you have a mortgage, your lender will normally insist that your property is protected by buildings insurance. It usually pays out if your property is affected by fire, floods or subsidence (although you will need to check the area where you live).

Policies often cover damage to fixed fittings such as baths and kitchens, as well as garages, sheds and greenhouses, although they may exclude walls, fences, drives and swimming pools.

If you live on a flood plain you may find it difficult to get buildings insurance. If you already have cover for flood damage, the insurer should continue to offer it to you, although they may increase your premiums, the excess, or both. See the Environment Agency's website to find out if your property is at risk of flooding – see *Useful contacts*.

You might be offered buildings insurance by your mortgage provider when you take out your mortgage, but you don't have to take what's on offer – you can shop around.

If you buy a leasehold property (such as a flat in a block of flats), the freeholder may have arranged buildings insurance for the whole block, in which case you may not need your own buildings policy.

Your cover is based on what your home would cost to rebuild. You can check whether you have enough buildings insurance through the Building Cost Information Service's (BCIS) website – see *Useful contacts*. It has an online tool to help you calculate the sum you should insure your building(s) for, in case your home has to be entirely rebuilt. You need to tell your insurer if you extend your property, for example with a loft conversion or conservatory.

Buildings insurance does not cover your belongings. These need to be insured separately with **contents insurance**.

Check – you may find that you get a better deal if you buy buildings and contents insurance together from the same insurer. Combined buildings and contents insurance is often known as **household insurance**.

Contents insurance

This covers the loss of or damage to the contents of your home. It includes items within your home as well as items you take outside, for example cameras, jewellery and laptops. Most policies will cover you against theft and fire, and give you the option to insure against accidental damage.

You'll need to let the insurers know of any high-value items you want covered such as expensive jewellery or camera equipment. Insurers may require proof of purchase or valuation certificates, so keep these safe and take photographs of the items. If they refuse cover altogether, contact an insurance broker, who will be able to find you a specialist insurer – see *Useful contacts*.

Your cover may be affected or cancelled if you leave your home empty for a period of time (often as little as 30 days), or if you rent it out.

Types of insurance

If you rent your property through a registered social landlord such as a housing association, they may offer an ‘insurance-with-rent’ scheme. This is where you can pay for your contents insurance at the same time as your rent. Ask your landlord if they provide a scheme like this.

Check – many insurers will offer discounts if you have a burglar alarm and/or window locks, or if you’re a member of a Neighbourhood Watch scheme.

Motor insurance

The law says you must have motor insurance to drive. Some policies cover the replacement or repair of your vehicle, depending on the circumstances of an accident.

You can choose from three levels of cover:

- **third party** – this is the minimum legal requirement and covers you if you injure a third party (such as innocent bystanders, passengers or property), but does not cover damage to your vehicle;
- **third party, fire and theft** – covers third-party injuries and liabilities, and also fire and theft to your vehicle, but not accidental damage to your vehicle; or
- **comprehensive** – covers third-party injuries and liabilities, as well as fire, theft and accidental damage to your vehicle.

You pay a premium depending on various factors including the make of car, engine size, your age, your sex and where you live. The higher the excess you are willing to pay, the lower your premium will be.

You’ll also tend to get lower premiums if you park your car somewhere secure (in a garage overnight, for example) or if you have a clean driving licence.

Depending on your claims history, the insurance company may offer you a **no-claims discount**. Some companies allow you to pay a sum to guarantee this discount. Bear in mind you are paying to keep the no-claims discount and not to keep your premiums at a certain level – they may still rise, for example due to a general increase in prices.

If you use a comparison website, check the level of cover you are being offered, as the cheapest policy is not always the best.

Check – don’t forget that motor insurance does not cover you for breakdowns – you will need to take out separate **breakdown cover** if you want this.

Pet insurance

There are two types of cover:

- **life-long** – it will pay out for specific conditions for the life of your pet; and
- **time-limited** – it will pay out only for 12 months per condition.

Policies vary, but as well as an agreed maximum payout for vets’ bills and medication, some will pay for you to advertise if your pet has been lost, or for kennel or cattery fees if you suddenly have to go into hospital. In some cases it will also cover the cost of making good damage caused by your pet.

It does not generally cover routine upkeep items such as annual vaccinations, boosters, nail clipping, spaying and neutering.

Check – as with your health insurance, always make sure you disclose any key relevant information.

Types of insurance

Protecting your health

Every UK resident is entitled to free healthcare from the NHS, but you may want health insurance so that you can have a choice in the level of care you get, where you get treated, when you get treated, or if you didn't want to use the NHS.

The following products are designed for these circumstances:

- private medical insurance;
- health cash plans; and
- dental insurance.

Private medical insurance (PMI)

This covers medical treatment and usually means you can get treated more quickly than on the NHS. The cover you get will vary, but basic private medical insurance may pay the costs of most in-patient treatments (tests and surgery) and day-care surgery.

Some extends to out-patient treatments (such as visits to consultants or specialists).

You can buy cover on a full medical underwriting basis. This means you will be asked questions about your health and, based on the information you provide, the insurer will decide the conditions of your cover.

You can also apply for cover on a moratorium basis. This means you will not be asked any questions about your health, but if you have suffered from any health conditions in the last five years, these will automatically be excluded from cover for a stated time.

You can't take out cover now for treatment you know you're going to need. If you've had health problems in the past, your insurer may also refuse to cover them. If you are asked to disclose these when applying for the insurance, you must do so or you could invalidate your policy.

It also does not cover the treatment of chronic medical conditions, dental care, pregnancy, HIV/AIDS, fertility treatment, mental or psychiatric conditions, and treatments you may choose to have, such as cosmetic surgery.

To keep costs down you could choose to pay more of the bill, or you could choose cover that only applies if NHS services are not available within a certain timeframe.

Check – find out if your employer provides health insurance as part of your benefits package.

Health cash plans

These provide limited cash sums towards everyday healthcare bills. Different policies cover one or a combination of types of healthcare, such as dental care, optical care, physiotherapy, or stays in hospital.

Check – some policies have age restrictions and will cover you only if you are under a certain age (often 65). If you've had health problems in the past, the cash plan may not pay out on certain types of healthcare. Some plans also apply qualifying periods, which means they will not pay for any treatment you have in the first few months of the policy.

Dental insurance

This is a health cash plan that focuses on dental care. Most dental plans pay for twice-yearly check-ups, as well as for treatments such as crowns, root canal work, bridges and dentures up to an agreed maximum each year. More serious work such as oral cancer, surgery and serious dental abscesses are often excluded.

Check – some of these policies are not transferable between dentists.

Types of insurance

Other types of insurance

Other insurance you may consider include:

- legal expenses insurance;
- travel insurance;
- extended warranties;
- long-term-care insurance; and
- business insurance.

Legal expenses insurance

This is a way of protecting yourself against some of the costs involved when funding a legal dispute, which can be very expensive. The cover often provides for legal advice helplines, as well as the costs of appointing solicitors, expert witnesses and representation if the claim goes to court.

It can be bought along with some insurance policies. For example, some companies selling motor and household contents insurance may include this cover as a free add-on, while others give you the option to attach the cover for an additional premium.

Check – if you've decided you want this type of cover, check your motor or household contents insurance policies – you may already have this cover written into your insurance.

Check – you should also check your insurance policy documents carefully to make sure you understand what you are covered for, the level of cover and any limitations that apply. For example, in most circumstances you may not be able to choose which lawyer is instructed – the insurance company usually appoints a lawyer to act for you.

Check – this type of cover normally allows the insurer to withhold or withdraw funding if there isn't a 'reasonable prospect of success', which usually means that you have a 51% or better chance of winning or defending your case.

Travel insurance

If you travel without travel insurance, you run the risk of losing out if things go wrong. For example, if you're uninsured and you lose your luggage, you may not be able to recover the cost of it. Also, if you suffer serious injury, you may end up paying for medical treatment.

However, if you are a UK resident you are entitled to free or reduced-cost, State-provided healthcare when visiting a European Union (EU) country, as long as you have the necessary European Health Insurance Card (EHIC) – see *Useful contacts*. In many other countries, outside the EU, healthcare can be very expensive. But you should remember that the EHIC is not a substitute for travel insurance, as it only covers you for when you are ill.

Most travel insurance plans will cover medical bills for up to £1m, and often more, as well as pay for an emergency air ambulance to bring you home for treatment in the UK.

It can also cover you against other mishaps while you're abroad, from theft to flight delays. Make sure you read the policy summary information for exclusions – there are bound to be some, such as hazardous activities like skiing or diving. Some policies do not cover scheduled airline failures, civil unrest or terrorist attacks. If you have a policy which does not cover these risks, you can take out separate insurance.

High-value items such as bicycles and laptops are often excluded, so you may want to check whether these are covered under your contents insurance. Also check whether your employer offers travel insurance as part of your benefits package and, if so, what this covers you for.

If you are refused cover on the grounds of health or age, a specialist insurer may still be able to help – see *Useful contacts*.

Types of insurance

Check – you won't usually be covered for pre-existing medical conditions, or you may have to pay extra to get them covered. If you don't disclose those medical conditions, any claims that you make may be rejected because you didn't tell the insurance company. Travelling against a doctor's advice may also invalidate your cover.

Extended warranties

When you buy something new, the law requires it to be of satisfactory quality. Usually, the manufacturer or retailer will guarantee it for a period of time, generally a year. An extended warranty covers you for repair costs after this guarantee has expired.

These policies cover repair costs following the breakdown of most household appliances, and most also cover parts and labour. There is usually a maximum amount payable during the life of the policy and some may have a limit on each claim.

If the appliance cannot be repaired, 'new for old' policies will replace it with

a new one of similar specification, or pay a cash equivalent if a similar model is no longer available. Other policies will make good up to the current value of the product after depreciation.

Some policies provide additional benefits, such as accidental damage or frozen food spoilage.

Policies usually exclude misuse, non-domestic use and cosmetic items such as damaged paintwork or trims.

Since 2005 there has been additional consumer protection to combat the hard sell associated with these warranties, where retailers often sold warranties when the consumer was in the shop buying the goods.

You can, if you wish, still buy cover from the retailer. Alternatively, you can buy it from specialist insurers, insurance brokers, banks or other financial institutions.

You can also buy insurance for appliances you already own but which are not currently insured, subject to their age and condition. With this type

of cover there is usually a 'no-claim' period immediately following the start of the cover during which claims for breakdown will not be met.

Some warranties are not insurance contracts. These usually have names such as 'service contracts'. With service contracts, your payments are put into a pool that is used to pay claims. In many cases this pool is protected, so that if the retailer goes bust your claims would still be paid. But that is not always the case. You should receive information when you take out the contract about whether or not you would be covered in the case of insolvency.

Check – some warranties offer no more protection than your entitlements under normal consumer protection legislation, and in some cases you may already be covered by your contents insurance and have no need for a warranty. Also, think about how likely the product is to break down.

Long-term-care insurance (LTCI)

As you get older, you might develop health problems that could make it difficult to cope with everyday tasks. So you may need help to stay in your own home or you may have to move into a care home.

The State may provide some help towards the costs of this care, depending on your circumstances, so always check with your local council about any support it offers.

There are two types of LTCI:

- **immediate-care LTCI** – you can buy this when you actually need care; or
- **pre-funded LTCI** – you can buy this in advance, in case you need care in the future.

You can buy **immediate-care LTCI** when you have been medically assessed as needing care, regardless of age.

Types of insurance

You buy it with a lump sum, and it pays out a regular income for your care for the rest of your life. You'll be assessed medically to see how much you must pay for your chosen level of income.

Check – when you die, the income usually stops. Capital is only repaid if you've chosen a plan that provides some death benefit (a lump sum paid to your estate).

You can buy **pre-funded LTCI** in advance, in case you need care in the future. You can buy it at any age, but some policies have a minimum age of 40 or 50 for receiving the plan benefits.

You take out an insurance policy that will pay out a regular sum if you need care. It pays out if you are no longer able to perform certain activities of daily living (such as washing, dressing or feeding yourself) without help, or if you become mentally incapacitated.

You might never need long-term care and, if you don't claim, you may not get any money back.

Some existing policies may be linked to an investment bond, which is intended to fund the premiums for the insurance policy.

If you are thinking about this kind of policy, you may want to get professional advice first.

Check – what happens when you die will depend on the type of policy, the options selected and whether you are taking benefits from the plan at the time.

Business insurance

If you are an employer, you are legally required to have employers' liability insurance, and if you use motor vehicles for your business, you are legally required to have third-party motor insurance.

There are also many types of optional business insurance available, and what you may need will depend on the type of business you have.

If you have business premises, a suitable premises insurance policy will cover you for damage from various

causes. However, this only covers the physical building, so you will also need separate insurance cover for stock, machinery and contents.

You may want to think about taking out specialist insurance, such as loss-of-cash insurance, trade-credit insurance, or goods-in-transit insurance.

For more information on the different types of insurance available for small businesses, see the ABI guide **Insurance for Small Businesses: a guide to protecting your business** – see *Useful contacts*.

If you work from home, you may need a specialist insurance policy. Contents insurance will not cover any loss of office equipment, nor will it provide public liability cover.

Check – your standard contents insurance may not be valid if you work from home, although most policies can be extended to cover this.

Key points

- Always check the exclusions before you take out a policy.
- Always tell your insurer if your circumstances change.
- You must keep up payments for the insurance cover to remain in force.

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Key things to think about

Buying insurance

Generally, firms selling insurance and those providing insurance cover have to be regulated by us, or be the agent of a regulated firm.

There are some exceptions, for example the sale of extended warranties on non-motor goods (such as on electrical goods) where the person selling the insurance is also providing the goods.

You can buy insurance directly from insurers over the phone, internet or by mail, and also from banks, building societies, insurance or mortgage brokers, financial advisers, or supermarkets.

Comparison websites will ask you several questions and then provide you with quotes from various brokers and insurers. None of the websites cover the entire market, and some larger insurers are not represented on any of the websites, so you may wish to contact them directly. The comparison website should contain a list of the brokers and insurers represented on its panels.

Cooling-off period

You have the right to change your mind and have your money back within a certain period (usually 14 or 30 days) after arranging any insurance contract.

Information you'll be given

If you decide to buy through a broker, they will give you details about the service they are offering you. This will tell you:

- whether they're offering you advice or just information about the product;
- whose insurance policies they offer (it may be from one company or many); and
- how much you'll have to pay for the service.

Once you've discussed what you need and answered the questions you have been asked about yourself and what you want to insure, you will be given key policy information. Even if you decide to buy insurance direct from an insurer, you will still be given this information.

This information will set out what the policy does and does not cover, any limits or restrictions, and any other important features you need to know before you make up your mind.

Make sure you get this information, and that you read and understand it. Ask the provider or insurance company to explain anything you don't understand. You can also use this information to shop around and compare like with like.

Disclose the full facts

'Material' facts are facts that you ought reasonably to know are relevant to the insurer's decision whether to offer you insurance cover and at what price, so they must be disclosed. This information will form the basis of a contract between you and the insurer.

If you are asked a specific question, you must respond honestly, and it is no defence to say that you didn't realise that the fact was material. If you don't disclose material facts, your policy may be invalidated and you won't be able to make a claim.

So make sure you disclose everything, however irrelevant it may seem at the time.

Also check with your insurer if and when you need to tell them of changes in circumstances.

Don't under-insure

The average home now contains over £40,000 in clothes, kitchen gadgets, electronics and furniture. It is up to you to insure accurately. If you underinsure your goods - so you insure your contents for £20,000 when they are worth £40,000 - the insurer would only be obliged to pay out up to £10,000 if you made a claim under this policy (ie half of what you claim for).

Check the exclusions

The most common reason for insurers to reject a claim is because the policy didn't cover what people thought it did. Check the policy documents to find out what is and isn't covered.

Whatever type of insurance you decide to take out:

Check

that the firm is authorised by us to sell insurance using our **Register** (unless it is exempt) – see *Useful contacts*.

Check

the policy information for what's covered as well as the exclusions, to ensure that you choose the right policy for you.

Check

that you disclose the full facts when applying for insurance – if you don't, you could invalidate your policy, and the insurance company may not pay out in the event of a claim.

Check

the information and shop around to get the best deal for you. Some policies may be cheaper than others, but they may not offer the same level of protection. Always compare like with like.

Your questions answered

Question

How do I find an insurance broker or company?

Answer

Your friends or family may recommend one, or you can find one along your high street. Alternatively there are organisations that can help you – see *Useful contacts*. But always check that the firm you use is on our **Register**.

Question

What if I know what I want and don't need advice?

Answer

UK firms that sell insurance without advice still have to follow our rules. But the onus is then on you to decide whether or not the policy is suitable. You may have less grounds for complaint if the policy turns out to be unsuitable.

Question

Are there different types of premium available?

Answer

If you take out insurance to cover your income or borrowing, you will be offered two main types of premium:

- **Reviewable premiums** – premiums may start off relatively low, but will be reviewed in the future and may increase every few years or so to take account of your changing circumstances.
- **Guaranteed premiums** – these tend to be more expensive, but the premiums are usually guaranteed for the life of the policy. Always check how many years the guarantee is for.

Think about which option is best for you, both now and in the long run.

Next steps

Step 1

Check that any insurance you've already got covers you for what you think it should.

When looking to buy insurance, first check whether you might be covered under any policy you already have, or through your employer's benefits.

Step 2

Get a few quotes from different companies. Use this information to shop around and compare the features as well as the costs. Make sure you compare like with like and don't buy on price alone.

Step 3

Get financial advice if necessary. There are a number of organisations that can give you a shortlist of financial advisers in your area – see *Useful contacts*.

Step 4

- Always ask questions if you're not sure about anything, especially questions concerning your own personal circumstances.
- Make sure that you disclose all relevant information about who or what is being covered, otherwise your policy may not be valid if you make a claim.
- Remember to tell the insurance company if your circumstances change.

If things go wrong

Complaints

If you have a complaint about the advice you received when you bought your insurance policy, you should first contact the firm you dealt with.

They have a procedure to follow when dealing with complaints.

If you're not satisfied with their response, you may be able to take your complaint to the Financial Ombudsman Service.

The firm should give you the details of this free service – see *Useful contacts*.

For more information get a copy of our **Making a complaint** guide – see *Useful contacts*.

Compensation

If a regulated firm is unable (or likely to be unable) to pay claims against it, you may be able to get compensation from the Financial Services Compensation Scheme. This will be subject to a number of conditions and exclusions.

There are limits to the amount of compensation it can pay depending on the type of claim.

The service is free to claimants – see *Useful contacts*.

Jargon buster

Activities of daily living (ADLs)

These include keeping mobile, washing, dressing or feeding yourself.

Actuary

A person professionally trained to apply probability theory and statistics to insurance and related fields.

Assurance

'Life assurance' and 'life insurance' mean the same thing in the financial world.

Beneficiary

The person named in a life insurance policy to receive the insurance money on the death of the insured.

Breakdown cover

Insurance that provides help to motorists who are stranded at the roadside when their vehicle has broken down. Also called 'roadside assistance'.

Claim

A formal notice to an insurance company requesting payment under the terms of a policy.

Cover

The protection given by insurance.

Excess

The amount you agree to pay before your insurer pays the rest of the bill (for example the first £100 of a claim). The higher the excess you offer to pay, the less the policy will usually cost you. Beware, some policies charge an excess per clause rather than one overall.

Exclusions

Specific conditions or circumstances listed in the policy for which the insurance company will not pay claims or benefits.

Household insurance

This is the common name for buildings and contents insurance when they are bought together.

Insurable interest

Having an insurable interest means that you would suffer a financial loss should the insured event take place.

Investment-backed life insurance

Life insurance that also acts as an investment. It includes whole-of-life insurance, with-profits bonds, endowment policies and maximum investment plans.

Joint life

Life cover that pays out if one of two insured people dies. Note, though, that it only pays out once, so if both people die together there will only be one payout.

'New for old' cover

An insurance policy where the insurer will replace old damaged appliances and possessions with new ones when you claim, rather than making deductions for wear and tear.

Non-disclosure

Failure to disclose material (relevant) facts.

Policy

The printed legal document stating the terms of the insurance contract.

Policyholder

The person who owns an insurance policy.

Jargon buster

Pre-existing condition

A medical condition that you know you already have before your policy starts.

Premium

The amount your insurer requires you to pay for insurance.

Renewable term insurance

Insurance for a specified period, offering you the right to renew at the end of the term for another term or terms, without a medical examination.

Single premium

You pay the whole premium up front, often borrowing the amount together with the loan you are insuring – as opposed to a regular premium, which you pay each month for the duration of the cover.

Specialist insurer

A company that deals with specialist risks – for example contents insurance for high-value or rare items, such as fine art, antiques or vintage cars.

Underwriting

The process of assessing risks and premiums.

Waiver of premiums

A way of insuring your life insurance monthly premiums in case you cannot work because of ill health (but not unemployment or redundancy). The insurer pays the premiums for you until the end of the policy term, you reach a specified age, or you are able to return to work. You usually buy it as an optional extra with a life insurance policy.

Useful contacts

Call rates may vary – check with your telephone provider for their charges.

To order other **MONEY**madeclear™ guides, check our Register, report misleading promotions, or for general information

Financial Services Authority (FSA)

Consumer Helpline: 0845 606 1234
Minicom/Textphone: 08457 300 104
www.moneymadeclear.fsa.gov.uk

Other **MONEY**madeclear™ guides

- **About the Financial Services Authority**
- **Borrowing money**
- **Getting financial advice**
- **Making a complaint**
- **Making your budget work for you**
- **Mortgages**
- **Pensions**

On our **MONEY**madeclear™ website you can find:

- **Compare products** tables to compare savings, mortgages and payment protection insurance; and
- a **Budget calculator** to help you work out your spending.

Go to www.moneymadeclear.fsa.gov.uk and click on **Useful Tools**.

Go to www.moneymadeclear.fsa.gov.uk/ppi for more information on payment protection insurance.

Go to www.moneymadeclear.fsa.gov.uk/cic for more information on critical illness insurance.

Useful contacts

For factsheets and information on insurance

Association of British Insurers (ABI) information zone

020 7600 3333
www.abi.org.uk

Factsheets available on:

- life insurance
- income protection insurance
- long-term-care insurance
- private medical insurance
- household and property insurance
- motor insurance
- travel insurance
- payment protection insurance
- extended warranties
- liability insurance

Guide on insurance for small businesses
www.abi.org.uk/BookShop

Finding an adviser or broker

British Insurance Brokers Association (BIBA)

0870 950 1790
www.biba.org.uk

For insurance guides and Find a Broker service.

The Institute of Insurance Brokers (IIB)

www.iib-uk.com

For an insurance broker who is an IIB member.

MyLocalAdviser

www.mylocaladviser.co.uk

For a mortgage, insurance or investment adviser in your area.

IFA Promotion

www.unbiased.co.uk

For a list of eight independent financial advisers in your area.

The Personal Finance Society

www.findanadviser.org

Provides a list of up to six PFS members.

Specialist insurers for older people

Age Concern

www.ace.org.uk

Help the Aged

www.helptheaged.org.uk

Other services

Building Cost Information Service (BCIS)

www.bcis.co.uk

A house-rebuilding-cost calculator.

Environment Agency

www.environment-agency.gov.uk

For flood-risk maps.

European Health Insurance Card (EHIC)

0845 606 2030 or pick up a form at the Post Office
www.ehic.org.uk

To apply for a European Health Insurance Card.

Complaints and compensation

Financial Ombudsman Service

South Quay Plaza
 183 Marsh Wall
 London E14 9SR

0845 080 1800

www.financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)

7th floor, Lloyds Chambers
 Portsoken Street
 London E1 8BN

020 7892 7300

www.fscs.org.uk