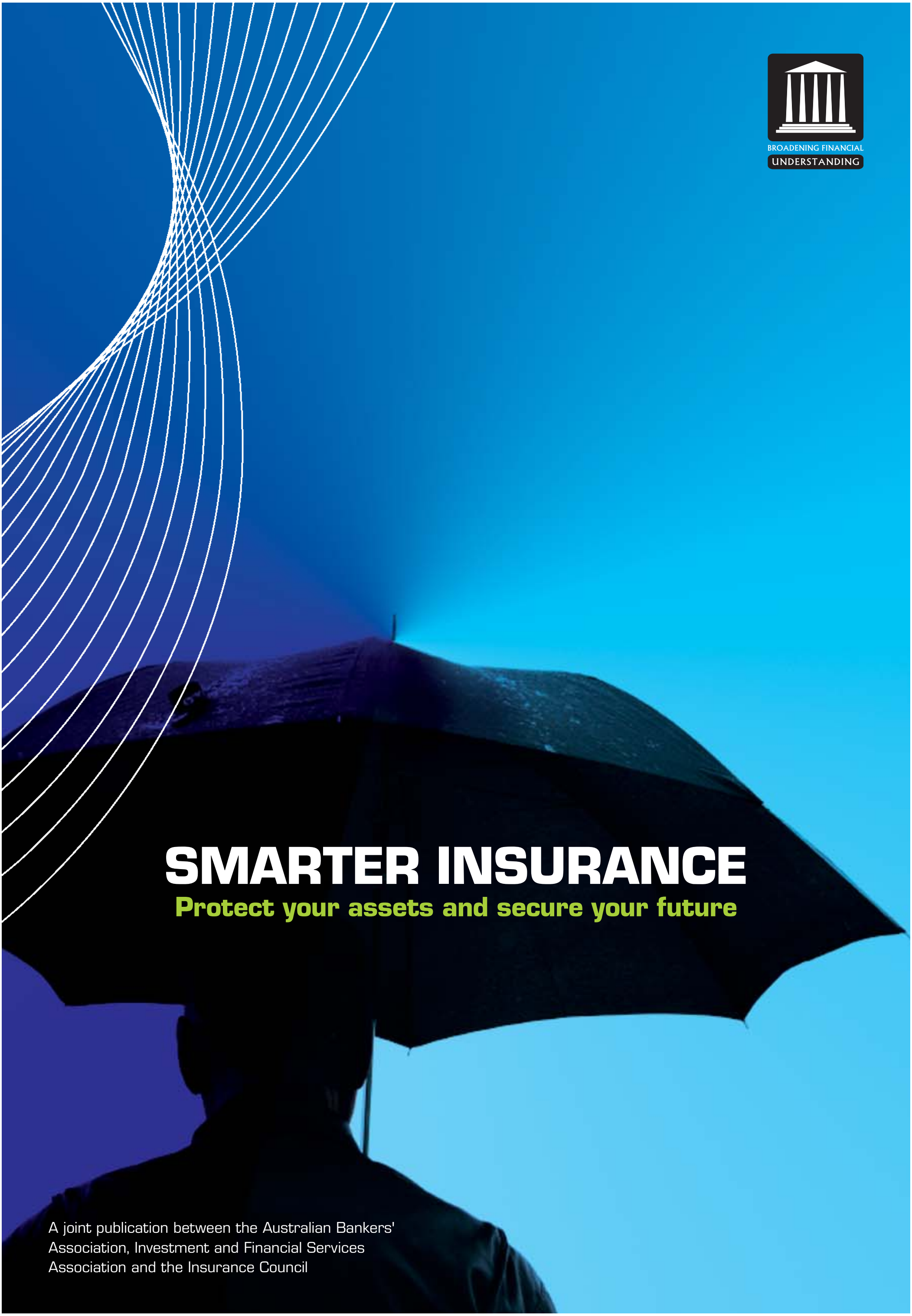

BROADENING FINANCIAL UNDERSTANDING

SMARTER INSURANCE

Protect your assets and secure your future

A joint publication between the Australian Bankers' Association, Investment and Financial Services Association and the Insurance Council

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IMPORTANT NOTE

This booklet gives information of a general nature
and is not intended to be relied on by readers as advice
in any particular matter.
We suggest you consult your financial adviser on how this information
may apply to your own circumstances.

ACKNOWLEDGEMENTS

'Smarter Insurance: Protect your assets and secure your future'
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INTRODUCTION

UNDERSTANDING INSURANCE AND RISK

Insurance plays a significant role in our lives. We all need to think about our financial and life circumstances and how we can reduce the risk of financial loss so we can better protect our families, loved ones, assets, lifestyles and life goals.

Insurance provides you with protection – for your home, your car, your health, your income or your life. But how do you know what kind of insurance you need or how much insurance cover is enough?

No matter what your stage of life, this booklet can help you better understand insurance. It provides you with an overview of insurance in Australia – including how insurance works, the types of products and the differences and the risks of underinsurance.

This booklet also includes tips to help you find the insurance product that best suits your needs as well as some important information on comparing insurance and understanding insurance contracts.

Insurance can be difficult to understand because of the terminology. If there is a word you don't understand – check out the glossary at the back of this booklet.

HOW WOULD YOU ANSWER THESE QUESTIONS?

- What would happen if you injured yourself and were unable to work for a long period of time – how would you continue to pay your bills, including essentials such as food, mortgage or rent, schooling costs for your children and so on?
- What if you lost your entire home and all your belongings in a fire – could you afford to rebuild or replace all your personal belongings?
- Do you have adequate health insurance to cover you for emergencies and other health related issues that are not covered by Medicare?

INSURANCE BASICS

WHAT IS INSURANCE?

Insurance involves the transfer of risk. By paying premiums to an insurer, you transfer the risk of loss from yourself to the insurer.

The insurance process is a mechanism for spreading risks or sharing losses of the few among the many. Individuals (policyholders) pay a fee (the premium) to an insurance company (insurer) in return for a benefit in the event of a loss that might occur as a result of certain agreed events (a claim).

The terms and conditions are set out in the "insurance contract" (policy document).

It is important to understand that insurance for risk is not a savings product. Insurance involves the payment of the premium in exchange for cover. You will only receive a benefit if you have a legitimate claim for a loss that is specified in your policy document.

HOW DOES INSURANCE WORK?

WHAT IS RISK?

A risk is the chance of an event resulting in financial loss – for example, something valuable getting stolen, damaged, destroyed or lost; or a person getting injured or dying.

The risks that you will face are not exactly the same as those faced by others. Risks grow out of your particular situation, such as your job, the size of your household, the number of people that are dependent on you, your savings and income, your assets or your age. Your risks will also change as your circumstances change, such as you get a loan to buy a car, a property or other assets or you have family responsibilities.

WHAT IS A PREMIUM?

A premium is an amount of money you pay to an insurer for insurance cover. The premium you pay is the financial value of the risk being transferred from you to the insurer.

The amount of premium you pay depends on a number of factors, including:

- the type of insurance cover
- the level of risk that you are looking to insure
- for some types of insurance, the level of excess you take
- your personal information
- your age
- administration costs and taxes and levies.

Generally, the higher the risk of loss, theft, damage, injury or death, the higher the premium you will pay.

Example 1:

Car insurance for young drivers will generally carry a higher premium reflecting statistical data that shows younger drivers are higher risk due to their limited driving experience. For example, the premiums paid by a 22 year old would generally be higher than that paid by someone who is over 30 years of age.

Example 2:

People who participate in hazardous recreational activities or sports (such as scuba diving or skydiving) will often carry a greater risk, which may be reflected in a 'pastime loading' in their life insurance. This means that these people may pay higher premiums because they face an increased chance of suffering from a serious or potentially life threatening event.

People who smoke will pay higher premiums than people who don't smoke.

It is important for you to disclose your pastimes to your insurer – this is part of your 'duty of disclosure'. Your insurer will use your personal information to assess your level risk. Information about your pastimes may not have an impact on your premium or eligibility for cover, but it is in your interests to fully disclose to your insurer.

WHAT IS AN EXCESS?

An excess is the amount of the loss you must pay out of your own pocket before the insurer begins to compensate you. Many types of general insurance (e.g. comprehensive motor vehicle or home contents insurance) may include an excess. Some insurers make an excess compulsory, while others will allow you to use an excess to reduce the premium. An excess can act as a deterrent against frivolous claims and so keeps the cost of premiums down for most customers.

Generally, the higher the excess, the lower the premium.

WHAT IS A BENEFIT?

A benefit is when you receive an amount of money, or in the case of some insurance, replacement or repair of your belongings from the insurer because an event covered in your insurance policy has taken place. For example, you suffer an illness and are unable to work for a period of time and you have income protection insurance, you will receive a monthly income stream from your insurer.

WHAT IS A CLAIM?

A claim is when you contact your insurer seeking a benefit for an event covered by your insurance policy. For example, there is a fire in your home and you have home contents insurance and you make a claim to replace your furniture and other personal possessions.

TIP

You should shop around for the right insurance product for you and read the policy document carefully so you know what's covered and what's not covered.

WHY HAVE INSURANCE?

Insurance provides you with a way to deal with the risk of financial loss which has occurred through an unexpected event. Insurance doesn't remove the risk of accident, illness, injury or disaster, but it does provide protection, compensation and financial security to you and your family.

Insurance protects you so you can replace those assets you have accumulated, whether those assets are your belongings or your capacity to earn income. Insurance helps you manage those unexpected events that may otherwise mean you have to dive into your savings or find other ways to make ends meet.

It doesn't matter whether you have a low income or high income – insurance is a way to avoid the risk of losing your assets or finding yourself in financial difficulty.

Insurance can give you peace of mind.

- Helps you manage the unexpected and stay financially stable.
- Protects you against having to pay the full cost of a loss.
- Means you don't have to dive into your savings or investments, or borrow money, or ask family or friends or others for financial assistance, or sell assets to pay outstanding debts and day-to-day living expenses.
- Helps protect your family or other dependents from the financial consequences of your death.
- Gives you confidence that you and your family will be taken care of in times of need.
- Premiums on some insurance policies are tax deductible.
- Insurance policies can be tailored to provide cover relevant to your needs.

TIP

Some people think insurance is a luxury. But the cost of replacing your assets and possessions can be substantial, and if you had to, you probably wouldn't be able to afford it.

WHAT INSURANCE DO YOU NEED?

Your need for insurance will change as you move through different stages of your life.

Everybody's circumstances are different – however, insurance can be important for everybody. The amount of insurance cover you need will be influenced by your level of income, your assets, your liabilities, and your personal circumstances, such as whether you are married, have children or other dependents.

You should shop around to make sure you find the right insurance product for you.

An insurer, insurance broker or financial adviser will be able to help you if you're not sure about what insurance best suits your needs and circumstances.

It is important that you are familiar with the inclusions and exclusions before you purchase insurance, so you know what's covered and what's not covered (see page 20).

Some of the more important risks that could threaten you or your household are:

- Damage or loss/theft of personal belongings
- Fire or damage to your home
- Damage done to your vehicle
- Liability for damages done by your vehicle
- Liability for damages suffered by someone on your property
- Loss of your income
- Illness or accidents in the family
- Total or partial disability of a family member
- Death of a family member

TIP

WHEN SHOULD YOU PURCHASE INSURANCE?

- When the loss is beyond what you could afford to pay in replacement costs, for example, replacing all your household items or the building itself if they were lost in a fire
- When you purchase a motor vehicle or a new property
- When you move into a new home or rental property
- To protect against a loss that may be uncommon but would be catastrophic if it occurred, such as the death of the main income earner or the person who cares for the family and home, especially if you have children or other dependents including elderly parents

TYPES OF INSURANCE

DIFFERENT INSURANCE FOR DIFFERENT NEEDS

There are many insurance products, so understanding what is available and which ones best suit your needs can be confusing. This section summarises the most common insurance products and how they can assist you manage your financial risks.

HOME INSURANCE – BUILDING AND CONTENTS

Building insurance provides cover to make repairs or rebuild if your home is damaged or destroyed by specific events, such as fire, storm or earthquake. It may also provide cover for losses from accidents, such as wine spilling on your carpet. Most policies cover the main dwelling, garage and other outbuildings, walls, gates, fences, drives, verandas, patios, in-ground swimming pools and landlord's fittings and fixtures.

The premium for building insurance is based on a number of factors including age of your home, location of your home, construction of your home and sum insured.

Some building insurance policies provide complete replacement cover.

Contents insurance provides protection against damage to, or loss of, your personal possessions, such as clothes, toys, furniture, whitegoods, stereo, TV, electrical appliances and computer equipment. Valuable items like jewellery may have special claim limits in a standard policy. You should separately value and list expensive personal possessions, otherwise these items may not be covered for their full value or in some instances may be excluded from a claim.

The premium for home contents insurance is based on a number of factors including your age, location of your home, level of home security and the sum insured.

Some home contents insurance policies also provide cover for personal possessions or valuables away from home, such as sports equipment or cameras – although there is usually a limit for unspecified items. You should not consider this cover a replacement for travel insurance.

If you have the option to combine your building and contents insurance together with other insurance products, such as motor vehicle insurance, you may be able to receive a 'multi-policy discount'.

WHAT TYPE OF HOME CONTENTS POLICY?

Some people are happy with insurance that defines specifically what's covered – these policies are called 'defined' events policies. Other people prefer to be covered for any potential mishap – these policies are known as 'accidental damage' policies. Some insurers offer defined events policies with an option to pay extra for accidental damage cover.

You will also have to choose between 'indemnity' or 'replacement' cover. Indemnity policies will only reimburse you for the value of your possessions in the condition they were in just before they were damaged or stolen. It's wise to look for a policy that offers new-for-old replacement cover; otherwise the payment you receive may not be adequate to cover the loss of your belongings.

Did you know?

Strata title properties may have building insurance which is paid for as part of strata levies. However this will not cover belongings. It may also not cover damage to internal furnishings, such as curtains or carpets in the event of damage by a tenant. If you own a property that is rented for domestic or residential purposes, you may require landlords insurance, which covers you for damage or theft by the tenants – this is called 'Landlords Protection Insurance'.

PERSONAL LIABILITY INSURANCE

Most home contents insurance automatically includes personal liability insurance. This covers you should another person be injured or have any of their property damaged while on your property – for example, if someone in your house falls down the stairs. However, it does not cover people who work in your home, such as cleaners or contractors.

TIP

Whether your home is big or small, owned or rented, you should speak to your insurer about finding a product that best suits your needs and financial situation. Some insurers offer home contents insurance policies that protect you from fire or theft only. These policies can be tailored to cover contents of a range of values, and could be as low as $25,000. For some people, $25,000 might seem like a lot, but when you add up the cost of replacing all of your personal belongings, including large and small items, you may be surprised how quickly it all adds up. You should make sure you are not at risk of being uninsured or underinsured (see pages 22-23).

CASE STUDY HOME CONTENTS INSURANCE

Karen, 39, is a sole parent with three children. Karen and her family rent an apartment. Karen works long hours in her job to make ends meet, and so sometimes Scott, her eldest child baby sits his younger brother and sister after school. One day Karen was delayed at work, so Scott tried to help his mum by cooking dinner. There was an accident – despite Scott's good intentions, a fire in the kitchen spread to the other rooms. Fortunately Scott and his brother and sister got out of the apartment and nobody was injured. But there was quite a bit of damage to the apartment and much of the family's contents were destroyed. Karen's landlord had insurance and quickly arranged for the apartment to be repaired – but this insurance does not cover the damage done to the family's belongings.

Luckily Karen had home contents insurance – so the family was able to replace their personal possessions, such as kitchen appliances, fridge, TV, stereo, sofa, bed, clothes and toys, which Karen had worked hard to buy for herself and her family.

TIP

What if you have an accident? It is important for you to comply with all legal requirements, such as calling the police or exchanging details with the other driver (including name, residential address, insurer, registration and licence number and vehicle ownership information). Most insurers leave your 'no claim discount' intact if they agree you're not at fault, provided you can identify the person responsible. You should also get details of any witnesses. Contact your insurer as soon as possible. Some insurers can arrange tow trucks. Some insurers also have preferred repairers.

MOTOR VEHICLE INSURANCE

Motor vehicle insurance varies from policy to policy, providing different levels of cover.

WHAT TYPE OF MOTOR VEHICLE INSURANCE?

- Compulsory Third Party (CTP) – Is required throughout Australia when you register your car and relates only to injuries. Because the costs associated with personal injury can run into millions of dollars, the government has made it illegal to drive a car without this insurance. Each state and territory has its own scheme, but all provide basic cover for legal liability for injuries resulting from negligent use of the vehicle.

  While CTP may be the least expensive option upfront, if you are in an accident, it might become very expensive later, because CTP does not include cover for damage to vehicles or other third party property. So if you have a car accident that is your fault, you may have to cover the damages to your car and the other driver's car from your own savings.
- Third Party Property Damage – This covers damage to another vehicle or property of others, such as a fence, as well as your legal costs. It doesn't include repairs to your own car if you have an accident that is your fault. However, with some policies you can get additional 'third party fire and theft insurance', which provides limited cover for your own car against damage caused if it is stolen.
- Comprehensive – This provides the highest level of insurance, but it is also the most expensive option upfront. It includes cover for someone else's property (usually car) in an accident caused by you, your car in an accident and your car against theft, fire or other damage. If you're borrowing money to buy a car, your financier will usually insist upon you taking out comprehensive car insurance.

  The premium for comprehensive car insurance is typically rated by assessing standard variables, such as the vehicle make and model, the value of the vehicle, the age and gender of the driver, the claim history of the driver, the postcode and where it is kept overnight (garaged or on the street), type of use (business or private), whether security devices are fitted and whether it is financed or not. And then there are additional unique variables assessed, including whether you have a 'no claim discount'.

In all states but NSW and Queensland, only one state-owned or government-licensed insurer provides CTP insurance. In NSW and Queensland it's offered by a number of insurers and it pays to shop around, as prices can vary. For a price guide for NSW go to www.maa.nsw.gov.au or phone 1300 137 600. For contact details of insurers in Queensland go to www.maic.qld.gov.au or phone 1300 302 568.

CASE STUDY CAR INSURANCE

Simon, 19, borrowed his dad's car one night. Even though Simon is a sensible driver, it was raining and he braked too late, driving into the back of another car stopped at traffic lights. The accident was Simon's fault. While there was not much damage done to the car Simon was driving, the other car had quite a bit of damage and the driver of the other car suffered some minor neck injuries. Simon did the right thing and called the police to the scene of the accident. An ambulance was also called for the other driver. Simon made sure that he also got the details of the other driver. A tow truck took the other car, but Simon was able to drive his dad's car home.

When Simon got home he told his dad about the accident. Because Simon's dad had comprehensive car insurance with a nominated under 25 year old driver, they only had to pay the excess rather than pay the total costs out of their own pockets. Repairs were made to both cars. CTP made sure that the medical expenses and costs associated with the other driver's injuries were also covered.

TRAVEL INSURANCE

Travel insurance can help travellers who find themselves needing urgent medical assistance, help with replacing lost luggage and/or assistance with making an urgent trip home due to an emergency. Travel insurance can also provide you with cover if you have to cancel your holiday before you leave.

The cost of travel insurance differs based on your age, destination of travel, length of stay overseas and any pre-existing medical conditions. There may be some damages, losses or accidents that are specific exclusions, so check your policy document for conditions.

Many Gold and Platinum credit cards have overseas travel insurance. Conditions may apply, so check with your bank or card issuer.

Before you travel overseas, you should go the Department of Foreign Affairs website and read the travel advisories and travel tips information. Go to www.smartraveller.gov.au.

Did you know?

Australia has reciprocal Medicare agreements (Finland, the Republic of Ireland, Italy, Malta, the Netherlands, Norway, New Zealand, Sweden and the United Kingdom), which entitle you to benefits similar to Medicare for immediately necessary medical and public hospital treatment. These agreements don't replace the need for travel insurance. If you use a private hospital in a country with a reciprocal agreement, most insurers will pay some expenses, but some only do this on a case-by-case basis, so you need to double-check. For more information, contact the Medicare Australia Office at www.medicareaustralia.gov.au or call 132 011.

TIP

You should think about having unlimited medical cover for holidays to the United States, Japan and Europe to make sure that you have adequate cover in the event of an accident. Hospital costs in the United States can be US$10,000 per person per day. Medical evacuations to Australia regularly cost up to $95,000 and sometimes up to $300,000.

PRIVATE HEALTH INSURANCE

The Australian Government has set-up a universal health care system called 'Medicare' which covers some doctors, hospitals and medicines. It provides every Australian access to free treatment in a public hospital, regardless of their insurance status. But there are some restrictions with Medicare; so many people pay for private health insurance as well.

Private health insurance provides protection against the hospital and medical costs resulting from illness, injury and disability. This cover gives you access to private hospitals, your choice of doctor, cover for ambulance and health services not covered by Medicare (such as optometrist, dental, chiropractic or physiotherapy services) and sometimes shorter waiting times for non-urgent or elective surgery.

When considering what private health insurance suits you best, you should think about waiting periods, exclusions, hospital and medical gaps, level of premiums and excesses. For some people it may be better to save money by choosing a product with a high excess rather than choosing a product that excludes treatment for some conditions. But for other people it may be better to have a product with fewer inclusions so that both the premium and excess is lower.

TIP

You can save money by buying a policy:

- With an excess (an amount of money you have to pay for a hospital stay before the private health fund starts paying). Be sure to check how many times the excess applies per year.
- Where you pay a co-payment if you go into hospital (you pay an agreed amount each time a service is provided – usually a set amount per day). Be sure to check how may times the co-payment applies per year.
- That excludes treatment for some conditions. But remember if you need them you'll only be covered as a public patient in a public hospital – like someone without private health insurance.
- That only covers you as a private patient in a public hospital for some or all conditions.

Source:
Save on Health Insurance. Choice.
www.choice.com.au

Did you know?

All Australians who pay premiums for appropriate private health insurance are able to claim the minimum 30% Federal Government tax rebate, regardless of their level of income. The rebate increases to 35% for persons aged 65-69 years and then up to 40% for persons over 70 years. For more information, contact your private health fund or contact the Medicare Australia Office at www.medicareaustralia.gov.au or call 132 011.

TERM LIFE INSURANCE

Term life insurance offers financial protection for your family and other dependents in the event of your death. While most people think that life insurance is only for the main income earner in the family, the person who takes care of the family is also a large contributor to the home.

Upon your death, whether from illness or accident, your dependents will receive a lump sum payment, so that your family and other dependents can continue to service your outstanding debts and pay for day-to-day living expenses.

The premium for term life insurance will depend on a number of factors. These policies are rated using unique variables or risk factors reflecting the person applying for the insurance.

Once you have taken out term life insurance, the cover will only cease if you stop paying the premium when it is due for payment – this feature is referred to as 'guaranteed renewable'.

Term life insurance premium is generally not tax deductible for individuals, but the benefit is free of tax.

Did you know?

You may have term life insurance through your superannuation fund. Often you're automatically accepted for basic cover and you may not know you've got this cover already. Check with your superannuation fund or look on your latest statement to find out the amount of cover you could have and assess whether the cover is enough or whether you should increase the amount of cover you have.

TIP

A rule of thumb for determining the level of life insurance cover is to take the main income earner's annual income and multiply by 10. Alternatively, you should think about the initial and ongoing living expenses, including funeral related expenses, mortgage repayments or rental payments, children's childcare and education costs, housekeeping expenses and so on.

CASE STUDY TERM LIFE INSURANCE

Dylan, 29 and his wife Brenda, 26 were saving for a new house for their growing family. Dylan was very concerned about his family's capacity to cope financially should Brenda or he die. Dylan knew that he had some life cover through his superannuation fund, but he felt that this would not be enough for his family. Dylan and Brenda decided to speak with a financial adviser. The financial adviser recommended that Dylan increase the sum insured through his superannuation fund to cover their mortgage, personal loan, debts and future expenditure. The financial adviser also recommended that they take out a term life insurance policy on Brenda's life.

Then tragedy struck – Brenda was killed in a car crash, leaving Dylan to bring up two small children on his own. Dylan received a lump sum payment from his wife's insurer, which was enough to buy the family home and make sure that their children had after school child care. Brenda's term life insurance policy gave her family financial security.

TIP

A form of income protection insurance can also be offered through your superannuation fund. Check with your superannuation fund or look on your latest statement to find out whether you have this cover and if it is adequate. Income protection insurance available through superannuation will usually have a restriction on the duration of payments to a maximum of 2 years. If you do have income protection insurance as part of your superannuation, you could take out separate cover with a waiting period equal to the benefit period (such as 2 years). A longer waiting period can reduce your premiums.

INCOME PROTECTION INSURANCE

Income protection insurance (also known as disability insurance or income replacement) provides financial protection for your ability to earn an income as a result of an injury caused by an accident, or you are suffering an illness and are unable to work for a period of time.

Income protection insurance provides you with a monthly income stream for the period you are unable to work.

Most policies let you insure up to 75% of your normal gross income. Income protection insurance is particularly suitable for self-employed people, small business owners or professionals.

There are many different income protection policies available in the Australian market, each with its own definitions of disability and range of benefits. Generally, you can choose the waiting period before benefits are payable, the benefit period and the policy's expiry date. The options you choose along with your specific risk factors, will determine the premium you pay. Your financial adviser will help you determine what alternatives are best suited for your needs and circumstances.

Income protection premiums are generally tax deductible, but the payments received are considered income and are subject to tax.

Did you know?

Some people think that income protection insurance is expensive. However, over your entire working life you could earn around $2.2 million*. Your income earning capacity is probably your largest asset – isn't it worth insuring?

* Based on full-time adult average weekly ordinary times earnings as at May 2006, multiplied by 40 years of continuous employment [Source: Australian Bureau of Statistics]

CASE STUDY INCOME PROTECTION INSURANCE

Richard, 52, was heading home from work one day and collapsed. He suffered a stroke. Richard was unable to continue working and he had to undergo extensive medical procedures both in Australia and overseas. Richard had many consultations with specialist medical practitioners.

A few years earlier Richard had made sure that he had adequate insurance. In particular, Richard confirmed that his superannuation fund included income protection insurance. But he also took out a separate policy that did not have restrictions on the duration of payments. Richard's insurance provided him with an income stream because he was unable to work. The insurance payments covered Richard's mortgage and personal loan repayments and day-to-day living expenses.

TRAUMA INSURANCE

Trauma insurance (also known as critical illness insurance) provides you with cover if you're diagnosed with one of a number of specified life threatening illnesses or injuries, such as cancer or a stroke.

Trauma insurance gives you the financial security to meet those unexpected expenses arising from the insured event. It is designed to take away the financial worry while you are recuperating.

Instead of receiving a monthly income stream, such as with income protection insurance, trauma insurance provides you with a lump sum payment. The payment is free of tax and there are no restrictions on how you can use the payment – you could use the money to pay for specialists or medical bills, make modifications to your home, cover mortgage repayments or rental payments, or even take a holiday.

Generally, trauma insurance should not be considered a replacement for income protection insurance or private health insurance. The number of conditions covered can vary, and its important to consider the definition of each illness and injury when selecting which product to purchase.

SICKNESS AND ACCIDENT INSURANCE

Sickness and accident insurance provides you with some cover if you're injured in an accident. It is often bought as cover for individuals taking part in sporting activities, such as snow skiing, skydiving or scuba diving. Generally, these policies pay a specified amount for a list of possible accident outcomes. This type of insurance should not be considered an alternative to private health or income protection insurance but if you are taking part in higher-risk activities it provides you some additional cover.

TIP

Trauma insurance can cost more than term life insurance due to the greater probability of a trauma or crisis event occurring. Trauma cover can be added as an addition to a term life insurance policy.

TOTAL AND PERMANENT DISABILITY INSURANCE

Also known as TPD, total and permanent disability insurance provides a lump sum payment if you're totally and permanently disabled before retirement and can't work again, or can't work in your usual occupation or chosen field of employment.

TPD is often sold as an add-on to term life insurance, or can be purchased as a standalone product. Some trauma insurance products also include this as one of the insured events. TPD can also be provided as an extra benefit as part of your superannuation.

TIP

As there are a number of different TPD definitions, you should consider which of the definitions best suit your particular situation.

Did you know?

If you are totally or permanently disabled, then you will never work again. So you need to ensure that you have enough cover from a TPD benefit to support your changed lifestyle into the future.

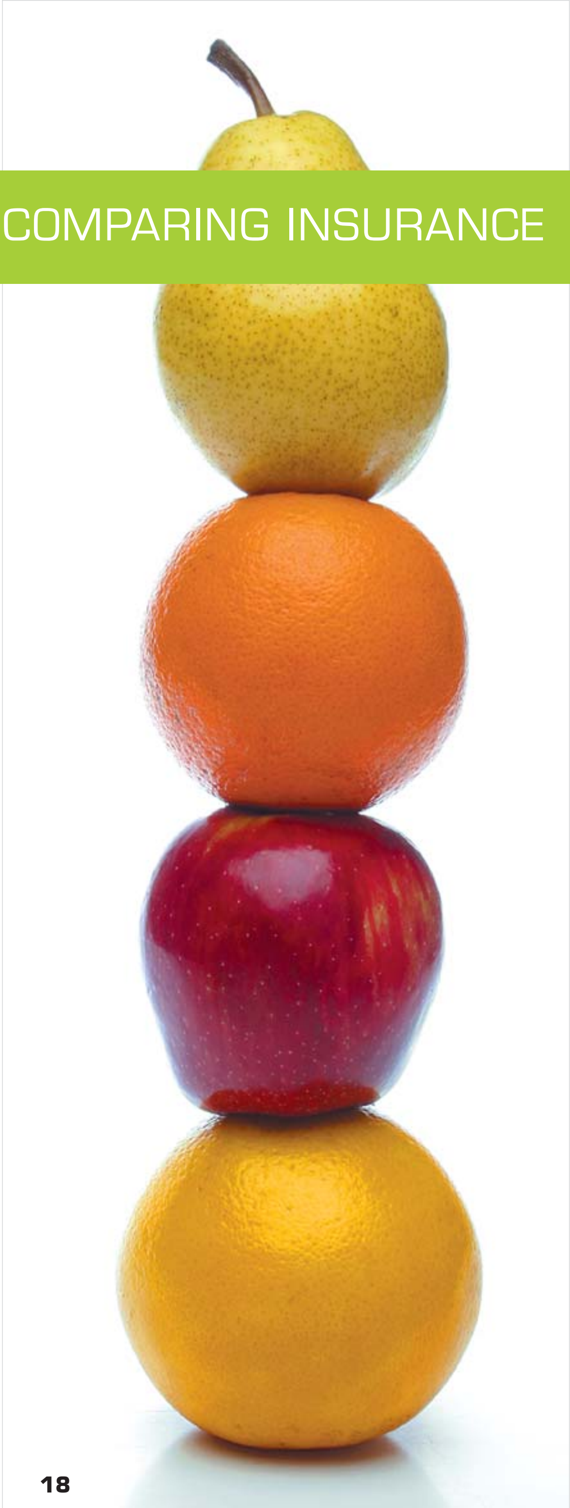
CONSUMER CREDIT INSURANCE

Lenders offer consumer credit insurance, also known as CCI, when you take out or apply for a personal loan, mortgage, overdraft, lease, line of credit or credit card. It can cover part or all of your monthly repayments, for a set period, if you're unable to work due to a serious accident or illness, temporary unemployment or death.

The cost of your cover depends on the amount you borrow, your level of repayments and the level of cover you select. In most cases, the larger the loan the more expensive the cover. CCI has some restrictions, for example, some policies are not available to casual workers and there may be limits on the loan amount that can be covered by the policy.

If you purchase CCI through your lender, the premium is usually a once only payment that is added to the amount of the loan and reflected in a higher loan repayment. It's important to note that the approval of your loan contract is not dependent upon taking out CCI with the lender.

COMPARING INSURANCE



UNDERSTANDING YOUR INSURANCE CONTRACT

Personal insurance products can be complex and benefits can vary greatly. You need to consider more than just premiums when making a decision to purchase or renew your insurance. Understanding your needs and the features of the products will help you select the right product for you.

The best way of comparing the features of insurance products is to read the Product Disclosure Statement (PDS) or policy document.

These documents set out:

- Features of the product, including terms, conditions and exclusions
- Fees and charges that apply
- Information about complaints handling and "cooling off" rights
- Other information that is material to your decision to purchase the policy

The law requires that your insurer provide you with information about the insurance product so you can make an informed decision. Speaking to an insurer or broker for general insurance or a financial adviser about life insurance products will also ensure that the cover you choose will be best suited to your needs and financial situation.

TIP

If you have special needs seek professional advice before you take out insurance cover. Remember, price is not the only thing to consider, the features of the product, any exclusions, the excess, the insurer's reputation and support if a claim arises are all equally important.

READ YOUR INSURANCE POLICY AS SOON AS YOU RECEIVE IT!

Most people only read their insurance policy from cover to cover when they need to make a claim. Unfortunately, by this time it's often too late.

The policy document issued by the insurer to you usually has two separate parts:

- Terms and conditions – is a standard document, which tells you about the terms and restrictions in your policy, but does not contain any specific information about you or what you have insured.
- Policy schedule or certificate – this document will contain your personal details including the description of what you're insuring, any options or special restrictions that have been taken out and, if applicable, tells you when the policy is expiring.

Did you know?

According to the law, insurers must provide a 14-day cooling off period to purchasers of insurance. This provides you with enough time to thoroughly read the policy document and decide whether it is the right insurance contract for your needs.

TIP

If your policy is renewed each year (as happens with home or car insurance) you will need to contact your insurer and inform them of any changes to your personal situation since the policy was originally taken out.

TIP

Your life insurance policy is a legal document and should be stored with your other legal documents. You will need the policy document when you lodge a claim with your insurer.

HOW DO INSURANCE CONTRACTS WORK?

An insurance contract is a legal agreement whereby the insurer will pay you if certain defined events occur and conditions are met.

Insurer obligations

- Explain to you the terms of the policy: An insurer must clearly inform you of the features of the product, such as inclusions and exclusions, before you enter into the insurance contract. The insurer does this by providing you with a copy of the PDS and policy document.
- Ensure confidentiality of your information: Insurers are legally required to keep your personal details confidential.

Your obligations

- Read your insurance policy: Make time to read your policy document when you receive it from your insurer. It is important that you know what's covered and what's not covered.
- Answer all questions fully and honestly: When entering into a contract with an insurer you must give them all the relevant facts – this is called a 'duty of disclosure.'

TIP

Understanding what's covered and what's not covered will help you to find the product which best meets your needs.

EXCLUSIONS – KNOW WHAT'S COVERED AND WHAT'S NOT

It is vital to check your policy document for exclusions – events that are not covered by the insurance policy. Even though the insurer has an obligation under the law to clearly explain the insurance contract to you, it is important that you make sure you understand what you're being covered for and what you're not covered for.

Examples of some typical exclusions are: self inflicted injury; pre-existing conditions; war or terrorist activities; damage caused by domestic pets; tree lopping; certain weather related losses, such as flood or storm surge; theft of items in the open air (BBQs etc) or damage to vacant property. Some policies may also exclude a particular sport, a medical condition or valuable item, unless specified. Not all general and life insurance policies have the same exclusions.

FEES AND EXPENSES

Insurance premiums are based on a number of factors that relate to the potential risks to the insurer as well as other costs, including administration fees, Federal and State taxes (GST and stamp duty) and government levies (fire services levy).

Life insurance products are usually available through an insurance broker or financial adviser. These advisers are usually paid a fee or commission from the sale of insurance products for the advice they provide.

HOW CAN YOU SAVE ON YOUR PREMIUMS?

These are general suggestions, so you should think about what best suits your needs and financial situation.

- Minimise your risks. Take security precautions like putting locks on the windows of your home or an immobiliser on your car to make it harder to break into or steal. Or put in place tools to help reduce the likelihood of damage like installing a fire extinguisher in your home.
- Pay a higher excess. Increasing the excess you would pay if you did make a claim can lower your premium. But you need to weigh up whether it's better to pay more now in the form of premiums, or pay more later through a higher excess if you make a claim.
- Nominated drivers. Restricting the use of your car to drivers over a certain age (usually 25) reduces your car insurance premium.
- Discounts. If you don't make a claim for a certain period of time, you can reduce the premium you pay for car insurance – this is called a 'no claim discount'. Often you can save if you take out more than one policy with the same insurer – this is called a 'multi-policy discount'. For general insurance, other discounts can be available to you if you're a long-term customer. Some insurers offer discounts for people who are over 55 years of age. For life insurance, discounts can be available for larger sums insured.
- Take a longer waiting period. You may pay more for having immediate income protection cover. If you opt for a longer waiting period you may pay a lower premium. But you need to think about whether you have adequate savings, sick leave or the ability to cover expenses until you receive the first benefit payment.
- Superannuation. You can save by having life insurance in your superannuation fund (see pages 24-25).
- Select a policy that suits your needs. It may be better for you to pay less for your insurance, but also have fewer inclusions.
- Shop around. Compare insurers' (including your superannuation fund) cover and prices; they can differ greatly.

TIP

Speak to your insurer. Don't be afraid to ask questions if you aren't sure how a policy works or if you want to clarify how the insurer will apply policy terms and conditions. If you have an insurance broker or financial adviser and they can't give you an adequate explanation, then you can contact the insurance company directly for more information.

RISKS OF BEING UNINSURED OR UNDERINSURED

Many Australians don't have enough insurance, and unfortunately don't realise this until it's too late. For example, recent surveys in Australia suggest that between 27% and 81% of consumers are underinsured by 10% or more against current rebuilding costs.*

Up to 80% of Australian families are leaving themselves exposed to financial hardship by not correctly calculating adequate levels of life insurance to cover their needs.**

Underinsurance can happen because people don't value their assets or their future earned income properly. But some people are underinsured because they think that insurance is not affordable or accessible, or they don't consider their assets worth insuring, or they don't understand the products or they are overconfident about their risks.

* Source: "Getting home insurance right". ASIC. www.fido.asic.gov.au

** Source: Presentation to IFSA conference August 2005. Rice Walker Actuaries and TNS.

WHAT IS UNDERINSURANCE?

Underinsurance is when a person pays an insurer a premium for an insurance policy that doesn't cover the full cost of their potential loss or the financial impact on themselves and their family.

WHAT ARE THE CONSEQUENCES OF BEING UNINSURED OR UNDERINSURED?

If you are uninsured or underinsured you will have to pay for the full cost of replacement, in the case of loss of home contents, or your family may find themselves in financial difficulty, in the event of your death.

Being uninsured or underinsured may ultimately not be a cheaper option, as the cost of an event will be carried by someone – whether that is you, your family, your friends or a community group.

Not having insurance can erode your savings and investments, deplete your assets or result in a financial crisis. For example, many single income families with dependents would face financial crisis in the event of a parents' disablement or death.

Taking the time to make sure you have adequate insurance means that in the event of loss you're not taken by surprise.

HOW CAN YOU MINIMISE YOUR RISK OF UNDERINSURANCE?

- Doing a room-by-room inventory of your belongings and calculate how much it would cost to replace existing contents with brand new items. Don't simply look at large items like furniture. Some commonly overlooked items include crockery, towels and sheets, clothing, books and CDs. Also consider additional cover for valuables like jewellery.
- Checking the cost of rebuilding the property with a builder or a professional valuer, taking into account the cost of demolition, debris removal and architectural, engineering and council costs associated with rebuilding. Also factor in external structures such as fences or sheds.
- Review your sum insured on your insurance policies – for general insurance, when they are up for renewal; and for life insurance, every 2 years. This will make sure your cover remains adequate. As part of your review, you should take the time to assess your assets, such as your home and car, and consider what would happen if you and your family damaged or lost any of your assets. You should also assess your liabilities, such as your mortgage repayments or rent payments, personal loans, credit cards and other living expenses, and consider how long you or your family could survive financially in the event of loss of income.
- Reading the product disclosure statement (PDS) and policy document available from your insurer to assist you better understand the product. Some insurers also provide web calculators on their website to help you calculate the cover you may need.
- Seeking professional advice from an insurance company, bank, financial adviser, insurance broker or a valuer for your personal items of value.

INSURANCE STRATEGIES

INSURANCE AS PART OF YOUR SUPERANNUATION

You can purchase life, income or total disablement insurance directly from an insurer or via an insurance broker or financial adviser. You can also get insurance indirectly through your superannuation fund.

There are benefits of having these life insurance products in your superannuation, rather than outside your superannuation fund.

Some advantages include:

- You can be automatically accepted without completing a medical check
- Cover can be much cheaper due to the bulk discount available to superannuation funds
- Taxation concessions available for contributions to a superannuation fund.

However, there are also some disadvantages of having life insurance products in your superannuation.

Some disadvantages include:

- Limitations on the level of cover
- Limitations on benefit periods for income protection insurance
- In the event of death, delays in payment of benefits, when the money is most needed.

If you are thinking of switching superannuation funds, be careful because the insurance cover from your old superannuation fund will probably cease. You should ensure you are eligible for insurance at the level of cover required in your new fund before finalising your choice to switch superannuation funds.

Before moving to a new superannuation fund, you should consider:

- Premiums can differ greatly between superannuation funds for the same level of cover. Before you change funds check to see if your new fund offers insurance cover and make sure you compare what you'll be paying for that cover.
- Be aware that if you decide to purchase insurance outside the superannuation system you could also end up paying more. Because of the bulk discount they receive, cover through a superannuation fund is often cheaper than purchasing insurance outside the superannuation system.
- Be aware that you could be uninsured for a time. If you leave one fund and your cover ceases in your old fund, you may be uninsured for a period – particularly if your new fund waits until contributions are received or until a medical check has been completed before cover commences.
- Be aware you could be overinsured. If you have more than one superannuation fund you should check to make sure that you are not paying for more insurance cover than you need.
- Many employer or industry superannuation funds have an option for you to continue your insurance when you leave the fund – this is known as a 'continuation option'. This option allows you to take out an individual policy on your own life within a specified timeframe, usually 30 days, after leaving the superannuation fund.

For more information about superannuation see Smarter Super Make the most of your retirement.

TIP

While some superannuation funds may make available some life insurance, you should make sure that the level of cover meets your needs. When determining the type and level of appropriate cover, it is recommended that you consult your financial adviser who can provide advice based on your personal circumstances and financial situation.

APPLYING FOR INSURANCE

When you apply for insurance, the insurer will assess and price the risk of you making a claim – this process is called 'underwriting'. Underwriting relies on assessing information, such as historical statistical data, industry estimates, changes in medical practice and your personal information.

The insurer will ask you to complete an application or 'proposal' form and a personal statement. It is important that you answer these questions truthfully because the insurer will use the information they have collected from you to assess your application and decide whether they will insure you, and what premium you will pay. Your statements may only be checked when you make a claim and if they are incorrect (even if this was unintentional) the insurer may be entitled to reject your claim.

Example 1

When you apply for home contents insurance the insurer will ask you questions about your home, such as what type of locks the doors and windows have, whether your home has security screens, your postcode and so on. The insurer asks this information so they can assess the risk of theft.

Example 2

When you apply for income protection insurance the insurer will ask you questions about your health and social activities, such as whether there is a history of illness in your family or whether you are a smoker and so on. The insurer asks these questions so they can assess your risk of illness.

WHEN SHOULD YOU REVIEW OR RENEW YOUR INSURANCE?

Insurance usually works on a pay-as-you-go basis, where you pay for the policy by making regular premium payments. Cover continues as long as you continue to pay the premiums.

Many general insurance policies are renewed each year. Your insurer will send you a renewal notice, or if they choose not to renew, they must notify you in writing before the policy expires. When you renew your insurance this is a new insurance contract. Life insurance is 'guaranteed renewable' and will only cease if you stop paying the premium when it is due for payment.

You should review your insurance cover either when the policy needs to be renewed or every 2 years, just to make sure that it continues to meet your needs.

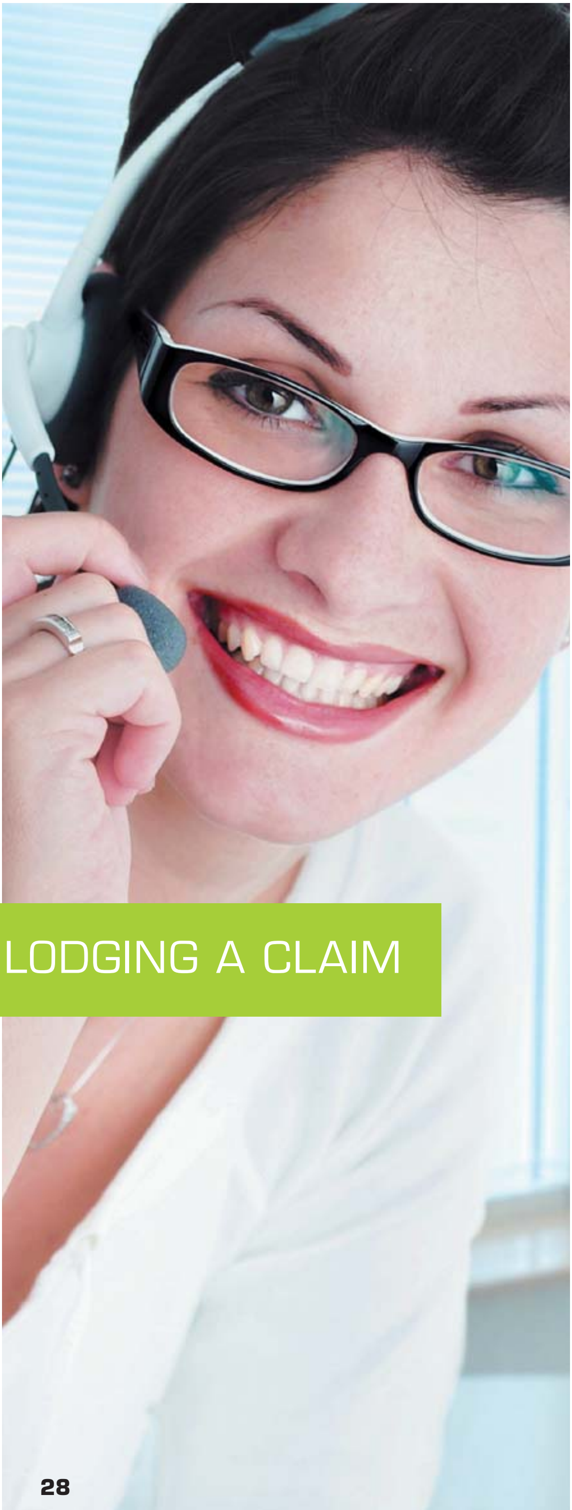
Some triggers for reviewing your insurance include:

- your earning capacity or living expenses change
- you buy a property and enter into a mortgage
- you make renovations to your home
- you purchase new assets
- you have a child
- your liabilities change, such as a personal loan
- your policy is due for renewal for general insurance

TIP

THINGS TO DO WHEN YOU APPLY FOR INSURANCE

1. Make sure you have done your homework - shop around for the right insurance product for you
2. Check out the inclusions, exclusions, any optional extras or restrictions
3. Ask if there are any discounts
4. Remember price is not the only thing to consider, the insurers' reputation and support if a claim arises is equally important
5. Make sure the insurer, broker or adviser is licensed by ASIC
6. Have your information handy
7. Answer all the questions in the application form fully and correctly
8. If you aren't sure - ask questions
9. Don't get cover you don't need - avoid being underinsured or overinsured
10. Read your policy document carefully to make sure you get the insurance you applied for



LODGING A CLAIM

If something bad happens to you and you have an insurance policy, you can make a claim to receive a payment from your insurer. It is an insurers business to pay claims that satisfy the terms and conditions of the policy and are deemed genuine based on the evidence provided.

If your claim is accepted, you will receive an amount of money or in the case of some insurance, replacement or repair of your belongings from the insurer – this is known as a 'benefit' or 'payout'.

The maximum the insurer will pay you is the amount of money, or 'sum insured' in your insurance contract. Depending on your policy you may receive this either all at once (lump sum) or as a regular stream of payments (income stream).

Here are some steps that may be relevant for you in making a claim:

- Contacting the police. If the claim involves theft or a serious car accident or any crime, you should call the police as soon as possible. If a police report is made, make sure you write down the police report number.
- Before you contact your insurer you should dig out your policy document to make sure you've got the appropriate cover for the loss or damage.
- Contacting your insurer as soon as possible. Some insurers allow some claims to be made over the telephone without having to fill out a form. This means your insurer can start processing your claim straight away. Whereas, other insurers may need you to complete a claim form – your insurer will send you a form or may direct you to a form that can be downloaded off their website.
- Keeping a written record of the incident. It is often easy to forget what happened, particularly the small details which may prove important later, so it is best to keep a record. You should also keep any supporting evidence, such as contact details of an accident witness or receipts of your belongings. You may also want to take photos for your records.

WHAT TO DO IF A CLAIM HAS BEEN REJECTED?

An insurer can reject your claim if you haven't told the insurer everything it needs to know or if the policy doesn't cover what you expected.

If your insurer rejects your claim and you're unhappy with this decision, you can do something about it. You have the right to request that your insurer review your case.

All insurers are required to have an internal dispute resolution scheme to listen to your complaint.

If your insurer has reviewed your claim and you're still unhappy with their decision, you can either take your claim to an approved external dispute resolution scheme (or independent complaints scheme) or go to court to resolve the issue.

All insurers are also required to be a member of an external dispute resolution scheme. There are four approved external dispute resolution schemes that are available free to help consumers resolve their complaint against insurance companies, brokers or advisers.

- The Insurance Ombudsman Service assists in resolving disputes between consumers and participating insurance companies. It deals with complaints relating to claims under most insurance policies – including home and contents, car and travel.

  For more information visit www.insuranceombudsman.com.au or phone 1300 780 808.
- The Financial Industry Complaints Service (FICS) was set up to resolve complaints between consumers and providers of financial services, including life insurers, fund managers and financial advisers.

  For more information visit www.fics.asn.au or phone 1300 780 808.
- Insurance Brokers Disputes Limited can help you if you have a problem with your insurance broker or other financial service provider (other than insurance companies).

  For more information visit www.ibdltd.com.au or phone 1300 780 808.
- The Private Health Insurance Ombudsman deals with complaints against health funds, hospitals and doctors about private health insurance arrangements.

  For more information visit www.phio.org.au or phone 1800 640 695.

TIP

ASIC's FIDO website has more information about external dispute resolution, in particular see the free publication You can Complain at www.fido.asic.gov.au.

GLOSSARY OF TERMS

AFSL an Australian Financial Services Licence is issued by the Australian Securities and Investments Commission (ASIC) under section 913B of the Corporations Act, which authorises a person who carries out a financial services business to provide financial services, including issuing of a financial product or giving of financial product advice.

Application has the same meaning as 'Proposal'.

Australian Securities and Investments Commission (ASIC) is the independent Australian government body, which enforces and regulates company and financial services laws in Australia to protect consumers, investors and creditors. ASIC reports to the Commonwealth Parliament, the Treasurer and the Parliamentary Secretary to the Treasurer.

ASIC has a website especially for consumers and investors. For more information visit www.fido.asic.gov.au.

Benefit (also known as a payout) is when you receive an amount of money, or in the case of some insurance, replacement or repair of your belongings from the insurer.

Broker (insurance broker) is an intermediary who obtains various quotes for insurance cover on behalf of a client.

Duty of disclosure refers to the consumers' duty to disclose all relevant matters to the insurer, which are known by the applicant to be relevant, or that a reasonable person in the circumstances would know to be relevant to the insurer. For example, if you are applying for term life insurance, you should tell the insurer if you are a smoker.

Excess is the amount of the loss you must pay out of your own pocket before the insurer begins to compensate you. Some insurers make excess compulsory, while others allow consumers to use it to reduce their annual premiums. Most types of general insurance come with an excess.

Financial adviser (also called a financial planner) provides individuals with advice on suitable forms of investments, including insurance, risk management as well as other investments including funds management, superannuation and taxation. A licensed financial adviser is obliged under the law to act in the interests of their client when making recommendations to their client.

FSG (Financial Services Guide) is a document required by the law that is given to a retail client when they are provided a financial service by a holder of an AFSL. The document describes the financial service being given and provides details of who is giving the service.

General insurance includes insurance policies, such as motor vehicle, home building and contents and travel insurance.

Insurance provides financial protection against a future possible event. Insurance involves payment of money (the premium) in exchange for the insurance cover. The terms under which benefits are paid are specified in the policy document.

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.

Insurer also known as an 'Insurance Company'.

Life insurance includes insurance policies, such as term life insurance, income protection, total and permanent disability and trauma insurance.

Market Value or Agreed Market Value. Most motor vehicle insurance policies provide settlement for a total loss claim (such as the car is stolen or irredeemably damaged) on a "market value" basis. This means you are entitled to an amount representing the cost of a vehicle of similar make, model, age and condition. Or, if the vehicle is less than one year old, many insurers will replace it with a new vehicle of the same make and model you lost. "Agreed Market Value" cover is especially useful for classic or vintage cars - where the insurer agrees to pay a specified amount in the event of a total loss.

Multi-policy discount. If you combine more than one insurance policy with the same insurer, you may be eligible to receive a multi-policy discount. The size of the discount varies depending on the insurer.

No claim discount. If you haven't made any claims against your comprehensive car insurance policy your insurer considers you as a lower risk and may reduce your premium. The size of the discount varies depending on the insurer, but could be up to 70% of your premium if you have not made a claim over a number of years.

Premium is the regular payment made to an insurer in exchange for its promise of protection and help against unexpected events. Generally, the higher the risk of loss, theft, damage, destruction or injury, the higher the insurance premium.

Premium rating. The premium, or cost of the insurance, is based on standard or unique variables. Insurers will assess factors including type of vehicle, age of the driver, driving experience, location of property, occupation, health history, financials and so on.

PDS (Product Disclosure Statement) is a document required by the law that is given to a retail client to describe the main features of a financial product being issued or sold.

Proposal (also known as an application) includes a document containing questions to which a person is asked to give answers that will be used in connection with a proposed contract of insurance. A completed proposal form is an offer by the intending insured (the customer) to enter into an insurance contract. It is not an offer by the insurer. An insurer may accept or decline a proposal.

Reinsurance is insurance for insurance companies. It is a way of moving the risk that one insurer takes on from its customers into a pool that other insurers also share. Reinsurance helps to make sure that an insurer has enough money to pay claims if many of its customers make claims at the same time. It provides protection against catastrophic events and exposure to too much risk in one policy.

Renewals. Each year you will need to renew your general insurance policy. Your insurer will send you a renewal notice. You will need to let them know of any changes in your circumstances that could affect your cover. The questions that you answered in your original application can be used as a guide to the information you might need to tell them when you renew. Life insurance is 'guaranteed renewable'. So long as you pay the premium of your life insurance policy, you remained covered.

Liability. In the context of insurance, liability is the legal responsibility for something, especially costs or damages.

SOA (Statement of Advice) is a document required by the law that is given to a retail client when they are given personal financial advice by a holder of an AFSL or their representative.

Superannuation is an investment which operates by putting aside money during your working life so you have a payment or income stream upon retirement. Superannuation funds that meet prescribed government standards are eligible for tax concessions.

Trustee is a person/company appointed under the terms of the trust deed to make sure that the plan is operated in accordance with the trust deed and in the interest of the beneficiaries, for example, superannuation trustee.

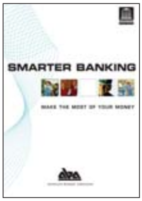
Underwriting involves measuring risk exposure and determining the premium with which to insure that risk.

Other booklets in the ABA's financial literacy booklet series

SMARTER MONEY
Take control and stay on top of your finances

SMARTER SUPER
Make the most of your retirement

SMARTER BANKING
Make credit work for you



SMARTER BANKING
Make the most of your money

How to order other booklets

The Australian Bankers' Association (ABA) has prepared a number of other financial literacy booklets. If you would like to obtain copies, please contact the ABA.

How to order this booklet

This booklet has been prepared by the Australian Bankers' Association (ABA), Investment and Financial Services Association (IFSA) and the Insurance Council. If you would like to obtain additional copies, please contact the ABA, IFSA or the Insurance Council.

Australian Bankers' Association

The ABA is an industry association that represents Australia's banks. The banking industry is committed to helping Australians better understand financial services to make more informed choices when it comes to managing money and every day finances.

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Insurance Council of Australia

The Insurance Council is the representative body of the **general insurance** industry in Australia, with its members representing more than 90% of total premium income written by private sector general insurers.

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Investment and Financial Services Association

IFSA is the national not-for-profit organisation representing the retail and wholesale funds management and **life insurance** industries to government, regulatory agencies, consumers and the community. IFSA has over 135 members who are responsible for investing more than $950 billion on behalf of more than nine million Australians.

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