

Insurance helps people to protect themselves against risks like accidents, theft and illness.

How does it work?

You pay a sum of money – a **premium** – to insure against something happening to yourself or your property. Then if the worst happens the insurance company agrees to pay a sum of money which will, for example replace or repair the damage. This is called a **claim**.

The insurance company issues a **policy** which is evidence that there is a contract of insurance.

The insurance company has to calculate the likelihood of something happening, in other words they work out the **risk** of your **property** being stolen or damaged, or you becoming ill, or whatever it is you want to insure.

The higher the risk and financial cost of the loss, the higher the premium you will be asked to pay.

What does insurance cover?

There are some kinds of insurance that are compulsory, for example:

- Motor insurance – in case you have an accident when driving
- Buildings insurance – if you buy a house.

It's up to you, the consumer, to decide on what other kinds of insurance you think it is worth taking out. For example, how would you pay for a new television or computer if yours was stolen or how would you pay for medical treatment if you were taken ill while holidaying abroad? You could decide to take out insurance policies to cover yourself for events like these. There are different insurance options:

Cover for your home: Buildings and contents cover designed to protect your home and the things in it from accidents, theft and more.

Cover for life and health: Life assurance, private medical cover, income protection, and critical illness are all types of insurance designed to help you pay for care, protect your income or provide a lump sum to your family in the event of your death, or diagnosis of a defined medical condition.

Most **mortgage** lenders will require that you take up life assurance, so that in case of death, your dependents don't have to worry about repaying your mortgage.

Cover for your possessions: This includes personal, travel, and motor insurance, which are designed to pay for replacements if things are lost or stolen. These products could also cover the cost of damage or costs such as medical expenses. Last but not least, this section includes pet insurance, which could help you with vet bills and in some cases, even for damage caused by your pet.

Protection for your income or borrowing: Could you continue to pay your rent, mortgage or other financial commitments if you lost your job or were unable to work due to an accident or illness? Income protection and critical illness cover could protect you in cases like these.

Insurance is available not only to individuals but also to companies and other large concerns like charities. For example, think of a company that manufactures bicycles – they might want to insure against the following risks:

- Damage to the buildings and stock due to deliberate damage or a disaster like fire or flood
- Loss of income while the building is repaired
- The legal requirement to pay compensation to employees who are injured at work through the fault of the employer
- The legal requirement to pay compensation to customers who are injured by their product e.g. a faulty bike
- Theft of stock or money by an employee or someone else

Insurance cannot take the risk away – but it can provide reassurance and ‘back up’ by providing payment which goes towards recovering from the loss.

Have a go at the rough guide to your life to think when you might want to take different kinds of insurance.

