

# 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](http://www.maa.nsw.gov.au) or phone 1300 137 600. For contact details of insurers in Queensland go to [www.maic.qld.gov.au](http://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.smarttraveller.gov.au](http://www.smarttraveller.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](http://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.

# 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 many 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](http://www.choice.com.au)

## 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:

## 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](http://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.

## 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.

## 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.

## 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 it's 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.

## 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.

## TIP

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

## TYPES OF INSURANCE

### 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.

