Topic 10: Dealing with Unexpected Events

Learning outcomes:

- Provide solutions for dealing with unforeseen events that impact on current finances.

Types insurance:

- General insurance
- Life Cover
- Health Insurance
- Pension Policies

Insurance Premiums:

Price is based on:

- how likely an event is to occur
- the amount of money needed to put things right if the event happens (to replace a bicycle that has been stolen, for instance), known as the sum insured
- the length of time that the policy will be in force, known as the term
- the amount of money the policyholder will pay towards repairs or replacement, known as the voluntary excess
- how the premium is paid – that is, as one payment or in monthly instalments.

Types of Motor Insurance:

Third-party motor insurance usually covers the cost of:

- injuries to other people, including passengers; damage to other people's property; accidents caused by passengers; and damage caused by a caravan or trailer while attached to the car.

Third-party, fire and theft motor insurance usually covers the cost of:

- all the third-party items listed above; and repairs to or replacement of the driver's car if it is damaged or destroyed in a fire or is stolen.

Comprehensive motor insurance usually covers:

- all third-party and fire and theft items listed above; accidental damage to the driver's car; a personal accident benefit: a sum of money paid on the death of the driver or for specific types of permanent disablement that the driver (and sometimes their spouse or family member) sustains in an accident; medical expenses related to an accident, up to a stated limit; and loss of or damage to personal possessions in the car, up to a stated limit.

Reducing the cost of motor insurance:

Compare the details of what is covered by different policies, as well as the cost; Fit an approved alarm or immobiliser; Premiums may also be lower for cars kept in a garage, rather than parked on the street or in a driveway; Pay a higher voluntary excess, as this will mean the insurer pays less on any claims made; Build up a no-claims discount; Pay the premium as one payment if possible because some insurers charge extra for paying in instalments; Drive a lower-powered car.

Key terms:

Benefit	A government payment made to individuals who meet specific conditions to help them meet their living expenses. For example, people who are unemployed, unable to work because they care for a disabled person, or have a disability may be entitled to benefits if they meet the criteria.
Budget	A plan of expected incomings and outgoings over a set time period such as a month.
Citizens Advice	A charity providing free, independent, confidential and impartial advice on citizens' and consumers' rights and responsibilities.
Consumer Insurance (Disclosure and Representations) Act 2012	The Act makes it the insurer's responsibility to ask for all the information they require to calculate the premium.
Credit card	A card that allows the holder to make purchases face to face, online or over the phone, and to withdraw cash from an ATM. Unlike a debit card, where the money is taken from the holder's own account, transactions are paid by the card provider. The card holder repays the amount owed to the provider either in one payment or in instalments. The provider charges interest on cash withdrawals from the time the withdrawal is made and on purchases after a certain period.
Discretionary expenditure	Voluntary spending on products and services that people want now, and savings towards items they aspire to buy in the future.
Essential expenditure	Spending on items required to live, eg rent or mortgage repayments, food and drink, water supplier, gas and electricity.
Financial Ombudsman Service (FOS)	An independent body set up by Parliament that settles customer complaints about providers at no charge to consumers.
Fronting	A fraudulent method of lowering car insurance costs by naming a person as the main driver on a policy when they are not.
General insurance	A broad category of insurance that provides protection against financial losses associated with events such as car accidents (motor insurance), loss of or damage to a home or its contents (buildings and home contents insurance), problems with a holiday (travel insurance) and vet bills (pet insurance).
Health insurance	Products used to protect against the financial loss of being too unwell to work or being diagnosed with a critical illness.
Individual savings account (ISA)	An account that pays interest tax-free on savings up to a certain level. There are two types of ISA: cash ISAs and stocks and shares ISAs. Junior ISAs are available for people under 18.
Inheritance	The property, money, etc, passed from one person to another upon death.
Insurance certificate	A document issued by an insurance provider that verifies the existence of coverage for the policyholder, and offers a summary of the cover given.
Insurance Premium Tax	Most general insurance premiums are subject to insurance premium tax. This tax was introduced by the Finance Act 1994 and is charged at 10% for most premiums and 20% for travel insurance. The cost of the tax is included in the premium the policyholder pays.
Life cover	Products designed to protect other people from the financial consequences of someone's death. Also called life assurance.
Mandatory expenditure	Compulsory outgoings; they do not necessarily apply to everyone but if they do apply, they must be paid.
Money Advice Service	A consumer information service set up by the government to help people make informed financial decisions.
Mortgage	A loan taken out to pay for a property, usually over a long term such as 25 years.
No claims discount	A discount on the insurance premium that builds up for each year a person does not make a claim.
Pension policy	A product that enables people to save money for their retirement.
Premium	The price of an insurance policy, based on factors including how likely an event is to occur, the amount of money needed to rectify the situation should the event happen, the length of time the policy will be in force, and how the premium is paid.
Redundancy	Losing a job because the business no longer needs, wants or can afford that job to be done; it is related to the needs of the business and not to how well or badly an individual does their job.
Sum insured	The maximum amount an insurance provider will pay out.
The Road Traffic Act 1988	Makes it compulsory for people who drive to have at least third-party motor insurance.
Third-party insurance	Insurance that covers damage that the policyholder causes to someone else (the 'third party') or to their property but does not cover the policyholder for any injury or loss that they suffer themselves.
Voluntary excess	The excess is the amount paid on any claim by the policyholder before the insurance company will pay anything. A compulsory excess is usually set by the insurance company, but consumers can opt for a higher voluntary excess in exchange for a lower premium.