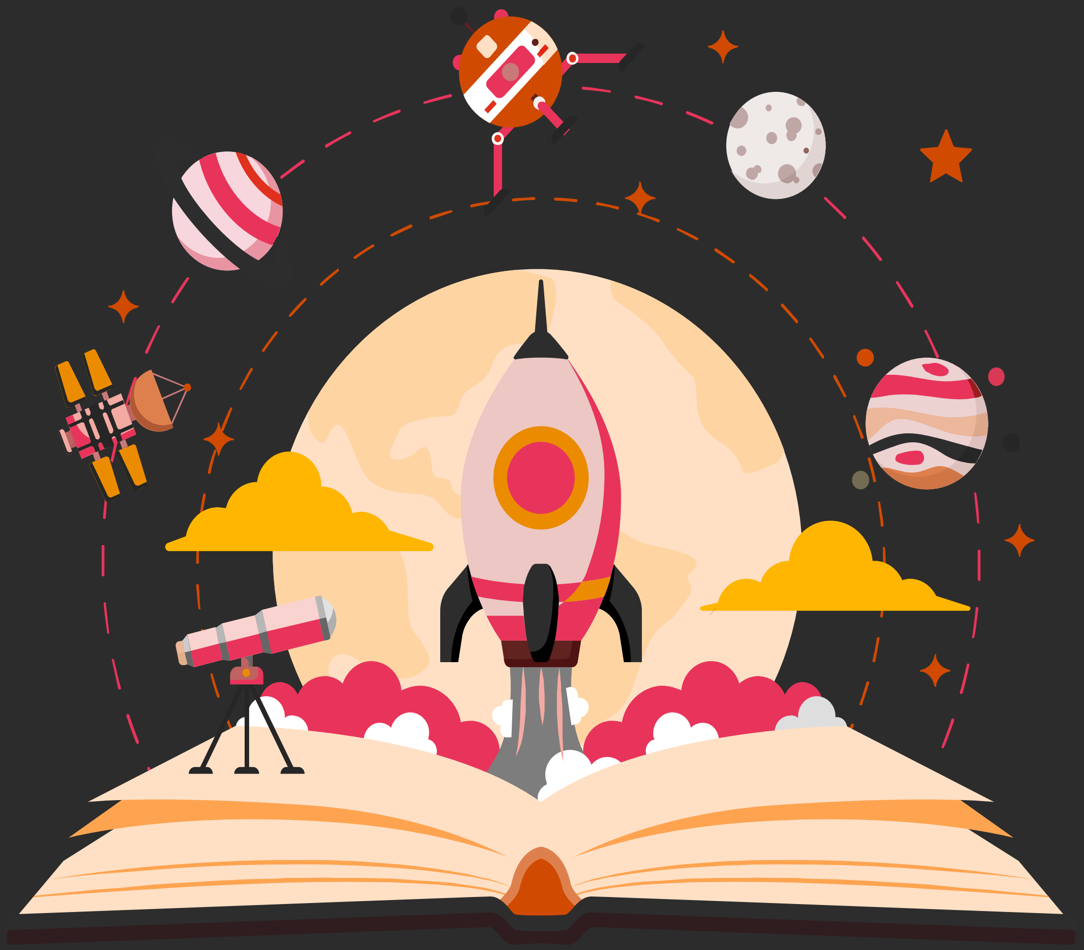
Financial Literacy Curriculum

Lesson 2: Insurance



Agenda/Contents

Let’s get started

1. **Introduction to Insurance**
   - What is Insurance?
   - Purpose and types of Insurance
2. **Practicalities**
   - How Insurance works
   - Premiums, Excess and Exclusions
   - Basic factors affecting insurance premiums
   - No Claims Bonus
   - How to choose an insurance policy
3. **Wrap up and reflection**

Session overview

You will think about the different types of insurance, how extensive the reach of insurance is on day to day life and the ways in which insurance benefits you when things go wrong.

Objectives

At the end of this session you will:

- Know how to apply for insurance
- Understand key terminology
- Have an awareness of the different types of Insurance
- Understand the key influences on the cost of insurance.

Introduction to Insurance

What is Insurance?

In pairs, define “Insurance” taking into account the following:

- What is it?
- Why do we have it?
- How does it work?

Introduction to Insurance

Definitions and purpose

Insurance - is a means of protection from financial loss

The insurer agrees to compensate for the losses incurred on a specific event e.g. car accident or lost phone

Why do we have Insurance?

- To help reduce financial risks e.g. the risk of paying for all the car repairs if you had a car accident
- Provides a safety net for major life events e.g. not having to pay all the cost to rebuild your house should it burn down.
- For financial protection against the legal costs of defending yourself should an incident occur
- In some cases, insurance is a legal requirement e.g. third party car insurance

What types of Insurance can you get?

Introduction to Insurance

Some types of insurance:

- House - buildings and contents
- Car - third party and fully comprehensive
- Gadget - includes loss and damage
- Travel - includes lost items, illness while away, cancellation
- Private medical insurance
- Pet insurance
- Household appliances - repair or replacement
- Life insurance
- Personal liability
- Dental insurance
- Permanent health insurance
- Almost anything else

How it works: part 1

1) You contact Insurance company

2) Insurance company provides details of Policy proposal and Premium

3) If happy with the Policy, you pay the Premium

4) You suffer a loss covered by the Policy

5) The insurer pays out the insured amount less the Excess

Policy: A contract between you and the insurer setting out details of what losses are covered by your insurance and will include any Excess, Exclusions, limit on claims etc

Premiums, Excess and Exclusions

In pairs, define the following in relation to insurance:

- Premiums
- Excess
- Policy Exclusions

Consider how the three things interact.

Premiums, Excess and Exclusions (1/2)

Premium - is the cost of buying insurance protection

Excess - The first portion of the loss that is not covered by the insurance. This will be agreed upfront and form part of your Policy (ie the agreement between you and the Insurance Company). It is always the first part of the loss. For example, if the Excess in your travel insurance is £100 and you lose a camera on holiday worth £80, the insurance company will not pay any amount. If the camera was worth £150, the insurance company would pay £50.

Replacement
The insurer will usually only replace an item once the Excess has been paid to them.

Payment for repair
The insurer will typically pay the cost of the repairs less the Excess.

Premiums, Excess and Exclusions (2/2)

Exclusions - What your Policy does not cover e.g.

- Property damage resulting from lack of maintenance
- Pre-existing medical conditions
- Demolition or construction required to bring your house up to required standards
- Earth movement: such as earthquakes, shockwaves, sinkholes, landslides and mudflows.
- Water damage: such as floods, sewer back-ups and water that seeps through the foundation
- Effects from global pandemics

How it works: part 2

Having insured your phone last year, you decide to **renew** your insurance policy on the **renewal date**

Insurance company sends a **quote** for the Premium for the next year's **cover**

What factors may influence the amount of the Premium?

No Claims Discount

- Some types of policy offer a discount ("**No Claims Discount**") on renewal if there have been no claims since the policy began
- No Claims Discounts can build up over several years
- For car insurance, some insurers provide discounts for up to eight years of claims-free driving; the maximum No Claims Discount is generally five years
- If you make a claim, the insurance company may reduce the No Claims Discount by a percentage but not remove it entirely
- It is possible to pay a higher Premium to protect your "No Claims Discount" from being removed or reduced in the event of a claim.

How insurance is calculated

General overview

Underwriters “write” insurance, they do so by calculating the risk of a claim being made and how much to charge to compensate for this risk

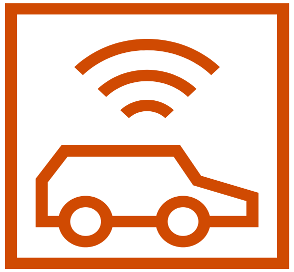
Generally, the larger the risk of a claim the larger the Premium for the insurance

They determine this by using statistical models which factor in risk factors such as:

- Age
- Location (usually only matters for home insurance)
- Health
- Claims history
- Marital status (usually only matters for medical insurance)
- Others

Example: The private healthcare insurance Premium is likely to be lower for a young man with no history of medical illness than for an old man with diabetes

How to choose an insurance policy



You choose which Policy is right for you by evaluating your circumstances including:

- How much you are willing to pay either per month or all upfront (your Premium)
- What you would like covered in your Policy (the larger the list the higher the Premium)
- Amount of the Excess
- Any restrictions on claims
- Customer service

It is useful to compare multiple insurers to see which one offers the best price for the insurance cover you want. The cost of your premiums will generally be lower if you pay the entire amount upfront.

Some companies won't insure people under a certain age so it’s important to consider this when looking

Caution: Are the Policies you are comparing equivalent i.e. covering the same things? One Policy may include add-ons that you don’t strictly want or need.

Cancellation

It is possible to cancel insurance policies but there may be a penalty for terminating the agreement before the end of its term (usually one year)

- Main ways of cancelling: via telephone (talking to a representative) or email (customer services)
- You can cancel at any time provided this is within the notice period (in your contract)
- Companies have a Cooling-off period of at least 14 days from the date of setting up the Policy during which you can decide to withdraw from the Policy and have your Premium refunded without penalty.

Travel: Some providers will alert you to the opportunity to buy insurance when you are at the airport. Policies are effective immediately but can be cancelled over the phone via an app during the cooling off period.

Caveats

It's important that you provide the insurance company with all relevant information when setting up the Policy.

If you do not, they may not pay out when you make a claim

Insurers share information with other insurance companies

It is not possible to claim insurance from more than one insurance company for the same loss

If you under-insure your house (for example) the amount you can claim if it burns down may only be a fraction of the cost of rebuilding it

It's important to read the small print to see what's not covered

Some policies may automatically renew so that you pay for insurance you no longer need

Jargon buster

Summary of key terms

Premium - Is the cost of buying insurance protection

Excess - The first portion of the loss that is not covered by the insurance. This will be agreed upfront and form part of your Policy (ie the agreement between you and the Insurance Company). It is always the first part of the loss. (See slide 8 for details)

Exclusions - What your Policy does not cover (see slide 9 for details)

Policy - A contract between you and the insurer setting out details of what losses are covered by your insurance and will include any Excess, Exclusions, limit on claims etc

Third party car insurance - Covers you against the costs incurred by another person as a result of an accident caused by you (including costs resulting from damage to their car, injuries etc)

Fully comprehensive car insurance - Includes third party car insurance and provides cover for the cost of damage to your own car and your injuries.

Under-insure - Under-estimating the value of the asset you are insuring (or the cost of replacing it) when taking out an insurance Policy. It is likely to result in a significantly limited payout when a claim is made.

Cooling-off period - A period of time in which you can decide to withdraw from the Policy and have any payments you have made refunded in full. The insurance Policy is treated as never having taken effect.

Wrap up and Reflection

What employability skills have you developed in this session?

Leadership

- Teamwork
- Problem solving
- Decision making

Business minded

- Quality in everything you do
- Improvement
- Thinking commercially

Technical capabilities

- Your knowledge of potential jobs you could apply for
- What have you done you are proud of
- Ability to learn

Global acumen

- Seeking new perspectives
- Sharing ideas
- Coping with change
- Open minded

Relationships

- Communication skills
- Building relationships
- Working with others

Thank you

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