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Insurance

Covered, just in case

- How much cover do we need?
- Buying insurance
- Types of insurance
- Where to go for help



How much cover do we need?

Things happen in life, and someone long ago figured out that we could take cover from the storms by not having to take on all the risk ourselves. We can help each other by spreading the risks among us as a group, and that's what insurance does.

Insurance is a way of protecting ourselves (and our families) from losing too much money if something unexpected happens to our health, our ability to work, or the things we own.

It's the kind of thing that's easy to buy when we don't need it, but impossible to get after the unexpected happens. Buying insurance ahead of time can help:

- Repair or replace our home, contents or car if they get damaged or stolen
- Protect us if damage to other people's property is our fault
- Replace our income if we become too ill to work
- Provide money for our families if we die
- Help pay off the mortgage if we die
- Pay for medical and recovery costs if we get sick

Gauging the risks

We need to weigh up the risk of not having insurance against the costs of buying it.

If we can't afford the risk – or don't want to take the risk – we probably should consider getting insurance.

Say the insurance policy for a car cost \$500 a year, but if it was stolen it would cost \$10,000 to replace. Would we have enough money to buy another car without insurance? If not, paying for insurance could be worth it.

But even if we did have the money (say in a savings account), wouldn't we rather use that for something else?

Some key terms

What is a premium?

A premium is the regular amount we pay for insurance.

What is cover?

Cover is the amount of protection our insurance gives us.

What is a policy?

A policy is the written contract between us and the insurer.

Buying insurance

How do we get the right insurance for our needs and budget? It's important to:

Not double up

Some of us already have insurance – for example through an employer, or as part of a loan agreement. It's important to check what it covers before getting more insurance.

Shop around

It pays to get a range of quotes and compare, looking closely at what is and isn't included in each policy.

Read the policy carefully

It's worthwhile understanding what is and isn't covered by a policy. This takes time to check, and we may need to ask the insurer to explain anything that isn't clear.

Combine insurances

Buying as many kinds of insurance as possible from one company can save money.

Choose the right excess

Opting for a higher excess means the premium will be lower, because the insurer is covering less of the cost. But we will also have to pay more of each claim.

Tell the insurer everything

By law we must give all the information requested by the insurer. Leaving out any important information could result in a claim being turned down.

What is an excess?

The excess is the amount we agree to pay when we make a claim. Anything more than that is paid by insurance.

For example, if the excess on our car insurance is \$250 and we have an accident that causes \$750 damage to the car, we will pay \$250 and the insurer will pay \$500.

Self-insuring with an emergency fund

If we have some money of our own available for emergencies, we can take on some of the insurance risk ourselves. This can help reduce the cost of insurance by allowing us to choose higher policy excesses, longer waiting periods (for income protection), and lower levels of life and trauma cover.

Read more tips in the insurance guide at [sorted.org.nz](https://www.sorted.org.nz).

Types of insurance

It's easy to buy too much insurance. It's just as easy not to buy enough. Most of us probably need some kind of insurance, but not everyone needs every single kind. How much insurance we need depends on our own circumstances and attitudes.

Life insurance

Term life insurance

Pays out on the death of the person insured

Disability insurance

Trauma or critical illness

Pays a lump sum if we're diagnosed with any of the illnesses specified in the policy. Cover may be purchased separately or added to term life insurance.

Total and permanent disablement

Pays out in the event of a serious illness or accident that prevents us from working again. Sometimes this cover is included in a term life insurance policy.

Income protection insurance

Income protection

Cover to replace some of our income if illness stops us from working.

Redundancy insurance

Cover to replace a portion of our regular income if we're made redundant. Can be a policy on its own or attached to life insurance. These policies often need to be in place for six months before a claim can be made and are usually purchased as part of mortgage repayment or loan insurance.

Debt insurance

Mortgage protection insurance

Similar to term life insurance. Pays out enough upon death to cover the amount of the mortgage.

Can also be purchased as mortgage repayment insurance which will replace regular mortgage repayments if we are unable to work through illness or accident.

Loan insurance

Similar to mortgage protection but designed to cover smaller personal loans. Can also be purchased as loan repayment insurance, which will replace regular loan repayments if we're unable to work through illness or accident.

General insurance

Motor vehicle insurance

Third party – cover for damage we do to someone else’s vehicle and property.

Third party, fire and theft – cover for third party (as above) and for damage or loss caused by fire or theft to our vehicle.

Comprehensive – cover for all of the above and for accidental loss of, or damage to, our vehicle.

Home insurance

Covers fire and other property damage to our home. It can cover full ‘replacement’ or can be ‘indemnity’ – just the insured value at the time.

Contents

Covers damage and loss of house contents. Also provides some third party cover if we damage someone else’s belongings in the house we’re living in.

Travel

Covers costs associated with unavoidable disruption to travel, baggage loss, money theft, sickness and healthcare costs outside of New Zealand.

Boat

Covers damage to, or loss of, a boat.

Health insurance

Elective surgical (major medical)

Cover for health problems that require hospital care and can sometimes include costs relating to the diagnosis. (The public health service provides emergency and urgent care).

Comprehensive

Covers primary health care costs, such as doctor’s visits, as well as surgical and hospital costs.

Compulsory insurance

The government also provides some types of insurance. Usually there’s no choice about having these.

ACC cover

ACC covers us for injuries caused by an accident. The cover includes most treatment costs and can include compensation of up to 80% of average weekly income before the accident. Workers pay a share of the ACC premiums through PAYE deductions from salary or wages.

EQCover

When we buy an insurance policy for our home or personal belongings, the insurance company passes on a disaster insurance premium to the Earthquake Commission.

Rick weighs up the risks

Rick is in his early 20s and about to go flatting. He has a car he bought a couple of years ago for \$3,000, but few other possessions. His dad kept telling him to get insurance, so Rick visited sorted.org.nz to see what he might need.

But with his apprentice wages, he didn't have much money to spend. Rick worked out that what he really needed right now was third party car insurance so he'd be protected if he damaged someone else's more valuable car or property.

Rick figured it would be cheaper to replace his own car if it was damaged or stolen than pay for more comprehensive insurance.

He also decided to take out contents insurance (\$10,000 cover) for his flat. While he didn't own much stuff right now, this would cover what he had and protect him if he accidentally damaged the landlord's property. Rick was pleased to learn he could save money by having both policies with one insurer.



Where to go [!] for help

Not sure what types of insurance, or how much, to buy? We can talk directly to an insurer, insurance broker or financial adviser. [Sorted.org.nz](https://www.sorted.org.nz) and [covered.org.nz](https://www.covered.org.nz) have more about insurance.

For car, home, contents or travel insurance

- Insurance Brokers Association
[ibanz.co.nz](https://www.ibanz.co.nz)

For disability, health, trauma and life insurance

- Financial Advice NZ
[financialadvice.nz/find-an-adviser/](https://www.financialadvice.nz/find-an-adviser/)
- Financial Service Providers Register
[fspr.govt.nz](https://www.fspr.govt.nz)

Making a complaint

If we feel we've been unfairly treated by our insurer, we can take a claim to the Insurance and Savings Ombudsman, Financial Services Complaints Ltd., or in some cases the Banking Ombudsman.

[iombudsman.org.nz](https://www.iombudsman.org.nz)

[fscl.org.nz](https://www.fscl.org.nz)

[bankomb.org.nz](https://www.bankomb.org.nz)

Paying those premiums on time

Stopping paying our insurance means our cover stops and we're no longer insured.

Insurance needs reviewing regularly

It's a good idea to review all our insurances regularly. It helps to schedule an annual review date in the diary or calendar.



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Where to now?

1. Work out what types of insurance you need.
2. Work out how much insurance cover to buy.
3. Find help and get advice.

Next steps:

e.g. get advice from a professional, compare insurance quotes.

Insurance

Notes: