Insurance

There are two kinds of insurance. **Long-term insurance** covers the major events in life, such as death, retirement and disability. **Short-term insurance** insures your possessions (e.g. your household goods or car) against things that may happen, like fire, theft or damage. You can also protect yourself against claims made against you for which you are legally responsible (liabilities). You can **buy** insurance policies from a registered insurance **intermediary** (broker, insurance advisor, or salesperson) or direct from insurance companies. Most financial services products are marketed and sold through intermediaries. Intermediaries include financial advisors, insurance brokers, bank officials and stockbrokers.

Understanding Long-term Insurance

DEATH OF THE BREADWINNER

You may die suddenly. What will happen to your family if you do? Who will pay for rent, food, schooling etc.?

LIFE INSURANCE / RISK

You insure your life, usually for a lump sum, such as R100 000, which is paid to your family if you die. Your monthly payment is called a premium. Some life insurance policies include disability cover. This means that if you become unable to work, a lump sum or a monthly amount is paid out.

LIFE INSURANCE / INVESTMENT

Other long-term insurance products provide a means of savings.

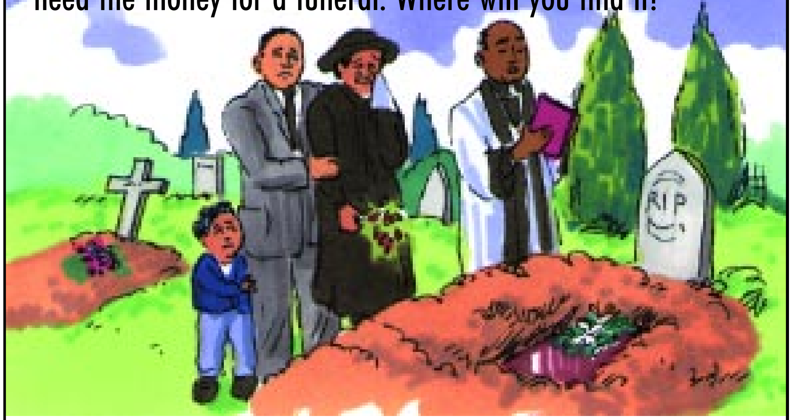
Things to watch out for

R100 000 may sound like a lot of money now.
But it will be able to buy far less than it can today. Because of inflation, our money is worth less each year.
Check that the life insurance you have suits your needs:

- Some types of policy offer death cover only.
- Some types of policy have savings only and some have a combination.
- Some policies pay out a lump sum, others a monthly amount.
- Some insurance policies provide disability cover as well as life insurance.

DEATH OF A FAMILY MEMBER

Someone for whom you are responsible may die and you will need the money for a funeral. Where will you find it?



A FUNERAL POLICY

You pay a monthly premium and receive a lump sum in the event of the death of any person named on the policy document. If you have a funeral policy for yourself, your family will get the money.

Things to watch out for

Funeral policies are very popular, since they allow you to give your loved ones a proper and fitting burial — or they prevent you from being a financial burden on your family when you die.
Unfortunately, many unregistered companies offer funeral insurance which may be worthless in the end. Check that your funeral policy is held with a company **registered** with the Financial Services Board (FSB). (See the back cover for contact details.)
Check for any exclusions that may prevent the policy from being paid out, e.g. no pay-out within the first year etc.

DISABILITY

You could lose the use of your hands or legs, or suffer from chronic illness, forcing you to stop working. Who will keep your family alive and pay the bills?

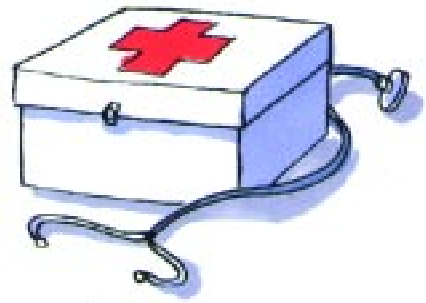
DISABILITY INSURANCE

You pay a monthly premium, and are paid out either a lump sum, or a monthly amount, or both, should you become disabled.

Things to watch out for

It is not always necessary to have separate cover. Disability cover can be built into your life insurance.

Check for health conditions that are excluded. Some health conditions are not covered by disability insurance. It is important to be **honest** about your medical history when you take out insurance.



RETIREMENT

Many people fail to plan properly for a happy retirement. Very few people retire with a pension fund and the government's old-age pension may not be enough. The younger you are when you start to plan for retirement, the better.

RETIREMENT ANNUITY OR ENDOWMENT POLICY

A **retirement annuity** is like having your own personal pension scheme. You pay a monthly premium and, in return, you get a monthly amount when you retire.

An **endowment policy** can have both a savings and a life cover element, and pays out a lump sum. Depending on how much it is, you can invest the money to give you a monthly income in your old age.

Things to watch out for

Retirement annuities (sometimes called RAs) are wonderful if you can afford them because they ensure that you will be better off when you retire. But the benefit you receive when you retire needs to be managed carefully. Make sure you get good advice.

Endowment policies are more like a savings plan than a retirement plan. There is also the danger that you could be tempted to spend all the money at once when you are paid the **lump sum**.

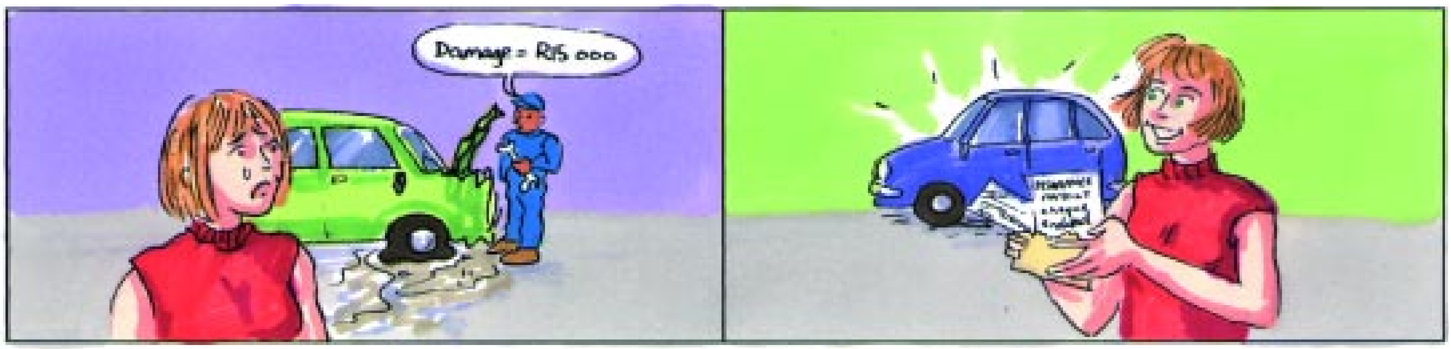
You need to **reinvest** it to provide you with an income for the rest of your life.There are restrictions on benefits that can be taken from the savings part in the first five years.

Ask your intermediary or salesperson for more information.

Many people get talked into buying insurance policies that they don't really need. You have rights when buying insurance policies — check what they are on page 36!

Understanding Short-term Insurance

Short-term insurance insures your possessions and liabilities. You usually pay per month to cover you for that month. If you want to cancel, you need a month's notice in writing. But remember, **when you cancel** the policy, **your cover ends** and you **do not get a refund**, even if you have never put in a claim. For instance, your car may get damaged in an accident. This is the kind of unexpected expense few of us are prepared for. But, if you have insured your car against damage, your insurance company will pay the cost of the repairs, except for the **excess,** which is **your contribution** towards the claim. That you must pay yourself.

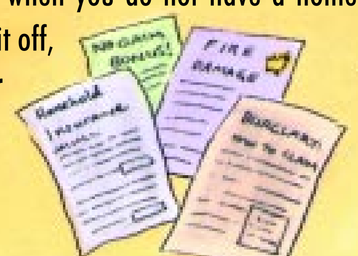


Home-owner's insurance

Home-owner's insurance is very important when you buy a house. It insures your house against things like fire, storm or flood damage, but does not cover maintenance of your house.

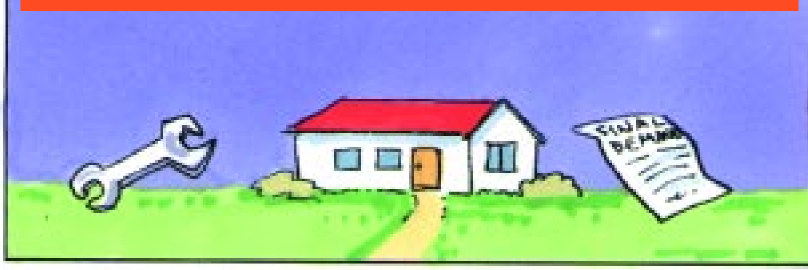
Things to watch out for

If you have a home loan, home-owner's insurance can be arranged by the bank. But **you** are responsible for checking regularly that your home is insured for the **correct replacement value**. Remember, when you do not have a home loan or have paid it off, insurance is **your** responsibility.



Legal protection insurance

Legal insurance covers your legal expenses in cases where you have to fight for your rights. It protects you against problems related to labour, debt, tenants, home ownership and various other matters. Good policies cover you against the expense of **civil legal action** by or against you, as well as **criminal charges**.



Things to watch out for

With legal protection insurance there are often exclusions — make sure you know what they are. Also make sure that your premium gets you access to a lawyer and pays for his fees. Beware of "helplines" and "free legal advice" which do not include or pay for a lawyer.

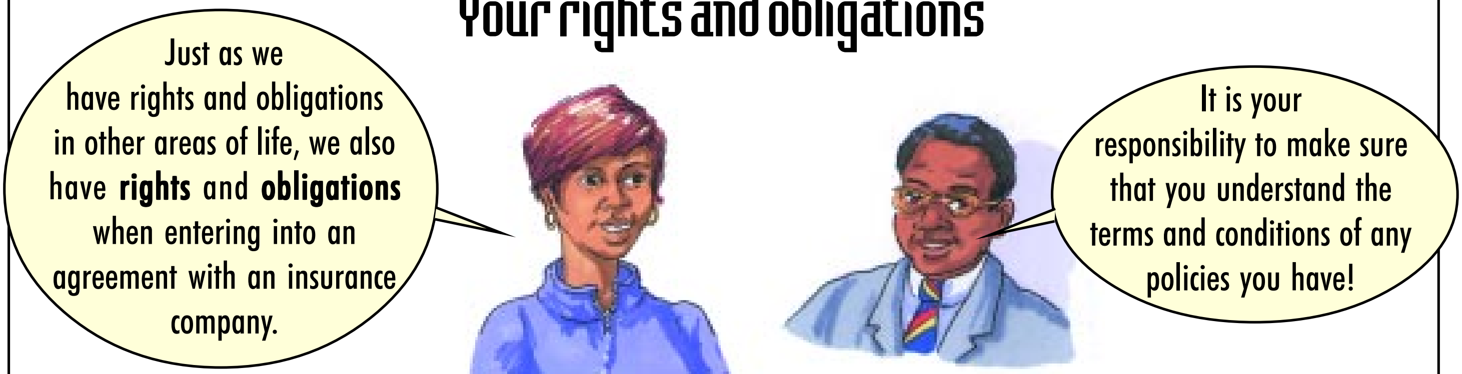
HOUSEHOLD AND MOTOR CAR INSURANCE

Household insurance covers everything inside your home: furniture, TV and other electrical goods, clothes, and even the food in the deep freeze. Legal liability is often included. Car insurance protects you against damage to your car (including fire and theft). Remember, maintenance and deterioration through age (wear and tear) are not insurable.

Things to watch out for

These policies pay out a certain maximum value for different items. Make sure anything of especially high value is included so you will be paid out its real value if it is stolen or lost. Most household policies offer an all risks section to cover things which are carried with you outside the home, e.g. cell phones, cameras and bicycles. But specific items may not be covered unless you list them and their insured values separately. Most policies have an excess (an amount of any claim which *you* must pay). Make sure you understand your policy.

Your rights and obligations



The intermediary must provide you with documents and information, including:

- a written quotation, showing all the costs
- a copy of the policy document, which should be sent to you within 30 days
- an explanation on how to submit a claim
- a statement showing the cost of the insurance, the intermediary's commission, and the address and telephone number of the insurance company

Read through the whole proposal carefully before signing. Don't feel rushed — ask to keep the document for a few days so that you can come back to the intermediary with questions. These should be answered in a language which you can understand.

Make sure you know how much the policy will cost each month and include it in your budget. This way you are less likely to run into financial problems later.

You have a 30-day "cooling-off" period after signing the proposal for **long-term insurance.** This means that even if you have signed, you can still change your mind and cancel the policy up to 30 days later.

Only deal with an intermediary who is accredited (officially recognised) by an insurance company and who you have reason to believe is trustworthy.

Just as you have rights, the insurance company has rights, too. **You, the buyer, have obligations** – to tell the truth and to disclose any information required. If you claim and the details provided by you turn out to be untrue, your claim may not be paid out. Remember, you *must* pay your premium. If you do not pay, you will not be covered!