INSURANCE AND YOU

When you **insure** something, you **ensure** that you won't suffer a big loss if anything happens to that thing!

"Insurance" is a word we use so often that we don't ever stop to ask **what it means**! With **insurance**, you basically **protect** yourself against **risk**.

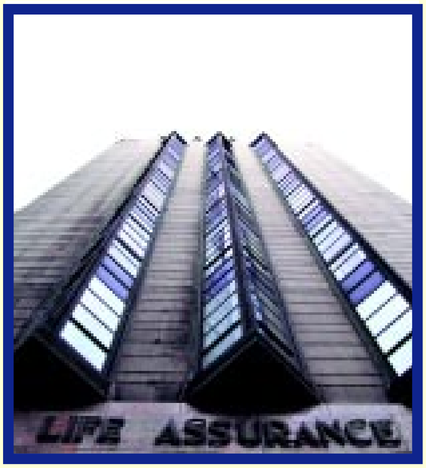
Let's say you buy a new car for R100 000. Now you are at risk. What will you lose if it is stolen or written off in an accident? R100 000! But what if you start protecting yourself against that risk by saving R500 per month? Well … it will help a bit! After 12 months, for instance, you will have saved R6 000. But R6 000 doesn't help much when you've lost R100 000. No, there is a better way: **insurance**.

Imagine someone comes to you and says, "Give me R500 per month, and I'll take over the risk of your car right from day one! In other words, if your car is stolen, I will pay you what it is worth! If you have an accident, I will have it repaired!" It sounds too good to be true, but this is exactly what insurance companies do! They have thousands of clients, each paying a monthly premium. If you lose your car, even within the first day of buying it, your insurance company will pay you if the conditions of the policy apply!

This is the basis of **all** insurance, both long-term and short-term.

Long-term insurance includes life insurance and retirement annuities. It is insurance that you would usually expect to pay over a very long period of time – until you die or the policy matures (for example at a specified age).

Short-term insurance is insurance that you take out on possessions such as your house or your car or your camera – any insurance policy that you can cancel either when you dispose of the insured article or no longer wish to insure it. It can also cover you for legal liability to others.



Look on page 34 for an explanation of how tax applies to insurance products.

When you decide to buy insurance, it is important to first **look at your insurance needs.** Once you have worked out your **priorities**, you are in a position to find the products that suit you best. If you have a family, your priorities will probably be different to those of someone who is single. You can take out insurance on almost anything – but your choice will depend on your **needs** and what you can **afford**. You can do this through either an intermediary or a direct insurer.

It's important to understand the terms and conditions of all your insurance policies, and to be honest when filling in application forms or making claims. Don't make false statements.
Don't be embarrassed to ask questions – you have a right to know!

LONG-TERM INSURANCE

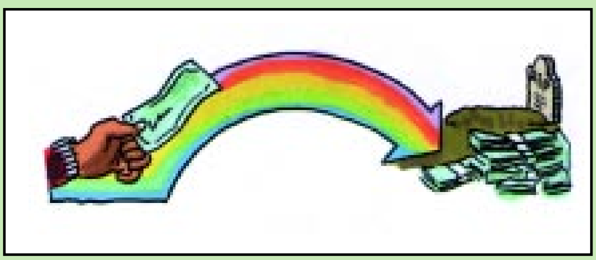
Long-term insurance ensures that your dependants will be provided for when you die or, in some cases, if you become permanently disabled. It can also provide financial security when you retire. Life insurance ensures that a specified amount of money will be available for settling your debts or looking after dependants after your death. Disability cover is an additional option. Retirement plans offer a large variety of choices for providing for the future, and often include life insurance.

Life Cover

There are different types of life cover.

Term insurance

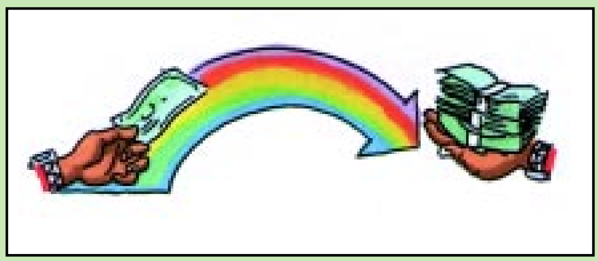
Term or fixed insurance is a risk product and is ideal if you need a policy to provide life cover for a **set period of time**, e.g. while paying off a bond on your house. It is cheap and you can easily **add benefits** such as lump sum disability to it, but it does not build up an investment value. After the agreed period of time, the cover simply **expires.**



Life insurance

Whole Life Cover is ordinary life cover which is valid until you die or you surrender the policy, i.e. it covers you against the risk of death. This is ideal for the person who wants to leave a **fixed amount of money** behind after death, for example to pay estate duty. It's the cheapest form of life cover. The premium is invested by the insurance company. You can borrow against it if you wish.

Universal life cover is similar, but has an investment component. The return on the investment portion depends on the nature of the investment. Because it is influenced by the investment performance, it doesn't guarantee a fixed rate of growth, but the chance of rapid growth makes it a popular choice in spite of this.



Endowment policies

Endowment life insurance is in effect a **savings plan** rather than simply life cover, but can combine both risk and investment. You pay a monthly **premium** for a specified period, after which it matures and you are paid out a lump sum. It is different from other types of life cover in that it is designed to pay *you* during your lifetime rather than your beneficiaries after your death. You can also invest a lump sum in a single premium endowment policy. It is an excellent way to save a specific amount of money for a particular purpose, e.g. for university fees, and the life insurance portion comes into effect if you die before the policy is due to be paid out. However, there are limitations on the benefits payable in the first five years.

Disability cover

Disability cover is usually added to life cover, but can be acquired separately.

Capital (or lump sum) Disability Cover

Capital Disability Cover can be **added to life insurance**, but cannot be greater than the amount of life cover on the policy, e.g. a life cover policy of R500 000 may have capital disability of any amount **up to** R500 000 attached to it. But you will only be paid out once you provide **proof** that disability is **permanent**. You can also add it to your **endowment policy.**

Income Protector Disability Cover

This is the **best** disability risk cover option. One form of cover provides a **monthly income** with **annual increases**. In effect, if you are permanently or temporarily disabled, it replaces your salary until you recover or die, or the policy matures, whichever comes first.

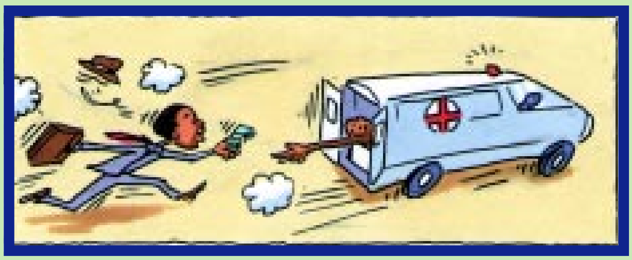
For example, a 25-year-old man has disability cover of R5 000 per month, for which he pays a (tax-deductible) monthly premium of R150. He becomes disabled and claims an income until he turns 60. He can expect to receive a salary of R5 000 every month for the stipulated period, with a built-in annual increase.

Retirement annuities

These are discussed in detail on page 26.

Medical insurance

Medical insurance pays out a stated benefit every time you undergo a medical procedure covered by the insurance policy. The amount depends on the procedure. For example, an appendix operation may pay out say R10 000, while a heart transplant may pay out say R180 000. In other words, the amount is calculated according to what was done rather than how much it cost.



So, if you have your appendix removed at a state hospital and it costs R8 500, you keep the difference between R10 000 and R8 500. But if you choose a private hospital and it costs R11 000, you have to pay the R1 000 difference yourself. The insurer may not pay doctors or any other service provider directly and must pay the amount to you, the insured. This type of insurance is therefore not the same as a medical aid scheme.

Hospital plan

Insurance companies also offer a pure "hospital plan" insurance policy. This is not as expensive as a medical aid scheme membership, but payouts are limited to a stated amount (say R200 or R300) that you get paid for every night that you spend in hospital. Paying doctors' bills and hospital costs remain your **own** responsibility, and you may find that your expenses far exceed your hospital plan payout.

Different insurance policies offer different benefits and restrictions — make sure you understand your policy. Read it carefully before you sign it, and ask about exclusions, restrictions and excesses.

Homeowners' insurance

This is essential insurance for anyone who owns their own home. It **covers** you for **damage** (by fire, lightning, storm, wind, water etc.) to the **actual building** and all the **fixtures and fittings** such as tiles, fitted carpets etc. It even covers some types of accidental damage. There are many other **extensions** to the homeowners' policy — be sure to ask your broker about them! Be aware though that maintenance and deterioration through age (wear and tear) are not insurable.

The policy **may not cover** you for subsidence and landslide or riot and strike unless you ask for them to be included. There are other **exclusions** in your policy too, so make sure you understand what is and what is not covered!

The **bank** will insist that you buy homeowners' insurance when you take out a **bond**. They can arrange it for you or you can buy it yourself through a broker or direct from most insurance companies. It is your responsibility to make sure that your house is insured for the correct replacement value and that you reassess it regularly. Remember, when you do not have a home loan, or you have paid it off, insurance becomes **your** responsibility.

Household contents insurance

This covers the **contents of your home** against **damage** caused by fire, storm, flood, theft, water leakage, accident etc. Some insurance policies have exclusions, or sections may be subject to excesses; for example, a theft excess of R1 000, which is the amount you will have to pay yourself.

Most insurance policies that cover household contents require some sort of **security system**, e.g. burglar bars, security gates or an alarm. **Make sure that you know what your policy demands** and install what is necessary, or the company can refuse to pay out when you put in a claim.

Watch out! Make sure you **value** the contents of your home **accurately**, that is how much it would cost you to replace **everything** if your house burnt down. **Value** your goods on a **new replacement value** basis, which is how much it would cost you to buy the same (or equivalent) item. Sometimes, people think they will save on their premiums by calculating the value of only the things they think are most likely to be stolen. **This is unwise**! **If you do not value the contents of your home properly you could be underinsured** — and if you need to claim, you will be **penalised** because of the under-insurance. Ensure that you have adequate cover and adjust on a regular basis.

All risks insurance

There are some possessions which we normally **carry with us** and which **may be lost outside the home**, e.g. cell phones, cameras, sunglasses and bicycles. Most household contents policies offer an **all risks** section to cover these, but specific items may not be covered unless they are individually listed on the policy together with their insured values. **Check** with your intermediary whether your insurance includes this type of cover.

Motor insurance

There are a number of **different types** of motor vehicle insurance, but whichever you choose, you need to make sure you **value** your vehicle **properly** when you take out insurance. The value affects not only your **premium**, but also your **claim**.

Unlike household contents, the **value** of a motor vehicle **decreases** every year and is determined mainly by market forces – in other words, how much you could get if you sold it. However, the rate at which it devalues is also affected by things like mileage and maintenance. It is important to **adjust the insured value every year** so that it is accurate. **If you fail to do this you will be over-insuring (and paying too much)**

Factors affecting your cover or premium

The insured: Your cover and premium take into account your personal circumstances (e.g. age, claims history etc.)

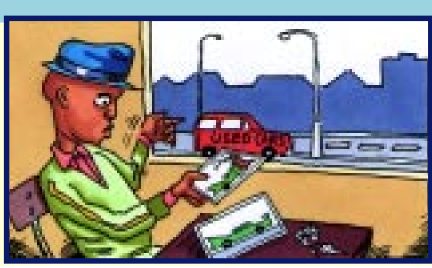
The type of vehicle: Premium and cover can be influenced by the type of vehicle (e.g. year, make, model and value)

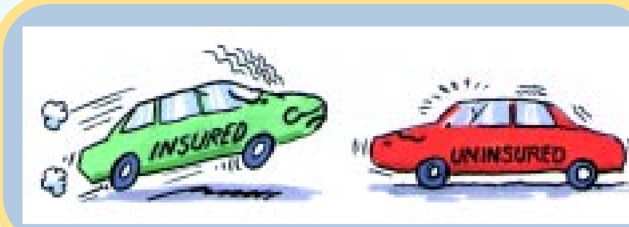
The security fitted to your vehicle: Check whether the security you have fitted is acceptable to your insurer.

Where you live: Insurance claims are more frequent in certain areas due to higher risk factors.

The place where the vehicle is kept, especially overnight: Chances of theft are lower if your vehicle is locked and parked in a locked garage.

What you use your vehicle for: Is it for pleasure, driving to work and back, or for business? Inform your intermediary or insurer if anyone else would be driving the vehicle.





Types of insurance

Third Party

If you have an accident and you are responsible, your third party insurance covers injuries to other people (including passengers) as well as damage to other people's property. Should a passenger be injured as a result of your negligence, the insurance company will cover their injuries too, over and above the Road Accident Fund.

Third Party Fire and Theft

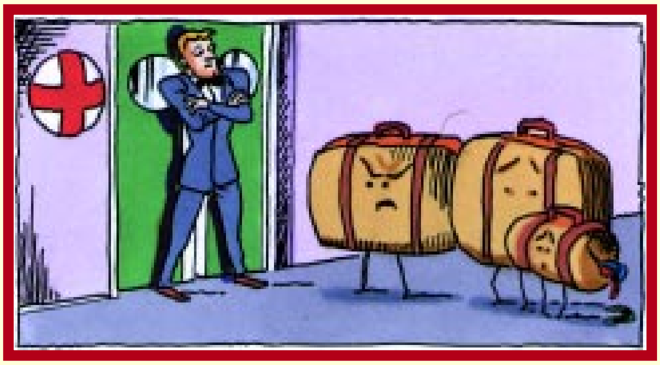
This provides cover for fire and theft, in addition to ordinary third party cover. There may be an excess that you have to pay.

Comprehensive

Comprehensive insurance is cover for damage to your own vehicle combined with third party, fire and theft cover. This gives you the broadest possible cover. You usually have to pay an excess.

Read your policy and make sure that you are properly covered.

Travel insurance



Travel insurance pays your hospital and other related medical costs if you have an emergency while travelling. You can also take out cover against the loss of baggage and the curtailment of your journey. This is especially valuable in the case of foreign travel, but it is very important to shop wisely for travel insurance because there can be hidden restrictions or limits.

Many people buy coverage that seems inexpensive, but then they find out that they are not fully covered when an emergency arises. What you really want is travel insurance with few restrictions and complications, and expert customer service advisers whom you can call on for help in understanding the cover.

Legal liability insurance

A certain amount of "legal liability cover" is usually included in your household contents insurance policy. This protects you against claims against you personally, usually for negligence of some kind or another. For instance, someone may trip on a loose tile on your front steps and suffer severe injuries. This person may accuse you of being negligent and therefore responsible for her or his injuries, and take you to court to claim for medical expenses, loss of income etc. As soon as you are aware of an event that has occurred that might lead to a legal claim against you, it is very important that you notify your insurer immediately.

MEDICAL AID

Medical aids are undergoing continuous change. If you belong to a medical aid today, a basic **hospital plan** insurance typically pays out **unavoidable hospital claims**, and a separate optional **savings plan** covers **out-of-hospital** expenses. This works on an annual debit/credit basis. So, if you put R100 a month into the savings plan, you have R1 200 a year to spend on out-of-hospital expenses. But because there is a very real danger that your savings plan will run out of money before the year is over, you can take out **threshold insurance** to cover you for expenses above a certain amount (threshold) specified by your policy. This usually covers about 80% of your actual out-of-hospital expenses.

Always read your policy and make sure you know what excess you will have to pay.

Short-Term Insurance

Intermediaries are obliged to provide you with:

- **Information**, such as their name and contact number and their legal status (independent or representative intermediary); how to claim; administration fees and commission payable; written mandate to act on behalf of insurer
- **Details of the insurer,** e.g. name, address and telephone number; details of how to lodge a claim and/or complaint; policy information, including type, premium (manner of payment, due date and consequences of non-payment)
- **Other matters of importance**
  Any information given verbally must be confirmed in writing within 30 days.
  If any complaint to the intermediary or insurer is not resolved to your satisfaction, you may submit the complaint to the Registrar of Short-term Insurance.
  There are special conditions if you decide to pay your premium by debit order — make sure you find out what they are.

The **insurer** must contact you directly if a claim is rejected or your insurance is cancelled, **not** the intermediary. You are entitled to a copy of the policy free of charge.

Short-term insurance intermediaries

Many insurance companies appoint intermediaries to collect premiums and administer claims on their behalf.

Deal only with a **reputable intermediary** and, if you are paying premiums to this person direct, make sure that he is permitted by law to accept your premiums. Many intermediaries are members of an association, but many are not. If you have a problem with your intermediary, you can approach the FSB for assistance. (See back inside cover.)

Warning

Do not sign any blank or partially completed application forms. Complete all forms in ink. Keep all documents handed to you in a safe place. Make sure you understand what is said to you and whatever you agreed on is confirmed in writing within 30 days. Don't be pressurised into buying the product. Incorrect information or non-disclosure by you of relevant facts may influence any claims arising from your contract of insurance.

Sometimes the excess will be eliminated if you pay a higher monthly premium. Ask about this when you take out a policy!

Long-Term Insurance

When you are considering taking out long-term insurance, the intermediary should tell you his (or her) name, address and telephone number, the name of the insurers represented, what products are being marketed and whether he or she is independent or a representative. Ask for proof of accreditation and check that he has professional indemnity insurance.

Make sure that the product or transaction suits your needs and you know how the decision will affect you:
The intermediary or insurer must provide details of the premium you will be paying, the nature and extent of benefits and how they are accumulated. Discuss the terms of the contract and the affordability of the policy. You can usually **cancel** a policy in writing within 30 days of receiving the summary. This also applies to any changes you may want to make. Ask the intermediary for details. But if the policy has an investment component, **you** will carry any investment loss.

The insurer must send you documentation confirming policy details, including the product being purchased, the cost of the transaction (including the initial expense and commission being paid to the intermediary and where an investment element is involved, the ongoing expense). You should also receive a summary of the contract and contact number and address of the complaints and compliance officers of the insurer.

TAKE RESPONSIBILITY

- Discuss the possible impact of the proposed transaction on your finances, your other policies or your broader investment portfolio.
- Find out how flexible a proposed policy is.
- Where paper forms are required, sign them only once they are fully completed.
- Confirm verbal information.
- Contact the FSB Call Centre if you have any concerns regarding a product sold to you or advice you have received. (See the back page for details.)

If an intermediary advises you to cancel an existing policy, ask yourself these questions:
Is it really necessary to replace the policy?
How does cancellation affect my benefits under the old policy?
What additional costs are there?

Make sure the change is in YOUR interest!

Be a good insurance client

Insurance is conducted on the principle of good faith. Because it is often not possible for the insurer to establish whether the client is **really** telling the truth, the client's word is accepted in the utmost good faith. This faith, or trust, is easily abused. You may, for example, be tempted to lie on your application form. This is dangerous as the insurer can invalidate the policy, and when you make a claim, they can refuse to pay you out. Many people are dishonest when they claim from insurance companies. They don't always tell the truth after a loss and inflate their claims. But every time a client is dishonest, the insurance company loses money. This money is eventually recovered from all the other honest policyholders in the form of increased premiums.

Lying to your insurance company (including not making a full disclosure when taking out insurance) is equal to fraud or theft.