

# UNDERSTANDING INSURANCE BASICS

## **What Is Insurance?**

Insurance is a way to protect yourself from large financial loss.

You pay a regular amount (called a premium), and if something unexpected happens, the insurer helps cover the cost.

Insurance reduces financial risk, it doesn't prevent bad things from happening.

## **Why Do You Need Insurance?**

Insurance helps protect:

- Your income
- Your home and belongings
- Your car
- The people who depend on you

Some things require insurance:

- Car registration (Compulsory Third Party – CTP – is mandatory)
- Home loans (lenders usually require building insurance)

Without insurance, you may have to cover large expenses yourself.

## **Key Terms You Should Know**

### **Policy**

The contract between you and the insurance company. It explains what is covered and what isn't.

### **Premium**

Your regular payment (monthly or yearly).

### **Excess (also called a deductible)**

The amount you pay first when you make a claim.

Example:

If repairs cost \$4,000 and your excess is \$800, you pay \$800 and the insurer pays \$3,200.

Generally:

Higher excess = lower premium

Lower excess = higher premium

Choose an excess you could realistically afford.

## Claim

A request you make to the insurer after something happens (e.g. accident, theft, illness).

The insurer will:

- Assess what happened
- Check your policy
- Approve or decline the claim

## Exclusions

Things your policy does NOT cover. Always read the Product Disclosure Statement (PDS) to understand exclusions.

## The 4 Main Types of Insurance

### 1. Car Insurance

Types include:

- **Compulsory Third Party (CTP)**
  - Covers injury you cause to other people.
- **Third Party Property**
  - Covers damage you cause to other people's property.
- **Comprehensive**
  - Covers your car and other vehicles for accidents, theft, weather damage and more.

Premiums are affected by your age, driving history, location and type of car.

### 2. Home & Contents Insurance

Most home insurance policies cover six areas:

- The dwelling (the house itself)
- Other structures (garage, shed, fences)
- Personal property (belongings inside)
- Loss of use (temporary accommodation if home is unliveable)
- Personal liability (if someone is injured on your property)
- Limited medical payments (in some policies)

Insurers assess risk based on:

- Location
- Property condition
- Claims history

### **3. Life Insurance**

Life insurance provides financial support to people who depend on you.

Three common types:

#### **Term Life Insurance**

Covers you for a set period (e.g. 10–30 years). Often used to replace lost income during working years.

#### **Whole Life Insurance**

Permanent cover that may include a savings or investment component.

#### **Universal Life Insurance**

Permanent cover with flexible premiums and coverage options.

Many Australians already have some life or TPD cover inside their superannuation.

### **4. Health Insurance**

Usually divided into:

- Individual cover
- Family cover

Private health insurance helps cover medical costs not fully paid by Medicare.

It may include:

- Hospital cover
- Extras (dental, physio, optical)

Important:

- Waiting periods apply
- Not all conditions are covered
- Policies vary significantly

Health insurance does not cover all financial losses related to illness.

## **What Affects the Cost of Insurance?**

Insurers calculate your premium based on risk factors such as:

- Your age
- Where you live
- Claims history
- Driving history
- Property value
- Health (for life/income protection)

Higher risk generally means higher premiums.

## **Before You Choose Insurance**

Ask yourself:

- What am I trying to protect?
- What would it cost if I had to pay this myself?
- Can I afford the premium long-term?
- Can I afford the excess if I need to claim?
- What are the exclusions?
- Is this policy right for my situation?

## **Additional Considerations for Chronic Health Conditions**

If you live with a chronic condition:

- Check for pre-existing condition exclusions
- Understand waiting periods
- Review income protection terms carefully
- Confirm what documentation may be required

## **Important Reminder**

This information is general in nature and does not constitute financial or legal advice. Always read the Product Disclosure Statement (PDS) and consider seeking independent advice before making financial decisions.