

The Art of Buying insurance

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There is good and bad insurance, policies that pay up and others that let you down.

So how can you tell the difference between one policy and another or to decide if you need to buy cover at all? I entered the insurance world well before any Meerkats and for decades, premiums were controlled by fixed tariffs, forcing insurers to compete on how much value they could give you. Sadly it's now the other way around, they battle to see how many pounds they can get from you without paying claims. With insurance as in life, you get what you pay for: as Ruskin observed:

"There is scarcely anything in the world that some man cannot make a little worse, and sell a little more cheaply. The person who buys on price alone is this man's lawful prey."

The unforeseen risks in life are what you buy insurance for, if you want to take a chance then see a bookmaker. There isn't a single answer as to what insurance to buy or how much cover you need, it all depends on personal circumstances and attitudes to risk. There are extremes of risk – at one end there are natural disasters or serious accidents such as a fire and at the other end of the risk spectrum are the almost everyday risks of breaking or losing things.

Big companies don't really need to insure against losing the occasional laptop but they take very seriously the possibility that a factory could be out of action for a year and understand that the consequential losses to a business (the 'after effects') are usually double the cost of any physical damage. Even if they may be able to cope with some unexpected risks they use insurance to protect their profits from large fluctuations.

If you are a homeowner then your house is your most important asset. Always insure it diligently for full value and don't cut corners- but do you need to pay an extra 50% premium in case you spill a pot of paint down the wall? Your choice, many do.

In general, there are no premium discounts to people who say they are more careful than others. If you want to buy insurance for losing belongings or breaking things, you will enter a pool of risk dominated by people who are less careful than you (often deliberately so) and the price will reflect this. I advise being selective about insurance for loss or damage to belongings ('All Risks Insurance') because it's relatively expensive and an area where one can self-insure to good effect.



The economics of selling insurance are that if the cost of marketing a policy is high (e.g. TV advertising) then so are the profits. Shop around for any insurance sold on TV and think twice about buying a policy offered by any shop assistant as it's quite likely 70% of your premium is being used to cover sales

commission and marketing. Did you know most big electrical retailers rely on commission from extended warranty insurance to subsidise the sale of appliances? If such policies are offered then do the maths, ask why a warranty is needed – isn't the product any good? With the Sale of Goods Act and other consumer protection, electrical warranty covers make little sense unless you think you will be sensationally unlucky.

For similar reasons and while they may have a role to play, policies for Pets, Mobile Phones, GAP insurance for new cars (especially when sold by garages) and Gadget insurance are over-priced and often feature one-sided terms and conditions.

The insurance regulator is at last getting tough on dodgy insurance sales practices and next month I will explain how the PPI insurance scam worked and highlight other ways to be better at buying insurance.