TOPIC **12**

Health and general insurance

LEARNING OBJECTIVES

In this topic we begin by focusing on insurance products that can mitigate the financial impact of ill health. We will then look at general insurance – these are mainly products that cover loss of property, or damage to it, and legal liabilities.

By the end of this topic, you should have an understanding of:

- critical illness cover;
- income protection insurance;
- accident, sickness and unemployment insurance;
- private medical insurance;
- long-term care insurance;
- key principles of general insurance;
- home (buildings and contents) insurance;
- motor insurance;
- travel insurance;
- payment protection insurance.

This topic covers part of Unit 1 syllabus learning outcome U3.5.

THINK . . .

Many of the types of insurance we are looking at in this topic will probably be familiar to you. For example:

- have you had to buy car (motor) insurance and choose between different types or levels of cover?
- have you been offered critical illness cover or private medical insurance as an employee benefit?

- have you been involved in organising the funding of long-term care for a relative?
- have you taken out travel insurance for a holiday?

The challenge in this topic may be distinguishing between the different types of health and income protection insurance.

12.1 What is critical illness cover?

Life assurance can mitigate the financial impact of someone dying, but serious illness can also create a significant financial burden. Critical illness cover provides a tax-free lump sum to meet the additional costs that someone may face if they find themselves in this situation. The illness need not be terminal.

The range of illnesses and conditions covered can vary from one insurer to another but would typically include the following:

- most forms of cancer;
- heart attack;
- stroke;
- coronary artery disease requiring surgery;
- major organ transplant;
- multiple sclerosis;
- kidney failure.

FACTFIND

ABI guide to minimum standards for critical illness cover

The ABI sets out the required minimum definitions of the three core conditions that must be included for insurance to be described as critical illness cover.

The three conditions are cancer, heart attack and stroke.

You can find out more here:

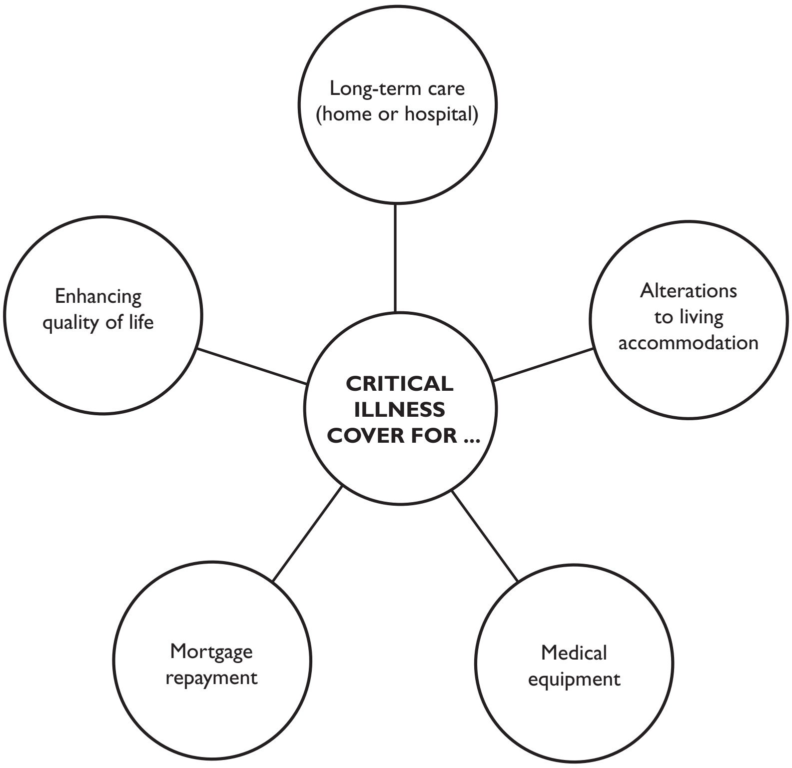
www.abi.org.uk/globalassets/files/publications/public/protection/new-abi-guide-to-minimum-standards-for-critical-illness-cover.pdf

Other conditions that are sometimes covered are:

- paralysis;
- blindness;
- loss of limb(s).

Many policies also make provision for payment of the sum assured in the event of total and permanent disability. Again, the definition of total and permanent disability varies between companies. Some providers define it as being a total and permanent disability that prevents the policyholder from doing any job to which they are suited by virtue of status, education or experience. Other companies employ a tighter definition that requires that the disability prevents the person from doing any job at all.

FIGURE 12.1 TYPICAL USES OF CRITICAL ILLNESS COVER



12.2 What is income protection insurance?

Income protection insurance (IPI) pays an income when accident or illness prevents someone from earning a living by carrying out their normal occupation. Many insurers also offer IPI to people whose main responsibilities are in the family home, for example looking after children, rather than earning money outside it. This is because, although they may not actually earn an income, costs may be incurred if they are ill or injured – for example, childcare fees or payment for housekeeping services.

12.2.1 What factors affect premium rates?

A major factor in determining the premium to be charged is the occupation of the life insured. Table 12.1 provides an example of a typical classification of occupations by an IPI provider.

TABLE 12.1 EXAMPLE OF OCCUPATION CLASSIFICATION FOR IPI PURPOSES

Class 1	Lowest risk, covering those in clerical, professional or administrative roles, eg accountants and civil servants
Class 2	Occupations carrying a low risk of an accident, eg hairdressers, pharmacists
Class 3	Occupations carrying a moderate risk of an accident, eg farmers, electricians
Class 4	Occupations with highest risk of a claim because of risk of health problems or accident, eg manual labourers, industrial chemists

Certain occupations will be excluded from IPI cover altogether on the basis that they represent too great a risk.

The occupation class that a person is deemed to fall within will determine the level of premium (Class 1 occupations get the cheapest rates) and may also influence the terms on which cover is offered.

Other factors that will influence the premium rate are:

- the age of the life insured;
- the amount of benefit;
- current state of health;
- past medical history;
- the length of the deferred period (see section 12.2.3).

12.2.2 How are premiums on IPI structured?

There are two types of income protection premiums available – reviewable and guaranteed.

- **Reviewable premiums** – a reviewable premium means that premiums may start off relatively low, but will be reviewed in the future and may go up every few years or so. In some cases, the premium may be reviewable every year, or every five years, to take into account changing circumstances.
- **Guaranteed premiums** – the nature of guaranteed premiums means that these tend to be more expensive at outset than reviewable premiums, but

the premiums are guaranteed for the life of the policy, which may be 25 years or even longer.

It is the insurer's choice as to what premium charging methodology is used. Some may only offer one type.

A waiver of premium option may also be provided whereby premiums for the IPI policy are not paid while benefits are being paid from the policy, but the policy cover continues as normal. The premiums are 'waived'.

12.2.3 When and how are benefits paid?

A period of time, called the deferred period, must elapse between the onset of the illness/injury and the point at which benefits begin to be paid. Typical deferred periods are 4, 13, 26, 52 and 104 weeks. The minimum four-week deferred period is to prevent multiple claims for minor ailments such as colds.

A self-employed person, who typically would suffer a loss of income after a very short period of illness, should opt for a short deferred period. Conversely, an employed person may wish to opt for a long deferred period if they have sickness benefits paid by their employer. If this is the case, the deferred period should be set to match the date on which the employer's sick pay ceases. The longer the deferred period chosen, the cheaper the premium will be.

DEFERRED PERIOD

The period that must elapse between the onset of the illness/injury that gives rise to the claim and the first payment of benefits.

Benefit levels are set so that the claimant is unable to receive a higher income when they are not working than they could from working. The maximum benefit payable from an IPI policy varies between providers, but is normally in the range of 50 per cent to 65 per cent (individual policies) or 75 per cent (group policies) of pre-disability earnings. If the provider allows a benefit level towards the top end of this range, they are more likely to make a deduction to allow for any state benefits to which the claimant may be entitled. These limits apply to total benefits from all IPI contracts held by the individual.

Where the policy includes a 'proportionate benefit' feature, benefits are paid pro-rata if a person can return to work but are earning less than they did before they suffered the illness/disability. For example, they might be able to work only part-time, or in a lower-paid job.

Cover is permanent in the sense that the insurer cannot cancel the cover simply because the policyholder makes numerous claims; in fact IPI used to be known as 'permanent health insurance'. The policy can be cancelled, however, if the customer fails to keep up their premium payments or takes up a hazardous job or pastime.

Some policies allow benefits to be index-linked either before or during a claim. The rate of increase may be at a fixed rate, perhaps 3 per cent to 7 per cent, or based on a published measure of inflation.

Benefits are normally paid until death, return to work (or, in the case of proportionate benefits, return to their original role on the same basis as before their incapacity), retirement or the end of the policy, whichever event occurs first.

IPI is available as a standalone policy, usually as a pure protection plan or occasionally on a unit-linked basis. Additionally, IPI can be available as an option on a universal whole-of-life plan.

12.2.4 How are Income Protection Insurance benefits taxed?

Where income protection insurance (IPI) is taken out on an individual basis the benefits are tax-free.

IPI can be arranged by an employer on a group basis and in this case the income is taxable as earned income. The employer pays the premium, which is a tax-deductible business expense. From the employee's point of view, the premium paid by the employer is not taxable as a benefit in kind, ie they do not have to pay income tax on the premium paid, provided that the employer has discretion as to whether to pay the proceeds to the employee. In practice, the employer does have such discretion and pays the proceeds to the member concerned. The scheme member pays income tax and National Insurance on the proceeds.

12.3 How does Accident, Sickness and Unemployment insurance differ from IPI?

Accident, sickness and unemployment insurance (ASU) plans are a type of general insurance that may be considered as an alternative to income protection insurance (IPI).

ASU insurance is typically used to cover mortgage repayments if illness, accident or loss of employment prevents the policyholder from earning a living. A level of income equal to monthly mortgage repayments is paid for a limited period, usually a maximum of two years. Additional cover can sometimes be included to cover other essential outgoings.

As with IPI, there will be a deferred period, normally one month, which must elapse before benefit payments can commence. Lump sums may be paid in certain situations (death, disablement, and loss of a limb).

In contrast to IPI, these plans should be viewed as short term to protect mortgage repayments rather than as providing total protection of earned income.

It would be more accurate to describe these policies as accident, sickness and redundancy insurance, as they do not offer protection from unemployment when the insured is dismissed, or resigns voluntarily. The policy will often include the following restrictions.

- The proposer must have been actively and continuously employed for a specified minimum period prior to starting the plan.
- Any redundancy that the proposer had reason to believe was pending when they took out the policy will be excluded.
- No benefit will be payable if redundancy occurs within a specified period of the cover starting.
- A person may have to have been employed for a minimum period either before they can take out this type of plan or before the unemployment cover becomes valid.

ASU policies are renewable annually at the discretion of the insurer. This means that the insurer could increase premiums if a policyholder makes a large number of claims, or might even withdraw the cover offered. This is a major difference from IPI.

PROPOSER

The individual who is applying for cover under the insurance policy and will pay the premiums, also referred to as the policyholder. The proposer is often the same as the person(s) covered under the policy, the life assured, but can be different.

12.3.1 How are ASU benefits taxed?

All benefits are tax-free.

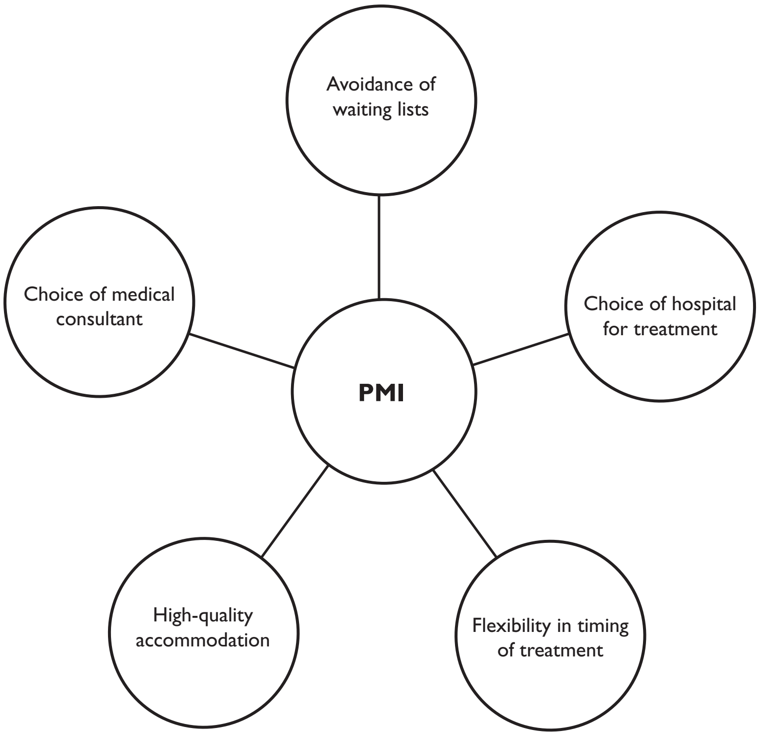
There is no tax relief on contributions to an ASU plan when it is arranged on a personal basis.

If the scheme is set up on a group basis, any employer contribution will be allowed as an expense against corporation tax. Any employer contribution will be classed as a benefit in kind.

12.4 Private medical insurance

Private medical insurance (PMI) is a pure protection plan designed to provide cover for the cost of private medical treatment, thus eliminating the need to be totally dependent on the NHS.

FIGURE 12.2 BENEFITS OF PMI



The range of cover normally provided includes reimbursement of:

- **in-patient charges** including nursing fees, accommodation, operating fees, drugs, and the cost of a private ambulance;
- **surgical and medical fees** including surgeon's fees, anaesthetist's fees, pathology, and radiology;
- **out-patient charges** including consultations, pathology, radiology, and home nursing fees.

Some policies offer additional benefits such as the payment of a daily rate if treatment is delivered within an NHS hospital and involves an overnight stay.

Plans can be arranged on an individual basis or as part of a group scheme established by an employer. Employer-sponsored schemes currently account for the vast majority of PMI provision in the UK. The way in which benefits are paid varies between providers. Some will offer a full refund of charges with payment direct to the healthcare provider. Other plans impose an upper limit on the amount that can be reclaimed in any one year.

12.4.1 What factors affect the cost of cover?

Premium rates depend on a number of factors, including:

- **location** – this is mainly because the cost of medical care varies throughout the country (costs are particularly high in London);

- **type of hospital** to which the individual is allowed access under the terms of the plan – again, treatment in the postgraduate teaching hospitals in London is more expensive and is reflected in higher premiums;
- **standard of accommodation** available to the patient under the terms of the plan.

A major factor will be the type of scheme that is taken out. For example, many providers offer a budget scheme, which may limit the patient's choice of hospital or require treatment on the NHS if the waiting list does not exceed a maximum period, eg six weeks. Any limit on the range of cover provided will reduce the premium payable. The limit may take the form of a financial limit on the amount of benefit that is provided or limits on the range of treatment covered.

One other significant factor is the age of the person applying for cover. The morbidity (likelihood of illness) risk increases with age and consequently so does the probability of a claim being made under the terms of the plan.

EXCLUSIONS

PMI cover will not be provided for any pre-existing medical conditions. Other general exclusions are the costs of:

- routine optical care (such as the provision of glasses or contact lenses);
- routine dental treatment;
- routine maternity care;
- chiropody;
- the treatment of ailments that are self-inflicted, for example, the consequences of drug abuse and alcohol;
- cosmetic surgery;
- alternative medicine.

12.4.2 How are premiums and benefits taxed?

Premiums are subject to insurance premium tax but the benefits are paid out tax-free. Employers who contribute to PMI on behalf of their employees are able to claim the cost as an allowable deduction against corporation tax. Contributions paid by an employer are regarded as a benefit in kind as far as the employee is concerned and are taxable.

12.5 What is long-term care insurance?

The purpose of long-term care insurance (LTC) is to provide the funds to meet the costs of care that may arise in later life, when a person is no longer able to perform competently some of the basic activities involved in looking after themselves each day.

The need for this cover has increased because:

- families are less able to take care of elderly relatives than they were in earlier generations (eg because they live further away from each other, there are competing pressures on their time, or because their accommodation is unsuitable);
- people are living longer;
- expectations in relation to quality of life in later years are higher;
- some people are concerned about the standard of care that the state and the NHS can realistically be relied upon to provide.

12.5.1 How is the level of benefits determined?

The amount of benefit paid from an LTC plan depends on the degree of care required by the insured. This is established by ascertaining the person's ability to carry out a number of activities of daily living (ADLs). Typical ADLs would be:

- washing;
- dressing;
- feeding;
- using the toilet;
- moving from room to room;
- preparing food.

Each LTC insurer has its own definitions of what constitutes an inability to carry out an ADL. Many follow the definitions laid down by the ABI.

The greater the number of ADLs that cannot be performed without assistance, the greater the amount of care required and, therefore, the higher the level of benefit paid. It is normal for insurers to require that the person must be incapable of performing at least two or three of the ADLs before a claim can be accepted.

A person need not be in a nursing home to receive LTC benefits: for example, they might need help with dressing and with preparing and eating meals. In this situation, the support they would need might be limited to a person coming in at certain points during the day to help with those specific activities.

12.5.2 How are benefits taxed?

If an annuity is purchased for immediate long-term care needs benefits will be tax free if paid direct to the care provider. Furthermore, the annuity must have qualified as an immediate needs annuity when it was taken out.

KEY TERMS

ANNUITY

A financial product purchased with a lump sum, which then pays out a regular income, potentially for the lifetime of the annuity holder (the annuitant).

IMMEDIATE NEEDS ANNUITY

An annuity from which the benefits are used to pay for care needs that the insured already has.

DEFERRED NEEDS PLAN

An investment designed to build up funds that can then be drawn on to pay for care needs as and when required.

In other words, the benefits from an ordinary purchased life annuity cannot be paid tax-free just because they are being used to fund long-term care.

If an annuity does not qualify as an immediate needs annuity, ie if its benefits are paid to the policyholder, only the interest element is taxable as savings income. Tax rates applicable are as follows:

- Tax at a rate of 20 per cent is deducted at source.
- Non-taxpayers or individuals not liable to tax on their savings income can reclaim any overpaid tax.
- Higher-rate taxpayers having a further liability of 20 per cent.
- Additional-rate taxpayers have a further liability of 25 per cent.

Where an immediate needs annuity is established on a ‘life of another’ basis, the benefits can still be paid tax-free, provided that they are paid direct to the care provider and are used solely for the care of the person protected under the policy. If any part of the annuity benefits are paid to anyone other than the care provider, or for any purpose other than for the care of the person protected under the policy (including payments that may be due on the death of the protected person), the interest element of that portion of the benefits is taxable.

Benefits are also tax-free if the long-term care policy is prefunded, ie where there is no annuity but, instead, premiums are paid to an insurance company (out of tax-paid income) to insure against a possible future event. For prefunded long-term care policies, it does not matter whether the benefits are paid direct to the care provider or to the protected person.

CHECK YOUR UNDERSTANDING 1

Julie wants to make sure that she can meet all of her essential outgoings if she is unable to work due to medium- or long-term illness. Which of the following products would be most suitable for her?

a) Accident, sickness and unemployment insurance (ASU).

b) Critical illness cover (CIC).

c) Income protection insurance (IPI).

d) Private medical insurance (PMI).

12.6 What is general insurance?

The types of loss that are covered by general insurance can be categorised in five broad bands. The first two relate to both personal and commercial situations:

- **property loss** – loss, theft or damage to static and moveable assets (from diamond rings to houses to supertankers);
- **liability loss** – resulting from a legal liability to third parties, eg personal injury or damage to property.

The remaining three are restricted to commercial situations. They are:

- **personnel loss** (due to injury, sickness or death of employees);
- **pecuniary loss** (as a result of defaulting creditors);
- **interruption loss** (when a business is unable to operate due to one of the other losses occurring, eg because its premises have suffered fire damage).

Some policies may combine protection against two or more types of risk. Comprehensive motor policies, for example, cover damage to the policyholder's property and to third parties' property.

INDEMNITY

General insurance policies are contracts of indemnity. The principle of indemnity is that:

> *in the event of a claim, insured persons should be restored to the same financial position after a loss that they were in immediately before the loss occurred.*

In particular, this means that an insured person should not be able to benefit from the event that caused the loss.

Life and personal accident policies, on the other hand, are not contracts of indemnity. They are benefit policies since it is much more difficult to measure accurately in financial terms the impact of a loss of life or of a serious injury.

It is usually up to the insurer to determine how to restore the claimant to the financial position they were in before the loss occurred.

There are four main methods:

- **cash** (normally by cheque or electronic transfer);
- **repair** (used very commonly with motor insurance);
- **replacement** – this can be a cost-effective option for the insurer as it has greater purchasing power than an individual consumer and so can negotiate better prices;
- **reinstatement** – for instance, where the insurance company arranges for a damaged building to be restored to its former condition.

AVERAGE

It is not uncommon for policyholders to underinsure: in other words, to insure for a smaller amount than is actually required to replace or repair the lost or damaged property. This may be because:

- they are unaware of the appropriate figure;
- inflation has increased the amount required;
- they are deliberately understating the figure in order to keep the premium down.

In the event of a complete loss, eg where a whole house is destroyed by fire, the amount paid out would be limited to the sum insured, even if the actual cost were considerably more.

Many losses are only partial, however. In these circumstances, it would be unfair if a policyholder who had paid less premium than was really appropriate were indemnified in full, even if the actual amount claimed were less than the overall sum insured.

In such cases, the principle of average is applied, which means that the claim is scaled down in the same proportion that the premium actually paid bears to the premium that should have been paid for the full appropriate sum insured. So, for example, a policyholder who insured contents for £10,000, when their true insurance value was £15,000, would find that if they claimed £300 for a damaged carpet, the insurer would pay only £200.

EXCESS

Most general insurance policies are subject to an excess: in other words, a deduction is made from any claim payment. For instance, a homeowner might have an excess of £100 on claims for accidental damage under their contents insurance policy. For the insurer, this avoids the high administrative costs of dealing with a lot of small claims, since there is no point in a policyholder claiming for an amount less than the excess. Sometimes, an excess is a compulsory element of the policy; policyholders might also choose a voluntary excess or an excess above the compulsory level in exchange for a reduction in premium.

12.7 What is buildings insurance?

Buildings are defined as “anything on the premises that would normally be left behind if the property were sold”. This generally includes sheds, swimming pools, walls, fitted furniture and all fittings and decorations.

Cover is normally provided against:

- fire and lightning strikes;
- explosions, subsidence and earthquakes;
- storms and floods;
- damage by vehicles and aircraft, and even by animals;
- damage by falling trees/branches or television aerials.

Policies normally also cover the costs of alternative accommodation during repairs.

Some types of cover are subject to the property not being left unoccupied for more than a specified period, typically 30 or 60 days. These include cover against damage caused by:

- riot, civil commotion and vandalism;
- theft or attempted theft;
- burst water pipes or oil leakages.

Most policies also cover property owners' liability.

UNDER-INSURANCE

Harry insured his property for £200,000 when he bought it. Twenty years later, his house is completely destroyed in a fire. In all that time, he never increased his insurance. The 'reinstatement value' of his property is £300,000. However, the maximum that the insurance company will pay out is £200,000. (Note that if the property had a mortgage on it, the lender would have required adequate buildings insurance.)

If a smaller claim were made, the claim would be averaged. If Harry were to lose roof tiles in a storm and claim £1,000 for the cost of replacing them, then the claim would be reduced as follows.

The value of the insurance cover taken out is divided by the actual value:

£200,000 ÷ £300,000 = 66.67%

This calculation shows that Harry's property is only insured for 66.67 per cent of its true value and so Harry's premiums are less than they should be. The insurance company would only pay 66.7 per cent of his claim, ie £667.

12.8 What is contents insurance?

Contents can be defined as "anything you would normally take with you if the property were sold". Cover would typically be provided against the same events and circumstances as described above for buildings insurance. Additional cover might include:

- accidental damage to goods while being removed by professional removers;
- extended contents cover for specified personal property outside the home;
- damage to freezer contents due to electricity failure.

12.8.1 What is all-risks cover?

The aim of an all-risks policy (sometimes known as extended contents cover) is to indemnify the policyholder for loss, damage or theft of items that are regularly taken out of the home. Cover is normally split into two categories:

- **unspecified items** – these need not be specifically named but each item must have a value below a specified amount;
- **specified items** – these items are above the single-item value limit and are individually listed.

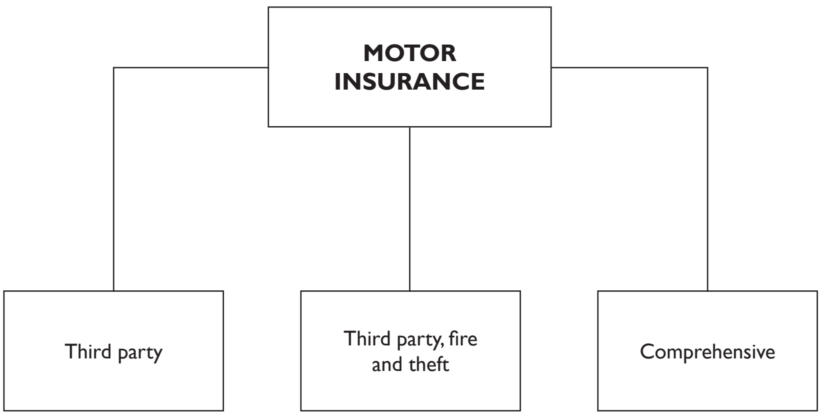
Both of the above categories require the policyholder to take reasonable care of the property.

CHECK YOUR UNDERSTANDING 2

The contents of Charlene's home are insured for £25,000 when they are actually worth £50,000. She is burgled and loses £2,000-worth of computer equipment. Using the 'average principle', calculate how much the insurance company will pay her.

12.9 What types of private motor insurance are available?

There are three main types of motor insurance cover:



There are variations in the exact nature of cover offered by different companies in each category – particularly on comprehensive policies – but a summary of what might typically be offered is shown as follows.

12.9.1 Third party cover

The Road Traffic Act 1988 makes it unlawful to use a motor vehicle on a public road unless there is in force a policy of insurance in respect of third-party risks.

Third-party-only policies typically provide cover for:

- death or bodily injury to third parties, including passengers in the car – hospital charges and emergency medical treatment charges are also covered;
- damage to property;
- legal costs incurred in the defence of a claim.

Death, injury and damage cover is extended to include occasions when the policyholder is using another vehicle, and also to other drivers using the policyholder's car with permission.

CERTIFICATE OF INSURANCE

Motor insurance differs from other personal insurances in that a policy of motor insurance is of no effect unless a certificate of insurance is given to the policyholder. The certificate (which can be in an electronic form) is what provides evidence of the existence of the contract of insurance and, as third-party motor insurance is compulsory, this is very important.

12.9.2 Third party, fire and theft cover

In addition to third party cover, a third party, fire and theft policy provides cover against:

- fire, lightning or explosion damage to the vehicle;
- theft of the vehicle, including damage caused during theft or attempted theft.

12.9.3 Comprehensive cover

In addition to the third party, fire and theft cover, a typical comprehensive policy would include some or all of the following:

- accidental damage to the vehicle on an all-risks basis;
- loss of or damage to personal items in the vehicle;
- personal accident benefits;
- windscreen damage.

The private motor insurance market is large and extremely competitive, and many other extensions to the cover are offered in order to attract business. These may include:

- roadside breakdown assistance;
- legal protection services;
- provision of a courtesy vehicle while repairs are carried out;
- out-of-pocket expenses resulting from an accident.

12.10 What cover does travel insurance provide?

Travel insurance is available for individual journeys (typically from five days to one month) or on an annual basis. A typical policy might include cover against the following:

- cancellation due to illness or injury of the policyholder or a close relative;
- missed flights or sailings due to transport failure;
- delayed departures;
- medical expenses;
- personal accident;
- loss of personal possessions or of a passport;
- personal liability;
- legal expenses.

Because of the increased risk of injury, cover for winter sports holidays is usually more expensive.

INSURANCE PREMIUM TAX

Some general insurance premiums payable in the UK are subject to insurance premium tax (IPT). The standard rate of IPT is charged at a percentage of the premium on most general insurance that relate to risks for which the period of cover begins on or after that date.

Travel insurance premiums are taxed at the higher rate of IPT. There is no premium tax at present in respect of long-term insurance such as life assurance and income protection insurance.

> IPT is paid by the policyholder as part of the premium; it is collected by the insurer and passed on to the tax authorities.
>
> Check the GOV.UK website for current rates and further information: www.gov.uk/guidance/insurance-premium-tax.

12.11 What is payment protection insurance?

Payment protection insurance (PPI) can cover monthly loan repayments if the policyholder's earnings stop due to accident, sickness or unemployment. The policy will pay out only for a fixed period of time, usually 12 months.

This insurance is linked to the repayments of a specific lending product and may be offered at the same time as the loan itself.

PPI can be extremely useful, although many PPI policies have been mis-sold alongside loans, credit cards and mortgages over the years to people who did not need it, were ineligible to claim its benefits, or did not even realise it had been included as part of their loan repayments. Some lenders developed sales scripts for their customer services advisers that included a statement that the loan was 'protected', without mentioning the fact that this protection was in the form of an insurance policy – a policy that the customer should have been given the opportunity to opt out of taking.

A number of companies, including high-street lenders, have incurred fines for mis-selling this product; compensation for customers runs into billions of pounds. Many customers have been encouraged (mainly through TV advertising campaigns or cold-calling) to make a claim against their lender if they feel they were wrongly sold this product. People whose claims are successful are not only given back the insurance premiums they have paid, they are also able to claim the interest that this money would have earned had it been in a savings account.

A deadline of 29 August 2019 was applied to PPI claims against companies that are still trading. However, customers may still be eligible to claim compensation with the Financial Services Compensation Scheme (FSCS) for financial firms that have failed. The FSCS can only accept a PPI claim if the advice was received on or after 14 January 2005. Read more on this area at: www.fscs.org.uk/what-we-cover/ppi/.

THINK AGAIN . . .

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- summarise the key features of and differences between critical illness cover, income protection insurance and accident, sickness and unemployment benefit?
- describe the factors that generally affect the cost of PMI cover?
- explain the different tax treatments that apply to different types of annuity under long-term care insurance?
- explain what is meant by a 'contract of indemnity'?
- explain why an insurance claim might be subject to 'averaging'?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

Test your knowledge

?

Use these questions to assess your learning for Topic 12. Review the text if necessary.

Answers can be found at the end of this book.

1) When Gary was diagnosed with bowel cancer at the age of 50, he was able to use the lump sum he received under his insurance policy to pay off his outstanding mortgage. Which of the following types of insurance did Gary have?

   a) Private medical insurance.

   b) Income protection insurance.

   c) Critical illness insurance.

   d) Long-term care insurance.

2) Marco, a self-employed painter and decorator, is considering taking out income protection insurance. He should opt for as short a deferred period as possible. True or false?

3) Marco's partner Lydia, an HR manager, already has income protection insurance. If she claims under her policy, she will have to pay tax and NICs on the income she receives. If Marco goes ahead and buys income protection, he will not pay tax or NICs if he has to claim benefits under the policy. This is likely to be because:

   a) Marco's earnings are below the personal allowance for income tax.

   b) Marco's policy will be arranged on an individual basis whereas Lydia's policy has been arranged as part of a group scheme.

   c) Marco is self-employed whereas Lydia is an employee.

   d) The insurance provider from whom Marco is thinking of buying his policy has different rules to Lydia's insurance provider.

4) Adaeze, an office administrator, hurts one of her hands, causing permanent damage, and has to be re-employed on a lower salary. What effect would her return to work have on her IPI benefits?

   a) Full benefits would be paid until Adaeze has fully recovered.

b) Proportionate benefits would be paid, but no other claims under the policy would be accepted by the insurance company.

c) Benefits would cease immediately.

d) Proportionate benefits would be paid until retirement, death or the end of the policy.

5) Annette, who retired last year, has developed arthritis and needs a hip replacement. Under which of the following types of insurance policy might she be eligible to claim benefits?

   a) Critical illness cover.

   b) Accident, sickness and unemployment insurance.

   c) Private medical insurance.

   d) Income protection insurance.

6) Vanessa is unhappy in her current job and has decided to resign. She will be able to claim benefits under her ASU policy to tide her over until she finds a new post. True or false?

7) Roger, who is 78, is finding it difficult to look after himself at home and is planning to move into residential care next month. He has purchased an immediate needs annuity so his fees will be paid direct to his care provider, once tax has been deducted. True or false?

8) General insurance policies operate on the principle that policyholders should be restored to the position they were in before the event occurred that led to their claim. True or false?

9) Steve's home contents were insured for £25,000. Last winter his kitchen was flooded and he claimed under his contents insurance for £6,000 damage to kitchen appliances and contents. His insurers established that his home contents should have been insured for £32,000. Calculate how much Steve actually received once his insurers had taken account of the fact that he was underinsured.

10) It is illegal to drive a vehicle on public roads in the UK unless you have insurance that covers damage to your car or injury to yourself. True or false?