Contents:

What is life insurance?

Life insurance, **also known as Life assurance**, is an insurance policy which pays out to the beneficiary when the insured person passes away. Although it is not compulsory, it is a wise decision to have for anyone who is relied upon for financial support.

In the short term, your loved ones may need to adjust to a new lifestyle, covered by the benefit, as well as to pay for funeral costs, outstanding debts, mortgages etc. In the long term it could pay for the care and maintenance of an elderly parent or a disabled child. It could also cover university expenses and generally keep your loved ones living to the standards they had become accustomed to before your death.

For many people the first time that they come across life insurance is when applying for a mortgage. Most mortgage providers insist that the borrower is insured to cover the remainder of the loan should anything go wrong.

In business, life insurance gives you the means to ensure that a key person could be replaced by covering the costs of recruiting and training a replacement. It could also provide collateral for business loans and fund buy/sales agreements, to keep the company's equity in the right hands.

> Life insurance is one of the purest forms of insurance, in that ideally, you really would not want to have to claim, as to claim means that something bad has happened.

The different types of life insurance

Perhaps the two most important levels of cover are the term insurance policies and the whole of life policies, which specifically cover you in case of your death

Life Insurance Cover	Comments
Term Insurance	Provides cover for a fixed term and will only pay out if the person who is insured dies during that fixed term and the premiums have been paid throughout the contract term. Usually, a high level of cover available for low premiums.
Whole Life	Provides cover for the life of the insured person as long as the monthly premiums are paid. Premiums are usually higher than those of term Insurance.
Key Person / Key Man	Provides cover for vital business people should they not be able to work. A variety of this is where a major shareholder or partner's equity is covered should they die and the remaining partner or shareholders want to keep hold of the equity.

The above table shows the basic categories of life insurance. Each of them, have different features which make them attractive to different people.

Ensure you understand the difference between Term insurance & Whole of life insurance.

Term insurance provides protection against death during a specified period and whole of life insurance provides protection against death at any time. This is a very important distinction to make. Term insurance will last for between one and about 30 years. Should you die during this term, you will receive a benefit. Whole of life insurance will always result in a payment. How much that payment is depends on what type of policy it is and the performance of any investments within the policy.

If you have Term insurance, the policy will only pay out if the life assured ends during the term of the policy. After this term, the beneficiary will not receive any payment.

Term insurance

Term insurance is where cover is provided for a fixed term, usually 10, 15 or 20 years. The sum assured will only be payable on death, with no investment benefits or payment on survival. It is important to understand this concept.

Should you survive past the end of the term, you will not receive any payment as your policy will have expired. Should you stop paying the premiums at any time, cover will stop, and there is no surrender value. This is unless you pay extra on your premiums to have a waiver of premium so you can get a break from premiums should you lose your job.

Within Term Insurance there are other choices which you can make to tailor your policy to suit you and your requirements.

Type of Term Insurance	What does that mean?	Comments
Level Term	Premiums are set at an agreed level and do not increase or decrease. The same applies to the sum assured, it remains the same throughout the term.	This plan is great from the budgeting point of view, but its main downfall is that it does not allow for inflation.
Increasing Term	This fixed term policy increases the sum assured by either a set percentage or by the Retail Price Index throughout the term.	Whenever there is an increase in the sum assured there is an increase in the monthly premiums.
Decreasing Term	The sum assured decreases over time, hence premiums also reduce.	This policy is commonly used in conjunction with a mortgage, it is designed to pay off the outstanding amount in the event of death.
Renewable Term	The term tends to be for a shorter period ie 5years, and can be renewed without any further medical evidence.	The sum assured cannot be increased, although premiums will increase with age.

Convertible Term	Provides the option to convert some parts of the insurance to whole of life policy without any further medical evidence required.	Even if the insured person develops a health issue, the policy can still be renewed and benefit unaffected, also provides flexibility to upgrade to a whole of life policy later.
Family Income Benefit	A tax free regular income will be paid to the beneficiary, as opposed to a lump sum.	The regular income is paid from the date of the death of the insured until the end of the term.

You may be required
to attend a medical in order for your
insurance policy to commence.

Whole of life insurance

Whole of life policies see premiums being paid which provide for a lump sum to be paid at any time death occurs to the assured life. Depending on the policy, an investment element is sometimes incorporated along with the permanent life cover.

The type of cover determines the amount of the lump sum.

Type of Whole of Life Policy	What does that mean?	Comments
Non-profit	Your premiums pay towards the sum assured which remains the same throughout the policy.	Unfortunately this does not take into account inflation.
With-profits	Premiums will go towards both the insurance cover and an investment. The sum assured increases with a bonus which is paid yearly and a final bonus at the end of the policy.	The bonus is not guaranteed.
Unit Linked	Throughout the life of the policy, you are provided with a choice of the level of death cover. Once you have made this choice, your premium buys units in a fund, which you can select at the offer price. These units are then cancelled in order to buy death cover. Periodically, a premium review will be undertaken in order to enable the death cover to continue at the same level by keeping a sufficient reserve.	The unitised whole of life policy provides the greater of the value of the with profits units or the death benefit.

In summary, a non-profit policy sees the sum assured staying the same. A with-profits policy sees the sum assured increasing by a bonus being paid at the end of each year and a final bonus at the end – although none of these are guaranteed.

A unit-linked policy sees the sum assured being linked to the investment's valued.

Shopping around for life insurance

Before you begin to shop around for Life Insurance, check what cover you already have. Often, some Life insurance is provided within pensions and endowment policies.

Whilst looking at the different policies available it is also worth considering Critical Illness Insurance. A critical illness is a specified medical condition such as cancer which would stop a person receiving an income, and is unlikely to result in the person being able to work again. Critical illness insurance cover will insure you should you suffer from any of these specified illnesses, and will pay out a lump sum, payable at the time of diagnosis.

You can take out a critical illness insurance policy in two ways. The first is as a 'stand alone' policy, taken out by itself. The second method is to add it to whole of life, or term insurance policies. The reason why you may do this is that it offers you a way of getting hold of the value of your policy not just on death, but also on diagnosis of critical illness, which has the same effect as death on your ability to support your dependents.

As the insurance market is a very competitive one, you are advised to buy life insurance policies from an Insurance Broker

it is useful to use an independent Broker and let them shop around for you. Check if they are tied to using a particular company's products, ideally they should be able to access the whole market for quotes on policies which will suit your needs. Before proceeding with a Broker check their fees.

When searching for the right policy make sure you understand all the benefits you'll receive, also any exemptions and the cost of the premiums.

Shopping around for the right policy at the right price is essential as premiums can vary dramatically between insurers. There is a basic criteria that will impact the cost of the insurance you buy, but basically the most important factor is your health! Should you have a clean bill of health, you will find that your life policy will cost a great deal less to protect your family.

Other factors that Insurers will need to know about, other than your past medical history, are as follows:

- ✓ Your age
- ✓ If you have ever smoked
- ✓ Certain health problems which may run in your family and could be hereditary
- ✓ Length of the term you wish to take the policy out for
- ✓ The amount you want to insure

Applying for life insurance

So once you have decided which type of life cover is suitable to you and your family, and you have found the right policy, you need to make the application. Depending on the company you may do this over the phone, on-line, face to face, or by post. Whichever way you apply for your insurance it is of utmost importance that the information you give is accurate and complete.

Amongst other questions, you will be asked to provide some detailed personal information.

Required Information	Comments
Name of insured	This is the name of the life to be insured, this maybe two names if the policy is to be a joint policy. A joint policy will cover the two lives but only pays out on the first death.
Age	Obviously the younger you are the lower the premiums.
Amount of benefit	The more benefit you want to insure the higher the premiums will be.
Health	Your medical history will be required and certain questions regarding the health of parents will usually be asked to obtain information regarding any hereditary illnesses.
Weight	Your weight will also contribute to how healthy you are generally and also highlights any possible health issues you may have in the future.
Smoker	Smokers are generally considered to have higher premiums as they are at higher risk of certain life threatening illnesses. Some companies will charge 3-4 times as much on the premiums to that of a non-smoker.

It may also be worth talking to your chosen insurance company about the possibility of placing the insurance policy in trust.

Placing the policy in trust means that the beneficiary will receive the money much quicker and the benefit will not be classed as being part of your estate, in which case the benefit may become affected by inheritance tax.

Making a claim

Should there be a death in the family, and you know that there is a relevant life insurance in place, you should be provided with cash immediately to meet your pressing needs. However, you can't get access to the funds without filing a claim. With the amount of money involved, you need to follow certain guidelines to make sure the claim is filed properly.

Firstly, you should call the agent or broker that helped with the application for the insurance policy in the first place. The life insurance agent can help you with the details of how to fill out the claims form. The agent should also act as an intermediary with the insurance company to help move the claim along.

If you have the paperwork to hand, but you do not know who the deceased's agent was, you should deal with the life insurance company directly. This is as simple as calling or writing to their nearest office to you and asking what procedure should be followed. One of the things you may have to do is to secure some certified copies of the death certificate from the funeral director. You'll need a certificate for each life insurance claim. You should submit the death certificate along with your claim form and the policy itself.

> It is advisable to seek specialist advice from a financial advisor to make sure you are selecting the best option.

Should you have no information at all relating to the claim, don't know the name of the company, and don't know who the deceased's agent is, you can still write to the Missing policy service, including a self-addressed business size envelope. This inquiry would be passed to about 100 of the largest life insurance companies to try and locate your lost policy. You will be charged a nominal fee for this service to cover administration costs.

You should receive a settlement in fairly short order once you have submitted the claim. This could be in many forms, depending on your choice or that of the original policyholder.

Life insurance FAQ

What do I need to know about a UK Financial Advisor to ensure they are qualified to give me professional advice?

Good financial advice can really help you achieve your goals. Should you want to plan for a comfortable retirement, need to take out a mortgage to buy a house or maybe protect yourself and your family's finances should you lose your job or become ill. A financial advisor should be able to prioritise and understand your financial needs, and recommend any products or actions you can buy or take to help you.

There are three types of advisor, tied, multi-tied or independent. Tied advisors are only able to sell products to you from one company. A development of this is the multi-tied advisor, who can only choose from a panel of providers, but still don't give you the full benefit of the market. An independent financial advisor can advise you on products from the full range of companies on the market. The independent financial advisor should give you the best advice for. Under the FSA Act 2000, the FSA regulates all advisors. The FSA keeps a Central Register, which you can use to check up on a firm.

How do I complain about a Financial Advisor?

The first step you should take should you feel there is cause for complaint, is to contact the company. Before you even use a financial advisor, you should check that they are actually regulated by the FSA. If they are not, then don't use them. If they are regulated by the FSA then they will need to have a complaints procedure.

The company must perform their investigation within 2 months, after which you can take it to the Ombudsman. Should the investigation complete and you are not happy with the outcome, you can go to the Ombudsman, making sure you've supplied the correct documentation. The Ombudsman will check your complaint for relevance, and then will investigate and adjudicate. Their decision is binding on the firm but not you. So if you don't agree you could still go to the courts.

What does it mean when they say they are "loading" a life insurance policy?

Premium loading is where the insurance company takes the basic premium that they wish to charge for a certain level of cover, and adds an amount. The amount that is added to the premium is aimed at covering the expenses that the company incurs selling the policy, the profit that the company wish to ma ke on selling the policy, and a margin created for contingencies.

Who are the Financial Conduct Authority?

The Financial Conduct Authority (FCA) is a non-governmental, independent organisation that was awarded statutory powers by the Financial Services and Markets Act 2000 (FSMA). They are a company that is limited by guarantee and have been financed by the financial services industry. The first aim is to maintain the UK public's confidence in the financial system in the UK. The FSA supervise settlement houses, exchanges and other market infrastructure providers, surveying markets and monitoring transactions.

The second aim is to increase the public's understanding of how the financial system works, which in turn will increase confidence in it. People can become informed consumers if they can gain knowledge, aptitude and skills which will help them to manage their financial affairs effectively.

The third aim is to secure the correct degree of protection for consumers. Firms and individuals who wish to engage in regulated activity need to satisfy some necessary criteria, such as competence, honesty and financial security. The FCA vet all entries to ensure this. www.fca.gov.uk

Where to get more help

To check the register of the financial advisors and for up to date information on financial services you can look at their site on line at www.fca.gov.uk

If you do need to make a complaint to the financial ombudsman you can call them on:
0845 080 1800 or online at www.financial-ombudsman.org.uk

www.hyde-associates.co.uk

hyde associates
Independent Mortgage Consultants