

# Protection & Insurance Guide



**Most people will do all they can to get their dream home but don't think about how they could keep it if their circumstances changed. We've created this protection and insurance guide to help you understand the levels of protection you should invest in to make sure you can stay in your home.**

There are various different types of insurance and protection that you can take out to protect yourself, your family and your mortgage when purchasing a home. You need to consider home insurance in case there is any damage to your property, income protection insurance should you be unable to work due to illness, and critical illness cover and life insurance to protect your loved ones in the event of death or serious illness. The importance of being able to handle such financial issues in emotional times cannot be overlooked, and unfortunately so many people across the UK do not realise how inadequate their various forms of cover and protection are until it is too late. We want to make sure that you and your family are protected should the worst happen, and this document is a useful guide to the various forms of insurance to protect your property, family and standard of living.

## 1. Home Insurance

### 1.1 Buildings Insurance

Buildings insurance is compulsory for all mortgages, regardless of their type, and must be in place before contracts can be exchanged if you are purchasing a freehold property. If you fail to renew your buildings insurance you run the risk of breaking your agreement with your mortgage lender, which in turn runs the risk of some serious consequences, including the repossession of your property.

Buildings insurance policies will vary in their cover, but most will typically cover your property in the event of damages including but not limited to fire, flood, storm, subsidence, theft and even vehicle collision. Our expert advisors will always help you ensure that your property is insured to the full rebuild value, and that you have the best cover available to suit your circumstances.

### 1.2 Contents Insurance

Many buildings insurance policies come with a combined contents insurance policy, although this can be purchased separately if needed. Such insurance policies will cover the contents of your home in the event of a fire, flood, or theft, as well as other situations.



**Buildings insurance is compulsory for all mortgages.**

Contents policies can have specific options to cover for cash and credit cards, as well as valuable collections and any items of high value, including technology, jewellery and family heirlooms, and artwork of value. Some policies will also cover outhouses such as sheds and garages, can cover legal expenses and even offer access to an available helpline. Contents insurers will typically offer replacements as new with extended options for accidental damage if required.

### 1.3 Landlord Insurance

If you are purchasing a buy to let property, your mortgage lender will insist you have landlord's building insurance. This is a special type of insurance designed specifically for landlords of buy to let properties. It will protect the building that the mortgage is secured against in the exact same way as buildings insurance.

## 2. Protecting Yourself and Family

### 2.1 Do I really need it?

While protection insurance is not compulsory for a mortgage, across the UK, a high percentage of families have insufficient cover. Many believe that they don't need it because they have no dependents, they already receive cover from their employer, they have enough savings or a family that they can fall back on, or that they're too young to need it. The reality is that everyone requires some level of cover because no one knows what the future will hold. If for any reason you can't make your mortgage repayments, your home could be repossessed, which would be disastrous for you and your dependents.

Protection cover is essential for ensuring that you can make your mortgage repayments and other bill payments on time, even if you're unable to work because of illness or injury. Any cover you receive through your employment might not be enough for what you or your family need for your standard of living. Similarly, your own savings or the support of your family might not be enough either. You need to make sure that you and your family's lifestyle is safeguarded, as well as being able to pay for any bills, food, transport, education and, of course, your mortgage.

While many people might think they're too young to invest in protection cover, this is actually the best time to do it! While you're young, fit and healthy, life insurance premiums are at their lowest, and a guaranteed premium will allow you to fix the cost for the whole term of the policy.

There are various different types of protection insurance that you can get to cover different situations depending on your circumstances. So, for example, if you have no dependents you might only need to consider critical illness and income protection policies, but if you have children you might want to think about these in addition to life

insurance and family income benefit policies.

When applying for any level of protection insurance, most insurers will accept your application both online and over the phone, but you will need to have certain documents and details available to complete this application:

- Doctor's name and address
- Medical history
- Details of any current/previous serious illnesses suffered by you or your family
- Details of any medication which you are currently taking, or have taken in the last 5 years
- Height and weight measurements
- Bank account details – including account number, sort code, the name of your bank and the name of the account (payment will not be taken until you confirm that you would like to start the policy)
- Any existing policy information – including the policy provider, policy number, sum assured and term.

Our advisors will always be happy to go through any insurance application process with you, and when you receive the application in writing we will also be happy to go through the documentation with you then, to ensure that all of the information is correct and that you understand the level of cover that you will be getting.

## 2.2 Life Insurance

Life insurance will provide a lump sum of money in the event of your death within the term of the policy. The lump sum will be paid to your dependants' tax free and can be used by them however they may choose. There are two main types of life insurance cover:

1. Level Term Insurance – the amount of cover (or 'sum assured') will remain the same throughout the length of the policy, after both the sum assured and term are set out at the beginning of the policy. This type of insurance is often taken out to help pay off a mortgage, and best suited to interest-only mortgages since the outstanding capital will not decrease over time.
2. Decreasing Term Insurance – the cash lump sum to be paid out in the event of death will decrease over time. These policies are best suited to a repayment mortgage to ensure that the amount paid out is the same as the amount left on the mortgage, which will also decrease over time. The premiums for decreasing cover are typically cheaper for level term cover due to this decrease in payment.

## 2.3 Critical illness insurance

Critical illness insurance will not provide a cash lump sum in the event of your death, but if you are diagnosed with a critical illness, your provider will give you a tax-free cash sum. Your illness must meet the provider's definition of critical illness (most policies cover a list



of around 30-40 critical illnesses) in order to receive payment. The only way you would not receive payment is if your illness didn't meet the insurer's criteria, or if the information you supplied when you applied for your policy was incomplete or inaccurate. We will work closely with you to ensure that your critical illness insurance application is completed accurately and this situation does not happen to you.

Whether you make use of this cash sum to clear a mortgage, replace a lost income or pay for private treatment, or anything else you require, is totally up to you. This type of cover is there to make sure you can concentrate on your recovery and spend time with your family while the financial side of your life is taken care of.

As with life insurance, critical illness insurance can also be paid as a level term or decreasing term policy. Depending on how many incomes combine to make your mortgage repayments, you might not even have to cover for your full mortgage repayment. For us, the most important thing is to make sure that your protection covers you, your family and your lifestyle at some level, whatever your budget.

## **2.4 Income protection**

Income protection will ensure that in the event of an accident or sickness you will still receive a monthly income to replace a proportion of your salary. The income will begin to pay out after a set amount of time has passed (which you decide on at the start of the policy), and will continue until you return to work, reach retirement, or reach the end of the policy. This income also can't be affected by state cuts, so you can have peace of mind that you will receive a regular income when you need it most.

## **2.5 Family income benefit**

Family income benefit is a form of life insurance policy. In the event of your death, your dependents will be supplied with a regular tax free income until the end of the policy term, rather than a one-off cash lump sum. This income can be used to meet everyday expenses and bill payments to give you peace of mind when one income has been lost. We can help to determine how much income you would need and it is usually less expensive than you may think, especially if you take out this type of policy when you are younger.

The policy can be linked to inflation to ensure that the benefit will maintain spending power and the term of the policy can also be chosen to fit your family's circumstances and what is more important to you. For example, you might want your policy to take your youngest child through until they finish school or university. Such a policy is one of the best ways to ensure that your family's standard of living can be maintained, even if you're no longer there.

### 3. What Next?

We hope that this guide has been useful for understanding mortgage protection and insurance. Our priority at Derbyshire Mortgage Services is always to find the best deal on a mortgage that is suited to you and your circumstances, and our dedicated team of expert advisors will be with you every step of the way, from first meeting until the day you move in.

We will never charge you for our services, so if you want to invest in mortgage protection or insurance, or if you have any queries, or even if you're just considering your options for the future, why not give us a call on 01332 554098 and let us help you start planning today.