



How insurance can help you

General insurance protects you and your assets from the financial risk of something going wrong.

It can't stop something happening, but if something unexpected does happen that is covered by your policy it means you won't have to pay the full cost of a loss.

That means that if something goes wrong, you're much less likely to have to raid your savings or your investments, borrow money, ask family or friends for financial help, or sell your assets to pay for repairs, building or outstanding debts.

You won't have to rely on assistance from governments and community groups that usually only help in disaster situations such as floods or bushfire where the assistance might not reflect the extent of your loss and so may not help you to rebuild your life.

Reasons people buy insurance

Most people buy insurance for four main reasons:

- **High value**
To protect something they have purchased that has a high value (such as a house, a car or perhaps jewellery or a painting) and which would be expensive to replace. Often a loan has been taken out to purchase the items
- **Catastrophe**
To protect their property and possessions against a disaster, such as a fire, flood, cyclone or other calamity
- **A specific event**
To protect them when they are doing something not covered by their normal insurance policies, such as travelling overseas
- **Liability**
To provide financial protection if sued – for example, if a visitor should sue you for negligence after injuring themselves on your property

Protecting what's important

When you take out an insurance policy, you need to do some thinking about what is important to you, and how much you are willing to put aside to protect those things if you were faced with their loss.

Most people are willing to pay an insurance premium to protect things such as their home and its contents, their car, boat or caravan. Business owners will usually also take out insurance cover to protect assets and stock, and to provide financial help if they face legal issues.

Choosing an insurance policy is a matter of identifying what's important to you.

Some forms of insurance are compulsory. For instance, state and territory governments require car owners to buy [mandatory motor vehicle accident personal injuries insurance](http://understandinsurance.com.au/types-of-insurance/car-insurance#tab-1) [<http://understandinsurance.com.au/types-of-insurance/car-insurance#tab-1>] when they register their cars to protect any person they might injure while they are driving. Business owners have to pay premiums into their state or territory workers' compensation scheme for their employees. And property owners taking out a home loan with less than a 20 per cent deposit may be required by their lender to buy [Lenders Mortgage Insurance](http://understandinsurance.com.au/types-of-insurance/lenders-mortgage-insurance) [<http://understandinsurance.com.au/types-of-insurance/lenders-mortgage-insurance>] .

What can you protect?

You should consider general insurance when the cost of a particular financial risk is much greater than the cost of protecting yourself against that risk.

A risk must be able to be valued in monetary terms for it to be included in an insurance policy. It must also be an uncertain risk, something that we can't be sure will happen.

You must also have a direct interest in any loss that you insure against. You can't take out house and contents insurance on the home of your neighbour, for example.

Nearly anything that is valuable can be insured, but in practice, most insured items share the following characteristics:

- the loss or damage has a **reasonable dollar value**
- the **risk being covered could happen** across a large number of people (such as theft, fire, car accident)
- the premium is **cost-effective**