

A Closer Look at Three Important Insurance Terms

Premiums

An *insurance premium* is the amount that you pay in order to be covered by insurance. Your premium is normally an *annual* (once a year) cost – you pay it in advance! Your home insurance premium may go up or down from year to year, as the value of your house and belongings change. It will normally go up a little bit each year to cover the increased cost of construction to replace your house if the worst should happen.

Deductibles

A *deductible* is the amount of money that you have to give to your insurance company **FIRST** before your insurance company will honour any claim made. Deductibles exist so that people do not make claims for small amounts of money. If your house burns down, you would definitely pay \$500 to have your house replaced. However, if there is a fire that does \$300 worth of damage to your bathroom, you would **NOT** pay \$500 to get the insurance company to repair that damage. You would arrange to have the damage repaired itself for the \$300, because it's cheaper!

This way, the insurance company does not have to pay for 'every little thing' that may go wrong in your house – they only pay the bigger claims. This saves them a LOT of money, which means that your premiums are lower than they could be.

Claims Free Discount

You will usually get a discount on your insurance if you are "*claims free*", meaning that you have not made an insurance claim before. This also deters people from making claims for small amounts of damages; if they do make a claim, they lose the discount! After some amount of time (typically 5 years) if you do not make any further claims you go back to being claims free.

Example 1

Shanaya owns a home. Shanaya did not move, but in 2018 her house insurance premium was \$150 less than what she paid in 2017. Provide as many reasons you can think of to explain why the premiums were lower in 2018.

- ① Did not make any claims the previous year.
- ② Installed a burglar alarm, or carbon monoxide detector.
- ③ Age of 55 years
- ④ Changed insurance provider.