Insurance – less for more?

Many people talk about the world being a vastly different place since the terrorist attacks of September 11. Insurance is one area that has certainly changed forever.

For example, in the early 90s, it was commonplace for life insurance policies to include cover against acts of terrorism and war. Since then – and particularly since September 11 – virtually no life insurer will include this cover in their standard policies.

However, compared with the fire and general insurers, the exposure of life insurers is at least finite and more easily quantified. In other words, life insurers generally expect to pay death benefits on a certain proportion of the lives they insure each year. With the US terrorist attacks last year, insurers paid out for people who were killed many years before they should have died, but the sums insured didn't change.

For fire and general insurers, it's a completely different ball game. No insurer ever expected to have to pay claims for the destruction of the World Trade Centre. And the frequency and magnitude of future terrorist attacks is something no insurer can accurately forecast. Consequently, insurers simply won't provide cover for these events today.

While you may think a lack of terrorism cover doesn't affect you directly, the change in insurers' thinking does.

How fire and general insurers run their businesses is largely dictated by the global re-insurers they 're-insure' their exposures with. Before September 11, re-insurers would re-insure a set proportion of insurers' losses, which in theory meant they could never be certain just how great an exposure they had. Now, re-insurers specify the limit of their exposures, they offer insurers only closely-specified indemnities, and they have redefined what constitutes an insurable loss.

For consumers, that boils down to more tightly defined cover with more exclusions and, in many cases, higher premiums as well. The fact is, if insurers don't make money, they can't cover anyone.

Just as the insurance industry is rethinking how it manages risk, so too should consumers. For example, are you paying higher premiums because your policy has a low excess? Are you insuring only what you need to insure – or everything, regardless of whether that's cost-effective?

Finally, don't forget you also have a role in setting your premiums, in terms of the way you behave (in the car, for example) and how careful you are in protecting your property. Talk to your financial adviser about the sorts of insurance options available today and the best combination for you.

ENDS

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