Insurance checklist

Financial Services Authority

There are many types of insurance you can take out with a mortgage – see the table overleaf. Your broker or lender may try to sell you a range of policies. Some are a must to get the mortgage – others are not. Others may depend on your circumstances.

The FSA will regulate the sale of most types of general insurance products from 14 January 2005.

Which insurance do you need?

Buildings insurance

Everyone needs **buildings insurance** to cover their home in case the building is damaged or destroyed. While you have a mortgage, the lender will almost certainly insist that you have this cover.

Some lenders insist that you take out cover they arrange. This is called ‘tied’ insurance. Some insist you take insurance but don’t insist that you take their policy. This is called ‘compulsory’ insurance.

Many let you shop around for your own cover but charge an administration fee for checking the cover is enough. Some insurance providers will pay the fee for you.

Other lenders leave you free to choose your own insurance and do not make a charge.

Look at Section 9 of the key facts illustration (KFI) to see if you have to arrange tied or compulsory insurance, whether you have to pay an insurance charge, and what optional insurance the lender may offer.

Contents insurance

You will also probably want **contents insurance** to cover your furniture and possessions against loss or damage.

Insuring yourself and your mortgage

There are various types of insurance that will pay off your mortgage or meet the monthly payments if something unexpected happens such as critical illness or death. Whether they are right for you depends on your personal circumstances – see the table overleaf.

Is it right for you?

If you have to take out the insurance policy as part of a mortgage deal it might not be the cheapest or best available, or it might not be right for you. Don’t forget the premium can also increase while you have the policy, and you may find it difficult to cancel it later unless you change the mortgage.

Watch out for these costs when considering a ‘tied’ deal. Remember there are plenty of good mortgage deals around that don’t make you buy insurance from the lender or broker.

It may be convenient to arrange insurance with your lender or mortgage broker but you don’t have to accept a mortgage deal with insurance tied in. It’s worth shopping around for insurance. You will often be able to save money compared with what’s on offer from the lender.

Insurance to cover your home

Type of insurance	What's it for?	Is it right for you?
House buildings insurance	Covers the cost of repairing or rebuilding your home if it's damaged or destroyed	√ Yes, everyone who has a mortgage should have this cover (though if you live in a flat you might pay for it out of the service charge instead).
House contents insurance	Covers the cost of repairing or replacing your possessions if they're damaged, destroyed, lost or stolen.	√ Yes, if you could not otherwise afford to replace your possessions.

Insurance to cover your mortgage

Some of these policies can be expensive, so you need to consider the cost compared to the risk of not having this insurance.

Type of insurance	What's it for?	Is it right for you?
Critical illness cover	Pays out a lump sum if you suffer a life-threatening illness, such as cancer or heart attack. Can be used to pay off the mortgage or for anything else.	√ Yes, if clearing the mortgage would be a top priority in case of serious illness. √ Yes, if you have dependants and no other household income to repay the mortgage. X No, if you have enough funds available. X No, if you want to be covered for a wider range of health problems – consider income protection insurance instead. X No, if cover would not apply to you because of an existing illness.
Income protection	Replaces a substantial part of your income if you are unable to work for a long period because of illness or disability (so it could be used in part to meet your mortgage payments). Continues to pay out until you recover or reach retirement, whichever is sooner.	√ Yes, if you can afford it and the cover clearly applies to you – for example, if you are in good health. X No, if you have other sources of income in the event of illness, for example if you have a policy through work/your employer. X No, if cover would not apply to you, which is possible if you have existing health problems or a dangerous job.
Life insurance/mortgage protection cover (term insurance)	Pays off the mortgage loan if you die. Note that endowment mortgages automatically include life cover – you do not need a separate policy for any amount covered by the endowment policy.	√ Yes, if you have dependants. √ Yes, if you share the mortgage costs with someone else (joint mortgage). X No, if you have no dependants and it is not a joint mortgage. (The lender will take possession of your house, sell it to get their money and the rest goes to your estate.) X No, if you have enough life cover already.
Mortgage payment protection insurance (MPPI). Also called accident, sickness and unemployment insurance (ASU)	Meets your mortgage payments for one or maybe two years if you are unable to work because of illness or unemployment.	√ Yes, if the cover clearly applies to you – for example, if you are a permanent full-time employee in good health. X No, if you have other sources of income to repay the mortgage in the event of illness or unemployment. X No, if cover would not apply to you, which is possible if you are a contract worker, part-timer, self-employed or have existing health problems. X No, if you already have enough cover (perhaps through income protection insurance or your employer).

For information about insurance products, look on the Association of British Insurers (ABI) website at www.abi.org.uk