As New Zealanders we have an unusual attitude to preparing for things that could go wrong in our lives. The old, "She'll be right" attitude sells the perception that we are laid-back and positive about the future, but it also suggests we're naïve in our belief that nothing will go wrong. This book was written to provide a bit of a wake-up call to New Zealanders, and to reassure them that you can prepare for adverse events without necessarily becoming a pessimist or paranoid worry-wart. To the contrary, a wise person expects the best but plans for the worst.

This is an extremely positive book, because it gives the reader a range of little-known, practical tips and ideas about how to reduce the chances of something bad happening, and some other ideas about how to reduce the impact of those things if they do happen. No-one can plan for everything, and sometimes things go wrong. In these situations we have a safety net to reduce the pain. That safety net is called insurance. Unfortunately, most people don't understand insurance and they don't know how and when to use it. This book helps the reader to dispel a number of myths about insurance, and asks some of the burning questions that we always wanted answers for, such as:

- What's the one thing you should never say when you're involved in a car accident?
- Why do we need health insurance when we have ACC?
- Why do I need life insurance when I don't have kids?

We will answer these and many more questions inside.

Insurance Solutions

"You cannot escape the responsibility of tomorrow by evading it today."
Abraham Lincoln

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Jim Stinton & Lily Lee

WHAT HAPPENS IF...? - JIM STINTON & LILY LEE

What happens if...?

A Comprehensive Guide to Managing Risk

Jim Stinton & Lily Lee

What Happens If …?

What Happens If …?

Jim Stinton & Lily Lee

No Warranty or Liability

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About Jim and Lily

Jim Stinton (Owner)

For over 30 years Jim was playing a vital role of protecting and motivating youngsters that many had given up on and successfully inspiring change.

He had the pleasure of working alongside key people like the late Zig Ziglar, one of America's most influential speakers.

This drive and love of positive change, is brought into Insurance Solutions. For 32 years, Jim has specialised in working with business owners. Securing and ensuring continuity in business is vital to Jim's vision.

He is motivated by inspiring people to look after themselves, their families and their employees, from falling upon hard times.

Lily Lee (Director)

Lily's involvement in the insurance industry was born from a personal tragedy, when cancer struck and highlighted the lack of public sector support resulting in the death of a dear friend.

At this time she was involved in tourism and looking after people's dreams of travel. She decided to make a difference and changed into advising clients of the risks that they hold and managing those risks on their behalf. This allows them to follow their dreams and goals and have the funds to support their lifestyle.

Seventeen years later her passion for the industry has grown and her many clients stay loyal and supportive.

She enjoys meeting people every day and creatively forming personalised plans for each person. She holds your hand when you need it most and moves mountains to support you, especially at the most important time, when it´s time to claim.

Have a question? Get in touch! We´d love to hear from you.

We´re here to help! We´re friendly and available to chat. Reach out to us anytime and we´ll happily answer your questions.

Please refer to our contact details on the following page.

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Chapter 1

Why Worry About Risk?

"Life is a roller coaster"   Ronan Keating

How to Lead the Perfect Life

If you play golf, you'll be familiar with a "Mulligan" shot. This is where you play a shot and if you don't like it, you can try another without a penalty. It allows you to play the perfect game. Could you picture living your life like that? Imagine trying something, making a mistake, and doing it all over until you get it right. Wouldn't life be wonderful? It would seem the key to living the perfect, happy life is to make sure nothing ever goes wrong.

Life is Not Always Smooth Sailing

Unfortunately life isn't like that. No matter how careful we are, things can and will go wrong. Only a fool would think they could prevent every problem or worry life brings. But there are plenty of things we can do to avoid unnecessary problems and minimise our worries.

Life is truly a roller coaster, with peaks and troughs. This book will provide you with practical tools to reduce the number of troughs, and to make those troughs as shallow as possible. If you can be better at avoiding problems, or reducing their impact, you will live a happier life.

Show us a person who has led a long and happy life, and we will show you someone who knows how to foresee and avoid trouble. Have you ever met people whose lives are a series of catastrophes? They seem to go from one disaster to another. Most people would settle for a life where only two or three major events have gone wrong for them. We can cope with that. We want to share some ideas with you that will help to reduce the number of problems and mishaps, and to reduce the impact if any of those problems arise.

Stress Robs Our Happiness

We often feel stress when things go wrong. Doctors say stress is good for us, but only in short bursts. If we live in a constant state of stress, we'll be unhappy and our health will inevitably suffer. People who suffer from continual stress are worried about things that may or may not happen in the future. This fear-driven response is not only a waste of energy, it paralyses people so they cannot take positive action to preventing any problems. But there is another way.

Take Control Over Stress

They say the only thing we can guarantee in life is death and taxes. But we would suggest a third guarantee: “That things will go wrong in our lives.” So it makes sense that we plan for mishaps and put in place sensible strategies to cope with them *before* they happen, and *when* they happen. This isn’t as difficult as you may think.

Even though things will always go wrong in life, sooner or later, it seems much of our stress and worry is caused by problems that could have been foreseen and avoided. Have you noticed that people handle stress and risk differently?

Your Risk Personality

What words would you use to describe someone who lives their life without ever thinking about anything going wrong? Some people would call them an optimist; but we would call them idealistic. There are no guarantees in life, and things will go wrong from time to time. Only a fool would walk around with blinkers on, expecting everything to go their way all the time.

What about the other person who lives a stressed life, always worried that things will go wrong. Rather than just being pessimistic, we would describe such people as unnecessarily fearful and paranoid. Nothing goes wrong *all* the time, unless you are incredibly unlucky, reckless or stupid. It is not the intention of this book to make you worried or paranoid about things going wrong in your life. On the contrary, we've written this book to give you confidence that you can eliminate most of the things that can go wrong in your life, and that you can mitigate the losses when they do go wrong. That presents us with a wonderful opportunity to improve the quality of our lives.

New Zealanders' Attitude to Risk

We can sometimes get in our own way and be our own worst enemy. The old Kiwi attitude of, "she'll be right, mate" is fine when things are going well, but it makes us look foolish when they inevitably go wrong. There is simply no substitute for good planning and effective risk management. The poor ostrich has earnt an undeserved reputation for sticking its head in the sand to ignore danger (this is a myth; when ostriches are in danger they run away – very quickly). Yet many of us live every day naively hoping nothing will go wrong – and then it does!

But it doesn't have to be this way.

Risk Management for Beginners

This process of identifying potential problems, prioritising them and either avoiding or reducing the effect of them, is known as "risk management". Everybody is involved in risk management every day. You are managing risk when you put on your seat belt, wear your sunglasses, lock the front door of your house, buy from a retailer with a money-back guarantee, get a warrant of fitness for your car, purchase a warranty with your new appliance, or take an umbrella with you on a cloudy day.

Managing risk is a basic survival technique. Even animals do it. For example, elephants and pigs bathe in mud and use it as a sunblock. Birds will preen their feathers to ensure they will fly efficiently and safely. When wild animals are thirsty, they do not just walk down to the watering hole. They spend a lot of time looking around to assess the dangers of predators stalking them. Some animals, including the octopus, have the ability to camouflage themselves to match their surroundings. This is a classic risk management technique, to reduce the chances of predators seeing them. A skunk has a unique and unpleasant way of deterring predators. Similarly, a rattlesnake uses its rattle to ward off potential attackers. Animals don't just manage risks of injury or death, they also do things to protect their property. A leopard will make a kill and take the carcass up a high tree to reduce the chances of another bigger animal stealing it.

Wouldn’t it seem very odd if an animal ignored all its instincts and acted in a carefree way? We doubt it would take long before they paid the ultimate price for their lack of judgement.

So, if animals know how to manage the major risks in their lives, we should do even better, given our intelligence and our ability to learn from each other. There’s a saying that we should “learn from our mistakes”, but we much prefer to learn from other people’s mistakes.

Our ability to communicate, remember and pass on knowledge is an incredible advantage when it comes to avoiding trouble in the future. We remember with great sadness when a Department of Conservation platform gave way, killing several people standing on it. An investigation later revealed that the platform had been built with nails, when it should have been constructed using screws, nuts and bolts. While this accident was an unnecessary tragedy, there was a great deal of good to come out of it as well. It transformed the way health and safety was viewed in New Zealand. Until then, many people were ambivalent and even flippant when it came to health and safety. That event, and others (particularly the Christchurch earthquake), have finally made us aware of the need to be vigilant when it comes to keeping ourselves safe. This book is not limited to just looking at things that jeopardise our health and safety. It is also concerned with other serious and harmful losses including damage to and loss of property.

Better Sooner Rather Than Later

One of the golden rules of risk management is: “If a catastrophe is likely to occur, it’s always easier and cheaper to address the problem before it happens.” We guess this is similar to the old adage: “Prevention is better than cure.” Either way, the reality is that it is naive to adopt a “she’ll be right” attitude when it comes to living your life. Only a fool would cross their fingers and think they will just solve any problems as and when they come along. For some things, this will be too late. For most other things, it will be too expensive.

Be Sensible Not Silly

We don’t want you to be paranoid about everything that can go wrong in your life. People who live like this are called “worry warts” and they do not lead happy and stress-free lives. It is naive to think we could predict and plan for every contingency. But neither should we go to the opposite extreme and assume nothing will go wrong. That is equally naive. Instead, we suggest you live somewhere in the middle – where you identify the important risks and put sensible plans in place to manage those risks.

We expect you’ll already be managing some risks well. But we also expect you will be ignoring others, thereby putting yourself and your family at unnecessary risk. By the time you read this book and apply the principles in it, you will be in a far better position than you are at present. The book will show you:

- how to identify the major risks in your life
- how to prioritise those risks so you are addressing the most important ones first
- how to implement practical strategies to manage those risks effectively
- how insurance can provide a valuable safety net for the risks you can’t prevent happening.

Let’s get started by identifying the sorts of risks and problems that affect our happiness.

Chapter 2

Identifying the Main Risks

"Life is not easy. We all have problems – even tragedies – to deal with and luck has nothing to do with it."
Joan Lowery Nixon

You Can't Address Every Risk

Not all risks affect you the same. Some will be a mere inconvenience; others will be devastating. A friend of mine lost his driver's licence for six months and it caused him all sorts of trouble, including his ability to work, to visit his mates when he wanted and to play golf (a game he adored).

How to Prioritise Risks

We don't want to worry about everything that can go wrong. Imagine how much time, effort and money we would waste trying to manage the risk of every conceivable thing that might go wrong in our lives. Over 90% of what we worry about never happens. There are two factors to take into account when deciding which risks to prioritise:

- How likely is it to occur (*likelihood*)?
- What is the impact of the consequences, if it does occur (*severity*)?

We have shown these factors in the table below, with examples.

Severity	*Severe*	1 sudden death; major disability; bankruptcy; divorce; stolen car; assault; stolen ID	2 burglary; house fire; redundancy; car accident; serious sports injury
	Mild	3 loss of tooth; cracked windscreen; broken nose; graffiti on fence	4 loss of phone; speeding ticket; broken arm/leg; car breakdown
		Possible But Not Likely	*Quite Possible*
		Likelihood	

It is essential to manage the risks in quadrant 2 because they are the most severe and most likely to happen. Next, we should address the risks in quadrant 1 because, although they are less likely to happen, the consequences are still very serious if they do.

We can focus on quadrants 3 and 4 if we have the time and resources. But we do not give much attention (if any) to risks that have little or no consequences and which are unlikely to happen.

In this book, we want to focus on the risks in quadrants 1 and 2 and we will refer to these as your “major risks”.

Five Risk Categories

Even though there are countless things that can go wrong in our lives, we believe they can be narrowed down into categories. We would suggest 95% of people’s worries fit under five categories, i.e. where we (or someone we love and are responsible for) suffer the following:

1. Loss of health, including death
2. Loss of income, short term or permanent
3. Loss of a serious relationship
4. Loss of money or property, including damage to it, e.g. house, car, possessions, scam
5. Loss of a freedom or ability, e.g. loss of driver’s licence, deportation, privacy breach, loss of credit rating, loss of reputation, imprisonment.

Exercise 1:

While all these areas are important, which are the most important to you right now? Place a “1” alongside the most important, a “2” next to the second most important, etc. to around that number above. This means you will invest more time, money and effort to protect yourself against risk 1 than risk 5. Congratulations, you are now in the top 5% of New Zealanders who have made the effort to identify the major risks in their lives. But we'd like you to break these areas down even further.

What Are Your Major Risks?

In this section, you will be more specific in identifying your top 10 major risks. Because we can’t predict the future, and everyone’s situation is different, it is difficult to decide which risks to address and which to ignore. The insurance industry has released some useful information to guide us as to health risks. The table below shows the likelihood of a non-smoking 50-year-old male suffering a range of adverse events within the next 10 years.

Adverse Event	Chance	Ratio
Death	8%	1 in 12
Total/permanent disability	4%	1 in 25
Trauma/critical illness	15%	1 in 7
Disabled > 6 months	8%	1 in 12

The subject has an 8% chance (or approx. 1 chance in 12) of dying in the next 10 years. That’s the same chance of you choosing a number between 1 and 12, and someone else guessing that number correctly the first time. The events in the table are all insurable. Let’s look at the most likely events, whether or not they are insurable, to affect New Zealanders.

If the 50-year-old male in the above example was a smoker, his risk of death and risk of a trauma/critical illness would double! Interestingly, alcohol consumption does not affect these figures much, unless the person is a heavy drinker.

So let's break these risk categories down further, into specific events …

Over the years we have heard about and experienced many events that affect our lives in a negative way – things that go wrong and rob us of our happiness. So we have listed 50 common things in a table on the next page. Of course this is not a complete list, and we expect your list would differ if you wrote one. But we're also confident that you (or people you know) have probably suffered most of these things between you.

Exercise 2:

Place a tick next to 25 of the events shown on the table that you consider major risks in your life. Because the list is not exhaustive, you may think of other events that could affect you. We want to capture those events too, so please turn to the page immediately following the table and complete Exercise 3 on page 15.

Alzheimer's disease Amputation Arrest Assault Bankruptcy Broken limb Burglary Burns Cancer Car accident Car breakdown Computer crash Data loss Death (yours) Death (loved one) Dental emergency Deportation Depression Diabetes Divorce Drowning Failing exam Fine or penalty Food poisoning Hair loss Head injury	Heart attack House fire Imprisonment Loss of custody Loss of cell phone Loss of driver's licence Loss of eyesight Loss of hearing Loss of reputation Loss of teeth Medical misadventure Mental illness Mechanical problem Mortgagee sale Parkinson's disease Privacy breach Redundancy Separation Speeding ticket Sports injury Stolen car Stolen credit card Stolen laptop Stroke Unwanted pregnancy Work injury

Exercise 3

Once you've gone through the items on the list, add anything else you think should be added:

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Chapter 3

How to Manage Risks

"Your life is a result of the choices you make. If you don't like your life, it is time to start making better choices."
Anon

Now that you've identified the main risks in your life, you need to develop some strategies to manage those risks. There are five ways to do that.

Five Ways to Manage Any Risk

We have to accept that things go wrong in life. Some things are foreseeable, some are not. Some things are avoidable, some are not. We want to help you put effective plans in place so you can better manage those foreseeable, avoidable risks in your life. There are five ways to deal with such risks:

1. Accept the Risk

This is where you have decided that if a particular risk occurs, you'll take it on the chin and deal with the consequences then, but not until then. Events such as:

- A rugby player accepts the risk of an injury, in return for the fun of playing.

- An entertainer goes on stage, accepting the risk that some people won't like their performance.
- A gambler places a bet on the roulette table, knowing there is a high chance he will lose his money.

2. Avoid the Risk

This strategy involves eliminating the risk altogether, by not engaging in the activity that generates the risk.

- Someone with a fear of flying might decide to take a car or boat instead.
- As we get older and become more susceptible to injury, we stop doing risky physical activities such as horse-riding or heavy lifting.
- Some business owners avoid the risks associated with staff by hiring contractors instead.
- Museums often place replica artwork on display to avoid the original being damaged or stolen.

3. Reduce the Likelihood of the Event Happening

This is where strategies are put in place to reduce (but probably not eliminate) the chances of a loss or adverse event happening in the first place.

- A council will install speed bumps in the road to reduce the chances of people driving fast and crashing.

- A sportsground will erect high fences with barbed wire to reduce the chances of people trying to enter the ground without paying.
- A homeowner will install a full security system, and make it visible, to deter burglars.

4. Mitigate the Impact

This is where you accept that the loss or adverse event will happen, but you put things in place to reduce the follow-on consequences.

- Installing a sprinkler system in your premises does not stop the fire from happening, but it does limit the damage it would otherwise cause.
- Screwing your china cabinet to the wall will not avoid an earthquake, but it might save the contents if an earthquake struck.
- If a shopkeeper raises his stock 50 centimetres off the ground, he won’t avoid the flood but he might significantly reduce his losses.

5. Transfer the Risk

This is where the risk remains, but responsibility for it is passed to a third party.

- A large retail chain will refund its customers for faulty goods, but the cost is actually paid by the supplier.
- When a business sells its hire purchase contracts to a factoring company, it has passed on the risk of the customer defaulting under the loan.
- When we insure our home, we pass on the risk to the insurance company to make good any fire damage (amongst other things).

Specific Risk Management Plans

We will now share strategies to manage six specific risks that affect most people. In choosing these risks, we looked for events in our lives that carry a medium-to-high chance of happening; and if they do happen, the severity (or seriousness) of the consequences is also medium to high.

These are not the only risk areas, and they may not be your top six areas, but we expect at least one or two of them will apply to you. The risks we will focus on include:

1. Burglary or Home Invasion
2. Redundancy
3. Car Accident
4. House Fire
5. Relationship Break-Up
6. Retiring Without Money.

In the next section we will show you how to develop a risk management plan for each of these risks. The plans will enable you to develop your own risk management plans for other risks.

1. The Risk of a Burglary or Home Invasion

We want to discuss burglaries and home invasions because statistics show they are becoming more common and more violent. There is a good chance that you or someone you know has been the victim of a burglary or home invasion. The saying goes, “A man’s house is his castle” but criminals today think otherwise. They feel entitled to break into and enter homes in broad daylight, in search of anything that can be carried easily and converted quickly into cash. Much of this rise in break-ins, and the boldness and violence used by the intruders, is attributed to drug use. Addicts, especially those hooked on methamphetamine (or P) are desperate to pay for their next fix and will do anything to raise the cash needed to pay for their habit.

There are three types of burglar:

- The professional – this burglar only seeks out the prime targets, i.e. mansions with expensive, high-end possessions. He has all the equipment, rarely gets caught (if ever), and not even the best security systems will stop him.
- The semi-professional – this is the burglar who breaks into houses regularly in search of anything valuable, possibly stealing to order; he probably has a criminal

record. He is usually there to steal items, not to harm or terrorise people.

- The amateur – this is the one-off opportunist, possibly a young person or gang recruit, or drug addict. He doesn’t really know what he’s doing and any alarm will deter him. He is unpredictable and, if interrupted, may get violent in his desperation.

The loss to the victim of a burglary is more than a financial one. Many people are too afraid to stay in their own homes after a break-in, for fear the offenders will return once the stolen property is replaced. Others feel their personal privacy has been violated.

A friend of mine discovered a knife-wielding burglar in his home in the middle of the night, and his young daughter was screaming with fear. The burglar was high on meth (making him stronger, more violent and more unpredictable) and had breached a fully fenced and gated property. He stole the family’s Porsche, but he took much more than that from this nice family – he took their sense of safety. They were so traumatised, they sold the house a few months later and moved overseas.

Facts About Break-ins

Burglars are deterred by the presence of a dog, especially a yappy one, because they alert people that something is amiss.

Over 60% of burglars said they would move on from a home with a security system. A friend of mine visited men in prison and many of them were serving time for burglary. When asked what the single biggest deterrent was, they said it was good lighting.

The average value of goods stolen in a burglary is between $3,000 and $6,000. The most popular items for thieves are cash, portable tools, laptops, televisions, mobile phones, weapons, drugs/medications and jewellery. Someone is home during a third of all burglaries. Most occur between 10 am and 3 pm, and last less than 10 minutes.

Access is usually gained through an open or unlocked window or door (over 30% of burglars enter through the front door). Burglars usually go to the master bedroom first. The offender usually lives within a two-kilometre radius. Rather than selecting “ideal suburbs”, burglars look for “ideal houses” which are properties and houses with easy access.

Less than 15% of burglaries in New Zealand result in arrests, and even less result in the stolen items being returned. With crime increasing, and police budgets decreasing, they tend not to place a high priority on burglaries unless victims are harmed. This means we, the public, need to make our own plans to protect our home and contents.

The Typical Burglary

This is how most burglaries take place: the burglar parks his car a few doors down the road. He walks onto your property and knocks on the front door. If someone answers, he has a prepared story about selling door-to-door, or that he is looking for someone but clearly has the wrong address. If this happens to you, call the police. If no one answers the door, he tries the handle to see if it unlocked. If it is locked, he moves to the back door in case that is unlocked. He also checks for open windows. He will gain entry by force if necessary. He won't mind if an alarm sounds as it usually takes 10 minutes or so for anyone (security company, police, neighbours) to turn up. By then he has done his walk-through and made off with what he wants.

Possible Causes

A burglary or home invasion is most likely to occur:

- if the property perimeter and dwelling has easy access
- you make it known you have valuable items in your home
- the property is vacant much of the time.

You provide a burglar with easy access when you have a clear driveway, open doors or windows, no visible security system, no lighting (for burglars who operate at night) and no one is home. Burglars target properties that back onto school grounds, parks, reserves or public walkways.

How Exposed Are You?

How devastated would you be, financially and emotionally, if your home was broken into? How easily could you replace your valuables? How many of those valuables are actually irreplaceable because of their rarity or sentimental value? How prone is your neighbourhood to burglaries and break-ins? How robust and comprehensive is your physical security?

A friend of mine has restored a classic car. He has poured his heart and soul into it, not to mention many thousands of dollars. It is like part of his family, and if it was stolen, no amount of money would compensate him fully.

What about the trauma involved? Do you have children who could be emotionally scarred for life if they witnessed a burglary in their home?

How to Manage the Risk of a Burglary

There are two ways to manage this risk:

1. Reduce the Chances of a Burglary

The most effective way to reduce the chances of being burgled is to place as many barriers as possible for burglars to enter and exit your property, and to get into your home. We have compiled a list of ideas below to do that. Not every suggestion will apply to you or your home, but if you use 4-5 strategies you will probably reduce your chances of a burglary by as much as 90%.

- Fence your property as extensively as you can. Comply with council bylaws, especially concerning height requirements.
- Install a sturdy, lockable gate.
- Install ample lighting, including sensor lighting.
- Fix a “Beware of Dog” sign at the gate, whether you have one or not.
- Place a large set of men’s boots at your front door. This is especially relevant for women who live on their own.
- Place a dog bowl at your front or rear door, to feed your real or imaginary dog.
- Fix security cameras in highly visible areas. If you can’t afford a security system, you can purchase and install “dummy cameras” for around $30 each and they are reasonably convincing.
- Plant aggressive hedging and plants, including thorny bushes, around your windows.
- Install a peephole in your front door. Never open the door until you know who is on the other side. Ask for identification to be shown or slid under the door, and

ring their company to verify their identity. We prefer solid wooden doors to glass doors and ranch sliders.

- Park your cars as close to the house as possible. Lock the car doors and set the alarm. Never leave valuables in plain view.
- Install coupling locks on your trailer, caravan or boat.
- Install deadbolts and door chain locks on all your exterior doors.
- If you have a ranch slider, be aware that they are so easy to jemmy open. This will be your weakest point of entry. Install a deadbolt. Insert a wooden rod (a cut-down broom handle is perfect) between the door frame and far edge of the sliding door, which prevents the door being forced open.
- Check the latches on every window and replace any loose or broken ones.
- If you like to leave your windows open, install window security latches on every one.
- Never leave a spare key under the doormat or above the door casing (too obvious). If you hide it under a rock (or similar) make sure no one can see you placing it there.
- Do not leave tools or ladders outside.
- Do not accumulate stacks of paper, cardboard or other flammable material near your home or buildings.
- Put a lock on your letterbox to secure your mail.

- Secure all outbuildings, especially those with flammable liquids inside.
- Train your dog to sound the alarm if strangers enter your property (not every dog will do this). Never reprimand or punish your dog for barking at strangers – reward him instead.
- Establish a neighbourhood watch group in your street.
- Get on well with your neighbours.
- Let your neighbours know when you go away.
- Have your mail collected when you go away.
- Do not advertise your recent purchases. If you buy an expensive appliance, e.g.TV, dispose of the packaging carefully. If recycle, fold packaging so the printing is on the inside, and squash it down as small as possible.
- Invite a friend to see if they can break into your property or home.

2. Reduce the Impact of a Burglary

Let’s now look at strategies that will reduce the impact if your home *is* burgled:

- Hide your valuables and cash (never leave them in plain sight). When we’ve had a lot of cash in my home, we have hidden it in my freezer. With cash, remember the risk of fire too.

- The average time spent inside during a burglary is 7–9 minutes. Burglars only have time to search in obvious places. For this reason, store your valuables in basements, attics or in children's bedrooms as burglars wouldn't expect valuables to be stored there.
- Buy a cheap jewellery box, fill it with imitation jewellery, and conceal it in an obvious hiding place, e.g. in your drawers. The burglar will be more likely to leave, thinking he has achieved his goal. Do not leave cheeky messages like "Gotcha!" in case they decide to return.
- Devise an emergency response plan for when an intruder enters your home.
- If you discover a burglar in your home, talk calmly to them, give them any item they want; never place yourself between the burglar and an exit.
- Label valuables using an engraving pen.
- Take a photo of your most valuable possessions, and record their serial numbers with proof of purchase if you still have the documentation.
- Because it is unlikely you will lose everything in a burglary, establish a contingency fund equal to the cost of replacing your most valuable items (second-hand value only, as you will be able to replace most things on Trade Me). This could be the same contingency fund you use for your loss-of-income scenario. Just be aware

that if one event occurs, you need to top up the fund as soon as possible.

- Invest in a good quality safe. A cheaper option is to buy a “book safe” which looks like a book but it has a lockable compartment to store your smaller valuables.
- Take out adequate home and contents insurance. Most policies will cover your belongings (including jewellery and cash) against theft, fire or loss. You can reduce the premium by excluding items older than 10 years or furnishings older than five years, or by reducing the excess or the amount of cover.

No matter how few possessions you own, we are confident that some of the above strategies will apply to you. Remember, a burglary makes you vulnerable to more than financial loss.

2. The Risk of a Redundancy

Our ability to earn money is one of our most valuable (and underrated) assets. Very few things would have the same devastating effect on a household than losing its regular source of income. The problem is we take this ability for granted. We assume it will keep coming in each week, until we retire. But the reality is that it can be taken away, without notice, at any time.

A comedian once said, “I have enough money to last the rest of my life – as long as I die by next Thursday.” It’s a funny line, but unfortunately it describes an all-too-common reality for many New Zealanders.

How Exposed Are You?

How long could you survive without your current income coming in every week? If your answer is 12 months or more, you’re reasonably well placed and this section will not apply to you. But if your answer is less than eight weeks, you are at risk and you need to read this section.

Possible Causes

A sudden and sustained loss of income is most likely to occur through:

- an injury or illness, including a disability

- a redundancy due to the business struggling financially or closing down
- being laid off for poor performance or your role no longer being required.

Each of these causes must be managed using different strategies. The risk of losing the ability to earn, due to injury or illness, is a complex one and rather than covering it here, we suggest you discuss it with your insurance adviser. Nor will we discuss being laid off because of a struggling business because, as an employee, you have very little control over the stability of the company you work for. So let’s consider some useful ways to manage the risk of being laid off for poor performance or your role no longer being required.

How to Manage the Risk of a Redundancy

There are two ways to manage this risk:

1. Reduce the Likelihood of Being Laid Off

The most effective way to reduce the chances of being laid off is to increase your value so your employer cannot let you go. Here are some ways to do that:

- Secure your tenure (position) through a legal document, i.e. an employment contract. If you already have one, are you past the usual 90-day trial period? If so, make yourself familiar with the grounds upon which your employer can dismiss you. If your position in the business is uncertain, you might consider getting legal advice to consider your options.

- Accept and ask for as much training and coaching (supervision) as you can. Workers get fired for under-performance when they consistently fail to hit expected outcomes. If you can pre-empt your employer's concerns and ask for training and coaching before they raise the issue, you'll be ahead of the game. But you'll need to embrace and implement the training and coaching, to ensure your results improve.
- Make sure you know what your employer expects of your role, in terms of specific results. No two people will agree exactly about what "a job well done" means, so you need to clarify exactly what your employer wants in terms of specific, measurable outputs, e.g. number of sales, units produced, hours billed, customers won, etc.
- Make your role indispensable to the business. Your employer will be more reluctant to lay you off if it would expose the business to unacceptable risk or it would cost the business time, efficiency, productivity or money.
- Make your role a profit centre rather than a cost centre. In tough economic times, the first things to go are the unnecessary overheads. Conversely, it wants to retain the parts of the business that bring in money.

- Create systems and products that either save your employer money, or makes them money. Better still, make sure you're the only person who knows how to use those systems.
- Be the main link between the business and its best customer/s. The employer will be worried that if you leave, the key customer will join you at your future place of business.
- Create a database of customers who only want to deal with you. While few of these customers might be the key customer/s referred to above, collectively they would represent a huge loss to the business if they left to join you at another company.
- Establish client seminars that only you can run and make them as successful as possible.
- Acquire or develop specialised skills that would be difficult or impossible for your employer to replace in a hurry.
- If your role, or part of it, is sales based, consider asking your employer if you could move to a "base plus commission" package. This strategy reduces your risk of being laid off because your base component is less of a burden on the company's finances. This is loaded with other risks so think about it long and hard before you do it. You certainly need to be confident about your selling skills.

- Learn as much as you can from your employer. While this intellectual property belongs to the business, your employer will be more reluctant to let you go if all that knowledge could benefit the opposition.
- For this reason, maintain strong links with your employer's competitors. If they know you, like you and respect your ability, they might be willing to offer you a position. If you get laid off, it's nice to know there are other options available.

2. Reduce the Impact of Redundancy

Let's now look at strategies that will reduce the impact of losing your job if you *are* laid off:

- Create your own personal brand. This strategy may not stop you being laid off, but it reduces your financial reliance on your current employer. It makes you much more employable when you go job-hunting.
- Keep your CV up to date, with a glowing letter of reference from your current employer. It might be awkward to ask for it when things are going well and you don't have any intention of leaving, but it is much more difficult to ask for a letter of reference when you've been paid off (especially if it is for poor performance or worse).

- Establish another source of income on the side. This might be a part-time consulting business or an online business selling in-demand products. Be careful not to choose a side-line business that may conflict with your day job. The challenge with this option is that you have a full-time job, so your down time is limited and precious. For this reason, you might want to choose a part-time business that brings you a great deal of satisfaction, e.g. a hobby or passion area, such as photography, painting, cooking, singing, writing, building, gardening.
- Invest your money in assets that produce consistent passive income. This could include bonds (low yield), shares (high risk) or real estate (high entry cost).
- Establish a contingency fund equal to (say) eight weeks of your net salary. Increase or decrease this amount, depending on how quickly you think you can find another job. This is an under-rated risk management strategy that most people overlook. It is so effective because the fund can be used to cover a range of risks, such as a sudden loss of your partner's income, a huge and unforeseen expense comes up, e.g. you have to attend a funeral overseas, etc. A single fund works well because it is unlikely that all these catastrophes will happen at the same time. But you must be disciplined enough to resist

dipping into this contingency fund.
If you don’t trust yourself, give a trusted friend or relative co-signing rights before any withdrawals can be made.

- Take out adequate income protection insurance. Such a policy will cover a number of events, including a redundancy or an illness that prevents you from working. You can reduce the premium by opting for a longer stand-down period and/or reducing the monthly payment you’d like to receive. We will cover the issue of income protection insurance in more detail in Chapter 4.

No matter how secure your job is, we’re confident that some of the above strategies will apply to you. Take action and start implementing them today.

3. The Risk of a Car Accident

How Exposed Are You?

One of the most high-risk activities we routinely undertake in life is driving a car, especially in New Zealand where our open roads have no barriers on them. Yet we are amazed at how lax we can get in regard to the risks associated with driving a one-tonne machine at 100 kilometres per hour alongside other cars, and towards oncoming vehicles.

Possible Causes

Most car accidents occur because of the following:

- driving too fast
- driving under the influence of alcohol or drugs
- driving in a careless, reckless or dangerous way
- driving an unsafe car.

How to Manage the Risk of a Serious Car Accident

We all know about the need to wear seat belts and to avoid alcohol when we're driving, so we won't go into those here. But we'd like to offer some other strategies that will help, and which we see other motorists ignoring regularly:

- Invest in good quality tyres.
- Maintain your brakes to a high standard.

- Install the highest quality wiper blades.
- Always use your indicators when turning or changing lanes.
- Turn on your lights when visibility lessens (don’t wait until it is dark). Some drivers put their lights on when they turn their wipers on.
- Never swerve suddenly to miss an animal on the road.
- Do not smoke or text while you drive.
- Never eat hot food while you drive.
- Always ensure that if you have a cat or dog in the car, it is adequately restrained.
- When travelling on unfamiliar roads at high speed at night, use your GPS to predict straights and bends in the road.
- If you are tired, pull over and take a rest or ask someone else to drive.
- Adopt a passive approach to driving, rather than an aggressive one.
- Only overtake when you are 100% sure – if in doubt, don’t pull out.
- Let faster traffic pass you (put aside your pride).
- Leave more room than you need between you and the car in front.
- Stop putting yourself under time pressure, and factor in an extra 10 minutes onto your drive time.
- Store an emergency breakdown kit in your boot.

Something to Think About

A tourist was once asked what he thought of New Zealanders. We expected him to say how nice we were, but he said, “New Zealanders are so friendly …… until they get behind the wheel of a car.” We think motorists, but particularly men, need to drive more defensively and conservatively. “Driving to win” puts us, our families and others on the road at risk.

4. The Risk of a House Fire

How Exposed Are You?

A house fire is worth focusing on because there are so many potential causes of a fire, and the consequences can be catastrophic, i.e. you can lose your house and all your possessions, as well as losing your family! When a smoke alarm goes off, you only have 1–2 minutes to get out of the house before smoke and fire traps you.

Possible Causes

According to the New Zealand Fire Service:

- 25% of house fires start in the kitchen
- 50% of victims of a fire were careless with cigarettes, matches or lighters
- 80% of fires did not have working smoke detectors installed in the home
- 50% of fires involve alcohol.

How to Manage the Risk of a House Fire

- Install and maintain the best-quality fire alarms.
- Replace the alarm batteries at least once a year.
- Buy a good-quality extinguisher, suitable to extinguish a cooking fire.
- Buy a fire protection blanket.

- Never walk away from oil boiling on the stove.
- Develop a routine for checking stove elements, etc. before leaving the house or going to bed.
- Invest in an iron that turns itself off.
- Avoid smoking indoors.
- Do not cook when you’re drunk.
- Store highly flammable liquids outside.
- Have your wiring checked by an electrician, especially if you have an old house.
- Limit the number of appliances per outlet, and install extra outlets if required.
- Check your electrical leads for signs of wear and tear.
- Clean your oven every six months at least.
- Do not use candles (use the imitation ones instead).
- Have your chimney swept, and cover the top if you never use it.
- Do not leave flammable debris around your home, especially if the public have easy access to your property.
- Keep your swimming pool full (or know where the nearest pool is).
- Teach your family good habits and awareness.
- Develop a fire escape plan and practise using it.

5. The Risk of a Relationship Break-Up

How Exposed Are You?

What’s worse than a bad marriage? Two bad marriages! New Zealand divorce rates are at an all-time high. There are more single-parent homes than ever before. And tragically, more and more New Zealanders (young and old) are taking their own lives because of their relationship break-ups. So we felt we couldn’t write a book about managing trouble in life without talking about how to prevent relationship break-ups. This is not a marriage guidance book, but we wanted to offer some simple tips to reduce the chances of you going through a relationship break-up, because many people say it was one of the most painful experiences of their lives.

When things go wrong in our relationships, we often wonder if we’d be better off alone (or with someone else). But rather than throwing the baby out with the bathwater, we would encourage struggling couples to be willing to stick with and work on their relationships. It’s often less risky and less work fixing the problems in your current relationship than trying to find someone else you’d be happy to spend the rest of your life with.

Possible Causes

Relationship counsellors report that the major causes of relationship problems are:

- Arguments about money
- A lack of appreciation for each other
- A loss of trust, caused by things like unfaithfulness, criticism, lies and withholding information
- Poor communication.

So if you want to improve the quality and strength of your relationships, work harder in these areas. Let's look at some practical ways to do this.

How to Manage the Risk of a Relationship Break-Up

As part of my job we get to meet lots of people. We know many happy couples and have noticed they treat each other very differently from unhappy couples. So we have made a list of "healthy relationship habits" based on my observations of happy couples. If you follow these consistently, we expect your relationships will improve and grow stronger:

- Show you're willing to give and take. Only bullies need to get their own way all the time. Show us a happy couple, and we'll show you two people who compromise often.

- Forgive each other. Everyone makes mistakes. Rather than waiting for your partner to apologise or change, just love them exactly where they are, and show them that you can be the bigger person.
- Recall the things that made you fall madly in love with them. They are the same person, even though some of their actions may have changed. But they can change their behaviours.
- Focus on the 90% (their good points) and ignore the 10% (their faults).
- Remind yourself that you're not perfect either.
- Complain about them less and compliment them more (give them at least three compliments for every complaint)
- Especially for men:
    a) Tell and show her you love her, often (and do it sincerely).
    b) Be more romantic, not only on her birthday and not just to get sex.
    c) Calculate the price of trying to win all the time.
    d) Let her know that in your eyes she is the most beautiful woman in the world (and avoid saying how attractive other women are).

- Especially for women:
    a) Stop nagging him. It doesn’t work and it only upsets both of you.
    b) Do not criticise him in front of others.
    c) If you want him to do something, be specific.
    d) Tell him how proud you are of him. Find something specific to praise him about.

6. The Risk of Retiring Without Money

Did you know that you could spend a third of your life in retirement? A major risk is that when you get there, you won't have the money you need to enjoy a long and comfortable retirement. The amount of money required when you retire depends on the quality of life you want, and how long you expect to live. According to Statistics New Zealand, we're living longer these days. On average, 80% of 65-year-old men can now expect to live until they're 90, and 65-year-old women until they're 94. Futurists tell us we'll probably live even longer because of advances in medicine and technology (apparently for every four years you live from today, your life expectancy will increase by one year).

How Exposed Are You?

Whatever you were earning when you retired, you will need two-thirds that amount just to maintain the same standard of living during your retirement. So if you are a couple who earned $2,000 per week just before you retired, you will need $1,322 a week to maintain the same standard of living during your retirement. The pension (if it is available to you both) will pay around $672 per week, so how will you make up the shortfall of $660 every week, or $34,320 per year, during the 30 years of your retirement?

If you owned a capital asset or savings of around $1 m, it would allow you to meet the above shortfall. So the issue to resolve is: how to manage the risk of a lack of retirement funds.

Possible Causes

Your lack of retirement funds could be caused by:

- an inability to save (spending too much)
- taking on more debt (spending more than you earn)
- a major financial setback, e.g. bankruptcy, mortgagee sale
- redundancy
- major illness or injury
- death of one party
- marriage/relationship break-up.

The likelihood of these events happening is significantly affected by how much time you have until your retirement. If you have less than 10 years before you retire, you have little margin for error, and your options are fewer. If you have say 30 years or more before you retire, you have more options and can take more risks.

How to Manage the Risks

You could adopt a range of strategies to ensure you have a million dollars on your retirement, including the following:

- Establish a savings programme and investment plan immediately.
- Get budgeting advice and coaching to control your expenses.
- Plan to pay off expensive debt as quickly as possible.
- Sell all assets you do not need, and use the proceeds to fund the strategies outlined here.
- Start your own business.
- Create a plan to purchase an investment property.
- Take out income protection insurance.
- Take out trauma insurance.
- Take out total permanent disability insurance.
- Take out reciprocal life insurance policies.
- Join a KiwiSaver scheme.

Chapter 4

What Role Does Insurance Play?

"When you love someone, you protect them from the pain, you don't become the cause of it." Anon

Imagine if there was no such thing as insurance. We suspect home-owners would be worried about their property burning down; tradesmen would be concerned about missing work if they got injured on the job; and motorists would be worried about their car being stolen or damaged in an accident. We would have to either stop owning or doing these things, or put lots of money aside to pay for them if the worst-case scenario happened.

Insurance doesn't stop bad things happening, but it can stop a bad situation getting worse, and can alleviate the consequences if something bad happened.

Not all mishaps can be rectified by money. But money can reduce pain. An insurance friend of mine says, "If you were diagnosed with cancer, what would you prefer to receive in the mail: a get-well card, or a $50,000 cheque from your insurer?" Money won't take the cancer away, but it sure makes it easier to cope, knowing your bills are getting paid while you try to get better.

Insurance is often the final safety net to rely on, especially when all other strategies have failed and a loss has occurred. We can do things to prolong life and put off death, but we cannot prevent death from occurring. That's when insurance is so valuable.

We can prevent certain things, such as redundancy, by working for ourselves. But that would be an odd and unnecessary way to manage the risk of being laid off. It makes more sense to rely on insurance to cover an unexpected job loss.

Insurance is unique in that it creates an immediate sum of money for the insured, where none existed before. Insurance has a valuable place in our lives and when used properly, can provide an important and irreplaceable part of our overall risk management plan for our lives.

Is Insurance Necessary?

People often ask us, "Is insurance necessary?" and they get a surprise when we say, "No." Most people lived without insurance as recently as only 150 ago, so we know it is possible to live without insurance.

But the question makes more sense if we ask it this way: "How will insurance benefit us and how much should we buy?"

The Babylonians developed a system whereby if a sailing merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

While most of the answers to these questions depend on your individual circumstances, there are some guiding principles to help us.

Instead of asking, "Can I afford insurance?" ask yourself, "Can I afford *not* to have insurance?" This begs the question of whether you can afford a loss. Warren Buffett doesn't need income protection insurance or health insurance because his investments provide him with all the passive income he needs to pay his living expenses and medical bills. A person who drives a $1,000 car doesn't need replacement vehicle insurance because the cost benefit doesn't warrant it (but they will need third-party insurance). An elderly person with no dependants doesn't need life insurance, as long as their savings will pay for the funeral.

A third party may require you to take out insurance. A bank will typically require a homeowner to insure the house and to have some form of mortgage protection insurance. A finance company will require a car owner to insure the vehicle for fire and theft if the car is security for a loan.

But apart from situations where a third party requires you to take out insurance, would you consider it a necessity? Some people think not …

Insurance is a Waste of Money

We hear people complain that they have paid tens of thousands of dollars for insurance over the years but have never made a claim. They think they wasted their money. It’s a fact that paying for something you didn’t need is a waste of money. But that is not the same when you buy insurance, unless you’re buying insurance you don’t need, e.g. insuring an asset for its replacement value when the policy states that the insurer will only pay its current market value at the time of loss (its second-hand value).

Imagine if Air New Zealand complained that it had wasted millions of dollars fitting out its planes with evacuation gear and life jackets but never used them! It wasn’t a waste of money because the investment gave the company and its customers the peace of mind that safeguards were in place to maximise passenger safety.

It is flawed logic to argue that you wasted money on insurance policies you never claimed on, because:

- you weren’t to know you’d never make a claim

- the fact that you hadn’t made a claim meant nothing bad happened to you, which is a good thing – not something to complain about
- if we gave you the following choice, which option would you take:
  a) You pay $30,000 in health insurance premiums over 10 years and never make a claim, because you were in excellent health.
  b) You pay $30,000 in health insurance premiums over 10 years and receive $100,000 from your insurer to pay your medical bills and rehabilitation, because you have a string of illnesses and injuries.
- Only a fool would choose the second option. And only a cynic would get upset, stomp their feet and demand a third option like this: Pay for no health insurance and never need health care, because you are in perfect health. Oh, if life were that simple. We can’t live our life assuming nothing will go wrong, because that’s too idealistic, naive and just risky. Life seldom pans out that way. If it does, then good for you. But don’t condemn yourself (or the insurer) because nothing went wrong in your life.

In saying that, we also know people who *have* wasted money on insurance they didn’t need, or they purchased inferior products. These are the people who should be upset. This is where a good insurance adviser is so valuable.

The reality is that most people need insurance because they, or their dependants, can’t afford to take a loss.

Types of Insurance

There are two main types of personal insurance:

- Fire and General insurance: these policies cover your house, contents, and vehicles.
- Life insurance: these policies cover your life, income, mortgage payments, health and medical care.

Most people are familiar with Fire and General policies and we do not want to discuss these in great detail here. But most people we speak with have little understanding of the need for life policies and how they work. We will discuss life policies in more detail over the next few pages.

Please remember that policies vary from insurer to insurer. The information we give is general in nature. If you want more detailed information, in relation to your circumstances, please consult a good insurance adviser.

Life Insurance

How much would your family need if you died?

What does it cover?

What effect would your death have on your dependants? It is important to know that, should your death occur before you have built a large enough asset base to support your dependants, the shortfall will be met by other means such as an insurance policy.

None of us know when we are going to die, and without careful planning we could leave serious financial problems behind for our family to cope with.

What is the pay-out money for?

If the policy is owned by you, the insurance proceeds are paid to your estate and distributed according to your will. This usually means paying off all your debts and funeral expenses, with the balance (residue) going to your beneficiaries. If the primary beneficiary is your partner, they can use the money for whatever they want, including caring for your family, paying for the house or rent, covering ongoing education and childcare costs, and providing ongoing income for themselves.

Life insurance provides you with peace of mind knowing that a lump sum (or monthly benefit) is available upon death. A life policy covers you for the following:

- the ongoing financial needs of your family
- paying off your debts and liabilities.

How does it fit with other policies?

Life insurance is only triggered by your death or terminal illness, whereas most other policies pay out while you are alive.

Who should consider life insurance?

You should consider life insurance if you need to create a capital fund quickly to:

- pay debts when you die, e.g. loans, child support or tax arrears. This is crucial if your partner and family need those debts paid quickly.
- establish a capital fund for your children. This applies if all your wealth is tied up in a house and you want to leave it for your spouse to live in.
- buy out your business partner/s to ensure the business stays in your family. Another option is for your business partner/s to own a policy over your life so they can buy your share in the business (the money is paid to your estate and distributed under your will). This needs to be covered in a separate partnership agreement.

We sometimes hear young people say they don't need life cover. But a life policy can make sure their debts, credit cards and funeral expenses are paid. Plus, they can generate an instant capital fund to bless their parents, siblings or nephews and nieces. If they take this policy out while they are fit and healthy, the insurer can't deny them cover if health problems arise later.

Of course the young person still has to pay the premiums on time, and the premiums might go up because of the person's health problems. But the insurer cannot refuse to renew the policy. The main message for young people is to be proactive and take responsibility for planning their future. And most importantly of all, start early.

> "Underwriting" is the vetting process by which an insurer assesses the insurance risk of a particular applicant. The insurer then decides whether to cover the applicant and, if so, on what terms.

Income Protection Insurance

If your income stopped, how long would you survive?

What does it cover?

Your most precious asset is not your house or car; it is your ability to earn an income. If your income stops suddenly, it probably wouldn't take long before you needed to sell your house and car! Trying to cope financially without an income would mean major changes to your current lifestyle.

> "If you had a goose that laid golden eggs, would you insure the eggs or the goose?"

Imagine you owned a goose and it laid a golden egg every day. But you knew the goose could stop laying at any time, for a day or maybe even for years. But let's say a man tells you that, for a small weekly fee, he could make sure those eggs came in every day. You'd be a fool to turn down his offer, right? In the same way, you produce a golden egg every week in the form of your income, and that ability can stop at any time, because of illness, injury, etc. but you can make sure money comes in every week by investing in income protection insurance.

Few things can affect your life in a negative way more than suddenly taking away your ability to earn money. It can lead to you being unable to eat, pay your bills, pay for your shelter, etc. If it carries on, it can result in you losing your car or house. If you are unable to work due to a serious injury or illness, your partner may need to give up their job to care for you, or find a job to replace your income. The consequences are so drastic and far-reaching. So it is surprising that although over 95% of New Zealand *houses* are insured, only 15% of *incomes* are.

Income protection can provide you with a monthly payment to alleviate the financial pressures of being unable to earn for a period of time, until you can earn again. You have a choice of stand-down periods.

There are a number of types of income protection cover. Some policies cover your inability to work due to illness, others due to an inability to earn. These policies can provide you cover at three levels:

- Indemnity value, which is based on how much you were earning at the time of the adverse event
- Agreed value, which is for an amount fixed at the start of the policy
- Loss of earnings.

What is the pay-out money for?

Your income protection pay-out will only replace a portion of your income. You still need to make up for the shortfall.

How does it fit with other policies?

If your inability to work is due to an injury, the insurer requires you to make an ACC claim first, i.e. you won't receive ACC *and* an insurance pay-out. Your income protection policy doesn't cover medical expenses, and it doesn't provide you with a lump sum payment.

Remember, ACC doesn't apply to illnesses. Income protection insurance assumes you'll recover and return to work at some stage. Total permanent disability insurance assumes you'll never work again.

Who should consider income protection insurance?

You should consider income protection insurance if:

- you could not survive long term without your current income – especially if you have a mortgage, high debts or dependants
- you work in a volatile and unstable industry where redundancies are not uncommon
- if it is likely to take you a long time to find another job. This can apply to jobs where supply exceeds demand,

and with people who have highly specialised skills, who are only required by a small number of businesses, e.g. train driver, golf professional.

Here are a few things to keep in mind when considering income protection insurance:

- Not all policies are the same. Some exclude stress and depression, so check the policy carefully.
- Some policies will pay out if you are unable to perform your current job; others will pay out if you are unable to perform any job.
- Check the period that the payments will continue for. A two-year term goes by very quickly when you’re disabled.
- Make sure you have the right to renew each year, rather than a policy that allows the insurer to cancel your policy at its discretion.

Total Permanent Disability Insurance (TPD)

How much money would you need if you could never work again?

What does it cover?

Although we often think death is the worst thing that can happen to us, have you considered what life would be like if you could never earn money again, due to a total and permanent disability – illness or injury? You would probably find yourself financially dead a long time before you were physically dead. And what would be the financial impact on you and your family?

Money will not compensate you for your health problems, but it gives you extra options to improve your lifestyle and living conditions, especially if it is paid in a lump sum. Plus it reduces the stress caused by a lack of money. If you worry about unpaid bills, the ongoing stress can delay your recovery and negatively affect your relationships.

What is the pay-out money for?

At such a time, wouldn’t it be nice to have the money (lump sum or monthly payments) to pay off debt, continue to pay for your children’s education, cover your housekeeping costs, and top up your income protection insurance payments? Total and permanent disability cover can provide that money.

How does it fit with other policies?

TPD insurance only applies when you are permanently disabled, i.e. you can never work again. But trauma insurance covers you for specific illnesses and events, and does not require you to be unable to work again.

Who should consider TPD Insurance?

You should consider TPD insurance if your inability to earn would leave you unable to pay your bills in the long term. If you have a high-risk job, you are particularly exposed.

Don’t Just Focus on the Obvious

Losing your home through fire would be tragic; but for every home that is lost by fire:

- 3 other homes are lost because one of the homeowners died
- 38 other homes are lost because one of the homeowners was disabled.

Trauma Insurance

What lump sum payment would you want in the event of a major health problem?

What does it cover?

How would you cope if you suffered a critical (life-threatening) illness like cancer, heart attack, by-pass surgery, stroke, Parkinson's, Alzheimer's? Or if you got hit with a life-threatening injury or disability such as loss of limbs, paralysis, head trauma, blindness, deafness or major burns?

What is the pay-out money for?

Partial payments are usually paid for early-stage diagnosis and full payment for more advanced cases. You can use the funds for any purpose you like. Trauma insurance pays you a sum over and above your medical expenses. It is there to help you stop worrying about growing debts, to seek other forms of treatment to get better faster, to avoid your condition getting worse, to modify your home to suit your condition, or to do something you've always wanted to do.

How does it fit with other policies?

Trauma cover fits with your other insurance policies in that it provides an immediate lump sum. Remember that health insurance only covers your medical expenses and private hospital bills, and your income protection insurance usually only covers 75% of your wages for a stated time (after a stand-down period). Over 50% of pay-outs are for cancer, and half of those pay-outs are for breast cancer.

Trauma insurance is similar to, but different from, total permanent disability (TPD) insurance: Trauma insurance covers you for specified illnesses and events, until you recover and get back to work. TPD insurance only covers you if you can never work again.

Who should consider trauma insurance?

The reality is that everyone needs trauma cover. But you should particularly consider trauma cover if you would need a lump sum payment if you suddenly found you couldn't work, e.g. you needed the money to pay off a large debt or expense.

> "Just because your health suffers a temporary setback, why should your lifestyle suffer a permanent setback?"
>
> *Anon*

Medical or Health Insurance

Could you afford private hospital care?

What does it cover?

While New Zealand has a full public health service, there are huge waiting lists for elective (non-urgent) surgery, and the list of elective procedures (that public hospitals won't pay for) increases every year.

Should you ever require treatment, you want to be seen as soon as possible – to avoid the pain and to ensure your condition doesn't worsen. Considering that 17% of the population is hospitalised every year, you need to consider how you will deal with this risk now, and in the future. Medical or health insurance allows you to access the best care, without delay, in the private hospital of your choice.

What is the pay-out money for?

The insurance proceeds will be used to pay your medical expenses that are not met by the public health system, including specialists' fees, tests and scans. Some include basic dental procedures and others offer dental care as an extra. Some reimburse you for GP visits, and some don't.

How does it fit with other policies?

While trauma policies and total permanent disability policies give you the money to pay, maintain or improve your lifestyle, medical (or health) insurance pays you specifically for your medical care.

Who should consider medical insurance?

The issue of whether you need medical insurance is a financial one, not a medical one. In other words, if you think you could afford treatment or surgery in the private system, you might choose to ignore it. But if you couldn’t afford private care, you need to talk to an insurance adviser about medical cover.

Remember, as we grow older, our health deteriorates and our reliance on the health system increases. Some people decide to wait until their health becomes poor before they consider medical insurance. This has three problems:

- We fail to seek treatment until then, because we have to pay for it, and we put up with unnecessary pain and discomfort.
- Our health becomes irreversibly worse.
- When we eventually decide to take out medical insurance, we run the risk of the insurer denying cover, because of our age and poor health.

Mortgage Protection Insurance

Could you afford to keep up your payments?

What does it cover?

Mortgage repayment cover provides a financial safety net should you suffer a total or partial disability which causes a reduction in your ability to meet your mortgage repayments. The monthly benefit is designed to cover mortgage repayments on your behalf during treatment and recovery.

There are two types of mortgage protection policies:

- where mortgage repayments are made on your behalf, if you become disabled, lose your job through no fault of your own, or need to file for bankruptcy
- where a lump sum is paid if you suffer a serious illness, injury or death.

When applying for a mortgage loan, the lender may require you purchase mortgage protection insurance as a condition of the loan. The annual premium is usually cheaper than life insurance, because the amount of cover diminishes as you reduce the principal amount owing.

What is the pay-out money for?

The pay-out is for, and calculated in accordance with, the amount due under your mortgage. It alleviates the need to worry about paying for your mortgage, and losing your home, following an adverse event.

How does it fit with other policies?

Several other policies will pay you money for an illness, job loss or death. But the pay-out under those other policies is not tied directly to the balance or amounts due under your mortgage. Only mortgage protection insurance does that.

Unlike other life policies, mortgage protection insurance will pay you in addition to any ACC benefits you may be receiving.

Who should consider mortgage protection insurance?

You should consider mortgage protection insurance if your lender requires it. If your mortgage is small, the lender may not require it. But you should consider insurance if you would have trouble meeting your payments if you suddenly got sick, were made redundant, or died.

Is an Insurance Adviser Necessary?

Build a Successful Team Around You

Every successful person has a good team around them. If we want to lead a happy and trouble-free life, we need to assemble good people around us too. Imagine how much better our quality of life would be if we had the help of a good mechanic, plumber, electrician, builder, doctor, accountant, real estate agent, financial adviser, lawyer, computer repair technician and hairdresser. If we take their advice and are loyal to them over a long period, rather than constantly switching suppliers, we could avoid a lot of the road-bumps that we typically encounter in life.

It is wise to recruit a "Success Team" in your life, as this could save you a lot of heartache. We would encourage you to start building your own Success Team today.

But there is another very important adviser you need to include in your team: a good insurance adviser. They are also known as insurance brokers, risk advisers and financial advisers. We all know that when we have a health problem, we need a doctor. When we have a legal problem, we need a lawyer. So when we have an insurance problem, we need an insurance adviser.

What is an Insurance Adviser?

An insurance adviser is a specialist in insurance planning and products. They act on behalf of their clients (not the insurer) and provide advice in the interests of their clients. An insurance adviser is not the same as an insurance *agent*. We will explain the difference below.

Options for Advice

You have three options when it comes to deciding who to purchase insurance from.

- Deal directly with an insurance company or bank.
- Deal with an agent employed by the company or bank.
- Deal with a non-aligned insurance adviser.

A non-aligned insurance *adviser* is not the same as an insurance *agent*. An adviser works with a range of insurers and places his client's business with the most suitable insurer and/or product. An insurance agent works for one insurance company so will usually recommend the insurance products and solutions their company provides, not necessarily the solutions that are the best options for you. But an insurance adviser will look at a range of insurance companies and policies to provide you with the solution for your specific needs and circumstances.

Benefits of Using an Insurance Adviser

There are six major benefits of using an insurance adviser:

1. They Provide Continuity (and Trust)

If you use an agent who works for an insurance company, or deal directly with the insurance company, you might end up dealing with many representatives over the life of your policy. But if you use an adviser, you can develop a long-term relationship; you can talk more honestly; they will understand your needs better; they will have a thorough understanding of all your policies and how they work together for you; and they will be committed to provide you with better service and advice.

2. They Offer a Choice of Insurers

In New Zealand, it usually costs you nothing to use the services of an insurance adviser. They get paid a commission from the insurance company who provides the cover. These commission rates can vary but are fairly consistent across most of the major insurance companies, so an adviser should not direct you one way or the other because they want a higher commission.

When an insurance adviser signs you as a new client, you become part of their customer base for life, until they retire or sell their business. So an adviser has an incentive to win and retain your business. On the other hand, an agent who works for an insurance company is paid a salary and has no direct financial interest in keeping your business or keeping you happy.

Advisers can disclose their commission rates to you either via a Disclosure Statement or upon request.

3. They Can Help You at Claim Time

A good adviser will act as your advocate, meaning they will fight for you at claim time – even though they are not paid to do so. They also know what insurers are looking for during the claims process and can assist with getting right. But if you deal with an insurance company directly, it isn't always a fair fight since they hold all the cards and have all the expertise. And their agent isn't going to be representing you because the insurance company is paying their wages!

4. They Offer Insurance Planning Advice

A good adviser will not just sell you insurance, they will take an interest in you and your family; they will want to know your financial and other goals for the future and will align those goals with a well-thought-out Insurance Plan.

5. They Will Recommend the Right Products for You

One of the biggest benefits of using an adviser is that they will help you choose the most suitable insurers and insurance products to suit your particular needs and circumstances.

These are the five questions that their expertise helps them to answer on your behalf:

- Is this a good company?
- Are they good to deal with at claim time?
- Are they financially sound, or will they go under?
- Do they have good products?
- Do their premiums provide good value?

An insurance adviser who knows how to put good policies in place could argue his role is just as important as an adviser who is skilled in managing claims, because if you don't have the right cover in place, you won't have a claim to lodge.

A reputable adviser will also tell you which insurance products you do *not* need.

6. They Will Get the Best Deal for You

An insurance adviser has the expertise and leverage to negotiate the best deal for you, especially if they belong to a group. It is unlikely that a member of the general public could get the best deal if they went directly to the insurer.

How to Choose a Good Adviser

In choosing your insurance adviser, you need to be assured of three things:

1. Who they are
    - What is their personality like?
    - How do their values and traits align with yours?
    - Do you like and trust them?
    - Are they patient, understanding and empathetic?
    - Are they non-aligned, or are they affiliated to one insurer?
    - Are they on the Financial Services Provider Register?
2. What they know
    - What are their qualifications?
    - How experienced are they?
    - If they have less than three years' experience, do they have support or a mentor?
    - Do they belong to a good insurance group?
    - Do they have expertise in a certain area, e.g. business risk, ACC?
3. What they do
    - Will they help you at claim time?
    - Will they review your policy every one or two years?
    - Can you ring them anytime for advice?
    - Do they add any extra value e.g. extra advice, service or solutions?

It can be helpful if an insurance adviser is referred by a trusted family member, business colleague or friend. These referrals are not 100% reliable because they are subjective and based on personal and very limited experience, but they are a good starting point. Plus, friends and family are helpful to let us know who *not* to use.

> “People do not care how much you know until they know how much you care.”
>
> *Theodore Roosevelt*

Ten Questions to Ask an Adviser

Here are ten strategic questions to ask any insurance adviser before you take them on:

Q. 1 Are you registered or authorised by the FMA?

Because insurance advisers offer advice that can have a huge impact on their clients, the government has required them to be registered. They must be able to show their registration or authorisation details upon request. Their conduct is regulated by the Financial Markets Authority (FMA). If you are unsure about an adviser's qualifications, ask to see their registration details.

Q. 2 Do you belong to a professional group?

Some insurance advisers work on their own, while others belong to a professional group of advisers. The benefits of belonging to a group are:

- They can seek advice and support from their fellow group members.
- Their combined leverage ensures that insurance companies will offer them good value, quality products, and will process claims promptly and fairly.
- Insurance companies will have greater trust in respect of claims lodged via a good insurance group.
- They are bound by the group's Code of Ethics, if any.

Q. 3 How many insurance companies do you represent?

A non-aligned adviser could have between 3-8 insurance companies they deal with regularly. They would have chosen these insurers based on value, quality of products, claims history and customer service. The adviser will also understand the policies offered by these companies in depth and can make fair comparisons between them. They also know which companies and policies to avoid.

Note: if you deal directly with an insurance company, or their agent, you will likely only be offered their products – whether they are good products or not, and whether they are suitable for your needs or not.

Q. 4 If we have to lodge a claim, how will you help us?

It is such a bonus if your insurance adviser is willing and able to help you at claims time. Although they are not paid for this service, a good adviser will want to help you with the claim if they are serious about keeping your business. Lodging a claim can be a scary, stressful and confusing experience. You have to deal with a large, well-resourced company specialising in processing claims. It can be an unfair fight, and you need all the expert advice and support you can muster.

Q. 5 Do you have any recent client testimonials?

Testimonials can give you insights, but they are only of limited value. Advisers will obviously only choose the happiest clients to provide testimonials and the feedback is usually very general in nature. But it might be a red flag if the adviser is unable to provide you with a decent range of recent testimonials.

Q. 6 How many years have you been an adviser?

It takes around three years to understand fundamental insurance principles and policy wordings. An adviser with 10-plus years in insurance has probably done a great job for many clients. But a long career is no guarantee of quality. Plus, there are many young, up-and-coming advisers who are full of enthusiasm and energy, and who have learnt a great deal from their more-experienced mentors. If they are a young adviser, the next question is even more important.

Q. 7 Do you belong to an insurance group?

Most insurance advisers are independent, self-employed contractors. But many of them belong to insurance groups or networks. This association gives them access to resources such as extra support and advice, training and administrative support. But the most important benefit is their combined leverage as a group. Insurers will try much harder to keep an adviser happy when they belong to a group of 300 members than they will when the adviser is working on their own. This can be very valuable to you when your adviser is trying to negotiate a good deal for you, trying to remove exclusions and loadings on your behalf and trying to get your claim processed fairly.

Q. 8 Can you give us some case studies?

A case study is a story about someone who used an adviser's services and achieved success, or refused to use their services and suffered a loss. It can be useful to hear a range of case studies from your prospective adviser, to learn how they work and how they have helped people like you. If income protection insurance is important to you, ask the adviser to give you some examples of how they have helped someone who lost their income.

Q. 9 How often will you review my cover?

A good insurance adviser will offer to review your polices whenever your circumstances change. They will also offer to catch up every three years at least, or on policy anniversaries to discuss whether you need to review your insurance needs. Either way, we believe certain clients need more regular reviews than others because of their age, health, occupation or business.

Q. 10 Why should we choose you?

This is a very challenging question for many advisers (and business people in general) and most struggle to answer it well. Many advisers will tell you they are friendly, trustworthy, reliable, knowledgeable and have integrity. These are fundamental requirements for a good adviser and because most advisers make the same vague claims, you should not give such claims much (if any) weight. Instead, they might tell you they have expertise in a particular area, or they provide extra levels of customer service.

Other Indicators

If you are still not sure, you can use these indicators:

- Advisers usually specialise in life insurance or fire and general insurance. Very few do both. Ask them enough questions to ensure they are experienced in the type of insurance you need.
- Observe how well presented they are. A good adviser is well organised, which you can observe by their standard of dress, punctuality and paperwork.
- Make sure they are only trying to promote the products you need and understand. It will be difficult to establish a long and trusting relationship if you feel you are being forced to buy things you don’t need.

- It is wise to keep in mind that some advisers relate better to some people than others, e.g. because of gender, age, ethnicity, occupation, personality type. Find the one you connect with the best.
- One of the most important skills of an adviser is their ability to develop a highly effective insurance plan designed to meet your needs and circumstances.
- Two underrated skills of a good adviser are their ability to ask questions, and to listen. Take a note of the quality of their questions and how well they listen to your answers.
- You want an adviser who has integrity. Be extremely wary of any adviser who suggests you withhold anything from the insurer, or otherwise acts in a deceitful way.

The Importance of Estate Planning

While insurance is an incredible tool to help manage a wide range of risks, it involves much more than just signing a form and paying your premiums. If done properly, an insurance plan is just part of a risk management plan for you and your family. This wider approach requires not just a good insurance adviser, but also involves your lawyer and other professional advisers (including your accountant and banker). Here are some tips and ideas to help you get the most out of your insurance:

- Your life insurance policy will pay out a large lump sum on your death. If the policy is owned by you, the proceeds will be paid to the trustees who administer your estate. Their job is to distribute the money in accordance with your will, but there can be delays (which can be problematic when there are debts and bills to pay).
- But if the life policy is owned by someone else, e.g. your business partner, the proceeds will be paid directly to them, and will not form part of your will.
- Do you have a will and, if so, when did you review it last? Your circumstances may have changed, so you should consider discussing it with your lawyer.
- Have you thought about what would happen if you suffered a mental condition that meant you couldn’t look after yourself? E.g. a coma. How would your

family members or business partners go on if your ability to take action or make decisions was suspended for a prolonged time? How could they operate your bank accounts? How could they sign documents that need your signature? If your trauma policy, total permanent disability policy or income protection insurance policy was triggered, who would be entitled to make decisions about how the money should be used? If you think it can be handled by your lawyer or next of kin, you are wrong. The only person who can act on your behalf, while you are alive, is the person designated under your Enduring Power of Attorney (provided you have signed one). If you haven't got one, you might be wise to talk to your lawyer today.

- Are you in business with a partner, or are you one of several shareholders in a small company? If so, you have hopefully signed an agreement to stipulate what should happen if you (or the others) die or become physically or mentally incapable of working in the business. But ideally, these agreements should be written in conjunction with the appropriate insurance policies being put in place. And it is very important that these policies are owned by the right people.
- Another common situation is where a lawyer and/or accountant is engaged to help someone during a period of insolvency. While the adviser is trying to

develop a proposal for creditors, or to settle a huge tax bill with the IRD, they really need to be talking to the client's insurance adviser to discuss strategies and solutions that an insurance policy could offer.

- Do you have a living will? A living will is a record of your wishes regarding artificial life support. If you are brain-dead and your body remains functioning only with the help of life support, a living will directs others about what choice to make for you. This could have implications for your insurance, so it makes sense for your lawyer and insurance adviser to be talking, to make sure your best interests are protected.
- Are you thinking about protecting your assets (including your family home or investment properties) from creditors by transferring them to a trust? If those assets are covered by insurance, the ownership of those policies, and the responsibility for paying the premiums, should be reviewed.

These are just a few of the situations that need to be considered. To be fair, it is beyond most people's expertise to address these sorts of issues, so please consult with your professional advisers (including your insurance adviser).

We appreciate that it isn't easy to talk about or plan for unpleasant situations like this, but we can tell you from personal experience that it is much better to talk about them *before* these things happen, rather than *after* they've happened. Discussing and planning for them is the smart and responsible thing to do.

Insurance Myths Dispelled

Insurance is a complex field that encroaches into every part of our lives, every day. It is very easy to get confused and to become ill-informed. Here are 12 common myths that insurance advisers hear often:

1. **We have other priorities right now so we'll review my insurance needs later**

This attitude is risky because you never know when something can go wrong. But if you know you couldn't survive for more than four weeks without your wages coming in, you need to put something in place to cover this risk – crossing your fingers is not enough. Procrastination causes problems as you get older. You might be able to take out a great life policy as a fit and healthy 30-year-old, and as you get older, the insurer has to accept your cover on renewal (as long as you pay your premiums) – even if you start encountering health problems. But if you are 50 years old and have been diagnosed with cancer, the insurer will probably refuse you as a new client.

2. I’m single with no kids, no house and barely any possessions, so I don’t need insurance

If you have life cover and are diagnosed with a terminal disease such as cancer, and are expected to live for no more than 12 months, some insurers will pay out early. This gives you the chance to use that money while you are alive, for whatever purpose you want. If you don’t have life insurance, you won’t have this option. Most people need their wages to keep coming in each week. Unless you have savings or a wealthy family to fall back on, you need income protection insurance. You probably need funeral cover too, to ensure your family doesn’t have to pay for your funeral.

3. It costs more to insure a red car

This is a fallacy. The colour of a vehicle has no bearing on the premium. The insurer is more concerned about things like the make, model, year and engine size.

4. ACC will cover me if I can’t work

ACC will only cover injuries caused by an accident, not illnesses. ACC provides minimal death cover and funeral expenses, but only if death was caused by accident. Even then, the pay-out is formula-based so, unlike a life policy, you never know in advance what you’ll receive. Insurance companies have an interest in paying out on claims for the sake of their reputation in the marketplace, otherwise prospects and advisers will go elsewhere. ACC has no such pressure to pay out on claims.

5. It's okay to lie on an insurance claim. No one gets hurt

Most people are honest and do the right thing, but those who lie at claim time push everyone's premiums up. When people lie on their claim forms, they are not only guilty of fraud, they take a big risk too. If the insurer catches them in their lie, the entire claim can be jeopardised. Plus, the insurer can cancel the policy. The client will then have trouble finding someone else to insure them, because most insurance companies ask new applicants whether they have ever been refused cover.

When Andy's house was broken into, the burglar stole his 60-inch television. The truth was that it was only a 42-inch, but he thought the insurance company would never find out. When the assessor visited the home and saw the TV cabinet, he noticed the dust left around the base of the TV was much smaller than the base of a 60-inch television. The assessor carried out the rest of the investigation with a great deal of suspicion and scrutiny.

Lesson: Be honest with your insurer, especially when lodging a claim. It is so easy to get caught and the consequences of being caught in a lie are severe.

6. Insurance companies hate paying out for claims

Insurance policies are legally enforceable contracts. Insurance companies pay out when the policy requires them to do so. They will also deny claims that fall outside the scope of the cover. But some claims fall into the grey area. A good insurance company will pay out for these grey-area claims, but bad companies can make it difficult for the claimant. This is why it is critical to have a good insurance adviser on your side. Insurance companies want advisers to keep placing their clients' cover with them, so they are keen to show their willingness to pay out on grey-area claims. This applies even more so if the adviser belongs to an insurance group.

Check out these statistics: In New Zealand, insurers paid out 16% more in claims (under life, income protection, medical, etc.) over the past four years, which is three times more than the rate of inflation. These figures are not affected by Christchurch earthquake claims. In the year ending June 2016, according to the Financial Services Council, insurance companies in New Zealand paid out:

- over $158 m under life policies
- over $645 m under trauma policies
- almost $139 m under income protection policies.

7. Installing a security system will reduce my premiums

Most insurance companies do not offer discounts on contents policies simply because the policyholder has installed a security system in the home. However, some insurers offer a very small discount if the security system is backed up by a monitoring contract with a recognised security company.

8. I will pay less if I buy directly from the insurance company

Usually we save money by cutting out the middleman, but this is not the case with insurance. An insurance adviser is paid commission by the insurance company, and they do not pass the cost on to the customer. On the contrary, an insurance adviser will save you money because they know where the best-value policies are, and they will make sure you don't buy any insurance you don't need.

9. I should insure my house for its current market value

The current market value of a home is what a willing buyer would offer a willing seller in the current market. But if your house was destroyed by fire, this current market value figure would probably fall significantly short of what you need to rebuild your home. You need to insure your home for its *full replacement value*.

10. Your car premiums rise as you get older

If anything, your car premiums are likely to be lower as you grow older. This is based on research which shows that as our road experience increases, our accident rate reduces. Most of us are better drivers now than when we were young, because we drive more conservatively.

11. Female drivers pay less for their car insurance

A person's gender is irrelevant when calculating premiums for a car insurance policy. But this is not the case with medical insurance policies.

12. All insurance companies are the same

This is one of the most common and most worrying misconceptions of all. There are significant differences between the best insurance companies and the worst, in terms of their policy wordings, their customer service, their premiums and their willingness to pay out at claim time. It would be almost impossible for a layperson to understand all these differences, which is why you need the support of an experienced and skilled insurance adviser.

> "A good insurance adviser is your best insurance."
>
> *Anon*

Common Insurance Mistakes

We often learn more from our mistakes than our successes. But we prefer to learn from *other* people's mistakes. We have compiled a list of 16 mistakes that we see people making often:

1. Some people lie and withhold information when applying for insurance, and they get caught when making a claim. People think their insurers will never find out. Insurance companies hire full-time assessors, very skilled at asking the right questions to determine whether the claimant is telling the truth. If you're ever caught lying to an insurance company, they can refuse your claim or cancel your policy, and you might have trouble finding another insurer to take you on. It is actually an incredible privilege to be able to place your insurance risk with any company you choose. This freedom should not be jeopardised by trying to make a few dollars out of the insurer at claim time.
2. They buy their insurance directly from the insurance company, i.e. without the support and advice of a skilled insurance adviser. This significantly increases the chances of them paying more for their insurance than they have to, buying insurance products they simply don't need and failing to buy other cover that they *do* need. Insurance companies are advertising heavily these days to encourage potential customers to deal directly with

them. This saves the insurance companies from having to pay commission to insurance advisers.

3. People buy insurance from their bank. When a homeowner is financing a house purchase, or refinancing an existing loan, the bank will raise the issue of insurance because it needs to know its security, i.e. the house, is insured. But banks are there to make as much money as possible, so they now offer their own range of insurance products. The problem with this is that some, not all, of these products are very inferior to those offered by insurance companies, and the range is much smaller than that offered by insurance advisers. Plus, a bank officer may be skilled in finance matters, but not in the complex area of insurance. They will not spend the same amount of time understanding the customer's overall insurance needs and will not offer advice in regard to a comprehensive risk management plan for the customer.
4. Many people do not realise how important it is to be a "good customer". If a client is loyal, pays their premiums on time, completes their paperwork completely and honestly, an insurer will be more amenable at claim and renewal time (compared with a client who regularly falls into arrears and withholds important information).
5. Most people are underinsured, either because they haven't taken out enough cover, or have no cover at all.

This is especially true of income protection insurance. We tend to take our weekly wages for granted, thinking they will continue uninterrupted until we retire. Our ability to earn money is one of our most important assets and it needs a higher priority than most people give it.

6. Some people are actually over-insured, especially in regard to life cover. They choose to pay for more insurance than they need, thinking they will be doing their partner or children a big favour by generating a huge financial windfall for them. In most cases they would have been better off if they had taken out the correct amount of life cover, and used the premium savings to take out other insurance which they had ignored, e.g. income protection insurance, trauma cover, etc. A good adviser will help you calculate what amount of cover is right for you.
7. New Zealanders rely too much on ACC, and they ignore its many shortfalls. For example, some people think ACC will cover them for a major trauma, such as cancer or a heart attack, but ACC only covers injuries caused by an accident, not illnesses. Everyone needs trauma cover to give them a capital pay-out (allowing time for recovery); disability insurance to cover them for a permanent or temporary loss of the ability to earn; and medical insurance to allow them immediate access to private healthcare.

8. Many people decline medical insurance because they prefer to rely on our public health system. The problem with this is that the system is overburdened and seriously underfunded. Plus, the range of government-funded services decreases every year. Even if you suffer an illness that *is* covered by the public health system, there can be a long waiting list, which means you may have to wait years before you get treatment. Another problem is that your level of acuity (seriousness of your illness) could be too low, which means you may have to wait until your condition gets worse before you can be treated. These problems can be avoided if you have appropriate medical and other insurance in place.
9. All too often motorists will admit liability at the scene of an accident. Do not do this because you may not have caused the accident at all. Plus, you might jeopardise your insurance cover and allow your insurer to deny your claim. You don't have to *deny* responsibility, just don't *admit* it. People usually admit liability because they feel sorry about what happened. But this can be achieved in other ways, i.e. by being nice, making sure the other person is okay, cooperating when swapping information. If you let other people drive your car, tell them not to admit liability. (Not everyone knows this.)
10. When someone is involved in a car accident, they are usually upset and forget to get the necessary details from

the other driver. Always remain calm and take your time. You should get the other driver's name, home address, work address, and contact details. Take a photo of their driver's licence, as well as all damage to their car (including the licence plate number). Get a photo of them too, as people have been known to give false information when they're in trouble. And get their insurance details as well. If they are uninsured, be even more thorough with your enquiries. Get the names and contact details of any witnesses. If in doubt, call the police.

11. Some people fail to let their family know about all the insurance policies they own. When they die, relatives will look for insurance policies amongst the deceased's papers. But there have been many reported cases where people have died, and no claim was ever made under policies that would have yielded hundreds of thousands of dollars to the estate. So either keep your family informed or leave evidence of your policies in a safe, fireproof place that is easy to find, e.g. leave a list of all your policies with your will, which should be held by your lawyer. Remember to update it if any changes are made.
12. We all like to save money where we can, so more and more people are buying cheap, off-the-shelf policies directly from their insurance company or bank. This has increased over recent years as insurance companies and banks advertise more aggressively.

13. Rather than taking out trauma, disability, medical or income protection insurance, homeowners rely on their ability to sell (or downsize) their home, using the proceeds to survive the emergency. But this is a huge disruption to the family, and what will they do if the emergency drags on for years – or if it happens more than once. And selling a home quickly seldom achieves the best price. The sensible solution is to use insurance to create the emergency fund required.
14. One of the most serious mistakes people make is failing to disclose all medical problems at the time the policy is taken out. People don't realise that insurers will do a thorough search of the insured's medical records at claim time, so non-disclosure will usually come to light then, and the insurer will deny the claim if it is a material non-disclosure. In those circumstances, the insured has paid premiums for risks that they will never be covered for. This non-disclosure can be unintentional or deliberate. When applying for insurance, some people withhold health and other information because:
    - They don't think it is important, e.g. "I had a bout of depression but I wasn't suicidal."
    - It was a long time ago, e.g. "I had an old back injury but it hasn't flared up for years."
    - They were embarrassed, e.g. they had sexual dysfunction or a sexually transmitted disease,

especially if the discussion is in front of a partner who doesn't know about it or if they know the adviser personally. (It is possible to make disclosure separately – directly to the insurer.)

15. Young people, and those nearing middle age, happily choose life insurance with "stepped premiums". This means that as they get older, their premiums increase, i.e. are stepped up, every year. The problem with this is that when they get into their 60s and 70s (or older), they will be forced to cancel the insurance because they can't afford the premiums – at the time when they need it most.

> A 35-year-old female with $250,000 insurance will pay around $20 per month in stepped premiums. But when she is 65, the premium will increase to $222 per month, and to $1,500 per month when she is 80.
>
> *NB: Figures are accurate at the date of publication.*

Note: There are other options, including a "level premium" policy where the premiums are locked in at the start of the policy and remain the same for a set term (sometimes for life). You need the advice of a good adviser to show you the best option for your circumstances.

16. Couples can lose perspective and reason when deciding what should happen after they die. For example:
    - A husband was adamant that he and his wife didn't need any more life cover. But when the insurance adviser asked the wife, "What would you need if your husband died?" he was shocked to discover how much she would suffer financially with their current level of cover.
    - Another adviser met with a couple and the husband was resisting any discussion about increasing the cover on his life. He eventually confessed that he felt threatened about the idea of his wife being happy, rich and remarried, after his death. The husband needed to understand that his wife could still love him, but that she has to eventually build a new chapter in her life without him, and that if he loved her he would want her to be happy.

Twenty Ways to Reduce Your Premiums

With a little education and effort, we can reduce the amount we pay for our insurance, without reducing our cover too dramatically, if at all. Here are 20 ideas for you:

1. The best way to save money on your insurance is to appoint a good insurance adviser. They will make sure you get a great deal and that you only purchase the insurance you need. Remember, their services are free.
2. If you insist on organising your own insurance, without the support of an insurance adviser, shop around. But be very careful to compare apples with apples, which is difficult when it comes to insurance because insurance companies and their products vary so much.
3. If you need to, lose weight and maintain a proper level of health and fitness. Being overweight carries many health risks, and insurance companies will add a significant loading onto your premium.
4. Give up smoking. If you can't give it up completely, reduce your habit considerably. Again, insurance companies add a significant loading onto your insurance premium if you are a smoker, and more so if you are a heavy or long-term smoker. Some insurers are happy to remove this loading after just 12 months of you giving up smoking.
5. Re-consider any risky pastimes you may currently engage in, such as motocross riding, parachuting, scuba diving,

mountain climbing, etc. If you speak with your insurance adviser, they should be able to explain the effect these pastimes might have on your premiums.

6. Pay your insurance premiums on time. If you have a good credit history with your insurer, they will offer you a better deal, compared to the premium you would pay if you have a history of not paying on time.
7. If you increase your excess, you can reduce your premiums. You just need to be able to bear the extra cost to you at claim time.
8. Extend the stand-down period under your income protection insurance policy. If your financial position has improved since you started the policy, you may be in a better position to cover the first 8–12 weeks (or longer) yourself.
9. If you can afford it, create a “contingency fund” to cover smaller losses, excesses and stand-down periods, rather than relying on your insurer to cover them for you. (You pay for this reliance through higher premiums.)
10. Reduce the amount of cover but only if it makes sense to do so. Get good advice before you do.
11. Carry the risk yourself. It doesn’t make much sense to pay $700 a year to insure a car that is only worth $1,500.
12. Review your policies every year, preferably with the help of a good insurance adviser.

13. Consider a “level premium” life policy. With this sort of policy, the premium is calculated at the start of the policy and remains the same as you get older, i.e. it doesn’t increase like a normal policy. Even though you might pay more in the first few years, locking in your premium rate can save you thousands of dollars over a lifetime.
14. Ensure only *regular drivers* are named on the policy. In particular, remove any young people (under 25) who are “named drivers” in your car insurance policy, as they push up your premium. If they are not named, but are driving at the time of an accident, most policies still cover you but a higher excess will apply. You can always add someone for a few days when they really need to drive the car.
15. Consider reviewing or selling any assets that add a significant amount to your insurance premiums, e.g. a boat that you rarely use, a classic car that sits in the garage all year, guns you may have sold, a trailer you only use once or twice a year, etc.
16. Revalue any jewellery, camera equipment, artwork or other expensive items that may have decreased in value over the years.
17. Choose the correct job title when applying for insurance. Some occupations carry higher loadings than others. A skilled insurance adviser will help you choose the most appropriate title for your job. Contact your adviser if your job has changed since the policy started.

18. If you have moved from a large city (such as Auckland) to a small town, inform your insurer as it might reduce your car insurance premium.
19. Consider “fixing” the cover of your life policies, rather than having them increase automatically each year, in accordance with the Consumer Price Index (CPI).
20. If you are in good health, be wary of the “cheap” funeral policies advertised on television. The premiums for these policies are fixed and are based on averages that include healthy *and* unhealthy policyholders. This is great for an unhealthy person, but a healthy person will pay more than they need to. If you are healthy, buy life cover to pay for your funeral instead.

Chapter 5

Case Studies

"A good plan implemented today is better than a perfect plan implemented tomorrow." *George Patton*

We will be using real-life examples below, from my own experiences and the experiences of other insurance advisers. Some of the details have been changed to protect the identity of the people involved.

Case Study 1

Jim and Sue owned an accountancy practice but decided to go their separate ways. They had to negotiate how the business would be divided financially. Each partner owned a life insurance policy over the other, but Jim was now uninsurable because he had developed cancer a few years earlier. Sue had a huge bargaining chip because she knew Jim would like to have the policy transferred into his name. So she agreed to transfer it over, in return for a much bigger share of the business.

Lesson: Decide carefully about ownership of your life policy.

What should have happened here? Both policies should have been put in the name of Jim and Sue's solicitor, as trustee, to act in the best interests of both parties.

Case Study 2

Mary was married to Bob, an accomplished businessman. They met with an insurance adviser but Bob was adamant they didn’t need any insurance at all, but Mary insisted on it. A few years later Bob suffered heart problems and had two heart operations. Each operation cost $30,000 but this was covered by the medical insurance they had taken out. (They dealt directly with the insurer, without bothering their adviser.) Bob needed a third operation, and his surgeon told Bob to “put his affairs in order”. So Bob contacted his insurance adviser who found out about the two previous operations. The adviser asked whether Bob had also lodged a claim for each operation under their trauma insurance. Bob said no. The insurance adviser filed the claims and got Bob and Mary a pay-out of $250,000.

Lesson: An insurer will not necessarily know what other policies you have, so always involve your adviser at claim time.

Case Study 3

Tom was a self-employed consultant earning $120,000 a year. He refused to buy income protection insurance, believing that ACC would look after him. Tom suffered an injury that prevented him from working. ACC accepted his claim and paid him 80% of his earnings, but this was only based on his average earnings for the three months prior to the accident.

Unfortunately, Tom had three quiet months at work, prior to the accident, and was only paid out on $30,000 of average annual earnings.

Lesson: If your income fluctuates, talk to your insurance adviser about income protection insurance and ask about choosing an "agreed value" cover.

Case Study 4

Phillip suffered a heart attack and lodged a claim under his trauma policy. The insurer denied the claim due to a technicality, which Phillip accepted. Sally was Phillip's insurance adviser, and when she found out about the claim denial, she investigated the matter and found the insurer was wrong. So Sally confronted them and even threatened to take the matter to *Fair Go*. The insurer reluctantly (but correctly) conceded and made a pay-out of $240,000 to Phillip.

Lesson: A skilled insurance adviser can act as your advocate during claim time, because their expertise and leverage (insurers want to keep advisers happy, especially if they belong to a brokerage group, because they want advisers to keep placing business with them) can get results that no client can achieve on their own.

Case Study 5

Jeremy was a mechanic who operated his own workshop. He wasn't feeling well, so he visited his doctor. He was told he was on the verge of having a stroke or a heart attack. He had always thought about losing some weight and doing some exercise but always lacked the motivation to get started. Suddenly, the motivation was provided by his doctor's advice. He has since lost the weight he needed to, and his fitness and health indicators are all good now. He was one of the lucky ones. We expect you know of people who did not get this warning or second chance. They paid the ultimate price for their poor lifestyle and nutrition choices. Very few households can survive financially if its primary income earner dies suddenly and unexpectedly.

Case Study 6

Steve had taken out $8 m worth of life cover many years ago. He was worried that he was paying for too much insurance, so he sought the advice of an insurance broker. The broker discovered that Steve's life insurance policy was actually in the name of his ex-wife. It was a nasty divorce and the last thing he would have wanted was for this money to go to her. Steve couldn't cancel the policy because it was held in his ex-wife's name, but he stopped paying the premiums immediately. He then took out another policy in his own name and made a new will which did not include his ex-wife!

Lesson: Be very careful who you name as the owner of the policy, and review your insurance when you go through a major change in your life, including a relationship break-up.

Case Study 7

The skill of a good adviser was really shown in a case where the client's entitlement under the policy turned on a single word. A bank manager purchased total permanent disability cover through his own bank, thinking it to be a very good product – after all, he was selling a lot of these policies himself and training his staff to do the same. After some time, he came across an insurance adviser and asked him to review the policy. The adviser pointed out numerous deficiencies and showed the bank manager a far superior product with another insurer. The adviser said the bank's policy would not pay out if the insured was capable of performing "any" job. But the other policy had a higher standard, meaning the insurer could only refuse to pay out if the insured was incapable of performing his "own" job. The bank manager was so impressed, he immediately changed to the new policy. Three years later, he suffered a permanent disability and even though he could do other jobs, he was unable to continue as a bank manager. He received $250,000 from the insurer – money he would have been denied under the previous policy.

Lesson: Always appoint a non-aligned adviser for your insurance, because salespeople who work for a particular provider do not have the same knowledge, impartiality or incentive to offer you the best product for your needs.

Case Study 8

Ruth was diagnosed with cancer but she didn't know about it, because her doctor refused to share the findings because she was suffering from chronic depression. When Ruth eventually lodged a claim for her cancer, the insurer denied it because of her failure to disclose. Ruth's insurance adviser argued her case and won her a $250,000 pay-out.

Case Study 9

Ian had a risky job. He knew if he was unable to work because of an injury, ACC would pay out 80% of his wages. If it was because of an illness, his income protection insurance would only pay him 75% of his wages. But Ian's high living expenses meant he could not afford to carry the 20–25% shortfall. So his insurance adviser recommended he take out a mortgage repayment policy to cover his mortgage payments, which easily made up for the shortfall. Only a skilled insurance adviser knows how to structure a plan like this.

Case Study 10

Mandy took out a range of trauma, income protection and medical policies in 2005 and declared she had no health problems. In 2010, she was hospitalised with pneumonia, which was covered by her insurance, so she lodged a claim. The insurer checked Mandy's doctor's notes and found that in 2003, she had been diagnosed with a heart murmur and high blood pressure and that the GP asked her to investigate these before she applied for insurance. The insurer declined Mandy's claim and cancelled the policy on the grounds of material non-disclosure. The insurer stated that if Mandy had declared these conditions when she applied for insurance, the insurer would have refused her application. If Mandy had used a good adviser, she would have been advised to disclose everything and been told of the consequences of material non-disclosure. Instead, she wasted five years' worth of premiums for insurance she could never have claimed on. The other problem now is that if Mandy ever applies to another insurance company for cover, she has to declare that she had been refused cover by the previous insurer.

Case Study 11

Mike bought trauma cover directly from an insurance company several years ago. He declared he had seen a doctor about depression but the insurer asked no further questions and did not order a GP assessment or ask for Mike's medical records.

He recently met with an insurance adviser to review his insurance. When Mike mentioned his depression, the adviser asked for his medical records and discovered the depression was so severe that Mike's current insurance company would have been able to use Mike's non-disclosure to deny any claim he might make in the future. The adviser applied to a new insurer and fully disclosed the extent of Mike's depression. The insurer declined the application (presumably because of the prior condition) so an application was made to another insurer who accepted the application, and a better (although slightly more expensive) policy was put in place, with loadings – but at least Mike knew he was properly insured. Mike could have continued to pay for insurance that he could never claim on.

Lesson: Always use an insurance adviser and disclose as much information as possible. They will act as the "information filter" and tell you if your information is irrelevant. Your adviser knows what information the insurer considers to be material.

Case Study 12

In 1985, Brian (aged 25) talked to an insurance broker about life cover. The adviser recommended that Brian pay a little bit more for a "level premium" life policy, with a maturity date of 80 years of age. It cost Brian $137 a year for $250,000 worth of cover, fixed for the life of the policy. Brian is nearing 60 and has a range of health problems, but the insurer must honour the policy and the fixed premium amount. Brian has decided to assign the policy to his daughter Michelle, as part of her inheritance. All she has to do is pay the annual premium. Please note:

- If Brian had purchased a normal (stepped) premium policy in 1985, his premium would have increased every year and would now be unaffordable.
- The average life policy is cancelled after only seven years, usually because of affordability issues.
- The difference in premium between a stepped and level policy is small until the insured reaches around 30 years of age. It then increases significantly.

Lesson: If you are under 30, talk to an insurance adviser about whether a level premium life policy is suitable, and what sort of term would be best. You can always reduce the term later if you wish. This is an incredible asset that can be gifted later.

Chapter 6

Conclusion

"Do something today that your future self will thank you for." *Anon*

We hope you've enjoyed this book and learnt how to manage the biggest risks in your life.

By now you'll realise that risk management is a series of strategies and smart choices. And hopefully you've learnt how crucial it is to have a good insurance adviser to help you choose the insurance solutions that are best suited to your needs. Anyone can buy insurance, but it takes a true professional to get the best products from the best insurers.

We urge you to contact a good insurance adviser to help you develop a solid risk management plan. We are sure that, together, you can put in place sensible and affordable solutions to make sure you and your family are properly protected from the things that could go wrong in your life.

Chapter 7

Our Happy Clients

"Thank you Jim for your service and trustworthy wordings. Although I have forgotten to disclose some my medical issues, my medical claim paid off. As you said, 'If it is Grey we pay.' Thank you." ***John (Albany, Auckland)***

"Thank you Lily. It is wonderful doing business with you. You are always there when I call or need help. The clients I've sent to you think you're great! Also you were very fast and efficient when claim times." ***Mr & Mrs Forsyth (Hamilton)***

"No pushing or selling, very professional. Lily took care about my real insurance needs."

Ms C. Cook (Orewa, Auckland)

"Thank you Jim for such a wonderful service. Your professionalism and good advice have saved me hundreds of dollars and even getting better cover!"

Sarah (Auckland City)

“We really appreciate your honesty and professionalism when explaining to us the real options we should address.”

Mr. & Mrs. Thornton (Hamilton)

"The outstanding personal service we received from Jim Stinton and its office staff is why we remain loyal commercial customers." ***Paul (North Shore, Auckland)***

"What I appreciate most about Insurance Solutions is their proactive approach to my insurance. Each year they make sure that I am getting the best possible insurance package (good price with the most adequate cover) by providing a personalised analysis of my situation.”

Mr. D. Han (Auckland City)