

Income Protection Insurance – buying the right cover

The term 'Income Protection' is often used by the insurance industry as a catch-all for a variety of products, which can be confusing for those seeking the most suitable type of cover for their own circumstances. This article explains the different types on offer, what their purpose is, and some of the pitfalls involved.

PPI

Payment Protection Insurance (PPI) is actually a relatively short-term insurance product that supplements a portion of monthly income for full-time workers who become unable to work due to an event outside their control. Events covered by PPI can include involuntary redundancy, accident, or prolonged illness. Typically, it does not replace the entire monthly income, but covers a good portion of it.

PPI provides benefits which are paid over a 12 to 24 month period to the individual following the insured event. The duration of the policy varies due to the insurance provider's policy terms and conditions. Many people depend on the payment cover as the only source of short-term unemployment assistance available, as government assistance can be financially limited, and subject to the individual meeting specific criteria which is usually means-tested, based on savings.

Income Protection cover

Income Protection is more of a long-term insurance that offers benefits up to retirement in some cases, but only covers incapacity in most cases. It is also more expensive than PPI in terms of monthly premium costs.

Income Protection payment cover is actually one of three common types of insurance that falls under an umbrella of products that make up the income protection industry. The other two are mortgage payment insurance and loan payment protection, although the core benefits and covers of each type are the same. There are some distinctions in the purpose and features offered by each.

Mortgage Payment Protection

Mortgage Payment Protection Insurance (MPPI) is similar to Income Protection but it is intended to help the individual meet their monthly mortgage obligations.

Homeowners risk repossession of their homes if they are unable to meet their debt obligations. This is a frightening thought to many people faced with the possibility of unemployment, particularly in the current economy which has seen house prices plummet and negative equity increase. Whilst this type of cover does not always replace 100% of normal monthly income, it does help protect the most important asset to the homeowner. MPPI is often sold in combination with mortgage products by banks and lenders.

Loan Payment Insurance

Loan payment insurance is similar to mortgage payment cover. As national consumer debt and credit card balances continue to rise, consumers need a consistent income to help pay their monthly obligations.

Loan payment cover typically provides for full debt protection and it also often comes with a modest provision to cover some monthly expenses. As with mortgage payment insurance, loan payment protection plans are routinely sold in combination with many types of loan products. This packaging of loans and insurances has actually drawn the ire of consumer groups because of some common mis-selling tactics employed by bank and High Street lenders.

Consumers have traditionally been at the mercy of institutional payment insurance sellers because they lacked knowledge and awareness of the protection and its sources. Many consumers had the protection and didn't even realise it. Lenders would sometimes manipulate borrowers into believing they had to buy their payment insurance in order to obtain the loan they desired. More unscrupulously still, some lenders packaged their insurance premiums into loan repayment costs and hid the details in the fine print of disclosures. Unwitting borrowers didn't even realise how significant payment cover expenses were because they were spread deceptively over the repayment of the loan, making their monthly impact appear lower.

The Best Buy

Insurance specialists typically offer consumers among the best product and rate options. Specialist provider premiums can offer rates up to 80% less than those offered by banks and High Street lenders. Standalone providers also maintain a reputation for great ethical credibility because of their typical membership in an industry association. Industry associations maintain high standards of business conduct in order to create a collaborative improvement in the reputation of independent brokers as insurance providers.

Brokers are extremely easy to approach as well. With the expansion of the internet, most leading standalone providers offer information and access to quotes through their web sites, and with the proliferation of comparison websites, consumers are more empowered than ever before to make the best choices when buying payment insurance industry.

However, many consumers are still not aware of the benefits of income protection payment insurance, although there is growth as 60% of new homeowners are now acquiring some type of protection. Part of the increase, along with consumer awareness, is due to a broadened understanding that the government offers little or no assistance for unemployment.

Individuals must take responsibility for their own short-term protection needs. Whether the payment insurance takes the form of income protection, mortgage protection, or loan protection, payment insurance cover is vital to help many consumers sustain themselves during temporary periods of unemployment or prolonged sickness.