

## Understanding your Insurance Policy

This fact sheet is for information only. You should get legal advice about your personal situation.

**This fact sheet applies to individual policies such as home, car, travel and funeral insurance. If you have a group policy, or a policy through your superannuation or employer, your policy documents can be very long and difficult to understand. The policy wording may also change every few years. Get legal advice.**

### Main ideas

• Insurance transfers risk from you to the insurer.

• Insurance contracts are made up of both a product disclosure statement (PDS) and a schedule (or certificate of insurance).

• Both you and the insurer have rights and responsibilities under the insurance policy. Get advice if you don't understand these.

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## Insurance transfers risk from you to your insurer

An insurance policy is a contract between you and your insurance company.

When you buy an insurance policy (by paying a premium), your insurance company will protect you financially against certain events – events that you don't want to pay for if they happen. This transfers some of your risk to the insurer.

For example, you likely could not afford to rebuild your home if it was destroyed by fire or other catastrophe. If you have suitable insurance and your home is destroyed, the insurer will pay for it to be repaired or rebuilt.

Insurance does not cover all risks. There are some risks insurers will not cover. For example, insurers will not cover car accidents caused because you were drink-driving, or damage resulting from wear and tear to your home.

## **Insurance contract: PDS plus schedule**

Different insurers offer different cover and exclusions. Read your insurance documents carefully. Policies can be long, and difficult to read and understand. **Get advice if you need help.**

The insurance contract is usually made up of:

1. **A product disclosure statement (PDS).**  
This is usually a booklet, sometimes more than 50 pages long. It contains all the detail about what the insurer does and doesn't cover, and explains any limits to the policy.
2. **Your schedule or certificate of insurance.**  
This contains information specific to you. It will include details about what you are insuring, the level of cover (sum insured/replacement value), excess amounts, and the answers you gave to the insurer's questions when you took out the policy.

If you buy insurance over the phone, the policy documents are usually posted or emailed to you shortly afterwards. If you buy online, the PDS is usually available on the insurer's website – your certificate of insurance and PDS are emailed or posted to you.

When you receive the policy documents, read them carefully to make sure the policy suits your needs. Make sure the details the insurer has recorded about you and the insured property are correct. There is usually a cooling-off period so you can cancel the policy without cost if you decide it is not suitable.

## **The main parts of an insurance policy**

Each policy is different, but there will usually be sections about:

## **Your responsibilities**

This will include what you need to tell the insurer when you take out the policy, and when you need to update information. For example, you may need to tell the insurer about a modification you make to a motor vehicle.

You will usually be responsible for keeping the insured property safe, secure, and well maintained.

You will also be responsible for keeping premiums up to date.

## **Insured events**

The events you are covered for. Depending on the policy, this could include storm, theft, fire, flood, water leak, or accidental damage.

If you claim on your insurance policy, you need to show the claim fits under one of the insured events.

## **What is covered**

The property the insurance policy covers. For example, a home policy may cover damage to the building but not to contents. There will be a specific definition of what is included under 'building' and what is included as 'contents'.

Sometimes you can opt-in to extra cover for example, contents when you take them outside the home, or special items (for example, jewellery you want to insure for more than the usual limit).

## **What is not covered – exclusions**

All insurance policies have exclusions.

General exclusions apply across the whole policy, no matter which 'insured event' you are claiming under. A common exclusion is damage caused by wear and tear.

Each insured event may have exclusions. For example, damage to retaining walls may be excluded under storm cover, but not fire cover.

## **How a claim is settled, and your excess**

Usually, the policy will say you must contact the insurer as soon as possible after an insured event. This allows them to assess the damage and decide how they will cover your loss.

Most policies say the insurer gets to decide whether to repair, replace, or cash settle. The policy will also explain if you have a choice of repairer option, whether the insurer can use second-hand parts, how they match materials, and the like.

The policy will also describe how any payment is calculated, and how your excess is deducted. The excess is the part of the loss you pay for. [Read our fact sheet about Paying Insurance Excess.](#)

## **Cancellation rights – both yours and the insurers**

You normally have a set time (often 21 days) to review the policy and decide if you wish to continue (a cooling off period). If you cancel after that, the policy will set out your cancellation rights.

The insurer will have rights to cancel the policy. If you pay premiums by regular direct debit, your policy may be cancelled if the payments aren't made. It is your responsibility to check your direct debits are going through. The insurer may also cancel the policy if the risk changes – for example, if you start using your car for Uber driving.

## **Complaints process**

All insurers will describe how you can complain if you are unhappy with the claims process. [Read our fact sheet about Insurance Complaints to AFCA.](#)

## **Definitions**

Some words in the policy will have a specific definition – sometimes these words will be in bold or capital letters. For example, Market Value, Flood. Make sure that you understand these definitions. **Get legal help if you don't understand all the terms in your policy.**

## **Problems with insurance policies**

Often people only find they have a problem with a policy when their insurance claim is rejected. If you have a problem with your claim:

- Get a copy of your PDS and certificate of insurance. Check it covers the time period the insured event happened in.
- Ask the insurer to give you written reasons for their decision.
- Ask for a copy of any expert reports, transcripts, recordings, statements or other information the insurer is using to reject your claim. [You can use our sample letter to your Insurer Requesting Documents.](#)

If the insurer doesn't provide these to you, go to their complaints department ([you can search for insurer contact details on the Australian Financial Complaints Authority \(AFCA\) website](#))

). Your insurer has 30 days to resolve your dispute. If they still do not provide the documents, you can complain to AFCA. [Read our Insurance Complaints to AFCA fact sheet.](#)

If you think the policy is unfair, or the insurer is treating you unfairly, get legal advice. It may be that:

- The policy wording is unclear or ambiguous. If so, the wording is interpreted in your favour.
- The policy wording is unfair (specific criteria apply under unfair terms legislation).
- Your insurer has a duty of utmost good faith. They may not be allowed to use the policy terms against you if you are in a special situation that would make a clause very harsh or unfair.
- The insurer does not have enough evidence to show it's more likely than not, that an exclusion or condition applies.

**For more specific information, read our fact sheets about:**

[Insurance Complaints to AFCA](#)

[Home or contents insurance claim refused](#)

[Car insurance claim refused](#)

[Flood Insurance](#)

[Bushfire Insurance](#)

[Storm Insurance](#)

[Earthquake Insurance](#)

## **Need more help?**

[For a list of other resources, visit our Useful Resources page.](#)

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