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Insurance - Life insurance

Cancelling protection could cost you dear

Philip Scott, This is Money

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Insurance experts are urging cash-strapped consumers not to cancel their protection policies because replacing them could cost into the thousands.

In the current economic climate many consumers are feeling the pinch and looking for ways to save money – and expenses, such as life insurance, could be one of the first monthly bills to be slashed.

A grim report, earlier in the week from the International Monetary Fund (IMF) warned that the UK was entering its worst economic period since the Second World War and that it would collapse into the deepest recession of any developed country in 2009.

Life insurer, Prudential, has highlighted the intrinsic dangers of cancelling existing protection insurance policies.

Firstly, the cost of cancelling an existing policy and replacing it in a few years time could cost thousands in additional premiums over the term, as protection insurance tends to become more expensive the older you get.

Kevin Carr, of PruProtect, Prudential's protection arm, said: 'Even if the person remains in good health the cost of replacing cancelled cover could cost almost £9,000 over the term depending on their individual circumstances.'

For example, take a male, non-smoker aged 45, in good health paying premiums of £32.34 a month for £150,000 life cover.

If he stops paying and returns to the policy in three years time, his cost every month would rise to £39.10 – a difference of £1784.64, over the 25-year term of the policy.

But if a male aged 45, paying £182.95 a month for £150,000 life cover, which included serious illness cover, stopped paying into his policy for three years, when he returned to it, his premiums would rise to £216.50 a month – an extra £8,857.20 over the policy's life.

Carr adds: 'The danger in these uncertain times is that people may either postpone buying the insurance they need, or even consider cancelling what they already have. Protecting the financial well-being of the family is vitally important, particularly in times of economic uncertainty.'

'The long term cost of cancelling a policy could end up costing a customer thousands of pounds. Not only will the person not be insured but if anything happens to their health they may not be able to replace the cover they have lost.'

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Prudential also points out that those considering cancelling their policies also need to remember that if their circumstances change during a period when they are not insured, such as a change in health or lifestyle, future premiums could be loaded to reflect the change, or in extreme circumstance cover may be declined completely.

While of course it is not in any insurance company's interest for consumers to cancel their policies either, advisers are also warning of such dangers.

Peter Chadborn, of CBK Colchester, an **independent financial adviser**, says: 'I absolutely agree that anyone considering cancelling their insurance premiums needs to think twice. Times of course are very difficult right now.'

'But remember aside from the risk of your premiums rising, policy details could change too. As such, if you are unsure of what to do, get some impartial advice.'

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