Step-by-step guide to cheaper premiums

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The cost of paying for insurance can often put people off buying it altogether. But there are a few nifty and little-known ways to cut the cost of your monthly premiums. Our step-by-step guide offers some of the best pointers.

1. Shop around

A fairly obvious one. Most people buy insurance policies from their bank or building society, often at the same time as taking out a loan, but these may not be the cheapest or the best policies.

Matt Morris at Lifesearch, the protection adviser, says banks and building society protection products are "almost always vastly overpriced". People who have already bought a product this way may be able to switch, so can also still shop around.

But there is one caveat: don't shop around purely on a price basis. With protection products, the cheapest premiums could mean the worst cover. So make sure you're buying a product that offers you the cover you need.

2. Change your lifestyle

If you really need an incentive to quit smoking, how about the prospect of cheaper insurance premiums?

Smokers can pay 40 per cent more for life and critical illness cover than non-smokers. If you've stopped smoking, you could renegotiate your existing premiums or shop around. But you should have stopped smoking least 12 months previously.

This can also apply if you've made other lifestyle changes, for example if you've lost a lot of weight.

Peter Chadborn at CBK, the protection specialist, says insurers are very fussy these days about Body Mass Index and will often impose a higher premium on those who measure at the higher end of the weight to height scale.

One policy, PruHealth, has lower premiums if you can prove you're keeping fit by going to the gym. But Chadborn says the difference in premiums is not actually that big – PruHealth's deal is just 1 or 2 per cent cheaper than other policies. The real reward is the discount on your gym membership that such a policy offers.

3. Look at exclusions

If you've already had a critical illness, for example cancer, you're very unlikely to be able to get a policy that will protect you against getting cancer in the future. But while many policies will simply list this as an exclusion and then charge you the same premiums as everyone else, there are four companies that will offer you a discount in return for giving up this cover. These are Axa, Bupa, Fortis and Liverpool Victoria.

4. Look at options on your life cover

Life cover policies have an option called Family Income Benefit whereby the beneficiaries receive a monthly income rather than a lump sum if the person insured dies. The premiums for this option are often cheaper and it can end up paying a lot more than the initial sum assured, if the person dies early on in the policy. Monthly income is paid until the end of the policy timeframe, which could be 20 years.

Consider decreasing term assurance (DTA) instead of level cover. With DTA, the sum assured decreases over time. It's usually linked to a loan such as a mortgage. Stephen Crosbie, Aegon's head of proposition for protection, says that parents also often use this option for school fees – as this is a cost that will only last a certain period of time, so after this the cover needed will be lower. Premiums are likely to be lower for DTA than for level cover.

5. Check you're not paying double

If you've changed jobs recently, you should review your benefits, says Chadborn, as your new employer may be offering benefits you didn't have before, so you might be over-insured.

For example, if your employer is offering generous sick pay, you could defer your income protection payouts to coincide with when your sick pay stops.

If you're keen to cut costs, a husband and wife could move from two separate life policies to a joint policy that would pay out just one sum assured on a "first death" basis. Premiums will probably be cheaper but Crosbie thinks it's still worth paying the extra for two policies as you then get two payouts.

If you're really stuck for cash and are considering cancelling a policy, Chadborn says it's better to reduce the sum assured on two policies than cancel one altogether.

6. Do it yourself

Rather than pay premiums to an insurer, you could just save into a separate savings fund to tap into if or when you need to. But experts warn this is only likely to be cost effective for shorter periods of time. It might be cheaper, for example, to save up enough cover for a year's unemployment than buy income protection to start straightaway, but if you then suffered a long-term illness, you might run out of money.

You could combine savings with deferring your payouts. With income protection policies, you can defer the amount of time between being diagnosed with the illness and claiming the payouts. The longer the deferral period, the cheaper your premiums will be.

For critical illness and life cover, self-insuring is really only advisable if you're very rich, says Chadborn. But, he says, even then many people opt for insurance as they want to leave an inheritance to dependants.