

INSIGHT BRIEFS - APRIL 2023

FINHAWK MORTGAGES LTD

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

How to protect your mortgage

Strengthening your ability to keep up with mortgage payments is important and will give you some peace of mind if your circumstances change.

Life insurance is the form of protection most of us would name as one that could pay down or pay off a mortgage. Yet there are other situations (apart from death) that could mean it's very difficult or even impossible to keep up with mortgage payments for an extended period – without the help from other types of coverage.

Here are some protection policies you might want to have in place (alongside life insurance) to give your mortgage some security if you are unable to keep up with mortgage payments. Your adviser can help you work out the best option for your situation.

Critical illness protection pays out a one-off, lump sum if you're diagnosed with a critical condition or disability that is covered by your policy. It can be offered when you buy for life insurance, as extra coverage.

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. Depending on the terms, you'll receive a regular income until you either return to paid work, retire, pass away or if the policy term comes to an end.

Mortgage payment protection insurance (MPPI) pays your monthly mortgage payments if you're unable to make them due to an accident or illness.

What's the difference between income protection and MPPI?

Income protection insurance is seen as more comprehensive than MPPI as it covers a proportion of your income and not just your monthly mortgage payments. It could also help to cover monthly bills aside from your mortgage. The period you're protected with income protection tends to be longer than MPPI, too.

Your adviser will help you find a policy that works for you and your needs, in terms of the length of cover you want and how much the premium might be. MPPI premiums could be lower than those for income protection and more affordable.



Our advisers are here to help if you're looking for ways to protect your mortgage.



What is critical illness cover?

Whether you need critical illness protection depends on your situation as well as any existing policies you might already have in place.

Critical illness insurance pays out a one-off, lump sum if you're diagnosed with a condition or disability that is covered by your policy. It can be offered when someone applies for life insurance – as extra coverage.

In a similar way to some life insurance plans, critical illness covers a set number of years. You can specify whether you want the payout to rise over the course of the term (so it keeps up with inflation) or the opposite – decreasing because your aim is to cover something specific like your mortgage.

If you're thinking about critical illness cover, it's important to speak to your financial adviser who can help you decide how much cover you'll need and how long the term should last.

What does critical illness cover?

Products vary depending on the provider. Certain illnesses are covered as standard by most insurers, including, cancer, heart attack, stroke, organ failure, multiple sclerosis, loss of arms or legs and Alzheimer's and Parkinson's disease.

Some providers may allow you to add additional illnesses to your policy, which you'll pay more for. Your children could also be covered as part of your policy so it's worth asking your adviser about these options if it's something you're keen to have in place.

What does critical illness not cover?

Although a diagnosis of a critical illness can mark the start of a claim in some policies, others may only begin to offer protection once your illness hits a certain level of severity. For example, if you are diagnosed with cancer, payments may only begin when permanent symptoms have been officially diagnosed. Additionally, not all types of cancer are necessarily covered by critical illness protection.

It's important to work with your financial adviser when reviewing a policy and all the small print before you commit to make sure you are sufficiently covered – and aware of areas not included.

Pre-existing conditions

Just like the life insurance application process, critical illness protection requires you to disclose any pre-existing conditions. If you don't then your policy could be invalid.

Your adviser can search the market for a suitable plan, but you'll probably have to pay more in premiums and there will likely be some extra exclusions. The price you pay will vary, based on things like age, occupation, state of health, lifestyle and how much coverage you need and for how long.

Do you need critical illness cover?

There are things to consider if you're worried about being diagnosed with a critical illness and the impact on your income and ability to keep up with bills (which would not be covered by state benefits when you're unable to work).

Your adviser will help you look at the following areas:

- Your employer's coverage – is there any paid leave for illness or disability and for how long?
- Do you have an existing life insurance policy and if so, does it have any illness coverage included?
- Could you consider income protection insurance as an alternative to critical illness?
- Do you have sufficient savings and investments you could use in place of critical illness cover?

If you want to proceed, it's important to work with your adviser to see how much protection you'll need. This means looking at your monthly outgoings and how much you and your family require to live comfortably. You might want to add in any potential costs from medical treatment you may need.

During these important decisions it's easy to lose track of the small details, which is why your adviser can help make the process easier for you and your family and give you some peace of mind.

We can examine your needs and existing policies and then find you the right cover that protects your finances – and your family – should anything happen.



Inflation explained – why is it so high and how could it affect you?

With inflation at its highest level in 41 years and energy prices skyrocketing, the cost of living crisis has dominated headlines since inflation began to creep up from historic lows in mid-2021.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans.

On the right are some key points summarising what brought the UK economy to this point and what might happen next.

What is inflation?

Inflation measures how the average price of goods and services changes annually, and is the main driver of the cost of living crisis.

Each month, the Office for National Statistics (ONS) monitors the price of 700 goods and services to determine how much an average household's shopping basket changed in the preceding 12 months. This provides the Consumer Prices Index (CPI), which is one of the key ways we measure inflation.

The Bank of England (BoE) is tasked by the government to keep inflation to 2%.

A small level of inflation each year is good for the economy. However, when inflation rises above the 2% target, it can put more pressure on consumer finances and lead to problems in the economy.

Inflation could soon start to fall

In response to rising inflation, the BoE has raised the base interest rate several times throughout 2022, most recently to 3.5% on 15 December 2022. This is expected to encourage more people to save, reducing demand for goods and services, so slowing the pace of price increases.

However, experts predict that inflation will remain high for some time, not returning to the 2% target until 2024. Interest rates are expected to continue to rise into 2023, which could lead to higher mortgage rates and monthly repayments for borrowers.

Your experience of inflation may be different

The ONS makes certain assumptions when calculating UK inflation, such as that the average household allocates 9.8% of their monthly budget to personal travel costs like owning a car. If you do not own a car, your personal inflation rate might be lower than average.

Using an online calculator to understand your personal inflation rate will make it easier to focus on the facts that affect you rather than noisy, often sensationalist, headlines.

A combination of world events raised inflation

Several events in recent years have led to the sharp rise in inflation.

1. The Covid pandemic

During Covid lockdowns many workplaces closed, so normal manufacturing stopped temporarily. This led to a shortage of products. So, when the lockdowns ended, and we resumed our day-to-day lives, demand outstripped supply and prices rose.

2. The war in Ukraine

Food prices – specifically animal feed, fertiliser and vegetable oil – have risen directly because of the war, which had a knock-on effect on the price of everyday products such as sugar.

Energy prices have also soared to the highest level in 10 years as many European countries rely on Russia for imported natural gas.

3. The weakened pound reduces buying power

The value of the pound against the dollar has slowly dropped throughout 2022 from \$1.335 on 4 January to \$1.146 on 1 November.

GET IN TOUCH

If you're worried about the rising cost of living and would like to discuss ways to protect your finances from the effects of inflation, we're here to help. Please get in touch to arrange a time to chat.

Home insurance explained

This year sees new rules from insurers that could bring you savings on your home insurance renewal.

The Financial Conduct Authority (FCA) has announced that insurers will have to offer the same deals to new customers and renewing customers for their home insurance.

Home insurance customers are particularly affected by hikes in renewals, so this is a good time to review your policy with your financial adviser.

What is buildings insurance?

Buildings insurance covers the building itself and its structure – like the roof, floors, windows and in some cases external walls and garages. It will also cover permanent fittings in your kitchen and bathroom (but not your boiler – you'll need specific boiler protection for that).

Mortgage lenders require homeowners to have buildings insurance in place. It's there to protect your property's structure from damaging events like fires, storms, earthquakes, flooding and natural disasters, as well as things like subsidence and even malicious damage or vandalism.



What does buildings insurance not cover?

Buildings insurance won't cover:

- Accidents or normal wear and tear in the home
- Issues arising from neglect of the property
- Damage to gates, fencing or plants
- Effects of frost to external pipes and brickwork
- Damage from pests, insects or birds

To cover some of these issues, your insurance provider may offer accidental coverage as an extra to your policy – but you'll pay more for it. Your adviser can help you decide whether the cost of accidental damage cover is worth it in terms of what the policy actually includes.

It's worth noting that buildings insurance coverage is invalidated if the property is left unattended for more than 30 consecutive days.



What does contents insurance cover?

In a home insurance policy, the contents coverage allows you to select a sum of money (for example £10,000) that you estimate will cover the replacement of contents inside your home if they are damaged, destroyed or stolen.

These items could include electronics and entertainment consoles, kitchenware, furniture, antiques, gym equipment and jewellery. If you have a particularly expensive single item (like a piece of jewellery, a watch or a painting) you may have to declare it separately, depending on your provider's conditions of coverage. This could increase your insurance premium, however. We can help you assess your contents and what your level of coverage should be.

Do you need contents coverage?

Although contents coverage is not compulsory when you own a property, most owners take out some cover (and most providers offer a discounted premium if you have buildings and contents insurance together). Having both means if you need to make a claim for something that affected the building but also some of your contents (for example, flooding damage to your home's foundation and soft furnishings) you would be able to claim for both – using the same policy.

Even if you are renting a property, some contents cover is a good idea to insure your valuable items and provide peace of mind should anything happen.

Home insurance

How we can help you save

Your adviser can search the market and find a home insurance policy that covers your property's structure sufficiently, along with giving you the best advice on how much contents cover you really need. We're here to make sure you're not overpaying for a renewal and will examine your existing plan's small print to check that it properly covers at-risk areas of your home and meets your needs.

Your adviser can help review your home insurance – especially when it's time to renewal – and help ensure you're not overpaying for your policy.



5 practical ways to protect your money during the cost of living crisis



With inflation at its highest level in 41 years and energy prices skyrocketing, the cost of living crisis has dominated headlines since inflation began to creep up from historic lows in mid-2021.

While the Covid pandemic began the inflationary increase, this was further exacerbated by the war in Ukraine pushing up energy and food prices even further.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans. So, here are five ways to protect your finances during the cost of living crisis.

Get in touch

If you're worried about the rising cost of living and would like to discuss ways to protect your finances from the effects of inflation, we're here to help. Please get in touch to arrange a time to chat.

01 Review your budget and personal inflation rate

Reviewing your spending will clarify where your money is going and highlight potential areas to cut costs and make savings.

Despite a lot of noise about inflation and its impact on UK households, the good news is that your personal rate of inflation depends on how you spend your money. It won't necessarily match the official inflation rate and so changing your spending habits can help bring it down.

For example, since much of the rise in prices has been caused by soaring fuel prices, your personal inflation rate may be lower than the average if you don't drive or own a car.

Energy prices have also risen significantly throughout 2022. However, if your home is especially energy-efficient, you may use less energy than an average household. This could bring your personal inflation rate below the average.

You can use an online calculator – such as this one from the ONS website – to help you work out your personal inflation rate online.

02 Manage debt

Higher interest rates mean increased borrowing costs. So, check the rates and see if you can reduce the interest you're paying.

Focus on repaying credit card debt first. Credit cards typically charge high levels of interest and the negative compounding effects can be difficult to escape.

If you have high credit card debt, transferring to a limited-period nil-interest rate account could help you repay the debt sooner.

03 Ensure your savings are working hard for you

Around £160 billion in savings accounts pay less than 0.5% interest, so it's worth shopping around for higher interest rates on your savings.

Alternatively, Insignis can help you secure the best cash savings rates.

As interest rates change, Insignis moves your money to secure optimal rates. The one-time sign-up is quick and easy to set up, plus you'll never need to open or close another account again.

04 Resist the temptation to dip into your investments or stop saving for your future

You may be tempted to dip into your pension or investments to tide you over but consider the long-term effect on your retirement plans.

Selling investments or drawing from your pension could leave you worse off in the long run, so assess every option before you act.

It's important to continue to pay your future self first, too; be sure to maintain regular, tax-efficient contributions to your pension and ISAs.

05 Remember your long-term financial plan

Making rash financial decisions during the current crisis could jeopardise your long-term financial security. If you're worried about the rising costs of living and what you can do to protect your short- and long-term financial plans, we can help.

An ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. You may not get back the amount you invested. HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. Tax concessions are not guaranteed and may change in the future. Tax free means the investor pays no tax.