



INSURE THE REAL RISK

The benefits of salary packaging are well-documented, but there are risks to consider too, warns **MATT HONAN**.

In many instances, there are very simple ways to mitigate the risks associated with salary packing once you understand them in a little more detail.

Those who read my article in the last edition of BVM would recall I discussed insurance often referred to as a “residual risk” policy. The residual risk policy protects the employee (and employer) from many of the financial risks associated with a novated lease should there be illness, death, disability, or an involuntary termination of employment.

This edition I would like to highlight the need for people to fully insure their motor vehicle. This time, I am talking about normal, everyday car insurance.

The most popular coverage out there is the one the insurers call “market value” sum insured. This pays out based on what the insurer deems to be the replacement value of your vehicle.

Many people understand the difference between “market value” and “agreed value” but fail to appreciate the consequences of being under-insured.

An individual with a novated lease (or any other car under finance) should ensure that the very least they are covered for is the payout figure of the lease. This is the real risk that needs to be covered, not the replacement value of the vehicle.

We see many times when people get a new car under a novated lease, they go for the cheapest insurance, which will always be on market value. In short, these people may very well be under-insured.

If your car is written off, then the finance needs to be paid out as well. The finance with the original vehicle does not roll over to the new car.

I recall one client who took delivery of their car and within two days wrote it off.



Not one lease payment was made and the finance payout was more than the original amount financed due to early repayment penalties.

The preventative measure to ensure you are never in this position is to take out a policy that is based on “agreed value” and to have “gap insurance” coverage. Gap insurance covers the difference between the insurance payout and the finance payout. This naturally provides peace of mind for the driver that should the unthinkable happen they would be in the best financial position possible. *bvm*