Excess vs Premium Trade-Offs

This comparison is really about one simple insurance lever: pay more yourself if something goes wrong, and the insurer may charge you less upfront. In UK home insurance, the **excess** is the amount you pay towards a claim, while the **premium** is the price you pay for the policy. Policies usually include a **compulsory excess** set by the insurer, and may also include a **voluntary excess** chosen by the customer. Raising the voluntary excess can reduce the premium, but it also means you will have to fund more of any future claim yourself.

What excess means in plain English

Excess is the part of the claim bill that stays with you. If you make a claim, the insurer deducts the excess before paying out. Consumer guidance from Compare the Market and MoneySavingExpert explains that the total amount you may pay is usually the compulsory excess plus any voluntary excess you selected. That means a lower premium today can translate into a bigger out-of-pocket cost later.

What the premium is

The premium is the amount you pay to buy the insurance policy. It reflects the insurer's view of the risk, the level of cover, the property details, the claims profile, and the choices you make on the quote, including excess. MoneyHelper and Compare the Market both note that choosing a higher excess can lower the premium because the insurer may have to pay less if a claim happens.

The main trade-off

The trade-off is straightforward. A **higher excess** often gives you a **lower premium**, while a **lower excess** usually means a **higher premium**. The insurer is effectively saying: if you are willing to absorb more of the first part of the loss, they may reduce the cost of cover. But MoneyHelper also warns that the key question is whether the premium saving is really worth the extra amount you would have to pay in the event of a claim.

Why a higher excess can make sense

A higher excess can work well for people who want to reduce the annual policy cost and have enough spare cash to absorb the excess comfortably if they ever need to claim. It can also make sense for people who expect to claim only for larger losses rather than smaller incidents. Compare the Market and MoneyHelper both support the general principle that a higher voluntary excess can reduce premiums, provided the total excess remains affordable.

Why a lower excess can make sense

A lower excess can be the better choice where cashflow is tighter, where even a modest claim would be difficult to fund upfront, or where the customer wants the policy to be more usable for medium-sized claims. A cheaper premium is not always better if the excess is set so high that making a claim becomes unrealistic. MoneyHelper's guidance on buildings and contents insurance both emphasises that if you choose a higher excess, you will have to pay more for every claim.

The risk of setting the excess too high

This is where people can get too clever and accidentally outsmart themselves. If the voluntary excess is pushed up too far, the policy may look attractively cheap but become poor value when you actually need it. Compare the Market and MoneySavingExpert both note that you need to afford the compulsory and voluntary excess together, and that higher excess reduces what the insurer pays on a claim. In practical terms, if the excess is too high, smaller claims may not be worth making at all.

Event-specific excesses matter too

Not all excesses are small or standard. MoneyHelper notes that some policies include extra excesses for specific events, and gives subsidence as an example that can be around £1,000. Compare the Market likewise notes that compulsory excess can vary by event and gives subsidence as a type of claim that may carry a much higher excess. So when weighing excess against premium, it is not enough to look only at the headline number on the quote screen.

When a higher excess is usually a good fit

A higher excess is often a better fit for households that want to keep annual insurance costs down, have emergency savings available, and are comfortable using insurance mainly for more serious losses rather than every smaller problem. It can be a rational move where the premium saving is meaningful and the excess is still very manageable in real life. MoneyHelper's guidance points in that direction, but also stresses the need to check whether the saving is actually worth it.

When a lower excess is usually a good fit

A lower excess is often better for households that want easier access to the policy when something goes wrong, prefer predictability over the lowest sticker price, or do not want a large upfront bill attached to a claim. It may also be the stronger choice where the likely claims would be smaller or medium-sized rather than catastrophic. The point is not just saving premium; it is making sure the policy remains practical when needed.

The biggest mistake people make

The most common mistake is focusing only on premium and ignoring usability. A very cheap policy can stop looking clever once you realise the combined excess makes many claims unattractive. The second mistake is forgetting that compulsory excess cannot usually be changed, only the voluntary part. That means the real claim cost is based on the total of both.

Conclusion

The excess versus premium trade-off is really a balance between **upfront savings** and **future claim affordability**. Choosing a higher voluntary excess will often bring the premium down, which can be a smart move for people with solid cash reserves and a plan to use insurance for bigger losses only. Choosing a lower excess usually means paying more for the policy, but it can make the cover far more practical and less painful to use when something actually goes wrong.

The smarter option depends on the customer, not the marketing line. If paying a larger excess would be easy and the premium reduction is worthwhile, a higher excess can make commercial sense. If a large excess would cause financial stress or discourage claims altogether, a lower excess is often the better route even if the premium is higher. The best setting is usually not the absolute cheapest or the absolute lowest-risk option. It is the point where the premium remains sensible and the excess remains realistically affordable. That is the real sweet spot.