THE MAGIC OF INSURANCE

How can paying so little cover you for so much?

From the outside, it seems miraculous that paying relatively small amounts every month can ensure that if your house burns down, it will be replaced completely, seemingly for free.

Yet this wasn't always the case. The first known Insurance contract or policy, was a marine cover dating from Genoa in the 14th century. For the next few hundred years, Insurance continued to be used almost exclusively in shipping in support of maritime trade. The lessons learned during this period were only applied to general property – and then almost everything else - in the last 200 years. And it was only in the last 100 years that the average man in the street has been able to access defined insurance products for his or her home, movable property or investments.

Insurance was born of the concept of the good fortune of the many indemnifying - or covering the risk – of misfortune of the few.

The idea evolved in shipping as the cost of hiring, provisioning and crewing a ship was generally too expensive for individual merchants or traders to bear alone. Several traders, often with different merchandise, however, could each pay a portion of the cost of hiring a ship.

This concept of shared cost soon extended to loss.

If a ship sank, everyone lost everything. But, if each of the traders who shared the ship hire costs put additional money into a separate pot, and did this for all the ships they had goods on, for instance, if one in 10 ships sank, the additional money in the pot from all the traders with goods on the 9 ships that didn't sink could be used to compensate the traders on the one ship that went down.

The concept of Insurance was born.

Since then, Insurance has been critical for human development, providing the funds to take the chances (or manage the risk) to experiment, explore, trade, invest and grow. Without Insurance, the modern economy would not be possible.

At the individual level, without Insurance we would not be able to open bank accounts, secure credit, buy cars, homes, educate ourselves, make investments or leave our money and assets to our heirs.

Today, Insurance companies act as the clearing houses or custodians of financial risks. Insurance companies allow financial risk to be transferred from individuals and corporates (called the insured) to the custodian of the risk (called the indemnifier or the insurer). To have their risk insured, the insured pays a fee to the insurer. The more insured people who pay a fee to the insurer, the less this fee can become. Eventually, the theory went, there would be so many small fees in the pot, that regardless of the size of any single individual loss, there would always be enough money in the pot to cover the loss.

But this was not always the case.

War, civil unrest, plague, earthquakes or other natural disasters, ensured that losses could be so large – and so general – that they could exceed the holdings of even large national or international insurers with hundreds of thousands of contributors or policy holders.

This challenge led to the development of Reinsurance.

To manage losses larger than their total contributions from policy holders, insurers transferred part of the risk that they had taken on to third-party companies for a fee.

While these third-party companies **(called Reinsurers)** would mostly never be called upon to help, they would continue to receive a stream of fees for taking on the risk that they had agreed to indemnify.

With a pool of Reinsurers, many insurers are reinsured such that when a catastrophic or once-in-generation risk event occurs, the size of the pot that individual insurers would have access to would be many times larger than their own holdings.

Today, the concept of Reinsurance allows insurers to take on risks potentially costing significantly more than the value of the funds that individual insurers hold.

Since the Reinsurance industry is global, Reinsurance also provides a great mechanism for individuals in developing countries to access funds and cover in the much richer developed world.

Thanks to Reinsurance, when relatively small Insurance companies in countries like Nigeria and South Africa experienced an avalanche of claims during the recent Covid-19 pandemic, their Reinsurance arrangements with global reinsurers like Munch Reinsurance Company, Swiss Re, Lloyd's and Berkshire Hathaway allowed them to service claims significantly in excess of their own holdings.

This is the true magic of Reinsurance.

This is also how insurance companies build their reputations and customer confidence. Through Reinsurance, insurers are able to guarantee their ability to meet their obligations to cover client risk even if this risk is significantly larger than their own holdings and ability to cover.

In short, Reinsurance arrangements ensure that all claims can be paid, regardless of their size or number.

Reinsurance arrangements also provide insurance companies funds to trade, to build and increase market share.

Coronation's Reinsurance contracts, for example, have won our business significant market share in Nigeria, enabling us to indemnify large scale risk with minimal negative financial impact.

Financial stability is a major catalyst for business continuity and safety of funds. Reinsurance contracts with highly rated reinsurance companies are critical for business stability.

Coronation Insurance, for example, has a number of reinsurance arrangements with the likes of **Africa Re, Munich Re, Swiss Re, Continental Re, WAICA Re, FBS Re and more**. These domestic and international partnerships provide Coronation policy holders the assurance to go about their business secure in the knowledge that we have their backs for each and every one of the risks that they have indemnified with Coronation.

By purchasing the best reinsurance cover for each of the risk portfolios that Coronation manages, Coronation provides clients the confidence and ability to manage their own risks. Coronation's relationship with highly rated Reinsurance companies ensure the stability of the business.

These Reinsurance relationships also enable clients to invest they suffer loss this won't wipe out their businesses, life savings or homes.