CORONATION

INSURANCE - THE TRUMP CARD IN WEALTH CREATION

Wealth is generally built up and maintained over time through a combination of accumulating assets for the purpose of generating even more income while also, ideally, limiting expenses and liabilities so that the assets built up can generate more wealth.

In reality, however, all sorts of situations, changes and challenges occur that interrupt or prevent the build-up and re-investment of wealth. Despite the best laid plans, life continues to happen, and surprises. These surprises, called risks, often require the diversion of resources away from wealth creation. In some cases, these unanticipated setbacks can be so large, damaging and costly that they destroy most or even all the accumulated wealth, preventing, completely, the ability to create and accumulate new wealth.

This is precisely the situation for which insurance was developed.

Insurance provides a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium. In short, in return for allocating a small amount of wealth each month to an insurer to cover certain risks, when these risks materialise, the insurer provides the money or resources to return the insured to the position they were in before the loss.

By removing the need for the insured to come up with the money or remedy for the loss out of their own wealth or resources, insurance sustains the process of wealth creation.

In this sense insurance is the trump card, or magic wand, that protects the process of wealth creation when disaster, the unexpected or the unaffordable arises.

The principle of insurance works on the idea that the good fortune of many covers, or indemnifies, the misfortune of the few. In other words, if hundreds of thousands of individuals, businesses or organisations each make relatively small insurance contributions, when misfortune strikes a minority of the insured, there are sufficient funds in the collective pot for the contributions of the many to remedy the losses of the few

Re-insurance, where individual insurers transfer the larger risks on their books to, usually, multiple third parties, operates on a similar principle.

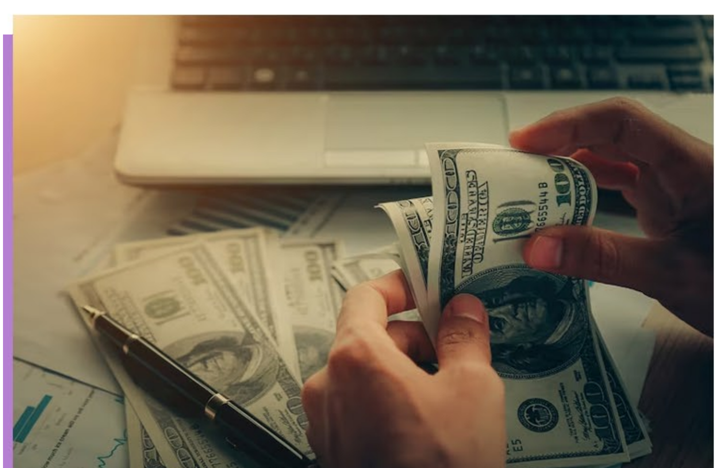
Risks like flood, fire or earthquake have the potential to cause widespread damage to large numbers of policy holders all at the same time. Collectively these losses may be so large that individual insurers might not have sufficient funds to compensate policy holders. By spreading these large risks amongst other insurers through re-insurance, insurers themselves deploy the trump card of insurance to help them compensate multiple clients simultaneously when large, catastrophic, loss events occur.

Despite the proven value of insurance in creating and growing wealth by protecting assets and compensating policy holders for loss, insurance is often not recognised as a powerful wealth creation tool. Instead, and certainly in Nigeria, insurance is viewed at best as a grudge purchase, at worst as a waste of money diverting resources away from the process of wealth creation.

When Haiti was hit by an earthquake in 2010, the World Bank reports less than 1% of the damage caused was insured. This left 99% of the losses for the government and people of Haiti to stump up themselves. Without any resources available, Haiti is still, today, suffering the impact of this disaster. When New Zealand, on the other hand, experienced a similarly devasting quake in 2011, 81% percent of the resulting direct economic losses, in the order of US$150 million, were covered by existing commercial property covers, with 80% of these losses assumed by reinsurers. The money provided by these insurers allowed immediate emergency responses as well as a quick rebuild of damaged infrastructure and property. Life insurance policies also provided compensation to the survivors of those who lost loved ones in the tragedy.

When Haiti was hit by an earthquake in 2010, the World Bank reports less than 1% of the damage caused was insured. This left 99% of the losses for the government and people of Haiti to stump up themselves. Without any resources available, Haiti is still, today, suffering the impact of this disaster. When New Zealand, on the other hand, experienced a similarly devasting quake in 2011, 81% percent of the resulting direct economic losses, in the order of US$150 million, were covered by existing commercial property covers, with 80% of these losses assumed by reinsurers. The money provided by these insurers allowed immediate emergency responses as well as a quick rebuild of damaged infrastructure and property. Life insurance policies also provided compensation to the survivors of those who lost loved ones in the tragedy.

The difference in impact and response of these two very similar disasters highlight the importance of insurance in wealth creation and preservation.



Far from being a grudge purchase that wastes money, insurance is key to sustaining the ability to continue building wealth and managing risk even when disaster strikes.

In short, insurance is the trump card that makes the creation and preservation of wealth possible.