



INSURANCE: COSTS AND BENEFITS

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Introduction:

- The central subject of this topic is **insurance**; therefore we need to reflect on “what insurance is and what it is not:



What Insurance Is

- a. A planning tool for future certain events
 - Death is certain for every mortal on planet earth, what we are not certain of is when and how it will come – insurance can help us prepare ahead of this event for our estate – for our spouses, children, and generations. Insurance can help us to prepare even for our burial expenses, evacuation to/from overseas.
 - It is certain that we all wish our children to attend good schools’ insurance can help us to prepare for these expenses.

- b. A planning tool for un-certain, fortuitous but negative events- insurance is a risk management tool for handling uncertainty in the ever-increasing risks of our day-to-day activities.
 - insurance can help us prepare for critical illness
 - the possibilities of lost of valuable assets to a man-made perils and natural disasters is a reality. Engineers produce highly sophisticated supersonic machines like space craft, robots under-water submarine etc. Insurance is the most plausible risk transfer mechanism for replacement of these machines when lost to human failures, mechanical failure or machinery breakdown.
 - Insurance can provide compensation for every conceivable asset we so much cherish including artworks and intellectual properties.

What insurance is not:

- Insurance is not banking product and far from a bank account where you have unscheduled savings and withdrawals.
- Insurance does not cover all conceivable risk - the basic elements of offer and acceptance and other fundamentals of a valid contract must be present in insurance transaction.
- It does not replace to the exact – it promises to compensate or indemnify (places close to) the exact either by reimbursement, replacement, repair, reinstatement.
- It is a not a gaming mechanism.
- It doesn't compensate for loss of profit or future earning beyond historical data of the organization or person It can compensate for loss of profit on the antecedent of previous performance of your company. It can compensate for loss of life based on subsisting earning stream of the dead.

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- - **What are the benefits of Insurance?**



Benefits to Individual;

- Reduces uncertainty. Uncertainty remains a major fear of mankind in facing challenges or realizing visions. Insurance provides us certainty that our we will not be left alone in the cold.
- Protects our wealth insurance ensures our wealth is protected from against fire and natural occurrence, theft, fraud etc.
- Insurance gives us the courage to face calculated risks – it reduces accumulated risk that could weigh us down from embarking on projects so dear to our hearts.
- Insurance helps us to imbibe risk management culture through the risk improvement advisory from insurance companies.
- Insurance helps us to aspire for certain specific goal through target savings and thus inculcate the discipline and culture of saving towards achieving specific goals like education, mortgage etc.

Benefits of Insurance to Corporate Organizations;

There is no gain saying that its almost impossible for a corporate to exit without insurance. Some classes of insurance are made compulsory by virtue of legislations due to complexities of operating organization.

- Insurance allows origination to focus on core objectives
- Insurance protects shareholders wealth against insurable risks.
- Insurance protects directors and officers against their corporate liabilities.
- Insurance ensures that smooth running of organization is not truncated as a result of occurrence of a life-threatening risk or disaster.

Benefits of Insurance to the Society;

- Reduces economic wastage as a result of a crystallization of risk which otherwise will create economic loss to the society
- Insurance funds provide critical long-time funds for infrastructural development.
- Insurance plays a tremendously important role in the eco-system of risk management... the innovation of car seat belts and air bag came from this.
- Insurance reduces burden on government and diversion of funds for replacement of public good in the occurrence of risks insured. E.g., government has relied so much on insurance for payment of compensation to fallen policemen and civil servants.

- **Costs of Insurance:**



The intrinsic cost of having insurance is the monetary value usually called premium which you part with in exchange for a promise to compensate or indemnify you when the risk insured against crystallizes. Typically, this cost could range from 0.001% to 5% of the value of asset or limit of liability you wish to cover depending on the class of insurance, location and other variables called underwriting factors. The Chinese multi billionaire was quoted as saying ... “Buying insurance cannot change your life but can prevent your lifestyle from being changed”. I somehow agree with him to extent of the person making the decision to buy or not to buy.

The opportunity cost of insurance is often the cost incurred in meeting our daily expenses. In accounting principle and taxation law you are allowed to expend your insurance premium within your operational cost in the same year it is incurred. It is economically impossible to save the premium you would have paid out for your life insurance or asset insurance to acquire a new asset for pay future cost of your child education.

The alternative cost is the conscious cost embarked upon or funds set aside for future uncertain events or certain event prepared against in terms of financial implication of its occurrence. The alternative cost is usually and geometrically more than the intrinsic cost of insurance.

Conclusion;

- “Insurance is the embodiment of preparedness, offering a safety net when life takes an unexpected turn”
- Buying insurance shows the extent to which we accept our responsibilities to our family and our community. We wake up every day with two choices before us; to improve our situation or to go back to bed with our status-quo.



Thank you

