

## **Insurance-the thing behind everything**

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Insurance is one of those industries that is little understood. Mainly because we don't give any thought to it. And when we do it is usually with a negative undercurrent; costs go up, payments are due, and if these pervasive personal injury lawyer ads are any indication, insurance companies rarely payout anyway. Yet, insurance is the lubrication for our whole economic system. Buildings would not be built, companies would not get funded, families left destitute, and we would be in a less safe world if not for insurance. Insurance has been the bulwark that our market economies have leaned on during the many setbacks of our civilization so let's learn about it. Then the next time you get a premium increase it won't be so frustrating. You can reframe it as your contribution to progress.

There is evidence that the ancients used insurance for reducing trading risk. The Roman general Caius Marius began a burial club for his soldiers. The surviving club member soldiers would contribute to the burial of their comrades. These informal associations remained local and small scale until the accumulation of wealth and global trade necessitated a more organized structure to dispersing risks. This happened at Lloyds Coffee House in London in the 1680s.

The English had surpassed the Dutch as the world's naval power. Trade with the New World and Asia was booming. But ships were disappearing - usually due to falling off the edge of the Earth since the Earth was still flat at that time - or demons and occasionally from storms and piracy. The sponsors of these maritime ventures got together in Lloyds and worked out agreements on sharing the hazards of their business. This grew into the eponymous Lloyds of London, which is still in business today. I remember some Canadian investors in Lloyds in the 1980s, unaware of or unconcerned about Lloyds unlimited liability covenant that may not use the word eponymous. They were forced to pay up for asbestos lawsuits in the US and/or I believe they insured Kuwaiti oilfields during the first Gulf War.

Our first Canadian life insurance company was Canada Life, started in 1848. Hugh C. Baker Sr. decided to open it after having a bad experience buying his own life insurance in the USA. He was charged a 40% premium because the underwriter believed that Canada had a much lower life expectancy due to the cold climate. This belief was not fully dispelled until 1895 when a mortality table showed that Canadian life expectancy was the same as the US, UK and Germany. Today, the combined life and property and casualty companies have assets close to three trillion dollars.

The insurance industry has advanced human welfare. By developing actuarial science and the accompanying statistics we have been able to quantify risks, cost and benefits of various actions and this has helped shape public policy. Insurance companies were the ones to first implement fire brigades, insist on the installation of fire hydrants, advocating for car seat belts, empirically showing the hazards of climate change, raising workplace safety standards, showing that smoking reduces life expectancy and the list goes on. By providing the supporting numbers policymakers are able to make informed decisions.

Insurance costs less than trying to self-insure by having high savings. If you have a young family, with a mortgage and car loan, insurance is likely the only way to have enough liquidity to take care of your family if you suffer an accident. There is also the peace of mind that comes with the knowledge that you are protected.

Some of the payments that insurance companies receive from their insured clients is invested. Because insurance companies have such long time frames, they are able to invest without worrying about short term fluctuations. This is opposite to most financial capital that worries quarter to quarter about valuation. This is a benefit to society since money is available for projects that may have years before payback.

Insurance is often not thought about until it is needed. Most of us don't want to think about the reasons we need it. I have been licensed to sell life insurance since the late 1990s and I know life and accident insurance needs to be sold and is rarely purchased without some guidance. This is the same reason that car, fire and home insurance is government mandated. Many people would not buy it unless it was the law. But when the insurance industry is closely examined, we see that it provides us with many benefits. From encouraging healthy public policy, to long term investing, to peace of mind, to the behind the scenes guarantor for businesses and individuals, insurance is one of the foundations of our society.

June 28th is international insurance day. If it isn't on your calendar already, enter it. Send your insurance agents a note that day, if you remember their names, and thank them for everything they do. I am pretty confident you would surprise them in a very good way.