

Imagine a world *without* insurance, if you can...

In thinking more deeply about the importance of insurance in society, try visualising a world *without* insurance.

You'd have to set aside considerable funds to cover against every possible eventuality. Repairing damage, replacing income from lost work, or avoiding activities where you think the impact from the risk is too great.

Without insurance, businesses would be less inclined to grow or experiment for fear of losing everything. So the most basic premise of modern business—innovation—would be virtually impossible.

A world without insurance: pre-industrial revolution?

In thinking more deeply about the importance of insurance in society, try visualising a world *without* insurance. This is actually quite difficult since so many things we take for granted were created *because* we have insurance. But if you could imagine it, the world would resemble the pre-industrial revolution. Here are just a few examples.

Collective risk management

In a world without insurance, you'd have to set aside considerable funds to cover against every possible eventuality. Think of some of them: replacing damaged items; replacing income from lost work; or avoiding activities that could pose a risk to others. This would mean that:

- Home ownership would be the preserve of the mega-rich. For the rest of us, fire, flood or severe damage could cost over half of all that we have.¹
- Vehicle ownership and use would be laden with risk. One misjudgement on the road and you'd not only lose your own vehicle, but risk bearing the cost of other people's vehicles and property, and of compensating for injuries and death. People might drive carefully, but the stress of financial loss would be severe, and no compensation would be commonplace.
- Travelling anywhere—never mind abroad—would be impossible or unsafe. Transport carriers would refuse to take on the risk of large-scale accident claims, forcing users to accept disclaimers, and removing any commercial incentive for safety. Individuals would need to be able to cover the cost of injury, sickness, and hospital care abroad, as well as the exorbitant costs of medical repatriation.

Encouraging innovation and competition

In a world without insurance, businesses would be less inclined to grow or experiment, making the most basic premise of modern business – innovation – virtually impossible:

- An error of business judgement, or an experimental product gone wrong, could cost an organisation everything.

¹ Based on current average household wealth and the proportion of property. Source: Wealth of the Average Household: Great Britain 2008-10, 18 March 2013.

- Industry's reliance on suppliers would be plagued by the fear of one of them upsetting the chain. So another fundamental aspect of modern business – offshore suppliers – would be expensive and unattractive.
- Professionals would be discouraged from doing anything beyond the most basic, for fear of public indemnity and loss of livelihood. Surgeons, for example, would be reluctant to perform certain procedures and patients would have to accept the risks without compensation.

Supporting social security

In a world without insurance, the burden on the state for covering the cost of inevitabilities such as old age and social care would be impossible to bear:

- Individuals would have to set aside significant portions of their income during work to cover retirement;
- People with dependents would have to set aside additional funds to cover the risk of losing income while in work as result of injury, long-term sickness or death; then, assuming they didn't die,
- Upon retirement, they would have to ration their accumulated savings over the remaining years of life based on their own health and life expectancy assessments.

The social value of insurance

Insurance plays a fundamental role in making the economy and wider society work, by:

- Efficiently protecting the public through innovative risk management techniques.
- Freeing up businesses and professionals from everyday risks and encouraging innovation and competition.
- Relieving the burden from the state by providing safe, effective and affordable pension savings, protection and de-cumulation products that convert pension savings into retirement income.

These are just some of the areas where insurance contributes to society, and the box to the right illustrates that in pounds and pence. As the professional body for the insurance sector dedicated to protecting the public, the Chartered Insurance Institute is looking at various aspects of the social role that insurance plays.

The social value of insurance in numbers

Investments managed by UK insurers: **£1.8 trillion** - a quarter of the UK's total net worth

Annual tax contribution: **£12 billion**

Every day, the UK insurance sector pays out:

Pensions/annuity payments: **£348 million**

Savings: **£52 million**

Motor claims: **£17 million**

Property claims: **£11 million**

Liability claims: **£7 million**

Travel/accident claims: **£1.5 million**

Protection insurance claims: **£8.5 million**
(97% of claims)

Source: ABI

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