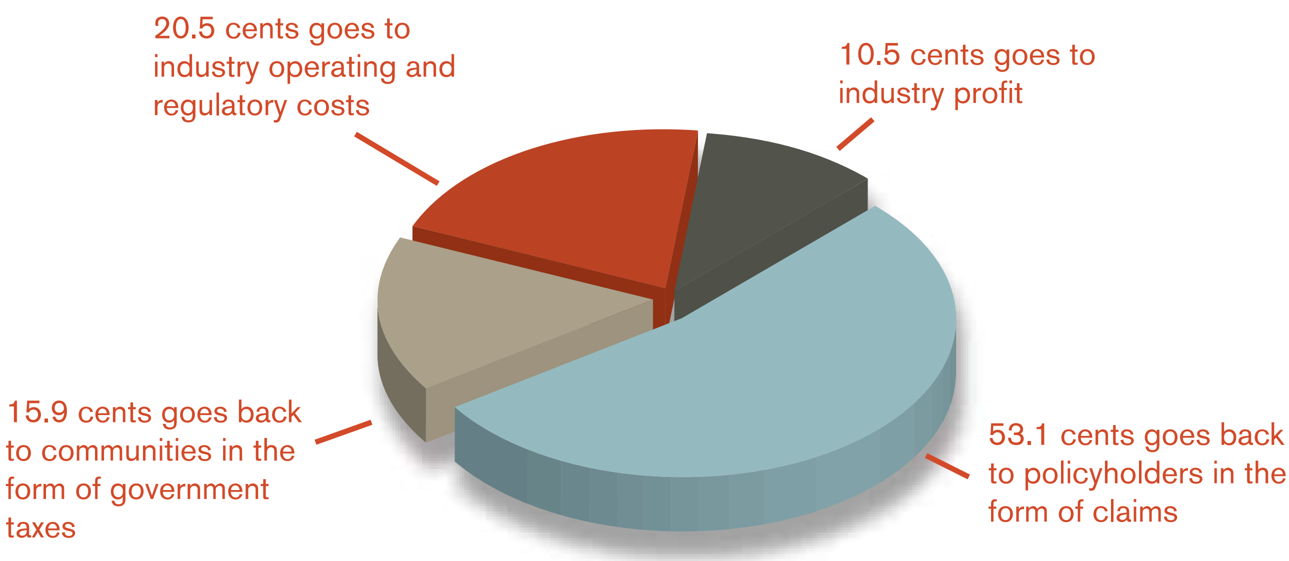
The Premium Pie

Ever wonder where your insurance premiums go?

For every dollar of premiums paid by policyholders:



In the insurance system, money is used to settle claims, pay taxes and cover administrative costs. Insurance companies set aside a large pool of money, called a reserve, in order to be able to respond quickly to catastrophes that result in a large number of claims over a short period of time.

The remaining premium dollars are invested by insurers. Generating revenue by investing the money is necessary to offset the large and rising cost of claims. The Canadian insurance industry makes very low risk investments, and has always generated positive investment returns (IBC).

SCHILL INSURANCE

The Premium Pie

***** 15.9 cents goes back to communities in the form of government taxes:** Governments get most of their money from taxes. Taxes pay for services such as roads, parks, community centres, medical care, welfare, schools, and universities.

In the insurance system, money is always moving. On a daily basis, there are claims to be settled, taxes to be paid and other costs related to running a business (paying salaries, buying equipment, paying rent, etc.). Some money is always set aside so that the company can respond quickly to catastrophes, when a large number of claims will have to be paid in a short period of time. This is called a reserve.

Any money that is not needed for day-to-day expenses or reserves is usually invested by insurers.

Here are a few things you should know about insurers' investments:

Contrary to what some people think, insurers have never had a year when they lost money on investments.

Some years are better than others, but the industry has always generated positive investment returns.

Insurers are among the most careful investors in the country. On average, approximately three quarters of their investments are in government bonds.

In order to make sure that insurers are able to pay claims, the federal government monitors the industry's investments to make certain that they are low-risk.

Insurers strive to maintain a portfolio that allows for quick liquidation of investments to pay claims.

Why do insurance companies invest the money?

The nature of insurance is such that your insurance company holds your premium until it is needed to pay claims. By investing the money in the interim and making a return, your insurance company is able to offset the cost of claims and charge you less than you would otherwise pay.

In fact, there have been years when returns on investments were so good (10% or higher) that insurers only had to collect enough premium to pay for claims and expenses, and made all of their profit from investments. Even when investment returns are much more modest, this is an excellent way to keep premiums as low as possible for consumers.