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INSURANCE IS NOT AN INVESTMENT – UNDERSTANDING ITS REAL PURPOSE

Insurance is a risk management tool designed to protect you and your family from financial loss when unexpected events occur.

Protect today.
Secure tomorrow.

Published: June 2026
Category: Insurance
Reading Time: 4-5 minutes

Insurance Is Not an Investment
– Understanding Its Real Purpose

One of the most common misconceptions in personal finance is that insurance should provide a financial return.

Many people evaluate their insurance policies by asking:

"How much money will I get back?" or "What happens if I never claim?"

While these may seem like reasonable questions, they often reflect a misunderstanding of the purpose of insurance.

Insurance is not an investment, insurance is a risk management tool designed to protect you and your family from financial loss when unexpected events occur.

Understanding this distinction is essential when building a sound financial plan.

The Difference Between Investing and Insuring

Although both form part of a comprehensive financial plan, investing and insurance serve very different purposes.

Investing

The purpose of investing is to:

- Build wealth
- Grow capital
- Generate future income
- Achieve financial goals such as retirement

Examples include:

- Retirement Annuities
- Tax-Free Savings Accounts
- Unit Trust Investments
- Endowments
- Property Investments

When you invest, your goal is to accumulate assets and increase your net worth over time.

Insurance

The purpose of insurance is to:

- Protect your income
- Protect your family
- Protect your assets
- Protect your financial plan

Insurance is designed to transfer financial risk from you to an insurance company. Rather than building wealth, insurance protects the wealth you are working hard to create.

Why Insurance Exists

Life is uncertain.

Most financial plans assume that you will:

- Continue earning an income
- Remain healthy
- Support your family
- Reach retirement age

Unfortunately, life does not always go according to plan.

What would happen if:

- You became seriously ill?
- You suffered a permanent disability?
- You were unable to work for an extended period?
- You died unexpectedly?

Without adequate protection, a single unforeseen event can destroy years of financial progress. Insurance exists to provide financial security during these difficult times.

Understanding Risk

Every day we accept risks without giving them much thought.

We insure our:

- Vehicles
- Homes
- Cell phones
- Business assets

Yet many people fail to insure the very thing that makes all of these possible:

Their ability to earn an income.

For most working individuals, their future earning potential is their largest financial asset.

Without an income:

- Bond repayments become difficult
- School fees become unaffordable
- Retirement savings stop
- Investments may need to be withdrawn

The financial consequences can be severe.

Self-Insurance vs Transferring Risk

Some individuals believe they can simply "self-insure."

In other words, they will use their savings if something goes wrong.

This approach may work for smaller financial setbacks.

However, few people have sufficient capital available to replace:

- Twenty years of future income
- Major medical costs
- Long-term disability expenses
- The financial needs of a surviving family

Insurance allows individuals to transfer these potentially devastating risks to an insurer in exchange for a relatively small monthly premium.

The Cost of Being Uninsured

Consider a 40-year-old parent earning R50,000 per month.

If that person were to pass away unexpectedly, the family could lose millions of rand in future income that would have been earned over their remaining working lifetime.

Similarly, a serious illness or disability could result in:

- Loss of income
- Increased medical costs
- Additional debt
- Reduced retirement savings

The purpose of insurance is not to create a profit, the purpose is to prevent financial hardship.

Insurance and Financial Planning

A well-designed financial plan is often compared to building a house.

Your investments, retirement savings, and assets represent the structure of the house.

Insurance represents the foundation.

Without a solid foundation, the entire structure is vulnerable.

Before focusing exclusively on wealth creation, it is important to ensure that the risks capable of destroying that wealth have been addressed.

The Most Common Insurance Mistake

Many people purchase insurance based solely on affordability.

Instead of asking:

"What risks do I need to protect against?"

they ask:

"How much cover can I afford?"

This often results in people being significantly underinsured.

The correct approach is to first identify the risks that exist and then determine the most appropriate and affordable way to protect against them.

Final Thoughts

Insurance should never be viewed as an investment.

Investments are designed to make you wealthy.

Insurance is designed to ensure that an unexpected event does not make you poor.

A successful financial plan requires both.

Investments help you build wealth, insurance helps you protect it.

The real value of insurance is not measured by the claims you receive, but by the financial security it provides when life takes an unexpected turn.

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