



# Possibilities of use of the noble metals market in the life insurance

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## Abstract

**Motivation:** The financial crisis of 2008 undermined the trust of many people to the financial markets. During such crises one can observe growing prices and trust among others to tangible assets including noble metals. Noble metals, to which following metals are classed: gold, silver, palladium and platinum, in contrary to current financial instruments (shares, bonds, derivatives, bank deposits) do not generate interests. They are instead one of forms of thesaurisation. Moreover, they constitute (mainly gold) good protection from inflation in contrary to the fiat money. In Poland this market is not very developed yet, but its growing popularity can be already observed.

**Aim:** The main aim of this paper is to analyse the possibilities to use the market of noble metals in the market of life insurances.

**Results:** The insurance companies can potentially use noble metals in typically protective products as well as in saving. Additional aim of this paper is to determine the attitude of people purchasing noble metals to the financial markets (including the insurance industry) and investigating their attitude to risk. For the purpose of the researching part, a survey among people purchasing noble markets was used. Moreover, this group can be potentially most interested in purchasing insurance products based on gold or silver.

**Keywords:** noble metals; saving; life insurance; gold, silver; Austrian school of economics

**JEL:** B53; D14; D53; E14; E21; G22

## 1. Introduction

Financial crisis of 2008 having its source in the banking sector has resulted in the growth of interest in the noble metals, especially gold<sup>1</sup>. Problems of the biggest world's economies (growth of indebtedness or low growth of GDP) were reflected in the financial markets and institutions, including insurance companies. Pricing of the financial instruments of this markets depends mostly on the monetary policy of the central banks (especially the Federal Reserve System and the European Central Bank). The actual expansive politics has a negative influence on the insurance market. Because the artificial reducing of interest rates reduces the investment incomes, the insurers have to look for profit by increasing premiums (Iwanik, 2010, p. 2).

Fluctuations on the financial markets cause problems also to the clients of the insurance companies having life insurance. It concerns typically protective products as well as investment products. According to the attachment to the Act on insurance activity (2003) for Section I (Life Insurances) from May, 22 2003 we can divide life insurances as follows:

- life insurances;
- dowry, provision insurances for children;
- life insurances if related to the insurance capital fund;
- pension insurances;
- accident and health insurances if they supplement insurances from groups 1–4.

In case of group 1<sup>2</sup>, the initial sum of life insurance should be generally indexed by the insured person to protect from inflation and thereby to keep the actual insurance sum. The change of the insurance sum in money to physical gold could limit the intensity of indexation significantly. As the analytics of Credit Suisse together with the scientists of London Business School noticed in the cited report of the Global Investment Returns Yearbook, the only asset resistant to inflation is gold (Gwiazdowski, 2012, p. 340).

In turn, insurances from group 2–4 apart of the protective part give the insured person the possibility to locate means into the capital insurance funds (CIF) to multiply them in the future. Negative microeconomic data cause fall in pricing of the CIF units, what can translate to losses by the insured. The fall of prices of the traditional instruments of the financial market (e.g. shares) usually means the growth of prices of noble metals. Investments in gold is one of the alternative forms of capital investment. Low correlation of gold with the traditional assets contributes to the elimination of the specific risk (Gieraltowska, 2012, p. 99–120). Moreover, when we understand the historical role of gold as money accepted in all the worlds markets, we can notice, why is gold

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<sup>1</sup> Here are meant direct investment in physical gold and other noble metals.

<sup>2</sup> To this group there are classified term life insurances without the capital part.

the best security from inflation and why do people buy gold when they are afraid of something (Murphy, 2012, p. 9).

When the clients of the insurance companies want to purchase noble metals they can do it among others over mints, subjects not classed to the institutions of the financial market and constituting its alternative. Creating some kind of ore insurance<sup>3</sup> in cooperation with mints could contribute to the development of a new category of insurance products.

It is also to be stressed, that the basic function of the life insurances is their protective function, consisting in providing people indicated by the insured with appropriate financial means by the insuring company in case of death. The possibility to gather and multiply capital is an additional option. Such situation causes, that on one hand the insurer needs to take care of the right process to evaluate the insurance risk in the life insurances (life underwriting) , consisting of risk selection and classification (Lipka, 2013, p. 116). On the other hand, in case of insurance with the capital part important become also questions related to providing customers with appropriate instruments to accumulate capital.

## 2. The current state of knowledge

In the economic literature the subject of noble metals is mentioned mainly in relation to the money theory and its role in the economy. According to the representatives of the Austrian School of Economics money is a market and evolution institution, formed as a result of the free exchange between the market participants. From the history perspective two products won the competition among the other goods and have been chosen by the market to function as money. These were two noble metals: gold and silver (when one of these metals was not available also copper was used). Silver and gold had many characteristics that could be called ‘money characteristics’ and caused that they could function as money better than other goods (Rothbard, 2015, p. 311).

Using gold and silver as money began to disappear together with the formation and development of banking based on the system of partial reserves and appearance of central banks. In the years 1815–1914 there was functioning the so called classical gold standard, where gold was still the main asset used in the economic transactions. In the next years the role of gold as the mean of exchange was constantly limited (e.g. removal of exchange of dollars on gold by president Roosevelt in 1933 or limitations in system from Bretton Woods in 1944) and finally by the decision of president Nixon from 1971/1973 gold remained to be the subject of exchange even between central banks. Gradual reliance of the economic system on the fiat money together with the development of the capital markets led to the marginalization of the role of gold in the economy.

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<sup>3</sup> That means based e.g. on physical gold or silver.



Economists of the Austrian School show the defective nature of such solutions. According to Mises, Hayek<sup>4</sup> and Rothbard the modern banking system, by overflowing the credit market with *ex nihilo* created money, is the reason of the well known economic cycle (Murphy, 2010, p. 1). As an alternative Mises and Rothbard propose a system of a hundred percent reserve with clear differentiation of the deposit and credit bank activity (Zieliński, 2010, p. 195). The present financial crisis showed also the defective nature of the current economic theories (classed to the main stream in economy), used by the investors for the financial analysis. The crisis of 2000 (or 2008) did not suit to theories they were taught at school— it could not be cleared within the view of their colleagues from the financial markets. The next step for these investors was reading, looking for answers and then finding works of Mises, Hayek or Rothbard, which helped them to understand, what happened (Blumen, 2014, p. 2). The growing popularity of the Austrian theory translated also to the growth of consciousness as to use of the noble metals by the investors as the so called ‘safe assets’, price of which (during the fluctuations on the financial markets) grows or at least does not fall.

The essential role of the insurance companies in the economy and on the financial markets allows to achieve high profits from the carried activity, but at the same time requires from the insurance companies continuing activity to protect their own activity and the capital of their clients from the adverse effects of the cyclic financial-economic crises. Already in the 1950s of the 20th century L. von Mises (2006, p. 86) pointed the fact that on the American money market today it is no longer the banks, it is the insurance companies that are the greatest money lenders. And the money of the insurance company is-not legally, but economically-the property of the insured. And practically everybody in the United States is insured in one way or another.

The tense situation on the financial markets makes financial institutions (also insuring companies) look for new, alternative forms of investment. In the last years grows the popularity of investments in the agricultural land.

Because of the need to ensure safety of the investments, low interests rates and the scarcity of the resources, investment in land is seen as an attractive capital deposit (Pełka, 2013, pp. 12–13). Most certainly we can state that noble metals give similar advantages.

### 3. The methodology of research

As potentially the most interested in purchasing the life insurance products connected to noble metals can be concerned people purchasing noble metals in the physical form directly (mainly over mints). For the researching part among the clients of the Wrocław Mint there was conducted a survey consist-

<sup>4</sup> F.A. Hayek received a Noble price for the researches on economic cycles in the field of economics. These researches were continuation of works of his teacher L. von Mises. More on that subject in Machaj (2006).

ing of 12 closed questions. During the researches lasting about 30 days (from the August 1, 2015 till August 31, 2015) there were collected 54 surveys<sup>5</sup>. During these period the price of 1 gold ounce fluctuated from 1085.1 USD<sup>6</sup> (4.08.2015) to 1166.5 USD (23.08.2015) (World Gold Council, 2016).

The first part of the survey (questions 1–5) was related directly to decisions concerning the purchase of noble metals and concerned as follows: the aim of the purchase (thesaurisation /investment), the length of time of purchasing of the noble metals, investment perspectives and the height of the yearly sums for the purchase of individual kinds of noble metals.

Further (questions 6–7) the interviewees were asked about the degree of confidence to the indicated financial institutions (including mints offering noble metals and insurance companies) and to the individuals forms of capital investment.

Then the interviewees answered questions related to life insurance products owned by them (question 8) and the height of the amounts spent monthly on the pointed insurance (question 9).

Questions 10 and 11 related to matters connected directly to the aims of this paper, which is among others an attempt to answer the question if people purchasing noble metals would be willing to purchase the life insurance (having protective and investment purposes) guarantying the payment of benefit in ore. Moreover, the interviewees were asked about the possibility of use of noble metals (as money) in the commercial transactions (question 12). Receiving positive answers would incline a conclusion about the growing role of noble metals, especially gold in the economy and would be a chance for development of the new insurance products. Last questions (13–16) had the purpose to get the basic information about the interviewees (age, sex, place of residence and education).

#### 4. The results of research

Big diversity and multiplicity of financial instruments is among others a result of applying different investment strategies. Such differences can also be noticed by purchasing noble metals. Among most interviewees (59%) the main purpose is thesaurisation (no interests from the capital), what can be an effect of distrust to the financial markets or low level of willingness to take risk. In turn, 26% of interviewees purchase noble metals hoping for profit. This persons wait for the growth of ore prices in the future. The remaining 15% of the interviewees

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<sup>5</sup> Relatively low number of answers results on one hand from the period for the study to be conducted (holiday season). On the other hand, because of the specifics of the subject matter, more complex studies (with a bigger amount of questions, bigger research group and targeted at customers of other institutions acting on the market) could in case that there would be no satisfactory answers, turn out to be too ambitious or even unnecessary. However, the author is of the opinion, that the results are encouraging to conduct studies in the future on a significantly bigger research sample.

<sup>6</sup> One ounce of gold was priced so low in the beginning of 2010.

did not clearly stand neither for thesaurisation nor for investment with the expectation for profit.

An important question was to determine the investment or saving perspective set by the interviewees. For the 83% of the interviewees it is a capital deposit for over 5 years. One can also presume that these persons will continue buying noble metals in the coming years. Moreover, it is worth considering, that 63% of the interviewees purchase noble metals not longer than two years. Detailed information is presented on chart 1.

The interviewees purchase most frequently gold and silver. The share of palladium and platinum is marginal. 56% of the interviewees purchase gold at least once in a half a year. In case of silver this percentage amounts to 45%. Only 17% of the interviewees declare to purchase gold less often than once a year what leads to the conclusion that it is a noble metal enjoying popularity among the investors.

The yearly amounts for purchasing gold also confirm this statement. 45% of the interviewees spend on gold at least 5001 PLN. In case of silver only 9% of the interviewees spend from 5001 to 10000 PLN. The interviewees spend amounts over 10000 PLN yearly only for gold (24%). Moreover, 46% of the interviewees declare that they do not allocate any financial resources for silver (analogical for silver this percentage amounts to 11%).

Additional advantage in favour of deposit gold is the fact that it is exempted from VAT. For silver, platinum and palladium the VAT rate is 23%. Detailed information on purchase frequency and height of the amounts spent on noble metals is presented in chart 2 and 3.

Among the interviewees we can notice relatively low degree of confidence to individual institutions of the financial market as well as to the mentioned public institutions. In case of insurance companies 57% of the interviewees describe their trust as low and only 19% declare a high degree of confidence. In case of subjects offering noble metals a high degree of confidence declare up to 63% of the interviewees.

Similarly the interviewees have a low degree of confidence to derivatives. For bonds 59% of the interviewees declare a low degree of confidence, for shares 46%. Also bank deposits are seen by the interviewees as a safe capital deposit (58%). In turn, in case of noble metals the interviewees declare a high degree of confidence (74%). Greater confidence than financial instruments have also gems or real estates and land. It is to be pointed that high level of confidence to tangible assets together with thesaurisation (as the main purpose) leads to the conclusion that for the interviewees it is more important to secure the capital than to multiply it. Detailed information on degrees of confidence is presented on chart 4 and 5.

Although the degree of confidence to insurance companies is not very high, only 28% of the interviewees does not have any insurance product from group I (life insurances). The most popular is the group insurance (employee insurance) that was purchased by 54% of the interviewees. 33% of the interviewees declare

purchasing individual life insurances (without the capital part) and 13% has such insurance together with the saving part. Moreover, 9% of the interviewees closed a dowry insurance (backup for children).

Most of the interviewees (61%) do not spend for insurance more than 100 PLN monthly. It is a result of purchasing solely group insurances (or alternatively individual life insurance without the capital part), where the monthly premiums do not exceed 100 PLN. 26% of the interviewees pays premiums between 101 and 300 PLN monthly and 11% spend between 301 and 500 PLN monthly. The rest 2% of the interviewees spend for insurance products more than 501 PLN monthly.

Based on the above mentioned information one can conclude that among the interviewees there is a potential interest for the insurance products based on gold or silver. Data in chart 6 and 7 confirm it. According to them 22% of the interviewees would be definitely interested in purchasing ore insurance (without the capital part and 19% declare the same degree of interest related to life insurance with the capital part.

Detailed response scale applied on the chart 6 and 7 should reflect in the best possible way the preferences of the interviewees. People without any life insurance chose more often lower values on the scale, hence the significant share of negative answers. However, most interviewees chose higher values. For example the percentage of people declaring high level of interest (sum of values 7, 8, 9 and 10) in the *ore insurance* with the capital part amounted to 55%.

The aim of the last research question was to learn the opinions of the interviewees on the perspectives of getting back to money basing on physical gold or silver. As the data on chart 7 show, 61% of the interviewees is potentially interested in using noble metals in commercial transactions as the mean of exchange (money) (chart 8).

## 5. Conclusion

Although the research sample was relatively low (N=54) the study showed that people purchasing noble metals can be a group showing potentially high interest for the insurance products enabling payments and saving in ore.

Moreover, additional demand for noble metals could be raised by customers of insurance companies that did not purchase gold or silver and thanks to it such products would become popular.

Creating such product would require undoubtedly cooperation between the insurance companies and the agents of noble metals. One of more important questions would be enabling the insured people gathering noble metals in proper places e.g. treasuries belonging to mints.

The insurance companies could also get bigger confidence and loyalty of some part of customers offering them simple insurance products not connected directly to the financial markets.



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## Acknowledgements

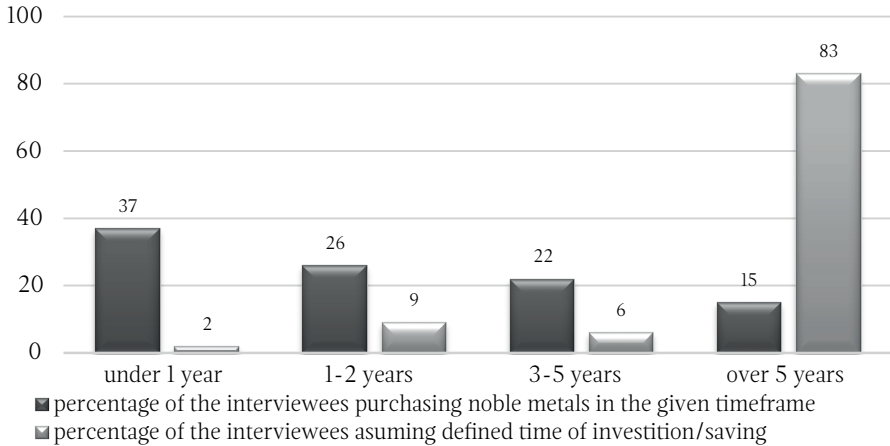
Author contributions: author have given approval to the final version of the article.



## Appendix

**Chart 1.**

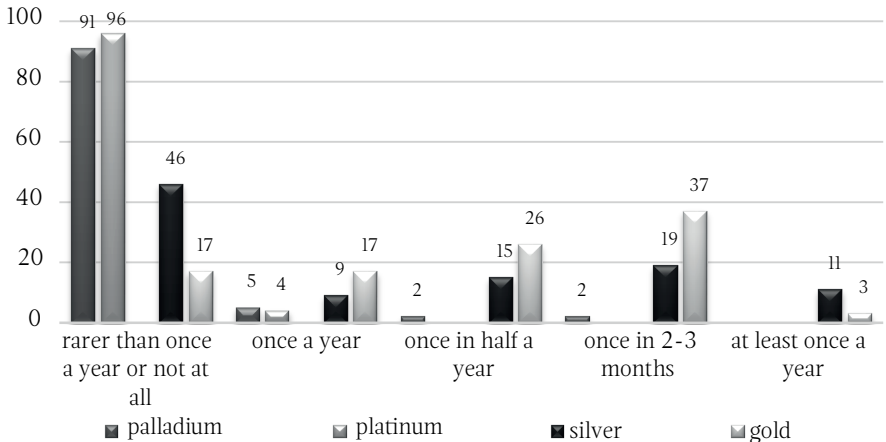
Share of the interviewees in the individual time perspectives (in %)



Source: own elaboration.

**Chart 2.**

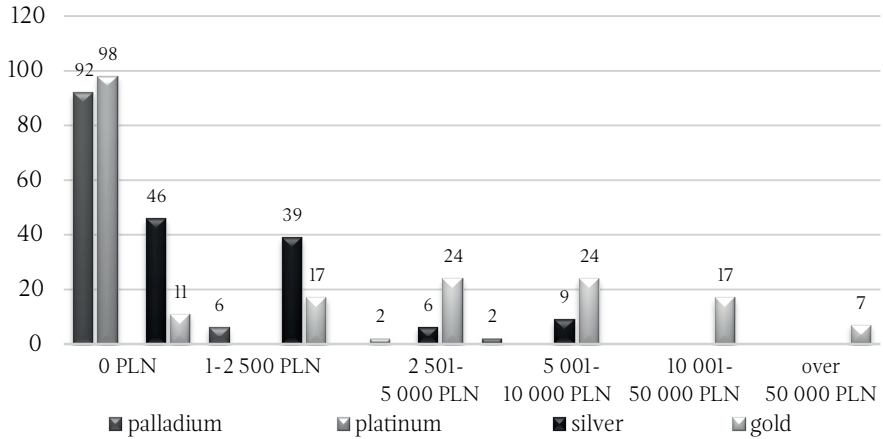
Percentage of the interviewees purchasing individual noble metals with certain frequency (in %)



Source: own elaboration.

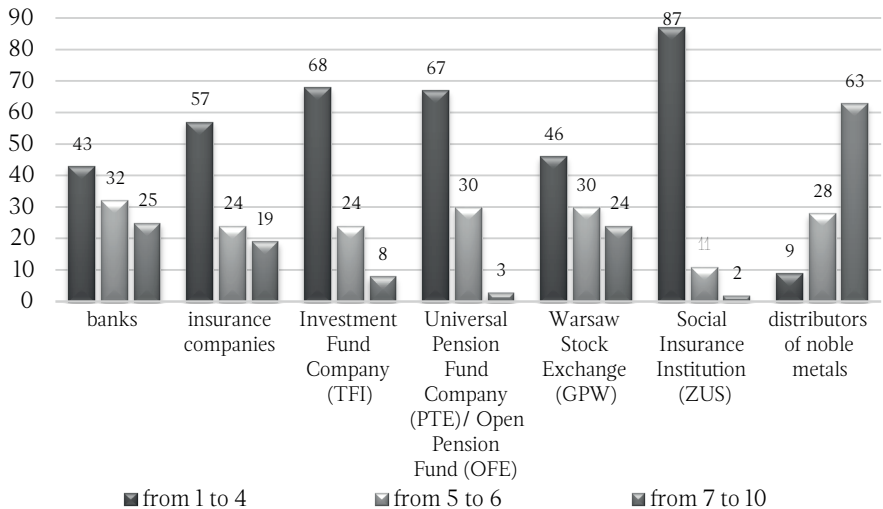


**Chart 3.**  
Percentage of interviewees spending mentioned amounts on individual noble metals (in %)



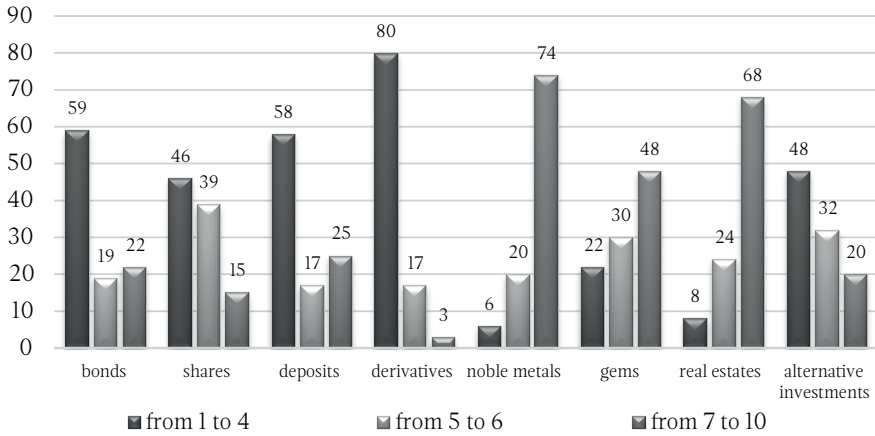
Source: own elaboration.

**Chart 4.**  
Percentage of the interviewees declaring their degree of confidence to individual institutions (in %)



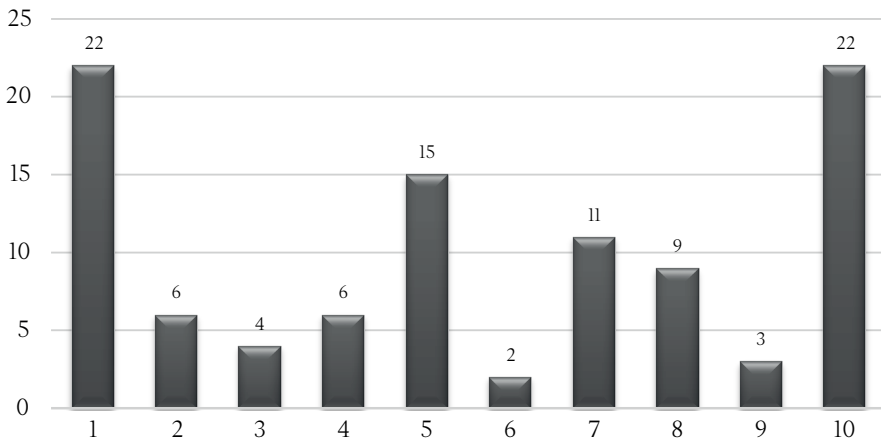
Response scale: 1 — I definitely don't trust, 10 — I definitely trust. Interpretation: 1-4 low degree of confidence. 5-6 average degree of confidence.

Source: own elaboration.

**Chart 5.**
**Percentage of the interviewees declaring their degree of confidence to individual forms of capital deposit (in %)**


Response scale: 1 — I definitely don't trust, 10 — I definitely trust. Interpretation: 1–4 low degree of confidence. 5–6 average degree of confidence.

Source: own elaboration.

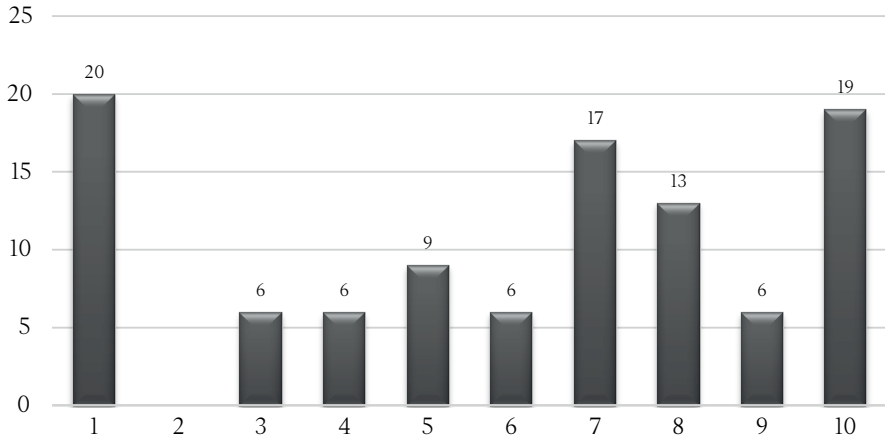
**Chart 6.**
**Percentage of the interviewees declaring potential interest in purchasing life insurance (without the capital part) based on noble metals (in %)**


Question to the chart: Would you be potentially interested in life insurance, in which the insurance company would pay the insurance sum in gold or another noble metals (instead of money)? Response scale: 1 — definitely no, 10 — definitely yes.

Source: own elaboration.

**Chart 7.**

Percentage of the interviewees declaring potential interest in purchasing life insurance (with the capital part) based on noble metals (in %)

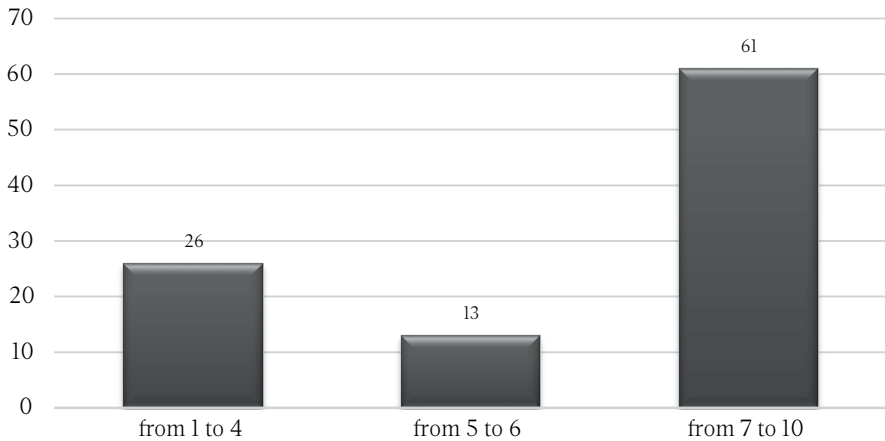


Question to the chart: Would you be potentially interested in life insurance, in which in the capital part it would be possible to allocate money in noble metals (instead of bonds, shares etc.)? Response scale: 1 — definitely no, 10 — definitely yes.

Source: own elaboration.

**Chart 8.**

Percentage of the interviewees declaring a chance to use noble metals in commercial transactions in the future (in %)



Question to the chart: Can you imagine in a longer time perspective a possibility to use noble metals in commercial transactions (e.g. to buy commercial goods or for payments in gold or silver)? Response scale: 1 — definitely no, 10 — definitely yes. Interpretation 1–4 low chance for the comeback of the money based on gold or silver. 5–6 average chance. 7–10 high chance.

Source: own elaboration.