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Overview of the Zimbabwean insurance industry

Overview of current state of the Zimbabwean insurance market

The year 2020 started off with most insurers experiencing pressure on their real earnings as a result of net monetary losses incurred due to the change of functional currency from the United States Dollar ("USD") to the Zimbabwean Dollar ("ZWL"), effected by Statutory Instrument 149 of 2019.

The instrument stated the ZWL as the sole currency for legal tender and consequently insurers had to price their policies in local currency. To make matters more difficult, consumer confidence was also adversely affected due to the loss in value that policyholders experienced during the previous currency transition in Zimbabwe in 2008/9.

The Zimbabwean insurance industry was also affected by the global outbreak of the COVID-19 pandemic which led to unprecedented disruption and created material uncertainty. The successive lockdowns first introduced on 30 March 2020 as well as other restrictions to manage the spread of the virus had a far-reaching negative impact on the level of aggregate demand and economic activity within the country. The erosion of disposable income across the economy coupled with uncertainty over the ability of the sector to cover claims against the impact of the pandemic have resulted in a low appetite for insurance products.[1] Restrictions on movement and adoption of working from home also resulted in decreased underwriting volumes and a slowdown in collection of premiums across the industry. The underwriting business is mainly carried out through physical interaction in Zimbabwe so new business was limited. Retail consumer demand for insurance slid because of low disposable income, exacerbated by the severely affected informal sector that accounts for a significant segment of the economy.

The onset of hyperinflation in Zimbabwe further compounded the pressure on purchasing power and resulted in the constant upward reviews of sums insured as well as spikes in the cost of insurance claims and operating costs. However, non-life insurers benefitted from the hyperinflation as most policyholders could not update the sums insured in-line with inflation quickly enough, resulting in a lower amount of claims paid out. Many of the large Zimbabwean insurers earn much rental income as landlords; as a result reduced occupancy levels on leased properties had a direct impact on revenue streams. According to the Knight Frank H2 2020 report, office market demand remained subdued with vacancy rates remaining high between 30% and 40%.[2]

Challenges in accessing foreign currency resulted in reduced capacity to settle accumulated legacy creditors and underwrite foreign currency denominated policies. The introduction of the foreign currency auction system provided for improved access to foreign currency which made it easier for insurers to settle foreign currency obligations[3].

[1] https://Impact-of-COVID-19-on-the-Zimbabwean-insurance-sector-21.10.20.pdf (fsdafrica.org)

[2] https://content.knightfrank.com/research/2054/documents/en/zimbabwe-market-update-h2-2020-7873.pdf

[3] GCR Ratings Zimbabwe Insurance Sector Research report

The government also promulgated Statutory Instruments 268 and 280 of 2020 which provided for the charging and collection of levies, premiums, and claims in foreign currency for specified classes of insurance business, and Statutory Instrument 85 of 2020 which provided for the payment of goods and services using free funds which are defined in the Exchange Control Regulations 1996, S.I 109/96 as "money which is lawfully held outside Zimbabwe by a Zimbabwean resident and which was acquired by him otherwise than as the proceeds of any trade, business or other gainful occupation or activity carried on by him in Zimbabwe". These interventions cushioned the operations of the industry significantly as policies could now be priced in foreign currency bringing about stability but reducing the confidence of external partners fearing increasing foreign exchange risk.

For the year-ended 31 December 2020 the insurance industry was made up of 2 156 participants including 48 insurers, registering a decline of 4% from the 2019 figure of 2 235 as shown in the table below[4]:

Composition of the insurance industry

Class of Business	2019	2020
Life assurance	12	12
Funeral assurance	8	8
Non-life insurance	16	16
Composite insurers	2	2
Micro-insurers	1	2
Non-life reinsurers	3	5
Composite reinsurers	5	3
Insurance brokers	31	32
Reinsurance brokers	7	7
Agents	2 150	2 069
Total	**2 235**	**2 156**

Source: Insurance and Pensions Commission (IPEC) Annual Report 2020

[4] Insurance and Pensions Commission (IPEC) 2020 Report

Gross premiums written increased to ZWL18.48 billion as at 31 December 2020 from ZWL 2.69 billion recorded in 2019 which represents a nominal increase of 586%. The exchange rate, which largely fuelled inflation saw annual inflation increasing from 473.3% in January 2020 peaking at 837.3% in July 2020 before disinflation from August 2020. The December annual inflation was at 348.6%. The movement in inflation figures resulted in the continual readjustment of premiums for existing insurance cover as well as upward price adjustment of new policies.

Gross written premiums

Class of Business	Dec 2019 (ZWL $ Million)	Dec 2020 (ZWL $ Million)	Percentage Change
Life assurers	596,93	3 651,58	512%
Life reinsurers	22,19	153,08	591%
Non-life assurers	1 375	9 107	562%
Non-life reinsurers	665	5 299	697%
Funeral assurers	34,50	274,14	695%
Total	**2 693,59**	**18 484,80**	**586%**

Source: IPEC Annual Report 2020

Total assets for the industry grew by 191% from ZWL$17.19 billion as at 31 December 2019 to ZWL$50.04 billion as at 31 December 2020. Overall, the industry recorded a profit after tax of ZWL$16.89 billion.

2020 industry profits

Sector	Profit after tax (ZWL $ Million)
Insurance brokers	327,00
Funeral companies	46,67
Non-life insurers	2 432,46
Reinsurers	2 112,81
Life assurers	11 850,00
Total	**16 768,94**

Source: IPEC Annual report 2020.

Statutory Instrument 59 of 2020 reviewed the levels of minimum capital requirements for the industry and converted them to ZWL. As at 31 December 2020 87% of industry participants complied with funeral assurance companies recording the lowest compliance ratio at 38% as shown in the table below.

Minimum Capital Requirements (MCR) Compliance

Class of Business	MCR (ZWL$ Million)	No. of entities	No. of compliant entities	Compliance status
Insurance brokers	1,5	32	28	88%
Funeral companies	62,5	8	3	38%
Non-life insurers	37,5	18	18	100%
Reinsurers	7,5	8	8	100%
Life assurers	7,5	12	10	83%
Micro-insurers	4,5	2	2	100%
Average compliance				87%

Source: IPEC Annual Report 2020.
Note: The non-life insurers caption composed of sixteen non-life insurers and two composite insurers

Areas of growth and opportunity

- Insurance penetration levels currently lie below 5% providing an opportunity for industry players offering competitively priced products to grow their market share[5]. The COVID-19 pandemic has reconfigured the traditional systems of doing business; insurance may now be more front-of-mind than before the pandemic and those able to be innovative, offering products that meet consumers' changing needs and create value are better positioned to benefit from the opportunity.
- The pandemic had brought to the fore the need for Zimbabwean insurers to diversify their portfolios and reduce their exposure to exchange rate risk. Those insurers that had foreign subsidiaries that had earnings in foreign currency were better positioned to navigate the 2020 terrain that was characterised by foreign currency shortages. This revenue provided a hedge against the hyperinflation that prevailed in the country. As the region gears for economic recovery, opportunities remain for local insurers and reinsurers to expand their operations and footprint into the region and play a more active role in the recovery.
- Increased digitalisation has paved the way for changing business models and development of new products. The internet penetration rate as at 31 December 2020 stood at 59% which provides an opportunity for web-based and mobile application products as they will have more reach to the young population of Zimbabwe.[6] Block chain ledgers, telematics, machine learning, big data and other technologies are innovative solutions to reduce insurance fraud and is an area for fintech companies to maximise on and reduce the operational losses of insurance companies.[7]
- The Insurance and Pensions Commission ("IPEC") has partnered with the World Bank for technical support in the development of a regulatory framework and capacity building for weather-index insurance.[8] The migration from conventional insurance products to weather index insurance provides an opportunity for growth in the insurance sector for an agro-based economy like Zimbabwe. Insurance is a lucrative approach to managing climate risk and addresses the need to protect the livestock and crops of smallholder and subsistence farmers who are the majority in Zimbabwe following the land redistribution exercise.

Areas of challenge

- There has been an increase in cyber security threats emanating from the increased use of electronic platforms in Zimbabwe and now exacerbated by more people working remotely.
- The prevailing economic environment has led to asset-liability mismatches due to the unavailability of value preserving short-term investment assets which match the liability profiles of insurance companies. The absence of inflation-indexed Prescribed Assets has made it very difficult for insurers to preserve value through Prescribed Assets, evidenced by the low level of compliance with the requirement to do so. In 2019 Prescribed Asset status was awarded to government linked projects which normally bear a fixed rate of interest, thereby exposing insurers to losses in an inflationary environment. This prevailing situation exposes the industry to liquidity risk leading to some insurers failing to settle claims on a timely basis as funds are held in prescribed assets yielding a return less than the rate of inflation. As a result of this legislation driven loss making position, compliance for some entities remains a challenge.

[5] GCR Ratings Zimbabwe Insurance Sector Research report
[6] Postal & Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) 3rd Quarter Report 2020
[7] https://www.longdom.org/open-access/an-assessment-of-the-impact-of-innovation-on-insurance-fraud-management-in-zimbabwe.pdf
[8] Insurance and Pensions Commission (IPEC) 2020 Report

- High inflation has resulted in increasing cost of doing business. Low disposable incomes across the economy have adversely affected the uptake of insurance products thereby making the operating environment even harsher for insurers.

- Regulatory policy changes have also been a challenge for the industry and the economy at large. The recent gazetting of Statutory Instrument 127 of 2021 that penalised companies for charging premiums in USD when most cannot access foreign currency on the official foreign currency auction, sends negative signals to the business community and again reducing confidence in the industry. Key provisions contained in SI 127 include measures that prohibit businesses from selling goods and services or quoting them at an exchange rate above the ruling auction market rate, issuing buyers with a Zimbabwean Dollar receipt for payment received in foreign currency, giving buyers a discount for paying in foreign currency and setting out penalties for businesses that refuse to accept payment in the Zimbabwean Dollar at the ruling auction market rate.

State of change in the industry

- The insurance sector is in the process of developing mortality tables that are specific to Zimbabwe, a significant departure from the South African developed tables that do not correctly depict the mortality experience for Zimbabwe. This will result in the industry having more appropriate mortality experience assumptions for product pricing purposes which will reduce the insurance liabilities for the industry as products will now be correctly priced.

- The Insurance Act and the IPEC Act are currently being reviewed for further amendments so as to strengthen the regulation of the sector which should improve the credibility of the industry. Among the initiatives is to modernise the risk and solvency assessment to be in line with international standards through the Zimbabwe Integrated Capital and Risk Project (Zicarp). Zicarp aims to improve the safety and soundness of the insurance companies as well as enhancing protection for policyholders by moving away from an unscientific determined capital of the one size fits all approach which was in place. It is expected to capacitate insurers to withstand any risk they get exposed to as it requires them to have capital aligned to the risk they carry.

- On 13 March 2020, IPEC issued Statutory Instrument 69 of 2020, "Guidance for the Insurance and Pension Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms of 2019." This guidance requires long-term insurance companies to separate policyholder and shareholder funds. The guidance also provides rules for profit allocation between shareholders and policyholders and the equitable distribution of revaluation gains, which is a significant improvement to the 2008/2009 scenario where policyholder values were eroded by inflation and subsequently the change in currency, resulting in the ongoing loss of confidence in life insurance products.

- Like much of the rest of the world, the insurance sector in Zimbabwe is in the process of adopting International Financial Reporting Standard 17 so as to standardise insurance accounting and improve comparability. The standard also increases transparency as users of accounts can meaningfully understand the insurer's exposures and performance. The implementation of the IFRS 17 model has been faced with challenges including a lack of understanding of the complexities around the standard's interpretation which requires the training of stakeholders. Zimbabwean insurers will need to implement significant technical and practical changes to current practices including a complete overhaul of their underlying actuarial models, financial reporting processes and systems, and transparency demands within their corporate governance structures which is proving to be expensive.

Future outlook

Severe weather patterns have been increasing in the past few years with Zimbabwe experiencing regular droughts and a cyclone in 2019. Climate change will continue to pose a challenge to businesses, particularly in agro-based economies like Zimbabwe. Proper risk management will be critical for mitigating risks to supply chains, property and business continuity.

The advancement in technology has made the global economy more interconnected. Businesses are becoming more complex, increasing their exposure to inter-related risks as well as other emerging and intangible risks which will increase the focus on enterprise risk management going forward [9]. The rise of quantum computing and advancement in 5th Generation technologies has also heightened concerns around cyber security and data protection for insurers particularly as most global powerhouses now use big data in their product development. Insurers in Zimbabwe will have to invest more in these resources and in compliance with data privacy if they are to operate and compete globally.

Insurers should be upgrading not only their technology systems and operating models, but their human talent capabilities too. The digital skills gap is increasing. There has to be more investment targeted towards training and retention of the younger generations who drive innovative product development.

The Zimbabwean economy has remained volatile and continues to exert significant pressure on company operations and earnings resulting in most insurers expanding regionally so as to earn foreign currency. However, the evolving taxation landscape will likely prompt insurers to reconsider the focus of their operations in some countries and regions. The Base Erosion and Profit Shifting (BEPS) framework introduced by the Organisation for Economic Cooperation and Development (OECD) and more recently the pronouncement by the G7 finance ministers after signing the "global tax agreement to bring international tax systems to the 21st century" are examples of game changing reforms that will impact businesses across the globe and in Zimbabwe.[10]

[9] https://www.chubb.com/za-en/_assets/documents/industry-outlook-2020_gary.pdf

[10] https://taxissuecom.wordpress.com/2021/06/08/near-yet-so-far-an-analysis-of-the-so-called-g7s-historic-global-tax-agreement/