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The Efficacy of Long-Term Insurance Model in Addressing Insurance Cover Provision in Zimbabwe

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Abstract:
The period 2008 up to the present, has witnessed unprecedented volatility in the insurance industry in Zimbabwe. The significant role that insurance companies play during the aforementioned period, highlight the importance of understanding the state of long term insurance cover within the context of the unstable Zimbabwean economic environment. In order to facilitate an informed understanding of the insurance sector in Zimbabwe, this thesis reviews the efficacy of long term insurance companies in providing insurance cover amidst economic adversity. This study summarizes relevant insights from academic research, and provides related empirical evidence. It is poignant that, the Zimbabwean long term insurance industry has been showing signs of irrelevance to the general population. This study sought to question the relevance and adequacy of the generic long term insurance model in light of the dynamic nature of Zimbabwean social, economic financial and cultural context and, in the process, recommend a model relevant to Zimbabwean circumstances to ensure continued, sound, reliable long term insurance cover that address societal expectations. The generic model is built around three pillars of assumptions namely, Demographic assumptions, Economic assumptions and financial assumptions. In the case of Zimbabwe, recent demographic and economic trends as well as our financial system do not conform to the assumption underlying the Generic Insurance Model leaving policy holders losing value and financial security. The legislative framework has been examined in terms of provision of conducive environment to model insurance along the context of a given constituency have been proved to be completely ineffective in protecting consumers and totally out of touch with modern strategies to protect consumers of insurance and pension services. There is therefore urgent need to remodel the long term insurance along the Zimbabwean cultural context, appropriate with the demographic character, financial limitedness and economic status of Zimbabwe. There is need to restructure the legal framework in line with proper prescribed asset ratios, liberty to invest offshore, realistic capital levels and proper surveillance instruments

Keywords: Long term insurance, addressing insurance cover provision in Zimbabwe, Long term insurance along Zimbabwe cultural context, demographic character, financial, economic situation

1. Introduction

It is banal that the global economy is undergoing a radical transformation with far-reaching consequences in the pattern of economic activity, and there is need for a robust financial services sector that is alive to the need for a sound long term insurance model which can increase the flexibility and dynamism of the wider economy. Poignantly, the Zimbabwean long term insurance industry has been showing signs of irrelevance to the general population. This study interrogated the relevance and adequacy of the generic long-term insurance model in light of the dynamic nature of Zimbabwean social, economic financial and cultural context and, in the process, recommend a model relevant to Zimbabwean circumstances to ensure continued, sound, reliable long-term insurance cover that address societal expectations. The generic model is anchored around three pillars of assumptions namely, Demographic assumptions, Economic assumptions and financial assumptions. Recent demographic and economic trends as well as financial systems do not conform to the assumption underlying the Generic Insurance Model leaving policy holders losing value and financial security.It is therefore imperative that long term insurance sector is strategically repositioned to ensure the consumer acceptance of the industry, and provide reliable products that stand the test of time. This study seeks to question the efficacy of long term insurance model in light of the dynamic nature of the Zimbabwe economy and, in the process, recommend an effective model that is indispensable in ensuring reliable long term insurance cover.

2. Need for the Study

At theoretical level, the study adds to the already existing research on long-term insurance models with specific reference to the Zimbabwean context. This study is critical because the insurance sector plays an important role for the financial and economic development of Zimbabwe. There is need to examine the impact of macro-economic determinants

on insurance companies to control potential systemic risk. This study explores the the efficacy of long-term insurance model in addressing insurance cover provision in Zimbabwe. Effectiveness of long-term insurance as a tool for addressing insurance cover provisions is critical in Zimbabwe. The study is important because, the increasing growth of insurance markets constituting a large part of overall financial sector and has the capacity to affect stability of the financial system.

Insurance companies in Zimbabwe provide financial services and together with pension funds belong to the major investors into financial markets and their influence is likely to increase because of the worldwide integration, ageing population and growing income imbalances. This study is justified because, the greatest weakness in most state pension schemes is that individuals who are self-employed are often inadequately covered. This is due to non-compliance by individuals, variability in their income, the 'black economy', and the difficulty of enforcing the collection of contributions by the social security agencies. The study is necessary in order to influence the government to remodel the long term insurance along the Zimbabwean cultural context, appropriate with the demographic character, financial limitedness and economic status of Zimbabwe. There is need to restructure the legal framework in line with proper prescribed asset ratios, liberty to invest offshore, realistic capital levels and proper surveillance instruments. The following is a set of stakeholders to whom the research results are relevant.

2.1. The Government

The study is useful to the government in policy making regarding the sustainable long-term insurance cover in Zimbabwe. The policy makers will obtain knowledge on the best mechanisms that should be adopted to enhance the effective policy frameworks that will enhance long term insurance cover in Zimbabwe. Insurance companies are arguably viewed as having cumbersome processes, which result in clients losing confidence in the whole system. Insurance products are also viewed as too complicated to comprehend. There is therefore a need for insurance companies to come up with products that meet the customers' needs and are easily understood. This study is significant mainly because insights gained about long-term insurances models are likely to contribute towards the development of new and relevant policies by the Government.

2.2. The Public

The public generally views insurance business as untrustworthy. Insurance agents are considered to be tricksters and bogus organizations. It therefore means that the industry will help in providing reliable ways of doing business to boost customer confidence. Thus this research is meant to allow for the broadening of insurance cover, catering for all sectors of the society hence improving accessibility to insurance to the members of the public. The research will demystify the insurance industry and reduce the perceived complexity thereby rebuilding mutual trust between assurers and the general public.

2.3. Financial Institutions

The findings of this study can be used to inform financial institutions on how to assist long term insurance companies on sustainable ways of improving their businesses. Financial institutions will be able to advice on sound financial management systems that are necessary to promote the growth of insurance companies.

2.4. Academics

In addition, academics would benefit in the sense that more scholars are going to research about the impact of insurance institution in economic development. This study will promote the development of knowledge which will ultimately be useful for the turnaround of both the country's economic fortunes and research.

2.5. Researcher

For personal and professional development as a researcher and manager, the researcher benefited from the study in various ways. The researcher developed a better understanding of the significance of long term insurance cover to the overall performance of the economy. The researcher identified the perspectives of different people with regards to the efficacy of long term insurance cover in Zimbabwe. Most importantly, this study helped in broadening my tentacles in terms of views with regards to how the government can enhance the growth of insurance sector The researcher also gained expert power in doing research at doctoral level. Besides, the need to satisfy curiosity, the researcher appreciated the role of long term insurance cover in socio-economic development.

3. Assumptions

This study is based on the following assumptions:
- It is assumed that the long term insurance model is Eurocentric and is subject to manipulation by assurers at the expense of policy holders.
- It is assumed that the model itself does not appreciate the Zimbabwean policy holder expectations which are very different from the principles around which the Eurocentric current long term model is designed.
- The long term insurance model creates enormous uncertainties on the benefits to policy holders and pensioners;
- The long term insurance model does not reflect the socio-cultural expectations of the Zimbabwean context.
- The current legislative framework is inhibitive of value sustenance.

- Statutorily, there is the restriction on off shore investment, thus making it impossible for assurers to avoid country risk. It is therefore assumed that the legislative framework is flawed and impinges on value protection and growth.

4. Definition of Terms

- Culture: it is defined as a pattern of basic assumptions- invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration. It is a socially derived taken-for–granted assumptions about how to think and act.
- Economic Capital: The amount of money which is needed to secure survival in a worst case scenario.
- Insured or Insured Life: The person on whose life the policy is issued.
- LOA: Life Offices Association
- Long term insurance model: This can be defined as the provision of insurance solutions that address customer needs at different stages in time; pillared by some prudent underlying economic, demographic and financial assumptions.
- Paid-up Insurance: Insurance that will remain in force with no need to pay additional premiums.
- Perception: it is a cognitive process that enables us to interpret and understand our surroundings.
- Premiums: Payments to the insurance company to buy a policy and to keep it in force.
- Prescribed assets: it means stocks, bonds other like securities issued by the state, a statutory body, or a local authority. Regulatory Capital is the capital supervisory authorities require insurance companies to set aside in order to meet potential losses and is legislated for.
- ZAFA: It means Zimbabwe Association Of Funeral Assurers

5. Review of Related Literature

In Europe in the 19th century there were also moves towards state old age pension schemes. In France, there was a project for old age pensions (Caisse de Retraite pour la Vieillesse) with the primary objective to benefit poor workmen. Deposits were made under a law of 1850, which provided an inalienable right to annuity. The deposits attracted interest, but the terms were sometimes too favorable to depositors. As a result the fund became a medium for investment by the middle classes and, in 1886, the French Government introduced a National Old Pension Fund, also based on deposits. Membership of this fund was voluntary. What Francis Maseres started as an attempt to improve the lives of the working class in retirement, ended in state old pensions. Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a designated beneficiary a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount at regular intervals or in lump sums. There may be designs in some countries where bills and death expenses plus catering for after funeral expenses should be included in Policy Premium. In Zimbabwe and South Africa, a schedule on all attendant benefits is attached. In the United States, the predominant form simply specifies a lump sum to be paid on the insured's demise.

As with most insurance policies, life insurance is a contract between the insurer and the policy owner whereby a benefit is paid to the designated beneficiaries if an insured event occurs which is covered by the policy. The value for the policyholder is derived, not from an actual claim event, rather it is the value derived from the 'peace of mind' experienced by the policyholder, due to the negating of adverse financial consequences caused by the death of the Life Assured.

5.1. Types of Life Insurance

5.1.1. Preneed (Or Prepaid) Insurance Policies

These are whole life policies that, although available at any age, are usually offered to older applicants as well. This type of insurance is designed specifically to cover funeral expenses when the insured person dies. In many cases, the applicant signs a prefunded funeral arrangement with a funeral home at the time the policy is applied for. The death proceeds are then guaranteed to be directed first to the funeral services provider for payment of services rendered. Most contracts dictate that any excess proceeds will go either to the insured's estate or a designated beneficiary.

5.1.2. Pensions

Pensions are a form of life assurance. However, whilst basic life assurance, permanent health insurance and non-pensions annuity business includes an amount of mortality or morbidity risk for the insurer, for pensions there is a longevity risk. A pension fund will be built up throughout a person's working life. When the person retires, the pension will become a payment, and at some stage the pensioner will buy an annuity contract, which will guarantee a certain pay-out each month until death.

5.1.3. Annuities

In annuity is a contract with an insurance company whereby the insured pays an initial premium or premiums into a tax-deferred account, which pays out a sum at pre-determined intervals. There are two periods: the accumulation (when payments are paid into the account) and the annuitization (when the insurance company pays out). The rules of the pension fund restrict how you take money out of an annuity.

5.1.4. Influence of Long Term Insurance on Economic Growth

The insurance industry contributes to economic growth and national prosperity in various ways. At the macro level the industry helps strengthen the efficiency and resilience of the economy by facilitating the transfer of risk. At the micro level it brings benefits in all areas of day-to-day life. The traditional functions of the financial markets in any country are to facilitate reallocation of saving and consumption or investments. Financial markets contribute to the reduction and allocation of risks of and between participants. Financial markets also develop and maintain well-functioning and efficient payment systems.

Insurance market activity may contribute to economic growth, both as financial intermediary and provider of risk transfer and indemnification, by allowing different risks to be managed more efficiently and by mobilizing domestic savings. During the last decade, there has been faster growth in insurance market activity, particularly in emerging markets, given the process of financial liberalization and integration, which raises questions about the overall impact on economic growth.

Insurance activity may contribute to economic growth by improving the financial system functions, both as a provider of risk transfer and indemnification and as an institutional investor, in the following ways:

- Promoting financial stability,
- Facilitating trade and commerce (the most ancient insurance activity),
- Mobilizing domestic savings,
- Allowing different risks to be managed more efficiently by encouraging the accumulation of new capital,
- Fostering a more efficient allocation of domestic capital,
- Helping to reduce or mitigate losses (skipper, 1997: 2-7).

At the theoretical level, Greenwood and Jovanovic (1990) and Pagano (1993) have modeled the effect of financial intermediaries on economic growth. In their frameworks, financial intermediaries have an impact on growth by transforming savings into investment, i.e., funneling savings to firms by improving the allocation and productivity of capital and by altering the savings rate. With particular emphasis on insurance activity, Webb, Grace, and Skipper (2002) model the impact of financial intermediaries (banks, life, and nonlife insurers) on economic growth in the context of a neoclassical Solow-Swan model predicting that insurance and banking spur capital stock productivity, which drives the level of output and investment.

The development of the banking sector may reinforce the development of insurance activity through a much more effective payment system that allows an improved financial intermediation of services (Beck and Webb, 2003; Webb, Grace, and Skipper, 2002). In addition, the development of the banking sector provides liquidity facilities to insurance companies that enable them to pay their claims (Rule, 2001).

According to Diacon et al. (2005), long term insurance helps individuals minimise the financial impact of unexpected and unwelcome future events and helps them organize their businesses and their lives with greater certainty. The economic function of insurance is to enable households and firms to manage risk. Effective diversification and transfer of risk is the core of value creation in insurance.

From a Solvency ii point of view, by pooling the premiums and risks of many different policyholders, and ensuring that risks are diversified across different risk types and locations, insurers smooth and spread the financial effects of insured events. In addition insurers transfer risks to other risk-takers, through reinsurance and to capital markets through hedging instruments.

As a result insurance companies are a key link in the investment chain which enables firms to finance investment and savers to smooth income over their lifetime. The operation of the investment chain is critical to the efficient allocation of capital across the economy and therefore to improving productivity and competitiveness. Insurance firms are major institutional investors: in the UK at the end of 2004 insurance firms held £1.2 trillion of assets, approximately equal to the market capitalisation of the FTSE 1002.

6. Overview of the Chapters

Chapter one provides the quintessential background to the study which helps establish and retain focus throughout the study. The orientative chapter includes a problem statement and objectives among other vital components that define the fundamental character of the entire study. Chapter 2 provides an overview of existing thinking around the area of focus. It presents the existing literature and the attendant gaps into which this particular research fall into. Chapter three is focused on the methodology of the study. It provides the research design and tools of gathering data. The nature of the topic and the type of data which is expected gives the direction towards which the data collection and analysis will be defined in the methodology section. The data which is subsequently collected is analysed and the findings are presented in chapter 4. Chapter 5 is a summary and conclusion of the study also including the recommendations and suggestions for future studies.

7. Title of the Study

This thesis is entitled; "The efficacy of long-term insurance model in addressing insurance cover provision in Zimbabwe". Given the economic challenges bedeviling the economy, an improvement in long term insurance cover will play an important role in enhancing insurance service provision. The functionality of long term insurance cover is an important determinant of economic development.

8. Objectives of the Study

This study is guided by the following objectives:

- To investigate the appropriateness of the current long insurance model within the changing   economic and social framework in Zimbabwe.
- To explore the efficacy of the unitised Insurance Model under the economic and social circumstances in Zimbabwe
- To draw some policy conclusions and lessons for life assurance companies in Zimbabwe and other developing countries.
- To recommend enactment of statutes which are compatible with the relevant Insurance Model.

9. Research Questions

- Is the Long Term Insurance model in Zimbabwe appropriate under the constantly changing economic and social circumstances?
- Will a unitised Insurance Model be adequate and effective under the economic and social circumstances in Zimbabwe?
- What are the policy frameworks governing life insurance companies in Zimbabwe and other countries.
- What are the necessary statutory instruments required to entrench an effective Insurance Model?

10. Design of the Study

This study employed the descriptive research design under the qualitative research method in the non-positivist paradigm. A research design looks at a plan to be used in research. It gives a theoratical framework under which the study was carried out. Creswell (2003) describe a research design as a master plan that specifies the method and procedures for collecting and analysing data. The purpose of research design is to ensure that the evidence obtained enables researchers to answer the initial questions as unambiguously as possible. In this research, the researcher however used both the quantitative and qualitative methods and this was not due to an inability to decide between the two methods' various merits and demerits. Instead, the researcher was of the view that both methods were valuable in this research especially if appropriately used as was of the case. This study made use of both positivism and interpretive as it applied quantitative method and deduced meanings from the interviews and observations. This research adopted a case study strategy, which allows for a deep and intensive probe to answer questions like 'What' are the causes of poor service (Saunders, et al 2007; Chadwick et al 1984).

11. Tools for Data Collection

11.1. The Questionnaire

Questionnaire is regarded as a series of questions, each one providing alternative answers, which the respondents can, choose from (Bless and Higson2002). It is the common tool for gathering data for the descriptive survey. Considering its reliability and validity, the researcher used questionnaire as an instrument for collecting data. The questionnaire is good for determining the attitude or perspective and this is often measured by predetermined questions. The questionnaire used in this study was divided into sections and generated data in a very systematic and ordered fashion.

11.2. Interviews

Interview as a research instrument according to Bless and Higson (2002), is unique in that it involves the collection of data through verbal interactions between individuals. According to Best and Kahn (2005) qualitative interviews can be used to get a reasonable understanding of the issues involved in the research at hand. Thus interviews are characterized by resemblance to every day conversation and therefore, enable unconditioned descriptions. Interviews in general according to Best and Khan (2005) permit face to face interaction, have a high response rate of over 80%, allow high adaptability rate to specific situations and is more appropriate for probing into complex and emotionally charged questions.

11.2.1. Document Analysis

Documentary data is useful as it provides information that guide the researcher. These are records of specific episodes and documents describing certain events. The researcher used this data as basis for analysis and questioning existing situations and assessing with regards to the efficacy of long-term insurance cover in Zimbabwe. All valuable documents were analysed such as statistics about insurance companies, Annual Reports, Strategic Documents, Policy Documents, Procedure Manuals and Company Resolutions. Exit interview checklist and internal correspondences with regards to staff issues were analysed.

11.2.2. Observation Method

The researcher used the observation method to get the reality of the situation. Kumar (1999) expounded that the observation refers to a purposeful, systematic and selective way of watching and listening to an interaction or phenomenon as it takes place. Participatory and non-participatory observations were used. This was done in order to get the real picture on leadership practices and performance. The researcher during the time of study observedlong term insurance employees interactions and collaboration while at their working places.

<u>11.2.3. Statistical Techniques</u>

This study was based on both the qualitative and quantitative paradigm and the statistics which were involved were, merely descriptive in nature. Thus the statistics derived from structured questions and some official documents. The statistics did not go through the more complex types of analysis beyond totals, means and percentages.

12. Validation Procedure

According to Howitt and Cramer (2005), reliability is the degree to which observed scores are free from errors of measurement. They further defined validity as the degree to which the test, or instrument, measures what it is supposed to measure. According to Suskie (1996) a questionnaire to be considered as reliable should elicit consistency responses that are not subjected to querying. In order to test the validity and reliability of the questionnaire, a pilot study was conducted to five long term insurance companies in Harare. A panel of experts was asked to correct the questionnaire and help in arranging questions format and these include senior officer in insurance companies. A pilot study questionnaire was sent to Harare CBD which has the same characteristic with that of most companies in Harare metropolitan to measure the strength of the questionnaire in meeting the research expectations. Face validity relies upon subjective judgement of the researcher. It deals with the adequacy of the representative of the behavior or trait being measured. Face validity was ensured by the sampling procedure undertaken. Criterion validity implies checking against accuracy and precision. This was attained by-pretesting the data collection instruments. Content validity, which is, the accuracy with which an instrument measures the factors or situations under study was attained by randomization of the sample used and maintaining anonymity of respondents.

13. Data Analysis

The research produced both quantitative and qualitative data, thus there was a dedicated process for processing each type of data. The questionnaire produced both quantitative and qualitative data. SPSS is used for the analysis of quantitative data unlike qualitative data, it is possible to subject the same quantitative data to different tests thereby bringing many different trends that are important for the thesis. Some are more important than others so it is a matter of choosing which ones are best. For example, there were certain generic analyses such as the use of the mean, median and mode to determine frequency distributions. Thus thematic content analysis was used for the data which was collected in qualitative form while descriptive statistics were used.

14. Findings

14.1. Value Preservation

The research established that the long term insurance in Zimbabwe does not preserve value. It was established that 66.7% of the non-policy holder respondents felt that long term insurance policies do not preserve value. The 33.3% who felt that long term insurance model does not preserve value was from policy holders. This distribution is significant in that it shows lack of faith in the industry even among policy holders. The response paints a negative perception of the industry in terms of value preservation and yet it should be the basis on which long term insurance is driven.

14.2. Policy Holder Expectations

It was also noted in the research that the long term insurance model currently in use in Zimbabwe does not address all policy holder expectations. The above response is in sync with the earlier response pattern with regards value preservation. There is therefore a crisis of expectation in the long term insurance as a result of failure to preserve value of policy holder capital. The above challenges call for what Hampson (1985), saw as the need to radically alter Western models of care in African context, arguing that in situations of mass poverty and gross economic differentiation a concentration on social insurance for urban formal sector employees is inappropriate with specific reference to Zimbabwe. Even Kaseke, observed that the historical development of social security in Western Europe shows that social security has always been designed to meet the needs of wage earners in the first instance (Midgley, 1984). It is from failure to preserve value and to address people's expectations that the long term insurance model has been a liability to the policy holder and this is a result of failure to appropriately alter the generic long term insurance model to fit the Zimbabwean situation.

<u>14.2.1. Long Term Insurance as an Investment Vehicle</u>

The research found out that the generality of the respondents do not regard Life and Funeral products as a way of investing for the majority of Zimbabweans. 72, 9% of the sample suggested that life products are not a way of investing to generally all Zimbabweans and an equally huge number of respondents regard long term insurance products as being beyond the reach of the majority of Zimbabweans. The response therefore gives an impression that the long term insurance products are elitist in their pricing and in the process they exclude the potential policy holder who is average earner.

<u>14.2.2. Products Alienating Target Market</u>

There is a significant percentage of policy holders who felt the products are found wanting. This is an eye opening response to the industry. It is my view that the long term insurance products are too western and therefore alienating themselves from the target market whose thrust is on value preservation and value growth. The products offered by the life assurance industry in Zimbabwe are said to be highly standardised without much deviation from the underpinning

assumptions of the long term generic model. Even Cateora (1996:233) as discussed in Chapter 2 expostulated that an organisation cannot superimpose a sophisticated product on an underdeveloped economy and expect the same performance compared to the first market and this also includes the long term insurance industry. The efforts therefore must be keyed to each situation, and custom tailored for each set of circumstances.

According to Diacon et al. (2005), long term insurance helps individuals minimize the financial impact of unexpected and unwelcome future events and helps them organize their businesses and their lives with greater certainty. The economic function of insurance is to enable households and firms to manage risk. Effective diversification and transfer of risk is the core of value creation in insurance. However, the same role is not being realized in Zimbabwe while at the same time the capacity to broaden the client base has continued to be weakened due to the alienating nature of the current model.

14.2.3. Appropriateness of Insurance Legal Instruments:

From the interviews carried out there is the view that, to a large extent, the Insurance regulations in Zimbabwe do not have enabling provisions for insurance companies to be able to preserve value and realize growth on investment, which however are the basic reasons for the provision of insurance. As noted in chapter 2 of this research, Webb, Grace, and Skipper (2002) model the impact of financial intermediaries (banks, life, and nonlife insurers) on economic growth in the context of a neoclassical Solow-Swan model predicting that insurance and banking spur capital stock productivity, which drives the level of output and investment.

14.2.4. Accessibility

The research has also established that the long term insurance is inaccessible both physically and cost wise. The distribution channels are limited and they completely ignore the farming and the mining communities. E-commerce is at its infancy and thus only the elite tend to have access through this route. The other challenge is the premium rates in Zimbabwe which are higher than in the region.

While the margin for investment outside Zimbabwe only is small, it still shows level of insecurity in investment vehicles on the local market. Therefore the huge support for investment both in and outside Zimbabwe shows the need for hedging of capital in a volatile economy. The emphases on local investment vehicles have proved to be destroying value. The Cumulative Consumer Price Index was higher than the Old Mutual cumulative return. This means that the cumulative real return is negative over a period of 10 years for Old Mutual policy holders thus obliteration of value.

Cumulative salary growth is greater than the Cumulative Consumer Price Index which is expected but the combined effect of the salary growth and investment return through the Old Mutual cumulative return was still less than the Cumulative Consumer Price Index.

14.2.5. Real Return

From the above findings, the long term insurance model as applied in Zimbabwe does not realise positive real earnings growth. While the long term insurance model also depends on the existence of positive real returns, in Zimbabwe the model experiences negative return. The exercise therefore established that the assumptions raised whereby there should be positive real earnings growth and positive real return in Zimbabwe does not hold. It is therefore clear that the long term insurance model is misplaced in Zimbabwe and remodeling is critical if policy holders are to retain value in future.

14.2.6. The Structure and Zimbabwean Economic Circumstances

It is evident that the structure of the long term insurance model does not factor Zimbabwean realities such as irregular income as a result of limited formal employment opportunities, low disposable income, fragile economic circumstances that realize less than $5 billion compared to the European markets. Zimbabwean economy is even a far cry to that of South Africa.

The economic elements which should sustain the long term insurance model as in South Africa, United States of America and England are absent in Zimbabwe. As shown, there is no meaningful foreign direct investment which could provide the necessary liquidity for the various industries. There is enormous poverty in Zimbabwe and huge unemployment rates. The economic trough over the past 30years has greatly affected the labour market. There has been exponential outflow of the economically active population (*CSO 2004 Labour statisticreport).*Again, the formal sector employment was affected, the labor mobility was from the formal sector to the informal sector.

The informal sector is characterized by unreliable income hence very few people are likely to open policies in the long term insurance industry given the unreliable income. The shift of employment structure from being skewed mainly in the formal structure to the informal structure creates a need to focus on micro insurance as opposed to the current set up. Therefore the model is not sensitive to the developments on the ground to cater for the informal sector because the informal sector has not been contributing towards any pension funds and due to irregular earnings is also not active in purchasing other long term insurance products.

The rate of job loss is very high such that the likelihood of policies lapsing is very high. Thus the lapse concept is misplaced as the nature of the long term products do not provide for security of value at the period of lapse. The issue of lapses will always haunt any product that can be developed along the current model thus people are perpetually robbed of their hard earned cash through inevitable challenges the majority of policy holders will face during the premium payment period.

14.2.7. The Structure and Zimbabwean Demographic Circumstances

It has been noted that the current demographic structure does not sustain the existing long term insurance model. Some of the notable factors that have affected the Zimbabwean demographic are:

- Hiv and AIDS pandemic,
- Economic trough and
- Fertility decline

HIV and AIDS has led to decline in population growth. The population of Zimbabwe was 11.8 million in 2002 (CSO 2003) which was below the projected figure based on previous trends. According to the United Nations World Health Organisation, the life expectancy for men was 36 years and the life expectancy for women was 42 years of age, the lowest in the world in 2006. The HIV infection rate in Zimbabwe was estimated to be 14% for people aged 15–49 in 2009. Extreme poverty increased significantly during the 1990s, with an estimated 35% of households living below the poverty line in 1995 compared to about 26% in 1990. Based on the total consumption poverty line, households in poverty increased from around 40% in the late 1980s to 62% by 1995/96.

Mortality rates more than tripled among adults between 1994 and 2005-6. This in itself reduces the rate of new contributions to the insurance schemes. Considering population growth, the economic growth rate was insufficient for poverty reduction and employment creation. Extreme poverty increased significantly during the 1990s, with an estimated 35% of households living below the poverty line in 1995 compared to about 26% in 1990. Given this sad background the capacity of policy holders to last the 20 year policy term is minimal. The impact of the above on capacity to serve is clearly negative given the level of poverty and disposable incomes.

14.2.8. The Structure and the Legal Frame Work:

The regulator, in seeking to protect the interests of the policyholders, has to ensure that the possibility of insurance companies becoming insolvent is minimized and circumstance or latitude to realize higher returns for policy holders are provided for through sound legal instruments. However, such a mandate is being militated by the following:

- High prescribed asset ratios
- Capital level requirements
- Limiting investment vehicles to within Zimbabwe for the long term insurance industry.

From the above, the emphasis on prescribed assets is driven by the presupposition that bonds are sound investment vehicles that ride on the economic strength of the government. However one cannot separate the state from the economy. Britain and United States of America are developed economies with stable governments. The prescribed assets in these nations are huge and generally provide sound returns and higher security than the private sector investment vehicles. Under these circumstances in the developed world, it is sensible to emphasize on prescribed assets as investment security exists of which the contrary is true in Zimbabwe context.

The issue of prescribed assets is not just about ratios but the capacity of bonds to retain value, the size of the economy, the national reserves and the capacity of the government to guarantee those reserves. The findings suggest that the current investment regulatory regime probably undermines the regulator's aim of ensuring appropriate levels of the risk of insolvency in the general insurance industry.

Prescribed assets issues must not be rigid to allow for full value retention. History has shown us that high prescribed asset ratios negatively impacted on the wide insurance industry therefore moderation is required. We need appropriate regulatory instruments that are in sync with our dynamic demographic, socio-economic and financial circumstances of the day. Inappropriate controls suffocate the growth of the industry as much as it provides loopholes for abuse of our valued clients.

14.2.9. Capital Levels in Zimbabwe

From the research it has been shown that the capital levels in Zimbabwe do not compare very well with the big leagues in the region like South Africa, Nigeria and Kenya where long term insurance is serious business. However a distinction has to be made in that while the majority of regional countries pay sum assured for the funeral assurance there is provision of defined service. This is notable in that the funeral industry invests in the parlours, hearses and coffin manufacturing which are the mode through which funeral services are provided.

From the above, it is clear that the current regulatory structures are not in sync with expectations of the populace. The prescribed assets have not been performing and are destroying policy holder value. The capital levels are low compared with the regional scenario. The prescription to have all assets being invested in the local market exposed the insurance industry to country risk extensively. There was no room to hedge capital against various exposures such as capital flight, drying of foreign direct investment, collapse of investment vehicles and inflationary pressures which literary wiped away significant capital.

The submissions from the commissioner of Insurance and those from the research findings are at tandem with those in the March 2017 commission of Inquiry report which observed that the macro-economic factors included inflation, currency de-basing and the exchange rates used at the time of de-monetisation. Inflation resulted in loss of value through the erosion of premiums and contributions, real investment returns, benefits and the wholesale terminations of individual life, retirement and savings insurance products.

Currency de-basing resulted in insurance companies and pension funds automatically extinguishing insurance and pension liabilities without actual payments. This was on account of the zeronisation of ZW$ accumulations owing to currency de-basing of up to 25 zeros between 2006 and 2009. It is from the above where the researcher deduce that the

very nature of the Zimbabwean Insurance products is not sensitive to the volatile cyclic and hostile nature of the Zimbabwean economy which largely does not conform to the fundamentals for insurance structures.

15. Conclusion

In the case of Zimbabwe, recent demographic and economic trends as well as our financial system do not conform to the assumption underlying the Generic Insurance Model leaving policy holders losing value and financial security. The legislative framework has been examined in terms of provision of conducive environment to model insurance along the context of a given constituency have been proved to be completely ineffective in protecting consumers and totally out of touch with modern strategies to protect consumers of insurance and pension services. There is therefore urgent need to remodel the long term insurance along the Zimbabwean cultural context, appropriate with the demographic character, financial limitedness and economic status of Zimbabwe. There is need to restructure the legal framework in line with proper prescribed asset ratios, liberty to invest offshore, realistic capital levels and proper surveillance instruments.

16. Specific Recommendations

- There is need for reforms that must be undertaken by the commissioner which should contribute by encouraging a more efficient and dynamic insurance services market, by strengthening the function of insurers as institutional investors and by putting in place a regulatory framework which achieves an appropriate level of protection for policyholders and supports stability in the wider financial system.
- The regulator must push for use of economic capital over and above the regulatory capital. Economic capital is the capital which an insurance company requires to cover the risks that it is exposed to as a going concern, such as underwriting, market & operational risks, thus it is risk based.
- The regulator must reduce prescribed asset levels to a region of 15% of net investable income.
- The regulator must have a legal division with arresting powers to provide for sound surveillance on compliance and move away from resorting to courts as a way of controlling long term insurers while at the same time avoid being reactive.
- There must be room for offshore investment with a prescriptive cap to ensure sufficient hedging.
- It is highly recommended that pensions and insurance legislation be amended to empower the Regulator to prescribe, through regulation, acceptable expense types and respective ratios. This will address the industry-wide mischief of abnormally high expense ratios as high as 100% of pension contributions or insurance premiums. In addition, the need to prescribe permissible expenses or charges and levels thereof is highly underscored.
- The Regulator should also have due regard to the relationship between the premiums or contributions paid by the policyholder and the benefits expected. The Regulator should be empowered to declare a product financially unsound if the relationship between premiums and benefits is such as to cause loss of confidence in the industry.
- The Regulator should also be able to prescribe processes to check the projected benefits and compare them to premiums and contributions paid. There should be products that provide for early access to benefits through contribution clauses and the term "lapse" must be replaced with access to benefit limited to length of contribution or an appropriate actuarially determined ratio.
- There must be a Zimbabwean technical mortality tables committee which should produce mortality tables in Zimbabwe initially at five year intervals. This technical committee must be at IPEC level and run through a legal instrument. Zimbabwe has the expertise that is now strewn all over the world and therefore a deliberate effort must be made to bring them into these critical structures for us to have appropriate models.
- The proposed technical committee must also review the annuity formula to attend to Zimbabwean peculiarities which are economic and financial in nature.
- Government must strategically strongly support the corporate sector in the promotion of micro-insurance to address need for the provision of long term insurance to the rest of the society that is not in the formal sector bearing in mind that the micro-insurance profit margins are slim.
- The functions of the Consumer Council of Zimbabwe must be broadened and be equipped at law to provide surveillance and protection of the consumer primarily to augment the role of IPEC. The Consumer Council of Zimbabwe must have an Insurance division, fully knowledgeable and equipped to promote awareness of the existence and provision of long term insurance; provide information on legal right to access of the promised benefits on the contract. This association must engage IPEC, Actuarial Society of Zimbabwe and the recommended Mortalities Technical Committee to ensure consumer interests are attended to fully.
- When the policy holder dies, unless if the dependants fund for the scheme or it has a breadwinner benefit, the policy itself would lapse due to lack of further contributions and as such beneficiaries lose cover. Beneficiaries must access a factor of the benefit at a rate actuarially determined in terms of period serviced in comparison to maturity dates.
- There is need to review current insurance model in order to suit the declined life expectancy thus ensuring mutual benefit for the insurance company and the policy holder. There has to be fast tracked access to benefits such that products become more appealing and relevant to policy holder whose life expectancy has been reduced compared to regulatory retirement age.

17. Suggestions for Further Research

The findings of this research study provide the following insights for future research:

- That there is need to study the significance of economic capital compared to regulatory capital to ensure solvency and capital adequacy in the long term insurance industry.
- That there must be further study on mortality tables, their adaptation, by other countries and how in sync they could be with local circumstances.
- That there should be research on actuarially appropriate factors for annuities relevant to Zimbabwe.

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