2019 Zambia Insurance Industry Survey

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Foreword

Andrew Chibuye

Welcome to PwC's inaugural *Zambia Insurance Industry Survey.*

The Insurance sector plays a significant role in Zambia's financial system as it provides critical risk management products and services to clients. The sector has grown significantly in recent years, with the entry of several new players. While the sector faces unique challenges, it has the opportunity to grow even more given the right environment.

The aim of this report is to shine a light onto the industry in order to help stakeholders better understand the current state of affairs. This is particularly pertinent given the recent slowdown in Zambia's economic growth.

In conducting this survey, we asked for responses from insurance companies that represented the consolidated views of each organisation. Of the 33 companies surveyed, 19 responded (58%). According to available industry information, we estimate that the respondents have a combined market share of over 75%. In addition to this, we undertook interviews with key stakeholders so that we could better understand the issues that the industry is facing. We then analysed available industry financial information in order to provide context to the survey responses received.

We would like to thank all of the respondents for taking time to complete our survey. A sincere thank you also to the PwC team that prepared this report.

We look forward to receiving your feedback and engaging with you on the matters presented.

Andrew Chibuye
Partner
Financial Services Leader, PwC Zambia

Executive summary

PwC's 2019 Zambia Insurance Industry Survey analysed the risks and challenges facing Zambia's insurance industry over the short, medium and long-term.

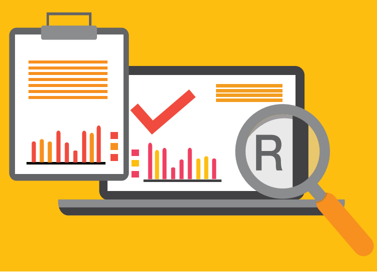
The survey, the first of its kind by PwC, is based on information obtained from a questionnaire sent to 33 insurance companies currently operating in Zambia as well as meetings with some of key players in the sector. The survey was conducted between August and October 2019, with 19 out of 33 insurance companies responding.

Of these, six companies are from the life insurance sector and have a combined market share of 79% in the life sector, while 11 come from the non-life sector, with a combined market share of 75%. The remaining two companies come from the minority reinsurance sector. Respondents' market share was based on sector analysis by the Pensions and Insurance Authority (PIA), the insurance industry's regulator, and the Insurers' Association of Zambia (IAZ) for the year ended 31 December 2018.

Summary of survey findings

There were five main issues identified by all the insurance companies surveyed as being particularly pressing in 2019 regardless of whether their business was non-life, life or reinsurance. These were:

- Recovery of premium debtors
- Economic environment
- Regulatory environment
- Understanding the role/benefits of insurance among the Zambian population
- Availability of skilled resources



Recoverability of premium debtors was identified by respondents as the biggest challenge facing insurance companies. In particular, failure to collect premiums from insurance brokers as well as the growing Government arrears were seen as major barriers to business growth. Difficulty in recovering premium debts has impacted insurance companies' liquidity significantly, with the ability to settle claims promptly and in full particularly affected.

The introduction of cash and carry – where cover commensurate to cash paid – is seen by insurance companies as the solution to the challenges they face with premium debtors. An unintended consequence of this, however, is the likely reduction in gross written premiums (GWPs) reported.

The second most pressing issue facing the industry identified by insurance companies was the economic environment. Poor rainfall during the 2018/2019 rainy season, insufficient power supply and fiscal indiscipline are all having a detrimental impact on economic growth. With less disposable income, insurance products tend to fall down the list of priorities for companies and individuals alike.

The regulatory environment was identified as the third biggest issue affecting the insurance industry, highlighting the need for the PIA to play a more active role in responding to challenges in the market. When asked what three things the insurance industry regulator could do to improve the performance of the industry, the most popular responses were for the regulator to increase supervision of insurers and brokers, enforce regulations and implement reforms. The main regulatory issues of concern related to the introduction of cash and carry, the regulation of the professional conduct of insurance practitioners and addressing the quality of assets accepted as capital.

Understanding the role and benefits of insurance among the Zambian population was the fourth most pressing issue identified by insurance companies. Just under a third, or 32%, of respondents noted that consumer awareness was key to improving understanding and appreciation of the role insurance plays, which in turn should improve market penetration. Over half of respondents, or 53%, said they believed micro-insurance provided the gateway to improving penetration.

Another major challenge for the insurance sector is the lack of skilled resources available, both locally and globally. Survey respondents ranked this issue as the fifth most pressing problem they face.

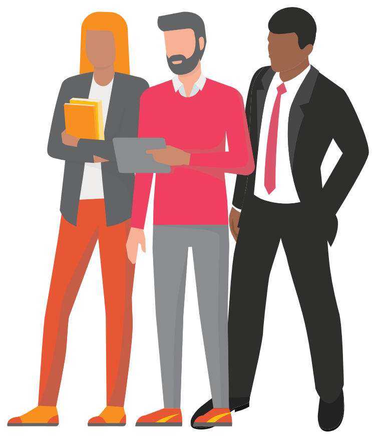
The lack of skilled personnel, such as actuaries, data scientists and regulatory specialists, as well as in more technical areas like underwriting, risk management and actuarial valuations is a big problem for insurance companies in Zambia.

In interviews, a number of companies said they believed the lack of skilled resources was due to the absence of a comprehensive insurance curriculum amongst local higher learning institutions. The imminent enforcement of IFRS 17, a fairly technical standard, will only add to these challenges.

While most of the issues affecting the insurance industry as a whole were shared, one or two were only relevant to certain subsectors. Most notably, the life subsector was particularly concerned about the possible impact of the newly enacted National Health Insurance Act, ranking it their fifth most pressing issue. Almost half, or 47%, of life company respondents believed the new Act would have a negative impact on their overall business as it would compete with existing health products, reducing the spending power of customers and their need for private health insurance. Interestingly, 16% of respondents indicated that they expected the National Health Insurance Act to have a positive impact. What is clear, however, is that each insurance company will need to look strategically at how they respond to this and the other challenges the current environment poses.

Our survey also sought to assess the level of optimism within the industry. Respondents were requested to express their optimism on a five-point Likert scale, with one as least optimistic and five being very optimistic. In the short term, over two thirds, or 68%, of respondents exhibited little optimism for the industry, but became more optimistic over the medium and long-term. This perhaps reflects the current challenging operating environment, but also highlights the potential companies see in the insurance sector.

In addition to looking at the challenges facing the Zambian insurance industry, the survey discussed other topical industry issues including cyber security, data analytics, bancassurance and the cash and carry model. The survey also analyses of the industry's financial performance both in Zambia and regionally. Interestingly, some of the issues affecting insurance companies regionally and globally identified in PwCs Insurance Banana Skins 2019 survey, including technology and cyber security, data privacy and climate change, were not identified as major issues of concern among Zambian insurance companies (PwC Centre for the Study of Financial Innovation, Insurance Banana Skins 2019 survey).



Survey findings

Methodology

The questionnaire sent to insurance companies contained five sections.

In the first section, respondents were asked to rank, in order of importance, the top five most pressing issues currently faced by the insurance industry. In the second, respondents were invited to describe, in their own words, their main concerns for the insurance sector as well as the sector's growth prospects over the short term (2019), the medium term (two to five years) and longer term (beyond five years). In the third section, respondents were asked to rate a list of potential risks, while in the fourth they rated the readiness of insurance companies to handle those risks, including the implementation of IFRS 17. In the final section, respondents were invited to comment on regulations as well as risk management issues. Replies were confidential, but respondents could choose to be identified.

PwC also obtained and analysed consolidated industry performance statistics compiled from the annual financial statements the insurance companies submit to the PIA. The results of our analysis were used to provide further context for the survey responses received. Publicly available statistics for the economy in Zambia and countries which were used for comparative purposes were also obtained.

In addition, we supplemented the survey findings and financial analysis with interviews with respondents from insurance companies to ensure we obtained a full understanding of the answers provided.

In analysing the survey results, we have split responses into the following categories:

- The top five issues affecting the overall industry
- A sector analysis of the top issues common to both life and non-life insurance companies
- A sector analysis of the top issues affecting each of the three subsectors of the insurance industry: non-life insurance, life insurance and reinsurance

As you read through the survey findings you will notice that some of the issues affecting the industry subsectors, such as the recoverability of premium debtors, the economic environment and regulation issues, overlap while others, such as the introduction of the National Health Insurance Act and inadequate data on claims experience to support pricing and low capital requirements for insurance companies are specific to some sectors of the insurance business. This is of course expected due to the similarities and differences between the industry subsectors, but it is also an affirmation that the insurance industry as a whole faces many common issues.

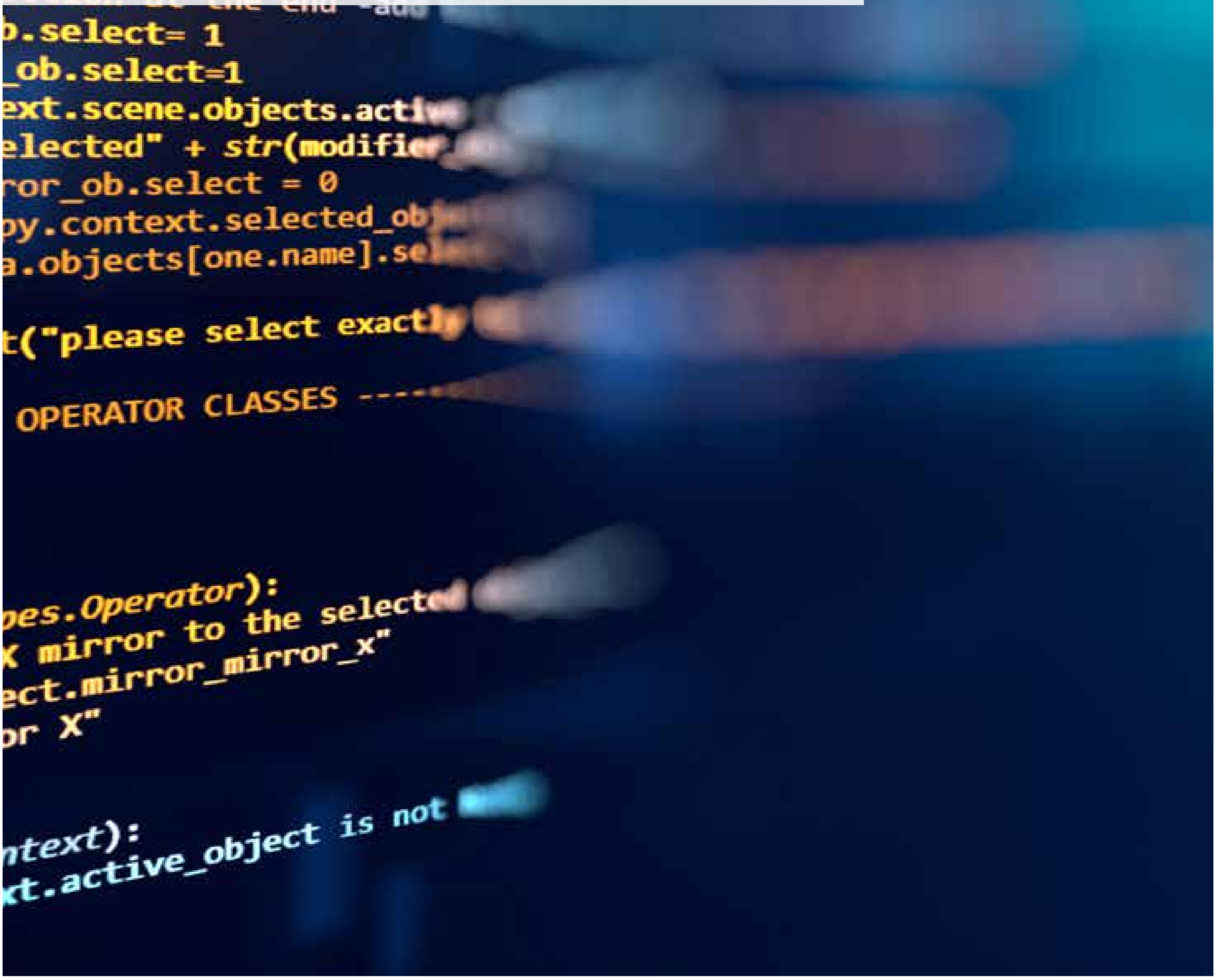
Top five issues affecting the industry

To help us identify the most pressing issues facing the industry, respondents were asked to rank issues in order of significance, with 10 being the most signficant and 1 being the least. We then used a simple average to identify the issues with the highest score at both a combined and disaggregated level.

There were five issues identified across the industry as being particularly pressing. These are listed in the table below:

Table 1: Top five industry-wide issues

Rank	Issue	Average score
1	Recoverability of premium debtors	8.42
2	Economic environment	4.95
3	Regulatory environment	4.79
4	Understanding the role/benefits of insurance amongst the Zambian population	3.47
5	Availability of skilled resources	3.42



1. Recoverability of premium debtors

Recoverability of premium debtors was the issue of most concern for all insurance companies with an overall score of 8.42 out of 10. Recoverability of premium debtors relates to the ability of the insurer to collect those premiums that are originally written out based on credit terms.

This was the most pressing issue across the industry as failure to recover premium debts has a direct impact on a company's liquidity position. Liquidity, which refers to a company's ability to meet its current obligations, is important for insurance companies as it directly affects the settlement of claims and required payments of the reinsurance obligations. Furthermore, failure to recover premium debts may impact a company's minimum required capital.

To put the issue into perspective, the IAZ 2017 annual industry report shows that on average the debtors to gross premiums written (GPWs) ratio for the period 2013 to 2017 was well above 30%. This means that for each K1 premium written, an insurance company can only expect to collect 70 ngwee at the time cover commences.

Table 2: Insurance industry receivable analysis 2013-2017

Year	2013	2014	2015	2016	2017
% Debtors / GWP	40%	41%	38%	36%	34%
% Bad Debts /Debtors	32%	28%	29%	30%	33%

Source: IAZ 2017 Annual Report

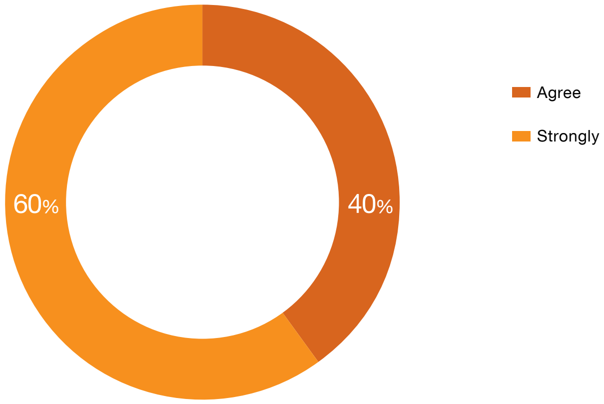
To understand what is affecting collectability of premium debtors, respondents were asked to rank in order of significance - with one being the most significant and five being the least significant - which factors had the biggest impact on recovering premium debts. Respondents identified brokers holding onto premiums as the most significant factor. Few statistics exist to show what percentage of GWPs brokers account for. However, many in the industry believe the figure is high; one survey respondent said brokers accounted for over 80% of their company's GWPs. The economic environment was seen as the second biggest obstacle to insurance companies collecting premiums, while delays to payments by Government agencies was in third place.

Table 3: Factors impacting collectability of premium debtors

Factor	Rating	Average score
Brokers holding onto premiums	1	9.12
Macro-economic environment	2	8.26
Delayed payment by Government agencies	3	7.89
Inadequate investment in resources (staff and technology)	4	7.52
Collection cost of premium collection	5	7.31

It was further noted that 100% of the respondents said that the current Government arrears contributed significantly to credit deterioration in the industry.

Figure 1: Do Government arrears significantly impact credit deterioration?



The impact of Government arrears on credit risk is not unique to the insurance industry. Findings from PwC's *2018 Zambia Banking and Non-Banking Industry Survey* show that banking and non-banking financial institutions are also being affected by Government arrears.

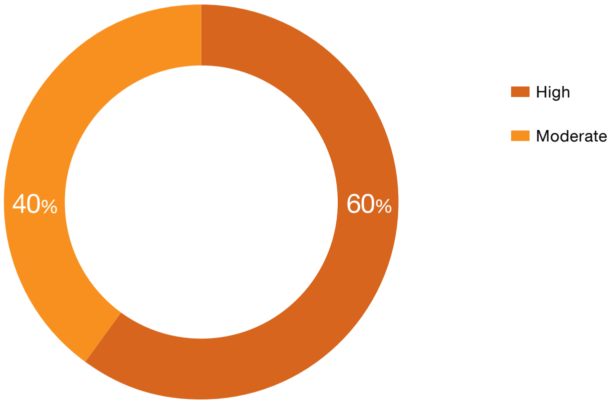
When asked to suggest ways to improve the recovery of premium debtors, 100% of respondents said that the introduction of regulations requiring insurance companies to only write out cover on a cash basis, also known as the cash and carry model, was the solution to the problem.

It is worth noting that the industry already has some regulations in place to address issues relating to the recoverability of premium debtors. These include the requirement for brokers to remit all premiums obtained from customers to the insurance companies within 30 days.

2. Economic environment

The economic environment was the second most pressing issue among respondents. When asked what impact the economy had on the insurance industry, 60% of respondents said it had a high impact and 40% said a moderate impact. None of the respondents said the economic environment had a low impact on their business.

Figure 2: Impact of the economic environment on the insurance industry



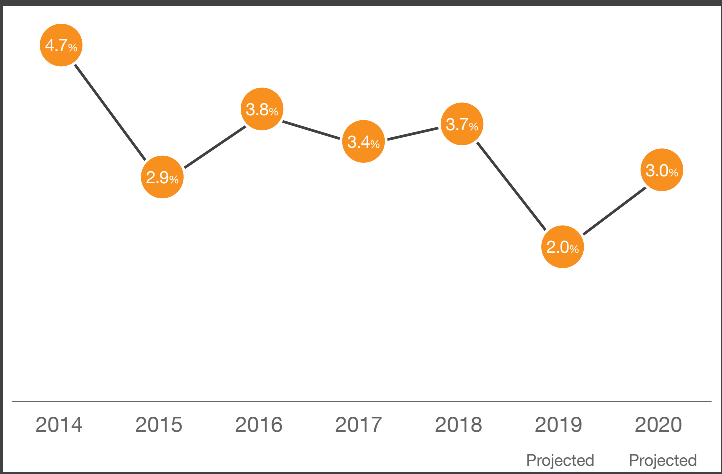
Furthermore, the state of the economy both now and in the future appeared to strongly influence respondents' level of optimism with regards to the insurance industry's prospects. Many of those surveyed said they were less optimistic in the short term due to the economic environment. Their optimism improved, however, over the medium and long-term due partly to the prospect of an improving economic outlook.

The Zambian economy has weakened in recent years, with annual GDP growth estimated at 2% for 2019, according to figures from the Ministry of Finance. This is notably lower than the 3.7% growth reported in 2018.

The Ministry of Finance has attributed much of the recent subdued growth to climate-related shocks, including poor average rainfall during the 2018/2019 rainy season, which has resulted in reduced agricultural production and lower electricity generation. The latter has had a negative impact on all sectors of the economy.

A decline in copper output due to low grades of ore at some mines coupled with lower copper prices on the back of reduced global demand has also weighed on Zambia's economy. In addition, tight liquidity conditions due to Government's external debt servicing and the accumulation of domestic arrears have also contributed to subdued economic growth. Meanwhile, the depreciation of the kwacha has also had a negative impact on the economy, pushing up inflation and the price of commodities like fuel, while interest rates have also risen.

All this has led many Zambian companies to reduce the size of their business – or in some cases close down altogether – and cut spending in areas like insurance. The slowing economy has also had a direct impact on indviduals' disposable income and this in turn is having a knock-on effect on their ability to spend money on insurance products.



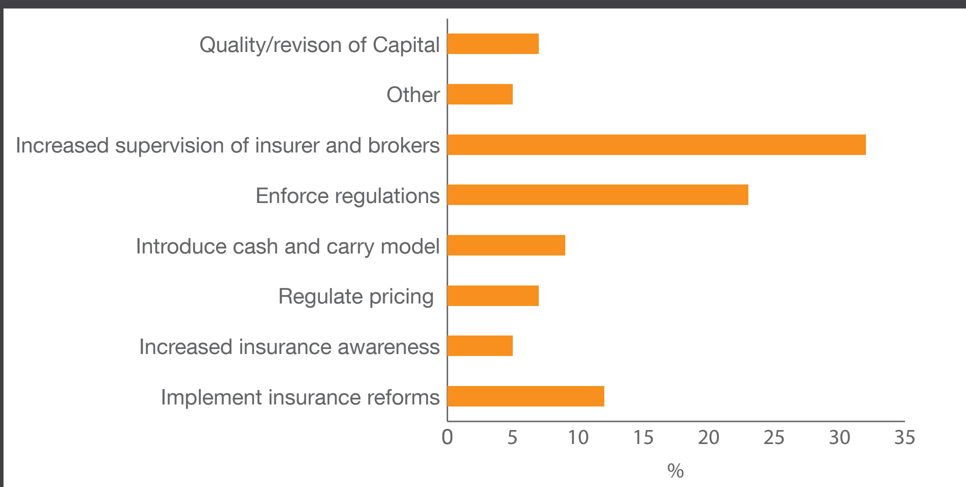
Source: Ministry of Finance

3. Regulatory environment

The regulatory environment was identified as the third most pressing issue affecting insurance companies, with many respondents advocating for regulatory reforms in the sector.

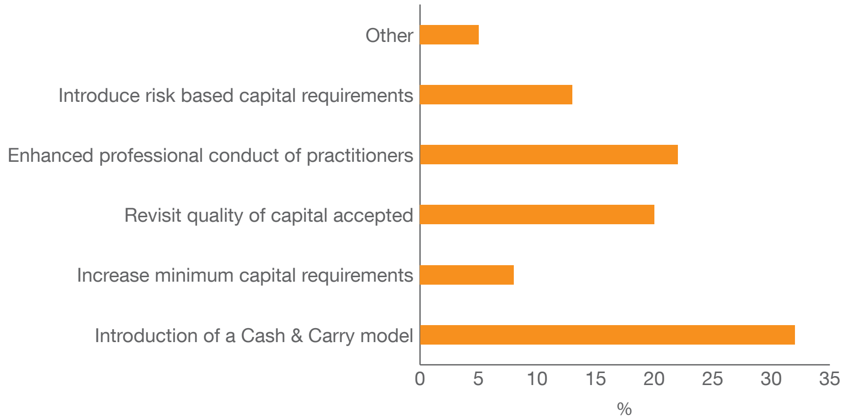
When asked what three things the PIA, the insurance industry regulator, could do to improve the performance of the industry, the most popular responses from insurance companies were: increase supervision of insurers and brokers; enforce regulations; and implement reforms.

Figure 4: Things the regulator could do to improve the performance of the industry



Insurance companies were also asked which three areas of policy and regulation they would like to see the regulator act upon. Almost a third, or 32%, of respondents said they wanted the regulator to introduce a cash and carry model. A further 22% said they wanted to see the regulator enhance the professional conduct of practitioners, while 20% said they wanted the regulator to revisit the quality of capital accepted.

Figure 5: Key areas of policy and regulation



At the 2019 IAZ conference, the PIA indicated that it is working on various projects including regulatory reforms which aim to tackle areas such as:

- Governance guidelines
- Solvency regulations (aimed at establishing the solvency rules calculations)
- Establishing minimum rates for third party motor liability and life cover
- Code of conduct for the insurance sector and its practitioners

Other factors affecting the regulatory environment include the regulator's readiness and awareness of accounting standards affecting the industry such as IFRS 17 and, to some extent, IFRS 9. For example, how will the implementation of these standards affect the current and future solvency calculations?

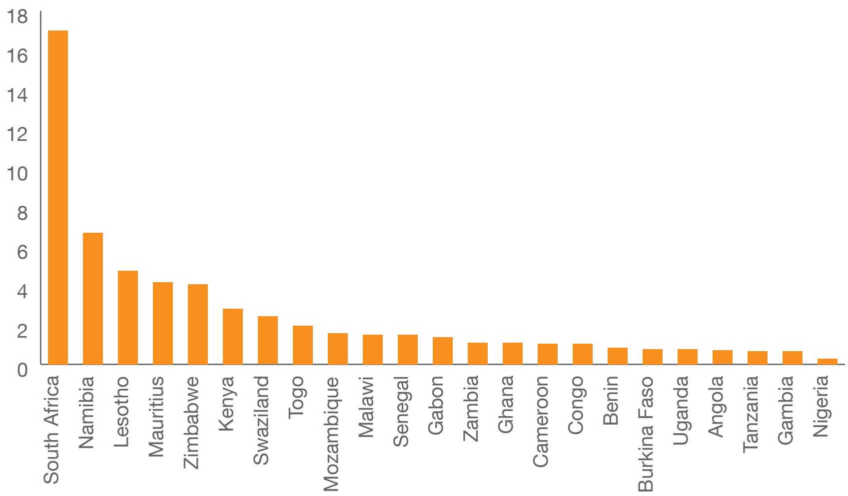
4. Understanding the role/ benefits of insurance

Improving people's understanding of the role and benefits of insurance was identified by respondents as the fourth most pressing issue facing the sector.

Helping people and businesses recognise the positive role insurance can play in their lives is seen as critical to the overall prospects of the industry. Penetration of insurance products in developing countries is low compared to developed countries and therefore greater awareness could go a long way to improving penetration in countries like Zambia.

According to PwC's Market Research Centre, South Africa has the highest insurance penetration levels in Africa and is a relatively mature market. In theory, this might mean there are fewer opportunities for future growth. However, South Africa's increasing GWPs seem to tell a different story. Long-term GWPs rose from US$15.8 billion in June 2016 to US$19.3 billion in June 2017, while short-term insurers experienced growth from US$4.0 billion to US$4.9 billion over the same period. All South African respondents surveyed predicted growth across the insurance market between 2017 and 2020.

Figure 6: Insurance penetration rates across Sub-Saharan Africa, 2017

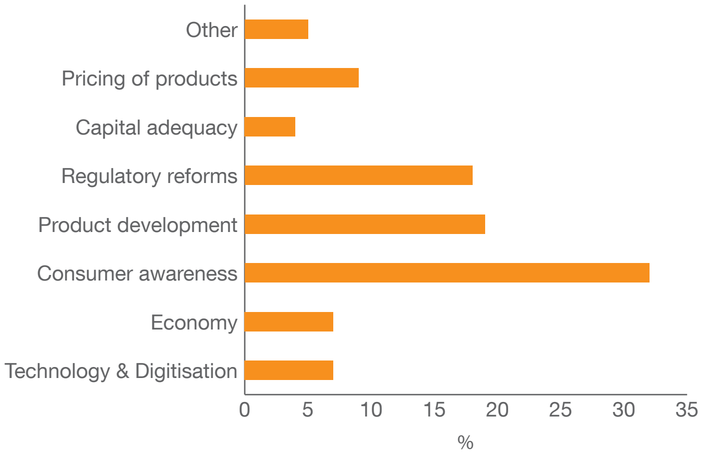


Source: PwC Market Research Centre analysis based on Axco
The insurance penetration rate is calculated as the value of written premiums (life and non-life) as a percentage of GDP.

Across the rest of the continent, insurers expect premiums to grow much faster between 2017 and 2020, despite operating under difficult economic and political conditions. To achieve the kind of exponential growth required, however, insurers across Africa will have to find innovative and cost effective ways to increase penetration into the largely un(der)insured market. This cannot be achieved by sticking to the same traditional, expensive inter-mediated channels of the past. New multichannel approaches and product design based on knowledge of customers and their needs are required.

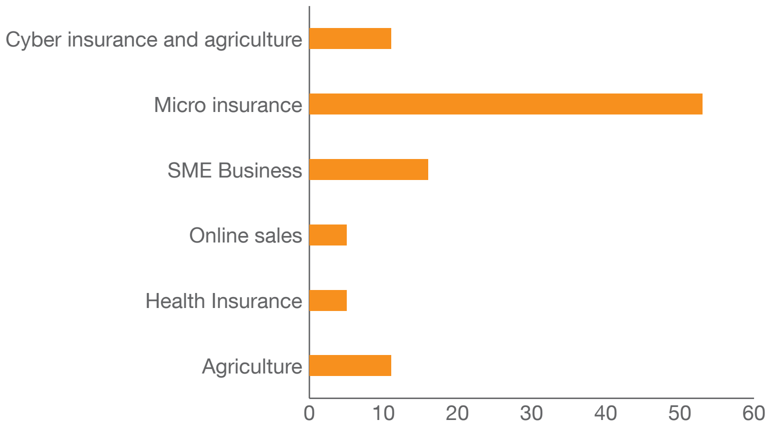
When asked how market penetration could be improved, 32% of respondents in the Zambia survey indicated that consumer awareness was vital. Around a fifth, or 19%, said product development could improve market penetration, while 18% said regulatory reforms were key to improving take-up of insurance products.

Figure 7: Ways to improve market penetration



With regards to potential areas of growth for the Zambian insurance industry, 53% of respondents identified micro-insurance as an area that has the potential to provide growth opportunities for the industry.

Figure 8: Potential growth areas for the insurance industry



5. Availability of skilled resources

A lack of skilled resources and staff was identified as the fifth most pressing issue facing insurance companies in Zambia.

The issue is not unique to Zambia. According to PwC's *Insurance Banana Skins 2019* survey, which identifies problem areas in the global insurance industry, a lack of appropriate human capital ranked eighth in a list of over 20 issues affecting the industry. Concerns stem from a lack of skilled personnel such as actuaries, data scientists and regulatory specialists, as well as not enough skilled personnel in more technical areas such as risk management and actuarial valuations.

Close to half of the respondents, or 47%, said they believed the lack of skilled personnel was due to the poor availability of a comprehensive insurance curriculum amongst the local higher learning institutions. As a result, few graduates set out to pursue a career in insurance, while those that do find themselves in the industry usually have to learn on the job.

The imminent introduction of *IFRS 17 Insurance Contracts* will increase the level of complexity already associated with insurance. Most respondents suggested there was insufficient preparation and understanding of the standard and its requirements within the industry. Aspects such as computations of fulfilment cash flows and the required risk adjustments for non-financial risk amplify the fact that it is a highly judgmental industry. Most respondents said their business currently lacked the expertise and skills needed to address the standard and its caveats.

Sector analysis

a. Non-life versus life insurance

A breakdown of the results by subsector shows there are four common issues of concern affecting non-life and life companies. These are: the recoverability of premium debtors; the regulatory environment; the economic environment; and understanding the role/benefits of insurance among the Zambian population. The latter was the equal fifth most pressing issue identified by life insurance companies, but was fourth for non-life companies.

It is worth pointing out that a high number of issues are common to both sectors due to the cascading effect of the various issues. For instance, a slowing economy will result in a high rate of premium debtors, which may lead to a higher rate of bad debts provisions or write offs. This higher rate of bad debt provisions and write offs will in turn likely prompt the regulator to devise regulations and laws designed to address areas such as solvency calculations or the need for higher minimum capital for entities operating in the industry.

Table 4: Issues affecting non-life and life insurance

Non-life insurance	Common issues	Life insurance
Inadequate data on claims experience to support accurate pricing	Recoverability of premium debtors	Availability of skilled resources
	Economic environment	Introduction of the National Health Insurance Act
	Regulatory environment	
	Understanding the role/ benefits of insurance amongst the Zambian population	

b. Non-life insurance

The top issues identified by non-life insurance companies are largely consistent with the overall insurance survey results, with the exception of inadequate data on claims experience to support accurate pricing.

However, among the four common issues, the non-life insurance sector ranked these issues differently to the broader industry. While recoverability of premium debtors was rated highest for both the industry and the non-life subsector, regulatory environment replaced economic environment in second place for non-life insurance companies (regulatory environment was number three in the industry rankings). Meanwhile, the economic environment was pushed to number four for non-life insurance companies (it was number two for the industry), while understanding the role/benefits of insurance amongst the Zambian population was the fifth most pressing issue for non-life companies compared to fourth for the industry as a whole.

Inadequate data on claims experience to support accurate pricing was the third most pressing issue among the non-life insurance companies, but did not feature in the top five for the industry as a whole.

The issue here appears to be the lack of an accessible centralised customer database that clearly outlines the behavior and experience of clients that the insurance companies take on. Such a database could be used for background checks when performing the underwriting process and could include the frequency and nature of past claims, where appropriate. With accessible accurate data on new and existing clients, insurance companies should be able to come up with risk-based premiums for new clients. This would operate in the same manner as the banking industry, where banks use centralised databases such as that maintained by the Credit Reference Bureau to inform their decisions when dealing with applications for credit facilities.

The results of the findings are summarised below:

Table 5: Top five issues for non-life insurance companies versus the industry

Issue	Average score	Subsector rating	Industry-wide rating
Recoverability of premium debtors	9.08	1	1
Regulatory environment	4.50	2	3
Inadequate data on claims experience to support accurate pricing	4.17	3	6
Economic environment	3.92	4	2
Understanding the role/benefits of insurance amongst the Zambian population	3.92	5	4

c. Life insurance

The results of the sectoral analysis for life insurance companies were more or less aligned to the industry-wide results, with four of the five top issues the same for both. The only issue that was among life insurance companies' top five but was not a top five issue for the industry as a whole was the introduction of the National Health Insurance Act.

As with the non-life sectoral analysis, life insurance companies ranked the four common issues differently to the industry as a whole. Life insurance companies said the economic environment was the most pressing issue facing their business. This is in contrast to the broader industry and non-life insurance companies, which both identified the recoverability of insurance premium debtors as their top issue of concern. Life insurance companies ranked this issue second.

The availability of skilled resources was the third most pressing issue for life insurance companies compared to fifth for the industry as a whole. This perhaps emphasises the point that the majority of the skilled staff in the insurance industry are employed by life insurance companies and so competition to retain skilled personnel is fierce. For example, actuaries are needed to undertake complex valuations for life contract liabilities and solvency.

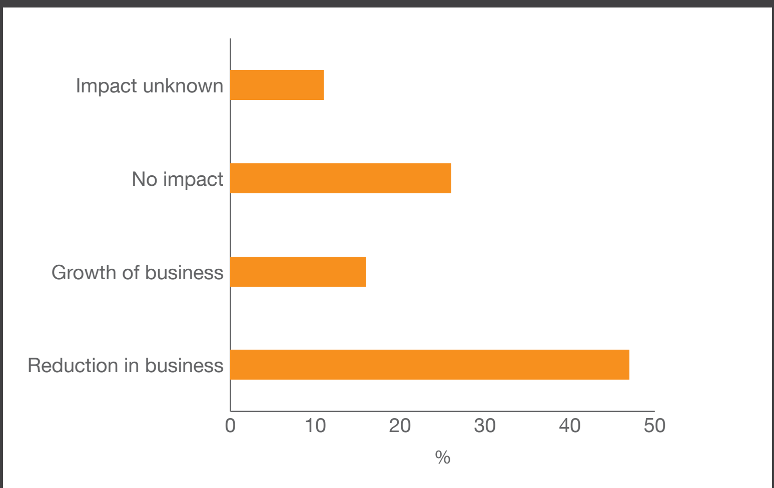
The fourth most pressing issue for life insurance companies was the introduction of the National Health Insurance Act, which was rated tenth industry-wide.

This discrepancy in the rating is to be expected as the impact of the new Act will be most felt by life insurance companies. Some 60% of life insurance respondents said the introduction of the National Health Insurance Act was a top five issue for their business.

The new Act requires the set up of the National Health Insurance Scheme to provide financing for a universal health service in Zambia. This will to an extent operate in the same way as the health insurance products provided by the life subsector, with employees and employers required to contribute specified amounts on a monthly basis. In practice, the scheme may lead to a reduction in individuals buying private medical schemes from insurance companies.

Almost half of respondents, or 47%, said the believed the new Act would have a negative impact on their overall business because it would compete with their existing health products, reducing the spending power of customers and their need for private life insurance. Just over a quarter of respondents, or 26%, said it would have no impact on their business, while 16% said it would have a positive impact.

Figure 9: Expected impact of National Health Insurance Act



The life insurance companies' survey results and comparisons of the ratings to the broader industry are shown below:

Table 6: Top five issues affecting life insurance companies versus the industry

Issue	Average score	Subsector rating	Industry-wide rating
Economic environment	6.80	1	2
Recoverability of premium debtors	6.40	2	1
Availability of skilled resources	4.60	3	5
Introduction of the National Health Insurance Act	4.20	4	10
Understanding the role/benefits of insurance amongst the Zambian population	3.80	5	4
Regulatory environment	3.80	5	3

d. Reinsurance

Respondents from the reinsurance subsector selected the same top issues as the industry as a whole, albeit with differing degrees of importance. The only deviation from the broader industry was the addition of low capital requirements for insurance companies, which was the third highest ranked issue affecting the reinsurance subsector and replaced understanding the role/benefits of insurance amongst the Zambian population.

In keeping with the broader industry and the non-life insurance subsector, the recoverability of premium debtors was the top issue of concern among reinsurance companies.

Table 7: Top five issues affecting the reinsurance sector versus the industry

Issue	Average score	Sectoral rating	Industry-wide rating
Recoverability of premium debtors	9.5	1	1
Regulatory environment	9	2	3
Low capital requirements for insurance companies	8	3	9
Availability of skilled resources	7	4	5
Economic environment	6.5	5	2

Topical insurance industry issues

Cash and carry model

As has already been discussed, the most pressing issue for the Zambian insurance industry relates to credit risk as most insurers struggle to collect premium debtors. This has led to reduced liquidity among insurance companies, which in turn affects their ability to settle claims and process reinsurance payments. It is clear that the industry is now ready for regulations to be implemented to curb these risks.

One way this could be done is through the implementation of the cash and carry business model. This is a practice that requires all premiums to be written on a cash basis, with premiums paid upfront or at the point at which the cover is issued to ensure the insurer can settle claims appropriately. This model makes no exceptions and ensures that insurance premiums for all classes of insurance are paid on a cash and carry basis. This allows insurers to only assume risk upon the receipt of the premium, which is beneficial in this industry.

According to the PwC Strategic and Emerging Trends in Insurance Markets in Nigeria, October 2015, the cash and carry model has had a positive impact on the Nigerian insurance industry. The Nigerian regulator introduced the Market Development and Restructuring Initiative in 2009 with the primary objective of encouraging growth in the insurance market by promoting insurance culture in Nigeria. A “no premium, no cover” rule, which ensures that no insurer will grant cover without fully receiving the premium or a premium receipt from the relevant broker, was also introduced. This development has led to improvements in the payment of premiums to insurers, improving their cash flows and liquidity. However, the “no premium, no cover” policy has reduced the number of retail buyers who typically prefer to buy insurance on credit.

The main challenge facing the implementation of the cash and carry model is customer perception of a high initial cost outlay, as well as the perception that insurance companies will use these funds for other activities and will be unable to settle claims. The remedy for this is to encourage insurance companies to pay claims promptly and educate customers on the subject. With increased consumer confidence in the industry, the model can work.

The benefits of the cash and carry model and the associated decrease in credit risk are clear. If adopted, the cash and carry model could enhance liquidity in the Zambian insurance industry. Anecdotal evidence shows that similar policy roll-outs in Nigeria and Ghana have improved liquidity in the industry. With the cash and carry model in place, insurance companies can focus on insurance penetration, innovation and averting cyber security risks.

IFRS 17 – a new dawn in accounting for insurance contracts

Introduction

In May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, "Insurance Contracts." IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Key provisions

Scope

IFRS 17 applies to insurance contracts issued to all reinsurance contracts, and investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, entities have an accounting policy choice to account for them in accordance with either IFRS 17 or IFRS 15. Similar to the position under IFRS 4, financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity previously asserted explicitly that it regarded them as insurance contracts. Insurance contracts (other than reinsurance) where the entity is a policyholder are not within the scope of IFRS 17.

Measurement models

	General model	Premium allocation approach (PAA)	Variable fee approach
Why is it needed?	Default model for all insurance contracts	To simplify for short term contracts with little variability	To deal with participating business where payments to policyholders are linked to underlying items like assets
Types of contract	• Long-term and whole life insurance, protection business • Certain annuities • US style universal life • Reinsurance written • Certain general insurance contracts	• General insurance • Short-term life and certain group contracts	• Unit-linked contracts, US variable annuities ans equity index-linked contracts • Continental European 90/10 contracts • UK with profits contracts
Mandatory?	Mandatory	Optional	Mandatory

IFRS 17 requires a current measurement model, where estimates are remeasured each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability-weighted cash flows. For presentation and measurement, entities are required at initial recognition to disaggregate a portfolio (that is, contracts that are subject to similar risks and managed together as a single pool) into three groups of contracts: onerous; no significant risk of becoming onerous; and remaining contracts. Contracts that are issued more than one year apart should not be in the same group.

Changes in cash flows related to future services should be recognized against the CSM. The CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognised in profit or loss. Interest is accreted on the CSM at rates locked in at initial recognition of a contract. To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time. Under IFRS 17, entities have an accounting policy choice to recognise the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income ("OCI"). The OCI option for insurance liabilities reduces some volatility in profit or loss for insurers where financial assets are measured at amortized cost or fair value through OCI under IFRS 9.

The variable-fee approach is required for insurance contracts that specify a link between payments to the policyholder and the returns on underlying items, such as some "participating", "with profits" and "unit linked" contracts. The interest on the CSM for such contracts is accreted implicitly through adjusting the CSM for the change in the variable fee. The variable fee represents the entity's share of the fair value of the underlying items less amounts payable to policyholders that do not vary based on the underlying items. The CSM is also adjusted for the time value of money and the effect of changes in financial risks not arising from underlying items such as options and guarantees. Requirements in IFRS 17 align the presentation of revenue with other industries.

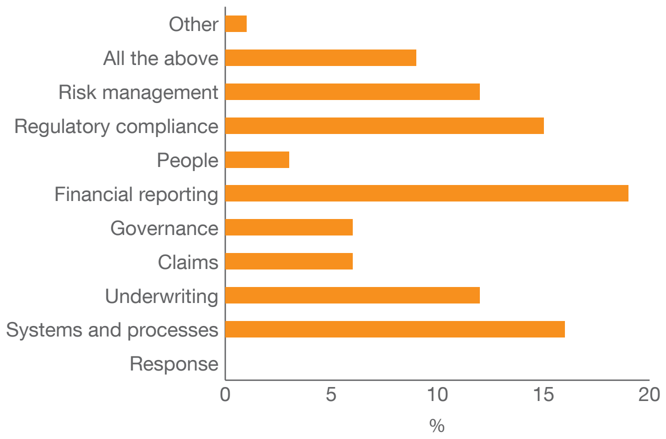
Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components (that is, amounts repaid to policyholders even if the insured event does not occur) are excluded from revenue and claims. Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts. The disclosure requirements are more detailed than currently required under IFRS 4. On transition to IFRS 17, an entity applies IFRS 17 retrospectively to groups of insurance contracts, unless it is impracticable. In this case, the entity is permitted to choose between a modified retrospective approach and the fair value approach. In applying a modified retrospective approach, the entity achieves the closest outcome to retrospective application using reasonable and supportable information and choosing from a list of available simplifications. Alternatively, the CSM at transition can be based on fair value at transition. In practice, using different approaches to transition could result in significantly different outcomes that will drive profit recognized in future periods for contracts in force on transition.

Why is this important?

IFRS 17 will impact businesses well beyond the finance, actuarial and systems development areas (for example, product design and distribution, development of revised incentive and wider remuneration policies and reconfigured budgeting and forecasting methodologies feeding into business planning). There could also be an impact on the cash tax position and dividends, both on transition and going forward.

This is reflected in the results of our survey which show the extensive impact of the implementation of IFRS 17.

Figure 10: Areas most impacted by IFRS 17



Considering the complexity of IFRS 17, implementation of the standard requires a considerable amount of effort. In some cases, implementation of the standard is expected to take about two-three years. In light of this, it is an area of concern that 70% of respondents indicated that they possessed no more than a basic understanding of the requirements of the standard.

Furthermore, half of the respondents indicated that they had not started the process of implementing the standard.

Figure 11: Level of appreciation of IFRS 17

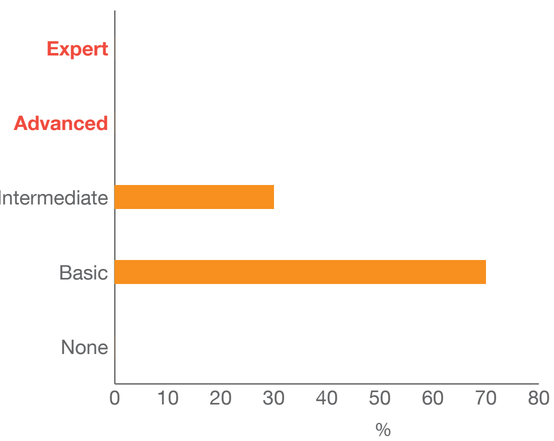
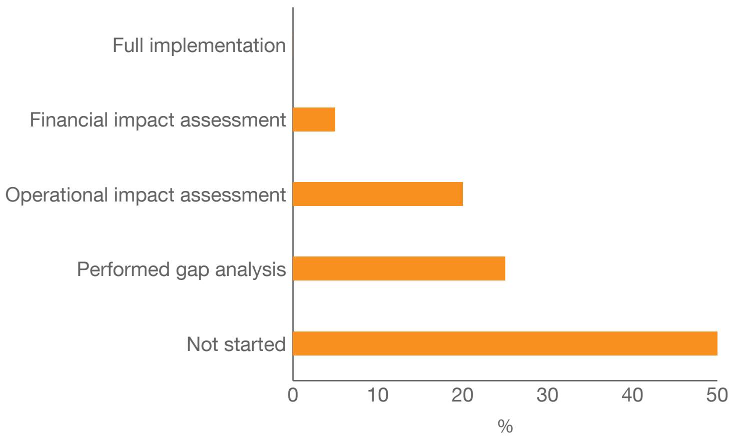


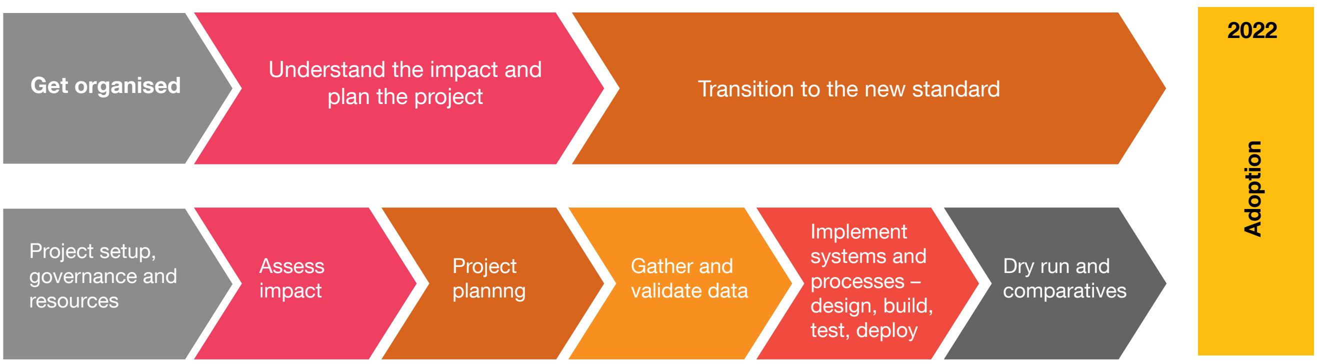
Figure 12: Level of preparedness



What's next?

Gap analysis and impact assessments to develop an implementation roadmap will enable entities to begin the detailed implementation project. A fundamental shift might be required in the way in which data is collected, stored and analyzed, changing the emphasis from a prospective to a retrospective basis of analysis and introducing a more granular level of measurement and additional disclosures. Before the effective date, insurers will need to carefully consider their "IFRS 17 story" for investors and analysts, as well as the key metrics that they will apply in the new world.

Steps to consider up to IFRS 17 adoption date



Bancassurance

Bancassurance is an arrangement made between a bank and an insurance company to facilitate the selling of insurance products to the bank's customer base, with the bank acting as an intermediary between a customer and an insurance company.

A way to easily enhance distribution and benefit from economies of scale, bancassurance is one of the major distribution channels for insurance company products in South Africa, as noted in the 2017/2018 edition of the *PwC Africa Insurance Survey*. Typically, however, banks sell credit life and funeral policies, and currently do not tap into more complex insurance products, such as the underwritten life space. The situation is similar in Zambia.

As reported in the *PwC Africa Insurance Survey* 2017/2018 edition, in 2017 bancassurance was considered the most attractive distribution channel among 27% of African insurers, up 5% on the year before (Source: African Insurance Organisation, *Africa Insurance Barometer*, 2017). With its popularity rising and insurance penetration low in North African and many Sub-Saharan African markets, the potential for growth is huge. Leveraging cost-efficient distribution channels such as bancassurance, the internet, or mobile phone distribution will be essential for selling life insurance to a large proportion of the population living in low-income countries.

In the Zambian context, this can be seen in the recent surge in the number of banks partnering with insurance companies to offer insurance products to customers, with life insurance products accounting for most of the insurance policies written - a trend consistent with most bancassurance arrangements across the globe. Although there has been an increase in the number of banks offering insurance products in Zambia, currently only five out of the 18 registered commercial banks are engaged in the provision of insurance-related products to customers.

Some of the benefits derived from the bancassurance model for insurers, banks and customers include:

Benefits of bancassurance model to an insurer:

- Can be used as a market penetration strategy and customer growth strategy. This in turn may result in increased premiums.
- The model allows insurers to gain access to the wider customer network that most banks enjoy.
- Less challenges are experienced with the collection of premiums.
- The model enables insurers to launch new products in conjunction with banks who can mine the data that it has on customers to create products meeting specific customer needs.
- The model rides on the bank's experience, expertise and staff. This results in operational cost savings as the transactions are executed by the bank using its own resources.
- To some extent, the model raises the credibility of the insurer through its association with banks which are well known institutions.

Benefits of bancassurance model to a bank:

- It enables banks to increase its product offering and diversify its customer portfolio.
- It results in an increase in non-interest fee income through the commissions earned from insurers on the policies written.
- It may contribute to customer retention levels as the bank increases the number of financial services offerings, thereby making it a one-stop shop for customers.
- The model uses the already existing infrastructure within the bank.

Benefits of bancassurance model to a customer:

- One-stop shop for financial services. The model allows customers to access insurance products and other financial services through one intermediary.
- The model is convenient for the customer as they already have an existing relationship with the bank.
- The model eases the process of renewals through standing instructions issued to banks.

The bancassurance model provides a huge opportunity for both banks and insurance companies not operating in this space to realise some if not all the above benefits. The opportunity is made even more attractive with the growing number of people in the middle class, the urbanisation of the population and increased financial literacy among bank customers. Therefore, both banks and insurance companies should use this data and other data at its disposal, including customer income levels, spending patterns, credit scores and credit repayment history, to come up with products that meet specific customer needs and unlock this opportunity.

Harnessing data analytics to drive efficiency and better customer insights

Robust and effective reconciliation processes are an important part of good revenue and debtor management as they allow for accurate debtor tracking and financial reporting. In our experience, weaknesses in these processes are largely attributable to:

- **Inadequate resource allocation and competencies**

Insurance companies often do not have dedicated personnel for revenue reconciliations and debtor management. For example, rather than have a dedicated relationship manager an insurance company may give the responsibilities of this role to the finance team who might struggle to meet the role's demands.

With regards to skills and competence, what is the mix of skills? Do teams have the skills to analyse and interpret data from various sources across the end-to-end reconciliation process? Do companies have the right number of people in their team to deal with the volume of data?

- **Direct debit and credit clearing (DDACC) challenges**

Challenges associated with DDACC, such as data truncation at source and missing key fields, make it difficult to easily identify customers who have paid premiums. Data truncation is where differences in key fields used to match records for billing and allocation of premiums, such as policy numbers, differ in length. Another challenge is that banks often consolidate their statements to insurance companies, making it difficult for insurers to see which clients have paid their premiums.

As a consequence of these challenges, insurance companies are left grappling with unreconciled suspense accounts and inaccurate debtor balances.

- **Poor data quality**

Another common challenge the insurance sector in Zambia faces is the lack of the right data in the right format in the right place at the right time. This is because data used in the reconciliation process is gathered and maintained in silos with little integration.

- **Poor interface between manual processes and IT systems**

The challenge here is the disconnect between manual elements and IT systems that are directly or indirectly involved in the reconciliation process. An example is poor alignment of the data needs of IT systems in place and the underlying manual processes that generate information. As a consequence, efficiencies that might have been realised from the IT system are lost.

If the above challenges faced by insurers in relation to reconciliation are addressed, the following benefits could be realised:

- Better control of revenue
- The ability to correctly identify debtors for follow-up
- Accurate financial reporting

Forging ahead

One way to fix gaps within the credit process (debtors and reconciliations) would be to undertake an in-depth diagnostic of the processes to identify weaknesses as well as opportunities for improvement. This would typically involve understanding the “as-is” process flow, identifying all systems, individuals and key data sources. This then provides an opportunity to identify areas of control weakness, inefficiency and subsequently areas of improvement in the process. It culminates in a desired process flow that addresses the challenges as well as a roadmap for practical implementation.

The next step is to catch up with outstanding reconciliations of debtors and associated suspense accounts and then keep them current. The application of data analysis tools and automation, where feasible, to achieve this brings about significant efficiencies and accuracy. In doing so, insurers need to consider investing in these skills within their teams for the long-term.

Insurance – a data driven industry

Insurance is a data driven industry and thus there is significant value in investing in data analytics to gain better insights into aspects of the business and the market at large.

By effectively deploying analytical tools to analyse accessible customer data, insurers can reach customers, create new products and develop a personalised customer approach with a clear view of what is working and what is not. This offers the potential for greater customer satisfaction and an unprecedented opportunity for insurance companies that are able to get this right.

Cyber security at the heart of your business

When asked if the insurance sector was highly vulnerable to cyber security risk, 63% of respondents said yes, the industry was highly vulnerable. Interestingly, respondents said the threat was linked to the level of IT innovation or automation of the industry, which is perceived as low in Zambia. While this seems like a contradiction, it must be noted that a cyber attack may simply be a denial of service that is not dependent on the complexity of the IT systems in place. What is clearly important is that the insurance players need to better understand the nature of their cyber risk and manage it actively.

As digitisation and shifting customer demographics continue to change the way insurance companies operate and reach customers, insurers are increasingly seeking solutions to customer-related issues and product development. In many instances, this drive has resulted in the adoption of a new breed of technology platforms.

What is different now?

Evolving technology landscape

As technologies continue to evolve, new risks are introduced, including cyber risks. Therefore cyber security is not just about technology. It also involves people, information, systems, processes, culture and physical surroundings. It aims to create a secure environment where businesses can remain resilient in the event of a cyber attack.

Local and global data regulations

Regulations in respect of privacy and protection of personal data are becoming more stringent, both globally and locally. Personal data is defined as any information relating to an identified natural living person. Therefore insurers will have to plan and invest in data privacy and cyber security initiatives to be able to respond to the following primary sources of data protection obligations:

- The first key consideration in respect of regulation is that the Electronic Communications and Transactions (ECT) Act, No. 21 of 2009, is in the process of being split into three Acts. These include: 1) the Data Privacy Act; 2) the Electronic Communication Act; and 3) the Cybersecurity and Cyber Crimes Act.

  The Proposed Data Protection Bill will repeal certain provisions of the ECT Act. The objectives of The Data Protection Bill include governing the processing of personal information by institutions, both private and public, and preventing unlawful collection, processing, transmission and storage of identifiable personal information.

- Secondly, and equally as important, insurance companies should consider establishing initiatives to drive compliance with the General Data Protection Regulation (Regulation (EU) 2016/679 GDPR), which came into effect on 25 May 2018. GDPR extends to entities on the African continent which collect and process the personal data of individual citizens of the European Union and the European Economic Area. The minimum requirements differ depending on whether you are: processing the relevant personal data on someone else's behalf; processing or procuring processing in any other circumstances; or have systems or applications in place that processes personal data. What is important is an understanding of how the law applies to you.

Three lenses of confidence

In our view, there are three lenses of confidence that we see as essential to helping insurance companies embed cyber security and privacy at the heart of successfully address data privacy and cyber risks. These include:

Confidence in your people

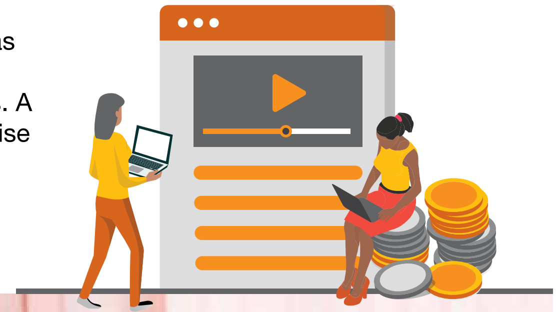
People make critical security decisions every day. Disappearing organisational boundaries mean that you can no longer rely on technology alone. You need to make sure your people understand security and act securely.

Confidence in your processes and technology

Do your information security processes meet the needs of stakeholders? And does the technology infrastructure in place support these processes to ultimately achieve your information security objectives. You need a detailed understanding of the vulnerabilities of your technologies and what risks they pose.

Confidence in your connections

Organisations exist in an increasingly complex digital ecosystem. Companies share information and transact digitally more than ever before. Your digital relationships with customers, suppliers and others expose you to new areas of risk that need to be managed. Digital opportunities cannot be realised without managing the inherent risks, including data privacy and cyber risks. A cyber-savvy governance and management structure means you can prioritise opportunities and know where you can afford to take and manage risks.



Towards an inclusive insurance sector in Zambia: market facilitator perspective

By Lemmy Manje[1]

Since 2009, the development of an inclusive insurance sector to increase access and usage of insurance by Zambians has been the main focus of the microinsurance development process spearheaded by the Technical Advisory Group (TAG). Over the last ten years, the process has yielded some positive results as more insurers invest in developing insurance products specifically to the underserved and unserved low-income market segments. Zambia's microinsurance market development process is testament to the progress that can be gained from the effective engagement and participation of different stakeholders within a given sector. At the time the process was initiated in 2009, little was known in Zambia about microinsurance and supply was primarily limited to credit life polices distributed through microfinance institutions. Ten years on, as a result of a targeted coordination drive and combined with the unwavering commitment of the multi-stakeholder TAG, significant progress has been achieved.

From less than 100,000 microentrepreneurs covered through microinsurance credit life policies in 2009, over four million Zambians have since received insurance coverage through various microinsurance products ranging from simple funeral insurance policies to weather index insurance. Although much traction has been achieved, Zambia's microinsurance sector is however still in the emerging phase with most of the insurers and distributors searching for viable business models. Within its mandate of expanding financial inclusion, FSD Zambia has been one of the key promotors of inclusive insurance through various innovation support and capacity building initiatives. Additionally, FSD Zambia has invested in knowledge management to capture emerging trends, landscape changes and key market drivers.

Summarises some of key success drivers

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The following are some of the outstanding insights:

Affordability and product simplicity: microinsurance products must be simple and easily understood by clients. The usual fine print of insurance documents does not work. Microinsurance products are not necessarily cheaper; they must be priced with premium payment modes that are appropriate to the cash flows of targeted clients.

Customer centric products: most broadroom products usually fail as they usually not aligned to the needs of low-income market segments. Additionally, conventional challenge funds usually focus on innovation as opposed customer centricity. In March 2018, FSD Zambia launched a new innovation facility – Finclient Centric Cycle (F3C) – that focuses more on assisting market actors to translate consumer insights into innovative and viable financial service solutions. Three insurers, namely Hollard, ZSIC Life and Innovate Life are already testament to the benefits of investing in deep understanding of the client needs before developing an insurance product.

Innovative insurance consumer education (ICE): given the low insurance penteration levels, insurance is one of the least understood financial services. Well designed and targeted insurance education programmes, particularly ones tied to product availability are therefore critical. Some of innovative channels used include digital insurance education through the ZAZU platform, school insurance education and farmer agricultural insurance education programmes. FSD Zambia has also collaborated with the Pensions and Insurance Authority, Insuers Association of Zambia and TAG association on various ICE initiatives.

Use of innovative and inclusive distribution channels: initially dominated by microfinance institutions, a variety of organisations have been engaged in the distribution of inclusive insurance services in Zambia and these include: the Post office, Mobile Network Operators (MNOs), smallholder farmer associations, banks, microenterprise associations, mobile payment operators, agribusinesses and workers unions. However, not all the distribution partnerships have been successful and there is great scope for co-creation models which will enhance ownership and more cohensive mutual commitments between insurers and distributors.

Responsive regulatory framework: an enabling regulatory environment is certainly required to accelerate the development of an inclusive insurance sector. This includes having a dedicated license for microinsurers and opening up the distribution space. A lot of investments have made in drafting microinsurance regulations but these await the enactment of the new insurance bill. Dedicated regulatory provisions and enhanced self regulation of industry players will also build trust among consumers.

Sound and good business practice: fast claims payments are critical in fulfiling the purpose and value of insurance. Efforts to create an enabling business environment for microinsurance include promotion of good and sound business practices among market players. FSD Zambia is working with PIA and insurance industry stakeholders to launch microinsurance principles which guarantees good client value for insurance usage.

Financial performance and regional analysis

1. Gross written premiums (GWPs)

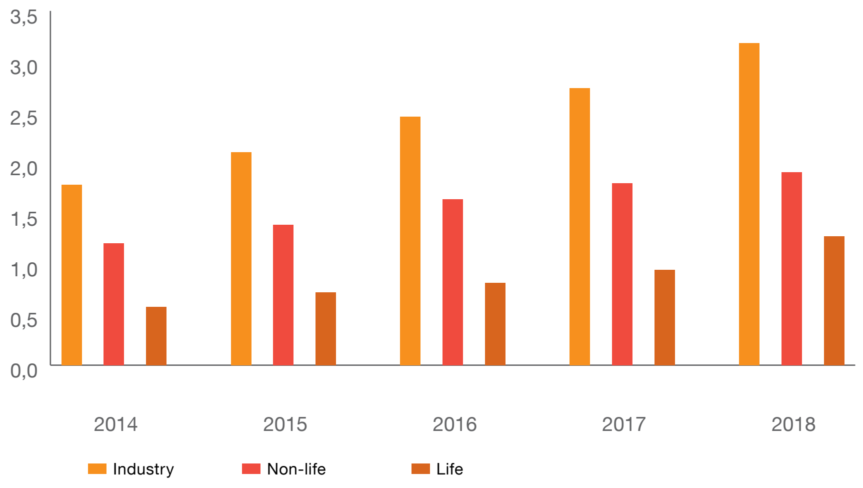
i. Zambian insurance industry

The Zambian insurance industry is made up of non-life premiums, which for the year ended December 2018 accounted for 60% of insurance business, and life premiums which accounted for 40% during the same period. The insurance industry has recorded gradual growth in gross written premiums (GWPs) for the past five years. As an industry, GWPs have increased from ZMW 2.7 billion in 2017 to ZMW 3.1 billion in 2018, representing an increase of 15%.

The non-life industry accounted for the bulk of the GWPs in 2018 at ZMW 1.9 billion. This represents an increase of 6% from the ZMW 1.8 billion recorded in 2017 for the non-life industry. Meanwhile, there was significantly higher growth recorded in the life industry in 2018, although it still lags the non-life industry in absolute terms. GWPs for the life industry was recorded at ZMW 1.3 billion in 2018. This was a 35% increase from ZMW 0.9 billion recorded in 2017.

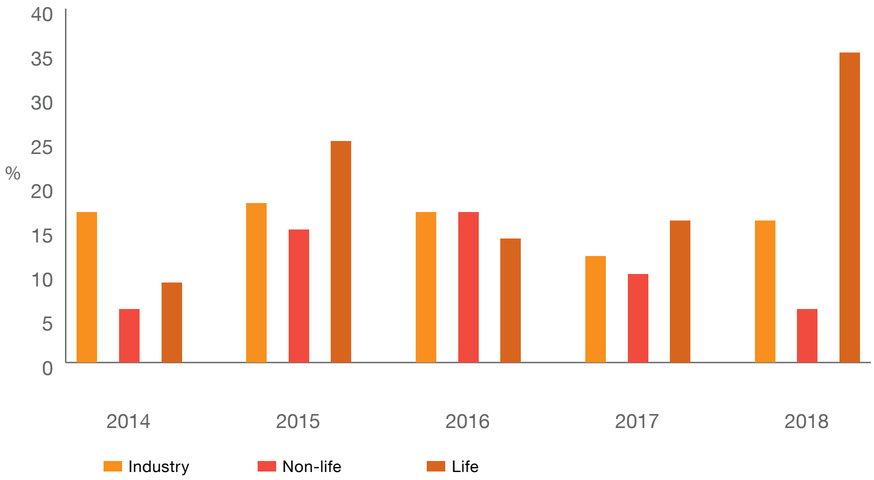
The growth in GWPs over the past five years for both the life and non-life insurance sectors is represented graphically below:

Figure 13: Gross written premiums in Zambia (ZMW billion)



Source: PIA, *Zambian Insurance Landscape*

Figure 14: Gross written premium growth (Source: PIA, Zambian Insurance Landscape)



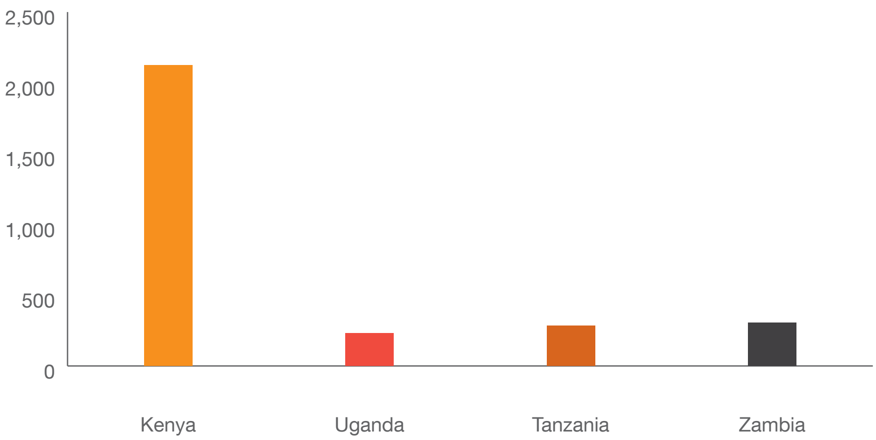
ii. Regional analysis – selected countries

When compared to other selected countries in the region, including Kenya, Tanzania* and Uganda, growth in GWPs for Zambia in 2018 falls into the middle ground.

At 16% across the industry, growth in GWPs in Zambia in 2018 was lower than in Uganda (17.5%), but higher than in Kenya (3.5%) and Tanzania* (a reduction of 3.5%). The negative growth in Tanzania* was as a result of a general slowdown in activity within the Tanzanian market for several classes of insurance business. Further, the implementation of the cash and carry practice eliminated the practice of selling insurance on credit in the Tanzanian negatively affecting the gross written premiums.

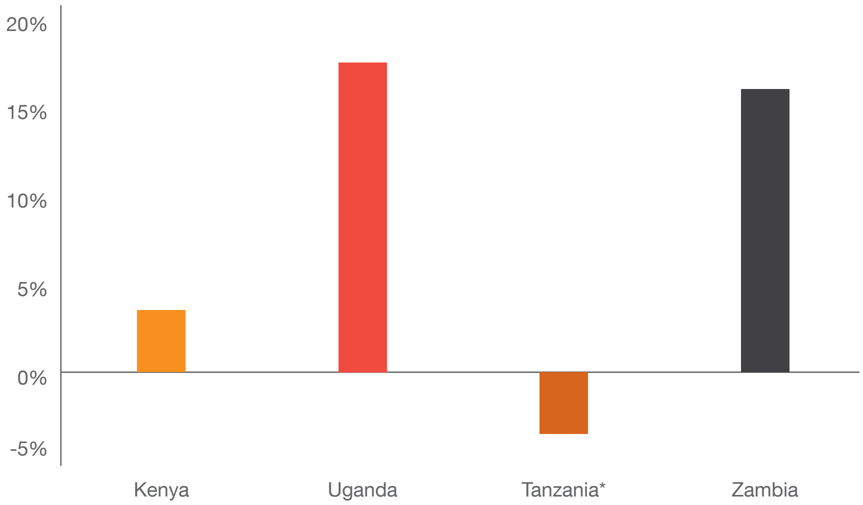
When compared to Kenya, Zambia's higher growth rate is most likely because the Kenyan insurance industry is larger. This means the percentage growth is calculated on a larger base compared to other countries in the region. This is demonstrated in the graph below, which shows that Kenya's GWPs for 2018 was approximately US$2.1 billion. This compares with Uganda (approximately US$230 million), Tanzania* (approximately US$284 million) and Zambia (approximately US$304 million).

Figur 15: Gross written premiums in USD (millions)



Source: Insurance Regulatory Authority of Uganda; Tanzania Insurance Regulatory Authority; Insurance Regulatory Authority - Kenya; and the IAZ - Zambia.

Figure 16: Gross written premium growth



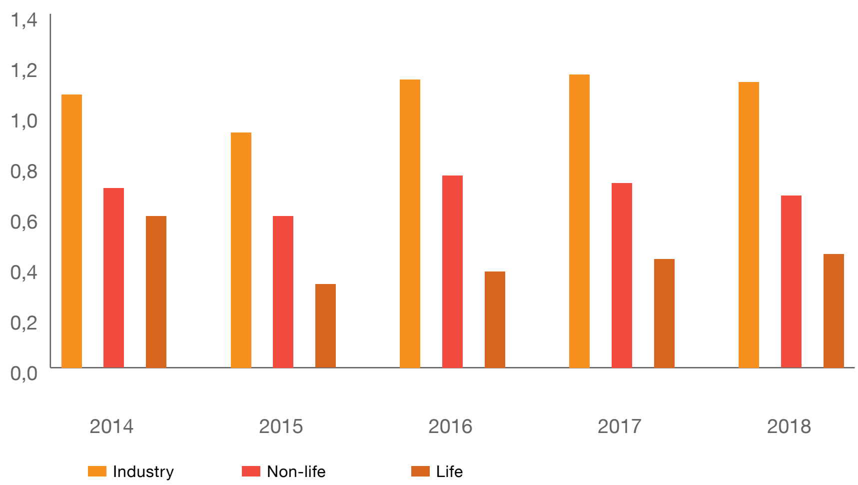
Source: Insurance Regulatory Authority of Uganda; Tanzania Insurance Regulatory Authority; Insurance Regulatory Authority - Kenya; and the IAZ - Zambia.
* Tanzania's GWP statistics have been obtained for the year 2017 due to limited information

2. Insurance market penetration

i. Zambian industry

Penetration is calculated as GWPs as a percentage of GDP. Penetration for the industry has remained relatively low over the past five years, hovering around the 1% mark for the industry. Life insurance recorded a penetration of 0.45% in 2018 compared with 0.43% in 2017. The non-life sector recorded a penetration of 0.68% in 2018 compared with 0.73% in 2017. The trend in insurance penetration in Zambia is displayed graphically below:

Figure 17: Penetration ratio



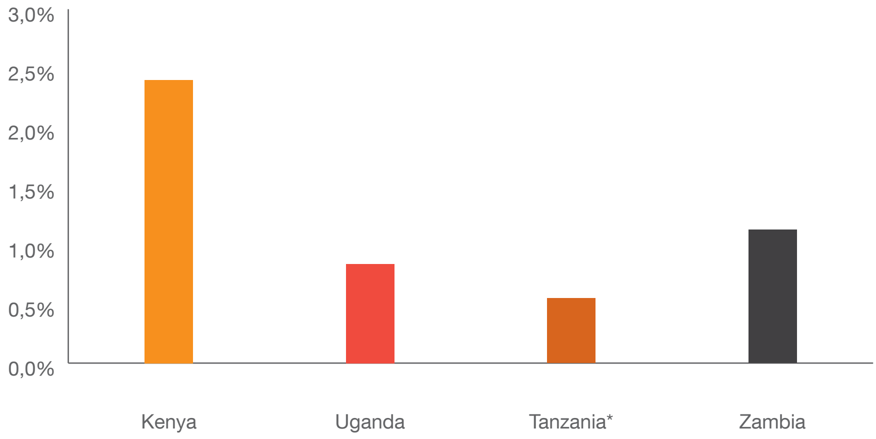
Source: Insurance Association of Zambia Insurance Industry Report 2017, PIA - Zambia and the Ministry of Finance's Annual Economic Report

ii. Regional analysis – selected countries

The Zambian insurance industry penetration ratio was 1.13% in 2018. This is higher than in both Uganda and Tanzania*, who saw penetration of 0.84% and 0.55% respectively. However, it is much lower than Kenya, where the penetration ratio was 2.4%. Lower penetration levels in Zambia, Uganda and Tanzania* when compared to Kenya is mainly due to the fact they are smaller.

The graph below shows penetration levels in these countries in 2018:

Figure 18: Penetration ratio



Source: Insurance Regulatory Authority of Uganda; Tanzania Insurance Regulatory Authority; Insurance Regulatory Authority - Kenya; and IAZ - Zambia.
* Tanzania's penetration statistics have been obtained for the year 2017 due to limited information

3. Loss ratio

i. Zambia insurance sector

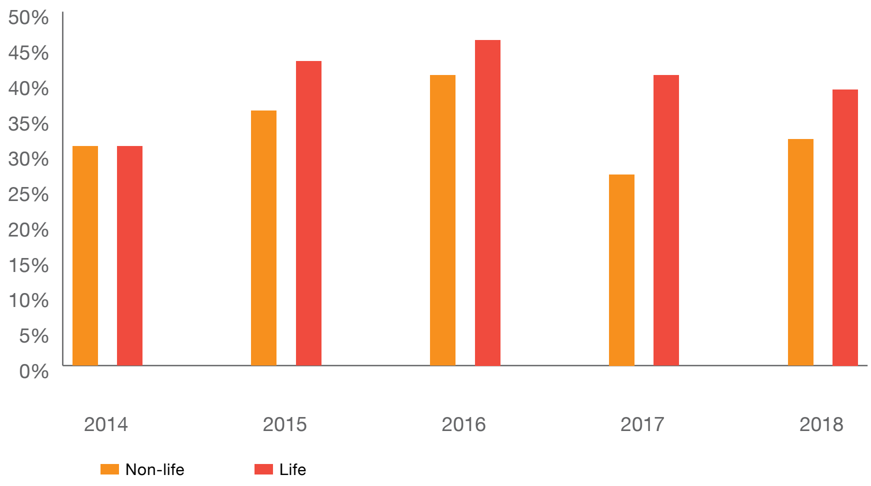
Gross loss ratio

The gross loss ratio is calculated as gross claims divided by GWPs. The net claims ratio is the net claims incurred divided by net earned premium.

The gross loss ratio in Zambia has hovered between 30% to 46% over the past five years. The gross loss ratio for the life industry in 2018 was 39%, a reduction from 41% in 2017. The non-life gross loss ratio in 2018 was 32%. This was an increase from the 27% recorded in 2017. On average, the ratio for the past five years has been higher in the life industry than the non-life industry.

This is demonstrated in the graph below:

Figure 19: Gross loss ratio:

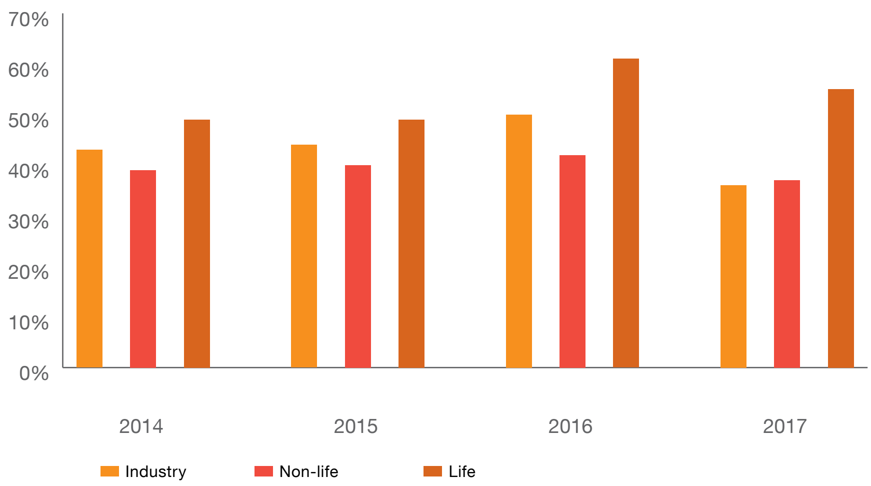


Source: PIA, Zambian Insurance Landscape

Net loss ratio

The net loss ratio for the Zambian* industry has shown a steady rise over the past five years. The industry ratio was recorded at 46% in 2017. The ratio for the life insurance sector was 55% and the non-life sector was 37%. This is demonstrated in the graph below:

Figure 20: Net loss ratio



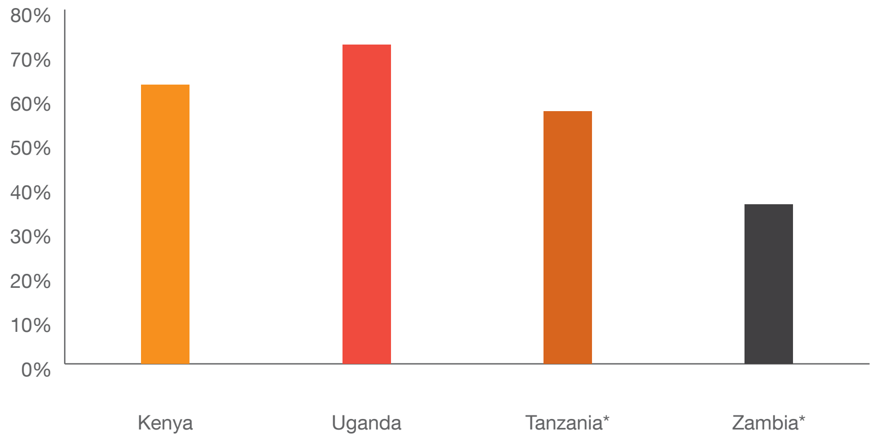
Soutrce: Insurance Association of Zambia Insurance Industry Report 2017

*Note due to limited information, this analysis has only been performed up to 2017 as there is no 2018 data available

ii. Regional analysis – selected countries

Compared to the other selected countries in the region, Zambia's* net loss ratio of 46% in 2017 on the lower end when compared with countries in the region. The net loss ratio is lower than Tanzania* (57%), Uganda (72%) and Kenya (63%).

Figure 21: Net loss ratio



Source: Insurance Regulatory Authority of Uganda; Tanzania Insurance Regulatory Authority; Insurance Regulatory Authority - Kenya; and IAZ - Zambia

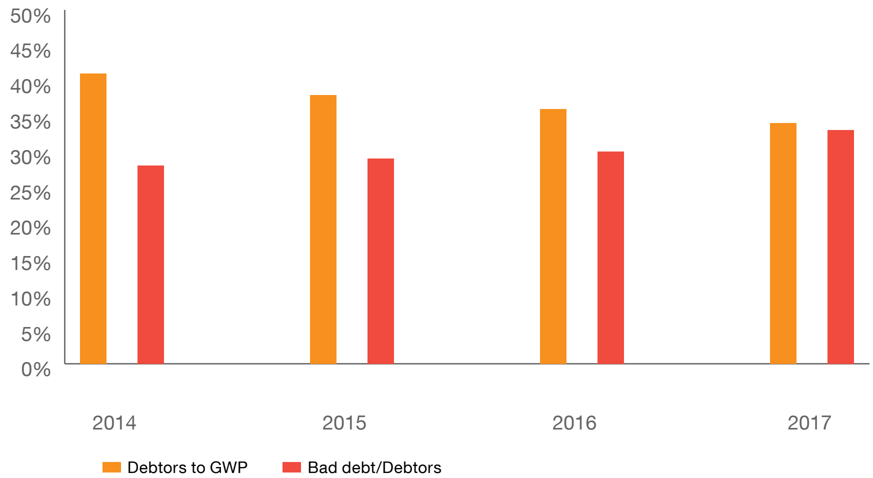
*Due to limited information in loss ratios, both Zambia and Tanzania's statistics are obtained for the year 2017

4. Premium debtors

Zambia insurance sector

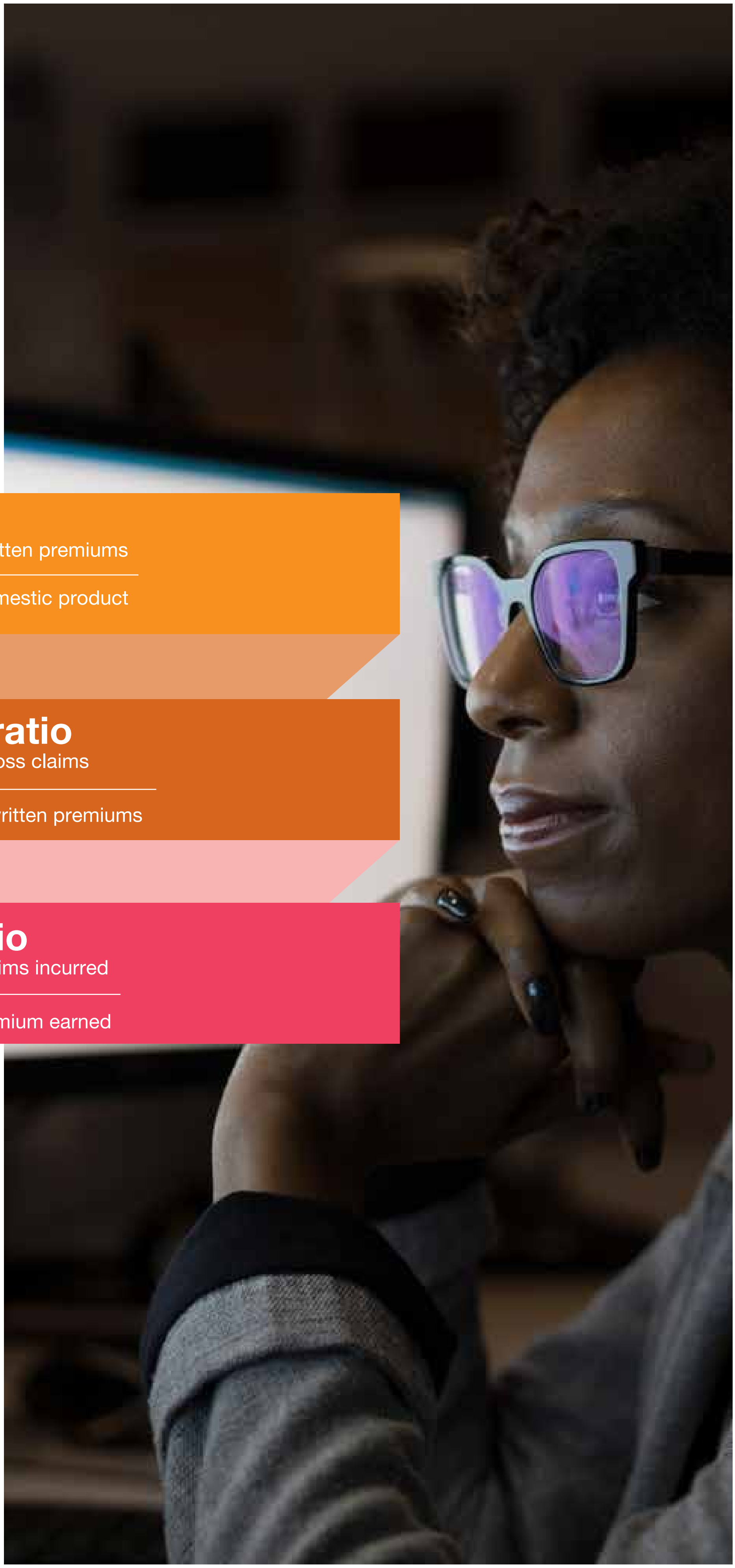
In the Zambian insurance industry, the percentage of premium debtors to GWPs has steadily declined since 2015. However, the percentage of bad debts relative to total premium debtors has steadily increased during this same period. This indicates that while the proportion of debtors is reducing relative to the growth in GWPs, the recoverability of these debtors is becoming more problematic. Due to data limitations, we have performed this analysis up to December 2017.

Figure 22: Premium debtors



Source: Insurance Association of Zambia, Insurance Industry Report 2017

Glossary



1

Penetration

$$\text{Penetration} = \frac{\text{Gross written premiums}}{\text{Gross domestic product}}$$

2

Gross loss ratio

$$\text{Gross claims ratio} = \frac{\text{Gross claims}}{\text{Gross written premiums}}$$

3

Net loss ratio

$$\text{Net loss ratio} = \frac{\text{Net claims incurred}}{\text{Net premium earned}}$$

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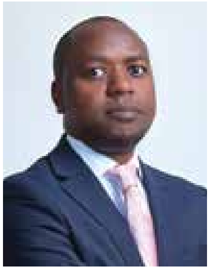

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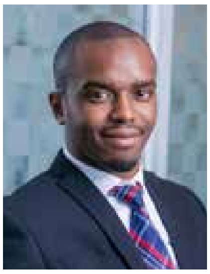

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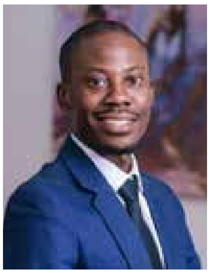

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