2020 Zambia Insurance Industry Survey Report

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Contents

Foreword

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Welcome to PwC's 2020 Zambia Insurance Industry Survey.

This is the second edition of our insurance industry survey and the first since the onset of the COVID-19 pandemic in early 2020.

The pandemic triggered a health emergency and an economic crisis, the consequences of which have created both opportunities and challenges.

The insurance sector, like many other sectors, has been forced to manage the difficulties posed by COVID-19 as well as embrace the opportunities it has presented, and this is reflected in our survey findings. Zambia's pre-existing economic challenges have only made this task more difficult.

The insurance industry – particularly long-term insurance – has played a critical role in responding to the resulting health crisis and this continues to present an opportunity to (re)build trust and highlight the importance of insurance as a viable risk management solution. However, more work needs to be done if companies are to exploit these opportunities.

Interestingly, many of the findings of our 2020 survey are similar to those from our 2019 survey. With the impact of the pandemic exacerbating pre-existing challenges, this common thread has resulted in a higher degree of congruence around the issues of most significance.

This could be interpreted to mean that COVID-19 and the challenges insurance companies have encountered as a result have constrained development of the insurance industry. The devil is in the detail.

Finally, I would like to thank all the respondents, the Pensions and Insurance Authority and the Insurance Association of Zambia for their invaluable contribution to this report. Also, the PwC team, without whom this report would not have been possible.

We trust that you will find the survey results and analysis useful. We look forward to your feedback.

Martin Bamukunde
Financial Services Leader, PwC Zambia

Executive summary

Welcome to the second edition of PwC's Insurance Industry Survey. The survey looks at the issues currently facing Zambia's insurance industry and is divided into three sections.

The first section discusses the main issues facing the industry as identified by our survey respondents, the second focuses on topical issues affecting the industry, and the third assesses the industry's financial performance.

To gather information for our survey, a questionnaire was sent to the 33 companies currently operating in Zambia's insurance sector. The analysis in this report is based on the information provided by the survey respondents. Of those 33 companies, 70%, or 23 companies, responded.

The questionnaire was supplemented by meetings held with sector stakeholders, including Chief Executives and Finance Managers of insurance companies, the Insurers Association of Zambia (IAZ) and the industry regulator, the Pensions and Insurance Authority (PIA).

Summary of survey findings

As in the 2019 survey, we restricted the report findings to an analysis of the top five issues affecting the insurance sector. The main issues of concern in 2020 were similar to those identified in the 2019 survey. However, it is important to note that in 2020 we saw a higher convergence in the ranking of issues by respondents. This is illustrated by the range between the highest and the lowest score in 2020 and 2019, which were 8.68 to 7.82 and 8.42 to 3.42 respectively. The top five issues for 2020 and 2019 are presented in the table below:

Ranking	Issue	2020 score	Issue	2019 score
1	Recoverability of premium debtors	8.68	Recoverability of premium debtors	8.42
2	Economic environment	8.67	Economic environment	4.95
3	Impact of COVID-19 on financial and operational performance	8.44	Regulatory environment	4.79
4	Competition and resultant erosion of premium rates Regulatory environment	8.00 8.00	Appreciation of the role/benefits of insurance	3.47
5	Appreciation of the role/benefits of insurance	7.82	Availability of skilled resources	3.42

Source: PwC analysis

The other unique finding in the 2020 survey was that two issues were ranked joint fourth: competition and the resultant erosion of premium rates, and the regulatory environment. Furthermore, a new – and perhaps unsurprising – issue for insurance companies emerged in 2020, the impact of the COVID-19 pandemic on financial and operational performance, which was ranked as the third biggest issue facing companies. The inclusion of the impact of COVID-19 among the top five issues is not surprising considering the devastating effects the pandemic has had on both businesses and individuals.

Other issues, including the economic environment and the appreciation of the role/ benefits of insurance, also remained among the top five issues in 2020. Perhaps unsurprisingly, the economic environment maintained its ranking as the second biggest issue, while appreciation of the role of insurance moved from fourth place in 2019 to fifth in 2020.

Almost all discussions on the state of the local insurance sector brought out the issue of the recoverability of premium debtors and it is therefore unsurprising that this issue was again identified as the biggest challenge facing companies in 2020. This was mainly attributed to the long-outstanding premium debtors, which come about due to insurance brokers holding on to insurance premiums collected from policyholders. Other reasons provided for the worsening situation of premium debtors was the deterioration in the macro-economic environment as well as delayed payment by Government agencies.

We asked respondents to provide solutions to this challenge. Below are the top three solutions that were suggested:

- Introduction of a cash and carry model
- Brokers to remit premiums directly to insurers while maintaining their important role of intermediation
- Improvement in the economic fundamentals of the local economy

Respondents said the above solutions were key to overcoming the premium debtor problem. Some also said they hoped the new Insurance Act No.38 of 2021 would resolve the issue. The new Act has introduced regulations that respond specifically to this challenge, although not exactly as suggested by our respondents. Some of the key regulations in the new Act that aim to address this challenge include:

- Brokers are required to remit premiums collected from policyholders within 14 days – a reduction from the current 30 days. The Act gives the insurer the right to charge interest on the balance that remains owing and gives the PIA the power to penalise brokers not adhering to the regulation.
- The Act provides for the cessation of a general insurance policy if a premium is not paid within 30 days after the due date of the premium or within a period that the policy may specify. The issuer of the general insurance policy shall also be able to cancel a policy where the premium remains unpaid. To some extent, this can be said to have introduced cash and carry for general insurance policies.
- Brokers are mandated to deposit in a separate client account money received from or on behalf of a client and shall keep that money separate from the money belonging to the broker.

Topical insurance industry issues

Through discussions with insurance companies, the regulator and the IAZ, as well as our understanding of the local insurance sector, we identified the following most topical issues faced by the insurance sector.

- Regulatory environment – analysis of the new Insurance Act No.38 of 2021
- IFRS 17 – insurance contracts and market readiness
- Risk-based capital framework and the Zambia insurance sector
- Tax analysis
- Cyber security risk
- Financial crime

Regulatory environment – analysis of the new Insurance Act

As at the date of this report, the new Insurance Act No. 38 of 2021 had been assented into law, awaiting issuance of a statutory instrument by the Minister of Finance and National Planning for the new Act to be operationalised.

The new Act proposes various new regulations including:

- Localisation of ownership – at lest 30% of shareholding in insurance and reinsurance companies must be local. This means they must be either Zambian citizens or a locally owned company.
- Introduction of microinsurance
- Introduction of a National Insurer
- Perpetual licensing
- Mandatory cessions to the National Reinsurer

IFRS 17 – insurance contracts and market readiness

IFRS 17, Insurance Contracts is effective on 1 January 2023. We asked respondents to indicate their company's stage of implementation. Below are the results:

- 0% of the respondents had completed the implementation
- 13% of respondents had not started the implementation journey
- 39% of respondents had performed a gap analysis
- 35% of respondents had performed an operational impact assessment
- 13% of respondents had performed a financial impact assessment

Tax analysis

During his presentation of the national budget for 2022, the Minister of Finance and National Planning announced a number of changes affecting the insurance sector. These changes are expected to have a significant impact on the industry.

The key tax changes effective from 1 January 2022 include:

- The introduction of withholding tax at 20% on reinsurance from providers who are not resident in Zambia. This is expected to increase the cost of ceding premiums to reinsurers who are foreign based. The move is also expected to create capacity in the reinsurance sector and grow the sector.
- Property and non-life insurance services will be standard-rated for VAT purposes. This is to replace the current 3% insurance premium levy on the same.

Financial performance and comparative regional analysis

The insurance industry's gross written premiums (GWPs) increased from K3.8bn in 2019 to K4.6bn in 2020, representing a growth of 21%. The non-life sub-sector continues to generate more premiums than the life sub-sector accounting for K3bn and K1.6bn respectively.

Survey findings

Methodology

The survey questionnaire was sent to 33 companies in the insurance industry. The population covered included insurance companies, reinsurance companies and brokers operating in Zambia. Of those, 70% responded compared to 58% in 2019, with the number of respondents increasing from 19 to 23 out of 33 companies. Of the 23 companies that responded, eight were in the life insurance sub-sector and 15 were in the non-life sub-sector, of which three were reinsurance companies.

The questionnaire contained five sections. In the first section, respondents were asked to rank, in order of importance, the top five most pressing issues currently facing the insurance industry. The second section contained questions on challenges and concerns for the insurance industry. In the third section, respondents were invited to rank potential risks and in the fourth section they rated the readiness of insurance companies to handle those risks, including the implementation of IFRS 17 and the impact of the new Insurance Act No.38 of 2021. In the final section, companies were asked to comment on regulations, risk management issues and the digitisation in the industry. Replies were confidential, but respondents could choose to be identified.

To provide further context to the survey responses, PwC analysed consolidated industry performance statistics compiled from the annual financial statements submitted by insurance companies to the PIA. PwC also studied available economic statistics for both Zambia and the countries that were used for comparative purposes.

In addition, the survey findings and financial analysis were supplemented with interviews with the chief executives and finance managers of the insurance companies to ensure we fully understood their answers. We also spoke to the industry association, the IAZ, as well as the industry regulator, the PIA.

We have split the survey 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 regulatory 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 certain sectors of the insurance industry.

Top five issues affecting the industry

As with PwC Zambia's first insurance survey in 2019, we asked respondents to rank issues in order of significance based on a laundry list of issues presented in the questionnaire. We also asked respondents to include (and rank) any additional issues that may have impacted their respective companies and/or the industry. Respondents ranked issues on a scale of one to ten, with ten being the most significant and one being the least significant.

Three things stood out from the ranking of issues this year compared to the previous survey. These are:

1. Broadly, there was significantly higher convergence in the ranking of issues by the respondents as evidenced by the range between the highest and the lowest score in 2020 and 2019, which were 8.68 to 7.82 and 8.42 to 3.42 respectively. This suggests that in 2020 the industry faced the same challenges.
2. With the exception of two issues, the impact of the COVID-19 pandemic on financial and operational performance, and competition and the resulting erosion on premium rates, all the other issues in the top five remain unchanged from the 2019 survey – albeit with ranking changes for two issues. These are the regulatory environment and the appreciation of the role/benefits of insurance.
3. Two issues, competition and resultant erosion of premium rates, and the regulatory environment, scored an average of 8.00, resulting in both being ranked fourth. The former is a new issue this year, while the latter was reported in the 2019 report with a score of 4.79 and was ranked third.

The top five most pressing issues across the industry are listed in the table below, with their ratings, for both 2019 and 2020.

Ranking	Issue	2020 score	Issue	2019 score
1	Recoverability of premium debtors	8.68	Recoverability of premium debtors	8.42
2	Economic environment	8.67	Economic environment	4.95
3	Impact of COVID-19 on financial and operational performance	8.44	Regulatory environment	4.79
4	Competition and resultant erosion of premium rates	8.00	Appreciation of the role/benefits of insurance	3.47
	Regulatory environment	8.00		
5	Appreciation of the role/benefits of insurance	7.82	Availability of skilled resources	3.42

Source: PwC analysis

1. Recoverability of premium debtors

The recoverability of premium debtors remains unchanged in 2020 as the most critical challenge faced by insurance companies, with a ranking of 8.68 (2019: 8.42).

Low levels of recovery of premium debtors have the potential to negatively impact the insurance sector in a number of ways including:

- Reduced liquidity, which in turn may incapacitate a company's ability to discharge its obligations, including settlement of claims.
- A company's inability to meet the solvency or capital requirements, especially in instances where debtors are outstanding for a period equal to or above that prescribed by the regulator.
- Increased impairment of premium debtors and, in turn, reduced profitability.
- In extreme cases, it may result in reputational damage and loss of business if a situation deteriorates to a level where the company is unable to settle claims within a reasonable timeframe.

In the questionnaire, we also asked respondents to rank factors affecting the collectability of premium debtors. The ranking was in order of significance, with ten being the most significant and one being the least significant. Analysis of the responses showed that there has not been a change in the factors affecting the collectability of premium debtors from the 2019 survey, although the scores differ slightly between the two years. One change was noted this year: the cost of premium collection was ranked fourth this year, up from fifth in the previous survey. This may be indicative of a deterioration in the collectability of premium debtors, which has prompted insurance companies to invest additional time and resources.

Table 2: Factors affecting collectability of premium debtors

Ranking	Issue	2020 score	Issue	2019 score
1	Delayed remittance of premiums by brokers	9.04	Delayed remittance of premiums by brokers	9.12
2	Deterioration of the macro-economic environment	8.39	Deterioration of the macro-economic environment	8.26
3	Delayed payment by Government agencies	8.09	Delayed payment by Government agencies	7.89
4	Cost of premium collection	7.61	Inadequate investment in resources (staff, technology and other industry experts)	7.52
5	Inadequate investment in resources (staff, technology and other industry experts)	7.00	Cost of premium collection	7.31

Source: PwC analysis

As we can see from the responses, delayed remittance of premiums by brokers continues to be a challenge for insurance companies. The issue was ranked first, with a score of 9.04 (2019: 9.12).

Given the importance of this issue, we requested respondents to propose solutions that could help resolve this problem. There was consensus around three proposals:

- The introduction of a cash and carry model
- Brokers to remit premiums directly to insurers while maintaining their role of intermediation
- Improvement in the economic fundamentals of the local economy

The new Insurance Act No.38 of 2021, though not yet operational, contains new regulations that will deal with this issue to a certain extent if fully implemented by the regulator. The new Act introduces the following measures:

- Brokers are required to remit premiums collected from policyholders within 14 days or another period that may be agreed in writing with the insurer. Two measures to ensure compliance with this requirement included in the new Act are: (i) brokers who contravene this requirement will be liable to pay, in addition to the outstanding premiums, interest to the insurer at the prevailing Bank of Zambia policy rate plus 10% of that rate; and (ii) a broker who contravenes the 14 day requirement will be liable to pay a daily penalty to the PIA not exceeding 10,000 penalty units for each day that the offence continues This is meant to deter brokers from holding onto cash collected from policyholders, and in turn improve cash flow and the liquidity position of insurance companies.
- The Act provides for the cessation of a general insurance policy if a premium is not paid within 30 days after the due date of the premium or within a period that the policy may specify. The issuer of the general insurance policy shall also be able to cancel a policy where the premium remains unpaid. This to some extent can be said to have introduced cash and carry for general insurance policies.
- Brokers will be mandated to deposit money received from or on behalf of a client in a separate client account and shall keep that money separate from the money belonging to the broker.

To understand how the Zambian insurance sector compares to other markets or countries when it comes to premium collection. We obtained responses from five countries, including Kenya, Rwanda, Uganda, Tanzania and Ghana. Based on the responses we received, it was noted that all the countries surveyed have implemented the cash and carry model, although the level of compliance differs from country to country.

Country	Cash and carry model implemented?
Uganda	Yes
Kenya	Yes
Rwanda	Yes
Tanzania	Yes
Ghana	Yes

Source: PwC analysis

With regards to the impact of Government arrears, we asked respondents to indicate the extent to which their respective companies are impacted by this issue. Below is a summary of the responses grouped according to the level of impact for the 23 companies that responded to the survey.

Impact	Issue
No impact	6 companies
Low impact	4 companies
Moderate impact	6 companies
High impact	7 companies

Source: PwC analysis

2. Economic environment

Respondents ranked the economic environment as the second most pressing issue.

The Zambian economy has experienced weak economic growth in recent years due to suppressed copper prices (copper prices have rebounded since January 2020), insufficient power generation and erratic weather patterns affecting agricultural output. Zambia's considerable debt obligations have also weighed heavily on the country's economy.

In 2020, COVID-19 added pressure to Zambia's struggling economy. Ministry of Finance figures show that real GDP contracted by 3% in 2020 due to disruptions to global supply chains, along with decreased investment and consumption spending.

The negative impact of COVID-19 on an already-strained fiscus ultimately contributed to Zambia defaulting on a Eurobond coupon payment in November 2020 – Africa's first COVID-era default. Zambia skipped another coupon payment in January 2021 on its 2027 Eurobond.

The Ministry of Finance communicated to Government bondholders in 2020 that the country's macroeconomic situation necessitated immediate external debt relief due to the drain of debt service payments on the fiscus causing arrears in payments to domestic service providers. The sharp depreciation of the Kwacha also significantly inflated the foreign-currency debt payments. By 2020, the budget deficit had reached an estimated 12.7% of GDP.

This difficult economic situation has not spared the insurance sector and many companies have been adversely affected. We asked companies to indicate the impact the state of the economy has had on company performance. Responses show that businesses were impacted in two key areas: an increase in premium debtors and the resultant impairment, and a reduction in profitability.

Impact	No. of companies
Increase in premium debtors and resultant impairment	19
Reduction in profitability	14
Deterioration in quality and value of financial assets	6
Decrease in premium written	5
Increase in premium written	4
No impact on profitability	1
Increase in profitability	1

Source: PwC analysis

It is worth noting that most companies that indicated an increase in premium debtors and impairment also selected profitability as the other area that was impacted.

Below are some of the interventions that respondents implemented in response to the economic challenges to contain the impact on their respective businesses:

- Careful consideration and vetting of both new and existing credit customers.
- Agreeing to payment plans with credit customers with the aim of recovering the outstanding debt while retaining the policyholder.
- Deploying strict cost management measures without compromising the quality of service.
- Managing the foreign exchange risk stemming from the significant depreciation of the Kwacha against major convertible currencies.
- Investing in high yield financial instruments, such as Government bonds.
- A thorough review of new insurance policies by the underwriting team.

3. Impact of COVID-19 on financial and operational performance

COVID-19 has impacted the economy in many ways over the past 21 months through increased job losses, reduced revenue, the disruption of supply chains and service and goods delivery, and tighter border control measures.

According to the 2021 World Bank Group report titled "Monitoring the impact of COVID-19 on firms in Zambia", the following were the key issues that were noted:

- Nearly 5% of businesses are reported to have permanently closed in Zambia since the onset of the pandemic.
- More than 70% of Zambian firms report that they are still experiencing depressed demand for their goods or services compared to the situation before the pandemic.
- The recovery of employment in firms has been bimodal – around 40% of firms have increased their permanent workforce since the middle of 2020, and around 40% have decreased their permanent workforce with large (100+) firms having been the most successful at raising permanent workforce numbers, while medium (20-99) firms have been the most likely to have shed permanent workers.
- The share of Zambian firms in direct exporting activities fell in the second half of 2020, as did the share of total sales coming from exports. The drop has been most significant for large firms. In mid-2020, the share of total sales that came from exports was around 22% for large firms. By the end of the calendar year, this had dropped to around 8%.
- Around one-quarter of Zambian firms are concerned about falling into arrears on outstanding liabilities. Only 3% report receiving Government support of any kind.

To understand the impact Covid-19 has had on insurance companies, we included a laundry list of possible effects of the pandemic on companies' operations and requested respondents to select as appropriate.

According to our analysis of the 23 companies that responded, 20 identified "accelerated automation and new ways of working" as one area that was significantly impacted. Businesses were forced to adopt new digital tools in the delivery of services to customers as well as the introduction of hybrid modes of working. The other two areas that were identified as requiring more than the usual attention was the risk management and underwriting of policies. The two are interlinked as the underwriting process forms part of the risk management process as companies are expected to only take on risks that the business can handle and support.

Impact	No. of companies
Accelerated automation and new ways of working	20
More proactive approach to risk management	11
More scrutiny around business being written (new and renewal of insurance policies)	10
Made remote work a permanent option for roles that allow	7
Reduced recruitment	6
Evaluated new tools to support workforce location tracking and contact tracing	5
Wage freeze	2
No significant change to business as usual	0

Source: PwC analysis

The Covid-19 pandemic is still evolving, with new variants being identified. Both locally and globally we have seen an increase in the number of people getting vaccinated, which is a move in the right direction as far as the fight against the virus is concerned, although locally more effort is needed to increase vaccination rates.

It is not all doom and gloom, however. According to JP Morgan Chase's outlook for next year, new vaccines and therapeutics are likely to result in a "strong cyclical recovery, a return of global mobility, and a release of pent-up demand from consumers."

4. Competition and the erosion of premium rates, and the regulatory environment

This year, two issues scored an average of 8.00. These were competition and the resulting erosion of premium rates, and the regulatory environment, both of which were ranked fourth. As indicated above, the former is a new issue this year, while the latter was reported in the 2019 report. Because the regulatory environment has been covered extensively in a previous section of this report, we will focus on competition and the resultant erosion of premium rates here.

The insurance sector in Zambia currently has 33 registered insurance companies, yet the penetration rate is only 1.4%, as of the end of 2020 (2019: 1.2%). The relatively low penetration rate implies that all companies are competing for the same limited number of policyholders, creating an intense challenge for insurers to secure business. Individual companies devise the best way possible to market and sell their insurance products, but strong competition is forcing companies to lowball, a practice where companies charge below market rates. Lowballing is motivated by the need for insurance companies to secure premiums from policyholders. Furthermore, we understand from our discussions with respondents and the regulator that some insurance policies are priced below the level required to cover the insurance risk, let alone overheads and the profit margin. This practice is not sustainable.

The erosion of premium rates has the potential to disrupt the insurance sector due to the unintended consequences that may be brought about by price undercutting. Some of the possible repercussions of this include:

- Failure or delay in the settlement of claims. This may be due to underwriting a policy without full appreciation of the risks it presents.
- Insufficient capital for growth and innovation.
- Reputation damage or loss of business for companies which are unable to meet claims.

- The stability of the insurance sector is threatened if rates fall below the optimum level and vary significantly from one company to another.

We asked insurance players how this practice could be combatted to protect the sector. Respondents proposed that the regulator introduce and enforce minimum premium rates. The premium rate and type of policies to which such a policy may be applied is something that the regulator could determine in consultation with the relevant stakeholders.

From our research on Kenya, Rwanda, Uganda, Tanzania and Ghana about the regulations enforced around minimum premium rates in those countries, of these five countries surveyed, four stated that their local regulator enforced minimum premium rates, while one (Ghana) has not yet introduced minimum rates for premiums. Below is a summary of the responses and how they compare to Zambia:

Country	Minimum premium rates regulated?
Uganda	Yes
Kenya	Yes
Rwanda	Yes
Tanzania	Yes

Source: PwC analysis

Enforcing minimum premium rates is not included in Zambia's new Insurance Act No.38 of 2021. However, the Act does give the PIA powers to request a licensed insurer to submit to the registrar, within a period that the regulator may determine the premium rates being charged by that licensed insurer. The Act also gives the regulator the power to direct the insurer to cease charging premium rates below a pure risk premium where it finds such a premium being charged. Failure to comply shall result in the Authority charging penalties to the insurer found wanting.

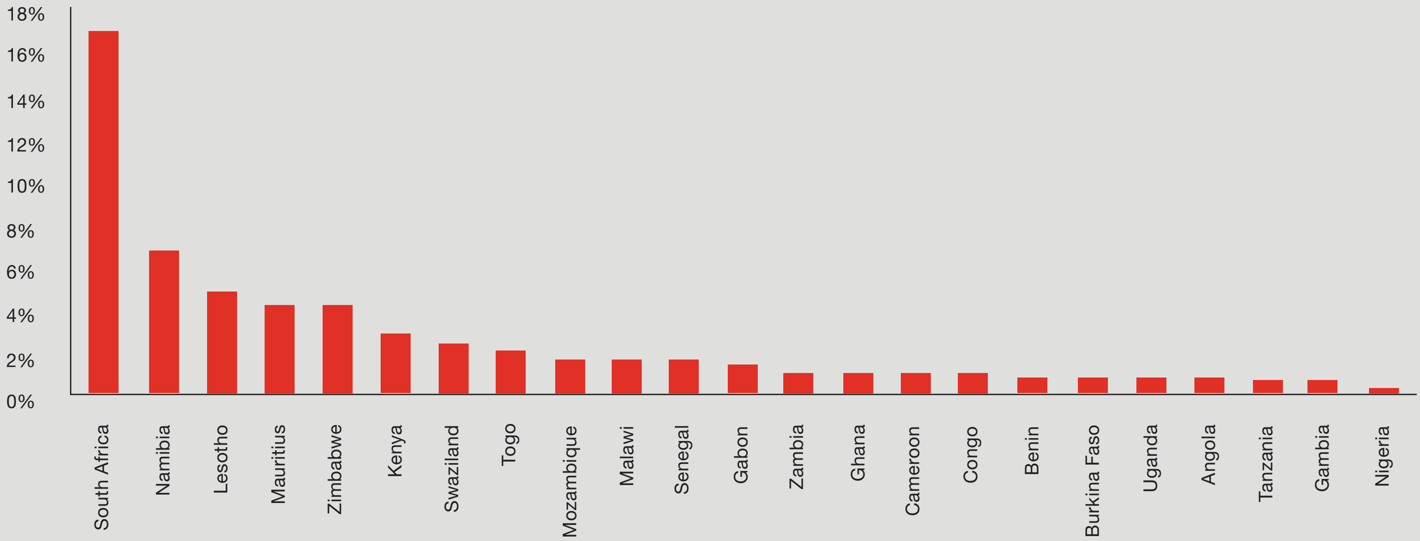
5. Appreciation of the role/benefits of insurance

According to the PIA 2020 annual report, the insurance industry GWPs increased to K4,568m from K3,757m in 2019, representing a growth of 21.59%.

This resulted in an insurance penetration rate (GWPs to GDP ratio) of 1.4%, an increase of 0.2% from 2019. It is worth noting that growth in GWPs and penetration rate is in part due to the weak Kwacha in 2020 compared to 2019 rather than deepening market penetration.

The penetration rate marginally increased in 2020, but is still considered low for the size of the economy and compared to the region, as well as the African average rate, which is around 2.78%.

Below are the insurance penetration rates across Sub-Saharan Africa in 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.

The African insurance market is set for growth in the coming years. This projection is based on expected improvements in economic fundamentals, which should translate into improved lifestyles and financial literacy. According to the World Bank, Zambian GDP growth is projected to be 1.8% in 2021 and will average 2.8% from 2021-23. This projected steady economic growth combined with a largely underdeveloped insurance sector has positioned the country for growth.

The following are some of the key trends that could unlock insurance growth in Africa and Zambia specifically:

- Stimulating growth through structural reform
- Increasing access through digital innovation and wider distribution
- Accelerating growth through competition, innovation and disruption
- Using regulatory supervision to get to consolidation

We asked respondents what they thought were the three best measures for improving market penetration. The top responses we were:

- Accelerating growth through innovation, use of digital tools to reach customers and delivery of services
- Increased sensitisation and awareness of the public with the assistance of the regulator
- Regulatory reforms around mandatory insurance products

The respondents further identified three key growth areas:

- Microinsurance
- Agriculture
- SME business

Sector analysis

To extract more insights from the survey, we analysed the top five issues by sub-sector: non-life, life and reinsurance.

i) Non-life versus life insurance

Our analysis of the industry-wide top five issues versus the top five issues affecting life insurance and non-life insurance showed that the two sub-sectors have four issues in common. The only issue that did not feature among the top five for these two sub-sectors was the appreciation of the role/benefits of insurance, which did not form part of the top five issues for either of the sub-sectors.

All the issues identified in the top five for the industry were common to both life and non life sub sectors with the exception of the appreciation of the role/benefits of insurance which was not ranked in the top five of either sector. The non-life insurance sub-sector had one unique issue relating to inadequate data on claims experience to support accurate pricing as part of its top five issues while the life sub-sector did not have any unique issue.

The findings are summarised in the table below:

Unique to non-life insurance	Common issues	Unique to life insurance
Inadequate data on claims experience to support accurate pricing	Recoverability of premium debtors	
	Economic environment	
	Impact of the COVID-19 on financial and operational performance	
	Competition and resultant erosion of premium rates	
	Regulatory environment	

Source: PwC analysis

ii) Non-life insurance

The top issues identified by non-life insurance companies were largely consistent with the overall insurance survey results, albeit with differing degrees of importance. The only exception was the issue of the appreciation of the role/benefits of insurance, which was ranked eighth for the sub-sector and fifth for the industry.

The differences in issues between the non-life insurance sub sector and the industry as a whole are summarised below:

- Recoverability of premium debtors was ranked third under the sub-sector, while across the industry it was ranked first.
- The economic environment was ranked first by the sub-sector, while for the industry it was ranked second.
- The impact of COVID-19 on the company's financial and operational performance was ranked second by the sub-sector, while the industry ranked it third.
- The results for the whole industry showed both competition and resultant erosion of premium rates, and the regulatory environment were the fourth most pressing issues, while under the non-life insurance sub-sector the two issues were ranked fourth and fifth respectively.

The findings are summarised in the table below:

Issue	Average score	Subsector rating	Industry wide rating
Economic environment	8.78	1	2
Impact of COVID-19 on financial and operational performance	8.56	2	3
Recoverability of premium debtors	8.53	3	1
Competition and resultant erosion of premium rates	8.08	4	4
Regulatory environment	8.00	5	4

Source: PwC analysis

iii) Life insurance

The life insurance sub-sector results were aligned to those of the industry. The only difference between the sub-sector and the industry is that the appreciation of the role/benefits of insurance was ranked sixth for the life-insurance sub-sector, while for the industry it was ranked fifth. The other exception is the degree of importance of two issues, regulatory environment, and competition and the resultant erosion of premium rates. The two were both ranked fourth for the industry, while under the life insurance sub-sector, similar to the non-life subsector, the two issues were ranked fourth and fifth respectively.

The findings are summarised in the table below:

Issue	Average score	Subsector rating	Industry wide rating
Recoverability of premium debtors	9.00	1	1
Economic environment	9.00	2	2
Impact of Covid-19 on financial and operational performance	8.50	3	3
Regulatory environment	8.29	4	4
Competition and resultant erosion of premium rates	7.67	5	4

Source: PwC analysis

iv) Reinsurance

The industry has five companies operating as reinsurers. Three responded to the survey, representing a response rate of 60% for the sub-sector.

The sub-sector had a total of seven issues within its top five ranked issues. This was because two issues, preparation around the adoption of IFRS 17 and the impact of COVID-19 on financial and operational performance, both scored an average of 9.00, with a ranking of joint third. Similarly, competition and the resultant erosion of premium rates, and the regulatory environment both scored 7.00, with a ranking of joint fourth. This is similar to the industry-wide survey results. The top five issues for the sub-sector included the sector's preparedness for the adoption of IFRS 17, and the availability of insurance specific resources being ranked joint fifth. These two issues were outside the industry-wide top five issues.

The findings are summarised in the table below:

Issue	Average score	Sub-sector rating	Industry wide rating
Economic environment	10.00	1	2
Recoverability of premium debtors	9.33	2	1
Preparation around the adoption of IFRS 17	9.00	3	8
Impact of the COVID-19 on financial and operational performance	9.00	3	3
Competition and resultant erosion of premium rates	7.00	4	4
Regulatory environment	7.00	4	4
Availability of insurance specific skilled resources (e.g. actuaries)	6.45	5	9

Source: PwC analysis

i) New Insurance Act No.38 of 2021

One of the key regulatory developments this year is the introduction of the Insurance Act No.38 of 2021. The Act is yet to be put into operation, but the industry is already discussing the impact the changes, both positive and negative, that the Act will have on the industry. The main changes in the new Act include:

1. Shareholding requirements (Section 49)
   The new Act introduces shareholding requirements not only for insurance companies but also reinsurers and brokers. The Act requires that all licensed insurance and reinsurance companies are at least 30% owned by Zambian citizens or Zambian-owned companies. Brokers, meanwhile, must be 50% owned by local individuals or companies.

2. Solvency guidelines (Section 64 of the new Act)
   The Insurance Act provides guidelines on what it means to be solvent. In the previous Act, the guidance was compliance driven, with a standard definition provided of what is to be considered or not. The new Act, however, focuses more on the risks associated in respect of risks inherent to assets, liabilities, classes and volume of insurance business. The focus and emphasis on risks symbolises a major shift in the guidelines.

3. Licensing requirements (Section 12 of the new Act)
   Previously, companies were required to renew their license annually, paying the prescribed fee in the process. The new Act provides for the provision of a license in perpetuity, unless otherwise cancelled due to the failure of the entity – the insurer or broker - to comply with requirements. All that is required is for the entity to make annual license payments minus the application. The same is applicable to both brokers and reinsurers.

4. Promotion of local cession and conduct of reinsurance companies (Section 76 of the new Act)
   In a bid to grow the local insurance industry, the Act deliberately prescribes that a portion of ceded business be retained within the country. Any business that ceded internationally attracts a levy by way of withholding tax. This was silent in the Act that is being phased out.

5. Microinsurance
   The new Act provides for the regulation and supervision of microinsurance, which is defined loosely as insurance provided on a smaller scale which is meant to capture customers on the lower end of the income spectrum.

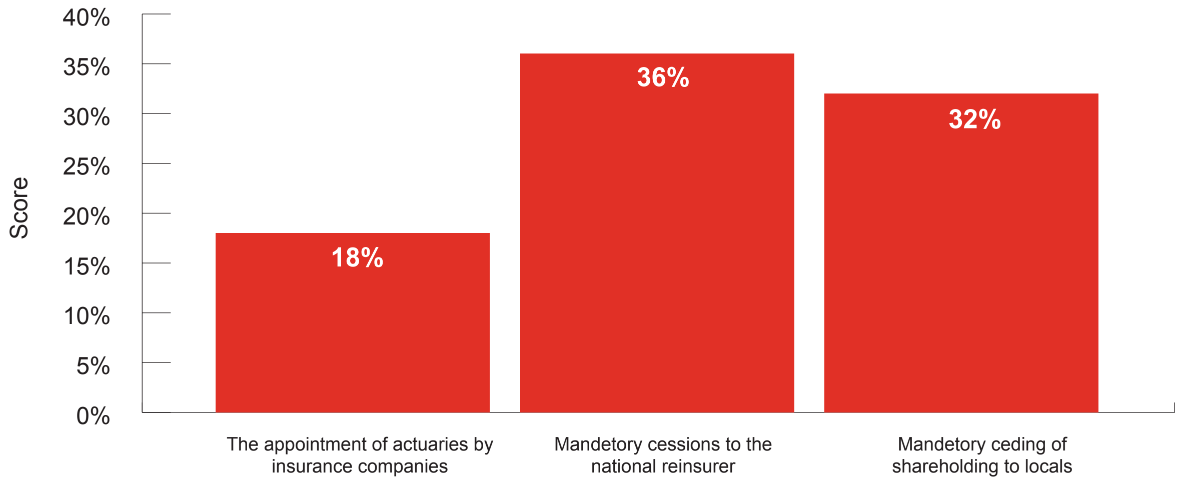
6. Time taken to remit premiums collected by brokers (Section 21 of the new Act)
   The amount of time taken by brokers to remit dues upon collection from customers has been an area for complaint by insurers in the past. This has led to the period being reduced to 14 days or another period that may be agreed in writing by both parties.

The changes to the Act have drawn mixed opinions from the industry, with some respondents perceiving the shift as positive, while others see it as negative.

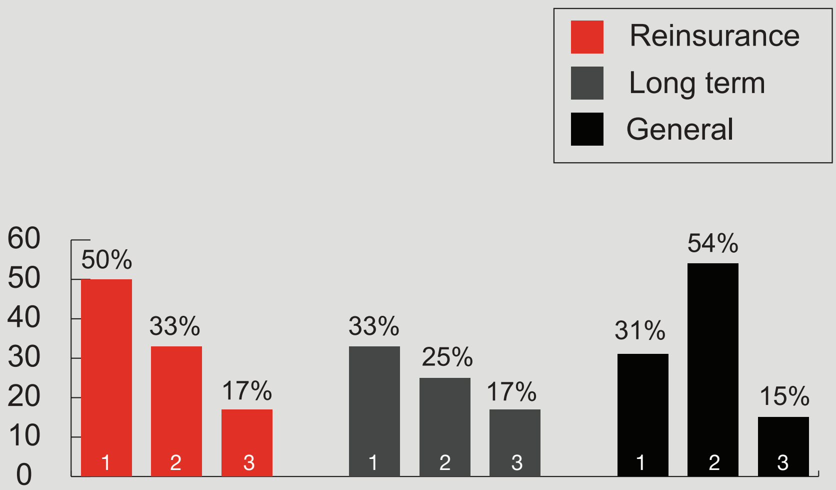
Below is a summary of the changes in the new Act seen as negative by the industry:

Some 36% of the respondents suggest that mandatory ceding to a national reinsurer is a negative change in the Act. Shareholding requirements (Section 49) for all licensed insurance and reinsurance companies to have at least 30% (50% for brokers) of their company shares owned by Zambian citizens or Zambian-owned companies is also considered a negative change by 32% of the population.

Score vs Issue noted



What will be challenging to enforce



1 – Introduction of minimum shareholding
2 – Cessions to the National Reinsurance Company
3 – Brokers remitting premiums within 14 days

Source: PwC analysis

Changes that will be challenging to enforce in the new Insurance Act

Enforcement and implementation of the changes in the new Act was also a concern for survey respondents.

For long-term insurance companies, the mandatory ceding of shareholdings and restrictions on composite insurance were cited as the changes that will be most difficult to enforce. Meanwhile, most general insurance companies said they believed management of premiums and their remittances along with the stricter new capital adequacy requirements would be the most challenging new rules to implement.

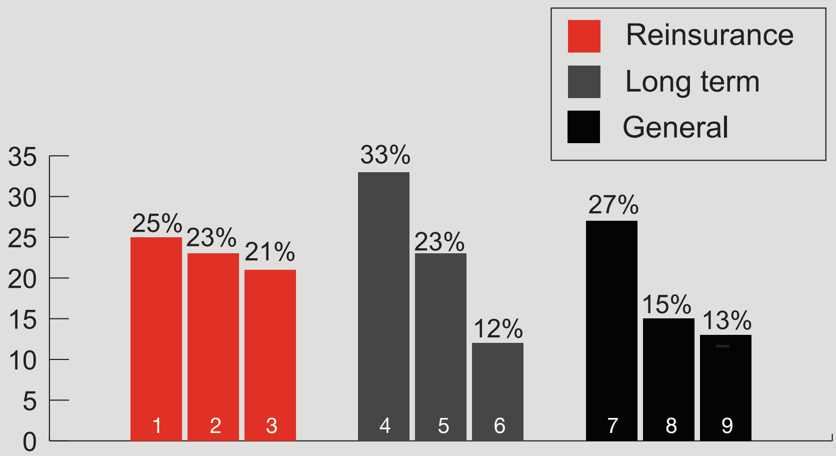
Changes seen as positive in the new Insurance Act

The most popular reform in the new Act, according to our survey respondents, is the reduction in the timeframe for intermediaries to remit premiums. The new Act requires intermediaries to remit premiums to insurance companies within 14 days.

The second most popular reform among survey respondents was the requirement for all licensed insurance and reinsurance companies to have a minimum of 30% of the company owned by either local citizens or companies.

The below chart summarises the most popular reforms among survey respondents:

Positive reforms of new Act



1 – Timeframe for remitting premiums from intermediaries is reduced to 14 days
2 – Utilisation of local capacity
3 – Ownership of foreign owned entities
4 – Timeframe for remitting premiums from intermediaries is reduced to 14 days
5 – Perpetual licensing
6 – Introduction of microinsurance
7 – Ownership of foreign owned entities
8 – Intrduction of microinsurance
9 – Timeframe for remitting premiums from intermediaries is reduced to 14 days

Source: PwC analysis

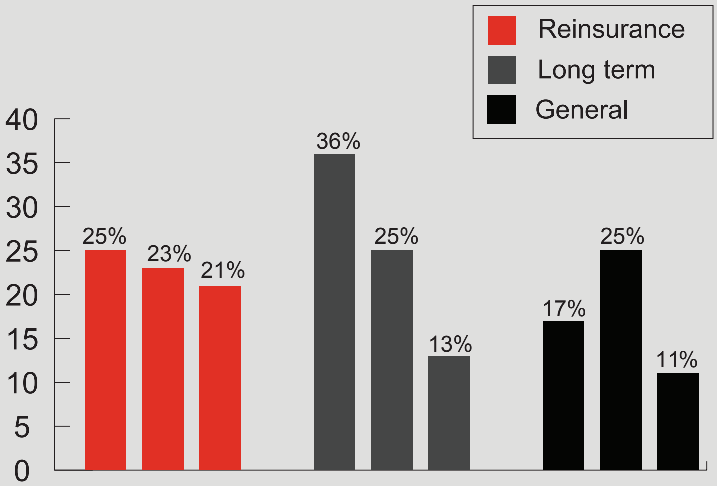
What is missing in the new Insurance Act:

As in 2019, recoverability of premium debtors was identified by survey respondents as the biggest challenge facing insurance companies in 2020. Difficulty in recovering premium debts has impacted insurance companies' liquidity significantly, affecting their ability to settle claims.

The respondents were grouped into three industry categories as follows:

- General insurance – the top response from the reinsurance companies is that not much has been disclosed in the new Act regarding the introduction of cash and carry on premiums, where cash paid is seen by insurance companies as the solution to the challenges they face with premium debtors.
- Reinsurance – the expectation was that an update would be made in the new Act to allow for premiums to be remitted directly to insurers. According to the respondents, premiums must be paid directly to insurers who are carrying the risk because the insurance contract is between the insurer and the policyholder while the intermediary is just a facilitator.
- Long-term – as with the reinsurance population, the respondents under long-term insurance expected an update on the need for premiums to be remitted directly to insurers carrying the risk.

Key reforms absent in the new Act



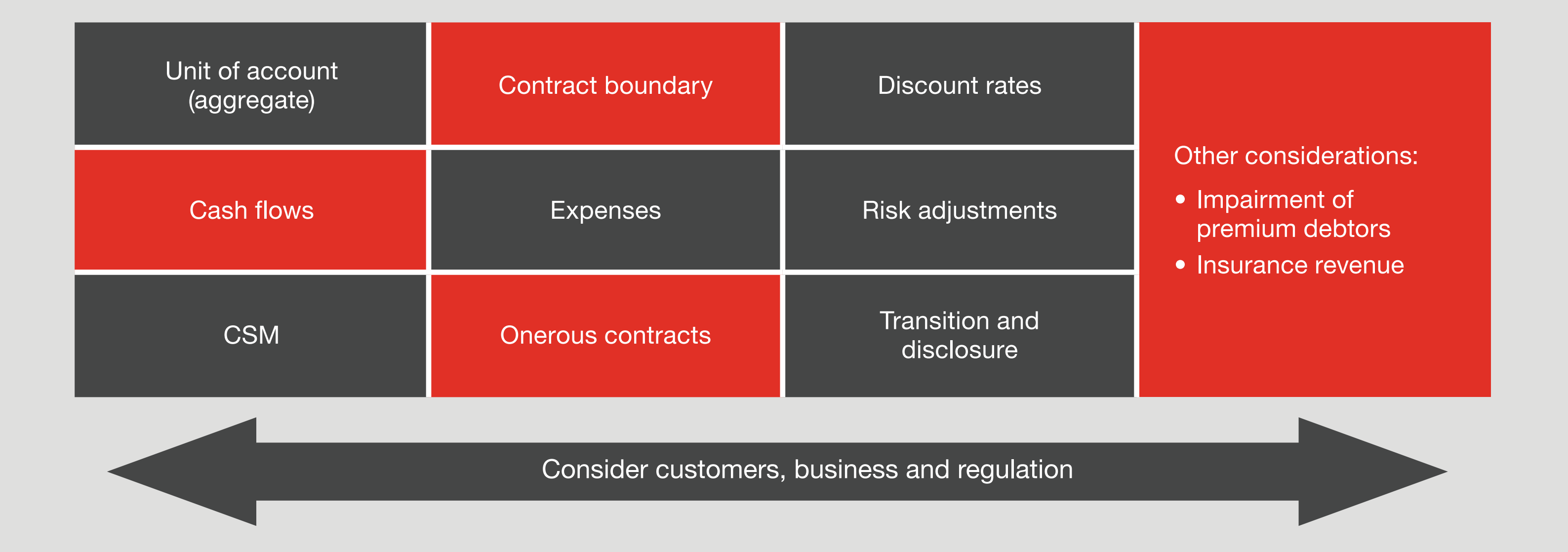
1 – Premiums remitted directly to insurers
2 – Utilisation of local capacity
3 – Cash and carry on premiums

4 – Premiums remitted directly to insurers
5 – All principal officers should be citizens
6 – Strict provision on prohibiting fronting

7 – Premiums remitted directly to insurers
8 – Cash and carry on premiums
9 – Strict protection of the local market

ii) IFRS 17 and sector readiness

In May 2017, the International Accounting Standards Board 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 companies that issue insurance contracts and investment contracts with discretionary participation features. The main accounting considerations for IFRS 17 are summarised below:



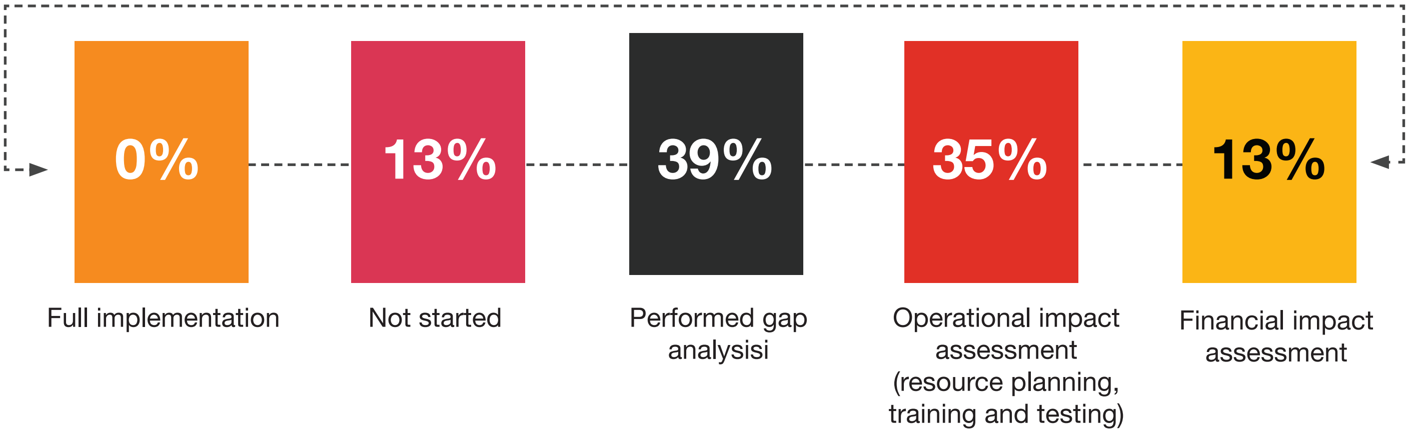
IFRS 17 will impact businesses well beyond finance, actuarial and systems development areas (for example, product design and distribution, development of revised incentive and wider remuneration policies and reconfigured budgeting and forecasting methodologies feeding into business planning). There could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

IFRS 17 Implementation

IFRS 17 is a complex standard that proposes a significant change in the way insurance contracts are accounted for in the financial statements, hence the call for insurance companies to complete the implementation journey before the effective date of 1 January 2023.

To understand the level of readiness of the market, we asked respondents to indicate their stage in the IFRS 17 implementation journey. From the responses received, we noted that none of the insurance companies had completed the full implementation of the standard, 13% had not started the process of implementation, 39% had performed a gap analysis, 35% had performed an operational impact assessment and 13% had performed a financial impact assessment. With less than 12 months to go to the effective date at the date of issue of this report, it is is reasonable to foresee a situation where this will be a big challenge for the industry.

Below is a summary of the responses provided by the respondents:



Source, PwC analysis

IFRS 17 is complex, and implementation of the standard requires a considerable amount of effort. At this stage, March 2022, with less than a year left before implementation, most organisations should be performing parallel runs to ensure all is in place when the standard becomes effective on 1 January 2023.

Although the percentage of survey respondents who have not yet started implementing the standard has reduced from 50% in 2019 to 13% in 2020, it is still concerning that 13% of respondents said they had not yet begun the process. Implementation of IFRS 17 is going to be challenging, we know that not only from the complexity of the standard, but from the experiences of the early movers. IFRS 17 changes the entire financial statements, not just a line item as was the case with IFRS 9 which mainly impacted the impairment of financial assets. Preparing for and understanding this change needs to be given appropriate time, resources and commitment.

For those that have begun, 39% said they had performed a gap analysis compared to 25% in the previous year. Whilst performing a gap analysis is a very important component of the implementation process, given that we are less than a year away from implementation date, it is even more critical to get the process going.

Furthermore, only 35% of the respondents said they had performed an operational impact assessment of the standard, with 13% not having started and none of the companies having done a full implementation to enable them to run a prototype ahead of the full implementation.

Next Steps

1 January 2023 is now a mere few months away. Using the time between now and then effectively is vital to ensure a smooth transition to IFRS 17. Some of the critical success factors to implementation include:

- Clear vision of the implementation, extent of external support needed, extent to which existing data, systems, processes and reporting procedures will need to be redesigned or enhanced
- Executive buy-in/ oversight and a deep level of understanding from the key project sponsors
- Robust project management, with clear timelines and tangible milestones
- Cross functional, dedicated teams
- Align objectives of wider in-flight projects to optimise on synergies and reduce implementation costs
- Watch scope creep! Take a pragmatic approach that focuses on consistency, standardisation and scalability.

iii) Risk-based capital framework and the Zambia insurance sector

Globally, regulatory capital requirements for insurers have been moving away from compliance-based to a risk-based approach, which has been driven by the need to reflect the economic impact of balance sheet risks. The adoption and implementation of Solvency II in Europe a few years back has perhaps acted as a catalyst for many regulators across the globe, particularly in Asia and Africa to implement a risk-based regime in their respective markets.

We circularized a questionnaire and obtained responses from contacts in our member firms in Kenya, Rwanda, Uganda, Tanzania and Ghana on the regulations enforced regarding capital. Three of the five markets surveyed have implemented a risk based capital regime while the other two have not. The table below summarises the responses we received:

Country	Solvency calculation model in place	Risk based capital regime implemented?	Actuaries required by law?
Uganda	Risk based capital regime	Yes	Yes
Kenya	Risk based capital regime	Yes	Yes
Rwanda	Risk based capital regime	Yes	Yes
Tanzania	Minimum ratio system	No	No
Ghana	Minimum ratio system	No	Yes

In Zambia, the risk based capital regime has not yet been implemented. However, the regulator has issued a position paper on solvency regulations for the Zambian insurance market. The main motivation for the enhancement of solvency regulations is enhanced stability and strength of the insurance sector. Underpinning this, is obviously the importance of policyholder protection as it is a universally acknowledged phenomenon for the insurance sector and it is the reason for existence of the Pensions and Insurance Authority (PIA).

The paper defines risk based capital (RBC) as “a method of measuring the minimum amount of capital appropriate for an insurer to support its overall business operations in consideration of its size and risk profile”.

What are the benefits to our industry of moving to a risk based capital regime?

Below we list some of the features and opportunities of a risk based capital framework:

- A risk-based capital approach is said to support insurance market development. Attracts new market players, enables insurers to take on additional risks, better underwriting of risks and improved policy pricing.
- A “stronger” insurance industry is significantly more likely to attract investment – both local and foreign.
- A RBC approach encourages companies to invest in skills which enables them to find solutions to their business challenges rather than blaming compliance rules for poor performance.
- There is improved allocation and more efficient use of capital as it is appropriately channelled to areas of the business where it will add more value.
- There is better and improved supervision as the financial data is comparable and it creates a more level playing field.
- Better and improved understanding of the risk profile of insurers.
- There is improved risk management for insurers.
- Risk based capital results in a more resilient insurance sector as a result of improved capital.

The approach does have its own challenges and below are some of them:

- Insurers may not possess the right skills and systems.
- It calls for the capacity building across the industry, including the regulator and, insurers.
- The framework may call for additional capital which insurers would have to raise in order to comply.
- Availability and accuracy of data may be a challenge.

The table below summarises the PIA’s risk based solvency framework:

	Pillar 1	Pillar 2	Pillar 3
Strategic Risk	Capital Adequacy Requirements	Governance Arrangements	Regulatory Reporting
Operational Risk			
Credit Risk	Valuation of Assets & Liabilities	Risk Management	Financial disclosures
Investment Risk			
Underwriting Risk	Own Funds	Internal Controls	Financial Reports
Liquidity Risk			
Compliance Risk	Technical Provisions	ORSA & Sensitivity Analysis	Future disclosure requirements (IFRS)
	Quantification	Governance	Disclosure

Source: Pillars of the Proposed Risk Based Solvency Framework, PIA Solvency position paper

The envisaged framework will adopt a few principles from Solvency II as highlighted by the spectrum below. The diagram below summarises the overall solvency framework. The solvency framework will address the strategic risks, operational risks, credit risks, investment or market risks, underwriting or insurance risks, liquidity risks and compliance risks (prudential risks and financial soundness risks).

Spectrum of capital requirements		
Current pia capital framework	Proposed capital framework	Ideal risk based framework
1. Based on Prescribed formulae approach 2. Rules based approach 3. One size fits all 4. Limited disclosure requirements 5. Some technical provisions based (UPR) on prescribed formulae while others are not (IBNR) 6. Inspections or onsite visits not informed by risks 7. Supervisory action when solvency thresholds are breached	1. Basic risk Based Approach 2. Some aspects based on prescribed formulae approach – dynamic model with principle based elements, discounted cash flows, best estimate assumptions with explicit margins, scenario testing – capital requirement scenarios, including correlation and diversification of risks) 3. Risk factors employed to account for risks 4. No allowance for internal capital models but on some technical provisions 5. Increased risk based disclosure requirements 6. Inspections or onsite visits informed by risks to financial soundness	1. Mature market with mature frameworks approach i.e. Solvency 2 2. All companies using internal models to manage risks 3. Skills capacity in the market is high 4. Established modelling criteria for internal capital models 5. Onerous disclosure requirements 6. Inspections or onsite visits informed by observed risks to financial soundness

Source: PIA Solvency position paper – Spectrum of Capital Adequacy Requirement Frameworks

According to the Access Insurance Initiative (AII) paper on risk based capital regimes in emerging markets, Kenya started the process of implementing a risk based capital framework in 2011 with the development of a 10-year-plan of change. The solvency regulations were published in 2017 with an intended 2-year transition period that had to be amended by another year to 2020. Implementation of the new regime, from scoping to actual implementation, takes time, it took the Kenyan market 9 years. Below are some of the common lessons that the AII put together with regards to the risk based capital implementation journey:

- There is a need for collaboration and consultation among stakeholders, i.e. regulator, insurers, actuaries etc.
- There's heavy involvement of actuarial expertise during and after the transition due to the potential complexities involved.
- Data availability and accuracy is important and can be a challenge. Thus, developing proper data collection processes and a good understanding of the risk profiles of insurance companies along the way is crucial for successful implementation.

Implementation of a new approach or standard for an industry is a serious undertaking which requires preparation and planning. The regulator needs to take into account a number of factors affecting them and the insurers. Additionally, it is also important for the regulator to ensure that the approach does not negatively impact the sector. Things to consider during the process of implementing a risk-based capital framework for Zambia specifically include the following:

- Performance of quantitative impact studies before the actual implementation to allow both the regulator and the market players to understand and have time to digest the actual impact.
- Market readiness.
- Timing of implementation. This is important especially after we consider the other changes that have been or are due to be introduced in the next 12 months in the sector, including the new Insurance Act (awaiting issuance of statutory instrument by the Minister of Finance and National Planning), IFRS 17 adoption due on 1 January 2023, and the changes to the tax regime which came into effect on 1 January 2022.
- Resource implications, actuarial expertise that will be needed, and other related skills in departments such as underwriting, finance etc.

iv) Tax analysis

While tax concerns are not among the most pressing issues in this year's survey, there are some tax compliance issues that have emerged as potentially challenging for the industry. These include:

- Transfer Pricing (TP): with the Zambia Revenue Authority (ZRA) continuing to focus on TP compliance and the base erosion and profit shifting (BEPS) project, this is a key area of concern in the industry.

Determining taxable profit of non-life insurance businesses. There remains some ambiguity in Zambia's tax legislation in respect of determining the taxable profit of non-life insurance businesses, leading to compliance concerns in this regard.

Why transfer pricing is a key concern

- Following an amendment to existing TP legislation in 2018, new TP documentation rules were introduced for multinational enterprises and Zambian groupings with revenues above K20 million (K50 million for the FY 2021 going forward). The regulations address the documentation retention obligations for Zambian resident taxpayers who engaged in related party transactions during the financial year under consideration.
- The new TP documentation regime is similar to Chapter V of the Organisation for Economic Cooperation and Development's (OECD) Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2017 revision). The OECD Guidelines are widely seen as global best practice. The TP regulations effectively attempt to implement Action Point 13 of the OECD's base erosion and profit shifting (BEPS) project. The BEPS project's aim is to counter tax planning strategies that exploit gaps and mismatches in tax rules to make profits 'disappear' for tax purposes or to shift profits to locations where there is little or no real activity but the taxes are low, resulting in little or no overall corporate tax being paid.
- Zambia has formally recognised the OECD's "three-tiered" documentation approach, which includes: (i) the country-by-country peport (CbCR); (ii) the master file; and (iii) the local file. The documentation that must be prepared and retained locally closely resembles the OECD's master file, local file, and CbCR requirements.

Determining the taxable profit of non-life businesses

- Another key concern was the ambiguity of tax legislation in respect of the determination of the amount taxable/deductible from the unearned premium reserve if the unearned premium reserve is not determined using the 24th method or a better basis/ method in line with the provisions of the Zambian Income Tax Act.
- The key concern in this respect is that given the ambiguity there is a risk that the respective taxable income may be incorrectly determined with the resultant tax payable not being accurate, potentially leading to disputes with ZRA. Accordingly, there is a call for greater guidance and clarity to be provided in this respect.

Other key tax issues

Although not formally surveyed, we note that another area of risk for the sector would relate to key insurance changes announced in the Minister of Finance's Budget speech for 2022, which are likely to have a significant impact on the industry.

The key tax changes effective from 1 January 2022 include:

- The introduction of withholding tax at 20% on reinsurance from providers who are not resident in Zambia.
- The proposed change aims to stimulate domestic reinsurance growth and to broaden the tax base by taxing the income of non-Zambian licensed reinsurers.
- This will increase the cost of obtaining reinsurance from foreign-based reinsurers. While the detailed proposed legislation is yet to be made available, this will likely also apply to retrocession services (where reinsurers obtain insurance from other reinsurance service providers), where the respective reinsurers are not resident in Zambia.
- Further, property and non-life insurance services will be standard rated for VAT purposes. This is to replace the current 3% insurance premium levy on the same. This proposed change is aimed at broadening the taxable base for VAT. This will likely lead to an increment in property and non-life insurance services for end customers in Zambia.

v) Cyber security risk

Cyber-attacks are regarded as one of the top risks for both the financial sector and the broader economy, not just in Zambia but also globally. Cyber security risk was ranked as the fourth highest risk in the 2020 PwC Banking and Non-Banking Survey - this demonstrates the seriousness of the risk in the recent past especially in the financial sector.

In our questionnaire to respondents, we asked them to confirm the extent to which they agree with the statement “the insurance industry is highly vulnerable to the threat of cybercrime”. From the 23 responses we received, 6 strongly agreed, 13 agreed, 4 were neutral and none of the respondents disagreed.

Extent	Number of companies
Strongly agree	6
Agree	13
Neutral	4
Disgaree	0
Strongly disagree	0

From the responses received, it was not noted that there has not been major incidents of cybercrimes that the sector has experienced in the recent past except for a few phishing and ransomware incidents. However, there is a clear acknowledgement of the existence of this risk from the market players. With the increased push to digitise the sector, the risk will become more apparent in the coming years.

The types of information and communication technology (ICT) risks to which organisations are exposed have not changed in recent years, but the frequency of occurrences and the magnitude of their impact on financial institutions has. Cyber-attacks are now occurring more frequently and with a higher impact than in the past.

Why insurers are on the radar for cyber attacks	Remaining cyber resilient in the wake of Covid-19	Cyber risks: what is the impact on the insurance industry?	Regulations on cyber security
Insurance companies typically store large amounts of personal data for their policyholders. With customers continually seeking ease of access to insurance services, insurance providers, like many other industry sectors, have been under pressure to embrace innovation and upgrade existing ICT infrastructures and systems. To meet consumer demands such as real-time access to insurance services through mobile applications installed on personal devices, insurance companies continue to increase their use of digital platforms. There is increased reliance on digital and remote solutions to perform their daily operations and to deliver their services to customers. While this has brought along benefits, the associated cyber security risks are increasing due to the increased reliance on digital solutions. Insurance companies have been a prominent target for cybercriminals because they retain enormous amounts of personally identifiable information for their policyholders.	The pandemic has accelerated digital transformation with a lot of companies adopting working from home as a way of managing the pandemic. Digital platforms have become critical to organisations to continue their operations and offer products and services to customers. Large data sets, including financial and private data, are a tempting target for cyber attackers, and therefore protection of these assets is the focus of many new protection solutions i.e. building cyber resilience in digital assets should be a key priority	For the insurance industry to continue to experience positive growth, one of the critical underpinning factors of its success is stakeholder confidence. Besides the direct financial consequences, cyber-attacks can also result in severe and long-lasting operational issues for the targeted insurance groups. The reputational damage may also be substantial or even irreversible.	To promote a digital safe space, the Cyber Security and Cyber Crimes Act 2021 was enacted by Parliament to help address key aspects related to cyber security, including securing Zambia's critical information infrastructure in the face of disruption, and the proliferation of technologies and digital channels. Some of the key issues the Act addresses are: • The Act prohibits the interception and disclosure of communication. This ultimately is to help prevent unlawful disclosure, use and dissemination of personal data. • The regulation of cyber security services presents an opportunity for collaboration amongst various cyber security authorities i.e. the collaboration between the Zambia Information and Communications Technology Authority, the Zambia Computer Incident Response Team, and the National Cyber Security Advisory Coordinating Council. Collaboration among the various authorities will help enhance detection and prevention of cybercrime.

vi) Financial crime

Introduction

Anti-money laundering (AML) refers to the laws, regulations and procedures put in place to prevent criminals from disguising illegally obtained funds as legitimate income. The Government of Zambia has taken great strides in the fight against money laundering by putting in place AML frameworks and institutions, including the Anti-Money Laundering Authority, and the Financial Intelligence Centre (FIC), among others. In the most recent Zambia National Risk Assessment on Money Laundering and Terrorist Financing released on 22 September 2017, the national money laundering threat analysis rated corruption as the most prevalent predicate offense for money laundering. This was followed by tax evasion and fraud.

Although not normally associated with insurance companies, they are still vulnerable to money laundering. According to the Prohibition and Prevention of Money Laundering Act, Financial Intelligence Centre ("FIC") Act, Anti-Terrorism and Non-proliferation Act, 2018 and global leading standards (Financial Action Task Force Recommendations), financial institutions, including insurance companies, are required to put in place systems and processes to ensure that activities indicative of money laundering are detected and appropriately reported. The insurance sector is particularly vulnerable to the threats of economic crime given the broad range of ever evolving products and services they offer clients, which are often sold through complex, international distribution channels. According to the report, some of the relevant global trends in insurance include:

- **Fraud:** insurers are increasingly the subject of sophisticated payment frauds and are being targeted by cyber criminals through techniques such as phishing.
- **Sanctions:** insurers are exposed to a range of sanctions risks that result from policyholders, the insured, or counterparties located in a jurisdiction subject to sanctions, or designated on a sanctions list.
- **Money laundering:** given the diverse products being offered by insurers through a range of delivery channels, money laundering risks are evolving and becoming more complex.
- **Bribery and corruption:** use of public infrastructure increases the risks of bribery and corruption e.g for tax evasion, to secure permits or resolve local issues and leaking sensitive information.

To comply with regulatory requirements and respond to these threats, many insurance companies have employed modern transaction monitoring technologies, although false positives and true negatives persist. This has not only brought to the fore the ineffectiveness of technology when used as the only tool for AML/CFT threat detection, but also the severe shortcomings of isolating AML/CFT programmes from the insurance companies overall threat management arsenals.

To elevate financial crime risk management to the next level, insurance companies should consider adopting a holistic view of managing financial crime risk without undermining customer experience. In an ideal scenario, this would mean that financial crimes such as AML/CFT, cybercrime, fraud and tax evasion are managed from the same lens with integrated people, processes, data and technology.

To achieve this, and as a first step, we recommend that the insurance company performs a holistic gap analysis, identifying and ranking the various financial crime threats. This analysis would be informed by various factors such as regulations, experience and operating environment, and should result in a register that rates and details the various risks. Secondly, the insurance company would need to develop an integrated framework to manage these risks, taking into account the required expertise, technologies and data, and how it would be integrated into the enterprise-wide risk management framework. The third step is the implementation and execution of the framework, building on existing tools and processes to manage costs.

Currently, AML/CFT is widely viewed as purely the role of the risk and compliance department, and in many insurance companies there is a perception that their work is in conflict with business development initiatives. In a holistic financial crime management approach, the goal is to not only mitigate financial crime threats but also leverage on improved systems and processes for better customer experience, digital trust and to enhance product development.

With this in mind, insurance companies should be asking themselves if they are assessing threats well enough. Is the siloed approach to financial crime management really working? Or is it time to turn the tide and deploy systems that will not only comply with various regulations but will also make a true impact to the bottom line?

Contributions from Brenda Guchu and Wendy Wambua, financial crime specialists for PwC East Africa region.

1. Gross written premiums

Zambian insurance industry

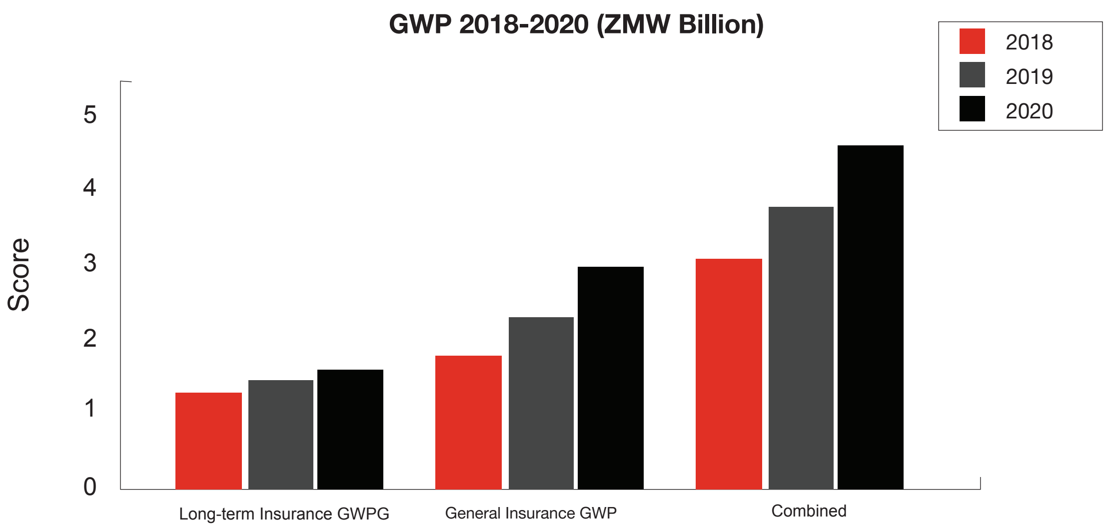
The insurance industry experienced growth in GWPs of 22% (K0.68 billion) between 2018 and 2019, and by a further 22% (K0.81 billion) between 2019 and 2020.

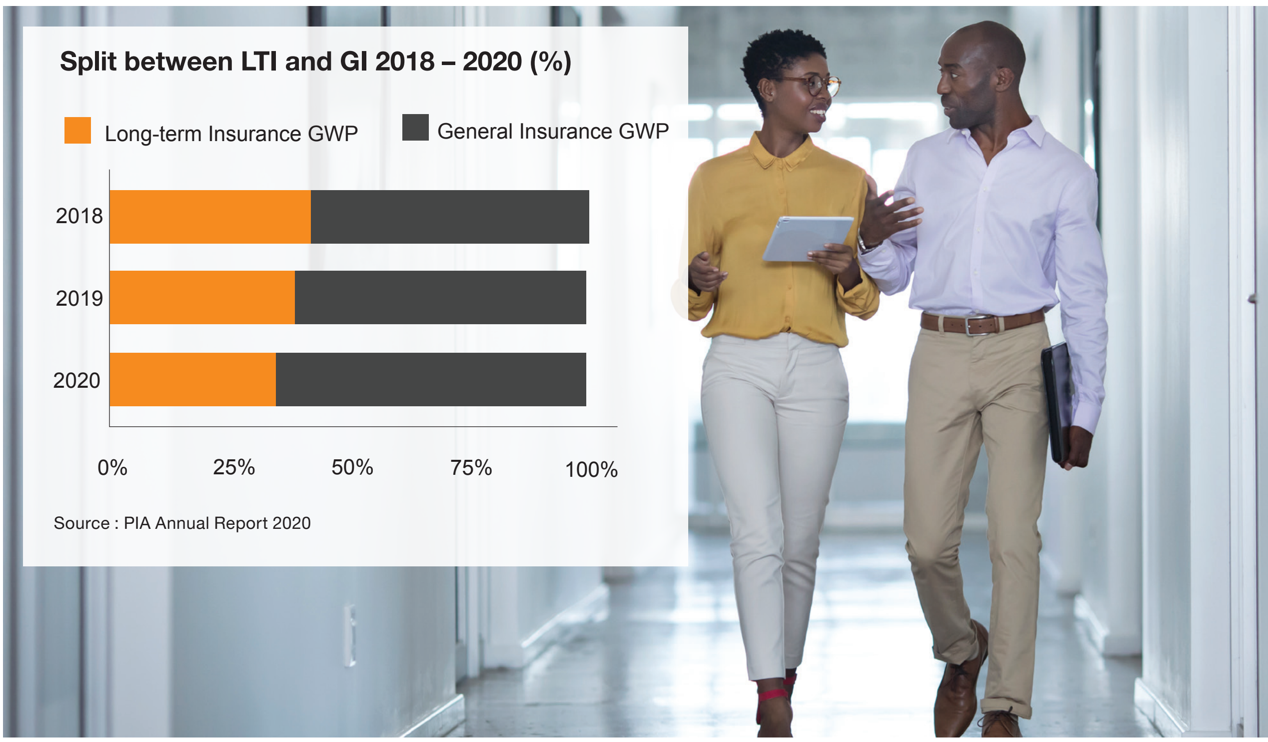
The depreciation of the Kwacha against major convertible currencies, more specifically the United States Dollar in which some of the insurance policies are denominated. According to the Bank of Zambia data, the kwacha closed at K21.17/US$ and K14.05/US$ on 31 December 2020 and 31 December 2019 respectively representing 51% depreciation.

ii. Increase in insurance policies written due to an increase in distribution channels from the traditional sales agents to the alternatives such as banks, mobile operators and the increasing popularity of bancassurance.

GWPs from long-term insurance as a proportion of the total industry declined from 42% (2018) to 35% (2020). It also experienced a slower growth rate with a Compound Annual Growth rate (CAGR) of 12% in comparison to short term insurance (CAGR of 28%) during the same period.

According to the Fitch solutions Q1 2022 Zambia Insurance report ,a fundamental constraint to long term insurance is the lack of affordability of traditional life insurance products for the vast majority of Zambians due to their inability to save.

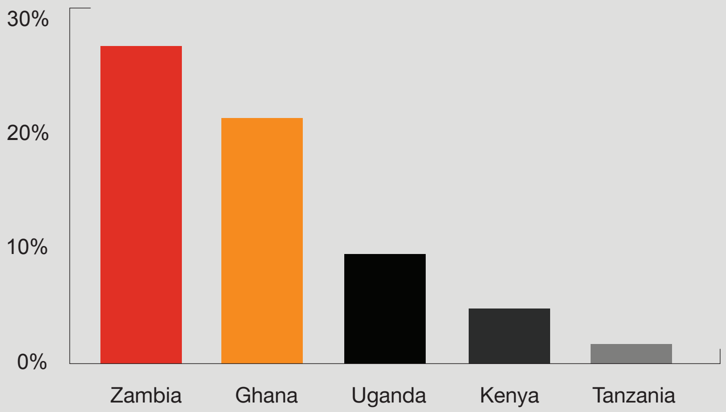




Regional analysis – selected countries

The growth rate of the Zambia insurance sector in US dollar terms was 28% between 2019 and 2020. This was higher than the growth rates of selected countries in the Sub-Saharan Africa region, which included Kenya (5%), Uganda (9%), Tanzania (2%) and Ghana (21%).

Growth in Gross Written Premium

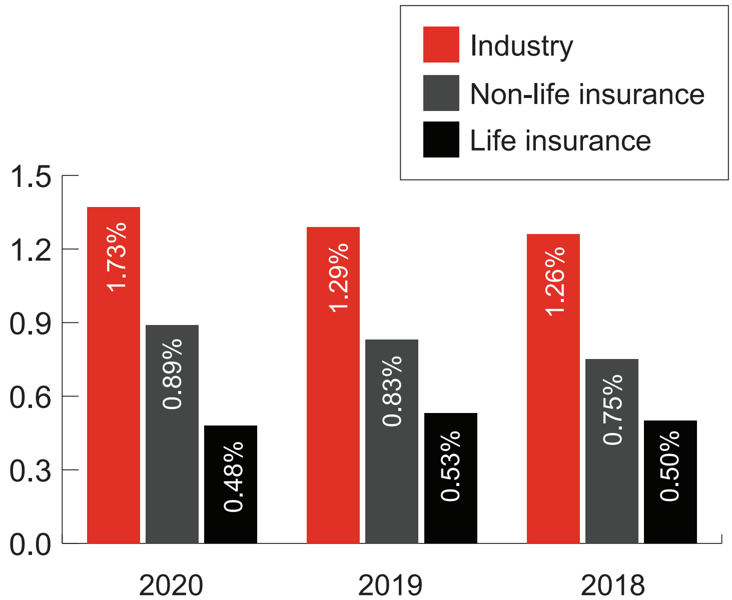


In contrast to the growth trends, Zambia had the lowest GWPs among the selected countries of approximately US$216 million. Similarly, Kenya and Tanzania, which had the lowest growth, had the highest GWPs of approximately US$935 million and US$356 million.

2. Insurance market penetration

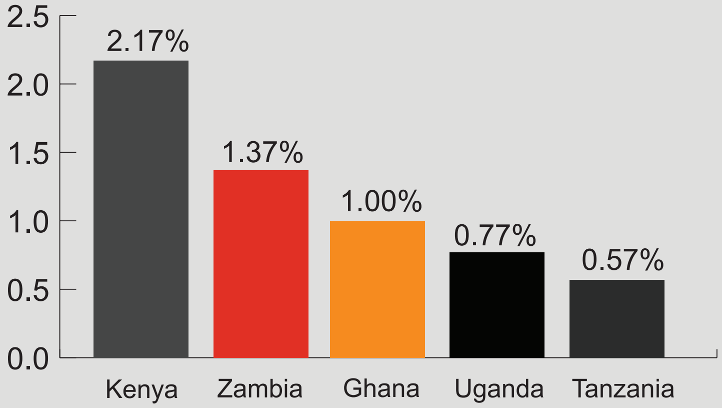
i. Zambian industry

Penetration ratio



Insurance Regulatory Authority of Uganda, Tanzania Insurance Regulatory Authority, Insurance Regulatory Authority - Kenya, National Insurance Commission - Ghana and IAZ

Regional penetration ratio



ii. Regional analysis

Kenya had the the highest penetration rate among the selected countries, while Zambia had the second highest although both were below the Africa average of 2.78%.

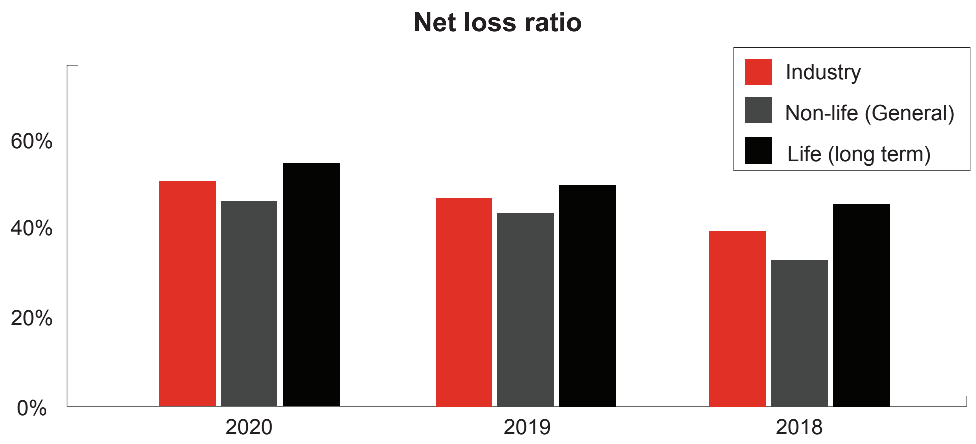
Source: Insurance Regulatory Authority of Uganda, Tanzania Insurance Regulatory Authority, Insurance Regulatory Authority - Kenya, National Insurance Commission - Ghana and IAZ

3. Loss ratio

i. Zambian insurance sector

Net loss ratio

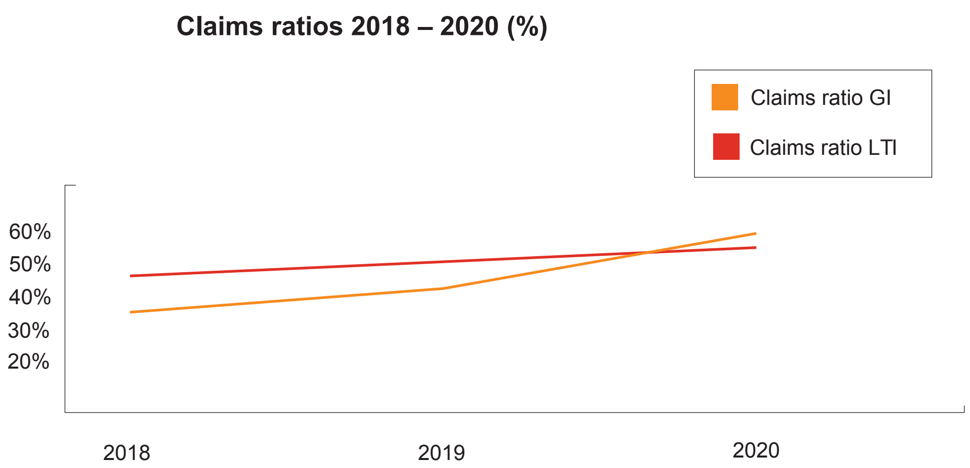
The industry wide net loss ratio was recorded at 51% in 2020 an increase from 2019. The ratio for the life insurance sector was 55% and the non-life sector was 46%. This is shown in the graph below:



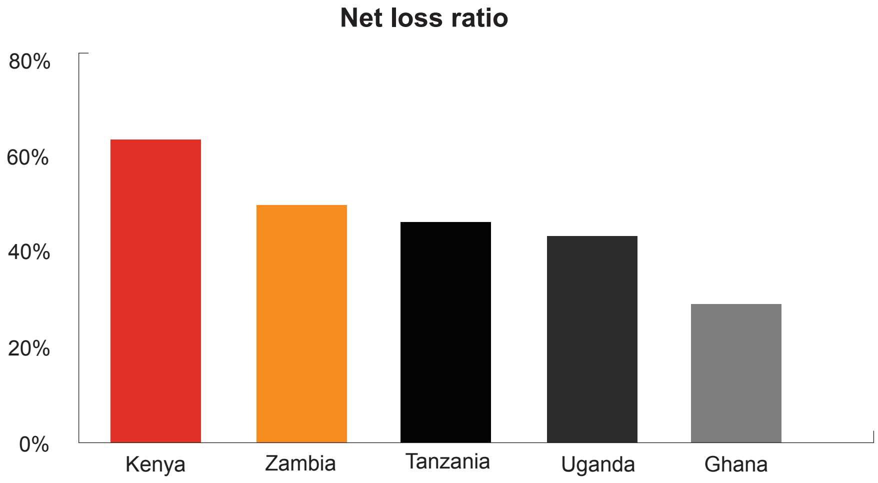
Source: PIA 2020 report

Net claims from general insurance grew by a Compound Annual Growth Rate (CAGR) of 25%, while the claims ratios grew from 35% in 2018 to 60% in 2020. This increase is partly attributable to increased weather indexed claims due to the impact of climate change which resulted in poor agricultural yields.

Long-term insurance claims trends were similar to that of general insurance, with a CAGR of 25% during the same period and growth in the claims ratios from 47% in 2018 to 55% in 2020. The rise in Covid-19 cases and deaths is seen as a significant factor in this growth.



Source: Insurance Association of Zambia Insurance Report 2020, PIA - Zambia



Source: Insurance Association of Zambia Insurance Report 2020, PIA

Regional analysis

Compared to the other selected countries in the region, Zambia's net loss ratio of 51% in 2020 was on the upper end compared to other countries in the region. The net loss ratio is lower than Kenya (64%), but higher than Tanzania (46%), Uganda (43%) and Ghana (29%).

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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