



# STATE OF THE INSURANCE AND PENSION INDUSTRY

Presented by

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**CONFERENCE THEME:**

**Challenge Risk Culture**

**Rethink Business Models**

**Navigate Uncertainty**



**INSURANCE INSTITUTE OF ZIMBABWE**

11 Nov 2019

# PRESENTATION OUTLINE

**IPEC's Mandate**

**1**

**Structure of Insurance & Pension Industry**

**2**

**IPEC Vision**

**3**

**Soundness of the Industry**

**4**

**State of Market Conduct**

**5**

**State of Compliance with AML/CFT Requirements**

**6**

**Inclusive Growth**

**7**



**Prosperous Industry**



# CONFERENCE THEME

## Old Thinking



*Challenge Risk  
Culture*



*Rethink  
Business  
Models*



*Navigate  
Uncertainty*

## New Thinking





# IPEC'S MANDATE



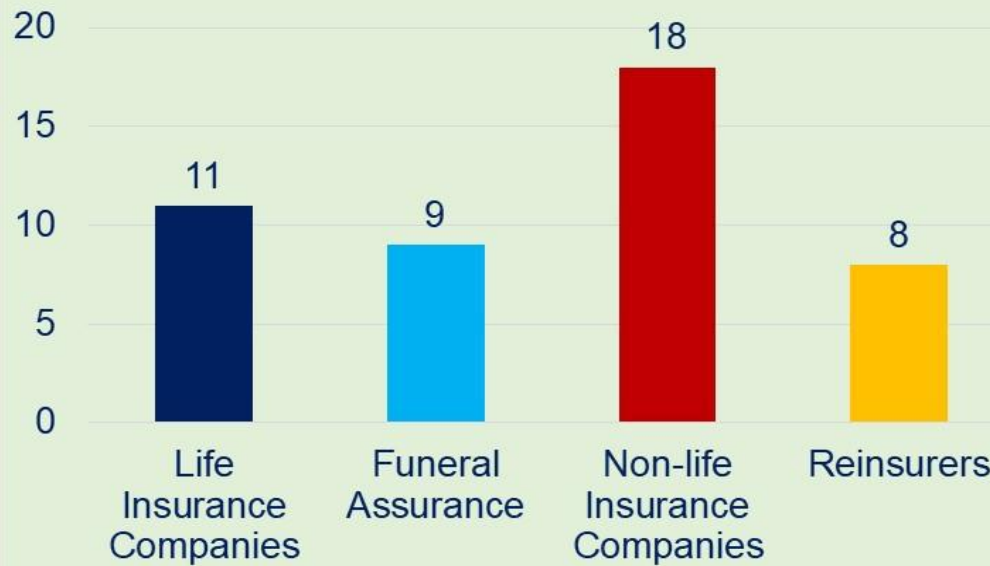
ABC Insurance



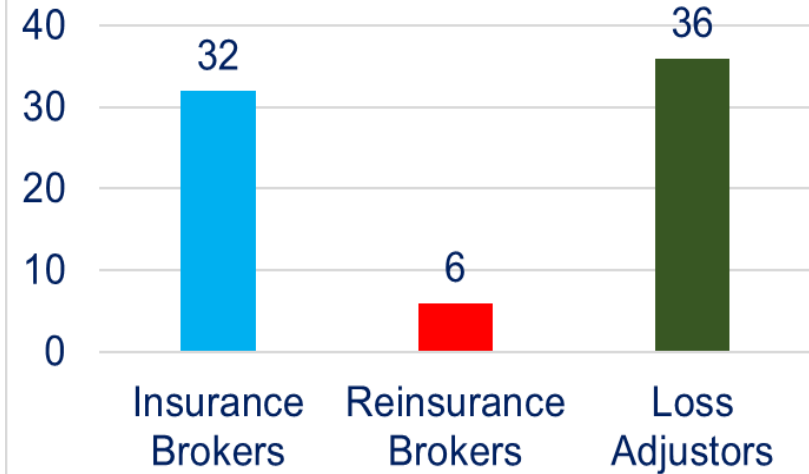
- ❑ Soundness and Vibrancy of the insurance and pensions industry – prudential supervision
- ❑ Consumer Protection – Treating Customers Fairly - market conduct regulation
- ❑ Maintaining integrity and compliance of the insurance industry with AML/CFT standards set by the Financial Action Task Force (FATF)
- ❑ Inclusive Growth (financial inclusion) and development of the industry

# ARCHITECTURE OF THE INDUSTRY

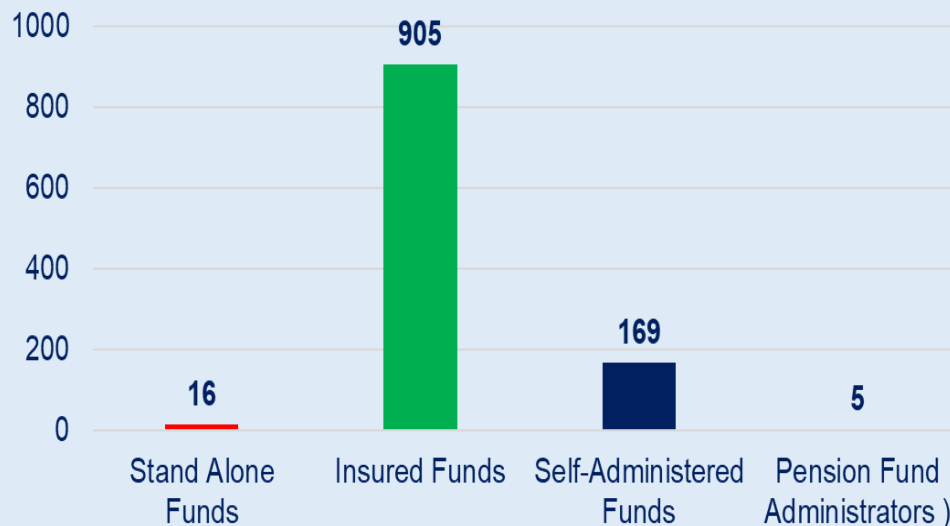
Number of Insurance Entities



Brokers & Adjustors - Sep 2019



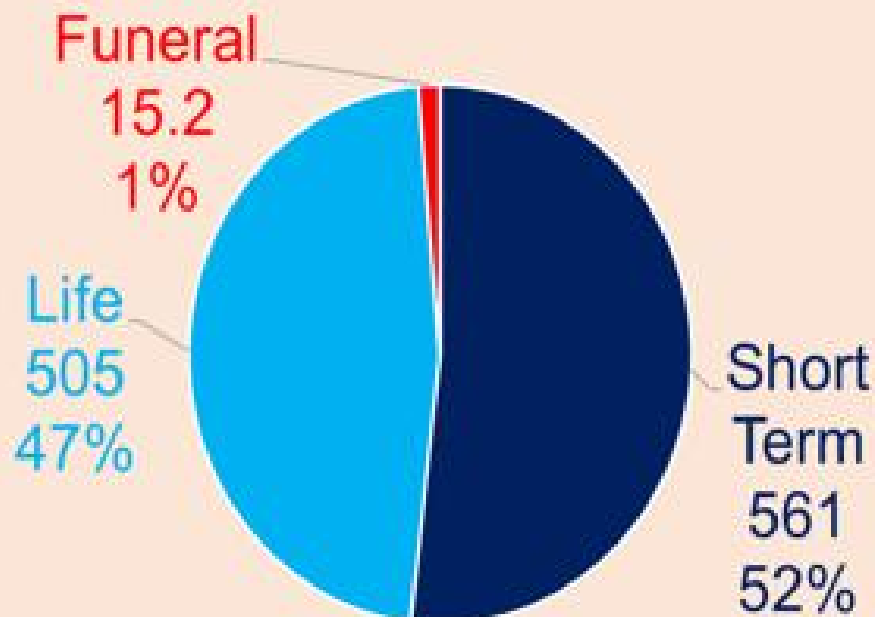
Pension Industry - 30 Sep 2019



Summary Data	Number
Insurance Co.	46
Brokers & Adjustors	74
Pension Funds	1,090
Self Administered Pension Funds	5
<b>Total Regulated Entities by IPEC</b>	<b>1,215</b>

# KEY STATISTICS – SEP 2019

## GPW - ZWL' Million - Sep 2019



No  
Insurance  
Policy

4,386,183

## EMPLOYMENT



Total Employed **1,573**

## Assets



**ZWL 22.3  
Billion**

Sep 2019

Pension Coverage 8.27%

Insurance Penetration 2.70%

# IPEC'S STRATEGIC MAP



## ZIMBABWE VISION 2030

Towards A Prosperous & Empowered Upper Middle Income Society

**INCLUSIVE  
GROWTH**

**SOCIAL  
DEVELOPMENT**

**GOVERNANCE**

**CROSS – CUTTING  
ENABLERS**

IPEC 2020

### Vision

A Safe, Vibrant, and  
Sustainable Insurance &  
Pensions Industry by 2022

### Mission

To regulate, supervise & strengthen the  
Insurance & Pension Industry for the  
Protection of Policyholders and Pension  
Scheme Members through Regulatory  
Excellence

**Value PROPOSITION:** Fairness | Integrity | Excellence



# SOUNDNESS OF THE INDUSTRY



Safe, Vibrant, and  
Sustainable  
Insurance & Pensions  
Industry





# SOUNDNESS OF THE INDUSTRY..

## SOUNDNESS FRAMEWORKS

- ❑ Frameworks are based on CARMELS/SAAMELS

## POSITIVES



Resilience in the face of macroeconomic challenges

## ISSUES OF CONCERN

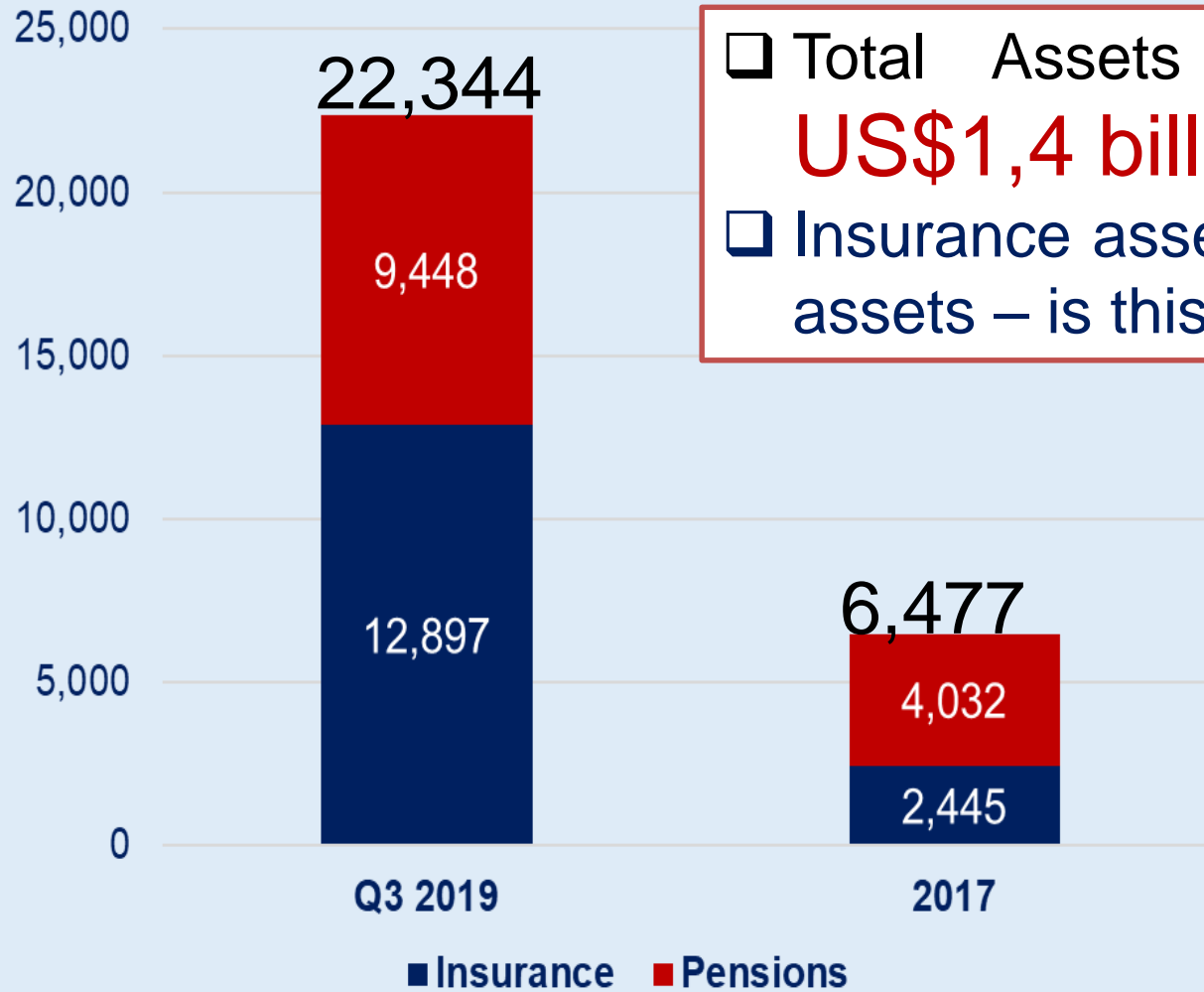
- ❑ Failure to meet minimum capital requirements (MCR) based on SI 95 of 2017
- ❑ Assets not registered in the same of the insurer
- ❑ Related party exposures
- ❑ Concentrated Investment
- ❑ USD-MCR converted to ZWL after S.I. 142 of 2019

## Going Forward

- ❑ Review of MCR at advanced stage
- ❑ Industry to submit concrete staggered compliance roadmaps
- ❑ Risk-Based Capital Framework expected by November 2020

# SOUNDNESS OF THE INDUSTRY..

Asset Values - ZWL'Millions



- ☐ Total Assets now equivalent of **US\$1,4 billion**
- ☐ Insurance assets overtaking pension assets – is this realistic?

- ☐ Valuation inconsistencies between insurers and pension funds?
- ☐ Most pension funds have not revalued their assets since Dec 2018

**Going Forward**

IPEC is issuing valuation guidelines for industry to restate asset and liability values for the year ending 31 December 2019

# SOUNDNESS OF THE INDUSTRY...



## Currency Reforms and Inflation

### Implications

- ❑ Minimum capital requirements for insurers converted at 1:1
- ❑ Erosion of value of fixed income investments – money market and bonds
- ❑ Loss of policyholder and pension benefit values
- ❑ Industry had to plan for the currency change-over after it has occurred
- ❑ 3 months freezing of payments in the pipeline for forex-denominated business prior to S.I 142 of 2019

### Going Forward

- ❑ Regulatory Guidance on Currency Reforms to be issued soon
- ❑ Enhanced disclosure on foreign currency-denominated business
- ❑ Template to guide reporting of foreign currency business to be issued soon
- ❑ Intention is to ensure policyholder protection



# SOUNDNESS OF THE INDUSTRY...

## STATE OF GOVERNANCE



- ❑ **Owner-managed entities** with no separation between shareholders, board members and management
- ❑ **Cross directorship** and **multiple board sitting** in violation of Risk and Corporate Governance Directive
- ❑ **Undue influence** from holding companies and overbearing influence by executive directors and shareholders
- ❑ **Related party exposures** – unsecured loans to shareholders and associated entities
- ❑ Assets of insurers not registered in the names of the insurers
- ❑ Low risk management culture and understanding of Enterprise Risk Management in some small-to-medium size entities



## Going Forward

- ❑ IPEC is enforcing Risk and Corporate Governance Directives for both insurance and pensions

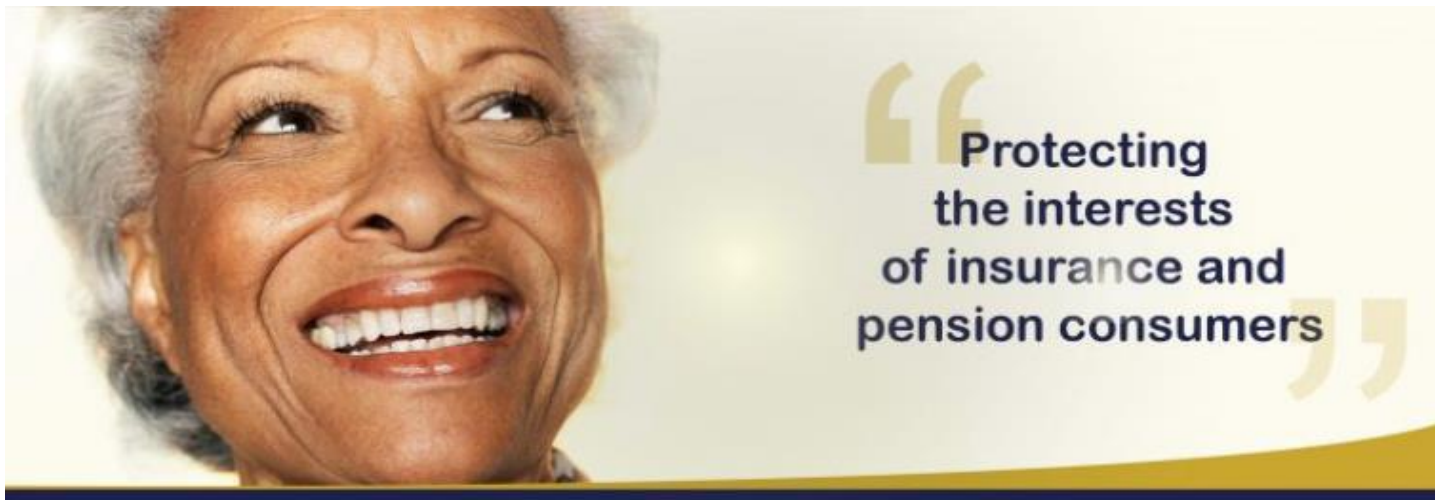
# SOUNDNESS OF THE INDUSTRY...



## Strengthening Risk Management

- ❑ Need to build the risk management capabilities of the funeral and microinsurance sectors
- ❑ Enforcing compliance with Circular 11 of 2014 in areas such as the existence of Risk Committees at Board level
- ❑ Industry to invest in hiring quantitative professionals and/or trainings on defining risk appetite and quantifying the capital required for certain risks
- ❑ IPEC is conducting an industry skills audit – analysis of questionnaire responses from industry on skills in the industry being finalised
- ❑ IPEC to share the state of skills in the industry, including risk management process

# MARKET CONDUCT



“ Protecting  
the interests  
of insurance and  
pension consumers ”



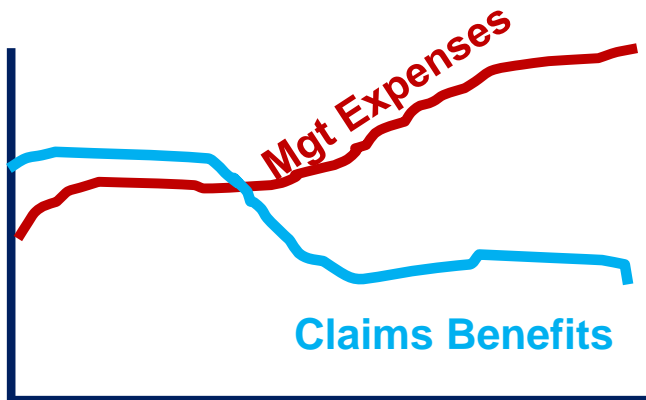
# MARKET CONDUCT...

## Status on the Ground – Illustrations

**Premium Contribution**



**Insurance Benefit**



- ☐ Low benefits that do not meet reasonable expectations
- ☐ High administration expenses for both insurers and pension funds
- ☐ COI described expenses as **predatory, cannibalistic** and biggest cause of loss of value from 2009 to 2015

# MARKET CONDUCT...

## Status on the Ground.....



- ❑ Transfer of policyholder assets to shareholders due to lack of separation of assets and revaluation of liabilities



- ❑ Absence of complaints handling functions in many institutions

- ❑ Limited disclosure of information to policyholders and pension scheme members

- ❑ **Product irrelevance** – annuities and educational policies in an inflationary environment



# MARKET CONDUCT...

## ☐ Reporting Templates

- ✓ Reviewed reporting templates for quarterly and annual reports to enhance disclosure
- ✓ Industry to start reporting using new templates effective Q4 2019 and 2019 year-end

## ☐ Publishing Finstats

- ✓ Directive on the requirement for all insurance companies to publish audited financial statements on its way
- ✓ Publishing to commence with 2019 Audited Financials - 31 December 2019

## ☐ Market Conduct Framework

- ✓ To be out by year end as part of ZICARP project

## ☐ Other Market Conduct Initiatives

- ✓ Amendment of pension fund rules to enhance disclosure, particularly on expense types and allowable expenses
- ✓ IPEC's Complaints Handling Unit now maintaining a Complaints Register
- ✓ The Complaints Typology Report now an important tool for determining entities to target for on-site inspections



# MARKET CONDUCT...



## Product Relevance

- ❑ IPEC now challenging the industry on product relevance with respect to:-
  - ✓ Pricing assumptions
  - ✓ Financial soundness and sustainability of the product
  - ✓ Allocation of assets per product
  - ✓ Bonus declarations, its frequency in an unstable environment and policies available in each entity
  
- ❑ Resourcing of IPEC's **Actuarial Department** underway



# AML/CFT COMPLIANCE



# AML/CFT COMPLIANCE

## AML/CFT compliance

- ❑ Statutory requirement in terms of Money Laundering and Proceeds of Crime Act [Chapter 9:24] and applicable Regulations

## IPEC is part of .....

- ❑ National Taskforce on AML/CFT
- ❑ AML/CFT Advisory Committee
- ❑ Eastern and Southern Africa Anti-Money Laundering Group (ESAAML) through Zimbabwe's membership

- ❑ ESAAMLG is an Associate Member of the Financial Action Taskforce (FATF)
  - AML/CFT global body
- ❑ AML/CFT supervision and enforcement has been weak on the part of IPEC

# AML/CFT ASSESSMENT



- ☐ Lack of awareness on the strategic importance of AML/CFT compliance
- ☐ Absence of AML/CFT Policies and frameworks that are approved at board level
- ☐ Weak AML/CFT internal controls and systems – absence of Compliance Officer (s)
- ☐ No shared understanding of money laundering and terrorism risks
- ☐ No institutional risk assessments are conducted by insurance players and pension administrators





# AML/CFT - CONSEQUENCIES

## Consequences for Non-Compliance:

- ❑ FATF sanctions on non-complying jurisdictions as they pose risk to global financial system
- ❑ All countries will be urged to exercise caution when transacting with Zimbabwe
- ❑ Zimbabwe was placed on the FATF's monitoring (Grey List) in October 2019 following lack of progress in addressing strategic AML/CFT deficiencies identified in 2016
- ❑ Failure to timeously address the deficiencies within the stipulated timeframe results further downgrading from the current Grey List to Dark Grey list or Black-List

# AML/CFT - CONSEQUENCES

## Consequences for Non-Compliance.....

- ❑ Removal from international payment platform through:-
  - Termination of correspondent banking relationships in fear of regulatory fines for dealing with non-complying entities – de-risking phenomenon
  - Examples of local entities that were fined include Barclays (US\$2.5 million) and CBZ (US\$385 million) for violating OFAC sanctions
- ❑ Termination of treaty programmes by international reinsurers as they fear regulatory fines
- ❑ Delays in the settlement of international payments due to protracted scrutiny
- ❑ Adverse impact on foreign direct investment and portfolio investment due to limited cross-border movement of funds

# AML/CFT – GOING FORWARD

- ❑ Sectoral Risk Assessment following conclusion of National Risk Assessment
- ❑ Institutional money laundering risk assessments to be conducted to inform a risk-based approach to AML/CFT
- ❑ AML/CFT supervision through off-site surveillance and joint on-site inspections with the FIU
  - All on-site inspections to cover both prudential and AML/CFT assessment
  - AML/CFT awareness workshops for Compliance Officers, Senior Management and Boards of institutions
  - Review of licensing requirements for insurers to include AML/CFT requirements

# AML/CFT – GOING FORWARD

❑ Issuing guidance papers to the industry in collaboration with the FIU to assist the industry to meet compliance requirements –

➤ Beneficial ownership – mandatory use of proposal form to identify natural persons among all policyholders

➤ Know Your Customer (KYC) and Know Your Customer's Customer (KYCC)

➤ Customer Due Diligence (CDD) – can be simplified, normal or enhanced depending of risks posed

❑ Players are urged to invest in AML/CFT capacity development and internal controls



# INCLUSIVE GROWTH



# INCLUSIVE GROWTH

## Programmes to Support Insurance Inclusion

- ❑ Financial literacy programmes through various media, roadshows, exhibitions
- ❑ Insurance and pensions uptake survey, whose results will be out by end of month
- ❑ Engagements with the World Bank to develop a framework for weather index-based insurance to support agricultural insurance
- ❑ Issuance of regulations on microinsurance to facilitate access

## Going Forward

- ❑ Enhanced supervision
- ❑ Continued partnership with the industry and Government
- ❑ Policy advisory to Government
- ❑ Awareness campaigns
- ❑ Development of micro-pensions

**IPEC: TOWARDS A SAFE, VIBRANT AND  
SUSTAINABLE INSURANCE AND PENSIONS  
INDUSTRY**

**Thank you**

