Why don’t they buy? Barriers to insurance purchase in Zimbabwe

Presentation Outline

- Economic Overview
- Insurance Market in Zimbabwe
- Insurance Penetration in Zimbabwe
- Africa Comparison
- South Africa Comparison
- Zambia Comparison
- Why don't they buy
- Conclusion
- Submissions Time

GDP Share:
- Wholesale & Retail 20%
- Manufacturing 18%
- Mining 13%
- Agriculture 8%
- Financial Services 8%
- Other sectors 33%
- SMEs: 60% of business
- GDP/Capita: $1,128

2021 GDP:

$19.2 Billion (WB_2022)

- Female (52%), Male (48%)
- National Labour Force (Plus 15 years) : 9.3 Million
- Total Employment: 3.3 Million
- Informal: 2,360,656 (68%)
- Formal: 913,989 (32%)
- Poverty: 78% (Extreme 41% 021)

Population:

15,179 million (Zimstat_2022)

2021 Trade:

Exports $6.033 Billion

Imports: $7.574 Billion (Zimtrade_2022)

- Major Imports: Petroleum, Machinery, Medicaments, Chemicals, Vehicles, Grain
- Major Exports: Gold, PGMs, Tobacco, Nickel, Diamond, Cotton
- Total Fx: $9.7 blllion (2021)

GDP Growth 2020: -6.2%

2021: 5.8%

2022: 3.7% (Exp)

(WB_2022):

- YoY Inflation: 257%
- MoM Inflation: 26%
- FDI: $98 million (2021), $104 million (HY 2022)
- Banking Deposits: US$3,613 billion (58% FCA)
- LDR: 54%

Insurance Market In Zimbabwe

INSURANCE KPIs IN ZIMBABWE (2021)

KPI	Life Assurance	Funeral Assurance	Short Term Insurance
Registered Players	12	8	24
Reassurance Companies	4	0	9
Registered Agents	1,378	N/A	840
GPW (Inflation Adjusted)	ZW$10,3 billion	ZW$830,38 billion	ZW$19,19 billion
Forex Business	US$10,2 million	N/A	US$101,48 million
Claims	ZW$3,88 billion	ZW$175,43 billion	ZW$3,166 billion
Assets	ZW$90,1 billion	ZW$2,37 billion	ZW$20,03 billion
Lapsable Policies	2,037,582	1,987,158	720,506 (2019)

Insurance Penetration In Zimbabwe

- Insurance penetration ratio in Zimbabwe is <3,6%, below IPEC's expectations. Highest penetration rate was 5.7% of 2004 and lowest was 1.5% in 2016. Penetration lower due to supply side and demand side barriers to insurance inclusion.
- Over 13.5 million (Over 90%) of Zimbabweans lack health insurance & the numbers are going up due to the increase in cost of living, high inflation and low disposable income.
- At least 80% of homes remain uninsured in the country.
- Number of corporates and SMEs that are uninsured is rapidly increasing due to economic instability & other factors outlined in this presentation.
- Despite it being compulsory by law, at least 30% of motor vehicles are uninsured.
- Insurtech, messaging, and online sales channels are shaping the insurance landscape. Similarly, high exposure to catastrophic perils such as COVID-19, droughts & natural hazards has given rise to parametric insurance. However, telemedicine prevalence remains very low.

Zambia Comparison

- Insurance penetration has increased to 5% in 2021 from 2.8% in 2020. The number of people that do not know insurance decreased to 41% from 80% in 2015 due improved marketing drive, (Finscope Survey, 2020).

- Gross Written Premium increased to $254 million in 2021 from $222 million in 2020.

- The contribution of the sector to GDP in 2020 was 3.29%, compared to 2.63% in 2019.

- The Insurance sector recorded a growth rate of 27.75% in 2020. The market is expected to grow at more than 17% up to 2025, (Pensions and Insurance Authority of Zambia, 2021).

- Until 1991, there was only one insurance company in Zambia (Zambia State Insurance Corporation (ZSIC) before liberalization and entrance of new players.

- Insurance company assets to GDP percentage in Zambia was reported at 1.3817% in 2019, according to the World Bank.

South African Comparison

- Insurance penetration: 13.9% in 2021, one of the highest in the world, better than US and UK.
- SA generates 70% of the continent's insurance premiums at a value of $48.3billion
- At least 60% of South Africans report of having an insurance product with 42% having funeral cover in 2021 while 10% have life insurance, 11% physical asset insurance & 8% health insurance.
- In 2020, assets under management were valued at $201 billion with life insurers holding 93% of the industry assets. Life insurers experienced a 7% decrease in GWP between 2019 and 2020, largely due to the increase in the number and total value of claims paid out in 2020.
- As at March 2021, there were over 60 primary life insurers. The top 5 life insurers by assets being Sanlam, Old Mutual, Liberty, Momentum Life and Discovery Life account for 82% of the market's total assets.

African Comparison

- Africa remains desperately under-insured, with a penetration rate of less than 3% in 2020. Total insurance penetration stood at only 2.78% in 2020, far below the global average of 7.23%, while insurance density was $85, (African Insurance Organization, 2021).

Country	Insurance Penetration	GWP	Insurance Density
Egypt	0.82%	$3,021 billion	$29
Ghana	1.05%	$756 million	$24
Mauritius	3.68%	$516 million	$408
Botswana	2.80%	$491 million	$198
Zambia	5.00%	$254 million	$15
South Africa	13.90%	$48.3 billion	$803
Zimbabwe	3.60%	$234 million	$16

Why don't they buy?

What could be the barriers?

Economic Instability

- Local economy characterized by persistent high levels of inflation. High levels of inflation (At times hyperinflation) witnessed in 1997, 1998-2001, 2006-2008, 2019-Present erodes disposable incomes & savings for the target market which could be households or businesses.

- Lack of consistency in terms of output especially on Agriculture, Power & Fuel Supply have contributed to recessions & de-industrialization.

- Instability as pronounced by recessions mean that economic assets lose value and investment is hindered

- It also leads to job losses (unemployment) which reduces the size of the potential market

- Economic instability affects business output & planning, thus making it difficult to be adequately covered, maintain packages or even consider insurance

Monetary Policy Inconsistency

- Consistent changes to legal currency erodes economic value, impacts trade, savings, long term planning & business viability for insurance providers & the insured
- Critically, it affects the value of insurance premiums and insurance payouts.
- Once the value of the claim is misaligned to expectations, trust falls & churn rate increases for lapsable policies. This dents future premiums & goodwill

STATUTORY INSTRUMENTS

SI OF 2015

Slow Economic Growth

- There is a strong correlation between economic growth and GPW (Insurance penetration, density, demand and payment consistency)

- The country's insurance penetration ratio declined from around 6% to below 2% over the past decade due to slow or negative economic growth

- The advancement of mining, energy, manufacturing and agriculture are critical to the country's insurance sector

- Lack of growth means demand remains suppressed and market remains smaller. Same clientele base

Low Disposable Income

- Low disposable income is correlated to poverty & limited insurance cover
- It means target customers cannot afford all their needs, hence they cut back on what is deemed non-essential. Low effective demand for insurance premiums.
- More focus is placed on survival (Food, clothing, transport, accommodation & communication), if it’s a business (Raw materials, machinery, sales, fuel & labour)

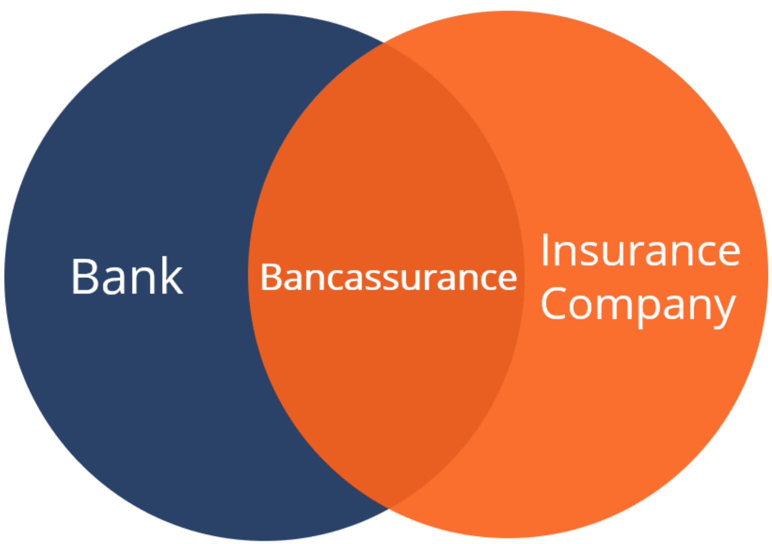
Lack of trust

- Currency changes (2009, 2015, 2019 etc.), economic failures (2000-2008) & losses for insurers (Financial crisis of 2007-2008) has led to the decline in trust from the insured or target customers

- Lack of trust inhibits new business and dents image. Hard to convince new customers as there are countless objections filled with suspicion of trickery and hidden losses for the insured.

Declining Banking Sector

- Drop in banking facilities and loans means that insurance uptake is limited
- Increase in the share of *"deposit in transit"* by individual account holders correlates to limited savings in the formal sector. Markets with low savings also have slow growth for insurance
- Limited scope for credit insurance from businesses and households in the formal market



Self Insurance

- Going it alone is directly linked to lack of trust in insurance & banking sector, and culture. Culture is shaped through major events, tragedy and information passed on from person to person.
- Self insurance in Zimbabwe takes the form of *mattress banks*, informal savings clubs & neighbourhood burial societies
- Once a self-insured individual navigates through loss through self insurance, they will not buy insurance in future or recommend it.

High levels of informalization

- A 2018 study by the International Monetary Fund (IMF) discovered that 60% of the Zimbabwean economy is informal, second in the world only to Bolivia's 62.3%.
- The level of informalization in the country is now estimated to be between 65% and 70% due to several push and pull factors such as high inflation, poor remuneration in the formal sector, punitive foreign exchange regulations, low tax morale, high levels of unemployment, weak institutions and high levels of corruption.
- High levels of informalization lead to a limited credit market and savings growth in the economy, limited growth in the financial and insurance sector (decline in Banking sector lending and geographical presence).
- Informalization is positively correlated to self insurance
- Shift in economic landscape.

Declining Formal Employment

- Informal employees largely paid salaries in cash, hence limited demand for insurance as the tendency is to downgrade insurance to non-essential and self insure
- Employers evade responsibility to pay for health insurance or accidental cover for employees as a way to manage costs.

Limited Credit Market

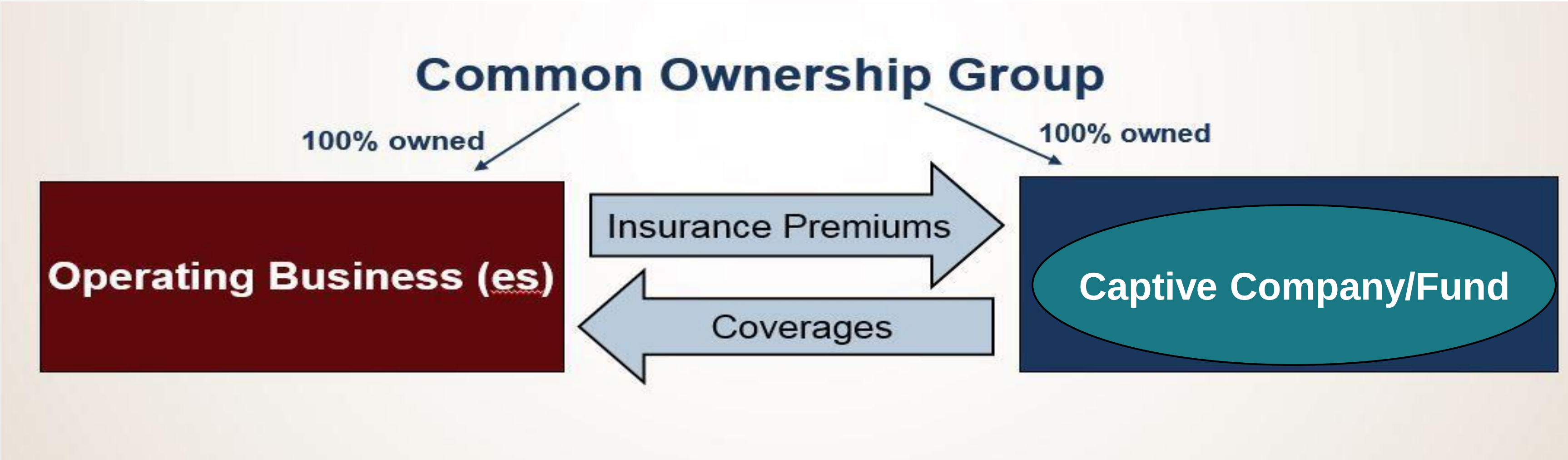
- Zimbabwe's credit market is very small with most transactions and trade done on cash basis.

- Huge portion of property sales are done in hard currency, which means a potential market for home insurance is lost. No data or registry of new home purchases.

- Homes, furniture, motor vehicles, plant & equipment, construction and individual projects funded through cash payments, hence limited the demand for short term insurance

- Credit improves business to business (B2B) recurring income for insurance sector on credit insurance facilities.

Captive Insurance



- Captive insurance refers to a subsidiary corporation or fund established to provide insurance to the parent company and its affiliates or strategic business units (SBUs).
- The primary purpose of a captive is to reduce the company's total cost of risk & have a fund that can be redeployed to operations if need be.
- Thus, in a market where trust in insurance sector is low, large businesses or conglomerates resort to self insurance that can be packaged as special purpose funds, trust or reserves
- Businesses that resort to captive insurance do not insure their assets or operations

Low Insurance Literacy

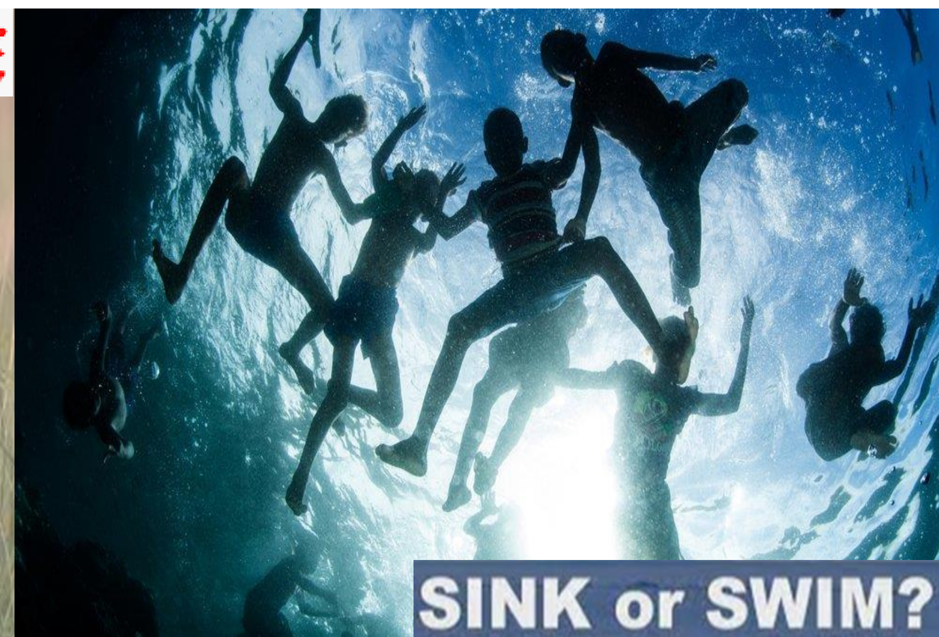
- The degree to which target customers have the knowledge, ability and confidence to find and evaluate information about insurance policies. Information is used to select the best insurance plan or policy.
- Insurance terms, concepts, cognitive skills, financial literacy and comprehension of the benefits that accrue if insured.
- Increased insurance literacy creates the need for insurance cover, while the opposite is true.

Limited Agility by Insurers

- Limited agility on seeking alternative hedging channels to preserve value for the insured, grow the business and maintain credibility

- This leads to failure to fully honor claims made by the insured and loss of trust. Also leads to collapse for the insurance companies.

- Zimbabwean economy has all tenets of a VUCA market with volatile output, uncertain policy landscape, complex socio-political environment & ambiguous legal climate. Need for agility to maintain credibility.



Conclusion

Economic Instability, Slow growth & Decline in investment

Increase in informalization & decline in formal employment

Low disposable income & Poverty

Monetary Policy inconsistency & Policy Changes

Lack of trust & Confidence in the financial services sector

Limited credit market, savings & credit insurance culture

Thank you!

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