Research Title

Evaluating Strategies Used By Zimbabwean Short-Term Insurers In Coping Up With Inflation

By

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i. Approval Form

The undersigned certify that they have read and recommended to the Insurance Institute of Zimbabwe research entitled "Evaluating Strategies Used By Zimbabwean Short-Term Insurers In Coping Up With Inflation"

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ii Declaration

I, Fadzai Masunda hereby declare this research on EVALUATING STRATEGIES USED BY ZIMBABWEAN SHORT-TERM INSURERS IN COPING UP WITH INFLATION is my own work. I wish to state that to the best of my knowledge it contains no material published by another person or material which has been accepted for the award of another Fellowship or any other of the [whether college or Fellowship], except where due acknowledgement has been made in the text.

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iii Release Form

NAME OF STUDENT: **FADZAI MASUNDA**

DISSERTATION TITLE: **EVALUATING STRATEGIES USED BY ZIMBABWEAN SHORT- TERM INSURERS IN COPING UP WITH INFLATION**

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SIGNED

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iii Abstract

This study assessed the strategies that can be implemented by the non-life insurance industry of Zimbabwe. The study covered the period from June 2020 to May 2021. The researcher selected a total number of 6 short term insurers out of the 20 registered with IPEC using stratified random sampling. Structured interviews and questionnaires were used as research instruments. The findings from the study were presented in graphs, charts and tables. Conclusions from the findings of the research showed that the majority of the short -term insurance companies were not effective to the industry and that a colossal turn around must be implemented. Moreover, some insurance companies are failing to implement better strategies because of financial constraints. It has been recommended that the regulator be more flexible regarding authorising the launch of new strategies and on the side of the insurance companies. It was also recommended that the Zimbabwean short-term insurance sector should embrace the idea of index linking the insurance products. This strategy has been proven to be the best activity that insurance companies should do to improve customer confidence in purchasing insurance products thereby enhancing revenue growth and increasing the market share.

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CHAPTER ONE

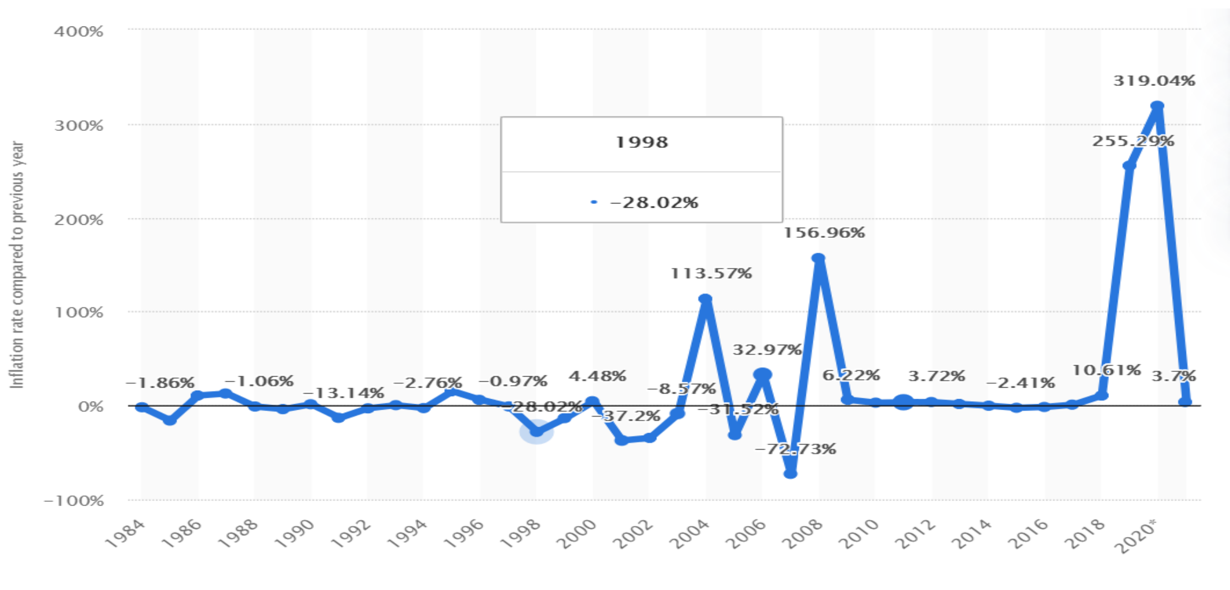
1.0 Introduction

This proposal presents a general introduction on evaluation of strategies used by Zimbabwean short-term insurers in coping up with inflation. Above all the proposal covers the background to the study, problem statement, objectives of the study, research questions as well as the methodology of the research. The delimitations of the study and the limitations and research design of the study were also covered.

1.1 Background of study

Jhingan (2002) defines inflation as a persistent and appreciable rise in the general level of prices. Akers (2014) states inflation rate measures changes in the average price level based on a price index. The most known index is the Consumer Price Index (CPI). The index measures average retail prices that consumers pay (Harvey, 2011). Harvey further posits that a high or increasing CPI indicates the existence of inflation. According to Sheedy (2010) higher prices tend to reduce overall consumer spending which in turn leads to a decrease in GDP while inflation itself is not negative, rapidly increasing rates of inflation signal the possibility of poor macroeconomic health.

Zimbabwe: Inflation rate from 1984 to 2021



Source: Statista (2020)

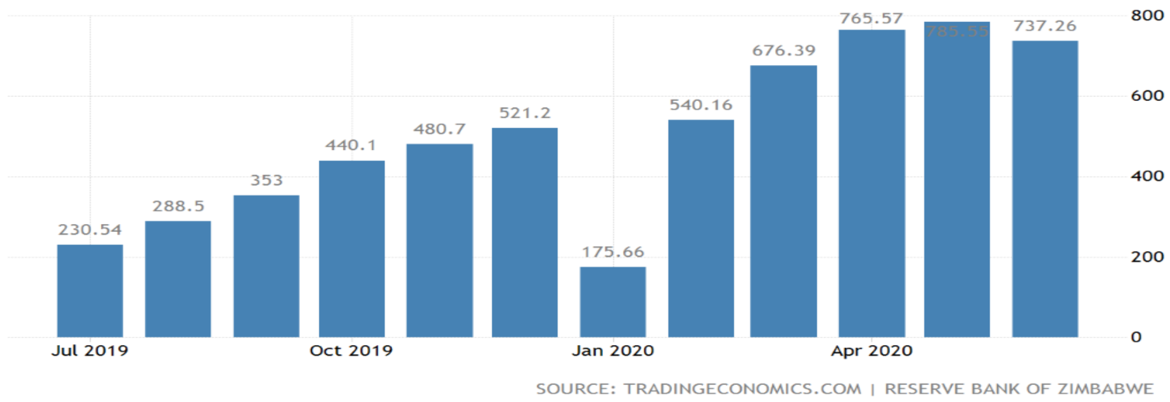
Inflation in Zimbabwe rose to 10.6 percent in 2018 and was projected to jump dramatically to 319.04 percent in 2020 (Plecher, 2020). After that, estimates predicted a 3.7 percent equilibrium, given Zimbabwe's history of poor monetary policy, including one of the worst instances of hyperinflation (Plecher, 2020).

1.1.1 Zimbabwe Inflation history

Inflation depends significantly on economic expectations of it, making it hard to reduce inflation once it has hit higher levels (Schotman and Schweitzer 2000). This happened in Zimbabwe in the years approaching 2008, at the end of which a single U.S. dollar was worth over 2.6 trillion Zimbabwe dollars, up from 10,000 Zimbabwe dollars at the start of 2005. This all but destroyed Zimbabwe's economy, leading to very low gross domestic product (GDP) per capital (Trade Economics Zimbabwe, 2018).

According to (RBZ, 2020) the annual inflation rate in Zimbabwe eased for the first time in five months to 737.3 percent in June of 2020 from 785.6 percent in the previous month. This was 245% up as previously predicted by Statistica and thus way up for any planning. Consumer prices surged 31.7 percent from May 2020, the most since last October 2019, after rising 15.1 percent in May. The country's economy has been struggling for years, hit by massive inflation as well as food and fuel shortages. According to Trade Economics Zimbabwe, 2018 the situation is aggravated by the global pandemic with bankers, nurses, doctors and other health-care professionals recently demanding to be paid in US dollars in a bid to cushion them from soaring inflation and a depreciating currency. In June 2020, Finance Minister Mthuli Ncube raised salaries for government workers by 50% in an attempt to stop a nurses' strike at a major government hospital in the capital Harare and this led to the subsequent upsurge in inflation rates (The Herald, 2020).

Zimbabwe: Inflation rate from July 2019 to July 2020



Akotey et al (2012) argues that insurance is an important intermediary in the financial market and also plays a very significant role in the economy by mobilizing savings and supplying long term capital for economic growth and as an asset allocator. In a competitive insurance market, competition among the insurers increases productivity. Efficiency provides investors with diversified portfolio choice, enhances liquidity and induces better monitoring and corporate governance. According to D'Arcy (2009) a strong insurance industry promotes a developed contractual saving sector which contributes to a more resilient economy that would be less vulnerable to interest rate and demand shocks while creating a more stable business environment, including macroeconomic stability.

1.1.2 The Effect of Inflation of on Insurance

Several studies have documented the impact of inflation on the insurance industry. D'Arcy (2012) found that both the underwriting profit margin and insurance investment returns were negatively correlated with the inflation rate. Lowe and Warren (2010) describe the negative impact of inflation on insurers' claim costs, loss reserves and asset portfolios, Martin Sullivan, former CEO of AIG and current deputy chairman of Willis Group Holdings, termed inflation a bigger risk to insurers than earthquakes, tsunamis or Europe's sovereign debt crisis (Crowley, 2011). Insurers are impacted by inflation in several ways. The clearest impact is the cost of future claims on current policies.

1.3 Problem Statement

The short-term insurance industry like any other industries in the market is affected by inflation through depreciated underwriting profits, savings, and high claims cost. Insurance plays a significant role in a country's economic growth and offers financial protection to an individual or firm against monetary losses suffered from unforeseen circumstances.

1.4 Aim of study

To evaluate strategies used by Zimbabwean short-term insurers in coping up with inflation.

1.5 Research Objectives

1.5.1 To identify the effect of currency buying power on the Zimbabwean short-term insurance sector.

1.5.2 To identify current strategies being employed by Zimbabwean short-term insurers to cope with inflation.

1.5.3 To investigate the effectiveness of current strategies being employed by Zimbabwean short-term insurers to cope with inflation.

1.5.4 To investigate best strategies that can be employed by Zimbabwean short-term insurers to cope with inflation.

1.6 Research Questions

1.6.1 What is the effect of currency buying power on the Zimbabwean short-term insurance sector?

1.6.2 What are the current strategies being employed by Zimbabwean short-term insurers to cope with inflation?

1.6.3 How effective are the current strategies being employed by Zimbabwean short-term insurers to cope with inflation?

1.6.4 What other strategies can be employed by Zimbabwean short-term insurers to cope with inflation.

1.7 Significance of the study

1.7.1 To the student

The study seeks to satisfy the mandatory Insurance Institute of Zimbabwe requirement in fulfilment of a Fellowship. The study also equips the researcher with knowledge and skills on how to conduct a research.

1.7.2 To the Insurance Institute of Zimbabwe

The research will be published in the Institute Library and it will be used as a reference source by other students conducting similar research as well as adding to the body of knowledge.

1.7.3 To the organization

This study will also assist insurers in identifying the challenges of inflation to the industry and provide meaningful recommendations to insurers on how to effectively cope up with inflation.

1.7.4 The Regulators

The report will also assist IPEC to evaluate standard practises insurers may implement to survive in inflationary environments.

1.9 Participants

A research participant, also called a human subject or an experiment, trial, or study participant or subject, is a person who participates in human subject research by being the target of observation by researchers. Haralambos and Holbon (1990), argues that a sample size should be greater than 33% of the population under study. As a result, a sample size of at least 33% of the study population is reasonable and practical to represent the whole population. The researcher will use a random number of the targeted respondents 18 registered operational short term insurers in Zimbabwe as at 21 December 2019. Even numbers will be allotted to each insurer on the main list. The researcher will randomly select 6 short term insurers. Three questionnaires shall be submitted to be completed by the finance manager, underwriter and claims processor and this will total to 18 number of respondents.

1.10 Research Methods

A research method is a systematic plan for conducting research. Researchers draw on a variety of both qualitative and quantitative research methods, including experiments, survey research, participant observation, and secondary data. In this research the researcher shall use questionnaires and interviews to conduct the research.

1.11 Interviews

According to Fitzpatrick and Kazer (2012) an interview is the main data collection tactic in qualitative research. They also say that interviews aim to achieve textual qualitative data which reveal the individual's perception of the interviewee. Interviews afford interactional opportunities in face to face meetings in the middle of the researcher and respondents. Appointments to interview the finance managers, underwriters and claims processors of the sample companies shall be organised. Some of the advantages of using interviews is that detailed answers to questions by the investigator are found from the interviewee as there is opportunity for additional questioning by the researcher, the interview has a high level of response as compared to questionnaire, interviews are suitable because they can be done at any place and time wherever the researcher and the interviewee are available. Through an interview examination of the respondent's worthiness can be done by the researcher before the commencement of the interview.

1.12 Questionnaires

According to Browne (2011) a questionnaire is a printed list of questions that must be filled on a personal basis by respondents. Gathering of reliable and reasonably valid data is performed in a less costly and short timely manner.

Questionnaires are clustered as open ended and closed ended, tailor made to the respondents. These questionnaires are distributed to the population under study and the objective is to obtain quantitative data that is used to interpret findings on the effectiveness of the research. After the respondent fills the questionnaire, they are returned back to the researcher. The researcher assures the respondent that the results are only used for academic purposes. Nevertheless, a questionnaire should be unstipulated meaning it should not take account of names. The benefits of using questionnaires in this study is because questionnaires allow a broader coverage in a less period and low cost, they are also done by the scholar with restricted consequence to its validity and reliability, information can be scrutinized more systematically and factually than any other form of research and they can reach any person regardless of availability. According to Kumar (2011), questionnaires provide more privacy hence respondents offer more information.

1.13 Limitations of the Study

The study aims to evaluate strategies used by Zimbabwean short-term insurers in coping up with inflation. The following boundaries of the research will be observed:

1.13.1 Time limitations

This research study is going to focus on the period June 2020 to June 2021 but reference will be made to other years.

1.13.2 Geography limitations

The research will be conducted in Harare the capital city of Zimbabwe where it is possible to reach the industry representatives at Head Office level. The research is also confined to the Short- term insurance sector.

1.13.3 Theory limitations

The study will be confined to inflation and other related concepts and theories on its effect on insurers.

1.13.4 Health limitations

The research will be conducted during Covid 19 pandemic restrictions and thereby avoiding face to face interviews.

1.14 Scope of Research

Zimbabwe's short-term industry is headquartered in the capital city of Harare. Selling of insurance to other parts of the country is mainly done by branch companies, agents and brokers. Most claim settlement is done in the headquarters in Harare with few countable settlements being done in Bulawayo the second largest capital. This research will, therefore, look principally at those short insurer firms headquartered in Harare.

CHAPTER TWO - LITERATURE REVIEW

2.0 Introduction

The main thrust of this chapter is to review strategies used by Zimbabwean short-term insurers to cope with inflation taking considerations of related existing literatures. In this chapter the researcher included secondary data and views from other related researches in the same field of study to support how inflation has impacted short term insurers.

2.1 Inflation

Inflation is the process whereby a currency loses its value due to many factors that include for example; an increase in demand for products and extreme printing of money by central banks Jhingan (2002) defines inflation as a persistent and appreciable rise in the general level of prices. (Andrew B. Abel, Inflation, 2008). It can also be described as a sustained increase in the general price levels in an economy over a given period of time. According to (Andrew B. Abel, 2008); inflation is the rate at which the general level of prices for goods and services is rising and afterwards, purchasing power is declining or, the on-going fall in the overall purchasing power of the monetary unit. Inflation rates vary from year to year and, from currency to currency. Inflation can also be defined as an increase in money supply and increase in credits. Inflation can be complex but can also be controlled if governments are strict on themselves by carefully following the monetary and fiscal policy laws. (Gillespie, 2007) Inflation can be measured in different ways, commonly by the gross domestic product deflator or the consumer price index indicator which measures the general changes in prices for a wide range of goods.

2.1.1 History of Zimbabwe Inflation

The main cause of inflation in Zimbabwe is the increase in money supply which is not supported by growth in the output of goods and services (Makochekanwa, 2007). This relationship, where money supply causes inflation in Zimbabwe is explained by the use of money printing as one of the major sources for financing government deficits. The parallel foreign exchange market was found to play a significant role in the inflation function for Zimbabwe (Makochekanwa, 2007). The premium affects the inflation rate indirectly through expensive imported inputs.

Most of the companies in the insurance sector operate at very low capacity levels, negatively affecting claims settlement (Besada and Moyo, 2008). Excess demand pushes prices up daily. Adapted and rational expectations that buyers will use both previous inflation figures as well as all the relevant available information to forecast future inflation trends have a significant short run and long run influence on inflation. Structural changes also contribute to the decline in output – land reform and partisan government approaches (Makochekanwa, 2007). Poor governance resulted in shortages of raw materials, water, electricity and demotivated workforce which also contributed to low output levels, hence the highly turbulent environment during the period. Besada and Moyo (2008) added that political instability has a significant long-run influence on the level of prices in Zimbabwe. Thus, the country needs to improve its political environment across the spectrum, from international relations, internal governance, and restoration of all the basic human rights.

2.1.2 Causes of Zimbabwe Inflation

Sowell (2004) provides a basic introduction to inflation by focusing on two major drivers: the real economy (focused on the supply and demand for production output in the economy) and the monetary aggregates (supply of money). Prior to fiat currency, most transactions were tied to physical commodities such as gold which naturally had a limited supply. In these economies with limited money supplies, there are two common explanations for increasing prices: (1) demand-pull inflation and (2) cost-push inflation (Baghestani and AbuAl-Foul, 2010). First, in growing economies, increases in consumer demand may outpace available aggregate supply. This excess demand pulls prices higher as consumers part with wages given their confidence in the labour market due to economic expansion. This is one of the underlying arguments used as the basis for the Phillips (1958) curve illustrating an inverse relationship between inflation and unemployment: as more workers earn a wage, the additional demand created by consumption leads to demand-pull inflation

According to Babbie (1989), in cost-push inflation, exogenous shocks to supply affect the factors of production, including raw materials, commodities, and labour. Babbie further argues that the elevated prices get passed on to consumers, especially if no immediate substitutes exist for produced goods. Thus, for example, higher oil prices get passed on to air passengers in the form of higher ticket prices and fuel surcharges. Foreign exchange can often indirectly affect inflation. As the domestic currency weakens, this can exacerbate inflation since foreign goods become more expensive which can compound demand-push inflation during expansionary periods as consumers satisfy growing demand with imports. Besada posits that when foreign inputs are used for domestic products, this can accelerate cost-push inflation.

Finally, there may be elements of inflation persistence or inertia (Sheedy, 2010) where future inflation (and future expectations) is highly correlated with recent history, especially during periods of past price increases. Central bankers may have an effect on the severity of persistence if inflation targeting is among its top objectives (Levin, Natalucci, and Piger (2004)).

Burrell and Morgan (1979 argue that it is the supply of money that leads to inflation. Burrell further posits that given the breakdown of the gold standard, money supply is no longer fixed in supply. Thus, if governments decide to increase the money supply, if there is no corresponding increase in output, then the increase in money leads to a devalued currency. Thus, monetarists focus on the growth of money supply as the key link to long-term price pressures and point to examples of inflation as evidence of this link.

2.1.3 Effects of inflation on the insurance sector

The insurance sector which has the responsibility of insuring other industries tends to bear the brunt of inflation. The CZI (2020) states that the insurance sector in Zimbabwe is one of the most significant players in the economy due to its contribution to the GDP and investment opportunities. According to CZI (2020) the sector has lost working capital as a result of the perpetual decline of the local currency purchasing power. CZI (2020) indicates that the industry capacity utilization averaged 18.9 percent in 2019 down from 33.8 percent registered in 2018. The sector's contribution to GDP has declined to around 17 percent. The major constraints faced by the sector in 2019 were: i. Failure to finance working capital as there is no finance in the system. ii. A dysfunctional pricing policy in the country iii. Reduced aggregate demand for insurance services. iv. A highly demoralized work force v. Rising costs which continue to deplete the working capital base. Davis et al. (1991) described a turbulent environment as the dynamism in the environment, involving rapid, unexpected change in the environment sub-dimensions. They said in this environment, decision windows are shorter; risk of obsolescence is greater, long term control becomes impossible and managers have to learn new ways to operate in this turbulent environment. The scenario is related to what happened in the Nigerian economic sector between 1980 and 1985 (Oleyede, 1999). This period was the beginning of Nigerian economic crisis where high levels of inflation were experienced resulting in a destructive effect on the economy (Olukushi, 1989). A sizable number of companies closed plants, reduced production drastically and laid off workers. Companies also managed to survive during this 1980 and 1985 inflationary period in Nigeria through changing their strategies (Oleyede, 1991).

2.1.4 Measuring Inflation

The general rate of inflation is measured as a percentage change in Consumer Price Index (CPI) and the effects on insurers may be dramatically different (Cagan, 1956). In effect, increases in retail prices are separated (through a hedonic regression) into pure price effects and additional insurance costs as a result of service improvement is often brought by technological advances. When measuring inflation, the reported CPI strips out the extra costs embedded in new services that reflect product upgrades.

As an example, the retail prices of automobiles may have increased 25% over the last decade, but the component of the CPI related to automobiles may indicate a much lower increase since modern cars have much more advanced technology than one produced previously. Campbell further argues that if we want a measure of a truly static basket of goods, this year’s cars are not the same as those manufactured earlier.

However, payments from insurers do not reflect these hedonic corrections. Davis, Morris and Allen (1991) auto insurers do not reduce payments for car repairs to adjust for differences in quality. Insurance reimbursements for medical care are especially prone to advancing technology.

2.1.5 Effect of inflation on Insurers

Davis says increasing costs for insurers is affected by the continuous improvements in modern medical technology, not because the same outdated procedures of years ago are more expensive today. If a new generation of prosthetics provides significant benefits over older devices, any increase in cost would likely be fully reflected in insurance claims, yet only part of the increase would be captured under the reported CPI (Doyle, 2002),.

Second, insurers are likely to be exposed to specific components of the CPI rather than the overall level of price changes. Masterson (1968) measures the impact of inflation on insurers by isolating those components that are related to separate lines of business.

Finally, inflation does not have an isolated impact on insurer performance. While high inflation by itself may increase claims of insurers, the interaction with other economic and financial variables may lead to a more complex risk assessment. For example, the traditional Phillips (1958) curve indicates that demand-pull inflation may be accompanied by low unemployment. Thus, at a time when an insurer may be experiencing higher claims caused by inflation, these effects may be offset by lower unemployment which might influence disability and workers compensation claims. Low unemployment may also improve insurer sales and retention. Also, low unemployment may lead to positive effects in the stock market, further cushioning the higher claim inflation exposure of insurers.

2.1.6 Measures to stabilize inflation

Inflation is a complex situation for an economy. Phillips avers that if inflation goes beyond a moderate rate, it can create disastrous situations for an economy; therefore it should be under control. It is not easy to control inflation by using a particular measure or instrument. The main aim of every measure is to reduce the inflow of cash in the economy or reduce the liquidity in the market. Davis categorised inflation stabilisation measures into three as given in the illustration below.

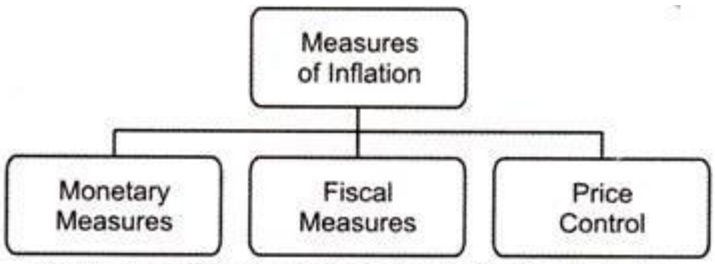


Figure-5: Different Measures for Controlling Inflation

Source: Davis, (1991)

2.1.7 Monetary Measures

The government of a country takes several measures and formulates policies to control economic activities. According to Doyle (2002) monetary policy is one of the most commonly used measures taken by the government to control inflation. Doyle postulates that in monetary policy, the central bank increases the rate of interest on borrowings for commercial banks. As a result, commercial banks increase their rate of interests on credit for the public. In such a situation, individuals prefer to save money instead of investing in new ventures. This would reduce money supply in the market, which, in turn, controls inflation. Apart from this, the central bank reduces the credit creation capacity of commercial banks to control inflation.

Eisenhardt and Sull (2001) says the monetary policy of a country involves the following elements:

2.1.8 Rise in Bank Rate

Increasing the bank rate is one of the most widely used measures by the central banks to control inflation (Evans and Berman, 1992). Evans defines the bank rate as the rate at which the commercial bank gets a rediscount on loans and advances by the central bank. The increase in the bank rate results in the rise of the rate of interest on loans for the public. This leads to the reduction in total spending of individuals

The main reasons for reduction in total expenditure of individuals are as follows;

(i) Making the borrowing of money costlier:

According to Goode and Hailt (1990) this refers to the fact that with the rise in the bank rate by the central bank increases the interest rate on loans and advances by commercial banks. This makes the borrowing of money more expensive for the general public. Evans argues that consequently, individuals postpone their investment plans and wait for a fall in interest rates in future. The reduction in investments results in the decrease in the total spending and helps in controlling inflation.

(ii) Creating adverse situations for businesses:

(Hawkins et al, 2008) says creating adverse situations for businesses implies that an increase in bank rate has a psychological impact on some of the businesspersons. They consider this situation adverse for carrying out their business activities. Therefore, they reduce their spending and investment.

(iii) Increasing the propensity to save:

Hawkins et al posits that increasing the propensity to save is the most important reason for reduction in total expenditure of individuals. It is a well-known fact that individuals generally prefer to save money in inflationary conditions. Evans argues that as a result, the total expenditure of individuals on consumption and investment decreases.

2.1.9 Direct Control on Credit Creation

According to (Doyle, 2002) direct control constitutes a major part of monetary policy.

The central bank directly reduces the credit control capacity of commercial banks by using the following methods:

(i) Performing Open Market Operations (OMO):

Davis et al says OMO refers to one of the important methods used by the central bank to reduce the credit creation capacity of commercial banks. The central bank issues government securities to commercial banks and certain private businesses. In this way, the cash with commercial banks would be spent on purchasing government securities. As a result, commercial banks would reduce credit supply for the general public.

(ii) Changing Reserve Ratios:

Jaworski (1988) says changing reserve ratios involves increase or decrease in reserve ratios by the central bank to reduce the credit creation capacity of commercial banks. For example, when the central bank needs to reduce the credit creation capacity of commercial banks, it increases Cash Reserve Ratio (CRR). As a result, commercial banks need to keep a large amount of cash as reserve from their total deposits with the central bank. This would further reduce the lending capacity of commercial banks. Consequently, the investment by individuals in an economy would also reduce.

Fiscal Measures:

Labaw (1980) stipulates that apart from monetary policy, the government also uses fiscal measures to control inflation. The two main components of fiscal policy are government revenue and government expenditure. Labaw explains that in fiscal policy, the government controls inflation either by reducing private spending or by decreasing government expenditure, or by using both. Doyle (2002) says the government may reduce private spending by increasing taxes on private businesses. Davies argues that when private spending is more, the government reduces its expenditure to control inflation. However, in the present scenario, reducing government expenditure is not possible because there may be certain on-going projects for social welfare that cannot be postponed. Furthermore, government expenditures are essential for other areas, such as defence, health, education, and law and order (Jaworski,1988). In such a case, reducing private spending is preferable rather than decreasing government expenditure. When the government reduces private spending by increasing taxes, individuals decrease their total expenditure.

Price controls

According to Laudan (1996) price control method means inflation is suppressed by price control but cannot be controlled for the long term. In such a case, the basic inflationary pressure in the economy is not exhibited in the form of rise in prices for a short time. Such inflation is termed as suppressed inflation. According to Leedy (1985) the historical evidence has shown that price control alone cannot control inflation, but only reduces the extent of inflation. For example, at the time of wars, the governments of different countries imposed price controls to prevent any further rise in the prices. However, prices remain at peak in different economies. This was because inflation was persistent in different economies, which caused a sharp rise in prices. Therefore, it can be said inflation cannot be ceased unless its cause is determined

2.1.10 Effect of currency buying power

Laudan (1996) defines purchasing power as the value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. Doyle posits that purchasing power is important because, all else being equal, inflation decreases the amount of goods or services you would be able to purchase. Laudan further explains that inflation reduces the value of a currency's purchasing power, having the effect of an increase in prices. To measure purchasing power in the traditional economic sense, you would compare the price of a good or service against a price index such as the Consumer Price Index (CPI).

Makochekanwa, (2007) suggests that purchasing power is the amount of goods or services that can be purchased with a unit of currency. For example, if you had taken one dollar to a store in the 1950s, you would have been able to buy a greater number of items than you would today, indicating that you would have had a greater purchasing power in the 1950s. Mason (2007) recommends that currency can be either a commodity money, like gold or silver, or fiat currency, or free-floating market-valued currency like US dollars. As Adam Smith noted, having money gives one the ability to "command" others' labour, so purchasing power to some extent is power over other people, to the extent that they are willing to trade their labour or goods for money or currency. If one's monetary income stays the same, but the price level increases, the purchasing power of that income falls. Inflation does not always imply falling purchasing power of one's money income since it may rise faster than the price level. Merriam and Simpson (1984) suggested that a higher real income means a higher purchasing power since real income refers to the income adjusted for inflation.

2.1.9 Consumer Buying Power

A consumer's buying power represents his or her ability to make purchases (Labaw, 1980). The economy affects buying power. For example, if prices decline, consumers have greater buying power. Leedy, (1985) if the value of the dollar increases relative to foreign currency, consumers have greater buying power. When inflation occurs, consumers have less buying power.

Consumer Price Index (CPI)

Nyambawo, A. (2008) pointed out that a consumer price index (CPI) measures changes in the price level of consumer goods and services purchased by households. The CPI in the United States is defined by the Bureau of Labour (2020) as a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Oleyede (1991) argues that the CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically. Leedy also pointed out that it is one of several price indices calculated by most national statistical agencies. The annual percentage change in a CPI is used as a measure of inflation. A CPI can be used to index (i.e., adjust for the effect of inflation) the real value of wages, salaries, pensions, for regulating prices and for deflating monetary magnitudes to show changes in real values. In most countries, the CPI is one of the most closely watched national economic statistics

2.2 Current strategies to cope with inflation

Sambowo (2008) avers that in the inflationary turbulent times, businesses may survive inflation through price reduction, debt restructure, cash flow management, business productivity and efficiency optimization, use of technology and evaluation of supply chain management.

2.2.1 Price Adjustment

Kotler (1994) posits that it is true that raising prices can be damaging, and it is most likely not the first course of action needed to be taken in the face of inflation, but however it does remain an option. Kotler and Keller (2009) suggest that when deciding to raise prices, keep an eye on your competitors' prices and try not to go too far over what they are charging to maintain a competitive advantage.

2.2.2 Debt restructuring

Mason (2007) suggests that reducing debt, preparing for inflation is a good reason. Jaworski (1988) is of the view that reducing the amount of money you must pay on a regular basis can help free up money to deal with the rising costs associated with inflation.

2.2.3 Cash Flow Management

According to Eisenhardt and Sull (2001) improving cash flow can help ease some financial pressure. Goode and Hailt (1990) suggest that finding ways to keep the cash flowing, such as using electronic payments, sending out invoices promptly, and quickly following up on late payments from accounts receivable may improve cash inflow. Evans and Berman (1992) suggest that to seek a business line of credit specifically to help manage cash flow can be a good idea and help to deal with inflation-associated costs.

2.2.4 Productivity and efficiency optimization

Babbie (1989) stipulates that productivity can go a long way and finding ways to get more focus from employees on tasks that directly lead to financial gain for the company will improve the financial situation and make inflation less of a concern. Goode suggests that achieving productivity and efficiency is gained through improving employee efficiency, effective delegation of tasks, matching tasks to skills, effectively communicating, incentivizing, cutting out unnecessary tasks, and embracing technology.

2.2.5 Use of technology to reduce costs

Confederation of Zimbabwe Industries (2007) suggests that businesses should identify tasks that can become more cost-effective by utilizing a technology that is not currently being employed. Davis, Morris and Allen (1991) avers that businesses should look for ways where automation can come in and make improvements and this can work to boost employee productivity by allowing tasks to be completed much more quickly with less room for human error. Davis avers that it can also free up employees' time so they can get more work done and help to improve the bottom line.

2.2.6 Evaluation of supply chain management

Burrell and Morgan (1979) while the amount paid to suppliers is directly hinged on inflation in some cases, it's still wise to regularly evaluate the supplier situation. Cagan (1956) suggests to always keep an eye on what your suppliers' competitors are offering and shop around for better deals. It may not be worth changing suppliers if you've built up a meaningful relationship with one, but chances are, you can find ways to save some money in this area, even if it means negotiating with existing suppliers.

2.3 Strategies applicable in an inflationary environment

Thompson, Strickland and Gamble (2010) define strategy as “management’s game plan for strengthening the organization's position.” Strategy is therefore, the way managers decide their organisations should operate in an industry or a market. Doyle (2002), argues that managers’ choice of the way organisations operate is a function of the industry’s life-cycle stage. Industry life cycles are in four stages namely: emerging, growth, maturity and decline. Decline stage is characterized by low or shrinking demand. This is also a characteristic of hyper-inflation as customers are left with very little disposable income which is continuously eroded by the increase in prices.

Festa et al (2016) identified three strategic options that businesses in declining industries can pursue. These are focus strategy, differentiation and cost leadership.

2.3.1 Focus strategy

This strategy is based on pursuing a narrow piece of the total market share and attempting to either achieve cost advantage or differentiation, (Chen, 2009). It is based on the belief that even in declining markets there exist niches that may be growing hence businesses need to identify them and concentrate on them thereby escaping declining or stagnant profits. Kotler and Keller

(2009) and Evans and Berman (1992) asserts that business can grow its market share pursuing niche strategies. Niche needs may be a result of product uses, geographic uniqueness or product attributes that appeal only to relatively small markets. Kotler (2002) asserts that focus strategies are not only confined to small businesses but are also used by large firms in a bid to gain market share. Kotler (ibid) cites the examples of Johnson & Johnson, and EG & G who have used this strategy through their strategic business units (SBUs) with great success.

2.3.2 Differentiation

Differentiation is offering the market a service or product that is unique from competitors. Differentiation should be based on product quality improvement and innovation. Doyle (2002) argues that differences that businesses claim to have over competitors' products or services must be something that customers' desire and can benefit from. Kotler (2002) also emphasizes the need for businesses to have "unique" products in order for them to be competitive. Therefore, businesses pursuing this strategy are doing so based on the assumption that an improved product will give them competitive advantage over rivals thus increasing sales as they take away competitors' customers. Differentiation affords a business the opportunity to compete with rivals on a turf that is not pricey.

2.3.3 Cost Leadership Strategy

It is a concerted effort by a business to drive costs down. This strategy focuses on improving profit margin. The rationale is that profitability in a declining/stagnant market cannot be increased by increasing sales (Kotler, 2002). Therefore, the only route that a business can use to improve return on investment and profit margins is through improving productivity and cost reduction on a continuous basis. Thompson, Strickland and Gamble (2010) provide the following as ways to driving costs down:

a) Outsourcing- this is where business identifies activities that can be done by outsiders at a cheaper cost. This strategy benefits creating business linkage opportunities particularly where small business are concerned

b) Business process re-engineering (BPR)- this involves a complete overhaul of the internal business process removing all the production process that do not add value

c) Closing low volume, high cost distribution channels

d) Cutting marginally beneficial activities out of the value chain

e) Adding more distribution channels to ensure that unit volume distributed lowered production costs.

Kotler (2002) agrees that cost leadership is a strategy used by businesses to maintain their sales while reducing their costs. He suggests that the first cost to be cut would be research and development, followed by a reduction in sales force size and the advertising budget. Kotler (ibid) goes further to suggest that businesses might reduce product quality in their effort to drive costs down. Kotler (2002) and Thompson, Strickland and Gamble (2010) emphasize that strategic options discussed above are not mutually exclusive. Businesses in declining or stagnant markets need to clearly understand their situation and use the most appropriate strategic options that help them reduce costs and maintain or grow market share.

Mason (2007) in his study used the case study and in-depth interviews to investigate the influence of the external environment on the choice of strategic management activities, from a chaos and complexity perspective and noted the following: -

i. More successful companies in a complex/turbulent environment have a culture of acceptance and encouragement to change. They react quickly to achieve an advantage over competitors.

ii. In terms of planning, these successful companies adopted a short planning horizon from three to six months.

iii. In terms of management style, successful companies in turbulent environments have an open, democratic leadership style with independent and entrepreneurial action encouraged.

These companies also aggressively enter into new markets. Swanson (2007) also, highlighted that there are also a number of strategies organizations can adopt. The following are important financial management issues to be considered in an inflationary environment:

i. Make absolutely certain that managers understand the time value of money.
ii. Never allow cash to remain idle
iii. Good cash management can provide a major source of profit, while poor cash management can destroy a company in a matter of months.

iv. Be prepared to convert local currency into a stable foreign currency

iv. Inventory valuation should be based on NIFO (next in first out) rather than LIFO (last in first out).

v. To develop an appropriate inflationary adjustment for capital replacement or the value of your capital will disappear.

Under marketing, Swanson (2007) business must sell products with the largest profit margins since government intervention and regulation inevitably become more oppressive. In terms of pricing, fluid pricing becomes an absolute necessity, and prices must change frequently and sharply to accurately reflect the impact of inflation.

Other important issues are that procurement must become strategic and management must guard against illegal procurement activities. Management must be prepared to shorten pay periods. On manufacturing, Swanson emphasizes that management must be flexible, innovative and implement effective cost control measures. Fringe benefits must be adjusted to reflect inflation, and to consider a type of index that will be used for cost of living adjustments in order to ensure stable industrial relations (Swanson, 2007).

According to Kotler et al. (2000) rising costs in an inflationary environment squeeze profit margins and lead companies to make regular rounds of price increases. Where possible, the company should consider ways to meet higher costs or demand without raising prices. For example, it can shrink the product instead of raising the price.

Nyambayo (2008) also added that when the business environment is unstable business decisions are made frequently. Davis et al. (1991) further support the situation and described a turbulent environment as the dynamism in the environment, involving rapid, unexpected change in the environment sub-dimensions. They said in this environment, decision windows are shorter; risk of obsolescence is greater, long term control becomes impossible and managers have to learn new ways to operate in this turbulent environment.

Prendergast and Berthon (2000) advised that in turbulent and complex environments, management is best practiced in flat decentralized organic structures as they can maintain global stability but absorb a high degree of uncertainty and still adapt at the detail level. In turbulent environments, planning is still important but it should have a short time horizon, information should be freely distributed and used quickly, it should be about how to do things rather than what to do, and it should include alternative possible outcomes, in other words, less prediction, control and stability and more self or group control to enable quick adaptation to the changes (Jaworski, 1998).

2.4 Effectiveness of inflation coping strategies

Effectiveness of price adjustment on inflation.

According to Kotler (1994) the effectiveness of price adjustments is solely dependent on the geographical location, competitors pricing and service value.

2.4.1 Geographical Pricing

Kotler et al (2000) says geographical pricing is the practice of varying price tags based on where you sell your products. Saunders suggests that a geographical pricing strategy can grow out of a need to recoup shipping costs, which tend to grow higher as you send your offerings further afield or your products may have a higher perceived value in another region, because of rarity or cache. Hawkins et al (2008) avers that sometimes, obstacles to operating in a certain area may require you to raise prices to break even, such as working in areas that have prohibitive regulatory structures. Geographical pricing offers the advantage of allowing you to earn more in certain situations. This is disadvantageous, because it adds extra layers of bookkeeping, because you need to keep track of different insurance rates in different places.

2.4.2 Competitive Pricing

A competitive pricing strategy positions your product in reference to other options on the market (Kotler, 2000). You set your price after considering the prices of comparable products, using the product to send a message about whether your offering is a better value or of higher quality. Competition-based pricing advantages and disadvantages include the opportunity to leverage a simple tool to send a powerful message, and the danger of locking into a price that makes it hard to break even, as you undersell the competition.

2.4.5 Value Based Pricing

Clarke (2009) describes value-based pricing as part of a competition-based strategy, as it is used to communicate that the product has features or workmanship that make it worth more than the competition's offerings. Price can be based on value, without worrying about what competition charges. Davenport and Harris (2007) suggests that if the service offering is unique or uniquely appealing, businesses may be able to write their own playbook when it comes to price, as long as they are able to find the customers who understand that the service is worth more and that they have the money to pay for it. Alternatively value can be incorporated into pricing by charging a fair price for a high-quality item (Festa et al, 2016). The benefits of pricing with value in mind are that value is somewhat subjective, so you can craft a marketing message that supports your price's value claims.

2.4.6 Skimming and Penetration Pricing

Skimming and market penetration are pricing strategies based on a product's newness. Goi (2009) suggests that when a product has a cache, fans are willing to pay more, so that they are among the first to use the product. Releasing long anticipated products in limited quantities can help add to the buzz that makes passionate customers happy to pay more. By releasing a service that has a high price, initially, you can make the most of this initial enthusiasm. Kotler says that once consumers have grown accustomed to having the product on the market and more people own it, businesses can reduce the price to entice a more diverse pool of buyers.

Penetration pricing takes the opposite approach, offering an initially low price to encourage customers to buy and familiarize themselves with the product. Ibidunni (2011) suggests that skimming and penetration pricing offer the advantage of attracting attention when your service is especially fresh and interesting. However, these pricing strategies have the disadvantage of not being long-term strategies, because newness always fades.

2.5 Effectiveness of debt reduction in inflationary environment

According to Dowley (2002) if wages increase with inflation, and if the borrower already owed insurance policy premiums money before the inflation occurred, the inflation benefits the insurer’s debtors. This is because the insured still owes the same amount of money, but now they have more money in their paycheck to pay off the debt. This results in less value for the insurer if the debtor uses the extra money to pay off their debt early.

Davis asserts that when a business borrows money, the cash it receives now will be paid back with cash it earns later. A basic rule of inflation is that it causes the value of a currency to decline over time. In other words, cash now is worth more than cash in the future. Thus, inflation lets debtors pay lenders back with money that is worth less than it was when they originally borrowed it

2.5.1 Improving cash flow

Ho and Hung (2008) posits that most organizations attempt to raise cash by selling products or offering services. Firm's need cash because a company cannot remain solvent if its expenses exceed its income. Therefore, many business owners regard excess cash as a good thing, rather than a negative. Ho and Hung give a contradictory statement in which they state that in some circumstances having too much cash can actually hurt an organization, as well as help it.

Latif (2011) postulates that an organization can keep its cash in bank accounts or in cash equivalent securities such as short-term federal bonds or commercial paper. These investments are highly liquid so the organization can access cash at any time. However, in the investment world, if you take minimal risks then you get minimal rewards. Short-term cash equivalents pay low interest rates. Over an extended period of time, inflation may grow at a faster rate than these low-yield investments and although the organization does not lose any money, it loses spending power. The more cash a business has, the more it will suffer the adverse effects of inflation risk.

Effectiveness of productivity optimization in an inflationary environment.

According to Ho and Hung (2008) he identified the elements below as contributing to productivity and efficiency optimization. The noted elements were matching tasks to workers skills, effective communication, setting clear goals, incentivising workforce, cutting costs, embracing telecommuting, use of technology and thinking of the big picture.

2.5.2 Match Tasks to Skills

Jaworski suggests that knowing your employees' skills and behavioural styles is essential for maximizing efficiency. For example, an extroverted, creative, out-of-the-box thinker is probably a great person to pitch ideas to clients. However, they might struggle if they are given a more rule-intensive, detail-oriented task. Goi suggests that asking your employees to be great at everything just is not efficient–instead, before giving an employee an assignment which matches skills to tasks. Davis suggests that employees should be given tasks that match their skills.

2.5.3 Effective communication

Kotler says management should know that communication is the key to a productive workforce. Technology has allowed us to contact each other with the mere click of a button or tap of a touch screen and this naturally means that current communication methods are as efficient as possible. A McKinsey study found that emails can take up nearly 28% of an employee's time. In fact, email was revealed to be the second most time-consuming activity for workers after their job-specific tasks. Clarke suggests that instead of relying solely on email, try social networking tools skype designed for even quicker team communication. You can also encourage your employees to occasionally adopt a more antiquated form of contact voice-to-voice communication. Having a quick meeting or phone call can settle a matter that might have taken hours of back-and-forth emails.

2.5.6 Keep Goals Clear and Focused

Latif (2011) suggests that management should not expect employees to be efficient if they do not have a focused goal to aim for. Mathieu (2001) concluded that if a goal is not clearly defined and actually achievable, employees will be less productive. Management should make sure employees' assignments are as clear and narrow as possible and employees should know exactly what they are expected to achieve and the impact of their action.

Oh and Choi (2013) pointed out that one way to do this is to make sure your goals are "SMART" – specific, measurable, attainable, realistic, and timely. Before assigning an employee a task, ask yourself if it fits each of these requirements. If not, ask yourself how the task can be tweaked to help your workers stay focused and efficient.

2.5.6 Incentivize Employees

One of the best ways to encourage employees to be more efficient is to give them a reason to do so (Oh and Choi, 2013). Oh further argues that recognizing your workers for a job well done will make them feel appreciated and encourage them to continue increasing their productivity.

According to Porter (1985) when deciding how to reward efficient employees, make sure you consider their individual needs or preferences. For example, one employee might appreciate public recognition, while another would prefer a private "thank you."

2.5.7 Train and Develop Employees

Goi argues that reducing training, or cutting it all together, might seem like a good way to save company time and money. Jaworski is of the assertion that this could backfire and forcing employees to learn their jobs on the fly can be extremely inefficient.

Sidhanta and Chakrabarty (2010) is of the idea that instead of having workers haphazardly trying to accomplish a task with zero guidance, take the extra day to teach them the necessary skills to do their job. This way, they can set about accomplishing their tasks on their own, and your time will not be wasted down the road answering simple questions or correcting errors.

Sidhanta suggested that past their original training, encourage continued employee development. Ho posits that helping employees to expand their skill sets will build a much more advanced workforce, which will benefit the company in the long run. According to

Saunders, employee development can be achieved through individual coaching, workshops, courses, seminars, shadowing, mentoring or even just increasing their responsibilities. Offering these opportunities will give employees additional skills that allow them to improve their efficiency and productivity.

2.5.8 Embrace Telecommuting

Allowing your employees to work from home might seem bad when no one is watching them. According to a Mckinsey research study it shows that people who work from home are 13% more productive than office employees. Sashi (2012) supports that letting your employees telecommute will allow them to save time that would otherwise be wasted completely. For example, say an employee is feeling too ill to come into work or is simply worried about getting their co-workers sick but can still be productive. If you do not allow them to work from home, they will be forced to take a sick day and skip working altogether. Or, forcing your employee to miss an entire day of work if they have to wait for that 2-4 hour period to get their refrigerator fixed, simply it is not efficient. Instead, allow your employee to work from home so they can maximize what time they do have available.

2.5. 9 Give Each Other Feedback

There is no hope of increasing employee efficiency if they do not know they are being inefficient in the first place (Singh, 2012). This is why performance reviews are essential to measure employees' performance, then hold individual meetings to let them know where they are excelling, and what areas they need to work on.

Stevenson and Hojati (2007) says increasing employee efficiency isn't all about what they can do better, some of the responsibility falls on you as well. So after reviewing employees, ask them what you could do to help them improve. Maybe they would like a little more guidance on certain tasks, or would prefer a little more room for creative freedom. Ho says asking for feedback not only gives you clear, immediate ways to help your employees improve, but also encourages a culture of open dialogue that will allow for continued development over time.

2.5.10 Think Big Picture

Things that might seem like an inefficient use of time to you now, might be to your advantage in the long run. So, before vetoing an apparent misuse of time, ask yourself how this could possibly benefit your company. For example, investing in HR software now can save your company and your employees countless hours down the road. Szopa and Pękała (2012) suggest that from automated on boarding to payroll that runs itself, embracing HRIS technology will improve efficiency, reduce frustration, and help your business grow.

2.5.11 Technology as competitive advantage in inflationary environment

Technology reduces costs through increased quality, increased service access and reduced costs. Every project that technology touches should be looked at through the lenses of quality, access and costs. It is no longer adequate to address one or two legs of this three-legged stool. The role that technology plays to increase quality and access is perhaps more apparent than the ability of technology to reduce costs. The growth of open educational resources and open online courses are clear examples of the role that technology can play in improving access.

2.6 Conclusion

This chapter reviewed literature and was focused according to objectives of the study. The researcher concentrated on theories of inflation and how they impact organisations. Literature on the strategies being employed by companies to cope up with inflation has also been reviewed. The literature review was meant to address the aim of this research. This literature will be used to discuss research findings presented in chapter four of this study.

CHAPTER THREE - RESEARCH METHODOLOGY

3.0 Introduction

This chapter is centred on the techniques in which research data was gathered from the research. The main objective of the research methodology is to show the representation of the research methods applied to the research. The importance of research methodology is to address the research questions and research objectives. Research assumptions are justified in this chapter with the backing of appropriate literature. Research design, data collection instruments, sampling design, reliability and validity will be deliberated in this topic.

3.1 Research Design

It is the draft plan for guiding the research study that maximizes control over factors that could affect the validity and reliability of the findings. There are four basic research designs namely, casual, explanatory, descriptive and predictive Moon et al. (2016). Research design assists the researcher to plan and implement the study in a way that will help the researcher to obtain intended results, thus increasing the chances of obtaining information that could be associated with the real situation Burns & Grove (2001).

3.2 Research Method

A mixed research approach was adopted to evaluate strategies used by Zimbabwean short-term insurers in coping up with inflation. The mixed research method uses both qualitative and quantitative data. According to Ghauri and Grönhaug (2015) qualitative approach focuses on specific situations or people with emphasis on words rather than numbers. On the other hand, quantitative research is used for statistics which quantifies the distribution under study.

3.3 Population and Sample (Subjects)

Polit and Hungler (1999) refer to the population as an aggregate or totality of all the research objects, subjects or members that conform to a set of specifications. Population refers to the full set of cases from which a sample is drawn thus according to Ghauri and Grönhaug (2015). In this study the population was made up of 18 short term insurers as at 30 September 2020. It was stated that samples can be used when the population is too large but if the population is manageable size then the entire population can be used Lambrechts and Hindson (2015). Population samples can be used when it is not practical to survey the entire population, if resources are limited to survey the entire populace or if there is limited time to carry out the research.

Target population is defined as the group of people, individuals or organizations from which the researcher is interested in or from which the researcher wants to gather research data Lambrechts and Hindson, (2015). The targeted population for this study consists of 3 staff members from the six short term insurers selected for the sampling purposes.

According to Wyk (2015) is a subset of the entire population and has the same characteristics as the entire population. A sample represents all the characteristics in the population. Hargreaves and Forasacco (2015) stated that researchers opt to use samples because it is cost effective and with greater results, sampling speeds up data collection and it is not time consuming.

The researcher selected a total number of 6 short term insurers using stratified random sampling. To eliminate bias, the researcher selected 3 staff members from different departments to gather different ideologies regarding the subject understudy. The researcher also organized interviews for six people from the sample firms to get maximum qualitative data regarding the research under study.

Table 3.1 Population and sample size

Participants	Population	Sample group	Percentage
Head of Claims	18	6	33.33%
Underwriter	18	6	33.33%
Accountant	18	6	33.33%
Totals	**54**	**18**	**33.33%**

3.4 Research strategies and Data collection methods

A variety of research strategies can be used by the researcher to carry out the research; these include interviews, experiments as well as surveys (Moon et al., 2016). The researcher used questionnaires and interviews to obtain the intended research results.

Questionnaire gives a scientific element to the research findings whereas the qualitative aspects of the research are obtained through interviews.

Data collection procedures are defined as the processes and methods employed by the researcher to collect research data. Data is collected from mainly two sources which are primary and secondary data.

3.5 Primary data

Primary data is defined as raw unpublished data collected directly from the study area. According to Repplinger (2015) primary data is collected and assembled specifically for the research project at hand. There are various methods that can be used to collect primary data which are interviews, observations, experiments, questionnaires and case studies. The researcher collected primary data from the employees using interviews and questionnaires. Interviews were conducted with all the six senior managers of the short-term insurance companies to gather relevant information.

3.6 Questionnaires

According to DeVans, (2002) questionnaires is a common term including all data collection techniques in which each person is asked to respond to the same set of questions in a prearranged order. Therefore, the researcher did a self-administration of questionnaires, dropped the questionnaire to employees and collected them when the respondents had completed them after 1 day. Because of the nature of their jobs they were not able to complete them while the researcher was waiting. The researcher used questionnaires because they are easy to construct, easy to administer and they give the respondents time to think and answer reliably, hence reliable and factual information was obtained. The questionnaires were made simple and easy to understand which helped the respondents to answer on time.

3.7 Interviews

Interviews are described as the face to face interaction between the interviewee and the interviewer. According to Cooper and Schindler (2003), interviews are purposeful face to face discussions between two or more people meant to inquire information or the perception about the issue under investigation. The researcher interviewed personnel who were senior management per company. Semi-structured interview questions were employed by the researcher to minimize rigidity. The reasons why the researcher chose interviews is mainly because it gives room for probing and clarity and this helps in the extraction of the sensitive information from the respondents. However, the hiccup that the researcher encountered is that interviews were time consuming due to length of the time from making appointments up to completion of the interview. The fact that there is face to face interaction defeats anonymity which many respondents prefer. However, respondents were rest assured that confidentiality was to be maintained at all cost and data gathered will be used for academic purposes only.

3.8 Reliability and validity of data

Reliability refers to the degree to which data collection methods can be able to yield consistent results if the same process is repeated Hinkelmann and Witschel, (2016). It promotes transparency in the research and a conclusion can be made which is valid. Questions were structured in a manner that addresses the research questions and objectives. The questions formulated ensured that all the research questions were covered. To ensure reliability, questionnaires were pre-tested to reveal ambiguities, irrelevant items and conflicting items. The researcher ensured that questions formulated were straightforward and related to the study.

3.9 Validity

According to Hinkelmann and Witschel (2016) validity is the extent to which data collection methods can be termed error free. The extent in which data collection methods measure accurately and ensure that it measures what it intends to measure. Scholars stated that validity aims at assessing that findings appear to be what they should be. The researcher ensures validity by collecting data from reliable sources such as insurers' management as well as respondents who understand the topic understudy. Questionnaires ensure validity of the research data.

3.10 Data presentation and analysis

Data that the researcher collected was analysed using frequency distribution tables, pie charts and bar graphs. The response rate of the questionnaires was calculated to show the percentage of respondents. The research used bar graphs, pie charts and tables to present data because they are easy to interpret and provide results that are to compare. Descriptive statistics were used in this research because it gives a representative view of all the data collected for it uses frequencies and it is easy to use.

3.11 Summary

The chapter explained methods, procedures and techniques used by the researcher in the collection of data. A descriptive research design was employed by the researcher in the study. Interviews and questionnaires were research instruments that the researcher used in collecting research data. Sample size of 18 respondents to the questionnaire was used in the research study. The next chapter will focus on the presentation of data, analysis and interpretation.

CHAPTER FOUR - DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter gives a presentation of the data obtained from the survey and an analysis of the results. The principal research instruments used were questionnaires and personal interviews. This chapter analyses, construes and presents primary data from the field in the form of tables, bar graphs, pie charts. In undertaking the analysis, the researcher applied SPSS, a certified data analysis and presentation software. The analysis was based mainly on the research objectives and questions outlined in Chapter One since these provided the framework for the research.

4.1 Response rate and questionnaire distribution

The response rate, diversely known as the or return rate or completion, is the ratio of number of people who completed the survey divided by the number of people in the sample. It is usually expressed as a percentage, and it is also the most important indicator of how much confidence one can place in the results (Statpac, 2007).

Data was collected from 6 non-life insurance companies and three questionnaires were submitted to the accountant, underwriter and head of claims of each company and gave us a total to 18 number of respondents. The data was analysed and modified.

Analyses of findings are illustrated in Table 4.1 below:

Questionnaires response rate

Category	# Questionnaires sent	Number of Respondents	% of Response.
Accountants	6	4	67%
Underwriters	6	6	100 %
Head of Claims	6	5	83%
Total	18	15	83%

Source: Primary Data

The researcher distributed 18 questionnaires in total, with (6) seven to Accountants (6)six to Underwriters and (6) six to Heads of Claims .

The distribution of the questionnaire is shown in Figure 4. 2 below:

Distribution of questionnaires

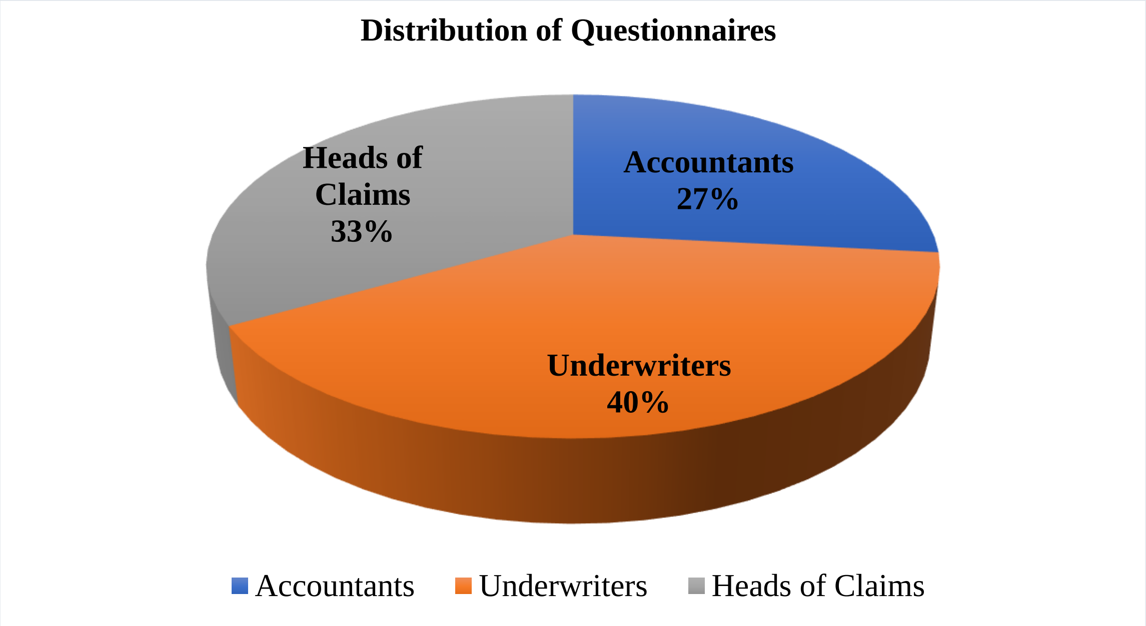


Figure 4.2: Pie chart showing the distribution of the 18 questionnaires dispatched.

Source: Primary data.

18 sets of questionnaires were sent to accountants, underwriters and heads of claims for six non-life insurers. The questionnaires were aimed at assessing the respondents on evaluating strategies used by Zimbabwean short-term insurers in coping up with inflation. Samples of these questionnaires are attached to the back as appendix 1 and 2. The distribution of the questionnaire is shown in Fig 1 above; this can be compared to the intended sample design presented in chapter 3.

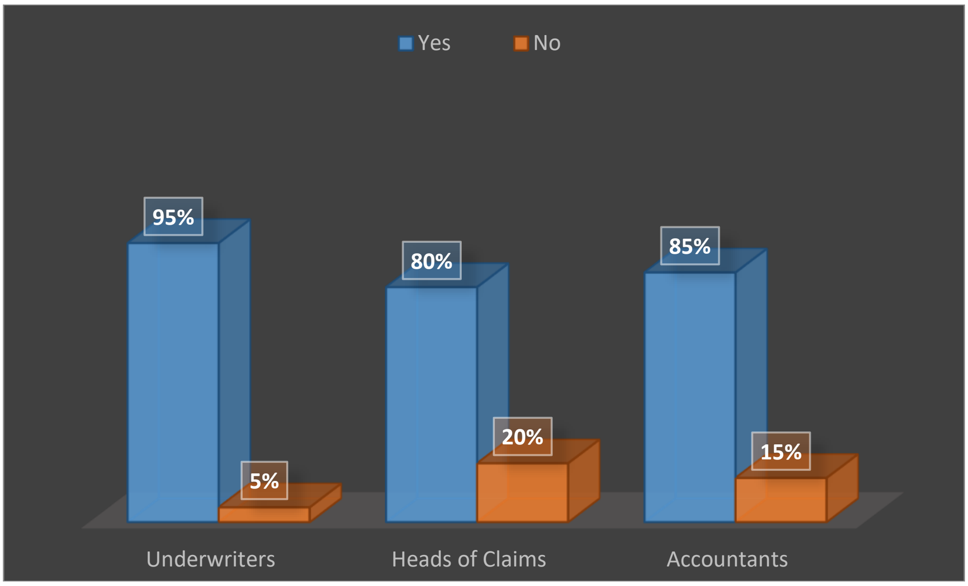
4.2 Effect of currency buying power on the Zimbabwean Short-Term Insurance Sector

From the respondents 95% of the underwriters agreed that Insurers save less during inflation, they were also in agreement that inflation makes claims costly, except for 5% who indicated that they were not in agreement. However, 100% of the group indicated that they were moderately agreeing that consumers spend less during inflation as premiums will be increased often.

80% of heads of claims were not agreeing that Insurers save less during inflation. The same group was also supporting the fact that claims become costly due to inflation but agreed that consumers spend less during inflation. They also indicated that the Market Share dwindles during inflation, except for 20% who were of a different view.

Most accountants (85%) of the underwriters agreed that Insurers save less during inflation, they were also in agreement that inflation makes claims costly, except for 15% who indicated that they were not in agreement. However, 100% of the group indicated that they were moderately agreeing that consumers spend more during inflation as premiums will be increased often except 5%. This is illustrated in figure 4.2 below:

Figure 4.2: Effects of currency buying power on the Zimbabwean short-term sector



***Source:* Primary data**

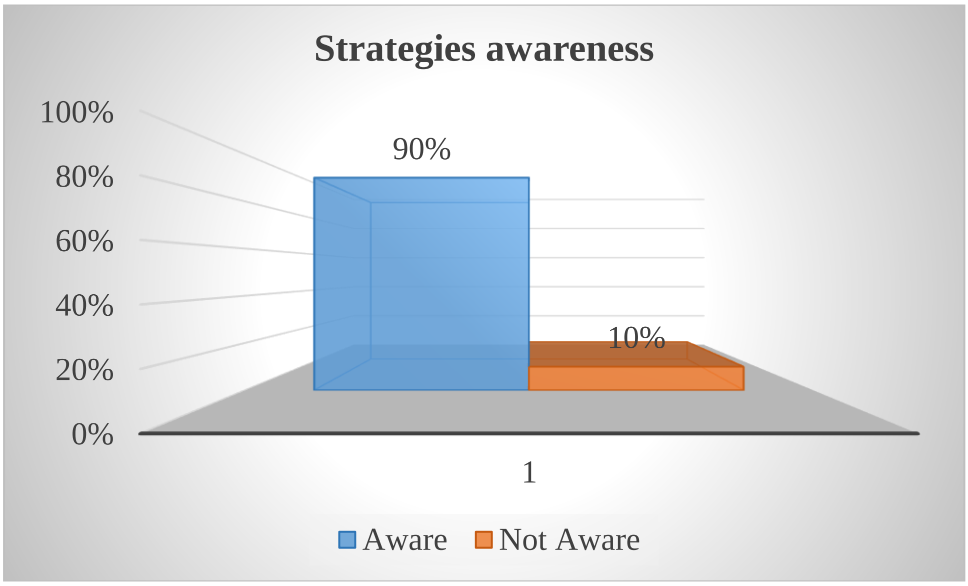
As illustrated in the diagram above, it can be concluded that insurers save less during an inflationary environment as claims become costly. When inflation occurs, consumers have less buying power and in the Zimbabwean context, a lot of people are living below the poverty datum line which leaves them with less disposable income to purchase insurance. Therefore, price has a large reflection on the purchasing decisions made by people. This has seen the amount of insurance purchased decreasing in Zimbabwe as premiums charged are perceived to be very expensive due to inflation.

4.3 Strategies being employed by short term insurers to cope with inflation

This question was asked to participants with the objective of finding out if these players in the insurance industry understand the strategies that are being employed by Zimbabwean short-term insurers to cope with inflation. From figure 4.3 below, 90% of both underwriters, heads of claims and accountants showed that they understand the current strategies that were being used. They also agreed that price strategies were very competitive, cash flow management was very efficient, debt structuring was yielding positive results for their respective companies and that indicated that the use of technology was reducing costs through increased quality, increased service access and reduced costs.

Whilst 10% showed that they were not yet aware of the strategies as some of them were new in the industry. One of the respondents stated that the Zimbabwean economy needs to simply dollarize to manage the inflation ratios.

Figure 4.3: Those who are familiar with the current strategies being used by short-term insurers to cope with inflation



Source: Primary data

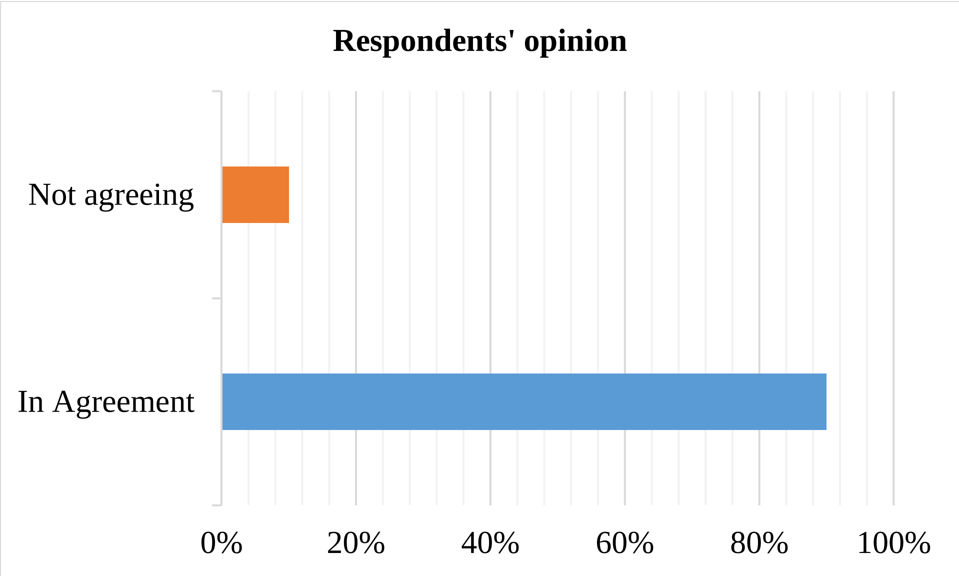
Therefore, it can be concluded that the insurance regulatory board, which is the Insurance and Pensions Commission (IPEC) should be on the lead when it comes to awareness on implementation of strategies. This would enable the Zimbabwean insurance industry not to lag in terms of the international standards thereby eroding away the confidence of the insuring public.

4.4 How effective are the current strategies being employed by Zimbabwean short -term Insurers to cope with inflation?

The researcher's objective on this question was to investigate the effectiveness of current strategies being employed by Zimbabwean short-term insurers to cope with inflation. Figure 4.4 shows that 95% of the respondents stated that the current strategies that were being utilized by the insurers were effective as they would increase their sales and profitability margins.

Whilst 5% of the respondents highlighted that low prices lead to low value added and lowers market share. As illustrated in the diagram above, it can be concluded that the current strategies deployed by the majority of the short -term insurance companies are not effective to the industry and that a colossal turn around must be implemented to improve the above statistics.

Figure 4.4: The respondents' opinion on the current strategies being employed by Zimbabwean short-term insurers to cope with inflation.



Source: Primary data

4.5 What are other best strategies that can be employed by Zimbabwean short-term Insurers to cope with Inflation?

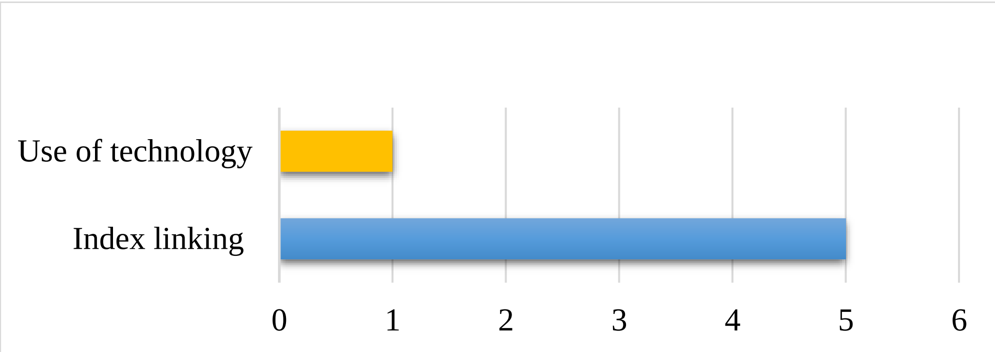
The question was asked to all participants to get their views on how the Zimbabwean short-term insurance industry can cope with inflation. Figure 4.5 below shows that 5 out of 6 short-term insurers were for the idea of index linking the Insurance products. This option enables the insured to pay premiums in USD on the correct USD Sum insured. The advantage of this policy is that no average is applied to this policy and in the event of a loss the insurers will replace or reinstate insured assets.

This option is also available for those with free funds who can have pure USD policies payable in USD and thus the best activity that insurance companies should do to enhance the growth of revenue and cope with inflation.

The Head of Claims at Econet Insurance Company highlighted that businesses should embrace the use of technology that can work to boost employee productivity by allowing tasks to be completed much more quickly with less room for human error. She further narrated that if insurance companies could invest in information technology systems that are specifically designed for insurance products their quality of services would improve which works better for the insureds.

Therefore, it can be concluded that short-term Insurers should embrace the idea of index linking the insurance products to enhance revenue growth and cope with inflation. It was also noted that information technology is of great importance to the insurance industry.

Figure 4.5: Propositions of strategies that can be implemented by the Zimbabwean short-term insurers to cope with inflation.



Source: Primary data

4.6 Conclusion

This chapter gave an outline of the questionnaire response rate, the findings from the questionnaires and interviews. Data was then analysed and presented in the form of graphs, pie charts and tables. It provided a gap-fill for the secondary research that had been undertaken. The primary research brought the subject into closer perspective and the respondents gave relevant and valuable information concerning the current strategies being used by the Zimbabwean short-term Insurers to cope with inflation. The data was satisfactory to meet the objectives of the research and will enable the researcher to draw meaningful conclusions.

CHAPTER FIVE - CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter draws conclusions from the findings of the study from primary and secondary data sources and makes recommendations on the strategies that short term insurance companies in Zimbabwe were implementing to cope with inflation. The theoretical reviews on the subject as well as opinions from the researcher and organization participants were taken on board in the identification of feasible solutions that are recommended. In theory, there can be unlimited views on the strategies that can be employed by short term insurance companies in Zimbabwe, but practical considerations always draw marked limitations.

5.1 Summary of findings

The research sought to evaluate the strategies that short- term insurance companies can employ to cope with inflation. The study also sought to find out the current strategies being employed by the industry as we speak. From the practical and theoretical observations made during the study, the following findings were drawn:

5.1.1 Findings on the effects of inflation on the Zimbabwean short-term insurance sector

5.1.1.1 High inflation rate

The research showed that high inflation rate led to underinsurance of the insured assets. This has resulted in the application of average where clients are paid less than the market value of their assets. Clients are left exposed and some no longer value the need for insurance.

5.1.1.2 Fraud

It was also established the current financial crisis has culminated into economic hardships amongst the citizens leading to temptation of defrauding the short -term insurance companies.

5.1.1.3 Increased cost of doing business

The research showed that the short-term insurers were incurring more costs on doing business due they would be forced to look for alternative sources of funds like investment funds to pay claims.

5.1.1.4 High Premium default rate

It was established that many insurance buyers were facing viability challenges as such insurance has become a luxury and many clients are failing to honour payment plans and the default rate on premium payment has remained high with insurance companies having to reverse.

This has reduced the collection efficiency of many insurance companies and impacted their balance sheets negatively.

5.1.1.5 Reduced insurance penetration ratio

It was established that due to the prevailing financial crisis and loss of currency value, insureds are opting for alternative methods of risk management such as self-funding, alternative risk transfer (ART), securitisation and many more.

5.1.2 Findings on the current strategies being employed by short term insurers to cope with inflation

a) The results show that the current strategies employed by short term insurance companies were not effective to the industry hence, this can be an opportunity for insurers to provide a better strategy to curb inflation.

b) It was also established that the Zimbabwean economy needs to dollarize to manage the inflation ratios.

5.1.3 The effectiveness of the current strategies being employed by Zimbabwean short -term Insurers to cope with inflation

a. It was established that the current strategies deployed by the majority of the short -term insurance companies were not effective to the industry and that a colossal turn around must be implemented.
b. The research also displayed that although IPEC was there as the regulator, much has not yet been done to enforce the insurance industry to implement strategies that they can employ to cope with inflation whilst protecting the insurance consumers and growing the market share.

5.1.4 Findings on the best strategies that can be implemented

i) Index Linking

The research showed that the Zimbabwean short-term insurance sector should embrace the idea of index linking the insurance products. This strategy has been proven to be the best activity that insurance companies should do to improve customer confidence in purchasing insurance products thereby enhancing revenue growth and increasing the market share.

ii) Investment in Information technology

According to the findings of this research, some insurance companies are lagging in terms of technology. It is well known that almost every insurance company has computers to use which is quite fine, but they are largely dependent on the use of the old style of data management which includes paper files, cabinets to name but a few. This has led to numerous errors being made in terms of miscalculations of claim considerations which has led to some insureds losing confidence in the providers of insurance services.

iii) **Aggressive marketing**

It was also established that short-term Insurers should implement aggressive marketing of existing products and partnership with various associations, for example for motor insurance associations and churches.

5.2 Recommendations

The following recommendations are made based on the above findings.

5.2.1 Recommendations towards current strategies

To address efficiency issues in the current strategies the industry is facing, the following recommendations were made.

5.2.1.1 Innovation on processes

Insurance companies should try to expedite claims processing, underwriting and service delivery to ensure high customer retention ratio. This acts as a marketing strategy as the good work the insurer does for only one person will go a long way and many people will believe the confession of another. This has proven to be another powerful strategy.

5.2.1.2 Prudent underwriting

Prudent underwriting has always proven to be the best strategy for drawing many people towards buying insurance products. This involves giving back the value of insureds' premiums for the services and products the insurance companies offer to the insuring public. Prudent underwriting also involves designing policies that are meaningful in terms of policy coverage and exclusions.

5.2.1.3 Setting up Insurance Fraud Bureau

Insurers should consider setting up an Insurance Fraud Bureau that will prevent and investigate fraud which is rising in the insurance industry.

5.3 Areas of further research

In the future the researcher suggests that the following areas need further research.

a) The base of choosing a suitable strategy among the available.

b) The difference between strategies employed in developed and developing economies.

5.4 Summary

This chapter summed up everything surrounding the study project. It drew conclusions from the research findings. Recommendations were made on the strategies that can be implemented by short term insurers in Zimbabwe to cope with inflation and how best current strategies employed can be improved.

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Zimbabwe Imports: ICT Goods 2000 - 2018 | Yearly | USD th | United Nations Conference on Trade and Development

Appendix: Questionnaire

To whom it may concern:

Dear Sir/Madam,

Ref: Request for information for research.

My name is Fadzai Masunda, a Fellowship student at the Institute Insurance of Zimbabwe (IIZ), Student Registration Number 1303963. I am undertaking a Research titled —" **Evaluating Strategies Used By Zimbabwean Short-Term Insurers In Coping Up With Inflation** "as part of the Fellowship program. I am therefore requesting your indulgence to complete the questionnaire below, which I am using to collect primary data.

I am kindly appealing for about 10 minutes of your time, for you to complete this questionnaire. I assure you that all the information will be used for purely academic purposes only and confidentiality shall be maintained. Should you require more information about the researcher, kindly get in touch with the chairperson of the program, Mrs. M Jakata on mobile number, +263 779 394 357.

Your cooperation will be greatly appreciated.

Yours Sincerely

Fadzai Masunda (1303963)

Mobile +263 772 885 600 or fadziem@gmail.com

A. Demographic questions

1. What level do you fall into in your organization? (Tick the relevant from below)

    a) Underwriter [ ]

    b) Head of Claims [ ]

    c) Accountant [ ]

2. For how long have you been in the organization?

    a) Less than a year [ ]

    b) One to five years [ ]

    c) Six to ten years [ ]

    d) Above ten years [ ]

B) Underneath are statements about the effect of currency buying power on the Zimbabwean short-term insurance sector. You can show the degree to which you disagree or agree with the statement by ticking the matching number in the 5 point scale below:

1=strongly disagree 2= disagree 3= moderately agree 4= agree 5= strongly agree

Please tick only one number for each statement

To what extent do you agree with the following statements?

	Variable	**Description**	**Code**
1	Savings	Insurers save less during inflation	1 2 3 4 5
2	Claims Cost	Inflation make claims costly	1 2 3 4 5
3	Consumers	Consumers spend less during inflation	1 2 3 4 5
4	Market Share	Market share dwindles during inflation	1 2 3 4 5

C) The following questions deal with current strategies being employed by Zimbabwean short-term insurers to cope with inflation. Put a tick on the correct number in the appropriate box.

	Variable	**Description**	**Code**
1	Price	Pricing strategies are competitive	1 2 3 4 5
2	Cash Management	Cash flow management is efficient	1 2 3 4 5
3	Debt Restructuring	Debt restructuring yields positive results	1 2 3 4 5
4	Technology	Technology reduces costs	1 2 3 4 5

D) The following questions deal with how effective the current strategies are being employed by Zimbabwean short-term insurers to cope with inflation. Put a tick on the correct number in the appropriate box.

	Variable	**Description**	**Code**
1	Focus Strategy	Niches are profitable	1 2 3 4 5
2	Differentiation	Segmentation has a high pay-off	1 2 3 4 5
3	Cost Leadership	Cheap insurance pools more money	1 2 3 4 5
4	Hybrid Strategy	Flexibility has a high pay-off	1 2 3 4 5

E) What other best strategies that can be employed best strategies that can be employed by Zimbabwean short-term insurers to cope with inflation? Write briefly.

…………………………………………………………………………………………

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………………………………………………………………………………………...

Thank you for taking the time to complete the questionnaire.