RESEARCH TITLE

ANALYSIS OF THE EFFECTS OF POOR UNDERWRITING ON THE PROFIT MAXIMIZATION OF SHORT TERM INSURANCE COMPANIES

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APPROVAL FORM

The undersigned certify that they have read and recommended to the Insurance Institute of Zimbabwe research entitled “[title of the research/study]”

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DECLARATION

I, Lizzie Shabeenzu hereby declare this research on; ANALYSIS OF THE EFFECTS OF POOR UNDERWRITING ON THE PROFIT MAXIMIZATION OF SHORT TERM INSURANCE COMPANIES 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 Diploma in Insurance of any other Associateship of the Insurance Institute of Zimbabwe, except where due acknowledgement has been made in the text.

Lizzie Shabeenzu / 685529

Signature

……………………..

RELEASE FORM

NAME OF STUDENT : Lizzie Shabeenzu

DISSERTATION TITLE : Analysis of The Effects of Poor Underwriting on the Profit Maximization of Short Term Insurance Companies

YEAR OF ATTAINMENT: 2021

SIGNED:

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DEDICATION

This assignment is dedicated to my son Shamel Old for his understanding and lenience during the time I was not readily available to help with school work. Amidst studying, he spared time to help with proofreading, I salute you Son!

To my family, I am appreciative of the encouragement and support accorded throughout my research work. You are the best one can ever ask for from God.

To my late parents, I shall forever remain indebted to you for laying a foundation for me that has seen me reach this height in education. Until we meet again in the yonder world, may The Almighty God continue resting your souls in Everlasting Peace.

ABSTRACT

The study embarked on investigating reasons that are attributable to effects of Poor underwriting on profit maximization and also provide feasible strategies to improve profitability for Companies transacting in Short Term Insurance Business in Zambia. The objective was to examine the relationship between underwriting and profitability in the industry. The study was conducted in Lusaka, the Capital City of Zambia and targeted 20 insurance companies and the general public. Respondents were sampled both purposively and randomly, depending on the information under investigation. To interpret the data that was collected, a descriptive analysis was done using a worksheet in excel, according to the opinion of common ideas.

Grounded on the study, weaknesses in leadership and attitude of underwriters towards work was revealed as a major contributing factor of deprived underwriting in the industry. The interaction of these forces coupled with rates undercutting due to competitiveness of the market is running down performance in the industry. Putting in place corrective measures to seal the identified gaps can help the industry improve on profitability and image promotion.

TABLE OF CONTENTS

DEFINITION OF TERMS

Premium = Commensurate Risk	*Charging appropriate premium to represent risk presented*
Creditworthiness	*Financial capability*
Client	*A customer of insurance*
Estoppel	*Legal principle that blocks the insurer from asserting terms to an already existing contract consequent of a claim or litigation*
Eye on profitability	*Intention to make profit*
Indemnity	*Reimbursement of the insured to the same financial position they enjoyed immediately before suffering loss*
Insurable interest	*Legal relationship between the subject matter of insurance and the insured.*
Insured	*Securing property or businesses with an insurance company*
Litigation	*Lawsuit, taking the insurance company to court in respect of a claim or misunderstanding between parties to the insurance contract.*
Merchants	*Wholesalers/Dealers or Brokers*
Preferred Risk	*Risk that is has slim chances of occurring or less severe*
Premium	*Amount paid to insurance providers for insurance services*
Salvage	*Remaining or skeleton of the subject matter of insurance following loss*
Subrogation	*Insurer's right to recover from the defaulter all that has been paid out when settling the claim*
Shipment	*Consignment/Cargo or Load*
Uberrima Fides	*Latin phrase that means Utmost Good Faith*

Utmost Good Faith *Duty of both parties of the insurance contract to disclose all material facts pertaining to the subject matter of insurance*

Uninsurable *Risk that is severe and is very likely to occur*

CHAPTER ONE – RESEARCH PROPOSAL

1.1 Background of the Study

The practice of insurance which is now deemed indispensable for the safe conduct of commerce on land, sea and air has been known since time immemorial.

Vance W (1908) explains that "the contention [that] insurance was known to the ancient rests mainly upon the passages found in the histories of Livy and Suetonius in the Cicero. Livy tells us that the contractors who undertook transport provisions and military stores to the troops in Spain stipulated that the government should assume all risks of loss by reason of perils of the sea or capture." Whereas Brooks (1921) states that it was not until the rise of the coffee-house in the middle of the seventeenth century, [which] furnished a meeting place and news centre, that insurance became an organized profession. Edward Lloyds, [owner of the coffee house], served the needs of the merchants that frequented it. He published a news sheet, called "Lloyd's News," three times a week of commercial and shipping intelligence from Britain ports and the principal European cities which was of interest to the Merchants, ship-owners and underwriters.

The passage above, of doubtful significance when read in connection with the activities of the Coffee house, in which Edward Lloyds supplied his customers with shipping information gathered from docks and other sources as eluded by Brooks (1927), can be considered adequate evidence that insurance was at least known to the commercial people of the ancient world.

The insurance service is practiced and appreciated in the world over because it is a backup measure for compensation of loss due to unforeseen circumstances. However, its viability is dependent on the underwriting techniques applied which have to be in conformity with the objectives of this profession.

However, the service is perceived as a cheat by the general public in Zambia. This is because of the increasing numbers of litigation and repudiated claims for cases that were not properly handled at inception. It is envisaged that the findings of this research will help mitigate this challenge and will subsequently be used as a tool to help change the mind-set of the general public.

1.2 Statement of the Problem

Short term insurance business in Zambia is becoming unprofitable because of increasing numbers of claims which have had an adverse impact on the industry's investment policy. Some of the players in the industry, especially new entrants, have had their Practicing Licences revoked by the Regulatory Body, Pensions and Insurance Authority (PIA), due to insolvency challenges. According to the 2017 annual report, PIA did not issue a practice licence to five insurance firms for failure to raise the minimum capital as regulated by the regulatory body.

It is suspected that these entities could have placed the majority of business on account and yet recovery of the premiums from the debtors was not properly handled. Alternatively, claim pay-outs might have been more than what was anticipated which ultimately affected the firm's liquidity status during the period under review. The aforementioned gaps are anchored on the role of underwriting in the industry and have even affected the rate of insurance penetration in the market.

1.3 Purpose/Aim of the Study

The study aims to establish reasons attributed to substandard underwriting mechanisms that hinder the flawless value chain across the departments and to provide lasting solutions to the challenges.

Furthermore, the research findings will be used as a tool to change the mind-set of the general public about the importance of the insurance service.

A successful implementation of the resolutions will help improve on profit maximization, whose resultant effect will ultimately enable the industry plough back into the community in form of investing in real estate, stock market and involvement in charity works as part of Corporate Social Responsibility (CSR).

1.4 Research Objectives

The research seeks to achieve the undernoted objectives:

1) To identify the role of underwriting in the insurance industry

2) To identify the reasons for substandard underwriting and provide solutions for achieving competent underwriting strategies

3) To establish whether the Human Resource Departments is embracing quality control when employing applicants for the position of underwriting.

4) To establish whether the underwriting manuals are in conformity with current trends on the market.

5) To find out if technology is being used effectively as a remedy to achieving competence of underwriting.

1.5 Research Questions

In an effort to meet the noted objectives above, the study will be guided by the following questions:

1) What is the role of underwriting in the insurance industry?

2) What are the reasons for substandard underwriting in the industry?

3) Is quality control practised by the Human Resource Department when employing applicants for the underwriting department?

4) Are the underwriting manuals in conformity with current trends on the market?

5) Is technology effectively used in order to improve underwriting in the industry?

1.6 Significance of the Study

To the Insurance Industry

The study is very significant as it will uncover the important role underwriting plays towards the achievement of the industry's objectives. Proper implementation of the resolutions will lead to profit maximisation and subsequent growth of the industry.

To the Student

The study is also significant as it is a partial fulfilment of the requirement for the fellowship qualification. The knowledge gained will enable the student to competently execute operations in the field of study and be confident enough to set high career objectives.

To the Regulator

Academia may use the study as a point of reference and prompt further research on the topic in order to provide solutions to the challenges that will not be covered by this study.

Further, the findings of the study will provide an input to the Insurance Regulator in the formulation of laws regarding the insurance services in the country.

1.7 Scope of the study

This study is based on short term insurance services in Zambia, therefore will only concentrate on companies that transact in short-term business. The researcher chose Short term business for ease of information and also given that it is the most active and recognised product in Zambia. In an effort to cut down on costs, the research will be limited to the capital city, Lusaka, because all the insurance companies' headquarters are based in this city. The general public (insured and non-insured) will also be incorporated in the study in order to achieve comprehensive results.

1.8 Limitations of the study

It is expected that time will not be adequate to conduct all the planned activities. This is because the feasibility of the project is completely dependent on extensive research alongside the daily demanding office errands amidst COVID 19 pandemic. Moreover, lack of cooperation from respondents and suspicion for the reasons behind this study is another time consuming barrier that is anticipated. Financial costs are also some of the limitations during collection of data as the researcher is likely to incur expenses such as travelling, airtime, internet and printing costs. It is also envisaged that acquiring feedback on time from the respondents may be a challenge, especially for surveys using questionnaires. This is because of restrictions under COVID-19 pandemic which has led to closure of many business entities. Therefore, feedback from field research might not yield the expected results consequent of travelling restriction in an effort to curb the pandemic.

CHAPTER TWO – LITERATURE REVIEW

2.1 Introduction

The chapter looks at critiquing the literature related to poor underwriting and its impact on profit maximisation. It gives a brief account on the historical development of underwriting and the role it plays in the insurance industry. Additionally, it will explain factors that affect the level of substandard underwriting with the associated consequences and then explore measures which the industry can use to sufficiently quantify and control them. The reviews done by different scholars will aid this task.

According to Nwoji (2015), the Insurance industry is bedeviled by an image problem, which has created a poor public perception about the sector and retarded its growth. The resolutions of the process will also help alleviate this problem, improve the profitability levels and ultimately lead to promoting the image of Insurance in the eyes of the public through the effective outcomes it generates

2.2 Underwriting

The term Underwriting was derived from the activities of the coffeehouse in the 17th century in connection with the insurance contract for shipping ventures. Merchants wrote their names under the total amount of risk they were willing to accept for a specified premium and a proportionate profit on every declared shipment at sea. These were typical maritime insurance policies which covered the perils of the sea. Edward Lloyds supplied information which was gathered from docks and other sources to his customers three times a week on a news sheet called "Lloyd's News (Brooks 1921).

Underwriting of maritime policies at that time was based on experience gained during the period spent in trading. Brooks (1921 Vol. 231), the same rule of experience was applied in rating policies based on the frequency of losses. Classes of risk that rarely presented loss were every merchant's wish to participate guaranteeing compensation in event of loss at sea. However, those risks identified as susceptible to frequent losses attracted higher charges, and in some instances, merchants' refusal to take up the risk. Risks were grouped according to likelihood of occurrence and magnitude of loss. This information was critical as it provided a basis for underwriting subsequent transactions. By the time insurance was recognised as an organized profession, this ancient rule of thumb was applicable. It is on this basis that the Principles of insurance were founded, later on the underwriting guides/manuals.

In spite of the changing time and evolved technology that has brought about few changes, the basic underwriting process has not changed. In this light, the prominence of adhering to the basic rules cannot be overemphasized as it is essential to the industry's profitability.

Empirical studies conducted by different scholars have defined underwriting using terms relevant to its description to justify the meaning. However, common to all, the primary objective of underwriting is risk evaluation and decision on terms and conditions to apply if the proposed risk is insurable. It is pretty much the "**behind the scenes**" work in the industry where determination of who to insure and how much premiums to be charged. Insurance underwriting also involves choosing who the insurance company will not insure. "Risk evaluation, measurement and later on decision making," has been practiced from time immemorial and it is a fact that the industry's survival rides on this principle. Freeman & Reynolds (2013) defines underwriting as a perfect example of collective intelligence [and] being able to produce better results than any one individual.

Some of the descriptions are as follows;

The Division of Supervision Consumer Protection (2007) describes underwriting as the process of assessing the creditworthiness of an applicant to be granted a service whereas Angina and Mwangi (2017) further alludes that this is done by grouping together similar risks for a rating. The resultant rates are adjusted [to consider] the group experience, and then adjusted to cater for inflation, uncertainty and expenses. Freeman and Reynolds (2013) qualifies the meaning of underwriting as a need to effectively use available data about the risk presented for insurance as it usually points an underwriter in the right direction.

Given the definitions cited by different scholars above, underwriting can be said to involve evaluation of the subject matter of insurance to determine if risk is preferred, standard, substandard or uninsurable. The underwriter needs to match the premium received with anticipated claims with an eye on profitability. The process is significant to the industry as it is the engine that drives performance, such that, if not properly handled, the insurer will be confronted with serious financial challenges.

2.3 The Underwriting Guidelines/Manuals

Dating back in the 17th Century, underwriting was practised traditionally in the form of art as it was passed down from one underwriter to another. The underwriting and classification of risks was dependent on loss patterns experienced. Such experiences later led to the production of lists, showing classes of risks which were not desirable, to guide the underwriters, (Jarvis 2016). This is where the insurance industry adopted the doctrine of the underwriting policy to coordinate insurance operations in a fair and quagmire free environment. Jarvis, further, states that underwriting guides help to ensure uniformity and consistency throughout all geographic regions. [They] also synthesize the insights and experience of seasoned underwriters and help the less experienced ones.

For reasons of equity and efficiency, the insurance business is one of the most highly regulated businesses globally. It has a well-defined regulatory and legislative framework that ensures incorporation of all the governing policies. On its webpage, the NIILM University (1972), defines the underwriting policy as a constitution of a country because it provides the framework within which the company would develop products for the market. It further states that in India, the Insurance Regulatory Authority (IRA) is in charge of compiling the Insurance Policy and is headed by the Controller of Insurance who is mandated to ensure compliance of various provisions under the 1938 Act. The controller also approves the terms and conditions on various plans and adequacy of premium, which supposedly, form the underwriting policy.

According to its webpage, transaction of General Insurance business in India is governed by two main statues namely;

- The Insurance Act 1938
  This Act specifies the restrictions and limitations applicable by the Central Government under the powers conferred in by section 35 of the General Insurance Business. Its main objective among others is registration of insurers and accounts

audit of insurance transactions. Unlike in Zambian where premiums received on various insured risks sit in the same account, this Act requires that the insurer maintains separate accounts of receipts and payments of the respective classes of risks.

- General Insurance Business Nationalization Act 1972

  The Act reads; "The State shall direct its policy towards ensuring that the operations of the economic system does not [result] in concentration of wealth and means of production so as to prove harmful to the common interest of the community." The main objective of the Act is to monitor proceeds of the insurance business and participation in economic development projects.

Since the underwriting policy decides the composition of business on the insurer's books, its significance cannot be overemphasized. All the underwriting affairs, setup of standard underwriting form and standard underwriting clauses are embedded in this document. The industry's Regulatory Body is mandated to ensure provision of the policy to all players in the industry. According to the Maryland webpage, Insurance companies in North America are guided by the Maryland law when deciding what risk factors [should be] included in underwriting guidelines. This law says that insurance companies cannot cancel or refuse insurance to someone based on his or her race, religious beliefs, gender, national origin, physical handicap or disability, or any other reason that is random or discriminatory. It, further, states that [the] underwriting guidelines must also have some reasonable purpose related to the insurance company's business of making a profit by insuring people and their possessions.

In Zambia, the insurance regulatory body, PIA provides underwriting guidelines to the Zambian insurance industry to aid risk managers in execution of duties in a professional manner. Overlooking guidelines of the underwriting manual can result in poor outcome because the document contains standard terms/conditions and premium rates in accordance with the type/category of the risk. It is also a duty of the regulatory body to ensure the manuals are up to date in relation to current trends. Insurers who abrogate terms of the insurance guidelines risk having the practice licence revoked or even not renewed once it expires. Lindberg (2020) defines the underwriting manual as [the] standard underwriting guidelines [that] set up the clauses which cover a list of required elements in order to issue an insurance contract. Underwriting guides also distinguish routine from non-routine decisions. Some underwriting guides include step-by-step instructions for handling particular classes of clients. Such guides might identify specific hazards to evaluate, alternatives to consider, criteria to use when making the final decision, ways to implement the decision and methods to monitor the decision. Like any other practitioners in the United States, in Virginia precisely, underwriters make decisions following guidelines specified in an underwriting manual. They also rely upon extensive medical knowledge and personal experience when underwriting cases. The reliance upon their own experience and judgment causes inconsistency across the underwriters, resulting in inaccurate rate classifications, (Bonissone et al., 2006).

Given the foregoing reviews regarding the connotation of the underwriting guide in the insurance industry, the intersection of knowledge by different scholars' descriptions is the basic purpose to transform the objectives of risk management into rules and guidelines to aid the company's underwriting process. Underwriting guidelines are drawn from the main clauses that are considered in the policy terms. Based on the guidelines from PIA, each insurance company in Zambia defines the extensions and exclusions on the offered type of insurance. Management has a responsibility to put in place internal controls designed to ensure adherence of the set standard. Stemming from this requirement, the research will investigate the effectiveness of the policies and procedures designed to ensure achievement of the objectives and also distinguish their efficiency given that market trends keep evolving.

2.4 The role of Underwriting

The essence of underwriting is to develop and maintain a profitable business profile of the industry by minimizing adverse selection of risks. Additionally, Lindberg (2020) alludes that any insurance company relies on an underwriting philosophy, and is confronted with specific market conditions [which are] defined by the insurance cycle. He describes risk philosophy as the balance between risk taking, risk tolerance, risk management and risk ownership. The insurance cycle refers to the periodic oscillation of the market between "soft" (characterized by decreasing premiums, less capital and less competition) and "hard" (growing premiums, new capital influx and more stringent underwriting guidelines) phases. Various definitions of this term give a clear indication about the significance of underwriting in determining the industry's performance. Dowd et al., (2007) states that the function of risk managers (underwriters) include among others, identification of principal risks faced by the insurer, such as operational and underwriting risks. It is one of the principles of good financial risk management which can mitigate the industry's exposure and ensure profitability. However, failure to adhere to underwriting control measures is costly to the industry. Incompetence of this nature, if left unattended to could be potential grounds of performance failure as a consequence of frequent claim settlements and litigations. Vaughan & Vaughan (2008) further indicates that improper risk evaluation even exposes the industry to serious liability due to adverse risk selection which is likely to include substandard risks or those that are catastrophic in nature. Such red flags can only be mitigated by prudence of the underwriting process that ensures equitable premiums on expected exposures, risk monitoring and evaluation which will ultimately lead to profitability.

The effects of incompetent underwriting will always remain undesirable to the industry as well as the general public who perceive the service as a cheat. According to research on the industry's reputation as mentioned by Seun (2020), like any other country in Africa, Nigerian insurance companies are viewed by the majority as "corporate thieves" because of scandalous cases [for] non-payment of claims as practiced. Most of the companies are unable to meet their obligations [with the policyholders], thereby worsening the already poor image of the industry. It is in light of the foregoing that the need to investigate the root cause of the identified setbacks and subsequently find lasting solutions was identified.

In order to identify and analyse the consequences aligned with poor underwriting, the review will be guided by the undernoted subheadings significant to the study and also given that they are prerequisite to prudent underwriting;

i. Insurable Interest
ii. Indemnity
iii. Subrogation

iv. Utmost good Faith

Insurable interest

Joint Winner of the Law Review Price, Long (1992) describes insurable interest as when a person has a moral certainty of advantage from the survival of the subject matter, or a similar chance of detriment from the damage or destruction of the insured property. She qualified this principle with a case study (pp.88), the way it was practiced in a Traditional Approach way back in the 18th Century. Macaura's case (1925) failed to be upheld after he tried to seek compensation for loss of trees following a fire that swept through his piece of land. This is because the trees and licence were leased to a timber producing company at the time of the incident; as he held no legal or equitable interest in the insured property.

The ancient Commerce traders and initiators of the principles, which are still in use to date, applied such measures to seal leakages in the underwriting process in order to maximize profits. IAZ Executive Director, Banda (2015), states that with the appreciation of the risk comes the benefit of charging the correct premium. This is where most underwriters miss it; they focus on getting the business at all costs regardless of the financial implication it attaches. The fact that the industry's claims performance is directly linked to the underwriting process, should always be borne by every underwriter. Under-pricing risks have a serious negative impact on the performance of the pool. This is due to improper risk representation in the pool of premiums such that in a worst-case scenario, it might be depleted by a single catastrophic event. In order to meet the obligations, companies start borrowing funds from other coffers within the company and the resultant effect might lead to insufficient funds for profitable investments. The risk category dictates the premium to be paid for the insurance, making appropriate placement critical. Underestimating the risk would result in the applicant not paying enough to cover the financial risk incurred insuring that individual whereas overestimating the risk would result in [price] not being competitive and losing customers, (Bonissone et al., 2006).

Banda (2015), further states that any meaningful discussion on prudence underwriting points back to the basics which include among others, completion of the proposal form, physical inspection of the subject matter and proper evaluation of the risk. The underwriter must always be alert and ensure the proposal form is fully completed and signed. The information given in the proposal form should tally with the contents of the supporting documents such as Title Deeds, Bill of Lading and motor vehicle registration books. If the risk will need a survey, a questionnaire for risk analysis must be fully completed and signed as well. These requirements are guiding factors to establish the proposer's interest in the subject matter and also to avoid covering unacceptable risks or risks that do not even exist. Some clients are more knowledgeable about insurance than the underwriters and might use it to their advantage. Example given, when completing a proposal form, they would avoid giving specific answers and instead give generalised statements in an effort to accommodate future risks that might surface after placement of cover.

Below is a case by Sampa (2018), Lawyer at Chibesakunda & Company - Zambia. In this case, the insurer was exposed to compensate the insured for a claim which could have been repudiated with competence of the underwriting process at the time of policy inception.

This is a case involving Nyimba Investments Limited (Appellant) vs. NICO Insurance Zambia Limited (Respondent) in 2016. The respondent is a registered insurance company engaged in the provision of insurance services in Zambia. The appellant is a limited liability company engaged in among others things, trading and leasing property. The latter effected an All Risks insurance policy with the former through a Broker, ION Zambia Limited for a period 15th October, 2010 – 14th October, 2011.

On 12th September, 2011, a fire swept through one of the insured properties situated in Lusaka's heavy industrial area. At the time of the fire, the titleholders to insured property were Gulam Ahmed Patel and Ayyub Adam Patel who traded under a business name called 'Nyimba Filling Station and Supermarket." The duo were also shareholders in the appellant company. The insured property had at the time been leased to Zambia Leaf Tobacco Limited under a tenancy agreement which reflected Gulam Ahmed Patel and Ayyub Adam Patel, trading as Nyimba Filling Station as the landlord/owner. Consequent of the fire damage alluded to; the appellant submitted two claims to the responded [insurance company] as follows;

i. A claim in respect of damage to the insured property to the tune of US$503,781.00, which was settled in full.
ii. A claim for US$320,483.00 in respect of business interruption. This claim was rejected, hence the option for litigation.

The respondent refused to honour the latter claim based on recommendation by the independent loss adjuster [who was] engaged to verify the claim. The loss adjuster discovered the property was not registered in the name of the appellant, but those of Gulam Ahmed Patel and Ayyub Adam Patel as joint tenants and, therefore, that the appellant's claim [had no] insurable interest [to the subject matter]. [Based on the claims assessment report], the respondent did not only repudiate the appellant's claim on account of lack of insurable interest but also intimated a desire to recover the sum of US$503,781.00 [which] was already paid under the material damage which policy, to the best of the respondent's understanding, was non-existent. Disconsolate with the [turn of] events, the appellant commenced proceedings with the High Court which, unfortunately, ruled in favour of the respondent as there was overwhelming evidence that the appellant had no insurable interest in the subject matter. The learned judge further held that the respondent was entitled to succeed on its counterclaim of $503,781.00 with the accrued interest at the current Bank of Zambia lending rate and costs.

It [was] against this judgement that the appellant appealed to the Supreme Court of Zambia and that the learned Counsel's ruling after hearing the appeal [was] as follows;

Upon giving a comprehensive background fact as well as the definition of an insurance contract to establish whether the appellant had an interest in the property, the Counsel focused on the proposal form and the policy document, arguing these were clear and unambiguous. He referred to the quotation slip which described the Nyimba Investment Limited and/or affiliated companies for their respective rights and the location of the insured assets as "all the other premises owned or occupied or used by the insured for the purpose of business anywhere in Zambia." It was the Counsel's fervid that a valid insurance contract existed between the appellant and [the] responded and that the appellant had made full disclosure of all material facts. He further contended that the concept of insurable interest as determined by the judge based on the single issue of the ownership of the subject premises was a gross misdirection and was an attempt to subtract or vary the terms of the contract. The ruling deemed the respondents liable and was ordered to compensate the appellant on both claims in full.

The foregoing case is an eye-opener to insurance underwriters to critically evaluate risks before placing covers as the industry is bound to any liability that may arise by accepting a risk. NICO insurance Zambia could have [saved] the sum of US$824,264.00, which was used to settle the claim [and would] profitably [have] invested [it in other] activities if only the underwriters took time to study the information given in the proposal form. Amongst the information given on the properties declared for insurance by Nyimba Filling Station, was an open and generalised declaration which stated "all the other premises owned or occupied or used by the insured for the purpose of business anywhere in Zambia." A prudent underwriter could have spotted this statement as a red flag and subsequently request the proposer to submit details of alternative names and addresses for the risks falling under this clause for adequate coverage.

The requirement to physically inspect risks is prerequisite to placement of cover. It is, therefore, mandatory for underwriters to carry out physical inspections to ensure the existence of the risk and most importantly appreciate the declared values on the proposal forms in relation with the current status of the subject matter. Some clients declare inflated figures and even present figures for risks which do not exist with a view to benefit in an event of a claim. Such fraudulent tactics, which are also in conflict with the principle of indemnity, exposes the industry to loss of finances. Inspection of risks before placing cover should not be taken lightly as it is one of the mitigation measures to curb fraudulent claims and also a guiding factor of premium computation.

Failure to interpret the reason behind geographical location, construction materials and risk occupation/uses by the underwriters is another red flag for potential future financial losses. All the above noted procedures are guiding factors for the selection of terms and conditions to apply on which the actuarial rating is based and should be considered. In the Nyimba Investments Limited vs. NICO Insurance Zambia Limited (2016) case, the insurer could have been served from settling the claim if the underwriter conducted the transaction prudently by involving the risky surveyor to ascertain the risk. The issue of insurable interest could have been detected at the time of the survey. The figurative expression "**familiarity breeds contempt**" is fulfilled in circumstances that expose insurers to loss through the hands of underwriters that ignore the basics of underwriting simply because of handling the same risks over a period of time.

Indemnity

The principle of indemnity requires reimbursement of the insured back to the pre-loss position after a claim has been verified to be worth paying by the insurer, (Yusuf and Dansu, 2014). An insurance claim, according to IRA-u et al., (2014) is a demand by the insured for compensation from the insurer for loss which the insurance policy might cover while Nasilele (2019) defines a claim as a request to be indemnified, reimbursed or compensated. In compliance with Angina and Mwangi (2017) about the significance of the relationship between underwriting and claims management, the two departments are intertwined because performance is directly dependent on the other.

People and organizations buy insurance with a view of being compensated in an event of suffering loss to the subject matter. The process takes the route of putting up a claim for loss of the subject matter. Dansu and Yusuf (2014) further states that it is a defining moment in the relationship between an insurer and the client as it creates a chance to show the worthiness of the years spent paying premiums. In the same vein, Angina and Mwangi, (2017) echoed the same sentiments and further stated that it is also an opportune time to enhance their reputation for better performance. However, the industry is facing myriad operational and reputational conflicts which are affecting its penetration. Honourable GK. Tindamanyire, Board Chairman for Insurance Regulatory Authority of Uganda (2015), recommends improved underwriting, enhanced risk management, cut overheads and reduced any form of claims leakages as the best means of rising up to the challenge. The basic theory of insurance provides that a fair premium must be adequate to cover claim cost, administrative and underwriting expenses and a reasonable profit, (Yusuf et al., 2014).

Proper claims management can only be achieved with a high level of prudent underwriting and accuracy in the underwriter's forecast given that the insurance claim is prospectively estimated.

The insurance industry has been faced with challenges in claims management and this has contributed to poor reputation and low penetration of the insurance service. The Commissioner of insurance in Kenya, Makove (2012) envisages that an effective claims management process will result in improved service delivery to the public and subsequently earn the insured public's lost confidence in the industry, thus leading to a deeper penetration of the service. Overlooking the claims management policy during processing claims can expose the insurer to unnecessary pay-outs because not all claims registered by the clients are payable. Moreover, claims settlement above 70 – 80 % will see an ultimate net loss as the insurer's expenses, such as reinsurance and acquisition, have to be paid out of the gross premium. Yusuf et al., (2014) have reported in their research findings that large percentages of claims are fraudulent. Therefore, recommendations to embrace Application Programming Interfaces (API) by shifting from mere claims handling to proper claims management which qualifies the "**Underwriting with 20/20 Vision"** article by Ireland (2019), is worth taking a leaf going forward. Reasons surrounding this paradigm shift are attributed to be fundamental to profit and long-term sustainability of the industry through customer satisfaction and retention.

In spite of the empirical studies' emphasis on the important role efficient claims management plays in the success of both small and large companies, gauging the industry's performance based on time taken to conclude claims settlement period is in defiance with major objectives of the claim management process. Contributor (2020) indicates that the major component of the claims handling process includes developing strategies to cut down costs and reduce fraud while keeping the customer satisfied. Bearing this in mind, a proper claims evaluation is inevitable as it is a vital instrument to seal all leakages likely to expose the industry to unnecessary expenses. Deloitte (2011) reports on its web page about the rising numbers of exaggerated and potentially fraudulent auto claims recorded during the survey conducted in 2010 in the United States of America. The increasing numbers of insurance fraud calls for proper claims assessment and further investigations on suspicious cases by security departments. The figurative expression "**Speed kills**" qualifies the researcher's commendations of allocating ample time investing the claims as opposed to prompt settlements. This subsequently leads to efficient and predictable operational costs, improved loss and expense costs to the benefit of the industry.

Subrogation

The doctrine of subrogation, like any other equitable doctrines, owes its origin from the civil law of Rome. It is a fiction of law by which the creditor is considered to cede his rights, actions, mortgages and privileges to him from whom he has received his due (Fred 1891). Judging from this deification, even underwriters of the ancient time recognised the significance of recovering their outlay from the negligent parties in order to safeguard the stability of the financial system. Lovells (2018) alludes that subrogation is the right of [which] the insurer who has settled a claim may then “step into the shoes” of the insured and try to recover what it has paid from anyone who has contributed towards, or caused, the loss. This is yet another leakage through which the industry is exposed to losing funds because of failure to strike a balance between “In and Out’ transactions. Upon full settlement of claims, underwriters are expected to put in concerted efforts following up subrogation cases, it being a partial fulfilment towards achieving profitability. However, a substantial amount of funds has remained unrecovered from parties involved and this is one of the reasons the general public perceives insurance operations as inconsistent. The little efforts in the application of subrogation rights by players in the industry have prompted the need to investigate reasons thwarting the task.

Utmost Good Faith

Insurance treaties are contracts of utmost good faith (**Uberrima Fides**). The Collins English 12th edition dictionary (2014) describes Uberrima Fides as a Latin phrase of a legal doctrine that governs insurance contracts. According to its webpage, The Economics Times (2019), the principle of utmost good faith, uberrimae fidei, states that the insurer and the insured must disclose all material facts before the policy inception. Bearing in mind that the concept of underwriting is all in the details, withholding information relating to the subject matter of insurance is the basis of potential loss exposure. The insurance provider and the applicant for insurance cover both have a duty of disclosing all material facts pertaining to the subject matter of insurance before closing the sale. History observes that most insurance companies have been subjected to litigation due to non-disclosure of material facts. In reiterating Anspach and Bright (2018)'s sentiments about proper risk evaluation, underwriters are expected to collect all data relevant to the subject matter of insurance and also carry out physical inspection to confirm authenticity of the submitted information. By doing so, the industry will be served from engaging in post-loss underwriting. Post-loss (also known as Post-claim) underwriting is defined as "waiting until a claim has been filed to obtain information and [start making] underwriting decisions which should have been made at [inception, prior to policy conclusion]. Risk managers should refrain from such incompetence as it jeopardizes the industry's reputation whose status quo is perceived as a cheat by the public. Moreover, in case of litigation, the principle of **estoppel** would be inevitable. The Oxford dictionary (2019) defines estoppel as a principle which precludes a person from asserting something contrary to what is implied by a previous action or statement of that person or by a previous pertinent judicial determination. And if not careful, such attempts might expose the industry to further loss of income which is a consequence of forgery and uttering terms of an existing contract, another chargeable offence. Reagan – District Judge (2009) shares case study about effects of non-compliance to the underwriting guidelines and the principle of utmost good faith. This is a case involving Landmark American Insurance Company vs. Green Lantern Roadhouse LLC, (2009) WL 413086, at *4 (S.D. Ill. Feb. 18, 2009), the insurer relinquished [the] right to rescind when it suspected the insured's representation about the risk by not adhering to guidelines of the underwriting manuals regarding underwriting fire policies. Failure to carry out an assessment in this regard jeopardizes the underwriting process and even renders the industry unprofitable. Landmark American Insurance Company was compelled to settle a claim worth US$500,000.00 to Green Lantern Roadhouse which could have been served if due diligence was done at policy inception. A prompt engagement of the risk surveyor to investigate and confirm the insured's allegations about the availability of the central station burglar and the fire alarm at the premises could have mitigated the loss it incurred. This is because the claim could have been repudiated on grounds of abrogating the claims cooperation clause of the insured's duty to provide to the insurer all information relevant to a covered loss.

2.5 Premium collection/Debt recovery

The National Association of Insurance Commission (1996 – 2016) recognizes premium as income on the gross basis (amount charged to the policyholder) when due from policyholders under the terms of the insurance contract. Premium from insurance sales is the principal source of revenue for insurance companies and attaches when the insurance contract is signed or when the insurance policy becomes effective, Blanchard (2005).

Emanating from the survey conducted in Zambia concerning challenges faced by the insurance industry (2019), premium recovery from the debtors was among the issues identified as a major hindrance to smooth operations and growth of the industry. The availability of liquid funds is the backbone of every insurance entity, hence the need to ensure maximized premium collections. Incompetence in handling transactions issued on account exposes the insurer to financial losses. This usually stems from abrogated and informal payment plans between the insured and insurer. It is cardinal to appreciate the creditworthiness of the prospective clients before signing the contract. The Division of Supervision Consumer Protection (2007) recommends that the credit lines assigned should be commensurate to the customer's creditworthiness and ability to repay in accordance with the [agreed] terms, including an emphasis of a reasonable amortization period. Failure to collect underwritten premiums has a destructive impact on profitability and could even result in failure to meet tax obligations to the revenue authority. Due diligence is a must when assessing a customer's creditworthiness. It is the underwriters' role to ensure such leakages are sealed before they escalate out of control and this ultimately serves the interest of the industry. The fact that the Insurance service is a business and not a charitable organization cannot be over emphasized and as such, the basic operation should be appreciated by the underwriters.

In spite of the industry's significant role it plays on the Zambia financial system of managing risks for the stakeholders, it goes without saying that the industry is facing unique challenges that affect profitability and growth. In an effort to help the stakeholders understand the status quo, PIA conducted a survey to establish the most pressing issues affecting performance, (Chibuye, 2019). Results of the analysis conducted by Zambia Insurance Industry Survey identified among others, recovery of premium from debtors, understanding the role/benefits of insurance among the Zambian population and availability of skilled resources as the major factors affecting performance, (PwC Zambia 2019). Several scholars have highlighted the significance of financial soundness and availability of liquid funds as the main objective of the insurance sector. However, underwriting risks on credit and later failure to collect premiums is tantamount to exposing the industry to liquidity problems. Recommendation by the Division of Supervision Consumer Protection (2007) of closely evaluating a customer's creditworthiness plays a major role in alleviating the accumulation of the residue debt. The Mighty Team (2017) caution the implication of neglecting the customer's financial history as it gives an insight of the client's state of mind together with their prioritizing capabilities.

2.6 Insurance Pricing

The major part of risk which the insurer is exposed to is by virtue of the policies it underwrites. Incorrect calculations may have significant consequences for the insurer because the premium may be insufficient and/or liabilities understated. This is an actuarial risk as noted by Babbel & Santomera (1997) that if the insurer's pricing is based on assumptions that prove inadequate, it may not meet its obligations to the policy owners. This is one of the major technical problems facing the industry. Das, Davies & Podpiera (2003), states that a well-regulated insurance industry can significantly contribute to economic growth and [efficient] resource allocation through transfer of risk and mobilization of savings. However, it is the solvency and liquidity problems the industry is facing as a result of improper pricing methodologies that makes it practically impossible to attain this goal. Outreville (January, 1998) indicates that the rates determined by the insurance company are obviously affected by many subjective and anticipatory aspects but they should reflect not only some principles of fairness but also some business considerations. This is yet another stage of the underwriting process that requires concerted risk evaluation and proper rating decision. Talking about business consideration, Outreville is in order to state that insurance price requires to be adequate [enough] to accommodate the risk exposure and expenses reflected in the price [and] reasonable as a low price affect the financial soundness of the operation on a longer period of time for an insurer anticipating a reasonable profit margin. However, increased competition within the industry has caused most underwriters to compromise the guidelines provided by PIA. Prudence underwriting calls for vigilance when such a scenario arises. The scope of cover can be adjusted to suit the client's offer or completely declined to cover the risk in an effort to avoid exposing the company from incurring unnecessary future losses. Lowering underwriting standards by reducing price may lead to poor underwriting results and higher claims costs than anticipated, (Angina and Mwangi, 2017).

The price of insurance is a calculation of the insurer's needs to cover the risk and its own costs. In this light, the premium chargeable should always be properly represented in the pool/float, a combined fund derived from premium income. The primary objection of the pool/float's formation is to compensate the unfortunate few who suffer losses from funds collected from many policyholders. Until the policyholder makes a claim against their insurance policy, the insurer can reinvest the premium income to generate more returns, (Bishop, 2015). AXA AL (2020) alludes that incorrect property valuation presents long term risks to insurers and policyholders alike. This is because underwriters cannot accurately evaluate the size and scope of risk or price appropriately such that in an event of a total loss, policyholders can be left exposed or the insurer can pay more than planned. Given this scenario, underwriting can fail if cover is placed without carrying out a physical inspection to the subject matter. Therefore, the decision to compromise pricing in an effort to maintain the market share by offering low premiums disadvantages the insurers. The returns on the investment of the floating capital get affected due to low income inflow. Insurance industry is a business entity whose objectives are to meet obligations such as client satisfaction, pay salaries/wages, profit maximization and participate in charitable works as a CSR.

2.7 Product knowledge

A lack of skilled resources and staff was identified as the fifth most pressing issue facing insurance companies in Zambia, reports the PwC (2019). According to its Insurance Banana Skins 2019 survey, [in charge of identifying] problem areas in the global insurance industry, a lack of appropriate human capital ranked eighth in a list of over 20 issues affecting the industry. Concerns stem from a lack of skilled personnel which includes among others, enough skilled personnel in more technical areas such as risk management and actuarial valuations. It further states that 47% of the respondents said they believed the lack of skilled personnel was due to the poor availability of a comprehensive insurance curriculum amongst the local higher learning institutions. As a result, few graduates set out to pursue a career in insurance, while those that do find themselves in the industry usually have to learn on the job. As a business entity in a competitive market, such a strategy is not only a drawback but also lenders the insurer unprofitable. This is because a chance of adverse selection becomes inevitable by the inexperienced underwriters. Nasilele (2019), reports that claims leakages account for over 50% of all claims paid and mostly discovered during [the] claims review cycle – sometimes too late to rectify. Some of the reasons are attributed to technical aspects such as not understanding the policy coverage, terms/ conditions and lack of proactive claims handling techniques.

The late Freeman and Reynolds (2013) defines underwriting as an art that requires filtering of unrelated data in collaboration with usage of loss history to avoid making unprofitable decisions A proper understanding of the methods of dealing with exposures is essential because risk management decision presupposes a thorough understanding of the natures and functions of insurance, (Vaughan and Vaughan 2008). The industry's exposure to claims is also attributed to lack of knowledge and this even exposes the insurers to potential liability. Ireland (2019) in his article on Underwriting with 20/20 Vision, reports that misaligned and incomplete information prevents accurate risk selection and pricing, leaving the insurer open to negative surprises when underwritten risks make their way onto the balance sheet. Lack of knowledge about the significance of an insured's past history when analysing risk is a poor and costly underwriting strategy to the industry. The late Freeman & Reynolds (2013), states that using past history of an insured in combination with modelling and group data is the prudent way to analyze risk and underwrite. It can be depicted that the same rule of "loss experience" used by merchants of the ancient time is still significant to date and, therefore, should not be looked down upon.

Hodge (2003) reports in his article that the UK Chief Executive for Royal and Sun Alliance Insurance Group P.L.C., Duncan Boyle, alludes that such poor risk management is putting the industry at risk. He further states [that] it is increasingly important for insurers to ask clients to retain a larger degree of risks [by] themselves. In order to avoid pitfalls, insurers should stay away from underwriting risks they have not understood. The degree of understanding of the insurance cycle can influence the risk appetite of the insurer and insured. Risks that qualify for underwriting must be diligently assessed, rated and priced. Upon analysing a risk together with its impact on profitability, it is easier for an underwriter to tell a client that a risk is uninsurable than being forced to accept that it has been badly underwritten, (Hodge, 2003). In the same vein, The Mighty Team (2017 pp. 3) reports on its webpage that it would be naive to pretend and underwrite risks one is not familiar with on the pretext of having gained expertise through experience. It goes on to state that "admitting [that] you don't have sufficient knowledge on a case type is challenging, but it sure beats a bad investment that you'll have to answer in [future]." According to the PwC (2019) survey report, lack of skilled resources and staff is yet another hindrance the sector insurance is facing. Moreover, if the organization's Human Resource (HR) department is flexible in its operations, the organization's output is likely to be poor due to adverse selection of employees. Every insurance entity requires an effective HR department that ensures employment of suitably qualified personnel for the position of underwriters. The department is further expected to facilitate routine refresher courses for the underwriting team in order to enhance performance. From this light, the research will also investigate the effectiveness of the HR department. The criteria used in shortlisting/employment of underwriters by the HR together with the role it plays towards the attainment of the industry's objectives will be probed as well.

The research will not be complete without investigating the level of insurance penetration among the Zambian population, who happen to be the major target for the insurance service. The public's understanding of the role and benefits of insurance was among the major challenges identified as a factor affecting growth of the industry (PwC 2019 pp. 13). The research is also aiming at improving the general public's perception about the insurance service in an effort to gain their confidence and trust. This will ultimately improve the industry's profitability and help revamp the Zambian economy.

2.8 Insurance and Technology

Changes in time brought about new technology in the insurance business. The industry is migrating from manual to electronic transactions. Efficient usage of technology by the industry turns out to be economical and competitive whose resultant effect may lead to achievement of economies of scale. This is because relevant data for the respective risks are fed in the system and this ultimately reduces chances of errors and omissions. Technological innovations can be a useful strategy to mitigate poor underwriting. This can be achieved by monitoring the underwriting process through streamlining authorization limits. The feasibility of this approach compliments Dowd et al., (2007)'s recommendations about the principles of good financial risk management. He suggests that procedures and controls to implement risk policies should clearly set risk limits, check and approve the pricing to ensure reliability. Availability of such measures can guide the underwriting limit and thus the risk-taking capacity cannot exceed a certain amount. Also, certain regulatory and legal limitations can apply, especially in emerging and developing countries. The expression "familiarity breeds concept" is real for long serving underwriters who might lose focus and even overlook critical dynamics in underwriting. Inconsistency in monitoring transactions through to completion by the Risk Managers/Supervisors can lead to underwriting of bad risks and improper pricing. The Mighty Team (2017) recounts that any mistakes or errors underwriters make reverberate throughout the entire operation, hence the need for Supervisors to do a thorough examination before approving policies.

Moreover, PwC Zambia (2019) survey indicates that inadequate data on claims experience to support accurate pricing was the third most pressing issue among the non-life insurance companies. It alleged the lack of an accessible centralised customer database as the reason for this challenge. From this light, technology is the best solution in implementing a system that clearly outlines the behaviour and experience of clients within the industry. Such a database could be used for background checks during the underwriting process. A vital component to sustain the underwriting process as it could include claims history and premium payment records, where appropriate. With accessible accurate data on new and existing clients, insurance companies should be able to come up with risk-based premiums for new clients. Ireland (2019), observes that in spite of technological evolution in the world, the average property underwriter does not have access to the kind of predictive tools that carriers use at a portfolio level to manage risk aggregation, streamline reinsurance buying and optimize capitalization. He further alludes that access to insights from models used at the portfolio level would help underwriters make decisions faster and more accurately, improving everything from risk screening and selection to technical pricing. It is time the industry took a paradigm shift from historical ways of accessing complete information to leverage portals with broad assessments of risk exposures. This is because technology gives underwriters access to key insights on their desktops, as well as informing fully automated risk screening and pricing algorithms. The API allows underwriters to systematically evaluate the profitability of submissions and tailor decision-making based on individual property characteristics. With additional layers of information at their disposal, underwriters can develop a more comprehensive risk profile for individual locations than before because harnessing automation gives more specific information and generates much deeper insights. “Technology has a critical role to play in overcoming this data deficiency through greatly enhancing our ability to gather and analyze granular information, and then to feed that insight back into the underwriting process almost instantaneously to support better decision-making,” reports Ireland.

In light of the foregoing reviews regarding issues that have been brought out in this chapter, a descriptive qualitative method will support the research gathering the required information.

CHAPTER THREE – METHODOLOGY

3.1 Introduction

The strategies that were employed during data collection to establish the effects of poor underwriting on profit maximization of short term insurance companies are highlighted in this chapter.

3.2 Research Design

Given the current status of working under COVID 19 condition, data collection using quantitative approach was impossible because of restrictions such as observing social distancing, migration from manual to full automation, which could have compromised the results. However, a successful research in this regard needed detailed and sufficient information for a comprehensive understanding of the research topic and therefore adopted a descriptive approach. Almeida et al., (2017) alluded that the objective of the qualitative methodology is to produce in-depth and illustrative information in order to understand the various dimensions of the problem under analysis. The world of commerce keeps evolving and so do the market trends. In view of the foregoing, this research preferred to work mainly with primary data as it was the most practical option to provide lasting solutions to the topic under review. A questionnaire comprising open and close ended types of questions, aided the research and a maximum of 15 minutes was allocated to each respondent. The questions were structured as follows;

The Insurance Industry	-	15 questions
Insurance Customers	-	5 questions
Non-Insurance Customers	-	5 questions

The sampling procedure was both purposive for the HR department and random for the Risk Managers and the general public.

3.3 Confidentiality and informed consent

Prior to the interview, consent was obtained from the selected respondents to enable them to participate freely during the research. Additionally, they were assured the research was purely an academic activity and that their personal information and feedback would not be revealed to others. This pledge aided a trustworthy bond between respondents and the researcher.

3.4 Data Collection Tools

Both primary and secondary data was used in the study. **Primary data** concerning the quality of underwriters, underwriting, premium collections, management of claims and insurance penetration was obtained via one on one interview and targeted the insurance company's HR department, Risk/Claims managers and the general public respectively. Whereas annual reports (2017 -2019) generated by the insurance regulatory body of Zambia, PIA and the survey conducted by PWC (2019) provided the **Secondary data**.

The undernoted techniques were employed to help establish causes of incompetence of underwriting and this ultimately uncovered possible mitigation measures.

Personal interviews

Respondents were encouraged to freely provide feedback and suggestions of their own understanding regarding the interview. Responses given by the respondents were either audio-recorded or note-taken depending on what they deemed favourable. It was the best strategy of data collection because of its interactive nature which also brought out key points that would help bridge the gaps in the industry's profitability.

Telephonic interviews

Telephonic interviews proved more feasible because they were conducted at an appropriate time suitable for both parties and the interviews were recorded.

Email interviews

Questionnaires were sent as an attachment to the selected respondents who were in turn expected to provide feedback in the same manner.

Online interviews

Platforms such WhatsApp, Facebook messenger and Viber were also utilised to conduct online interviews.

Annual reports produced by PIA

Secondary data was obtained from the Annual reports produced by the insurance Regulatory Body PIA. The reports summarised insurance activities of the industry which was very useful as it acted as a control experiment for comparison purposes with the raw/primary data obtained during the research.

3.5 Population Sample

The study was conducted within Lusaka for ease of information and cost effectiveness. Majority of the Headquarters for insurance companies in Zambia are situated in the capital city. The research targeted Insurance players (Companies, Brokers, and Agents), insured and non-insured. Respondents were chosen at random so as to attain all-inclusive, rigorous free and comprehensive results.

3.6 Sample size

Fitzpatrick (2015) emphasises the importance of proper determination of sample size and how well designed statistical study leads to valid conclusions. In order to collect accurate information that would help provide answers to the research questions, the study adopted a random sampling approach and targeted respondents from 20 insurance entities, insurance customers and the general public. The undernoted formula, by Yamane (1967), was used to determine the appropriate sample size of the study;

n = N/1 +N (e) 2

Where; n = the sample size

N = the population

e = the acceptable sampling error

Given that; N = 60

e = (.05)

Therefore;

$n = 60/1+60\ (.05)^2$

= 60/1+60(0.0025)

= 60/1.15

= 52

Therefore, the **Sample Size** consisted of **52 respondents**

3.7 Questionnaire management

Primary data was collected using the questionnaire that comprised questions which were designed in such a manner that the anticipated feedback would be utilized to attain the research objectives. A sample of the questionnaire that was used during the research is attached hereto for comprehensiveness of the study.

3.8 Data Analysis

Upon completion of the research, data collected from the various respondents was summarised and presented on a working sheet in excel, chronologically according to opinion of common ideas. The use of excel working sheets during data analysis was inevitable by virtue of its bulkiness consequent to detailed responses. Caulfield, (2019) qualifies the importance of thematic method of analysing qualitative data involving set of texts, such as interview transcripts and audios. Statistical analysis of percentage scores using **"Frequency Cumulative tables"** was significant in interpreting the findings; it further aided the research to lasting solutions. A summary of the findings has been presented graphically in the succeeding chapter.

3.9 Limitations

The research was not without stumbling blocks, it encountered challenges major amongst which were the undernoted;

Time – Limited as some respondents did not give feedback on time due to ignorance of the subject matter. In some instances, respondents turned down a pre-arranged interview on suspicion grounds while others kept promising to fill out the questionnaires at a later time when followed up. Moreover, fixing an appropriate time suitable for the interview was a challenge because most of the institutions were working on a rotational basis due to the COVID 19 pandemic.

Finances – Were inadequate to cater expenses that escalated the budget such as internet bundles for research, airtime for telecom interviews and travelling expenses. For instance, some of the recordings were not clear and efforts to contact the participants failed due to interruptions during the interviews owing to network challenges. This automatically attracted extra cost as the interview had to be redone or rescheduled to a later date.

COVID 19 – Restrictions under this pandemic had adverse effects during research such that the quality of collected data was not as anticipated. A descriptive approach requires one-on-one discussion for clarity purposes. However, this was not possible due to strict measures put in place to curb the pandemic. Suffice to mention that some targeted respondents were in self-quarantine and some infected with the virus.

Load - Shedding – The country experienced serious power outages as a result of reduced water levels at the main power source (Kariba Dam), consequent to insufficient rainfall for the 2019 – 2020 seasons. From this light, timeframes on this task were not met due to uncharged machines and lack of lighting for reading during the research.

3.10 Conclusion

In spite of the challenges encountered during data collection, the research was very successful as it brought out important issues that might be used in finding lasting solutions to the topic under review. This is because the sampling was well designed and all-inclusive which led to some respondents requesting for more of such interactions.

CHAPTER FOUR – DATA PRESENTATION

4.1 Introduction

The information collected during the research conducted in respect of the topic under review is presented, analysed and discussed in this chapter. The chapter also contains research findings which are responsive to the research questions commensurate with the research objectives indicated in chapter one.

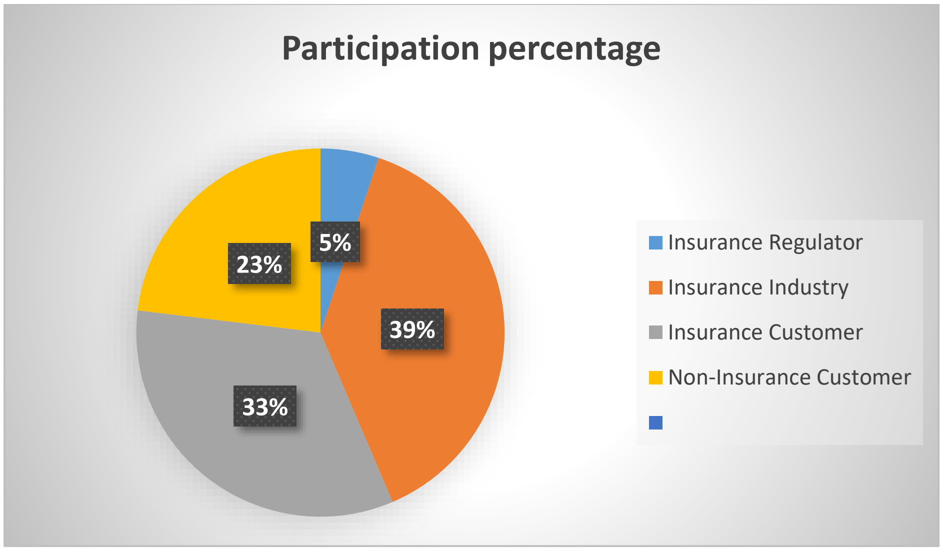
Presentation and analysis of data was centred on testing the research questions in chapter one. With an eye to the study, 52 respondents were engaged using platforms alluded to in chapter 3. Feedback was obtained from 39 participants while 13 did not revert when followed up for reasons indicated in chapter 3 under limitation of the study. Thus, the research was represented by 75% respondent participation.

4.2 Data Presentation

4.2.1 Demographical Data

Table 1. Respondent Category

Category	Engaged No.	Frequency	Rate (%)	Cumulative rate (%)
Insurance Regulators	2	2	4%	4%
Insurance Industry	20	15	29%	33%
Insurance Customer	17	13	25%	58%
Non-Insurance Customer	13	9	17%	75%
	52	**39**	**75%**	

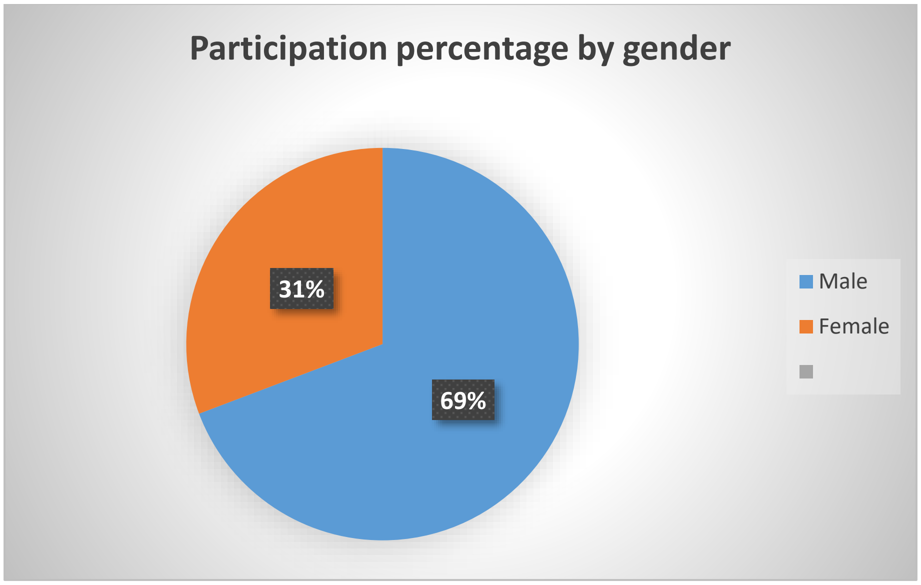


The table above is a recap of the number of respondents interviewed visa-a-vis actual feedback obtained per category. 25% of the respondents failed to provide feedback due to logistical challenges as alluded to already in chapter 3.

The rate of participation for each category that constituted the study has been represented on the pie chart which represents the actual responses received. Suffice to mention that the Insurance Industry together with the Customers were very helpful with a participation rate of 39% and 33% respectively. While non-insurance customers and insurance regulators rated 23% and 5% respectively.

Table 2. Gender Classification

Gender	**Frequency**	**Rate (%)**	**Cumulative Rate (%)**
Male	27	69%	69%
Female	12	31%	100%
Total	**39**	**100%**	



The male fraternity played a significant role during the research. This is because male respondents were more cooperative and supportive than the female counterparts. Details on the table and pie chart above indicate 69% and 31% of male and female participation respectively. From this light, it is evident that insurance service is mostly valued by the male population as opposed to the female population.

4.2.2 Tropical Data

4.2.2.1 Is quality control practised by the Human resource department when employing underwriters?

Comment	**Frequency**	**Rate (%)**	**Cumulative Rate (%)**
Yes	15	100%	100%
No	0	0%	100%
Total	**15**	**100%**	

Players in the industry that were part of this research all confirmed implementation of relevant requirements during employing candidates for the position of underwriting staff.

Qualification level, years of work experience, personality and integrity matters were cited by 98% of players as being prerequisite to employment.

4.2.2.2 Is there a Company policy for refresher courses of the underwriting staff?

	Frequency	Rate (%)	Cumulative Rate (%)
Companies with training provision	11	73%	73%
Companies without training provision	4	27%	100%
Total	**15**	**100%**	

The table above shows that 73% has a policy in place that ensures on-going training of underwriters in order to be competitive on the market. However, 27% of the Companies, mostly small and new in the industry, align training programs to funds availability. In-house training comes in handy, it being cost effective.

4.2.2.3 Are the Underwriting Manuals updated to suit the market trends?

	Frequency	Rate (%)	Cumulative Rate (%)
Yes	17	100%	100%
No	0	0%	100%
Total	**17**	**100%**	

Results in the table above clearly indicate that all insurance entities that took part in the study work with up-dated underwriting manuals.

4.2.2.4 Are there measures put in place to supervise the underwriting process?

	Frequency	Rate (%)	Cumulative Rate (%)
Yes	15	100%	100%

No	0	0%	100%
Total	**15**	**100%**	

Judging from the results given in the table, all the insurance entities that constituted the study have measures put in place to monitor the underwriting process.

4.2.2.5 How is the performance of Cash-in-Flow in the industry?

Evaluation	**Frequency**	**Rate (%)**	**Cumulative Rate (%)**
Good	3	20%	20%
Fair	9	60%	80%
Poor	3	20%	100%
Total	**15**	**100%**	

The table above is a descriptive analysis of percentage rating for 15 insurance entities that constituted the sample for the study. 20% indicated good liquidity levels, 60% reported a fair record while another 20% reported a poor record of cash.

4.2.2.6 What is causing poor claims management?

Reason	**Frequency**	**Rate (%)**	**Cumulative Rate (%)**
Poor underwriting	5	33%	33%
Erratic funds	6	40%	73%
Fraud	1	7%	80%
Incomplete documentation	3	20%	100%
Total	**15**	**100%**	

The table above is a descriptive analysis percentage rating of the 15 companies that were part of the study. Poor underwriting and erratic funds were presented by 33% and 40%

respectively, while Fraud and incomplete documentation accounted for 7% and 20% respectively. The 73% cumulative figure clearly points at consequences aligned to incompetence and mismanagement of the underwriting process.

4.2.2.7 Is technology effectively used to enhance underwriting in the industry?

	Frequency	**Rate (%)**	**Cumulative Rate (%)**
Companies that are fully automated	0	0%	0%
Companies that are partially automated	15	100%	100%
Total	**15**	**100%**	

Results in the table above show that all the 15 insurance entities that constituted the study are not yet fully automated.

4.2.2.8 Does the general public understand insurance?

Comment	**Frequency**	**Rate (%)**	**Cumulative Rate (%)**
Yes	13	59%	59%
No	9	41%	100%
Total	**22**	**100%**	

Of the 22 respondents that were interviewed, 59% confirmed having knowledge of insurance whereas 41% represented those that had no idea about it. The difference in knowledge percentage is worrying as it is almost 50%

4.2.2.9 Is there enough sensitization to the general public about insurance?

Comment	**Frequency**	**Rate (%)**	**Cumulative Rate (%)**
Yes	26	70%	70%
No	7	19%	89%
Not sure	4	11%	100%

Total	**37**	**100%**	

A descriptive analysis of feedback obtained for the respondents in respect of the subject matter is as stipulated in the table above. 70% of the respondents confirmed there being sensitization programmes about insurance. 19% disputed while 11% expressed ignorance about the service.

4.2.2.10 Is it worth it to take up an insurance policy?

Comment	**Frequency**	**Rate (%)**	**Cumulative Rate (%)**
Yes	8	36%	36%
No	14	64%	100%
Total	**22**	**100%**	

The table above analyses feedback provided by 22 respondents during the study. Participants that feel it is worth it to procure an insurance policy were represented by 36% whereas those that feel it not being necessary represented 64%.

CHAPTER FIVE – FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the findings and conclusions derived from the research aimed at analysing the effects of poor underwriting on the profit maximization for companies transacting in short term insurance business. It also provides feasible recommendations to enhance underwriting in order to nurture profitability in the industry.

The study was conducted in Lusaka, the capital city of Zambia and targeted insurance companies and the general public. Respondents were sampled both purposively and randomly, depending on the information under investigation. Primary data was collected by questionnaire administration via personal/telephone interviews and social media, whereas secondary data was obtained from the annual reports published by PIA. Information that was collected was later presented on a working sheet in excel, chronologically, according to opinion of common ideas and the statistical analysis of percentage scores was achieved using "**Frequency Cumulative tables and Pie Charts.**"

5.2 Summary of Findings

The summary presented is anchored on the Statement of the Problem alluded to in chapter one of this dissertation;

What is the effect of the increasing number of claims on profit maximization for companies transacting short term insurance business in Zambia?

Based on the research conducted and the questions in chapter one, the following key indicators are drawn;

5.2.1. Human Capital

The industry has strategic measures in place that ensures enhanced professionalism of service delivery and productivity of the Human Capital. Quality control is applied during shortlisting of applicants for the position of underwriter. Qualification of at least a minimum of Diploma in Insurance (DIS), backed by years of experience in the field is prerequisite to employment. HR also considers personality and integrity matters for a quality workforce.

5.2.2. Role of Underwriting

The study revealed that a healthy financial flow is significant for the Insurance Industry to meet financial obligations and even participate in investments activities in order to attain profit maximization. In light of the foregoing, the industry has implemented guidelines aimed at achieving proper risk taking and claims handling. With underwriting being a dependent factor for the industry's performance and growth, management has also put control measures that ensure adherence to policies aimed at attaining proper underwriting. These strategies play a significant role in alleviating doubts about the insurance service by the general public, which is the industry's only target market. Competent underwriting also eradicates chances of unnecessary financial loss, improves cash-in-flow performance, mitigates cyclical claims and improves turnaround of claim settlement period consequent to funds availability.

5.2.3. Causes of Incompetent Underwriting

Illiquidity has continued hitting the industry below the belt because of the increasing number of claims and low cash levels. The Industry's current loss ratio, which stands at 42%, (PIA Annual Report, 2019), leaves much to be desired due to escalating numbers of claims. These claims emanate from risks covered without fulfilling the requirements of the underwriting guidelines. The findings attributed to improper underwriting and causal attitude towards work, broken down in the undernoted list, as the major cause;

- Policies issued based on verbal instructions without completion of the proposal form, it being the basis of the contract.
- Untimely physical inspections to the subject matter of insurance
- Application of inappropriate terms on policies
- Failure to explain the scope of cover together with the pros and cons aligned to risk presented for insurance to the customers due to lack of product knowledge
- Failure to assess creditworthiness of customers
- Failure to execute customer instruction on time

The resultant effect of the above noted gaps has exposed the industry to massive loss because it compromises the purpose of prudent underwriting. Additionally, business retention is affecting performance because customers keep changing insurance providers owing to improper customer care.

Undercutting of rates in the market because of stiff competition has caused participants to compromise the **"premium = commensurate risk"** rule. Such that, when claims arise, insurers are compelled to honour the insurance contract in totality regardless of the low premiums paid.

The industry is struggling to maintain proper reserves due to recurring claims as the average annual collection rate is slightly above 60%, (PIA annual report, 2019). Although management has put in place a Credit Management Policy Manual and a Debt Collection Strategy, the desired improvement has been slow. Records absorb a significant amount of uncollected premiums among the major contributing factors to illiquidity of the industry. This is due to cumulative debt for policies that were issued on account without considering creditworthiness of customers. Majority of whom failed to live up to the agreed terms/conditions of the credit policy, and yet insurance cover was let to run up to the expiry date. The biggest chunk of this debt is for policies issued to the government that relies on funds availability. Moreover, some customers have a tendency of avoiding offsetting outstanding premiums on insurance policies. Once their policies expire, they opt to place cover with other insurers who are unaware of their history with regards to payment of insurance premiums. In a nutshell, information asymmetry is widespread in insurance compared to industries like banking who have credit reference bureaus where it is less likely for a defaulter to access credit from other banks. Other factors affecting cash flow performance drawn from the study are noted below;

- Effects of the COVID 19 pandemic.
- Delayed remittance of premiums to insurance companies by the Brokers and Agents
- Mismanagement of premiums by members of staff
- Usage of counterfeit cover notes
- Unrecovered funds from subrogated cases
- Delayed disposal of salvages

5.2.4. Underwriting manuals

The regulator is mandated to ensure the manuals are up-to-date at all times. Ideally, reviews are recommended every 2 years. However, the study revealed delays of more than 3 years in updating the document. Insurance companies also have internal underwriting guidelines aimed at improving service delivery and are not shared by the counterparts. Terms and conditions of these guidelines, which are extracted from the manuals provided by PIA, are tailor-made to suit customer needs and also improve profitability of the companies.

5.2.5. Technology Innovations

The industry has procured insurance and accounting software aimed at enhancing service delivery. This transformation has eliminated errors and omissions in underwriting as it has brought about the much-anticipated efficiency and effectiveness by the business partners. Underwriting threshold has been set in the system for checks and balances. Working under conditions of COVID 19 pandemic has proved technology a very useful tool in the industry. However, the industry is not yet fully automated; it is work in progress as some branches/sales outlets are yet to be connected due to connectivity challenges to proximity offices alongside insufficiency of funds.

5.3 Conclusions

Based on the specified findings, the following conclusions can be drawn;

1. Underwriting is significant in the industry because of the impact it bears on profitability and image promotion. It is fundamental for the players in the industry to implement objective risk taking at all times as it is core of the industry. Insurance business is more complex hence; proper underwriting is remedial to alleviating the identified grey areas of the underwriting process.

2. The quality of leadership in the industry is a cause of concern. Supervisors are sleeping on their role of ensuring adherence to the underwriting guidelines. Moreover, the attitude of underwriters towards work coupled with a little or lack of insurance product knowledge is running down performance of the industry.

3. The HR department is not effectively implementing policies aimed at attaining skilled and motivated workforce. The presence of underwriters with a little or lack of insurance knowledge

points to the fact that quality control is not practised by HR during shortlisting of applicants and in-service training is not consistent in the underwriting department.

4. The standard practice of revising underwriting manuals is two (2) years. However, the Insurance Regulators are not consistent in their duty. The manuals are not updated in a timely manner and therefore, do not suit evolving market trends that are directly proportional to insurance needs.

5. The Insurance industry is yet to implement a mechanism through which it can monitor the credit worthiness of customers and block defaulting customers from placing cover with other service providers. The lack of regulatory policy to this effect has laid a platform for defaulting insureds to continue exploiting this control weakness thereby depriving the industry of the much needed liquidity.

6. Technology is being used effectively and this has brought about efficiency and effectiveness in the industry. However, the industry is not yet fully automated. With full automation, incompetent underwriting will be alleviated and will ultimately aid Short Term Insurance Business in Zambia to profitability.

5.4 Recommendations

Consequent to the foregoing, the research discovered the importance of proper and effective underwriting in achieving profitability for the industry. Hence, the presentation of the following recommendations;

Strict supervision of the underwriting department should be prioritized in order to ensure adherence to guidelines of underwriting. Moreover, the industry should ensure continued training of the underwriters to enhance the underwriting process, and ultimately improve profitability.

With difficulties experienced when recovering outstanding premiums, the industry should encourage cash transactions and also ensure that salvages and cases of subrogation are concluded in a timely manner. By doing so, industry's cash levels will improve and profitability will be maintained. Underwriters are also encouraged to assess the creditworthiness of customers before placing cover on account and to immediately implement the credit payment plan. Where the customer defaults with payments, it is advisable to cancel the insurance policy and apply the recommended penalties forthwith.

The regulator is also implored to introduce the **"no premium no cover,"** rule in order to diminish the cumulative outstanding debt.

Meanwhile, prompt claims settlement being the industry's prime sales point, the industry should improve the turnaround of settlement time in order to maintain and lure more customers to the industry. With all things being equal, management should maintain adequate reserves in readiness of a rainy day.

With the stiff competition which has led to undercutting of rates in the market, the regulator should be forceful in mitigating this challenge to ensure adherence of pricing terms as guided in the underwriting manual. The consequences of undercutting does not only affect liquidity but also compromises the purpose of insurance because premiums collected are not commensurate to risks covered.

The Regulator (PIA) should come up with a system that will prevent defaulting insureds from accessing cover if premium is owed to another insurance company. Like what Banks do when assessing creditworthiness using a central database of their customers before granting loans, IAZ in collaboration with PIA should enforce a policy that will block insurers from accepting risks presented by the defaulters. Since the impact of this challenge is felt by all the players in the market, the industry is advised to share or float names of wanting customers amongst themselves for reference purposes. The regulator should also keep abreast with evolving trends so that underwriting manuals are adjusted in a timely manner.

Changes in commerce brought about by technological advancements, the industry is therefore recommended to be fully automated for enhanced underwriting and snap check to ensure adherence to the procedure manuals. Moreover, working under COVID 19 conditions, technology has become a vital instrument without which could be the beginning of the industry extinction.

Further studies can be done to establish the cause and effect on;

- The significant gap revealed by the research that causes the industry to be dominated by male counterparts.
- The majority's refusal to appreciate the insurance service in spite of being well informed of the benefit it attaches.

Government to consider upgrading areas with connectivity challenges to attract investors who will ultimately modernize the place. With this development, the insurance industry’s vision of being fully automated would be accomplished.

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APPENDICES

QUESTIONNAIRE

To Whom It May Concern

Dear Sir/Madam

Ref: REQUEST FOR RESEARCH INFORMATION

My name is **Lizzie Shabeenzu**, a Fellowship student at the Insurance Institute of Zimbabwe (IIZ), Student Registration Number **685529**. As part of the Fellowship Program, I am undertaking a Research titled **"Analysis of the Effects of Poor Underwriting on the Profit Maximization of Short Term Insurance Companies."**

I am, therefore, requesting your indulgence to provide feedback of your own views to the questions below, which I am using to collect primary data. Kindly allow me 10 - 15 minutes of your time to conduct the interview. 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

Lizzie Shabeenzu (685529)

Mobile +260 977 443 923 or shamelshabeenzu@gmail.com

INTERVIEW QUESTIONS

The Insurance Industry

1. What are the measures practised by the Human Resource Department when employing underwriters?
2. Are underwriters oriented in their role?
   - Tick

Yes		No	

   - Given an explanation for your answer
3. Are the necessary operational tools availed to the underwriting department?
4. Is the underwriting process in line with the underwriting guide?
5. Are there measures put in place to supervise the underwriting process?
   - Tick

Yes		No	

   - Given an explanation for your answer
6. Is there provision for refresher courses about underwriting and how often they are conducted?
7. Are the underwriting manuals updated in line with the current market trends?
   - Tick

Yes		No	

8. How often are they updated?
9. What is causing ineffective claims management in the industry?
10. What measures have been put in place to mitigate poor claims management?
11. How effective is debt management?
12. Is the effective usage of technology observed in the industry?
13. What are the procedures put in place to ensure that the general public appreciates insurance and the benefits it attaches?

14. What type of assurance is given to customers, both disappointed and satisfied, to ensure retention of the business?
15. What is your recommendation to the insurance industry with regards to service delivery?

Insurance Customers

1. Do you understand the meaning of insurance?
   - Tick

Yes		No	

2. What do you know about insurance service?
3. What is your experience with insurance service?
4. Is it worth being insured?
   - Tick

Yes		No	

   - Give an explanation to your answer
5. What is your recommendation to the insurance industry and your friends/neighbours with regards to service delivery?

Non-Insurance Customers

1. Do you understand the meaning of insurance?
   - Tick

Yes		No	

2. What do you know about insurance service?
3. Is there enough sensitization about insurance to the general public?
4. Is it worth being insured?
   - Tick

Yes		No	

   - Give an explanation to your answer
5. What is your recommendation to the insurance industry with regards to service delivery?