’Risk Externalization in the Zimbabwe short-term Insurance Industry between, 2010 to 2020: Causes and impact’’ ?.

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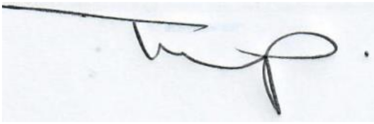

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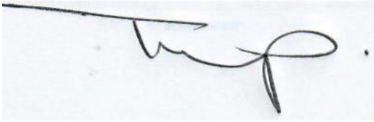

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DEDICATIONS

I dedicate this work to my wife Shingairayi and our children Rutendo, Rufaro and Rukudzo. I would like to thank them most sincerely for their support and encouragement. They were indeed a source of inspiration.

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ABSTRACT

This dissertation identifies and evaluates the causes and impact of Risk externalization in the Zimbabwe short term insurance industry during the period 2010 to 2020. The purpose of the study is to highlight the consequences and impact of unnecessary premium flight from the country and recommend the necessary interventions and solutions to the problem. The methodology adopted is descriptive in nature using both qualitative and quantitative data analysis. Primary data was collected using questionnaires and interviews and secondary data was collected from the Insurance and Pension Commissions (IPEC) reports. The findings from the study are that insurance risks are externalized due to lack of adequate local capacity for such risks, wider insurance wordings and coverages vis a vis coverages provided by the local market, perceived inferior ratings of local markets and securities, prevalence of global and captive insurance programs, retrocession amongst other reasons. The study further identified that the issue of risk externalization is precipitated if markets are highly imperfect and have high transaction costs. While risk externalization is necessary as it helps in the spread of risk, risk diversification and, protecting local market from catastrophes, if not properly controlled, unnecessary risk externalization could result in undesirable consequences on the industry and the economy. Some of the consequences are the unnecessary outflow of foreign currency, reduced economic growth, reduced local investment, increased unemployment, liquidity challenges, negative effect on the balance of payments amongst others. There is therefore need for striking a balance between the intended benefits and consequences to the industry and the economy. As recommended solutions, the study recommended the need for holistic based prudential supervision, enhanced collaboration and cooperation in the crafting and setting of policies, carefully planned workshops conscientizing the industry and the insuring public on need for insuring risks locally where possible.

DEFINITION OF KEY TERMS AND ABBREVIATIONS

GPW – Gross Premium Written

GPC – Gross Premium Ceded

GPR – Gross Premium Retained

LC/LCC – Legal Cessions/Compulsory Cession/Mandatory Cessions

GDP – Gross Domestic Product

RE/INSURANCE – Insurance or Reinsurance

RETROCESSION – Insurance of reinsurance business

GDP/CAPITA – Gross Domestic Product /Per capita

COMPANIES AND INSTITUTIONS

WTO –World Trade Organization

ILO – International Labor Organization

UNCTAD –United Nations Conference on Trade & Development

CICA RE –Common Reinsurance Company of the Member States

PTA/ZEP RE – Preferential Trade Area Reinsurance Company

AFRICA RE – African Corporation of Reinsurance

ZIMRE – Zimre Reinsurance Company (formerly Zimbabwe Reinsurance Corporation)

TAN RE – Tanzania Reinsurance Corporation Limited

COMESA – Common Market for Eastern and Southern Africa

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CHAPTER 1: INTRODUCTION

1.0 BACKGROUND OF STUDY

According to Arena (2006), Insurance, just like banking and the stock market plays a key role in economic growth and development. A well-functioning insurance sector enables efficient allocation of a country's capital and channels savings into investments. Arena (2006) identified the influence of the insurance sector on macro-economic activity from two viewpoints (1) it has a role in providing risk transfer and indemnification, and (2) it has a role as an institutional investor. Insurance activity promotes economic growth by allowing different risks to be managed more efficiently thus encouraging the accumulation of new capital by mobilizing domestic savings into productive investments. Outreville (1990, 1996), Arestis and Demetriades (1997), Adams and Zou (2004) amongst others, also argue, for similar reasons that there is a strong linkage between banking, insurance, and economic growth in today's emerging economies. Therefore, work on risk externalization in as far as it affects the level of development of an economy like Zimbabwe could usefully inform economic historians, industry regulators, legislators, and others with a contemporary policy interest in insurance. This study therefore seeks to critically evaluate this issue of risk externalization in as far as its perceived to threaten the economic growth and development agenda.

Insurance and reinsurance are both branches of economics, a social science, and can be defined as studies of economic activities of men in society to seek adequate protection against risks which cannot be fully retained and need to be transferred (Naik 1990). According to David (2012), both insurance and reinsurance evolve from the larger family of risk management. They exist as a way, to deal with the huge financial risks thereby, allowing commerce to flourish. Park (1799) specifically defines reinsurance as insurance for insurance companies, more colorfully stated as ''Reassurance". It is a contract in which the first insurer enters, in order, to relieve himself from those risks which he has incautiously undertaken by throwing them upon other underwriters, called reassurers. According to Swiss Re (2012) reinsurance enhances the availability and affordability of insurance in a country. Available and affordable insurance helps spread the risk, reduces financial uncertainty for businesses and individuals, provides capital in a post event

recovery and promotes economic growth of a nation. By spreading risks globally reinsurance helps in diversifying local insurance markets while providing capital relief and balance sheet protection.

Foundations for both insurance and reinsurance were laid in the 18th century and growing up with the industrial revolution. The earliest underwriters would always want to limit their acceptances well within their limited capacities and thus avoid reinsurance, (Naik, 1990). Further, with the aim of avoiding reinsurance, co-insurance was common i.e. a practice were a group of insurers would accept part of the risk from the insured. The 19th century saw the formation of professional reinsurance companies, beginning in 1852 when Kolnishe Ruckversicherungs Gessellschaft being formed. In England Mercantile and General Reinsurance was founded in 1907, in America Reinsurance company of America in 1890, Swiss Re in 1863 and Munich Re in 1880, most of these giants who are still in the professional reinsurance industry today (David H, 2012). During the 20th century major political and economic developments led to the formation of nationalized and state insurance and reinsurance institutions supervised and managed under the Finance Ministry. This also saw many developing countries in Africa, through the encouragement of United Nations Conference on Trade and Development (UNCTAD) adopting the system of state-owned insurance or reinsurance companies with compulsory or statutory cessions as a way of reducing dependence on foreign reinsurance (UNCTAD, 1964). The state-owned insurance model sought to accelerate domestic resource mobilization through compulsory cessions of insurance and reinsurance business to state owned reinsurance entities. Thus, it can be argued that the issue of premiums outflow through reinsurance and other forms led many governments to prefer that insurers purchase reinsurance locally before utilizing foreign reinsurers to avoid unnecessary premium outflow. Some of the state owned and regional owned reinsurers and their reasons for formation are given below:

Table 1.0

REINSURER & YEAR OF FORMATION	OBJECTIVES FOR FORMATION
KENYA REINSURANCE CORPORATION Established in December 1970 as State Reinsurance Corporation later changed to Kenya Reinsurance Corporation under an Act in 1997.	(i) Reduce the need to purchase reinsurance covers from external reinsurers (ii) To help develop local expertise in the insurance industry. (iii) To help regulate the insurance market. (iv) To generate funds for investment in the national economy
CICA RE Common Reinsurance Company of the member states of CICA. It was enacted on September 24th of 1981 in Paris, France. It is constituted of 12 members states including the following Congo Brazzaville, Cameroon, Central Africa Republic, Ivory Coast, Gabon, Mali, Niger, Senegal, Chad and Togo	i) Promote the development of the national insurance and reinsurance business within member states. ii) Partner training – through periodic seminars on reinsurance and training for insurance controllers. One training seminar in every CIMA member country. iii) Risk Inspections iv) Treaty Program and leader of treaties v) Policy, Risking & Disaster Audit
ZEP-Re (PTA REINSURANCE COMPANY) A regional organization for promoting trade, development, and integration within the Common Market of Eastern and Southern Africa (COMESA) through trade of insurance and reinsurance business. PTA Re was created by an Agreement of Heads of State and Government of the COMESA region on 21st November 1990 in Mbambane, Swaziland. The Company then established office in Nairobi, Kenya in September 1992, commencing writing business in January 1993.	i) Fostering development of the insurance and reinsurance industry in the COMESA sub-region. ii) Promoting the growth of national, sub-regional and regional underwriting and retention capacity iii) Supporting sub-regional economic development

Source: Data from respective company websites

The issue of insurance premiums flight out of the country is a headache for many developing economies including Zimbabwe as it leads to ''unfair competition and

reduced fortunes of local industries" (Africa Insurance Organization (AIO), 2015, p1) and depletion of the scarce foreign currency resources. The local insurance industry practitioners feel the pinch of being denied the much-needed premium while the economy continues to channel foreign currency resources outside its borders. According the AIO (2016) while there is recognition that some transfer of premiums offshore is necessary in the conduct of business in as far as it helps to achieve the spread of risks and reducing concentration, unnecessary expatriation of premiums inhibits growth of many Insurance markets in Africa. It is in this regard the AIO Executive Committee in 2015 engaged PwC, South Africa to carry out a study and report findings on the flight of insurance premiums from Africa, (AIO, 2015, p1).

Risk externalization as stated in section 72 of the Insurance Act, for Zimbabwe, chapter 24:07, (1996 Edition, p493) is the placement of local insurance risks with insurance entities or reinsurers that are outside the country's borders. Such a placement if required, has, to be authorized by the Commissioner of Insurance and Pension Funds following satisfaction that there is no registered insurer who is, able to provide adequate cover in respect of that risk or class of risk to which that request relates. Risk externalization is multifaceted in terms of the causes, the form and impact. In terms of the causes, many reasons have been cited including limited or lack of adequate local capacity, inferior local security rating, global captive programs, wider insurance coverage, further spread of risks, amongst others. Form could be through direct external placement, reinsurance programs while on impact the main issue is the negative effect externalization has on the balance of payment account, effect of economic growth, effect on national liquidity and other macro- economic related effects.

Risk externalization is closely linked to the contentious issue of market access and liberalization i.e. the opening up of insurance markets to foreign competition and the role played by foreign insurers. Indeed, numerous arguments, including unfavorable balance of payments effect and the need to protect our small local industries (The Infant Industry Argument by Fredereck List) have been advanced to justify the measures to restrict foreign insurers inroads in the market. However, Baur, Birkmaier and Rustmann (2001) argue that foreign insurers are necessary in our markets as they help bring

efficiency in insurance markets. Global insurers with their capacity, superior financial strength and international knowhow play a major role in making our markets more efficient. Baur et al (2000) further argue that that efficient insurance markets are a necessity for the transition to achieve integration into the global economy. This means Risk externalization helps and is part and parcel of the insurance globalization process. At the end Baur et al (2000) say that it is an issue of striking a balance between the stability of our insurance markets on one hand and ensuring efficiency and good value to consumers on the other end.

The period between, 2010 to 2020 is of interest as it marks the cornerstone of reforms in the insurance sector in Zimbabwe following the de-monopolization of the Zimbabwe Reinsurance Corporation through the Repeal of the Zimbabwe Reinsurance Corporation Act, 1983 (ZimRe Act, 1983) in 1999 through the Zimbabwe Reinsurance Corporation (Repeal) Act, 1998. Prior to 2000 ZimRe, the - reinsurer had absolute monopoly, controlling the whole market with more than 70% market share. In terms of the Act, 20% of every short-term risk was supposed to be ceded to ZimRe. Thus, three important periods are worth mentioning in the historical evolution of the Zimbabwean Short term Insurance industry:

- **Pre-ZimRe Act, 1983 Period**
- **ZimRe Act, 1983 to 1999 Period**
- **Post ZimRe Act, 1983 (period 2000 to date)**

The Pre- ZimRe Act, 1983 Period

This is the period prior before 1983, partly coinciding with the period before Independence and majority rule in 1980 to 1983. During this period the industry was largely foreign controlled. Many short-term insurance companies were branches/and or subsidiaries/agencies of foreign companies. There was Commercial Union (UK), General Accident (UK), NEM (UK), Royal Mutual (UK) and Unity (now American Insurance Group) of USA owning and controlling operations in Zimbabwe. On the reinsurance front and other than ZimRe, there was Munich Re, Hollandia Re, Swiss Re, all these were branches

of main companies located out of Zimbabwe. The industry was white dominated with very few blacks influencing insurance decisions. According to Insurance Council of Zimbabwe (ICZ, various articles), the tariff system regulated rates in the industry and competition was minimal.

The ZimRe Act Period (1983 to 1999)

This is the period after independence from 1983 when the ZimRe Act had been promulgated. In terms of reinsurers, other than ZimRe there was Hollandia Re, Swiss Re, Munich Re and Mercantile & General (M&G) Re. The government followed an inward-looking growth strategy that promoted what can be called a Marxist – Social Transformation, (Hawkins, 2005), the use of direct controls and promoted state intervention. This strategy saw the government coming into the insurance industry through the creation of a state-owned reinsurance company, Zimbabwe Reinsurance Corporation, through an Act of Parliament, the ZimRe Act, 1983. The ZimRe Act was later repealed through the Zimbabwe Reinsurance Corporation (Repeal) Act, 1998. The ZimRe (Repeal) Act, 1998 paved way to some form of market liberalization when ZimRe was privatized.

There were also many economic programs implemented as the state moved towards the full repeal of the ZimRe Act in 1998. These economic programs can be argued to have gradually eased and prepared the Zimbabwe Insurance market towards full de-monopolization. One such program was the Economic Structural Adjustment Program (ESAP). The ESAP program was designed by the World Bank and funded by Western donors including the International Monetary Fund (IMF). ESAP opened the economy and encouraged free competition, thus it can be inferred the industry was partially opened during this period. ESAP was followed by subsequent programs like Zimprest (1996 to 1999), the Millennium Economic Recovery Program (MERP) and National Economic Recovery Program (NERP) in 2003, (Hawkins, 2006). All these programs had an effect of partially freeing the Insurance Industry and inferably had some impact into the risk externalization practices in the market.

Post ZimRe Act ,1983 (Period 2000 to date)

This is the period following the repeal of the ZimRe Act, 1983 through the ZimRe (Repeal), Act 1988 and transcending up to today. This period witnessed an increase in market participants across the board from insurance brokers, insurance agents, insurers, reinsurance brokers and reinsurers. Currently there are 21 short term insurance companies, 7 reinsurance brokers and 8 reinsurers. Of the ZW$9.1 billion business written by insurers in 2020, ZW$5.2 billion was ceded to local reinsurance companies while reinsurers ceded ZW$1.9 billion through retrocession (IPEC 4TH Quarter, 2020) .

Thus the insurance industry in Zimbabwe has evolved through different economic policy and regulatory regimes which are worth looking at ie the Pre ZimRe Act, 1983 period, the ZimRe Monopoly years (1983 to 1999) and the post ZimRe Act years (Liberalisation period, 2000 to today). As the industry evolved regulation was also changing thus different regulatory practices. Skipper,Starr, Robinnson (2000), alludes to the need for a balance between liberalisation and regulation of insurance markets if insurance markets in developing economies and Zimbabwe are to be successful. That's the period between 2010 to 2020 offers a particularly interesting setting within which to analyse and evaluate the ability of the industry to self regulate and control the problem of externalisation of premiums under minimal government supervision.

Also, while many studies have been done on insurance, there is very few or nothing at all that has looked at the subject of the Externalisation of premiums and effects on the Zimbabwean economy, there is therefore a gap in knowledge in this respect. In year 2016, having appointed and tasked PwC, SA to undertake a study on the outflow of insurance premiums from Africa, the Executive Committee of African Insurance Organisation (AIO) discredited and labeled as inadequate PwC, SA's presentation on the

study of Insurance Premiums Flight from Africa through insurance of local risks, (PwC, South Africa, 2016). Thus not much work has been done before to review the problem of the externalsation of insurance premiums in Zimbabwe and let alone on the African continent.

1.1 STATEMENT OF THE PROBLEM

Risk externalization results in the outflow of foreign currency resources outside the country with negative consequences on the country's balance of Payments account, economic growth, national liquidity, employment, taxes, and development. The issue has implications across the divide from political, economic, social legal amongst other sectors. Politicians, regulators (Reserve Bank, IPEC, Ministry of Finance et al), the industry and general populace are all affected by this problem. It is therefore necessary that solutions geared at minimizing or mitigating unnecessary outflow of foreign currency are put in place or enhanced.

1.2 PURPOSE OF STUDY

The study seeks to establish and evaluate the causes and impact of insurance premiums being lost by the Zimbabwean Short term Insurance Industry through insurance and reinsurance premiums being placed with foreign markets outside the country.

1.3 OBJECTIVES OF STUDY

1. (i) To identify the reasons for risk externalization in the country.
   (ii) To evaluate the reasons for risk externalization in the country.
2. To identify the market characteristics that precipitate externalization of insurance premiums offshore.

3. To determine the quantum and impact of risk insurance premium externalization in the Zimbabwe Short term insurance industry and the economy.
4. To assess the key interventions, regulatory or otherwise that encourage local market retention and reduce risk externalization.
5. To proffer solutions to the problem of insurance risk externalization.

1.4 RESEARCH QUESTIONS

1. (i) What are the reasons for insurance risk externalization in the country?
   (ii) How justified are the reasons given for the externalization of risks ?
2. What are the market characteristics precipitating insurance risk externalization?
3. (i) What are the estimates in terms of levels of premiums externalized out of the country?
   (ii)What is the impact of insurance risk externalization on the industry and the country?
4. What key interventions can be pursued by IPEC and RBZ to address the problem of Insurance risk externalization?
5. What solutions can be proffered to the industry and policy makers to minimize the insurance risk externalization ?

1.5 ASSUMPTIONS OF THE STUDY

1. While study focuses on the short-term insurance sector during the period between 2010 to 2020 it is assumed that the findings and recommendations shall be widely applicable to the whole short term insurance sector.

2. The study will make use of questionnaires, interviews and secondary data obtained from the various Insurance & Pension Commission (IPEC) reports. It is the assumption of this study that the questionnaires and interviews will be answered truthfully. It is also assumed that most of the secondary data as

presented in the various reports is a correct presentation of the status quo realizing that most of these reports are prepared based on management accounts against audited financial statements.

3. It is also assumed that the statistical formulae used in the estimation of the quantum of externalized premiums is relevant and fully applicable for the study under consideration.

1.6 ETHICS STATEMENT

This study made use of primary data i.e., questionnaires and interview questions, and secondary data as published from the IPEC reports. The primary and secondary data figures and volumes already has an ethical documentation and only did further analysis. Any sensitive information or specific company data was treated with strict confidentiality with their specific experiences masked beyond specific identification by future researchers and users of this thesis.

1.7 JUSTIFICATION OF STUDY

This study is important to the following stakeholders: industry practitioners, regulators, policy makers, the government of Zimbabwe, Reserve Bank Exchange Control, and the academia. The study will therefore inform practitioners, academics, and policymakers on the extent of the problem of insurance risk externalization thereby shaping the policy making framework for the good of the industry and the country at large.

Local insurance companies and industry practitioners will benefit through the inculcation of best practices and etiquette in governance and systems of operations of companies. Local companies may benefit from increased business if externalization processes are transparently followed. The academia will benefit through knowledge of more insights into the risk externalization problem. Some of the recommendations if adopted may help

shape future literature in institutions of learning. Regulators and Reserve Bank Exchange Control will benefit through enhancing their regulatory interventions into the market. Insurance and Pensions will also benefit through enhancement of the externalization approval process or system. Externalization should be a balancing act of the need to protect the local industry and economy versus aspects like risk spread and avoiding market concentration. There is need for all to be informed that not all externalization is unnecessary. Prospective Investors will benefit from being able to gauge on whether there are available opportunities for setting or fully investing in the insurance Industry.

Overall study is one of its kind in the Zimbabwean Insurance Industry and economy, perhaps with more resources it can be expanded to cover the wider insurance fraternity and even applied to other economic sectors to stem unnecessary or illicit financial outflows.

1.8 SCOPE (DELIMITATION) OF STUDY

This research took a case study approach in evaluating the causes and impact of risk externalization on the Zimbabwean short term insurance industry and the economy. Study will be limited to Zimbabwe with particular attention to the Short- term insurance market period between 2010 to 2020. Only short - term registered insurance companies, operating and supervised by the Insurance and Pension Commission (IPEC) of Zimbabwe will be used in this study. Primary data sourced through interviews, questionnaires and secondary data as published in IPEC reports will be used for the analysis.

1.9 ORGANISATION OF THE STUDY

The study is organized as follows: Chapter 2 will look at the theoretical, literature and empirical review to insurance risk externalization. Literature and theory on the infant industry theory, liberalization of insurance markets, functions of reinsurance, the role of

foreign insurers in emerging markets, arguments for and against the role of foreign insurers and reinsurers in developing markets will be looked at. Chapter 3 will talk about the methodology, data collection instruments, data presentation as used in the study. This chapter will also justify the methodology and data collection instruments as used in the study. Chapter 4 will discuss data presentation and analysis and Chapter 5 will present the summary of research results or findings, conclusions, and recommendations of the study.

CHAPTER 2 LITERATURE REVIEW

2.0 INTRODUCTION

This chapter will review both theoretical and empirical literature on risk externalization. It will give an overview of the available literature on risk externalization beginning with the infant industry argument to market protection, globalization and role of foreign insurers and reinsurers, liberalization of the industry, comparative and absolute advantage theories, categories of risk externalization, the rationale behind risk externalization and reinsurance, impact of premium outflow on the industry and the economy and the key interventions to mitigate against excessive premium outflow.

2.1 THEORETICAL FRAMEWORK OF THE STUDY

2.1.1 The Infant Industry Theory/Argument to Market Protection

According to Fredrick List's Infant Industry Theory/Argument, there should be selective rather than across the board protection of infant industries especially in developing countries. Fredrick List's argument is not against international trade or export expansion but rather the view is that protection should be an instrument for achieving development, massive export expansion and ultimately free trade.The argument is that infant industry protection is neccesary for countries at early stages of industrialisation, (Myrdal 1957, p 96-97) and (Rodan, 1963). However other writers like, (Haberler, 1936, p281-85) and (Meir, 1964) are septical and still insist that protection should be temporary, targeted and not excessive. Domestic competition should in due course the be introduced preceded by gradual and targeted trade liberalisation. He further argues that premature liberalisation can be hampered by limitations of size and advocates for the collaboration with other countries. This theory remains valid until today due to technological revolution and changes in organisation production. Theory is however heavily criticised based on international trade theories and rules with one of the major criticism being of incidencies of targeted protectionism in production and exports of developed countries while universal and across the board liberalisation is recommended

for developing countries, (Shafaeddin, 2000). It can therefore be inferred that the industry that existed in Zimbabwe prior to 1983 was young, "an infant" which required the protection of Government until it could withstand competition after 1998 when the ZimRe Act was repealed through the enactment of the ZimRe Repeal Act, 1998. The industry is also argued, then that it could not self regulate thus needed state control to stem the externalisation of insurance risks.

2.1.2 Comparative Advantage Theory and Absolute Advantage Theory

Comparative advantage means resource advantage allowing say a nation to persue specilisation and trade based on the resources available. On the other hand, absolute advantage theory which is based on costs, that is those countries that produce certain goods or services at a lower cost have an absolute advantage to those that produce at a higher costs. Absolute advantage is closely linked to competitive advantage. Indeed there are a number of insurances that are placed offshore as insureds argue that it is cheaper to have them placed offshore than having them placed locally. If applied to Insurance comparative advantage means that domestic insurance services/industry that are protected will impose a cost disdavantage through misallocation of resources and accordingly such an industry will fail to innovate to the same degree as in foreign countries. In counter arguments, Skipper (1987) says that the theory of comparative advantage especially as it applies to insurance services is not well understood and has been little researched. While it appears that comparative advantage trade theory benefits the whole world, individual countries, businesses and people may suffer as the benefits accrue to the wealthy only. Thus under this school of thought trade based on the theory of comparative advantage tends to be exploitative, modern enclave benefit at the expense of the developing countries ie the net socio economic effect tend to be negative for developing countries and positive for developed countries. Accordingly using this theory, liberalisation of markets, risk externalisation is concluded to benefit the developed countries and to disadvantage developing countries like Zimbabwe.

2.1.3 Market Imperfections Theory

According to Hymer (1960) multinational firms are motivated into participating in host countries, in this case developing countries due to market imperfections. They seek to exploit market imperfections arising due to monopolistic or oligopolistic advantages in foreign markets. Market imperfections arise out of one or several areas like product differentiation, marketing skills, proprietary technology, managerial skills, better access to capital, economies of scale and government-imposed restrictions to mention but a few. The foreign entity possesses advantages over local firms to make such business ventures viable. Hymer (1960)'s views are further elaborated by Kindleberger (1969) who also suggested that market imperfections offer international firms compensating advantages of a magnitude that exceeds the disadvantages due to their lack of origin within the host market and it is the financial impact of this that underpins their foreign operations. This theory further asserts that foreign firms are typically oligopolists or monopolists which enjoy considerable market power. Thus, the multinational corporation (MNC) expands overseas once it has secured internally transferable advantages (oligopolistic advantages) which enables it to overcome its lack of knowledge of local conditions in host environments and to cope with local firms successfully. Such a scenario would not be possible with perfect competition as in a perfectly competitive industry there are many small firms enjoying common access to knowledge and earning normal returns. MNCs therefore seek to replicate domestic market imperfections overseas. These market imperfections constitute the firm's specific advantages that gives it an edge over would be indigenous firms. Michalet and Chevalier (1985) gave more than 30 reasons given by French MNCs for setting plants overseas and these reasons included amongst others market access, desire to spread risks and adverse trends in the home market.

Giddy (1978b) reiterates that the maintenance of an oligopoly depends on the existence of barriers to competitive entry and if domestic oligopolists are to become global ones the sources of their domestic advantage must be transferable abroad allowing the MNC the advantage of internalizing markets across boundaries. Some of the advantages include trademarks, patents, general market knowhow and other organizational skills.

Market imperfections are also explained in the context of systematic risk through the Capital Asset Pricing model which argues that by diversifying across boundaries the variance in the firm's overall earnings and cashflows can be reduced.

2.1.4 Transaction cost theory

Theory was conceived by Coase (1937) but further refined by MacManus (1972), Williamson (1975, 1979) and Teece (1976) who argued that the firm (termed hierarchy in their theory) and the market are alternative methods of organizing exchange. According to them choice between intra-firm or arm's length market exchange with third parties is based upon relative costs. The main reason for the firm to exist as a hierarchy of interrelated transactions is that it is most likely costly for the market to handle a transaction and thus the firm therefore bypasses the regular market and use internal prices to overcome the excessive transactions costs of an outside market. Thus, given transaction costs, firms tend to expand until the marginal cost of organizing an extra transaction within the firm becomes equal to the marginal cost of carrying out the same transaction by means of an exchange in the open market. Thus, according to this theory risks are placed outside the country because of high local transactions costs.

2.2 LIBERALISATION OF INSURANCE MARKETS

Liberalisation means the process by which the Government takes steps to move towards a liberal market (Skipper, Starr and Mark, 2000). Skipper et al (2000) goes further to say that a liberal insurance market is one in which the market subject only to economically justifiable government restrictions determines who should be allowed to sell insurance, what products should be sold, how products should be sold and the process at which products should be sold. Liberalisation helps in creating competitive markets which allows insurers to improve their products and services in the process benefiting buyers or the consumers. Skipper (1987) further alludes that liberalisation connotes elimination of trade barriers resulting in efficiency gains based on the theory of comparative advantage.

According to Skipper (1987) liberalisation and opening up of the insurance market (allowing freedom to externalise risks) results in positive benefits flowing to the domestic insurance markets in the form of advanced technical knowhow and expertise. Further greater competition in the insurance market leads to consumers enjoying greater value in insurance services. The coming in of foreign insurers may mean a net increase in insurance sold locally, greater individual and national protection as well as greater risk spread. In a study by Boonyasai (1999) of liberalisation and deregulation of Korean and Philipine Life Insurance markets he found out that liberalisation and deregulation stimulated increases in productivity. But the same markets which have been deregulated and opened up means there is freedom of choice in terms of how risks are placed and where they are placed. Such a market can be argued, if the traditional economics rules of trade are followed, may end up with a lot of risks being placed offshore with undesirable consequences for the domestic insurance markets.

2.3 GLOBALISATION AND ROLE OF FOREIGN INSURERS & REINSURERS

Crucial and key in the risk externalization matrix is the aspect of globalization and role of foreign entities i.e., insurers and reinsurers in many developing economies and Zimbabwe. Most risks are externalized through use of foreign related subsidiaries and placed with foreign insurers and reinsurers. According to Skipper et al (2000) the specific arguments favoring foreign insurer involvement include the following: improvements in customer service and value increased domestic savings, transfers of technology and managerial knowhow, providing additional external capital, improvements in the quality of insurance and the creation of domestic spill overs including addition of more and higher quality jobs, enhancing backward and forward linkages and societal loss reductions. However, UNCTAD (1997) raised some reservations about the role of foreign insurers and reinsurers and these include the following:

i). They might dominate domestic markets precipitating micro and macro- economic effects and failures in the process contributing to less consumer choice and less

contribution to local development. This argument is premised on the fear that foreign entities with their sophistication could dominate and crowd out local players.

ii). Selective marketing of insurance products leading to adverse macro-economic and micro-economic effects. There is a strong view that foreign entities because they are profit oriented end up marketing products to the most profitable segments disregarding other areas to the detriment of our economies. This segmentation approach may lead to certain areas being underserved. However, UNCTAD (2000) argues that if this is the case then governments and regulators need to play a role of subsidizing these neglected areas as a means of enticing across the board involvement by these entities.

iii). Another argument revolves around the Infant industry Argument (Fredrick List), which has already been alluded above. National markets should be protected as they are nursed and prepared to be able to compete effectively once they have grown to some reasonable level. There is also the aspect of strategic and security concern to policy makers who desire more economic diversification.

iv). Outflow of foreign currency resources from the economy, there is concern by policy makers that placement of risks with foreign entities provokes unnecessary outflow of resources. UNCTAD (2000) argues that this issue is more short-term than it is long-term, as they say ‘’any loss of foreign currency may not be substantial enough to justify the opportunity cost involved in running and upgrading national insurance corporations.

Overall, according to UNCTAD, arguments for tend to outweigh the arguments against use of foreign insurers, in as far as these insurers are more likely to aid development and enhance overall social welfare. In the end what matters is for policy makers to critically balance aspects of regulation vis a vis the intended benefits of the opening of market access.

2.4 CATEGORIES OF RISK EXTERNALISATION

At a much broader level the categories under which risks are externalized fall into the following:

2.4.1 AUTHORIZED RISK EXTERNALIZATION

Under this category, risk externalization happens in compliance with the local insurance regulations in case of Zimbabwe, **Insurance Act, Chapter 24:07 of 1996** as dictated and approved by the Commissioner of Insurance and Provident Funds (IPEC Regulator). Section 72 of the Insurance Act, chapter 24:07 of 1996, subjection 1 reads '' *….no insurance business in respect of any risk arising in Zimbabwe shall be placed with any insurer carrying on insurance business outside Zimbabwe*. Subsection 2 goes further " *at the request of an insurer or insurance broker the Commissioner may ……fix, authorize the insurer or insurance broker to place insurance business with an insurer carrying on insurance business outside Zimbabwe in respect of such risk or class of risk as the Commissioner may specify*. Further in subsection 3 …. *the Commissioner shall not accede to a request for externalization unless he has satisfied himself that there is no registered insurer who is able to provide adequate insurance cover in respect of the risk or class of risk to which the request relates"*. Thus, accordingly the local legislation requires all domestic risks i.e., risks arising from Zimbabwe to be insured in the first instance by a locally registered insurance company, with all externalization subject to the approval of the Commissioner of Insurance. In terms of IPEC circular, 15 (2017), Zimbabwean risks shall only qualify for externalization under the following conditions: 1). Where the market does not have sufficient capacity due to the size of the risk 2). Where the coverage being sought is beyond what local insurers and reinsurers are prepared to provide. Where an application to externalize due to coverage is made the applicant must split the risk as far as possible and ensure that aspects of the cover insurable locally are placed with local insurers and reinsurers.

Therefore, the following constitutes authorized externalization:

I. Locally domiciled risks being placed directly or indirectly with a foreign entity or insurer.

II. Locally registered insurance (ceding) companies seeking their reinsurances directly or indirectly offshore i e with foreign reinsurers or insurers. These arrangements can be Treaty, Facultative or Facultative Obligatory.

III. Reinsurances direct or indirect with foreign entities/reinsurers by locally registered reinsurance companies through retrocession programs. The retrocession programs can be in various forms Treaty, Facultative and or Facultative Obligatory arrangements. IPEC Circular No. 15, (2017), stipulates and makes it mandatory for all reinsurers in Zimbabwe to submit, every year, their retrocession arrangements and capacities to the Insurance and Pension Commission (IPEC). These arrangements once endorsed by the Commission shall be complied together with the insurer's capacities for the different classes of business.

Procedure in respect of Authorized Externalization of Risks

According to IPEC Circular 15 (2017), the recommended procedure when externalizing risks is as follows:

a). All externalization should be handled through a locally registered reinsurer or reinsurance broker who should circulate a market slip to all insurers and reinsurers gauging market capacity, with only the unplaced share being eligible for externalization. The locally registered reinsurance broker or reinsurer is responsible for seeking and negotiating terms with external market, vetting of the offshore securities to be used, liaising with offshore securities on technical issues, effecting remittances of premiums to offshore securities, securing appropriate evidence of cover and compiling returns for all risks externalized to the Commission (IPEC). Thus, and accordingly in terms of IPEC circular, 15 (2107) only registered reinsurers and reinsurance brokers can handle the externalization of insurance risks from Zimbabwe.

b). where an insurer or reinsurer cannot participate on a risk that is ordinarily insurable in Zimbabwe, the insurer or reinsurer must indicate on the slip the reasons for declining participation.

c). An application for externalization, by the locally registered reinsurance broker or reinsurer on their letterhead must be submitted as a minimum 30 days before the commencement of insurance cover and the application must be accompanied by a completed market slip with the full terms on which the risk is being placed.

d). Once approved by the Commission (IPEC), the registered reinsurance broker or reinsurer handling the externalization must furnish IPEC within seven days of finalizing placement with the details of the risk placement including the premium rate, policy wording, warranties terms and conditions and the policy schedule.

Prohibition from participating on certain Risks

In certain cases an insurer or reinsurer may be denied or prohibited the opportunity to participate on a risk despite being keen to participate if the Commission (IPEC) considers that such participation will compromise insurance security, insurer or reinsurer does not satisfy the required minimum capital or regulatory requirements or the reinsurer or insurer has no confirmed protection or cover either because they have failed to pay premiums for their reinsurance or retrocession, (IPEC Circular 15, 2017).

2.4.2 IRREGULARLY AUTHORIZED RISK EXTERNALIZATION:

Under this category there are cases, were, authorization is done by an arm of Government, Ministry or Government Minister outside the purview of the Commissioner of Insurance and Provident Funds. As part and parcel of the investment in certain sectors, certain investors include a clause in the documentation for Foreign Direct Investments (FDI) agreements stipulating that insurance for the project will be done offshore in the country of origin of the investment. Certain Marine contracts also have

their insurances embedded and being provided in the country of origin of the goods. To the extent, that all local insurances should be supervised through use of the Insurance Act, 24:07 this externalization while it will have been authorized, is regarded, an irregularly authorized one. According to BCA Forensic Services (2014, Audit Report), Air Zimbabwe lost close to US$10 Million in a four-year externalization Aviation insurance scam involving Air Zimbabwe top management when the Airline's insurances were irregularly authorized through the then Ministry of Transport and Infrastructure Development instead of through the Commissioner of Insurance and Pensions Funds which falls under the Ministry of Finance & Economic Development, (Herald of 27 January, 2014).

2.4.3 UNAUTHORIZED RISK EXTERNALIZATION:

Under this category risks are externalized in contravention of the local insurance Act and without the involvement and or approval of the Commissioner of Insurance & Provident Funds (IPEC). This is an unapproved offshore insurance placement which results in larger than expected insurance premiums being placed outside, (PwC, SA, 2016). This is an illicit outflow of capital on the economy.

Overall, the forms through which risks are externalized out of Zimbabwe are I) Direct Insurance or reinsurance placements with foreign insurance or reinsurance companies and II). Reinsurances of local reinsurance companies i.e., retrocession arrangements with foreign insurers and reinsurers by local reinsurance companies. The externalization when done could be above board i.e., authorized Risk Externalization or its not complying to the Zimbabwean laws and regulations on risk insurance placement and unauthorized risk externalization.

2.5 RATIONALE FOR DIRECT INSURANCE AND REINSURANCE RISK EXTERNALISATION BY LOCAL COMPANIES

i. Perceived poor or inferior rating of local insurance or local reinsurance Market

In many countries Zimbabwe included, a lot of risks are externalized or placed offshore due to the perceived poor rating of local insurance markets and securities. While there is no stipulated minimum regulatory rating for the placement of certain risks or reinsurance programs in Zimbabwe clients and cedants do prioritize and prefer to insure with insurers and reinsurers who are rated. According to the Non - Banking Financial Institutions Regulatory Authority (NBFIRA), (2012, p14), *''allowable reinsurance is defined as reinsurance placed with a reinsurer with a credit rating of BBB or better. Credit ratings may be obtained from any acceptable credit rating agency, but the same credit rating agency must be used to provide ratings for all reinsurers. Where applicable the credit rating must be that applicable to the local office of the reinsurer. In financial or other reinsurance arrangements, where some or all the risk is transferred back to the insurer, the insurer must hold whatever is the appropriate amount of capital in the light of the risk that is effectively retained".* Thus, according to the laws of Botswana, all reinsurances must be placed with a minimum BBB rated security otherwise the reinsurance is considered non admitted reinsurance and carries with it a capital charge and is also not considered for Solvency calculation purposes, (NBFIRA, 2012, p14).

ii. Lack of Confidence in local market security and structures

The lack of confidence in local market structures and security is closely related to the aspect of rating that has been alluded above.

iii. Breadth and scope of cover and wordings are too wide

The breadth and scope of cover is sometimes too wide or the nature or magnitude of the risk is prohibitive by virtue of the required experience in

underwriting the account. The negative market Slip for 2021, for the various Tourism Insurances (Tour operators in Victoria Falls and Kariba, had the following as coverage extensions:

'*'Loss of tourism attraction, Loss of Aesthetic attraction, Cancellation of bookings, coronavirus and acute respiratory syndrome extension covered up to a maximum of US$10 Million", (*negative market slip, 2021). Due to this wide breadth of cover and the various extensions nothing was retained locally with the whole scheme ending up externalized to Western Insurers.

iv. Lack of adequate Local market Capacity to absorb the risk

Examples of risks falling under this including the insurances for Air Zimbabwe planes, the bulky which have always been placed outside the country due to the nature of their cover (Air Zimbabwe, Negative Market Slip, 2021). Our own Zimbabwe Electricity Supply Authority (ZESA) risk too is another example where the bulky is placed offshore because the size of the risk is too huge to be absorbed by the local market, (ZESA, negative market Slip for 2021).

v. Instructions to place risks with global captive insurer or reinsurer

There are cases were instructions to place risks with a global captive insurer or reinsurer are the reasons why a risk or insurance program must be placed offshore with its captive insurer. A captive insurer is a special type of an insurance company set up by a parent company, trade association or group of companies to insure the risks of its owner or owners, Insurance Information Institute (**htpp:www.iii.org**). According to the Insurance Information Institute website, the idea of captives arose during the 1980s when businesses had trouble obtaining some type of commercial insurance coverage. In Zimbabwe the big five Accountants firms Professional Indemnity Policies of Price Waterhouse, Delloitte & Touche, Ernst & Young, KPMP and Coopers & Lybrand are insured directly with their captive insurers due to nature of their exposures and risks involved and not any insurer locally is prepared to take or retain these on board.

vi. Local terms are too restrictive and expensive

Sometimes risks are placed outside the country with say Lloyds of London because the terms are cheaper offering the insured or insured an opportunity to reduce its own insurance costs. The insured can take advantage of cheap costs and insuring its risks with more mature global markets, (American Express ,2020).

vii. Placement as reinsurance or retrocession of insurance or reinsurance companies

Reinsurance is arguably the greatest route, through which insurance risks are externalized or taken offshore. Often also referred as Reassurance when we talk about long term or life reinsurance, it is insurance for insurance companies, (Park, 1799). It is a contract, which the first insurer enters, to relieve himself from those risks which he has incautiously undertaken, by throwing them upon other underwriters, who are called reinsurers. The reinsurer (the assuming company) agrees, for a portion of the premium, to indemnify another insurer (called the reinsured or ceding company) for losses paid by the latter under a policy or insurance policies issued to its policyholders." Reinsurance grew out of coinsurance, a practice of offering risk to more than one insurer when the first insurer would not accept it all, (Robert, 1980).

Reinsurance is a mechanism through which insurers manage their risks and the amount of capital they hold for such risks. Reinsurance enhances the availability and affordability of insurance thus helping in the spread the risk, reduction in economic uncertainties for businesses and individuals, provides private capital in post event recovery and promotes economic growth, (Swiss Re, 2012). By spreading risks globally local national insurance markets are diversified, foreign currency is generated while providing capital relief and balance sheet protection. Both life and non-life insurers rely on both domestic and foreign reinsurance to reduce losses, minimize exposures to significant risks, acquire or dispose of block of risks or business lines and to provide additional capital for future growth. Thus, the availability of ready, well diversified, and well capitalized reinsurance markets is important to maintain the financial strength of the Zimbabwean insurers and

to enable insurers to meet policyholder obligations and to expand access to affordable insurance products in the economy.

According to the IAIS (2012), reinsurance contributes to the global spread or diversification of risks and to efficient allocation of capital and improved risk management on the side of primary insurers. Without access to global insurance market capacity the claims burden on natural catastrophes would fall on domestic insurers or reinsurers. Thus, access to global reinsurance and the reinsurance recoveries obtained from global and domestic reinsurance by primary insurers helps in mitigating the financial impact of these catastrophes on local insurers and by extension on local policyholders.

The importance of reinsurance is also illustrated in the Property and Casualty market during natural disasters and catastrophes, when catastrophe reinsurance crucially backs up insurers for example during the 11 September 2001 attacks in the United States, and during hurricanes Katarina, Rita, Wilma in 2005 in the USA, these disasters resulted in US$90 Billion insured losses. Non-USA domiciled reinsurers chipped in with USD$59 billion, about 67% of the US$90 Billion losses, (Swiss Re, 2012). Through properly structured catastrophe reinsurance consisting of many high limit layers with multiple participating reinsurers to varying degrees on the various layers, high severity, low frequency events are managed better.

Overall reinsurance constitutes the greatest conduit through which insurance risks and ultimately premiums are formally externalized or placed offshore.

2.6 EMPERICAL LITERATURE REVIEW OF RISK EXTERNALISATION

There has been no other study on risk externalization except the one by Price Waterhouse Coopers (PwC) SA, (AIO, 2016). The PwC, SA study was commissioned by the Africa Insurance Organization in 2016 specifically focusing on the transfer of Insurance Premiums offshore from the African Continent. The study was done in three

phases which are desk top research, survey questionnaires and face to face interviews in major markets of South Africa, Morocco, Ghana, Uganda, Egypt, Tanzania, Kenya, Nigeria, Angola, and Mauritius. The main findings of the study were that risks are externalized due to the following reasons: Lack of local capacity in many markets, lack of adequate security in local markets, Use of global insurance programs, Lack of adequate local technical skills, lack local suitable insurance products, pricing considerations amongst other factors. The main market structure precipitating the externalization of risks is the Capitalist/free market system generally adopted by some markets in Africa, (AIO, 2016).

2.7 IMPACT OF PREMIUM OUTFLOW IN AN ECONOMY

As there has not been any previous research touching directly on the impact of premium outflow on the economy the writer has inferred that the impact of premium outflow is akin to the effect of money outflow or capital flight from an economy. According to Chen (2021), the impact of money leaving the economy depends on whether the outflow of money is small or big. Excessive premium outflow may result in weakening of the exchange rate or currency devaluation, collapse or crash of stock markets, collapse or weakening of the banking system, negative impact on the balance of payment account, reduced confidence on local economy, fall in economic growth amongst other challenges.

i. Stifles National Liquidity

The payment of premiums out of the country stifles the liquidity creating mechanism of insurers and money is channeled out of the country. Skipper (1997) says insurers create liquidity as they borrow short term and lend long-term by using funds entrusted to them by policyholders to make long term loans and investments. It is this local liquidity creating function that is affected by externalization as funds are moved out of the country. By channeling premiums out of the country, the market's capacity, and ability to invest in prescribed assets is also reduced.

ii. Weakening of the currency or Exchange rate devaluation or depreciation

According to Chen (2021), excessive outflow of money from an economy may leads to the currency losing value through exchange rate depreciation thereby imposing a burden leading to lower living standards in nation. Exchange rate depreciation happens as people will start selling local currency to get foreign currency. The selling of local currency may also spark imported inflation and decline in the local terms of trade as local exports become cheaper. Currency devaluation can be triggered as foreign investors flee from such markets before their assets loose too much value for example the Asian Crisis of 1997.

iii. Collapse or weakening of Local Financial or banking system

The collapse or weakening of the banking system happens due to reduced confidence and lack of deposits in banks leading to bank insolvency. Outflow of money if excessive means significant assets are exiting the banking system and the financial institution is likely unable to call loans to cover withdrawals. Again, the turmoil in Greece in 2015 forced the Government to declare a week-long bank holiday which restricted consumer wire transfer solely to recipients who owned domestic accounts.

iv. Collapse of Stock markets

Excessive outflow of money from an economy can also have the domino effect of collapsing stock markets, again the Asian crisis of 1997 led to international stocks falling by about 60% resulting in the International Monetary Fund Intervening by providing bridging loans to the affected Asian Economies, (UNCTAD, 2000).

v. Negative effect on the Balance of Payments Account

Premium outflow is a debit on the financial account of the Balance of Payment Account thus may also negatively affect the Balance of payment Account of a nation. Premium outflow may lead to a deficit in the financial account which may lead to a surplus in the current account of the balance of payment account.

vi. Reduced Confidence dampening Economic growth

If premium outflows are big, they can result in a negative spiral of declining confidence leading to fall in economic growth. An example is what happened in Greece when it suffered serious capital flight, (Picardo, 2021) leading to serious economic recession resulting in huge structural problems and collapsing economy. According to the IMF (2012), just as capital inflows are a major determinant of domestic investment and growth, outward flows, or capital outflows (capital flight) would be detrimental to investment, and thereby to sustainable growth.

vii. Fall in Living Standards & increasing poverty

In an article by Kar (2016), quoted by Nkurunziza as having traced and concluded that capital flight directly lowers domestic capital stocks leading to fall in living standards and poverty over the long term. According to Nkurunziza as quoted by Kar (2016), capital flight lowers the annual rate of productive capital accumulation in Southern Africa by about 1%. Overtime the effects of capital flight adds up, for example in the absence of capital flight income per capita would have been 1.5% higher than it is and the poverty rate nearly 2% points lower than it is.

While much of the impact alluded above is negative to the economy it should also be realized there are also positive effects of risk externalization by way of risk diversification and money inflow through claims recoveries amongst other issues.

2.8 KEY INTERVENTIONS TO REDUCE RISK EXTERNALISATION

The following are some of the interventions that can be adopted or used to reduce risk externalization in Insurance markets:

i. **Legislative requirement for all domestic insurance business be conducted with locally licensed insurers and reinsurers**

According to IPEC Circular 15 (2017), all externalization should be handled through a locally registered reinsurer or reinsurance broker who should circulate a market slip to all insurers and reinsurers gauging market capacity, with the unplaced share being eligible for externalization. The locally registered reinsurance broker or reinsurer is responsible for seeking and negotiating terms with external market, vetting of the offshore securities to be used, liaising with offshore securities on technical issues, effecting remittances of premiums to offshore securities, securing appropriate evidence of cover and compiling returns for all risks externalized to the Commission (IPEC). Thus, and accordingly in terms of IPEC circular, 15 (2017) only registered reinsurers and reinsurance brokers can handle the externalization of insurance risks from Zimbabwe.

ii. **Legislative Requirement for all reinsurances or retrocession arrangements and reinsurance plans to be approved by regulator**

The retrocession programs can be in various forms Treaty, Facultative and or Facultative Obligatory arrangements. IPEC Circular No. 15, (2017), stipulates and makes it mandatory for all reinsurers in Zimbabwe to submit, every year, their retrocession arrangements and capacities to the Insurance and Pension Commission (IPEC). These arrangements once endorsed by the Commission shall be complied together with the insurer's capacities for the different classes of business. Section 75 of the Zambia, Insurance Bill of 2021, '*'the Registrar may, by notice in writing direct a licensed to submit to the registrar for examination, reinsurance treaties and other contracts of reinsurance entered by the licensed insurer and furnish the registrar with certified copies of documents under section 74".* Section 74 makes it mandatory for a licensed insurer

to submit at the beginning of every year reinsurance programs in a prescribed manner and form, (Insurance Bill, 2021).

iii. The Requirement for annual subscriptions and accreditation of foreign insurers/reinsurers and reinsurance brokers wishing to do business in that market

In some countries like Tanzania, Uganda, as a mitigatory measure to dissuade externalization of insurance risks, there is now a requirement for annual accreditation of foreign insurers and reinsurers before they can be allowed to trade and or accept business from that market. According to the Insurance Regulatory Authority of Uganda (IRA), (circular 655, 2021), all foreign reinsurers and reinsurance brokers have, to undergo an annual accreditation process which is subject to a payment of a non-refundable fee of US$10 000 by reinsurers and US$5 000 by reinsurance brokers to the regulatory Authority. These annual subscription fees increase the cost of doing business thus greatly dissuades the externalization of premiums out of the country.

iv. Taxation of premiums being paid out of the country

In some countries, Zimbabwe included some levy or tax is paid based on the amount of premium to be externalized. In terms of Statutory Instrument (SI 11, 2020) issued by the Insurance and Pension Commissions, (SI 2020, p42) insurers and brokers placing business outside Zimbabwe shall be levied as follows:

$a + rx$, where
a is a fixed levy of five thousand dollars per application
r is the rate of 0.025
x is the external premium

This means all premiums going outside the country are taxed using the above formula.

In Uganda all externalized premiums are subject to a 10% withholding tax, meaning total deductions on any insurance premiums paid out of Uganda are further reduced by the 10%. Egyptian Insurance business is also known to be the most unattractive on the continent due the very high taxes levied on the premiums. In the latest Bill of Insurance that has been passed by the Parliament of Zambia but is still awaiting presidential assent, all reinsurance premiums going out of Zambia shall be subject to a 20% withholding tax, (The Insurance Bill, 2021).

v. Enforcement of compulsory cessions to insurance pools, national or regional reinsurer where it exists

Though increasingly getting out of fashion enforcement of compulsory insurance cessions remains a method many countries still use as a way of reducing risk externalization. Statutory enforcement of insurance cessions to local and regional reinsurance and insurance entities remains, in Uganda, Tanzania and in many African countries, cessions are made to Africa Re. In a latest bill passed by the Parliament of Zambia, section 78, "*a licensed insurer shall offer a minimum mandatory cession made according to thresholds prescribed by the minister to place with the Reinsurance company"* in this case Zambian Reinsurance Company.

vi. Market Conduct Intervention measures

These are measures that are aimed at increasing knowledge of the need to retain more insurance premiums locally. Market conduct intervention refers to actions taken by local purchasers of insurance and reinsurance to insure, reinsure or invest locally. This is achieved mainly through increasing awareness of local ability and encouragement to support local or regional insurance or reinsurance participants. Key bodies like local and regional insurance institutes should drive awareness around the need to retain more insurance risks locally. Awareness and lobbying initiatives should be extended to key local stakeholders who include Ministers of Finance across the various governments and the related regulatory authorities. International stakeholders include the International

Association of Supervisors, UNCTAD, the World Bank and International Labor Organization (ILO), (AIO, 2016).

vii. Market Development Intervention measures

Market development refers to the long- term actions taken by governments, insurers, and reinsurers to develop the financial strength and sophistication of our insurance markets so that they can attract and retain more insurance risk locally (AIO, 2016). The more developed a country's financial system the greater the reliance on the markets, (Levine, 1996, p231) and less reliance on the external market.

viii. Prudential Supervision of Markets

Prudential supervision refers to the development of a well-resourced and more active regulator to oversee our insurance markets. This type of intervention excludes development of additional legislation or regulation to limit offshore premium transfers but rather calls for more engagement of industry players by the regulator (AIO 2016). Engagements could be on regulatory review of insurance/reinsurance arrangements; discussions with insurers regarding placement decisions; ad hoc reporting to explain placement decisions; collation, analysis, and reporting of relevant market statistics. To do this effectively requires improving regulatory capacity and skills to regularly monitor insurance and reinsurance activities. Skipper et al (2000) argue that prudential regulation and supervision should be to prevent insurers from incurring excessive levels of financial risk and on timely intervention when an insurer's financial condition becomes hazardous.

2.9 CHAPTER SUMMARY

All in all, this chapter has discussed the theories behind risk externalization including the Infant Industry Argument, the transaction cost theory, market imperfections,

globalization and role of foreign entities, comparative advantage, and absolute advantage theories. There seem to be some acceptable view that imperfects markets have high transactions costs precipitating the rampant externalization of risks. The impact of externalization is more negative than they are positive for developing economies. Some of the undesirable effects of premium outflow include foreign currency shortages, reduced economic growth, fall in living standards, unfavorable balance of payments, constrained market liquidity to mention a few. Finally, interventions to stem risk externalization should be modelled around issues of market development, market conduct and enhanced prudential supervision.

CHAPTER 3 RESEARCH METHODOLOGY

3.0 INTRODUCTION

The objective of this chapter is to describe and justify the methodology used in the study. The chapter discusses the methodology in terms of research philosophy, research design, data type, sample framework, data collection methods and the data analysis tools used to evaluate and analyze the externalization of risks from the Zimbabwe short-term insurance sector during the years 2010 to 2020.

3.1 RESEARCH PHILOSOPHY

This study is based on the philosophy of positivism where the researcher adopts the philosophical stance of a natural scientist. The researcher is an objective analyst who dissociates from personal values and works independently, http://www.intechopen.com. The approach is deductive and assumes that knowledge exists in a concrete and tangible form that retains the same meaning even when shared amongst various individuals. As such, the study ascribes to the notion that knowledge can be observed and be empirically verified. The role of the researcher is limited to data collection and interpretation in an objective way.

3.2 RESEARCH DESIGN

Sellitiz (1959) defines research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Well-designed research is of critical importance in finding a solution to the research problem because it enables the researcher to get accurate and useful information. With accurate information, the probability of making good decisions becomes high. The researcher kept this notion in mind when deciding on the best design to adopt for the purpose of this study. The researcher used the descriptive research design methodology. Descriptive research design focuses on

determining the frequency with which something happens or the extent to which two or more variables are related. Descriptive statistics condense large volumes of data into a few summary measures. When large volumes of data have been gathered from a variety of sources, as is the case in this study, there is need to organize, summarize and extract the essential information contained within this data for communication to interested parties. Descriptive statistics aims at identifying the essential characteristics of a random variable and produce a profile of its behavior, which is achieved through summary measures (Wegner, 2000). Descriptive research design is found more relevant to this study in that it enables the researcher to focus and track the various insurance variables of wider wordings, cheaper insurance pricing, wider insurance coverages, risk diversification and the extent of risk externalization.

3.3 STUDY POPULATION

The study population consists of registered short term insurance companies, reinsurers, and reinsurance brokers during the period 2010 to 2020 i.e., a period of 11 years. The numbers varied by year due to new companies being registered and others being deregistered, liquidated, or merged. The deregistered, merged, and liquidated companies were not considered in the study. The population under study by type of company and by year was as per the table below:

Table 3.1 Study Population

YEAR	Number of insurers	Number of Reinsurers	Number of Reinsurance Brokers	POPULATION
2010	**24**	**8**	**4**	**36**
2011	**28**	**9**	**4**	**41**
2012	**26**	**10**	**4**	**40**
2013	**23**	**9**	**4**	**36**
2014	**21**	**8**	**4**	**33**
2015	**24**	**8**	**4**	**36**
2016	**20**	**8**	**6**	**34**
2017	**24**	**8**	**4**	**36**
2018	**28**	**9**	**6**	**41**
2019	**26**	**10**	**6**	**40**
2020	**23**	**9**	**7**	**36**

Source: Insurance and Pensions Commission (IPEC Reports for the various years)

The total population was 409.

3.4 SAMPLE FRAMEWORK

According to Conroy (2018) sample size should roughly be 10% of the population, at least as a minimum. Where possible the minimum number of items in a sample should be 100 while the maximum should be 1000. In this study the sample size used on some categories was 100% since the number of items in the population was 409 which is less than 1000.

Sampling techniques provide a range of methods that enable one to reduce the amount of data collected by considering only data from a subgroup instead of all possible cases or elements, (Saunders, Lewis, and Thornhill, 2003*).* Saunders et al (2003) further argue that at times only sample data is required to generalize about all the cases from which a sample has been selected. They contend that a census survey may not necessarily provide more useful results than a well-planned sample survey. Henry (1990*)* argues that using sampling makes it possible to get a higher overall accuracy than a

census. He contends that collecting data from fewer cases means that information that is more detailed is collected thus helping in saving time.

There are basically two types of sampling techniques namely probability or representative sampling and non-probability or Judgmental sampling. According to Saunders et al (1996) probability sampling is most associated with survey-based research where you need to make inferences from your sample about a population to answer your research questions or meet your objectives. In this study, the researcher used judgmental sampling. This is a non-probability sampling method which relies on the researcher's knowledge of the study population because the researcher has knowledge of all the insurance companies, insurance brokers, reinsurance brokers and reinsurers in the market based on his work experience and as sourced from IPEC. The selected sample was as follows:

Table 3.2 Sample Composition by Category

SECTOR	AVERAGE STUDY POPULATION	NUMBER OF COMPANIES SELECTED (SAMPLE SIZE)	SAMPLE AS A PROPORTION OF THE POPULATION
Reinsurance Brokers	5	5	100%
Insurance Companies	24	15	63%
Reinsurance Companies	8	8	100%
Total Sample	37	26	70%

Source: Author's own Computations

Neuman (1991) argues that judgmental sampling enables the researcher to use judgement to select cases which will best enable you to answer your research questions and meet your objectives. In line with this argument this study is based on that line of

thinking. The disadvantage of judgmental, also called purposive sampling is that all elements of the population do not have an equal chance of being included in the sample hence could lead to a conclusion which does not represent the whole population. Another shortcoming of this technique is that bias cannot be ruled out.

3.5 DATA

Both primary and secondary data was collected in the research process. Primary data is that data which is collected afresh for the first time and thus happen to be original in character. Secondary data on the other hand is data which has already been collected by someone else and which has already been passed through the statistical process. In this research primary data was collected using the questionaries and interview questionaries while secondary data in the form of panel data was used. Secondary data was gathered from Insurance and Pensions Commission (IPEC) reports.

The advantages as well as the limitations of secondary data methodology are that it is cost effective as the data was already collected for something else. As a researcher you do not have invest any money, time or effort into the data collection stages. The data is also already cleaned and stored in electronic format making it easier for the researcher to analyze instead of spending time having to prepare the data for analysis. The secondary data used was quantitative i.e., numerically represented to the extent that it is just a matter of collecting, organizing, analysis and evaluation. Some of the data used was also discrete and, in some cases, continuous lending itself to good presentation and analysis. The disadvantages of secondary data are that the data may not answer the researcher's specific questions to the degree that the researcher would have anticipated. Again**,** no matter how the data was collected you may never know how the data was collected and the processes that were executed.

As alluded above, in twenty-six firms out of an average total of thirty - seven registered companies were included in the study sample, in the interest of making it a large sample that fully represents the population. Variables that were collected for the study were:

I. Gross written Premiums by the various insurance entities in Zimbabwe
II. The level of Reinsurance or cession level by insurance companies
III. The Level of Retrocession or cession ratio by Reinsurance companies
IV. The level of Reinsurance Inwards in Gross terms received by Reinsurers in Zimbabwe
V. Level of Reinsurance Recoveries (from the international market) in claims by Zimbabwe short term insurers, reinsurance brokers and reinsurers.

As alluded above, the data used in this study is both primary and secondary, with primary data collected through questionnaires and interviews while secondary data was obtained from IPEC reports for the years 2010 to 2020. The source for secondary data was chosen as reliable for the following reasons:

i). IPEC, being the regulator for the industry has credible data which they collect periodically from various insurance entities who are also members of the Insurance Council of Zimbabwe (ICZ).

ii). The management accounts and financial statements used for preparing IPEC returns would have been as per IPEC procedure, signed off by Internal Audit & Compliance, Finance Executive and Principal officer as such it is deemed, they are of quality and are not doubtful as a source of reliable information.

3.6 DATA COLLECTION METHODS

Primary data was collected using questionaries and interviews and while secondary or panel data that was collected from various reports. The collection methods are explained below:

3.6.1 Questionnaires

A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents, (Karim, 2017).

Questionnaires which had both closed and open-ended questions were administered to personnel in the various insurance companies via e mail. The questions were relatively few and short, with the closed questions requiring simple responses such as ticking between Yes and No or selecting answers from a list of supplied answers. Language used was simple and direct to ensure that targeted respondents would not have any difficulties when completing the questionnaires. Open-ended questions were designed with enough space to allow respondents to clearly state their comments without being restricted by space. Straightforward closed questions were used at the beginning of the questionnaire to encourage respondents to complete the questionnaire while the open-ended ones followed. Clear instructions were also given on how to complete the questionnaire.

The questionnaires were emailed to 26 officers working in insurance companies, insurance brokers and reinsurance companies and the office of the Insurance and Pensions. The researcher selected the questionnaire method due to the following: the questionnaire method gave respondents flexibility to respond at a time convenient to them, method was also cost effective as all of them were just e-mailed in view of the Covid-19 protocols. Sending of questionnaires by e-mail is convenient and helpful as most insurance firms operating in Zimbabwe have e-mail addresses. Questionnaires are also easy to analyze as data entry and tabulation was done by computer in excel. Questionnaires also reduce bias because questions asked are uniform, the researcher's own opinions would not influence the respondent to answer questions in a certain manner.

However, questionnaires have some shortcomings some of which are: the high possibility of low response rate, which lowers confidence level in the results, it is also not possible to probe responses since a questionnaire is a structured instrument which leaves little room for flexibility on the part of the respondents. Gestures and visual cues are also not available with written questionnaires. In some cases, questionnaires are completed by people not targeted by the researcher. Further some business executives can simply delegate the completion of questionnaires to their junior staff.

In order, to minimize the shortcomings of questionnaires cited above, the researcher made vigorous follow-ups by sending e-mail reminders, phoning targeted respondents reminding them to complete and return the questionnaires. Telephone interviews were also conducted to cross check the validity of some answers provided on the questionnaires. The interviews enabled the researcher to probe further cases where short answers were thought to be inadequate and ambiguous.

3.6.2 Interviews

Interviews were also used to bridge the gap that came from some of the questionaries. Interviews entails collecting data by asking questions, (Karim, 2017). The structured interview method was used to collect data. The questions as well as their order was already scheduled and planned along the same format as on the questionnaires. The Interview questionaries helped the researcher got more explanation thus allowing the respondents in giving more explanation if the answer they provided was vague. The interview method had the following advantages: method allowed researcher to collect complete information with greater understanding, method is more personal as compared to questionaries and thus allowed the researcher higher response rate, it gave the researcher more control over the order and flow of questions and the researcher had the leverage of introducing changes in the interview schedule based on initial results unlike with the questionnaire method. However, the shortcomings of the interview method were that data analysis was difficult given that there is more qualitative data collected through this method, the process is very tiresome and there was greater risk of bias due to fatigue and becoming too involved with interviewees

3.7 DATA PRESENTATION

Graphs will be used to present data into sets and placed in rank order. Extra care will be taken to ensure that the chosen categories are not ambiguous and do not overlap. Tables are observed to be the simplest for individual variables. According to Saunders et al (2003*)* three-dimensional diagrams often hinder interpretation. As such, these will be

avoided. Tables are observed to be ideal to show one variable so that any specific value can be read easily. Bar charts and histograms are used to show the frequency of occurrences of categories or values for one variable so that the highest and lowest limits are clear. Saunders et al (2003) emphasize the importance of diagrams as visual clues. Bar charts provide accurate categorical presentation of data whilst histograms are used for continuous data. According to Sparrow (1989*)* the most suitable diagram for emphasizing proportions is the pie chart. Saunders et al (2003) contend that comparisons range variables rather than precise values are best done using a multiple bar chart whilst comparison of proportions between variables uses either a percentage component bar chart or two or more pie charts.

3.8 DATA ANALYSIS

Both qualitative and quantitative approaches are used to analyze data. To enable easy analysis, data collected is prepared with quantitative analysis in mind. A wide range of graphical and statistical techniques will be utilized in analyzing data. Robson (1993:310) states that *"---it is not at all difficult to carry out an analysis which is simply wrong, or inappropriate for your purposes* ---". As such, extra care was taken to ensure that only correct and appropriate analysis was carried out. Robson (1993) also asserts that "---*the negative side of readily available analytical software is that it becomes that much easier to generate elegantly presented rubbish*". To avoid getting into this trap, expert advice on statistical analysis will be sought from Select Research.

The most appropriate tables, diagrams and statistics are chosen to describe data and examine relationships. Data will be thoroughly checked for errors and illogical relationships eliminated. To enable easy analysis data is categorized and ranked into appropriate logical sets. All the data is coded at the time of capturing into the computer. Tukey's (1977*)* exploratory data analysis approach is used to analyze data. The approach emphasizes the use of diagrams to explore and understand the data. Whilst exploring the data collected, research objectives are constantly revisited to ensure alignment and relevance of results. Each diagram is carefully structured and clearly

labeled to avoid ambiguities and misinterpretations. Pie charts are used to show proportions.

3.9 LIMITATIONS OF METHODOLOGY USED

The following are the limitations of the methodology used:

i). Quantity and Quality of Data Used: One major limitation of this study is the quantity and quality of data. The writer will look at registered companies with the Insurance and Pension Commission during an 11-year period running 2010 to 2020. An even longer period of study is recommended in future as this would help improve the power of this analysis.

3.10 CHAPTER SUMMARY AND CONCLUSION

This chapter has described the research philosophy, research framework, research design, study population, sampling and sampling framework, data, data collection methods and data analysis methodology used in the evaluation of risk externalization in the short- term insurance sector in Zimbabwe.

CHAPTER 4 DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

This chapter presents and analyses the results of the study. The main purpose of the study was to establish and evaluate the causes and impact of Risk externalization on the Short-Term insurance Industry in Zimbabwe. To achieve this objective a descriptive survey approach was adopted. Primary data was collected through use of structured questionnaires and interviews. Secondary data on reinsurance cessions was also collected from the Insurance and Pensions (IPEC) reports. The data was then presented using graphs and tables.

4.1 THE SAMPLE FRAME AND RESPONSE RATES

CATEGORY	NUMBER OF QUESTIONAIRES DISPTCHED	NUMBER OF QUESTIONAIRES ANSWERED & RETURNED	RESPONSE RATE
Reinsurers	8	5	63%
Insurers	20	14	70%
Reinsurance Brokers	8	8	100%
Overall	36	27	75%

Source: Primary data originated by Author

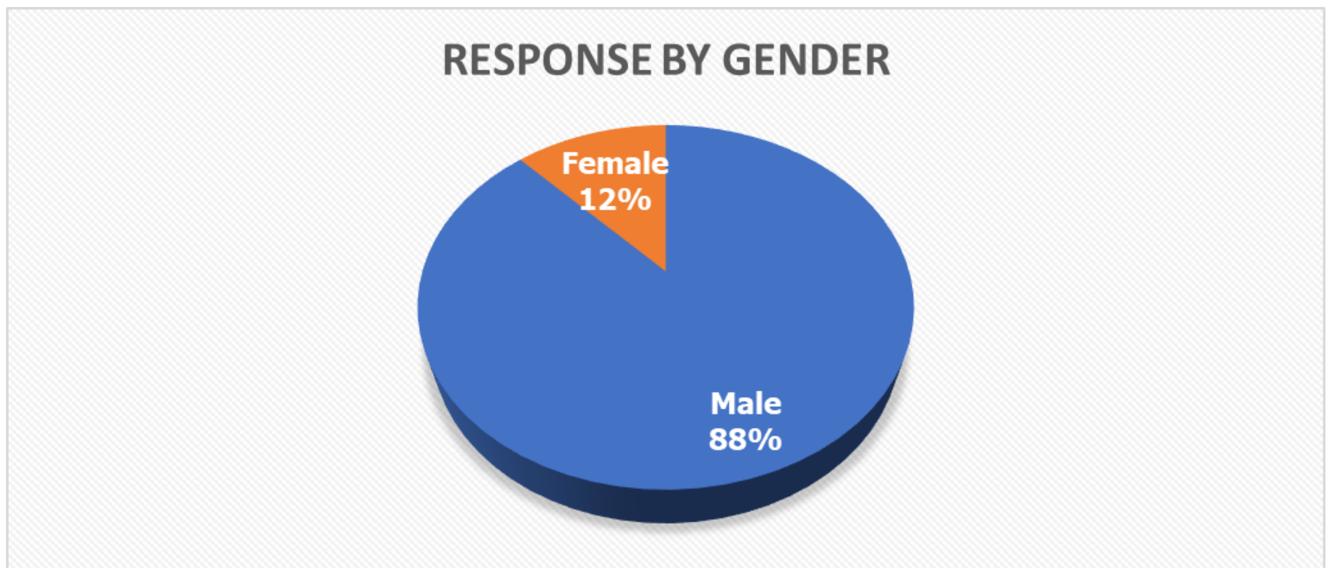
Table 4.1 shows the sample composition of category of respondents. Out of the 8 questionnaires sent to reinsurers, 5 were returned translating to a 63% response rate. For Reinsurance brokers, of the 8 questionnaires send out, all were returned translating to a 100% response rate. With respect to insurers, 14 of the 20 questionnaires were returned, translating to 70% response rate. Overall, of the 36 questionnaires that were

sent out, 27 were returned with one spoilt, this represents an overall response rate of 75%. According to Saunders, Lewis, and Thornhill (2003), 75% response rate is considered adequately representative of the sample. In addition, as a general rule of response rate, a response rate of 50% or more should be attempted in a survey involving use of questionnaires (Neville, 2007). This therefore implies that a total response rate of 75% which was attained in this study makes the results findings statistically significant and credible.

4.2 ANALYSIS OF THE DEMOGRAPHICS OF RESPONDENTS

For credibility of collected data, the respondents were expected to hold certain job positions, have long years of experience in the insurance industry or alternatively have a basic understanding of the operations of the insurance and reinsurance industry. The aspect of gender was also considered.

4.2.1 Responses by Gender



Of the surveyed respondents 88% were male while 12% were female. A significant proportion of employees in the industry are skewed towards males than females.

4.2.2 Profile of Respondents by Years of Experience in the Industry

RESPONDENTS YEARS OF EXPERIENCE	NUMBER OF RESPONDENTS	PROPORTION OF TOTAL RESPONDENTS
Below 10 years	1	4.2%
Between 10 and 20 years	21	87.5%
Between 20 and 30 years	2	8.33%
Above 30 years	none	None
Total	24	100%

Source: Primary data originated by Author

The above table show the categorization of respondents by years of experience in the industry. The survey was restricted to managerial, operational, and executive Level. These levels were considered senior and experienced enough to appreciate and comprehend the industry issues being explored, thus, placing a high degree of confidence on the results of the study. If the respondents were not in management, they were expected have long years of experience in the insurance industry as this would help them explain the state of the industry. The survey generally involved respondents with many years in the industry, 95.8% of them above 10 years in the industry. Only 4.2% had less than 10 years of experience. There were however no respondents above 30 years' experience in the industry. This can be attributed to general shortage of skilled and experienced staff which was a result of flight of skills that hit the industry some 10 to 15 years ago.

In conclusion, actual respondents displayed some knowledge of the industry, making the responses somewhat reliable.

4.2.3 Profile of Respondents by Ownership structure of company

Company, Ownership Structure	Number of Respondents	Proportion of Respondents to total
100% Locally owned	18	69%
100% foreign Owned	None	None
Majority locally owned	4	15.38%
Majority Foreign Owned	2	7.69%
Total	26	100%

Source: Primary data originated by Author

Most of the respondents are from 100% locally owned companies or majority owned insurance entities and very few from majority foreign owned companies. Again, this reflects the current industry architecture where we have very few foreign owned entities.

4.2.4 Responses by Level of Occupation

Level of Occupation	NUMBER OF RESPONDENTS
Operational or Lower-Level Staff	1
Middle Management Staff	8
Executive Level Staff	15

Source: Primary data originated by Author

For all the categories, insurers, reinsurers and reinsurance brokers, the preferred respondents were those in various levels of management, operational managers, middle executive managers and executive managers or any other supervisory role. Alternatively, if they were general employees, respondents were expected to be either involved in operations , possess extensive knowledge and experience in the insurance industry, be able to provide the data and be willing to participate. Generally, many of the respondents were in middle and executive level positions

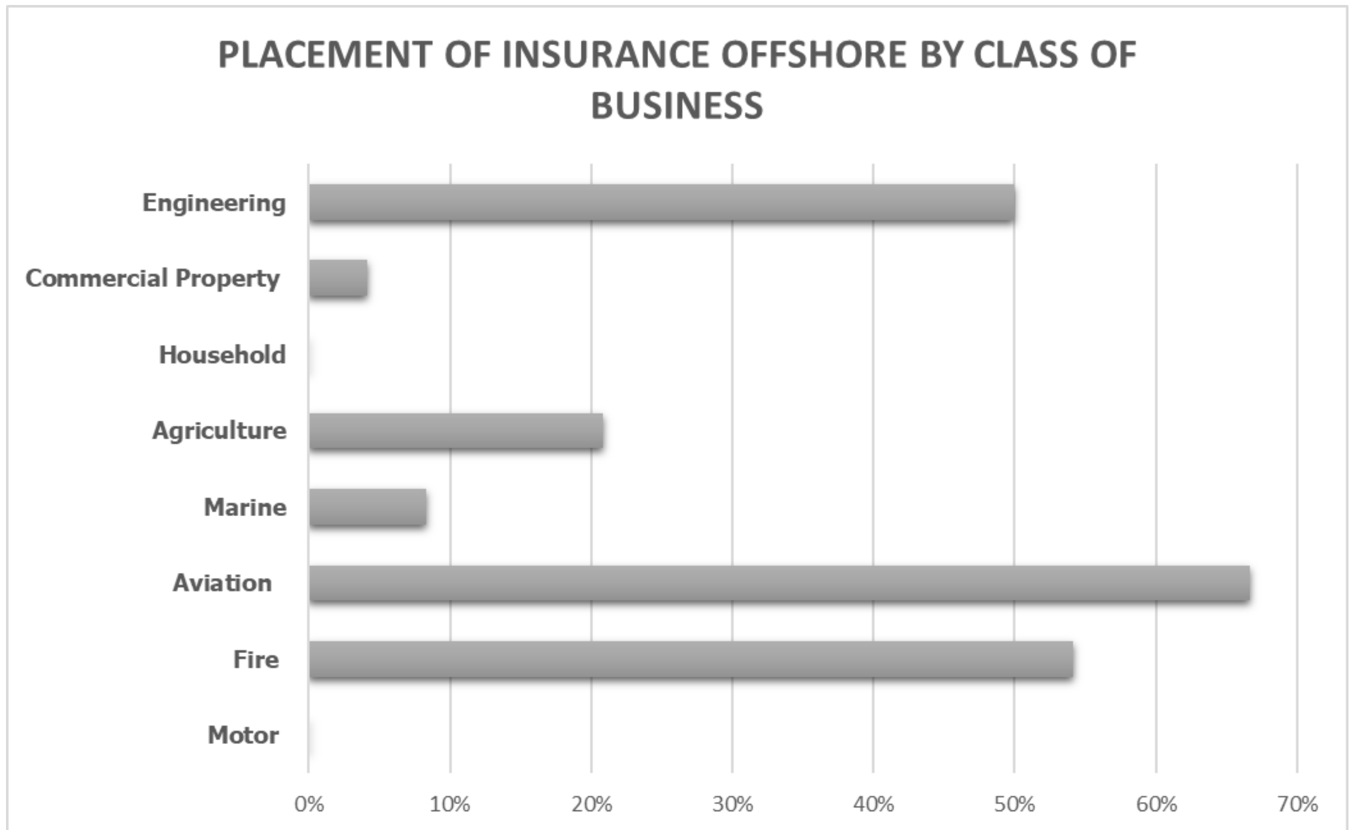
An analysis of the distribution of respondents by the gender, company ownership structure, level of seniority in the industry and years of experience was done.

4.3 PRESENTATION OF RESULTS

This section presents the results in the order of the responses to the questionnaire and interview questions.

Question 1: Which classes of insurance business do you normally place offshore ?

Respondents were asked to rank on a scale of 1 (lowest) to 10 (highest) the classes of insurance they normally place offshore in their company. The classes were listed are Fire, Aviation, Marine, Engineering, Commercial Property, Housed, Motor and Agriculture. In the assessment of the results from the survey the scores put against each class of insurance were averaged and expressed as a percentage of the total average response. The results were as per the graph below:



Source: Author's Computation based on results of the survey

On average 67% of the respondents indicated Aviation, 54% Fire, 50% Engineering, 21% Agriculture, 8% Marine and 4% indicated Property. The Motor and Household Property class were not indicated as being placed offshore. Thus, based on these results, the classes of insurance that are usually externalized are Aviation, Fire, Engineering, Marine Agriculture and to some extent Commercial Property. Respondents considered the Aviation class as the most externalized, 67%, this could be to do with the size of the risks for example Aviation risks, the complexity of some of the risks and volatility in terms of performance especially Agriculture risks. These are the risks supported by the **Insurance Act, Chapter 24:07 of 1996**, further supported by **section 72** of the same Act, which requires a market slip to be circulated first before they can be authorized for externalization. This issue will further be reviewed together with the main causes of externalization.

Question 2: In your opinion what are the main reasons why organizations place risks offshore ?

In the evaluation of the main reasons why risks are placed offshore participants were asked to rank on a scale of 1 to 10 what they believe were the main causes of risk externalization in their organization. In analyzing the results, the researcher averaged the score of the rankings as provided against each reason. Based on the average rank score put against each reason, the results were:

Table 4.3.1

CAUSES FOR RISK EXTERNALISATION	AVERAGE RANK SCORE
1. Lack of adequate Local capacity for such risk	5
2. Policy wording coverage too wide in scope thus lacking local capacity	5
3. Perceived inferior or poor rating of Local market securities	3
4. Lack of confidence in local market securities	2
5. Instruction to place risk coming from a captive or global insurer	2
6. Reinsurance or retrocession programs of insurers and reinsurers	2
7. Local terms are too restrictive or expensive	2
8. Belief local market does not have the skills and expertise	2
9. Achieving Risk spread and diversification	2
10. Political or economic considerations on deemed strategic risks	2
11. Placement is a result of instructions from mother company abroad	1
12. Group Interexchange of business	1

Based on table above, the main reasons why risks are placed offshore in the short-term insurance sector is lack of adequate local capacity, wider policy wording coverages than what can be absorbed by the local market, perceived inferior rating of local market amongst others. These factors ranked on average above 2. The other reasons Lack of confidence in local market securities, global captive insurance schemes, reinsurance and retrocession programs, local terms being more expensive than terms provided from abroad, belief that local skills and expertise is not up to the standards at international level. These reasons are the same as those found by PwC (2016) to be causing

expatriation of premiums across the African Continent. Report by PwC (2016) further asserts that the influence of the above factors is amplified by the Capitalist or free market approach generally adopted by many markets in Africa.

Question 3, 4 and 5 were analyzed together as they are related. The three questions sought to provide an estimate of the quantum of insurance premiums and claims recoveries on risks that are placed offshore**.** The questions were**:**

Question 3: By way of estimation, how much in premiums (in US$) does your organization pay out every year for placing risks outside the country ?

Question 4: By way of estimation, how much in insurance premiums (in US$) does your organization receive as insurance/reinsurance inwards from the insurance of risks from outside the country of Zimbabwe ?

Question 5: By way of estimation, how much does your organization receive (U$$) per year as recoveries of claims from insurance policies placed outside Zimbabwe ?

Out of the sample of 26 respondents that were asked to estimate the quantum of insurance premiums and claims recoveries on risks placed offshore 21 respondents provided estimates in no order, is listed on the table below. In the evaluation of the findings the author had subtracted the inwards premiums and the claims recoveries from the gross premiums externalized as provided by each respondent. For each respondent, a net outflow was computed and is also indicated on the table below.

Table 4.3.2

Respondent	Gross Premiums	Inward Premiums	Claims Recoveries	Net Outflow
1	500,000.00	1,600,000.00	200,000.00	(900,000.00)
2	250,000.00	1,000,000.00	500,000.00	(250,000.00)
3	1,400,000.00	1,500,000.00		(100,000.00)
4	4,000,000.00	5,000,000.00	1,000,000.00	-
5	2,000,000.00	3,500,000.00	1,500,000.00	-
6	50,000.00	-	-	50,000.00
7	100,000.00	-	-	100,000.00
8	250,000.00	-	-	250,000.00
9	1,000,000.00	750,000.00	100,000.00	350,000.00
10	500,000.00	-	-	500,000.00
11	700,000.00	-	-	700,000.00
12	1,600,000.00	60,000.00	200,000.00	1,740,000.00
13	1,500,000.00	-	300,000.00	1,800,000.00
14	3,000,000.00	2,000,000.00	1,000,000.00	2,000,000.00
15	1,000,000.00	-	1,000,000.00	2,000,000.00
16	1,500,000.00	500,000.00	1,000,000.00	2,000,000.00
17	2,000,000.00	3,200,000.00	3,500,000.00	2,300,000.00
18	10,000,000.00	7,000,000.00	-	3,000,000.00
19	5,000,000.00	500,000.00	-	4,500,000.00
20	7,000,000.00	-	-	7,000,000.00
21	5,000,000.00	1,000,000.00	5,000,000.00	9,000,000.00
	47,850,000.00	26,010,000.00	15,100,000.00	36,940,000.00

Source: Author's computations based on primary data

This section has been reviewed in two parts I) Estimates of Premiums and Claims recoveries outside Retrocession arrangements of Reinsurers ii) Externalization through Reinsurer's retrocession Programs:

EXTERNALIZED PREMIUMS OUTSIDE RETROCESSION ARRANGEMENTS OF REINSURERS:

The above figures are as provided by respondents from the Interview questions based on the sample of 26 out of 36. For the population of 36 the level of externalization will be as follows:

Table 4.3.3

Gross Premiums	Inward Premiums	Claims Recoveries	Net Outflow
63 800 000.00	**34 680 000.00**	**20 133 333.00**	**49 253 333.00**

The above table shows the quantum of outward premiums, inwards premiums, claim recoveries and the net outflow of risk externalization by the industry per year based on the sample size which is 75% of the population. These figures represent externalization of actual risks through reinsurance brokers, insurers and reinsurers outside the retrocession or Treaty arrangements of reinsurers. In gross premium, the short-term industry is estimated to be losing US$63.8 Million in gross premiums, gaining US$34.7 Million in premiums inwards and recovering claims amounting to US$20.13 Million. The net outflow basis for the short-term industry is estimated to be US$49.3 Million outside reinsurance or retrocession arrangements of reinsurers.

(ii) EXTERNALIZED PREMIUMS THROUGH RETROCESSION ARRANGEMENTS OF REINSURERS BY YEAR

Table 4.3.4

Year	**Retrocession Premiums (US$)**
2011	21 473 923
2012	22 575 000
2013	27 019 680
2014	29 136 504
2015	28 863 561
2016	31 958 287
2017	40 090 378
2018	40 754 896
2019	24 712 938
2020	38 672 912
Average	**30 525 807**

Source: Author's computation based on figures from IPEC Market Reports

Based on the retrocession arrangements of reinsurers, it is estimated that the short-term industry for the 10-year period 2011 to 2020 the industry is losing US$30.5 Million on average every year.

Thus, based on the submissions by the various respondents, the combined average quantum estimate of premiums lost by the industry through externalization is **US$94.3 Million** every year i.e., **US$30.5 Million** retrocession premiums and **US$63.8 Million** outside retrocession arrangements of reinsurers. On a net basis the industry is losing **US$79.8 Million**.

Question 6: In your opinion and from your experience in the industry over the years which of the following market characteristics precipitate or cause insurers to place risks outside the country ?

Respondents were asked to evaluate the market characteristics which cause insurers to place risks offshore. The characteristics evaluated were Monopoly, Oligopoly, Monopolistic Competition, perfectly competitive market, High transaction costs, globalization, and integration of markets.

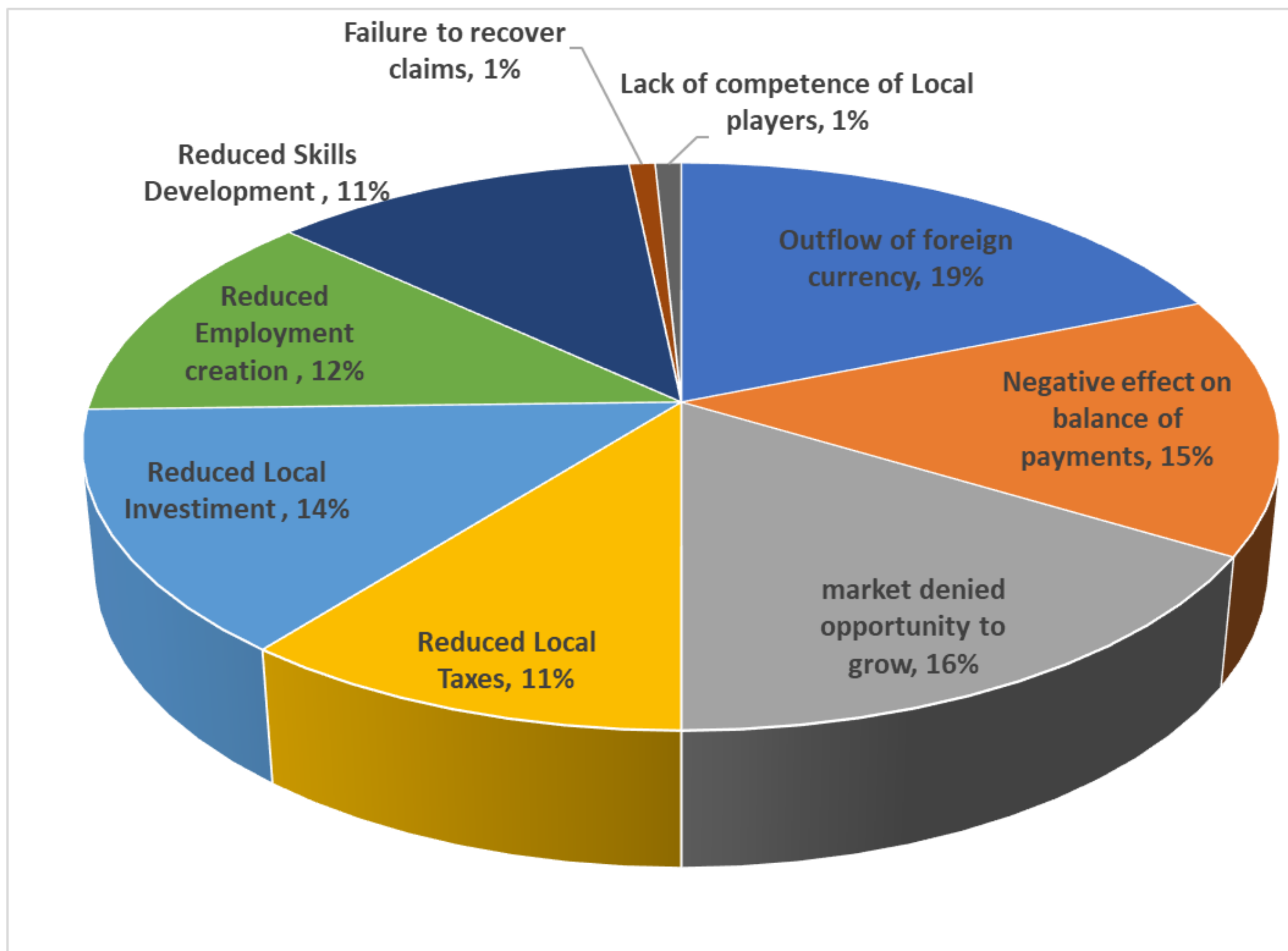
In the evaluation of the market characteristics that precipitate insurers to place risks offshore participants were asked to indicate and rank on a scale of 1(lowest) to 10 (highest) what they believe were the market characteristics causing risk externalization. In analyzing the results, the researcher averaged the score of the rankings as provided against each market characteristic. Based on the average rank score put against each reason, respondents indicated lack of capacity 80%, desire for external coverage 80%, local currency risks 50%, globalization of markets 50%, high transaction costs 50%, oligopoly 50%, monopoly 50%, monopolistic competition 50%. Local economic conditions and perfectly competitive markets had 20% and 30% apiece.

Source: Author's computations based on primary data

The results indicate that markets which are not perfectly competitive due to oligopolistic practices, monopoly , monopolistic tendencies have high frequency of risks externalization. This was the case during the ZimRe Act, 1983 period when ZimRe had the monopoly and right of first refusal on all risks through compulsory cessions. Results also indicates that the absence of favorable macro-economic conditions results in many clients preferring to insure in international markets thus fully supporting the Market imperfections Theory by Hymer, (1960), the transaction cost theory by Coase, (1937) and the impact of globalization on markets. Globalization is seen by Skipper e ta l (2000) as bringing with it various benefits like improvement in customer service and value through savings on price, transfer of technology and skills, improvement in the quality of insurance amongst other benefits.

Question 7: In your opinion what is the impact of uncontrolled placement of risks offshore (risk externalization) ?

Respondents were asked to pick and rank on scale of 1 (lowest) up to 10 (highest) the impact of uncontrolled risk externalization on the market. The average scores against each impact were expressed a percentage. 16% of respondents indicated the denied opportunity for the market to grow, 15% negative effect on the balance of payments, 19% outflow of foreign currency, 14% reduced taxes, 12% reduced employment and 11% reduced skills development.



Source: Author's computation based on primary data

The above finding dovetails perfectly well with the findings of AIO (2016) which summarized the impact of unnecessary expatriation of premiums on African countries as reduced tax base, reduced investment, reduced foreign currency, shortage of employment amongst other reasons. According to the PwC (2016) report unnecessary transfer of premiums offshore if unchecked may constraint economic growth, accordingly there is need for protection of the industry through positive interventions to nurture the growth of African economies whilst also being mindful of African Governments' commitments to free trade and the World Trade Organization Protocols. This finding is also in line with the outcome of UNCTAD (2005) Geneva meeting which indicated that while insurance service liberalization and globalization can be beneficial, they have different impacts on developed and developing countries. According to UNCTAD, liberalization of insurance services needs to be accompanied by a strategic and clearly defined national policy on financial services sector amongst other issues.

Question 8: What benefits do you believe placement of risks offshore bring to the local insurance market and Zimbabwe ?

In no order, all the respondents (100%) surveyed cited the following as the benefits of placing insurances outside the country:

Table 4.3.5

✓ underwriting capacity for outlying classes ✓ Skills and more expertise plus sweating the capital ✓ improved relations (social capital and trade relations) ✓ Foreign currency when we reciprocate and write foreign risks ✓ Exposure to international practice ✓ risk spread and diversification ✓ insurance capacity for odd classes ✓ capacity for political violence and cyber risks ✓ guaranteed protection of assets from stable economies ✓ protection of assets from catastrophic events ✓ cheap insurance premiums from offshore markets ✓ skills exchange, learning and growth with international markets ✓ market confidence and stability as claims are paid in United States Dollars ✓ tapping into technical knowledge found in other markets ✓ capacity for large risks ✓ expertise from international markets on underwriting and risk management ✓ benefits of wider covers from international markets	✓ bigger balance sheets and strong securities ✓ access to foreign capital in the event of claims ✓ global suffusion of risks ✓ protection of national assets ✓ wider choice to the insuring public ✓ expertise and knowledge sharing with advanced markets ✓ understanding foreign markets ✓ improvement of local underwriting standards ✓ forced innovation to match and adopt international trends ✓ improved insurance capacity ✓ market for complex risks ✓ market for huge risks in terms of size ✓ inflow of replacement capital in form of paid claims ✓ reduced market risk especially where risks are deteriorating due to depressed industrial recapitalization or absolute equipment which increase risks to the insurer ✓ promotes growth of industry and commerce and less risk locally ✓ tapping into excess capacity available in international markets ✓ complimentary capacity from external markets

Source: Submissions based on primary data

In scrutinizing the above cited benefits, four key themes in terms of the benefits of risk externalization to the local market are coming out from the respondents as follows:

I. Creation of underwriting capacity for large local risks, appearing 29% of the times.
II. Benefit of skills and expertise from the international markets, appearing 26% of the times.
III. Benefit of achieving risk spread and diversification, appearing 18% of the times.

IV. Protection of local risks and local market from catastrophes, appearing 9% of the times.
V. Other category appearing 18% of the times.

The results show that there are benefits that accrue from the externalization of risks offshore. What is important is the need to strike a balance to ensure that the disadvantages of externalization do not outweigh the advantages of externalization especially in cases where externalization can be avoided.

Question 9: What is your understanding of market liberalization of the Zimbabwe Insurance market in the context of placement of insurance risks. Are you for a freely liberalized insurance Industry or not and what are your reasons ?

Only 3 respondents, 12% out of the 26 respondents defined the term liberalization and 82% of the respondents didn't define liberalization but indicated whether they preferred a liberalized Zimbabwe Insurance market or not. The definition of Market liberalization as given by the three respondents was:

Respondent 1: Market liberalization is the opening of the market to global competition in line with globalization.

Respondent 2: Market liberalization is the uncontrolled opening of the market to foreign competition.

Respondent 3: Market Liberalization entails freedom of the market from strict regulation on externalization.

All the 26 respondents did put forward their reasons for supporting Market liberalization and some for not supporting market liberalization. The breakdown of the respondents into those who support liberalization and those who do not support liberalization together with the reasons for preferring either of the two are tabled below:

Table 4.3.6

SUPPORTING MARKET LIBERALISATION 56%	NOT SUPPORTING MARKET LIBERALISATION 44%
Reasons Cited I. World is now a global village II. To build local capacity and create employment III. Promotion of competition and price reduction IV. To allow industry to benefit from international expertise V. Protectionism removes fair competition as it promotes unfair pricing and disproportionate coverage compared to what obtains on international markets VI. Liberalization allows more choice for clients VII. Liberalization allows market opportunity to integrate with global markets	**Reasons Cited** I. pursue a hybrid approach II. it affects balance of payments III. local market should be protected for the industry to grow and capital to circulate IV. curb outflow of foreign currency V. hybrid scenario which balances local growth and exposure to international markets VI. controlled market allows retention of foreign currency and growth of local market VII. market needs protection

Source: Submissions by the respondents

While many of the respondents could not define the term liberalization, the results show that 56% of the respondents' favor liberalization while 44% favor a managed or hybrid liberalization of the market. A scrutiny of reasons proffered for each show that all the respondents understand what market liberalization means even though they could not define the term liberalization. The results indicate that respondents favor liberalization but with some form of control hence supporting Skipper et al (2000) who argued that liberalization should be combined with some form of government restrictions in terms of who should be allowed to sell, what products are sold, how the products should be sold and the processes through which the products are sold. The results support Fredrick List's infant Industry argument to market protection which was further supported by Myrdal (1957, pp 96-97) and Rodan (1963) who argued that infant industries should be protected for countries that are at initial stages of industrialization. However, not all externalization is bad as some risk externalization is beneficial to the local economy in as far as brings the much-needed capacity for certain risks, risk expertise and many other benefits that may not be readily available on the local market. Externalization through reinsurance aids in reducing risk concentration and risk spread and allows availability of insurance in a country, Naik (1990). Thus, a hybrid approach is recommended given our

stage economic development as a nation, accordingly and again supporting UNCTAD, (2005), which alluded to different impact of liberalization for developed and developing countries. Our industry needs some form of protection before it can be let out to compete with the world.

Question 10: In your opinion, what should be the role of the Insurance & Pensions Commissions (IPEC) and other arms like the Reserve Bank of Zimbabwe Exchange Control (EXCON) in the control of risk externalization and in limiting the amount of premiums outflow ?

Table 4.3.7

✓ To assess and capacitate local industry ✓ To invest in insurance needs with regards balancing demand and supply of capital and skills ✓ To determine intervention levels in advance ✓ To promote foreign currency generation through promoting reciprocal externalization between local and external markets ✓ To sensitive taxes and local charges to sustainable practices ✓ control outflow of foreign currency from the economy ✓ protect industry from unfair competition in line with the infant industry argument ✓ regulation of the placement of risks in international markets ✓ ensuring smooth international payments ✓ provide framework on nature and kind of risks externalized ✓ bring government support on risks of national interest ✓ creation of employment ✓ control of inflation ✓ setting up criteria for externalizing risks which promotes growth of local industry ✓ enhanced policing of current framework and statutes on externalization ✓ enhanced coordination and policing of externalization ✓ enhanced use of pools locally ✓ greater scrutiny on externalization of risks	✓ setting of preapproved thresholds for externalization to minimize amounts externalized ✓ setting limitations for outflow of foreign currency payments to protect local industry ✓ setting conditions for externalization ✓ producing penalties for externalizing risks ✓ setting mandatory cessions for externalized risks to enhance growth of local industry ✓ thorough vetting of all applicants and engagements of all market players before approving externalization requests ✓ IPEC should enforce increased capital levels to insurers and reinsurers to ensure adequate capitalization to match regional and international levels ✓ encourage competitive pricing so that national assets are insured at competitive costs and enjoy wider scope of cover ✓ encourage retrocession with strong securities to increase market and industry confidence ✓ enhance monitoring by IPEC to protect local market due to our high-country risk

Respondents cited about 29 issues they deem should be the role of IPEC and the Reserve Bank in the control of risk externalization and in limiting the amount of premium outflow. The author synchronized the cited reasons and grouped them with the following themes in terms of the role of IPEC and RBZ emerging:

I. Assessing and enhancing local market retention capacity for insurance risks, appears 6 times (21%).
II. Regulating and ensuring local market protection from unfair competition, appears twice (7%).
III. Setting up a criteria and transparent risk externalization framework, appears 12 times (41%).
IV. Other, appears 11 times (38%).

The above themes will be critical in the determination of the critical interventions which IPEC and Reserve Bank of Zimbabwe should pursue as they work on better handling and managing the placement of risks offshore.

Question 11: What advise in terms of market interventions, if any, would do you suggest to IPEC and Reserve Bank Exchange Control to better handle and manage placement of insurance risks offshore ?

The table below mentions the recommended interventions for IPEC and RBZ as per the survey study based on the 26 respondents from the survey.

Table 4.3.8

✓ They need to employ skills that Speak to Insurance Practice more than Banking ✓ They need to employ engagement first before rushing to amend or enact amendments to statutory instruments affecting insurance ✓ work on phased creation of capacity locally ✓ create an online repository of risks to be placed externally ✓ encourage creation of special risk consortiums which underwrite and create retention for special risks ✓ certain risks should be excluded from externalization and enforce use of local wordings ✓ should put limits on risks to be externalized ✓ setting up a well-coordinated well communicated criteria for the efficient externalization of risks where duly warranted ✓ enhance policing of statutes and current frameworks ✓ more coordination between IPEC and RBZ ✓ protect industry against Chinese projects which Are not being insured locally ✓ local reinsurers should have retrocession programs for specialized risks currently being placed offshore ✓ IPEC should invest in skills that can meaningfully analyze externalization requests ✓ encourage group buying of retro cover by local markets	✓ introduce reserve deposits or taxes to foreign companies that want to participate on local risks ✓ more educational programs and conferences to bring awareness to insureds, insurers, brokers, and reinsurers on extent to which resources are unjustifiably depleted through externalization ✓ externalization of risks should be done through and industry board like the special risk insurance consortium which will seek terms placement and authority to externalize ✓ need for legislative guidelines detailing conditions for externalization ✓ coming up with limits beyond which risks can be externalized ✓ increasing externalization fees so that the fees are restrictive and prohibitive ✓ IPEC should hire experienced insurance personnel to scrutinize externalization applications ✓ IPEC should enhance engagements with the market always conscientizing them of the implications of externalizing funds out of the country

In summary the critical recommendations coming up from the market for IPEC and RBZ are:

I. The need by IPEC and RBZ to digitize the externalization process as a way of enhancing the efficiency, transparency, and effectiveness of the process. It is anticipated that digitization of the process will help in managing the externalization leakages and reducing the current hierarchical transaction costs of the process.

II. IPEC and RBZ should fully collaborate and work hand in hand with Industry bodies like the ICZ Special Risks Insurance Consortium, Zimbabwe Association of

Reinsurance Organizations (ZARO) and have risks that are externalized discussed through these bodies. From the survey there is a strong feeling by respondents that the Government, IPEC and RBZ are not giving enough attention as they are to the banking sector and stock market yet insurance just like banking and stock market plays an equally key role in economic growth and development, as per findings of Arena (2006), Outreville (1990, 1996), Arestis and Demetriades, (1997) and many others. This explains the limited research on the influence of insurance on economic growth by researchers, Sylla (2002, 2003). Ironically, the Government through IPEC and RBZ only recognize the importance of insurance when they are looking for funding by asking the industry to invest in prescribed investments which have very subdued returns.

III. Continued enhancement of technical analytical skills at IPEC and RBZ as a way of improving the whole externalization process.

IV. IPEC should work with RBZ in capping limits of maximum amount of premiums that can be allowed to be taken outside the country by any one client for individual and group insurances per year.

V. The need for regular training and workshops for the market by both IPEC, RBZ and Industry bodies like ICZ periodically reminding and conscientizing the markets on the effect of risk externalization on the market and the economy & reasons why risks should in most cases be retained locally.

VI. IPEC and RBZ should collaborate and set up of meaningful taxes and reserve deposits which at all costs disincentivize clients to unnecessarily insure offshore.

4.4 CHAPTER SUMMARY

This chapter has provided the data presentation and analysis from the questionnaire and Interview survey results aided by some secondary panel data analysis as reported through the IPEC quarterly market reports. The results indicate that while risk externalization is important as it helps in risk spread and diversification, bringing the much-needed capacity on big and unusual risks/classes and on retrocession programs

there is concern that if the process is not properly managed the industry and the country ends up losing unnecessarily with negative consequences on employment, taxation, liquidity, investment and economic growth. Chapter ended up with some evaluation of the role of IPEC and RBZ and made recommendations on what IPEC and RBZ should do to minimize the level of externalization of insurance premiums out of the country.

CHAPTER 5 SUMMARY AND CONCLUSION OF RESEARCH FINDINGS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter summarizes the research findings and draws conclusions. It cites the limitations of the study and makes recommendations on how best to address the externalization problem. Further areas of study are also recommended.

5.1 SUMMARY OF RESULTS

The following are drawn as the results of the research:

1. The main reasons why risks are placed offshore are lack of adequate local capacity on such risks, wider policy wordings than those provided by the local market, inferiority or poor ratings of local market securities, lack of confidence by clients in local market insurers and reinsurers, instructions to place with global captive insurer or reinsurer who is abroad, retrocession arrangements of reinsurers, local terms are too restrictive and the pricing is deemed expensive, belief that local market skills and expertise is not up to scratch, achieving risk spread or diversification, political and economic considerations to do with the nature of risks amongst others. The classes of insurance that are normally externalized are Aviation, Engineering, Fire, Agriculture, Marine and Commercial Property. This highlights the need by the industry to work on developing capacity on large risks like Aviation, Energy, , Marine and Commercial Property and capacity for volatile classes like Agriculture.

2. Highly imperfects markets impose high transactions on clients resulting in them preferring to be insured offshore. The current market is highly monopolistic according to IPEC reports. Above all the macro-economic challenges of hyperinflation, currency devaluation and currency changes that affected

Zimbabwe over the years significantly dampened client's confidence in local markets hence many clients prefer to insure offshore.

3. (i). At an Industry level, the short-term sector is estimated to be losing US$94.3 Million in insurance premiums annually being externalized through retrocession programs and direct placement of risks offshore. This means the industry and the economy is losing out in a big way even on cases that are avoidable and unnecessary

(ii) There is overwhelming consensus that the uncontrolled externalization of risks has negative consequences including but not limited to reduced local taxation, exportation of employment & jobs, unnecessary outflow of foreign currency, constrained local liquidity, reduced local investment, negative effect on balance of payments, reduced economic growth amongst other ills. In short, there is need for a well-articulated national insurance strategy which the industry must subscribe to and be following.

4. While globalization, liberalization and integration of markets is a major force shaping our economies and industries, there is every reason for the various stakeholders i.e., regulators, policymakers, insureds, industry leaders to pursue and foster policies aimed at protecting our industries and economies which may not be able to stand on their own in a highly competitive environment owing to size of our economies and industries. UNCTAD (2005) reinforced this perspective when they noted that the impact of liberalization is different for developed and developing economies. Our industries require some form of protection, a hybrid scenario, (Skipper, Starr, Robinnson, 2000) until such a time they can fully compete in a highly globalized environment.

5. While bodies like IPEC and RBZ have been working extremely hard to stem externalization more should be done on policy crafting and enforcement framework to minimize this scourge which has the capacity to destabilize the growth not only of our industry and economy but the future of generations to come.

5.2 RECOMMENDATIONS

The following are the recommendations:

I. There need for a holistic based approach to prudential supervision of the Industry by IPEC, looking at various facets like skills enhancement and training, coverage of wordings, rating of risks, rating of securities, risk-based capitalization, compliance to laws, regulations, and statutes amongst other aspects. The risk externalization problem calls for holistic and not piecemeal solutions.

II. There need for enhanced collaboration, cooperation, and communication amongst the bodies of IPEC, RBZ and ICZ (representing the insurance industry) and its various bodies in the crafting and enforcement of policies that are aimed at minimizing risk externalization. Current work approach is that of silos & pillars, each body working on achieving its own objectives when instead the activities of these bodies should be feeding into each other. Their collaboration strategies should also speak to a well-crafted national insurance strategy.

III. IPEC, RBZ and ICZ should periodically roll out carefully planned awareness campaigns, training, and workshops conscientizing the public and industry on the need and reasons for utilizing local capacity first before risks can be placed offshore. Training and awareness programs should help Industry officials and upcoming industry officials appreciate the pros and cons and implications of the unnecessary placement of risks offshore.

IV. IPEC, RBZ and ICZ should work hand in hand with policymakers highlighting on the need for a stable macro-economic environment, which spurs confidence into the general insuring public. Above all, the bodies should work with government in spearheading and building strong robust institutions which can retain substantial risks locally. Creation of strong institutions was the major reason by UNCTAD (1964) advocating a system of state-owned or regionally owned reinsurance companies which received compulsory cessions like ZimRe, Kenya

Re, Zep Re, Africa Re amongst others. For a start, broadening of the scope of the Special Risks insurance Consortium can be an option. It is only through these institutions that externalization of risks can be done. Capacity for unusual new risks and on big classes like Aviation, Engineering, Energy and Marine can be boosted through these structures.

V. The industry through ICZ should do more research and development focusing at the possible expansion of the scope of our wording coverages tailor making it to the requirements of client. The industry should also put in place products that can effectively manage security aversion.

VI. Enhanced digitization and integration of the systems and processes at IPEC, RBZ and ICZ. Digitization of the processes will help in increasing efficiencies and allowing fact-based decision making on externalization requests. Such a process should be able to periodically produce the relevant statistics on externalization by class, by insured, insurer, reinsurer and reinsurance broker including the levels and quantum of premiums being taken out of the country.

5.3 LIMITATIONS OF THE STUDY

The study relied on secondary data and therefore the reliability and quality of the data used was not hundred percent. The researcher also had no control of the quantity and form of data. Findings of the study may also not be generalized to the whole insurance sector to include Life and Funeral insurance due to the peculiar differences between life and short term and between short term insurance and Funeral insurance. The factors considered in this study also keep changing from time to time due to the changing macro - economic conditions and this limits the applicable of some of the recommendations of this study.

5.4 FURTHER AREAS OF STUDY

Further work can still be done on this topic. Several lines of research can be suggested.

Firstly, there is need to investigate externalization of insurances premiums as it applies across all sectors of insurance, Life, Short Term, Pensions Funeral amongst other areas. Secondly the present study has been confined to the period 2011 to 2020, extending the study to cover a period of two decades or more may produce better results as externalization is more of a long-term phenomenon than it is short term. Further the period analyzed may have had distorted trends as it was characterized by macro-economic and political challenges.

The period and size of sample considered in this research may not have been extensive enough to give all true reflections of the externalization patterns. It is recommended that more extensive research be carried out on this topic to authenticate the findings made in this study.

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APPENDICE 01

RISK EXTERNALISATION RESEARCH QUESTIONAIRE

My name is Tarupiwa Tarupiwa I am a student at the Insurance Institute of Zimbabwe (IIZ) undertaking an Insurance Fellowship program. As part of my studies, I am carrying out a research project titled **"Risk externalization in the Zimbabwean short-term insurance Industry between, 2010 to 2020: Causes and impact" ?.**

I kindly ask you to help me with information to enable me to complete my research. All the information that you may provide shall be used for academic purposes only and shall be treated with strict confidentiality.

If you have any questions about my research, you can contact me on the following platforms:
Cell: +263 772 132 274 /0715541588
Email: tarupiwa@gmail.com
tarupiwata@emeritusre.com

Instructions

1. Please do not write your name or contact details on this questionnaire.
2. Please respond by ticking [√] the appropriate box (es) where applicable and write in full in the spaces provided where specified.

SECTION A: DEMOGRAPHICS

1. **Gender** **Male** ☐ **Female** ☐

2. **Number of years' experience in the industry**
   - **below 10 years** ☐
   - **between 10 years and 20 years** ☐
   - **between 20 years and 30 years** ☐
   - **above 30 years** ☐

3. **Nature of your Organization**
   - **Insurance Broker** ☐
   - **Ceding or insurance company** ☐
   - **Reinsurance broker** ☐
   - **Reinsurer/reinsurance company** ☐

4. **Ownership Structure of your Employer/Organization**
   - **100% locally owned company** ☐
   - **100% foreign owned company** ☐
   - **Majority Locally owned** ☐
   - **Majority Foreign Owned** ☐

5. **Level of your Occupation**
   - **Operational/Lower-Level Staff** ☐
   - **Middle Management Level Staff** ☐
   - **Executive Level Staff** ☐

SECTION B: RISK INFORMATION

1. **Which of the following classes of Insurance do you normally place offshore ?**

-Motor Insurance

-Fire Insurance

- Aviation Insurance

-Marine Insurance

- Agriculture Insurance

- Household Insurance

- Commercial Property Insurance

- Engineering Insurance

2. **The main reasons why my organization has placed risks offshore are,** ***please tick and put a ranking on a scale of 1(lowest) to 10 (highest)***

REASON	*Please indicate by a tick or -*	*Ranking*
Lack of adequate local capacity		
Perceived poor or inferior rating of the local insurance/reinsurance market		
Lack of confidence in local insurance/reinsurance market structures		
Placement was as a result of an instruction from my mother company outside		
Group inter-exchange of business		
Instruction to place with a global captive insurer		
Local terms and terms were too restrictive and expensive		
Policy wording coverage as requested by client was too wide and lacked support on local market		
Poor credit rating of local insurers and reinsurers		
Reinsurance or retrocession programs of insurance or reinsurance companies		
Achieving further spread or diversification of risks		
Political or economic decisions on the insurance of deemed national strategic risks		
You believe the local market does not have the requite skills & expertise		
Other Reasons (Please state)		

3. By way of estimation, how much in premiums (in US$) does your organization pay out every year for placing risks outside the country ?

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4. By way of estimation, how much in insurance premiums (in US$) does your organization receive as insurance/reinsurance inwards from the insurance of risks from outside the country of Zimbabwe ?

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5. By way of estimation, how much does your organization receive (U$$) per year as recoveries of claims from insurance policies placed outside Zimbabwe ?

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6. **In your opinion and from your experience in the industry over the years which of the following market characteristics precipitate or cause insurers to place risks**

offshore or outside the country ? ***(Please indicate by way of a tick and also rank on a scale of 1 (lowest) to 10 (highest)***

MARKET CHARACTERISTIC	Please Tick or put a -	RANKING
Market imperfections because of Monopoly		
Market imperfections because of Oligopoly		
Market imperfections to do with Monopolistic tendencies		
Market perfections to do with perfectly competitive market		
Presence of high local transactions costs		
Globalization & integration of markets		
Any other *(please specify*)		

7. In your opinion, what is the impact of uncontrolled or limited control regards the placement of risks offshore (risk externalization)

IMPACT	Please tick or indicate -
Unnecessary outflow of foreign currency	
Negative effect on the country's balance of payments	
Local market denied opportunity to grow	
Reduced local taxes	
Reduced local investment	
Reduced local employment & enterprise creation	
Reduced opportunity for local skills	
Any other (please specify)	

8. What benefits do you believe placement of insurance risks offshore bring to the local insurance market and to Zimbabwe ?

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9. What is your understanding of market liberalization of the Zimbabwe Insurance market in the context of the placement of insurance risks? Are you for a freely liberalized insurance industry or nor and what are your reasons ?

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10. In your opinion, what should be the role of the Insurance & Pensions Commissions (IPEC) and other arms like the Reserve Bank of Zimbabwe Exchange Control (EXCON) in the control of risk externalization and in limiting the amount of premiums outflow ?

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11. What advise in terms of market interventions, if any, would do you suggest to IPEC and Reserve Bank Exchange Control to better handle and manage placement of insurance risks offshore ?

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APPENDICE 02

RISK EXTERNALISATION INTERVIEW QUESTIONS

12. **What are the main reasons why local insurers externalize or place risks offshore ?**

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13. **What is the impact of risk externalization on the economy and the insurance industry itself ?**

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14. **In your opinion what market characteristics precipitate insurers to place risks offshore ?**

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15. **Do you believe foreign insurers and reinsurers play a role in the management of local insurance risk challenges to do with lack of adequate local capacity, wide wordings being sought by clients, insurance pricing issues amongst other aspects (explain fully)**

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16. **What is your understanding of market liberalization of the Zimbabwe Insurance Market in the context of placement of insurance risks? Are you for a freely liberalized insurance industry or not and what are your reasons ?**

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17. What merits or benefits do you believe placement of local insurance risks offshore bring to the local insurance market and to Zimbabwe, explain ?

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18. What demerits or disadvantages do you believe placement of local insurance risks offshore bring to the local insurance market and to Zimbabwe, explain ?

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19. What do you think should be done by government, regulators, and other key stakeholders in order to minimize risk externalization and increase local market risk retention?

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20. In your opinion should risk externalization regulation by IPEC and the Reserve Bank Exchange Control regulations limiting the amount of insurance premiums paid offshore be tightened or loosened and how ?

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……………………………END OF INTERVIEW QUESTIONS …………………