The Importance of Compliance in the Insurance Industry

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Outline

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About IPEC

Statutory body established in terms of the Insurance and Pensions Commission Act *[Chapter 24:21]*.

Formerly the department of the Commissioner of Insurance, Pension and Provident Funds in the Ministry of Finance.

Commenced operations in 2006.

The key mandate is to regulate, supervise and develop the insurance and pensions industry for the protection of policyholders and pension scheme members through regulatory excellence.

Currently regulating insurance, pension and provident fund schemes.

IPEC Strategic Map

ZIMBABWE VISION 2030

Towards A Prosperous and Empowered Upper Middle Income Society

NATIONAL DEVELOPMENT STRATEGY (NDS1) 2021 – 2025

ECONOMIC GROWTH & STABILITY

SOCIAL PROTECTION

INFRASTRUCTURE & UTILITIES

NDS FINANCING

Vision

A Safe, Vibrant, and Sustainable Insurance and Pensions Industry by 2025

Mission

To Regulate, Supervise and Develop The Insurance And Pensions Industry For The Protection of Policyholders and Pension Scheme Members through Regulatory Excellence

Core Values : Professionalism | Accountability | Fairness | Integrity | Excellence

Insurance Regulation

Definition

- Refers to the laws, rules and guidelines established by government agencies to oversee and control the insurance industry. Its main objectives are to protect consumers, ensure financial stability of insurance companies and promote fair competition.

- Regulation can cover various aspects such as licencing, solvency requirements, rate approval, consumer protection, product approval and market conduct.

Rationale For Regulation

a) Consumer Protection

- Insurance regulations help protect consumers by ensuring that insurance companies are financially stable and able to fulfil their obligations to policyholders in case of claims.

b) To minimise Market Failures

- Market failures such as economic crises justify regulation. Many insurance companies were closed post-dollarization in Zimbabwe in the period 2009 – 2017.

c)Financial Stability

- Insurance companies are prevented from taking excessive risks that could threaten their solvency by regulation.

Rationale For Regulation Ct'd

d) Market Stability

- Insurance companies are monitored thereby preventing fraud, unethical and prohibited practices e.g. touting and market manipulation.

e) Fairness and Transparency

- Insurance regulations aim to promote fairness and transparency in the insurance industry by setting rules for pricing, underwriting, claims handling and other aspects of insurance operations.

f) Compliance

- To ensure that regulated companies operate in compliance with the laws and regulations.
- Non-compliance results in Regulators taking corrective measures to enforce compliance.

g) To boost public confidence in the sector

Types of Regulation

State Regulation

- Where government enacts enabling act of Parliament to create a statutory body to regulate a specific sector – IPEC.
- IPEC then carries its mandate through the Insurance Act, The Pensions and Provident Funds Act, Money Laundering and Proceeds of Crime Act and through subsidiary legislation e.g. Guidelines, Directives, Statutory Instruments, circulars and frameworks to guide the industry.

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Self-Regulation

- This is where industry players voluntarily agree to mutually implement agreed professional best ethics, practice and standards.
- Players of the same trade are expected to abide by agreed guidelines under such associations such as ICZ, LOA, ZAFA etc.
- IPEC only comes in when self-regulation has failed to bring the desired results as other players break rules wilfully e.g. undercutting where industry fails to agree on using the agreed premium rates and the Commission comes in to enforce compliance with the agreed guidelines.

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Areas of Regulation

1. Prescribed Assets – S.I. 206 of 2019

- sets the minimum prescribed asset ratios for insurers. Entities can create projects of their own which can be conferred with prescribed asset status.
- prescribed securities such as stocks, bonds or other securities issued by the state, a statutory body or a local authority and includes treasury bills.
- incorporate investments approved or prescribed by the Minister of Finance, Economic Development and Investment Promotion from time to time.
- support national development, promote stability, enhance social goals and protect policyholders and beneficiaries.
- The aim is to align financial investment with broader economic and social priorities while maintaining financial stability and protecting stakeholders.

Areas of Regulation Ct'd

Compliance Status for the Industry as at 31/03/2024

Class of Business	Compliance level	Average Industry rate (%)
Short- term Insurers	6 out of 20 entities were found compliant	9%
Reinsurers	5 out of 10 were found compliant	16.41%
Life	4 out of 12 were found compliant	8.47%
Funeral Assurers	0 compliant	0%

Areas of Regulation Ct'd

2. Minimum Capital Requirement

- prescribed minimum capital level required for an insurer to commence insurance business.
- helps to measure the solvency of an insurer at any given time to reduce the risk that an insurer will be unable to meet its financial obligations due to financial distress.
- The new Statutory Instrument on MCR is yet to be gazetted.
- An insurance industry player must be adequately capitalised, to ensure that policyholders can claim and be paid on demand. Further, it assists an insurer to take advantage of investment and growth opportunities.
- In terms of Statutory Instrument 95 of 2017, **a non-compliant entity must engage IPEC on submission of a re-capitalisation plan.**

Areas of Regulation Ct'd

Approved US $ MCR & Compliance Status

Class of Business	Approved US $ MCR	Status
Life Assurance	2, 000, 000	83% compliant
Short term Insurance	750, 000	90% compliant
Microinsurance	100, 000	75% compliant
Life and Non-Life Reinsurance	2, 000, 000	70% compliant
Funeral Assurance	500, 000	12.5% compliant
Brokers	100, 000	60% compliant

Areas of Regulation Ct'd

3. Governance

- This refers to a framework of rules, practices and processes that guide the company's operations, decision making and oversight.
- Effective governance ensures that insurance companies operate efficiently, ethically and in compliance with regulatory requirements.
- Under Governance, we are going to look at :

Shareholding

Board Of Directors

Control Functions

Board Committees

Areas of Regulation Ct'd

3a) Shareholding

- Insurance companies and brokers are required in terms of the Insurance Regulations (S.I. 49 of 1989 as amended) to have at least three (3) shareholders.
- Individual shareholders and their close relatives are prohibited from owning or controlling more than 40% of the voting shares of an insurer.
- Significant owners require approval from IPEC on acquisition of stake in an insurance company or broker.
- Below is a table indicating the minimum shareholding compliance levels by the industry;

Areas of Regulation Ct'd

Shareholding Compliance Levels

Sector	Number of Entities Compliant	Compliance Level
Funeral	6/8	75%
Reinsurance	4/10	40%
Direct Short Term	13/20	65%
Insurance Brokers	23/27	85%
Reinsurance Brokers	7/8	88%
Microinsurance	11/11	100%

Areas of Regulation Ct'd

3b) Board of Directors

- is a group of individuals elected or appointed to oversee the management and operations of a broker or insurance company.
- The board is responsible for strategic direction, oversight, governance, financial stewardship and accountability.
- At least 3 directors in terms of the Insurance Regulations. The majority of the board members must consist of non-executive directors, the majority of whom must be independent to promote objectivity in decision-making.
- The board must have a balanced representation of skills and experience in insurance and risk management, law, accounting and finance.
- Fit and proper assessment is required for all directors of insurance companies and brokers.

Areas of Regulation Ct'd

3c) Control Functions

An insurer must establish and maintain risk management, compliance, internal audit and actuarial control functions.

Head of each control function should be approved by IPEC.

An insurer must not outsource heads of these control functions without IPEC's approval.

An insurer must have a compliance officer who must stay up to date with regulatory changes and avert penalties which have a financial impact on the business.

Compliance officers should either be heads of internal audit, company secretary, legal officer or some other staff member acceptable by the Commission.

Finance Directors, head of finance and Administration and similar titles in finance are prohibited from being compliance offices.

In terms of Circular 24 of 2024: AML Guideline, paragraph 9:8 (b), a compliance officer must me appointed at senior management level to oversee day to day AML issues

Areas of Regulation Ct'd

3d) Board Committees

At a minimum, the board should have the risk management, nomination and remuneration, audit and finance Committees.

Each board committee should be structured in a way that ensures necessary authority, independence and direct access to the board.

Each committee must be properly constituted in terms of the requirements laid in the Directive on Governance and Risk Management for Insurance Companies.

All Committee meetings must be conducted according to their board charter requirements.

Areas of Regulation Ct'd

4) Treating Customers Fairly

- The board of every insurance and pension service provider shall develop a TCF policy in line with IPEC TCF framework and ensure its documentation and adoption by the board.
- It is the duty of the board and management of insurance and pension service providers implement the TCF policy.
- Management shall establish a complaints handling unit within the organisation and inform consumers of their right to appeal to IPEC if aggrieved by the organisation's decision.
- Insurance and pension service providers must furnish IPEC with a typology report of the complaints received each quarter as part of their quarterly return.

Areas of Regulation Ct'd

5) Commissions

Commissions (acquisition costs) - percentage of premium that is retained as compensation by insurance agents and brokers.

Commissions paid to agents and brokers should be minimal to enhance business profitability, sustainability and policyholder protection.

Commissions are regulated to ensure that for every dollar charged for premium, the insurer does not spend excessively on expenses.

This strengthens the insurance industry as the combined ratio will be reduced by the reduction in commissions ratio.

Areas of Regulation Ct'd

6) ZICARP- Risk Based Capital Regime

The regime links the capital requirements of insurers to their risk profile.

It has a ladder of supervision where struggling entities are identified and assisted to improve their soundness.

There are increased disclosure requirements which assist the insurers to disclose adequate information to the policyholders and investors.

Insurers are required to perform assessment every quarter as we await the promulgation of the Statutory Instrument.

Other Areas of Compliance

Compliance Requirement	Submission Notes
Claims Settlement	Decision on claims within 7 days. Payment within 3 days
Quarterly Returns	These should be submitted every quarter, 21 days after the end of each quarter.
Annual Returns	These should be submitted by 30 June after the end of each financial year, incorporating Audited Financials and Actuarial Valuations.
Levies (Annually & Quarterly)	Paid for Agents, All registered entities.
Funeral Directive	Players offering funeral products must adhere to the Funeral Directive.
No premium, No Cover (SI 81 of 2023/Circular 25 of 2023)	The industry should comply with provisions of the Statutory Instrument.
Treaty Programmes	Should be submitted by the 31st of January of each year.
Agents List for the previous year (As at 31 December of the previous Year)	Submitted by 31 March of the following year.
New Products/Promotions	As and when there is a new product/promotion.
Externalisations	For every risk/renewal.
Gold Coin Return	Every month.
Agents Renewal of Licences (Individual, intermediaries, corporate, multiple) and Loss Adjusters	Every two years.

Conclusion

Players cannot self-regulate, so there is a need for a regulator to ensure players follow TCF guidelines and set standards to ensure compliance.

The Global environment is everchanging, and IPEC ensures that the local industry remain in line with all developments as we all compete in the same global village.

Cyber and anti-money laundering risks have been increasing globally and there is need to improve and adjust the local environment through putting other safety measures.

The operating financial environment is also not stable, and there is need for IPEC to constantly update, adjust and improve its regulatory ways.

Technology is changing and there is need for Industry to upgrade the issuance and offering of products and services.

To ensure that all the above and other compliance related risks are mitigated, IPEC regulates the industry by continuously issuing new regulations which is sometimes perceived as over-regulation. In reality, this is just upgrading standards to mitigate the above-mentioned risks.

Questions??

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