Impact of COVID-19 on the insurance sector

While insurance was considered an essential service, insurers were only allowed to have a certain percentage of their employees in the office. Interviews indicated that between 30-50% of staff members remained in office. The Covid-19 pandemic and containment measures put in place had implications on insurers’ business operations.

This section draws on interviews conducted with insurers and the regulator in May – June 2020 and survey responses from June 2020.

Changes adopted to enable remote work

- Provide staff members with laptops
- Provide staff members with internet connectivity
- Invest in systems to allow remote access to servers
- Upskill own staff members to use the remote infrastructure
- Finding new ways to communicate with brokers and agents

Impact on operations

Insurance value chain

Sales

Impact:
- Sales stagnated as insurers are heavily reliant on physical sales through brokers and agents
- Consumers hesitant to engage with agents, brokers and insurers remotely

Response:
- Investing in systems to enable the digitization of the sales process
- Creation of agent and broker web portals
- Accepting digital signatures, in instances which physical signatures used to be required

Premium collection

Impact:
- Increased inability of customers to pay, resulting in lapses and reductions in risk coverage for businesses
- Inability of customers to pay large annual premiums

Response:
- Premium holidays offered on case-by-case basis
- Allowing large, annual premiums to be paid in installments

Servicing

Impact:
- Skeleton staff at office so digital engagement with customers required
- Increased proactive communication with clients

Response:
- Investing in and utilising digital communication channels such as whatsapp and email
- Training of staff members on how to use these channels of communication

Claims submissions and processing

**Impact:**
- Reductions in motor claims due to restrictions on movement
- Rise in pension and annuity withdraws
- Sharp rise in liability and accident claims (possibly a lagged effect)

**Response:**
- Investments in digitising the claims process through creating web portals
- Accepting digital signatures, in instances which physical signatures used to be required
- Claims being paid through digital means such as to bank account or mobile money accounts

**Impact of COVID-19 on financial positions**

Covid-19 has put additional pressure on insurers’ financial positions, resulting in:

**Increase in:**
- Operational expenses due to increased investments in the digitisation of existing infrastructure
- Liability values in the medium term due to early withdrawals of pension and annuity products

**Decrease in:**
- Premium income due to reduced sales and increased lapses
- Investment returns due to ensuing economic crisis

**Insurers’ investment assets prior to Covid-19**

**Breakdown of investment assets in Malawian life insurance market**

- Listed equities: 52%
- Government securities: 31%
- Fixed deposits: 12%
- Real estate: 2%
- Unlisted equities: 3%
- Other investments: 1%

**Breakdown of investment assets in Malawian non-life insurance market**

- Fixed deposit investments: 67%
- Equity investments: 20%
- Government and other securities: 7%
- Real property investments: 5%
- Other investments: 1%

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**Operational expenses prior to COVID-19:**

**Expense ratio**
- Life: 13%
- Non-life: 36%\(^1\)

**Combined ratio**
- Life: N/A
- Non-life: 99%

**Claims ratio**
- Life: 36%
- Non-life: 59%

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\(^1\) This refers to the management expense ratio

Impact of COVID-19 on the regulator

Regulatory response

As of 15 September 2020, the Reserve Bank of Malawi (RBM) had not yet issued a circular to insurance industry.

Since the national state of disaster was declared, the RBM has:

- Suspended on-site examinations
- Extended deadlines for supervisory reports
- Provided 1-year holiday on payment of supervisory levies
- Allow for more flexible premium collection periods from customers
- Pay claims quickly

The RBM has requested that insurers:

Challenges and opportunities

Challenges:

- Pressure on balance sheets from reduced premium incomes and decreased investment incomes raises liquidity and solvency challenges
- High cost of internet makes engaging with customer digitally challenging from both the insurer and consumer point of view. This is also a major challenge the RBM faces
- Initial hesitancy of consumers to engage insurers remotely
- Reduced disposable income of consumers
- Lack of clarity and guidance from the RBM is creating uncertainty in the insurance industry

Opportunities:

- Increased demand for products critical illness, hospital indemnity and income protection
- Room for innovation in terms of both how products are distributed, but also in how they are designed
- Fast tracking the digitalisation of the insurance value chain, resulting in more efficient operations
- Capacitate brokers and agents with the skills and technology to sell remotely
Sectors most heavily impacted by Covid-19

Preliminary assessments from IFPRI indicate that social distancing measures will have long-term negative impacts on the Malawian economy, particularly:

- Hotel and restaurants (accounting for 26% of estimated loss)
- Wholesale retail trade (accounting for 16% of estimated loss)

Services sector
Estimated GDP loss of US$155 million

- Hotel and restaurants (accounting for 26% of estimated loss)
- Wholesale retail trade (accounting for 16% of estimated loss)

Industry sector
Estimated GDP loss of US$48 million

Source: IFPRI (2020)

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Annexure

Pre-COVID-19 starting point

Overview of insurance sector:
The Reserve Bank of Malawi (RBM) regulates the insurance industry in Malawi

<table>
<thead>
<tr>
<th>Take up ( # of adults with insurance)</th>
<th>Penetration (GWP/GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>633,000</td>
<td>2%</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Number of insurers</th>
<th>Gross written premiums (MK billion)</th>
<th>% GWP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>13</td>
<td>90.4</td>
</tr>
<tr>
<td>Life</td>
<td>5</td>
<td>35.8</td>
</tr>
<tr>
<td>Non-life</td>
<td>8</td>
<td>54.6</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of Malawi Annual report (2019)

<table>
<thead>
<tr>
<th>Split between product line for life insurer (% GWP per product line)</th>
<th>Annuity</th>
<th>30%</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Individual life business</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>Group risk</td>
<td>37%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Split between product line for non-life insurer (% GWP per product line)</th>
<th>Fire</th>
<th>17%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Motor</td>
<td>57%</td>
</tr>
<tr>
<td></td>
<td>Personal accident</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
<td>17%</td>
</tr>
</tbody>
</table>

Main distribution channels:

- Brokers
- Agents
- Direct sales

Source: Stakeholder interviews (2020)
Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri’s people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

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