

Impact of COVID-19 on the Zimbabwean insurance sector

October 2020



COVID-19 Context

Timeline of government lockdown and restrictions

30 MAR

..... A strict lockdown was declared for a total of 21 days to curb the spread of COVID-19. Flights in and out of Zimbabwe were suspended, the movement of individuals was restricted, and all informal markets were closed. State and health workers and other critical and essential businesses such as food markets, pharmaceutical businesses and the provision of insurance^{1,2} were exempted from the lockdown measures

19 APR

..... Lockdown was extended by a further 2 weeks, until May 3.

1 MAY

..... Lockdown was extended by a further 2 weeks. Businesses in the formal commercial and industrial sectors were permitted to operate under strict conditions. Essential services continued to operate.

16 MAY

..... Lockdown measures were extended indefinitely. Large gatherings of more than 50 people and operations by small and informal businesses continued to remain closed.

12 JUN

..... Lockdown restrictions were eased further. Measures announced by the president include permission for: the resumption of operations within the informal sector (including open markets); the reopening of churches; and travel within the country.

14 SEP

..... 7,526 confirmed cases of COVID-19³, representing 0.05%⁴ of the total population. Only 224 deaths have been reported.

Impact of COVID-19 on the insurance sector

Impact on operations

Changes adopted to enable remote work

- In response to the national lockdown, some insurers made the decision to close all their physical branches
- Information received from one insurer indicates that, as a result, it adopted the following measures to ensure business continuity:
 - Provided several critical staff members with the necessary tools to work remotely (e.g. internet and laptop computers) while other staff members had to take leave.
 - Used virtual/remote engagement tools such as Skype and MS Teams for internal and client-facing meetings.
 - Provider customer assistance services through a range of channels, such as via emails, mobile phones and WhatsApp messaging

Challenges to remote work

- Country-wide interruptions to the supply of electricity, affecting remote workers' ability to fulfil their functions
- Data security and privacy risks resulting from negligence by employees who are working remotely
- Information received from one insurer revealed that only 30% of their personnel had the necessary resources to work remotely, which meant that:
 - The underwriting and claims departments were unable to work remotely at full capacity
 - There was a high risk of email accumulation and delayed services to clients

Impact on insurance value chain



Sales and servicing

Issues:

- Remote insurance sales have stagnated because e-signatures are not yet permitted (hence the requirement for physical signatures is hindering remote sales)
- Disruptions in client servicing quality as a result of the reduction in staff capacity

Responses:

Despite the limitation on digital signatures, at least one insurer has considered:

- Using digital platforms such as WhatsApp, Twitter, and Facebook to sell insurance products
- Using its contact centre to the fullest to fulfil the following functions:
 - Collecting KYC data from the client
 - Collecting customer feedback data (and also via social media such as Twitter and Facebook)
 - Educating and engaging clients on how to get in touch
- Moving to digital claim forms

Those underwriting staff and managers who are fully enabled to work remotely have been ensuring ongoing servicing, albeit at a minimum, through emails, mobile phone and WhatsApp messaging

¹ <https://www.garda.com/crisis24/news-alerts/327176/zimbabwe-government-to-impose-nationwide-lockdown-for-21-days-from-march-30-update-3>

² <https://ihearare.com/here-is-a-full-list-of-essential-services-which-will-be-open-during-the-21-day-national-lockdown/>

³ <https://www.worldometers.info/coronavirus/country/zimbabwe/>

⁴ The current population of Zimbabwe is 14,906,276 as of 14 September 2020



Premium collection

Issues:

Delays in the payment of premiums are expected as a result of the lockdown

Responses:

- Information received from one insurer revealed that clients have been notified of electronic payment methods to settle their premiums (such as mobile banking and mobile money)
- Where necessary, premium payment reminders have been sent to clients through emails or SMS messaging



Lapses/renewals

Issues:

A higher-than-usual lapse rate is expected by the regulator (IPEC) as insurance customers' incomes become more constrained as a result of the COVID-19 crisis

Responses:

At least one insurer is sending renewal notices through various communication channels, such as via email, through WhatsApp and via SMS messaging



Claims

Issues:

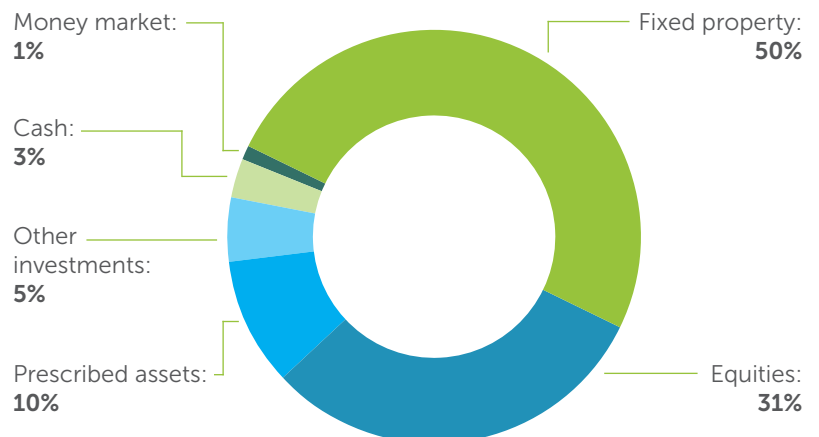
At least one insurer anticipates the possibility of an increase in health and personal accident claims as a result of the pandemic, but anticipates a low-to-medium risk of property and fire, travel and motor and domestic insurance claims increasing

Responses:

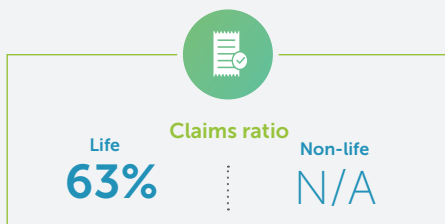
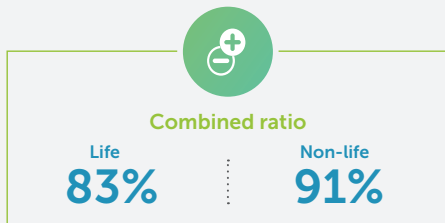
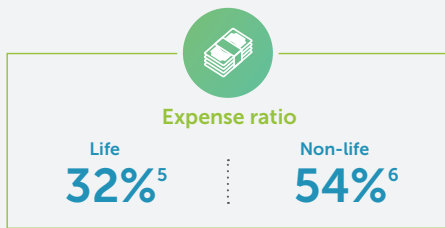
- Making use of internal assessors and assessment partners to curb fraudulent claims
- Doing desktop assessments for straightforward claims

Impact of COVID-19 on financial positions

Outline of investment assets: Pre-COVID-19 (Zimbabwean life insurance market – information not available for the non-life insurance market)



Operational expenses prior to COVID-19



Source: Reserve Bank of Malawi Annual Report (2019)

COVID-19 impact:

Anticipated increase in:

- Operating expenses as remote sales fall and claims rise

Anticipated decrease in:

- Investment income due to property and equity portfolio (which accounts for approximately 80% of investment assets in the life insurance market) likely to be impacted negatively
- Liquidity of insurance companies as cash flows become negatively impacted by lack of remote sales

Impact of COVID-19 on the regulator

IMPACT 1:
Containment measures affected IPEC's day-to-day operations

Response:

Requirement that IPEC services be accessed telephonically or online

IMPACT 2:
Heightened uncertainty and lack of clarity in the industry

Response:

- Increased frequency of communication with industry associations and IPEC's own Exco
- Requested insurers (and pension fund providers) to provide information on the measures that industry has put in place to mitigate the risk of spreading the COVID-19 virus

IMPACT 3:
Pressure on industry to adapt to COVID-19; industry revenues negatively affected

Response:

- Extension of deadlines on the payment of regulatory levies
- Extension of reporting deadlines for first quarter returns (granted to insurers and brokers)
- Advised insurers (and pension fund providers) to maintain skeletal staff in offices
- Issued guidance to allow policyholders to pay their premiums in foreign currency, using free funds, which are chargeable in Zimbabwean dollars

⁵ Refers to management expense ratio

⁶ Refers to net expense ratio

⁷ Refers to underwriting margin

Challenges and opportunities

The regulator (IPEC)

Challenges:

- Day-to-day operations affected by containment measures
- Industry revenues and sustainability under pressure due to the impact on sales, servicing and balance sheets

Opportunities:

- Increased frequency of communication enabling a more careful monitoring of the market
- Enabling digital signatures/working with other relevant authorities to enable remote sales to take place

Insurers

Challenges:

- Higher-than usual lapse rates and potential liquidity issues anticipated as customers' incomes become constrained
- Investment income negatively affected due to reduced returns on property and equity investment
- Sales hindered because e-signatures are not permitted for policy documents
- Country-wide interruptions in the power supply affecting insurers' ability to operate
- Increasing cyber and privacy risk due to remote working

Opportunities:

- Increased digitalisation paving the way for changes in business models and the development of new products
- Incentive to innovate and offer products that meet consumers' changing needs as lapse rates increase, especially given that insurance may now be more front-of-mind than before the pandemic
- Playing a more proactive role in the economy's recovery through savings mobilization and capital formation

Annexure

Sectors most heavily impacted

In Zimbabwe, the minister of finance and economic development revealed that the sectors that were severely impacted by COVID-19 were tourism, non-food manufacturing, mining, financial services, transport and education sectors. The ministry of finance anticipates the tourism sector to contract by 7.4% in 2020 due to the travel restrictions imposed and booking cancellations caused by the spread of COVID-19. The Ministry of Finance anticipates that these following sectors will contract by the following in 2020:



Mining
4.1%



Manufacturing
10.8%



Electricity and water
7.9%



Construction
7.4%



Distribution, hotels and restaurants
7.4%



Financial, banking and insurance activities
7.1%



Education and training
7.2%

Pre-COVID-19 starting point

Overview of insurance sector:

The insurance and Pensions Commission (IPEC) regulates the insurance industry in Zimbabwe

Take up (% of adults with insurance)

34%

Penetration (GWP/GDP)

3.6%

Source: Insurance and Pensions Commission Annual Report (2019), World Development Indicators (2020), Insurance and Pensions Commission Life assurance sector report (2019), Insurance and Pensions Commission Short Term (Non-life) insurance report (2019); IPEC (2018)

	Number of insurers	Gross written premiums (ZWL billion)	% GWP
Industry	28	2,321	--
Life	12	946	41%
Non-life	16	1,375	59%

Source: Insurance and Pensions Commission Annual Report (2019)

Split between product lines

Split between product line for life insurer (% GWP per product line)	Corporate business	54%
	Individual life	46%
Split between product line for non-life insurer (% GWP per product line)	Aviation	1%
	Bonds/Guarantee	7%
	Engineering	6%
	Farming	2%
	Fire	24%
	Hail	5%
	Hire purchase	1%
	Marine	3%
	Miscellaneous accident	7%
	Motor	35%
	Personal accident	7%
	Public liability	4%

Source: Insurance and Pensions Commission Short Term (Non-life) insurance report (2019)

Distribution channels:

Class of business	Number of registered players
Life assurance	12
Non-life insurance	16
Funeral	8
Composite insurers	2
Micro-insurers	1
Non-life reinsurers	3
Composite reinsurers	5
Insurance brokers	31
Reinsurance brokers	7
Agents	2150

The spread of COVID-19 prompted the Zimbabwean government to enforce lockdown measures to ensure the safety of its citizens. During this period, only critical and essential services, such as the provision of insurance and financial services, were permitted to continue with operations, conditional on their compliance with public health measures such as social distancing. Financial and insurance services were required to provide finance for individuals and support for business continuity services⁹.

⁹ <https://iharare.com/here-is-a-full-list-of-essential-services-which-will-be-open-during-the-21-day-national-lockdown/>



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