

# INSURANCE PENETRATION AND GROWTH IN ZAMBIA: CASE OF LUSAKA PROVINCE

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A thesis submitted in  
Partial fulfilment of the requirement for the degree of  
Master of Arts  
in Business Administration  
at  
Information Communication University, May 2015  
Under the supervision of Professor Gideon Mwanza

## Declaration

I Ornam Mulenga, hereby declare that this thesis is, to the best of my knowledge and belief , my own work and has not been submitted in any form , either in full or in part , for a degree at this or any other institution. Information derived from the published or unpublished work of others has been acknowledged in the text and a list of references is given.

### **Dedication**

This piece of work is dedicated to my wife, Emmie Mulenga, who has not only been my wife but a close and dependable friend. You offered unconditional love, thereby making the burden of writing this thesis lessen substantially.

It is also dedicated to my parents Samson Mulenga and Beatrice Mulenga who taught me to be hardworking, disciplined, and respectful and above all to be God fearing.

Last but not the least to my daughters, Yande Mulenga and Luyando Mulenga, for always putting a smile on my face even in the pressures of undertaking this thesis.

## Acknowledgement

Acknowledgements are given to the following persons who were instrumental in this research. My gratitude to my supervisor, Professor Gideon Mwanza, for his valuable insight into the topic that helped me focus this research for valuable output. Much appreciations goes to the various institutions and companies that took time to answer my questions and gave me the required feedback to meet my objectives.

I would like to thank and appreciate my family and friends for their continued encouragement and support towards attaining greater heights in life.

To save the best for the last, I would like to thank God all mighty for the strength and wisdom.

## Abstract

The Insurance industry has also been steadily growing from 1971 when the industry became a monopoly under the Zambia State Insurance Corporation following the 1968 Economic Nationalization Reforms. Therefore, between 1971 and 1991 Zambia only had one insurance company and broker. Following the liberalization of the economy in 1992 the numbers have significantly increased with 27 insurance companies and 49 brokers at the end of July 31st 2014. The industry also now has two local reinsurance companies, 279 agents and a number of other players. However, the insurance penetration and growth has not been significant as expected. The research will bring out issues and factors surrounding the penetration and growth of insurance Industry in Zambia.

The research aims to answer the following questions; why the insurance Industry penetration in Zambia is still low, still at 0.6% for non-life insurance and 0.3% life insurance? What are the barriers to insurance penetration and growth? What measures should be taken by players in the insurance industry to accelerate penetration and growth? What would be the opportunities and benefits for the fast growing insurance industry in Zambia? The objectives of the research were to examine why the penetration and growth of insurance industry is still low and slow. What policy measures can be taken to reverse this trend?

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## List of Acronyms

BAZ- Brokers Association of Zambia

CEA- Committee des Assurance

CEI- Customer Experience Index

CEO- Chief Executive Officer

IAZ - Insurance Association of Zambia

IAIS- International Association of Insurance Supervisors

PIA - Pensions and Insurance Authority

GDP -Gross Domestic Product

G7-Group of Seven Countries

GWP- Gross Written Premium

MFI- Micro Finance Institutions

OECD-Organization for Economic Co-operation and Development

ROE- Return on Equity

SPSS-Statistical Package for Social Scientists

STP-Segmentation, Targeting and Positioning

UNCTAD- United Nations Conference on Trade and development

ZSIC- Zambia State Insurance Corporation

## CHAPTER ONE

### BACKGROUND TO THE STUDY

#### 1.0 Introduction

The insurance penetration ratio, which is the gross value of insurance premiums as a percentage of GDP, is often used as a measure of how deep a country's insurance market is. The report will provide in depth market analysis, information and insights into the insurance industry in Zambia, including: The Zambian insurance industry's growth prospects by insurance segments and categories, the competitive landscape in the Zambian insurance industry, the current trends and drivers of the Zambian insurance industry, the challenges facing the Zambia insurance industry and the regulatory framework of the Zambia insurance industry. The Insurance industry has also been steadily growing from 1971 when the industry became a monopoly under the Zambia State Insurance Corporation following the 1968 Economic Nationalization Reforms. Therefore, between 1971 and 1991 Zambia only had one insurance company and broker. Following the liberalization of the economy in 1992 the numbers have significantly increased with 27 insurance companies and 49 brokers at the end of July 31st 2014. The industry also now has two local reinsurance companies, 260 agents and a number of other players. With increased competition has come choice of company and products for policy holders and relatively affordable premiums. Players are also being constantly challenged to be innovative and come up with new products that meet the demands of Zambians.

The Insurance Act, 1997 as amended in 2005 prohibited insurance companies from conducting both Life and non-Life insurance business. The amendment saw the birth of companies such as Madison Life, Professional Life and ZSIC Life.

Significance growth has also been recorded in volume of business under written and as at December 2013, the volume of general insurance stood at K1.022 billion and a total of K330 million was paid out in claims. This is in comparison to GWP of K96, 485 million in 2002 and K27, 167 million that was paid out in claims.

On the long term side of insurance, the GWP turnover as at December 2014, stood at K450 million and K137 million was paid out in claims in comparison to GWP of K26, 431 and claims amounting to K9, 665 recorded in 2002.

The industry had the following players (as at July 31st, 2014):

- 2 Reinsurance Companies
- 18 General Insurance Companies
- 9 Life Insurance Companies
- 48 Insurance Brokers (from 36 in 2006)
- 279 Insurance Agents (from 47 in 2006)
- 8 Claims Agents (from 6 in 2006)
- 6 Motor Assessors
- 6 Loss Adjusters
- 2 Risk Surveyors (from 0 in 2006)

However, the penetration and growth of the Insurance Industry has not been to the expectation as presented in this report.

### **1.1 Research Problem**

The Insurance Industry plays a major role in a nation's economy by supporting growth in the financial sector. Access and appreciation of Insurance Products and Services in Zambia is still quite low. Despite the seemingly growth of the insurance industry in the recent past, the growth has largely concentrated in the urban centers, while the large population in semi urban and rural areas are still unreached, this trend has largely contributed to low insurance penetration and growth. Lack of access to insurance has resulted in people losing their assets and investments permanently which could have otherwise been avoided by taking an insurance cover. This research will endeavor to bring out the issues that are affecting insurance penetration and growth and propose ways of accelerating the growth.

## **1.2 Research Questions**

The following few research questions have been extracted considering preliminary review of available literature:

- 1.0 What are some of the causes of low Insurance Penetration and growth in Zambia?
- 2.0 Why is it that the large population of Zambia do not access to Insurance Services?
- 3.0 What impact does the regulatory framework have on insurance Industry?
- 4.0 What measures should be implemented by the stakeholders to reverse the trend?

## **1.3 Research Aims and objectives**

In order to determine the causes of low insurance penetration and growth and prescribe the measures to boost the sector, an investigation of a number of facets needs to be carried out. It is for this reason that the study's aims and objectives include;

- 1.0 Ascertain why Insurance Penetration is low.
- 2.0 Determine the barriers to insurance growth.
- 3.0 Determine the limiting factors to access to insurance products and services.
- 4.0 Prescribe the measures to reverse the trends.

## **1.4 Scope of the Research**

The study was limited to Lusaka Province and involved Zambia Insurance Companies both life and non-life insurance, Insurance Regulators and the general public, this is due to the time constraints and the fact that almost all the insurance companies are based in Lusaka. It would, however, be noted that the study did not attempt to make comprehensive assessment of other players in the insurance industry such as agents and brokers or insurance companies abroad.

## **1.5 Significance of the study**

The Importance of this research is to allow the insurance companies and regulators understand the hindrances to insurance penetration and growth in Zambia. Bring out some measures and

strategies that can be exploited by insurance companies to take advantage of the available opportunities in the market.

## 1.6 Organization of the rest of the Report

The rest of the dissertation is organized as follows;

➤ **Chapter 1:Background to Study**

This chapter introduces and lays the background to the study.

➤ **Chapter 2:Literature Review**

The literature review will give the theoretical basis of the study by evaluating previous work from other scholars in the field of study

➤ **Chapter 3: Conceptual Framework**

This chapter will provide the interrelationship between the different concepts of study.

➤ **Chapter 4: Methodologies**

This chapter will provide details of how the study was actually carried out in order to provide answers to the research questions.

➤ **Chapter 5: Data Analysis and Research Findings**

This chapter will describe how the data collected was prepared and analyzed. It also interprets the findings in light of the research problem.

➤ **Chapter 6: Conclusions and recommendations**

This chapter concludes the research and highlights all ideas from the findings.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter aims to review the literature relevant to the research in various segments. The literature reviewed highlights in the insurance industry and the role it plays in an economy, the background of insurance activities in Zambia, Previous growth and Competitive landscape and the regulatory framework.

#### 2.1 Insurance Industry

The Insurance sector covers long and short term risk spreading activities with or without a saving the savings component. The three basic activities in the insurance business include life insurance, pension funding which includes the provision of retirement incomes, and non-life insurance, also known as general insurance, which comprises insurance and reinsurance of non-life insurance business such as accident, motor, marine, aviation and so forth (e-Business Watch, 2002).

A developed and well regulated insurance sector is a cardinal feature of a proper economic system, contributing to economic prosperity. A low and uneven development of insurance, especially in the non-life lines of business, increases the level of risk in the economic decisions taken by individuals and firms, hampering, in turn, economic activity (CEA Insurers of Europe,2006). As economies become highly industrialized and technology-driven, they are threatened by higher risks than ever (e-Business Watch, 2002).

The purpose of insurance is to mitigate risks thus providing financial stability as well as peace of mind to individuals, organizations and businesses. As a risk pooling and transfer mechanism, insurance allows the insured to mitigate pure risks, i.e. risks that involve the possibility of either a loss or no loss. Examples of such risks include fire, theft, accident, floods, business interruption and so forth. Without the risk pooling and transfer mechanism, a large

number of the economic activities would not take place (UNCTAD, 2002). Insurance allows businesses and individuals to continue with their activities, such as work or education, by providing financial compensation if an insured risks occurs and causes damage. However, in the event that the insured risk does not occur, insurance provides a peace of mind, which is of considerable, if unquantifiable value.

According to CEA Insurers of Europe (2006), the insurance industry promotes economic growth and structural development through the following channels;

1. Providing broader insurance coverage directly to firms, improving their financial soundness.
2. Fostering entrepreneurial attitudes, encouraging investment, innovation, market dynamism and competition.
3. Offering social protection alongside the state, releasing pressure on public sector finance.
4. Enhancing financial intermediation, creating liquidity and mobilizing savings. As major institutional investors, insurers gather dispersed financial resources and channel them towards investment opportunities, facilitating companies access to capital.
5. Promoting sensible risk management by household and firms, contributing to sustainable and responsible development.
6. Fostering stable consumption throughout life.

### **2.1.1 The role of Insurance in an economy**

The insurance sector plays a fundamental role in the economy. A world without insurance would be much less developed economically and much less stable. For example, In the framework of the Lisbon Strategy, the insurance sector can contribute significantly to achieve the Lisbon guidelines adopted by the European Council. The risk transfer function of the insurance sector contributes, on the one hand, to the creation of a more stable operating environment for companies and, on the other hand, to a reduction in the level of capital



required by undertakings to protect themselves against risk. This allows companies to concentrate their attention and resources on their core business. Where appropriate, it enables firms to realize new investments in R&D, to innovate by developing and commercializing new products and to extend their market activities to other countries inside and/or outside Europe. This impact is particularly significant for SMEs that do not have easy access to the capital market and which are a main source of innovation. By protecting firms and citizens against adverse events, the insurance sector provides a safety net that allows policyholders to restart their activities whatever the difficulties they have to cope with. Insurance plays, at this level, a key role in economic stability. Moreover, as institutional investors, the insurance sector provides a long-term source of finance for investment in the economy, thus contributing to sustainable growth. In a world characterized by social changes and particularly by an ageing population, insurance provides an efficient way to support the State in the provision of pensions, healthcare and social security. Through products designed to complement State provision, the insurance sector contributes significantly to guaranteeing a stable and lifelong level of revenue (pension, education leave, maternity leave) and to limiting the impact of demographic change on states' budgets. Insurers have also demonstrated their ability to manage other fields of social security such as compensation and rehabilitation following accidents at work, for which insurers of several countries (including Belgium, Portugal, Finland, and Denmark) provide high-quality social protection. These products have a double economic impact, protecting workers from the economic consequences of accidents, and encouraging a healthy working population. Insurance not only provides a stable operating environment, but it also improves companies' awareness of risk management, and influences their investment decisions. Differences in price and policy conditions are key factors that influence undertakings' and households' decisions, and contribute to sustainable and responsible use of available resources. For instance, insurance contributes to the reduction of risks linked to climate change by supporting Government policies designed to limit climate change and to reduce its impact (Source <http://www.insuranceeurope.eu> 10.01.2015)

### **2.1.2 The Insurance Business Process**

Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange

for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount of money to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

Entering into an insurance contract requires that four conditions are met. The conditions include legality, capacity, offer and acceptance and consideration. To ensure legality, the client needs to have an insurable interest. This means the asset to be insured has to belong to the client and proof of ownership is submitted. The condition of capacity is fulfilled when the parties entering into the contract have exchanged information confirming that the agent, broker or insurer are licensed and that the client is not a minor, intoxicated, insane or acting outside the assigned scope of authority. When an insurer offers the terms and conditions for cover for an insurable interest, against loss by general or named perils under particular conditions of hazard and the client responds to the offer, the condition of offer and acceptance is satisfied. The consideration of an insurer is the fulfilment of financial compensation in the event of a loss as stipulated in the contract. The consideration of the client is the payment of premiums. When the loss occurs the damage is assessed, and a claim is submitted.

### **2.1.3 Overview of the Global Insurance Business**

The world's insurance industry is dominated by wealthy developed countries. In fact, the Group of Seven (G7) alone accounts for almost 65% of the world's insurance premiums even though it covers just over 10% of the world's population. In those seven countries, an average of US\$3,910 was spent on insurance premiums per capita in 2012, according to the reinsurer Swiss Re. In comparison, people in emerging markets spent an average of US\$120. It would

come as no surprise therefore that the insurance market in Africa is still underdeveloped as most Africans cannot afford insurance premiums yet. Access to insurance products only starts to increase quickly in the upper middle income brackets. With most Africans still just struggling to meet their basic food and other day-to-day needs, insurance is still a long way off for the majority of Africans. Apart from a lack of means, other reasons for low insurance penetration in Africa are:

- People do not trust financial service providers
- Given how poor Africans are and how challenging the business environments are, there is not enough incentive for multinational companies to enter African markets and develop the sector.
- There is also a lack of reliable information, making it very difficult to assess people's creditworthiness.
- The legal and judicial systems are poor;
- There is a lack of human capital and expertise.
- Shallow financial markets make it difficult to raise enough money to capitalise insurance/re-insurance companies, and
- Communities often make use of informal forms of insurance rather than using the services of formal insurers.

**Table 2.0: Insurance Markets by Region**

Depth of Insurance Markets by Region, 2013			
Region	Total Premiums (US \$ Billion)	Penetration Rate (%)	Premium Per Capita (US \$ billion)
Advanced Asia	936.00	11.80	4,387.50
North America	1,393.40	8.03	3,996.30
Western Europe	1,462.70	7.72	2,716.30
Oceania	97.10	5.60	2,660.20
South and Central Africa	168.70	3.00	281.90
Central and Eastern Europe	72.50	2.01	223.40
Middle East	40.90	1.35	124.00
Emerging Asia	369.40	2.96	101.90
Africa	71.90	3.56	66.40
World	4,612.50	6.50	655.70

Life insurance markets continued to contract in real terms in a large number of countries, with some countries experiencing a further downward trend. Meanwhile, other countries saw continued premium growth or witnessed a reversal from earlier negative growth. Life premiums continued to contract significantly in a large number of countries, principally from the European Union. The poor macroeconomic environment and economic uncertainty appear to have dampened demand for life insurance (including unit-linked products), although competition from the banking sector also served to constrain growth. The greatest decline was experienced in the Netherlands which witnessed a large decline in life premiums. This negative trend, driven by declining sales, could be observed for both annuities as well as unit-linked products. In Hungary, the negative growth in life premiums turned more sharply

negative in 2012. In Spain, premium growth in the life sector turned negative, with a large decrease in the first quarter. This decrease was caused by the economic and financial crisis that increased the policy lapse rate in savings insurance. Premiums in traditional life business and unit-linked insurance fell. The fall in the life premiums in France can be explained by the competition of other saving products, which have reached very similar interest rates, and the household preference for short term financial investments in a context of economic uncertainty. In Greece, there was a continued, and increased, contraction of gross written premiums in the life sector. This drop in premiums was the most significant since the beginning of the financial crisis.

This downward trend, found also in the non-life sector, is due to the impact of the financial crisis on the real economy, which has led to a downward pressure on wages and salaries, increased taxation, high unemployment levels and continued recessionary conditions in Greece. In Austria, the downward trend in real premium growth continued. The proportion of premiums from unit and index-linked life insurance products continued to decline. In Italy, the negative trend in premiums was confirmed in 2012, although there were signs of recovery – the decline in growth was less severe than was the case in 2011. Life risk insurance products displayed negative premium growth as did capital redemption products; by contrast, unit and index-linked products experienced premium growth, reversing the declines experienced in 2011. In Portugal, the negative trend in premium growth moderated in comparison with the sharp drop in premiums in 2011. Australia experienced a reversal of growth in the life insurance sector, mainly due to a decrease in premiums for investment-linked products. The growing popularity of self-managed superannuation funds and industry superannuation are capturing this market. By contrast, life risk insurance premiums grew, although this growth was driven materially by contractual age and inflation adjustments. In the Czech Republic, premium growth also continued to be negative, reflecting continued stagnation in the life sector. The negative trend in 2012 was due especially to the large amount of single premium contracts, which expired. Similarly, in Slovenia, premium growth continued to be moderately negative, with for instance declines in premiums in unit-linked business. Real growth was experienced in the life insurance class. In the Slovak Republic, growth in gross written premiums in the life

sector continued to be moderately negative, with slow growth experienced in unit-linked insurance and assistance insurance. Positive trends could be found in new business in all lines of life insurance, with the exception of pension insurance. By contrast, there was very strong growth in gross written premiums in the life sector in Chile, Korea and Luxembourg. In Chile, during 2012, this increase was coupled with fewer administrative costs. Significant growth was experienced in other Latin American countries. Costa Rica experienced growth due to maturing domestic insurance markets. In the accident and life insurance sector, the maturing of the markets was enhanced by the recent opening of the insurance market to competition. In Colombia, premiums grew due to growing employment, which favored demand for coverage of professional risks, group life insurance, and health and accident insurance. In Peru, the sizable increase in total volume of premiums was due largely to increased pension insurance. In Hong Kong (China), and Malaysia premiums grew substantially for both new and in-force life business. In Hong Kong (China), new insurance business comprised, for a large part, non-linked life insurance business. For in-force business, significant growth was observed in individual life and annuity (non-linked) business and retirement scheme insurance business. In Belgium, life insurance premiums experienced a rebound, reaching their highest level since 2007 and reversing the negative real growth seen in 2011, when premiums levels fell to levels last seen in 2003. While this development appears to be related to renewed growth in investment-linked products, most of the growth likely stemmed from anticipation by households of the tax increase on the savings and investment classes of life insurance, which was set to take effect on 1 January 2013. This surge in premium growth echoes the pattern found in 2005, when premiums rose sharply in anticipation of a tax and then fell back. In Poland, there was strong real growth in life insurance premiums, reversing the decline registered in 2011. Strong growth was experienced in life insurance and unit-linked insurance, or more specifically to increased sales of investment-type products and structured products. In Mexico, premium growth remained strong in the life sector. This growth is primarily explained by the increase in sales of insurance products with a saving component, which include products in traditional life insurance as well as annuities products. In the United States, written premiums generally increased across the board, with growth due primarily payments made into annuities

and life insurance revenues. In Iceland, premium growth turned positive in 2012, with the main source of growth coming from traditional term life insurance. While premiums in the non-life sector enjoyed substantive growth in a wide range of countries, particularly emerging markets, they continued their downward trend in other countries owing to the effects of the financial and economic crisis and heightened competition. In Greece, gross written premiums continued to contract, and more severely than was the case in 2011. This result was due to the fall in written premiums in motor third party liability insurance, the dominant line of business in the non-life sector, and due to a further significant negative decrease in the other non-life classes. The falling number of vehicles in circulation, due to the effects of the financial crisis and austerity programme, is accounting for the drop in motor insurance. In Hungary, the negative trend in non-life gross premium growth continued, driven mainly by motor insurance (including third-party liability). Premium growth in motor insurance has been falling since 2007 due both to decreased underlying risks and increased competition. In 2012, an Accident Tax on compulsory motor liability insurance policies was introduced. In other lines of non-life insurance, premiums have been growing but at less than the rate of inflation. In Portugal, the level of gross written premiums continued to shrink in real terms. Premium levels in workers' compensation insurance and, to a lesser extent, motor vehicle insurance were also impacted. The decrease reflected the macroeconomic environment and the fiscal situation. Similarly, in the Slovak Republic, the downward trend in gross written premiums continued in 2012. The decline in non-life insurance was caused primarily by a sharp fall in premiums in motor insurance and property insurance. In the Netherlands, premiums declined in real terms. The introduction of tax-efficient bank saving (banksparen) and the fall of confidence in the life sector caused a downward trend in the sales of new policies, which has dropped dramatically. In the Czech Republic, real gross premium growth in the non-life sector continued to be negative. Strong competition within the motor insurance market, which compressed premium levels, was largely responsible for this slowdown. In Slovenia, premium growth continued on a negative trend, with substantial declines evidenced for instance in motor third party liability insurance, with premiums falling due to increased competition in the motor insurance market. Land motor vehicle insurance also witnessed a decline in premiums. Strong growth in non-life

premiums was, by comparison, experienced in a large number of reporting Asian, European and Latin American insurance markets. Within Asia, strong growth was witnessed in Singapore and Hong Kong (China). In Hong Kong (China), the driving force behind the increase in non-life insurance premiums was notably an increase in the general liability business (including Employee Compensation business), and accident and health business. In Europe, in Belgium, premium growth reflected, in part, efforts by insurers to improve profitability, which involved raising premium levels, improving cost controls, and tightening underwriting terms for certain loss-making insurance products. In Latin America, Brazil, Colombia, Costa Rica, Cuba, Nicaragua, Peru and Uruguay achieved strong premium growth. In Colombia, premium growth was linked to increased sales of motor insurance. In Costa Rica, growth in vehicle, fire and other property damage and accident, sickness and life insurance products remained stable; however, there was growth in accident and sickness insurance. In Peru, growth within the non-life market was driven by school and health insurance and fire and motor insurance. In Canada, there was robust growth in property and casualty insurance. Direct premium growth was strongest for motor vehicle, fire and property insurance and other classes of insurance. Although, the general trend for non-life insurance in Canada was one of growth, there was a slight decrease in growth in transport insurance and accident and sickness insurance. In Australia, premium growth strengthened in 2012. Most of this increase was driven by householders and fire and industrial special risk property insurance classes. In particular, personal and commercial property classes saw increases in real premiums as insurers sought to pass on the higher costs of reinsurance following the disaster events of late 2010 and early 2011. By contrast, premium growth in long tail classes of non-life insurance continued to be more subdued. In Mexico, premiums grew at a reduced rate in comparison with 2011, owing to the effects of the PEMEX insurance policy, a large multi-year insurance policy. Real growth would otherwise have been more than double the registered real growth. Mexican non-life insurance direct premiums increased particularly due to growth in property and casualty insurance, automobile insurance and health and accident insurance. In the United States, the positive trend in premium growth continued, due to improved economic conditions and higher premium rates, particularly in the commercial market, led by increased pricing in



workers' compensation insurance. The non-life insurance sector in Switzerland posed robust premium growth. There was a strong increase in fire and property claims with robust construction and a stable economic environment and population growth in Switzerland. Within the motor vehicle industry there was an increasing number of vehicles which led to growth in automobile insurance. In Poland, there was a continued upward trend in premiums in the non-life sector. Market growth was driven mainly by motor third party liability insurance, primarily due to increased pricing. Premium increases also occurred in "other third party liability" insurance as a result of the introduction of new third party liability insurance products. Growth was also experienced in "other physical damage" insurance due to the growing number of insurance agreements being concluded. In Iceland, growth in written premiums turned positive in 2012, with strong growth exhibited in the property class of insurance. Motor insurance also grew in terms of written premiums.

Claims development in the life segment was relatively more subdued in 2012 in comparison with 2011. Among reporting countries, aside from Luxembourg, countries in Latin America saw the largest increases. Colombia, Costa Rica, Uruguay and Nicaragua all experienced large increases in claims paid (in the 20-32 per cent range). In Colombia, the largest increase in claims was found in professional risk coverage. The growth in claims payments in Mexico was less strong; it was due to increased claims in traditional life insurance and annuities, In Greece, despite the increase in life surrenders, there is no evidence of a run on insurers. In Slovenia, the increased claims can be linked to an increase in claims of capital redemption policies and outflows from unit-linked products. In the Slovak Republic, there were slight increases in claims due to policy surrenders. There was also an increase in the number of insured who survived beyond the projected age. Portugal saw a large decline in claims payments, following a high level of growth in 2011. In the non-life sector, Chile experienced the greatest increase in claims paid. Other notable increases could be found in Sweden, and Turkey. There was strong growth in insurance claims in Latin American countries, for instance in Brazil, Colombia, Costa Rica, Cuba, El Salvador, Peru, Nicaragua and Uruguay. In Nicaragua, there was significant growth in claims for motor insurance as well as for fire and related insurance; moreover, claims for "other commercial insurance" registered increases. Peru experienced growth in claims

payments in fire insurance, motor insurance, civil liability insurance and accident and sickness insurance lines. In Colombia, the largest increase in claims was registered in motor insurance. In Asia, Indonesia, Hong Kong (China) and Singapore experienced sizable growth in the number of gross claims paid in the non-life insurance sector. The reporting countries which experienced the greatest decline in gross claim payments were Australia, Ireland and Luxembourg. In Australia, the lower severity of disaster events in 2012 led to a reversal of growth in claims, which was unusually high in 2011. In Switzerland there was a strong increase in fire and property insurance claims which corresponded with continued robust construction activities, a stable economic environment and population growth. In the motor vehicle (liability) sector there was a significant drop in the claims ratio and a fall in the number of road traffic accidents due to road safety measures and safety features in vehicles coupled with a more restrictive legislative environment, tightening the law in relation to whiplash injuries.

In Investment allocation and performance, most countries, insurers continued to invest heavily in fixed-income securities, namely government and private sector bonds. For most reporting countries, the life insurance industry allocates more than half of its own account portfolio investments into bonds. Some countries which did not have strong investment in bonds within their life insurance portfolios were Indonesia, Panama, South Africa and El Salvador. With the exception of Denmark, El Salvador, Estonia, Finland, Germany, Indonesia, the Netherlands, Panama, and South Africa, the life insurance sectors in reporting countries allocated more than 50 per cent of their investment portfolio to bonds. The life insurance sector in Costa Rica, Hungary, Italy, and Turkey invested more than 90 per cent of own account assets in bonds. In a majority of reporting countries, the life insurance sector invested less than 10 per cent of own account portfolio assets into equities. In some countries, however, equities comprised a sizeable component of portfolio investments (greater than or close to 20 per cent), such as in Australia, Denmark, Indonesia, Panama, Singapore, Slovenia, South Africa, and Sweden. Investment in real estate is relatively limited in comparison with other asset classes. In Australia, Chile, Norway and Switzerland, the life insurance industry has significant investments in real estate.

On Profitability and industry's return on equity (ROE) in reporting countries has shown some

volatility in recent years due to changing financial market and economic conditions. There appears to have been an improvement in profitability in 2012, although not all countries exhibited this trend. Some of the improved performance can be linked to enhanced investment returns as described earlier. There has been great variability in profitability within the European insurance sector, such as in Greece, Italy, Finland, Portugal, and the Slovak Republic. This reflects the economic and financial instability in Europe over the last few years due to the worsened economic conditions and fiscal positions. There was a strong reversal and return to profitability, for instance, in the life sector in Italy. In Australia, there has been stability in the returns of life insurance sector, with the ROE being stable since 2010. In the non-life insurance sector, the key drivers of profitability was higher premium revenue, reflecting as mentioned increased market pricing to recoup increased reinsurance costs, and lower claims expenses due to the lower severity of disaster events in 2012. In Belgium, the positive development in profitability in the insurance sector comparison with the low profitability experienced in 2011 was mainly attributable to a significant increase in income from financial investments in the technical and non-technical accounts. In Chile, the life sector experienced strong profitability due to financial investments and, to a lesser degree, higher sales and fewer administrative expenses. By contrast, in the non-life sector higher administrative and claims costs were not compensated for by an improvement in investment results. In Estonia, the profitability of the life insurance sector improved owing to good financial investment results. With some exceptions, profitability was generally very strong in reporting non-OECD countries. For instance, ROE in South Africa was very strong. By contrast, in Costa Rica, there was a general trend towards minimal or no profitability for the majority of new insurers, likely reflecting the recent development of the private insurance sector; in 2012, the ROE was only positive for selected insurers including the state insurer, which formerly had a monopoly.

In Summary, featuring data from over 15,000 customers worldwide and nearly 100 insurance executive surveys, the World Insurance Report 2014 from Capgemini and Efma reveals enhancing customer experience has a direct impact on insurers' profitability. Given the increasing demand of internet and mobile channels in insurance, digital transformation is an effective approach to create positive experiences, secure customer loyalty, and ultimately

improve insurers' profitability. While insurers are striving to enhance customer experiences, the improvement in ratings has been slow at just 2% globally with nearly 70% of customers still at risk of switching carriers. Other findings: Insurers had generally higher profits in 2012 thanks to over a 30% decrease in claims payouts associated with fewer natural disasters or weather events. Only 32% of global insurance customers said they had positive customer experiences with their insurer. The U.S. leads the globe with over 50% of insurance customers citing positive customer experiences with their insurer. Capgemini's Customer Experience Index (CEI) for Insurance found a clear link between improved customer experiences and profitable customer behaviors.

## **2.2 The Zambian Insurance Market**

The Insurance industry has also been steadily growing from 1971 when the industry became a monopoly under the Zambia State Insurance Corporation following the 1968 Economic Nationalization Reforms. Therefore, between 1971 and 1991 Zambia only had one insurance company and broker. Following the liberalization of the economy in 1992 the numbers have significantly increased with 27 insurance companies and 49 brokers at the end of July 31st 2014. The industry also now has two local reinsurance companies, 260 agents and a number of other players. With increased competition has come choice of company and products for policy holders and relatively affordable premiums. Players are also being constantly challenged to be innovative and come up with new products that meet the demands of Zambians. The Insurance Act, 1997 as amended in 2005 prohibited insurance companies from conducting both Life and non-Life insurance business. The amendment saw the birth of companies such as Madison Life, Professional Life Assurance and ZSIC Life. Significance growth has also been recorded in volume of business under written and as at December 2013, the volume of general insurance stood at K1.022 billion and a total of K330 million was paid out in claims. This is in comparison to GWP of K96, 485 in 2002 and K27, 167 that was paid out in claims. On the long term side of insurance, the GWP turnover as at December 2014, stood at K450 million and K137 million was paid out in claims in comparison to GWP of K26, 431 and claims amounting to K9, 665 recorded in 2002.

The industry had the following players (as at July 31st, 2014):

**Table: 2.1 Insurance Industry Players**

Category	2014
Reinsurance Companies	2
Reinsurance Brokers	1
General Insurance Companies	18
Life Insurance Companies	9
Insurance Brokers	48
Insurance Agents	279
Claims Agents	8
Motor Assessors	6
Loss Adjusters	6
Risk Surveyors	2
Total	379

### 2.2.1 Overview of Zambian Insurance Industry.

According to Pensions and Insurance Authority (PIA) the insurance sector in 2014 performed exceptionally well, with gross written premium (GWP) for half year registered at K1.52 billion, exceeding the entire 2013 record of K1.02 billion. PIA indicates that the 2014 income from the insurance sector is expected to surpass the 2013 outcome due to the favorable business environment which has culminated from vast opportunities. PIA indicated that growth in the insurance industry is expected to continue. The performance of both general and long-term insurance was rated as positive. It is expected that the 2014 turnover will exceed the 2013 results. The GWP for the period of six months ending June 30, 2014 was K1, 021 million compared to K1, 527 million recorded for the whole year in 2013. Under the general insurance, the industry registered K704 million while long term insurance stood at K317 million.

Another area which also recorded an increase was micro insurance which is targets to the low-income individuals. Micro insurance is cheaper and that insurance companies are using various distribution methods such as cellphones to enable the people access the product easily. PIA has continued to encourage insurance companies to be more innovative when coming up

with products to capture people's interests. The insurance industry has continued to grow with new foreign companies investing in the country. According to PIA, there has been a lot of innovation with the new incoming companies. Some of them are coming from outside the country and with the experiences that they have gained in other markets, this has contributed to the growth of the insurance industry.

Overall, the Insurance Industry has experienced a 30% growth in gross premiums over the past ten (10) years. However, the Insurance service has not done much to penetrate the Zambian Market. The industry has only managed to capture about 5% of the Country's population which stands at about 13,000,000 people.

The Insurance contributes about 1-2 % to the country's Gross Domestic Product (GDP).

According to PIA, the challenges facing the Industry included;

- i. Poor credit culture resulting in significant default in insurance premiums. This had an adverse impact on the solvency of insurers.
- ii. Low retention of risks, especially mega risks, leading to high externalization of funds through reinsurance with foreign based reinsurers. The retention was low due to low capitalization of the Zambian Insurance Industry.
- iii. Declining skills in specialized support services such as motor assessing and loss adjusting. This was compounded by the lack of indigenous actuaries.
- iv. The need for updated regulations and guidelines measuring up to international standards set up by bodies such as the International Association of Insurance Supervisors (IAIS).
- v. The need for more awareness among potential and existing consumers of insurance products.
- vi. High management costs which were far in excess of 50% of net written premium income.

### 2.3 Regulatory Framework in Insurance Industry in Zambia

The Pensions and Insurance Authority (PIA) is the regulatory and supervisory body for the pensions and insurance industry in Zambia. The Authority falls under the Ministry of Finance and derives its mandate from the Pension Scheme Regulation Act No 28 of 1996 (amended by Act No. 27 of 2005) and the Insurance Act No. 27 of 1997.

The functions of the Authority vests in the Board which is appointed by the Minister of Finance in accordance with the provisions of Act. The Board comprises 9 members that are nominated from various institutions identified in the Amendment Act. As required under the Pension Scheme Regulation Act the Board appoints the Registrar, who is the Chief Executive Officer of the Authority. The Board also appoints the two Deputy Registrars, the Board Secretary and other members of staff. The Government of Zambia pursues financial inclusion as part of the Financial Sector Development Plan, its blueprint for reforming the financial sector, and the Pension and Insurance Authority (PIA), the insurance supervisor, supports Insurance development. This sends an important signal to the market. Furthermore, the Insurance Act does not set high barriers to entry for prospective players: minimum upfront capital requirements are relatively low and are not perceived as prohibitive by new entrants. Though the institutional form is limited to companies with share capital, there are at present no prospective entrants for whom this is a deterrent. On the insurance intermediation side, regulation imposes no caps on commissions. In addition, the file and use product approval system facilitates innovation. This gives the regulator a set time to review a product, after which it is automatically approved. A few elements of the regulatory framework may hamper insurance development:

- i. **No mention of medical or health insurance in the act:** In practice, health insurance is regulated under long-term insurance, but there is no mention of health in the act. This has created a regulatory grey area in which unlicensed players operate, thereby creating an unlevelled playing field. Though preliminary discussions are underway to

consider the holistic regulation of the health insurance sector in Zambia, interdepartmental communication on the matter has proved challenging. This creates regulatory uncertainty that may undermine investment.

- ii. **Legal ambiguities:** The 2005 amendments to the Insurance Act introduced a number of ambiguities, such as the lack of clarity on the definition of short-term life insurance. According to the letter of the legislation, any life policy of less than two years as well as all funeral policies would by default be classified under general insurance even though they are related to life events and not assets.

In practice, long-term insurance business is interpreted to cover all life policies irrespective of term and, therefore, includes short term life policies and funeral policies. Although the definitions seem to be adequately managed by PIA on a case-by-case basis, the discrepancy may result in confusion and open up space for regulatory arbitrage.

- iii. **Demarcation uncertainties:** The 2005 amendment also introduced strict demarcation between long-term and general insurers. This may introduce artificial distinctions between products that are essentially underwritten on the same basis and where a composite or bundled product would be important to achieve Insurance take-up. For example, funeral insurance and credit life insurance are deemed to fall under the long-term insurance license. Yet they are most often underwritten on a short-term basis. Two insurers were granted an exemption by PIA, which allows them to write life-related (funeral or credit life) short-term policies under their general licenses. This sets an interesting precedent and presents an opportunity for composite insurance underwriting, should Insurance be defined by the regulator as short-term contracts.
- iv. **Risks of ad hoc regulation:** PIA addresses these ambiguities through its supervisory approach and has shown that it is willing to accommodate development and innovation. The authority is pragmatic and generally uses its judgment to manage potential problems introduced by uncertainties or loopholes in the legislation in a way that is favorable to Insurance development. This, however, risks an ad hoc style of regulation. Exemptions are not transparent and may not be available to everyone. For



example, the relaxation of demarcation for short-term life policies has been done on an individual exemption basis and every player must dedicate legal resources to petition PIA rather than simply building on the precedent set or guidance issued. If the loopholes in the legislation are not closed, the risk is that market uncertainties will be created in future at the expense of the broader development of the sector.

- v. **Agent restrictions and implications for Bancassurance:** The insurance legislation holds that each agent may enter into a relationship with only one insurer. Post-demarcation, this implies that an agent may only sell either long-term or general insurance. This has not been an obstacle in practice, as the agency requirement has not been strictly enforced up to now, with the agency provision often sidestepped in favour of “group policyholders”. Indications are, however, that this will become an issue in the future. As no explicit provision is made in the act for bancassurance (insurance distributed by banks), bancassurance relationships are governed under the agency stipulations. The implication is that banks will have to choose between general and long-term insurance intermediation. This has been flagged as a constraint for future development.
- vi. **CEO restrictions:** New entrants must have a local chief executive officer (CEO) with at least 10 years’ insurance experience. Though the act only requires residency in Zambia, PIA has strict local CEO requirements in line with the objectives of the Citizens’ Economic Empowerment Act. This has been highlighted as an obstacle for new entrants.
- vii. **Limited consumer recourse:** The absence of an insurance ombudsman in Zambia is an issue. This means there is no dedicated, independent system for managing consumer complaints. As the Insurance market grows, this will become increasingly important, as the low-income population may be the most vulnerable and the least well informed of their rights.

### 2.3.1 Guidelines on Value Added Tax on Insurance

In exercise of the powers contained in section five of the Pension Scheme Regulation Act the following standards are hereby made:

1. These standards shall be cited as the Insurance (Administration of Value Added Tax) Guidelines, 2012 and shall come into operation on 1st February, 2012.
2. In these standards, unless the context otherwise requires-“cash broker” means an insurance broker whose broking licence is issued with a condition that all premium payments for insurance business arranged by that broker are made in the name of an insurance company underwriting the business concerned.” “service level agreement” means a written agreement between an insurer and an insurance broker providing the rights and obligations of each party in respect of insurance business conducted between the two entities.”
3. These guidelines shall not apply to cash brokers.
4. An insurance company shall not carry out any insurance business with an insurance broker unless the insurance company has a service level agreement with that insurance broker.
5. A service level agreement shall include details setting out:
  - a) The terms on which credit facilities may be extended to a client Placing business through a broker;
  - b) Credit control provisions and other measures to be taken in respect of defaulting clients;
  - c) Insurance premium remittance arrangements between the broker and the insurer;
  - d) The time frame for issuance of tax invoices by insurers following placement of business by brokers.
6. An insurer and insurance broker shall comply with Value Added Tax legislation, including

practice notes, issued by the Zambia Revenue Authority and in particular –

- a) Ensure that all Value Added Tax returns and remittances are made on or before 21st January, 21st April, 21st July or 21st October in respect of the quarter preceding that date.
  - b) A broker shall issue a tax invoice to a client in respect of business placed through that broker and account for the Value Added Tax for all business carried out in each quarter.
  - c) An insurer shall issue a tax invoice to a broker who places business with that insurer as Provided under Clause 5(d).
7. Where, in relation to insurance business any standard issued by the Pensions and Insurance Authority is inconsistent with this standard, the provisions of this standard shall, to the extent of the inconsistency, prevail.

### **2.3.2 Insurance Credit Policy guidelines**

Find hereunder the Insurance Credit Policy Guidelines (Revised) issued to you pursuant to Section 99 of the Insurance Act no. 27 of 1997. These guidelines shall guide all players in the market with respect to premium payments with effect from November 1, 2009.

Guidelines;

1. A contract of insurance shall cease to operate if premium is not paid within 30 days after the
2. Due date of premium, or such period as the contract will stipulate. The due date shall be the commencement of cover or the date stipulated in the contract of insurance.
3. Where the business is placed through a broker, that broker shall remit the received premium to the insurer not later than the 30th day after the period within which the premium fell due.
4. It is warranted that the premium shall be paid within 30 days from inception or renewal

date of the policy. Where a premium instalment plan Agreement has been entered into between insurer and insured, the terms and provisions of that instalment plan shall take precedence. In the event that this warranty is not complied with, the policy will automatically lapse from the date of the stated period. When the policy so lapses, any claim arising during the period of lapsation shall not be admissible even upon revival of policy. The policy may be revived at any time within 30 days from the date of lapsation upon payment of the full premium. The policy shall be reinstated with effect from the date of payment.

5. An insurer who cancels a policy shall do so in writing to the broker or to the client (for direct business) and shall notify the Pensions and Insurance Authority and the Secretariats of the Insurance Association of Zambia and Insurance Brokers Association of Zambia for onward transmission to all their members detailing reasons for cancellation of policy.
6. An insurer who cancels a policy due to non-compliance with premium payment terms as provided herein, will cause to be circulated details of the defaulting policyholder to all insurers, members of the Insurance Brokers Association of Zambia (BAZ) and the Pensions and Insurance Authority.
7. No insurer shall in any circumstances accept or issue a previously cancelled insurance policy unless the outstanding premium has been paid to the insurer who issued the original contract of insurance or a letter of clearance from the previous insurer is presented.
8. Every insurer shall furnish the Registrar of Pensions and Insurance with details of all outstanding premiums not later than 60 days after the end of each quarter, following reconciliations of statements of account between insurers and brokers which shall be done quarterly.
9. Any credit period that is extended to an insured entity shall not exceed months and must be finalized within 21 days of policy inception plus first premium payment. If an insurer delays in confirming the agreement then the first instalment shall be deferred by the equivalent number of days.

10. Where a claim occurs within the period in which premium is to be paid (credit period), the insurer shall pay the claim provided that the full premium in respect of that policy shall be paid immediately. With respect to personal lines only, this premium will either be paid immediately or deducted from client's proceeds in the event of a total loss.
11. All insurance brokers shall maintain two bank accounts, a client account and an operational account. Clients funds shall not in any circumstances be mixed with monies belonging to the broker provided that monies earned by way of interest on sums deposited in such accounts shall accrue to the benefit of the broker. We are certain that these guidelines will add to standards already formulated for the conduct of insurance business.

#### 2.4 Drivers to Insurance Penetration and Growth

- i. **Small but growing market:** The total insurance market is small, with premiums equaling about 1.7% of Gross Domestic Product in 2007. This may reflect the relatively recent liberalization of the market, but could also be the result of the limited push so far by existing players to extend market penetration. The sector is, however, growing rapidly off this low base. General insurance premiums grew by 30% in 2007 and long-term premiums by 50%. Though general insurance still accounts for most premiums, the share of life insurance in total gross premiums is rising: it grew from 22% in 2005 to 29% in 2007.
- ii. **New entrants likely to introduce new dynamics:** There are six long-term and six general insurers operating in Zambia. A few years ago, the first dedicated life insurer (which was not a composite insurer pre-demarcation) entered the market. It was also the first insurer to build a successful distribution model based on tied agents. In addition, the first insurance company to be formed by a credit provider was registered in early 2009 and another foreign insurer plans to enter. This represents significant new entry in a small market. Not only is it spurring the growth of the life market in relation to the traditionally dominant general insurance sector, but it will also introduce and test new distribution channels. Insurance is changing: Interest in the retail market is

growing and there are some promising pilot and pipeline products. This complements the dynamics introduced by new market entrants and strong growth. At the same time, there are some questions about the insurance industry's readiness to make insurance expansion a priority. The 2007 industry financial statements indicate profitability to be generally high, but reinvestment in the business seems to be limited and premiums generated are not adequate for the expenses incurred. The average loss or net-claims ratio is also well below international standards, implying that limited value is paid back to the clients in the form of premiums. Furthermore, the data also points to excessive reinsurance. PIA indicated that these ratios improved in 2008.

- iii. **Limited informal insurance activity:** A distinguishing feature of the Zambian insurance market compared with many other developing markets is that the informal provision of insurance cover by entities not registered as insurers is limited. Though community-based risk pooling by funeral associations or funds exists, the available evidence suggests that their reach is very limited. Self-insurance in the funeral service industry is also limited. In other countries, credit providers that self-insure their credit life risk are often the largest form of informal insurance. Yet Zambian micro lenders tend to either obtain underwriting or to price for the risk in their lending rates without charging an explicit insurance premium. The only area in which insurance is provided informally is the medical aid environment, through health plans not registered as insurance providers with PIA. This links directly to the regulatory loophole with regard to health insurance.
- iv. **Underdeveloped funeral service market:** In some countries, such as South Africa and Colombia, the demand for funeral services and a vibrant funeral service provider industry has fuelled Insurance development. This is not the case in Zambia. The small size of the funeral parlor market provides only limited scope for insurance distribution via service providers. Traditionally, communities or families prefer to bury loved ones themselves. There is also a reluctance to talk about death or to plan for it.
- v. **Scope for funeral insurance:** Despite these limitations and the demand-side reluctance to discuss death, industry players are increasingly emphasizing the scope for

funeral insurance market development. Most low-income market innovation at present is around funeral insurance. The risk of death and the associated funeral expenses remains one of the most material risks facing low-income households, with the potential to plunge them (further) into poverty and erode the capital of their small businesses. The focus group discussions that were part of the research<sup>8</sup> indicated that privately held funerals are expensive – beyond what people can manage to collect by drawing on savings or community support. Note that available data was inadequate to calculate many of the ratios for the long-term industry and that the analysis therefore largely pertains to general insurers. “Micro lenders” are entities that provide credit to individuals for consumption purposes, usually to salaried employees, with the installments being deducted from the borrower’s payroll or by debit order, while “social microfinance institutions (MFIs)” provide productive loans, often following a group lending methodology. Micro lenders and social MFIs must be registered with the Bank of Zambia as microfinance institutions. Rural Net Associates (2009) Insurance in the low-income market in Zambia.

- vi. **Promising Insurance pilots and plans:** It is difficult to ascertain what proportion of the already limited insurance usage in Zambia is specifically by the low-income market, but it is likely to be very low. A number of players are, however, considering or actively planning products that will be targeted at the informal market. The relevant products are: credit life (currently the product with the broadest retail reach), funeral and health insurance. General insurance has not been a priority so far, yet there are a few promising developments, some of them testing the demarcation regime by, for example, combining funeral cover with cover for small business stock.
- vii. **Beyond payroll lending:** The credit channel is the single biggest channel for insurance distribution, but needs to reinvent itself due to market and, potentially, regulatory forces. Indications are that the micro lending market is nearing saturation, with signs of over borrowing. The regulatory risk is illustrated by South Africa, where a review of practices in the credit industry and concerns of overextension of borrowers led to strict regulation of credit practices. More recently, a Consumer Credit Insurance

Inquiry was concluded in the country, showing that unscrupulous practices can lead to a consumer outcry with consequences for the industry. Though the situation in Zambia is not as far advanced, the chance of a regulatory clampdown on credit practices cannot be ruled out. The payroll channel is therefore under pressure. On the one hand this implies a constrained growth opportunity for credit life insurance. On the other hand it indicates an incentive for micro lenders to diversify by also distributing other insurance products to find new sources of revenue.

- viii. **Distribution challenges remain paramount:** Broker-driven group sales dominate the insurance market in Zambia, but agency sales are rising. Alternative channels such as retail distribution are not yet in use, but some interesting pilot plans are in the pipeline. Regardless of the positive market dynamics, insurers do not see the informal market as an “easy target”, as they are concerned about the scope for efficient premium collection. Success not only needs product innovation, but also innovative, alternative distribution models that tailor insurance to the needs of the low-income market. This includes revisiting the practice of charging upfront annual premiums in favour of more frequent, lower premiums that allow some flexibility for those with irregular incomes as well as enhanced efforts at consumer education.
- ix. **Increasing recognition of the role of client aggregators:** Realisation is taking root that even the informal sector has money at hand and can be reached through group distribution. Inroads into the Insurance market can be made if existing networks such as farmers’ or small business industry associations, affinity groups, marketeers associations and taxi and bus drivers associations can be reached. This has particular validity where such a network feeds into a value chain: for example where an agricultural processor has an existing relationship with smallholder farmer suppliers.
- x. **Banks leading the way:** Insurance penetration is still significantly below bank account penetration. Given the aggressive retail expansion strategies of some of the banks, insurers have the prospect of growing their client base alongside that of banks should effective bancassurance partnerships be forged. With a few exceptions, bancassurance is currently limited to credit life insurance. Insurers have expressed some concerns



because the banks essentially own the clients, putting them in a favorable bargaining position compared to insurers. Though insurers have a key offering to the bancassurance market in terms of product development and innovation, some banks argue that insurers have delivered poorly on this so far, with banks having to initiate and develop products for underwriting. Indeed, the topic of bancassurance has emerged as one of the most contentious issues in the insurance industry.

## 2.5 Insurance Market Penetration

Within the broad category of protecting and building the organizations' position, there may be opportunities to gain market share, this is known as market penetration Johnson & Scholes (1997). Much of the activities like competencies which sustain or improve quality or innovation or increasing marketing activity could all be means of achieving market penetration. However, the ease with which an organization can pursue a policy of market penetration will depend on the nature of the market and the organization's resources and core competences and the extent to which these can be developed. Formulation of an appropriate market penetration strategy is a prime concern for any organization. In the expanded sense market penetration strategies aims at meeting competition, securing sales, gaining market share and achieving profits. Market penetration strategy represents the plan by which the firm delivers its value to customers. It also specifies how the firm would go about its value selection, value creation and value communication. Formulation of market penetration strategy consists of two steps namely STP (segmentation, targeting, positioning) and assembling the marketing mix Ramaswamy & Namakumari (2009). The market penetration strategy takes shape when these two steps are completed. Segmentation of the market is the starting point of the whole exercise. The market for any product is stratified based on several characteristics. Segmentation is the process by which you try to understand the heterogeneous market by viewing it from different angles and grasping the commonalities as well as differences contained therein and then dividing the whole market into segments, each homogenous within itself, sharing certain common characteristics. A further market segmentation involves market atomization which is an

approach that breaks down the market to the finest level of detail. It is a strategy, which treats each consumer uniquely Thuo (2008). The process of segmentation throws up several market segments with varying potential. The firm may not be interested in all the segments. Targeting means picking up of the appropriate segments. Positioning the offer comes in ones the firm has already selected the target market and decided on its basic offer. In the execution of market penetration strategy, the marketing mix plays the lead role. Assembling the marketing mix means making the best combination of the 4Ps. It involves decisions relating to each of the market mix elements, product, price, place and promotion and the linkages among them Ramaswamy and Namakumari (2009). The marketing mix forms a wide basis of market penetration strategies adopted by insurance companies because for product, insurance companies concentrate on product design, with unique features coupled with strong brand names and high service standards to penetrate current and untapped markets. Place on the marketing mix includes channels of distribution, types of intermediaries and location of outlets MacDonal and Ian (1998). For insurance practice, place involves channels of distribution like brokers and agents and type of agents whether tied or general. Price generally includes pricing policies, margins, discounts and rebates (as offered by Takaful Insurance), payment and credit terms as where insurance brokers are allowed to hold on premiums for up to 60 days. To sum it all we have promotion where insurance companies are taking up personal selling through tied agents, selling expertise like hard selling of life insurance products, large commissioned and non-commission sales force, advertising through print and electronic media among others. Gronroos (2000) suggests that the traditional marketing mix or the 4Ps approach used in the market penetration of goods is insufficient to market and manage services effectively because of services distinctive features. Market penetration strategy for services which includes insurance should be extended by three more Ps namely people, process, and physical ambience. People includes all human actors who play a part in service delivery and thus influence buyer perceptions. They include the firm's employees as their behavior, attitude, and expertise level, affect the firms competitiveness. Process involves actual procedures, mechanisms and flow of activities by which service is delivered while physical evidence or ambience refers to the environment

in which the service is delivered. There has been an emerging paradigm shift in market penetration strategies. Co-operative and synergy partnerships, not competitive actions characterize current buyer- seller relationships better than the traditional transactional exchange process does (Ganesan 1994, Hunter and William 2007).

## 2.6 Insurance Distribution Channels

The insurance industry has changed rapidly in the changing and challenging economic environment throughout the world. Time has come to choose and adopt appropriate market penetration channels through which insurance companies can get the maximum benefit and serve customers in manifold ways (Manocha, 2009). The intermediaries in the insurance business and the distribution channels used will perhaps be the strongest drivers of growth in this sector. Insurance industry in Zambia for fairly a longer period has relied heavily on traditional insurance brokers as distribution network for insurance products when penetrating current and new markets. With these in place, the penetration level of insurance services still remains low with general insurance standing at 0.6%, while that of life is 0.3%. As the insurance sector is poised for a rapid growth, in terms of business as well as number of new entrants, tough competition has become inevitable. Insurance companies are speeding up the search for new distribution channels to cover a bigger market. Therefore, the zeal for discovering new channels of distribution such as bancassurance and the aggressive marketing strategies has become necessary (Karunagaran, 2006). Insurance sales agents often referred to as representatives help individuals, families, and businesses select insurance policies that provide the best protection for their lives, health, and property. As per the law of agency insurance sales agents should work exclusively for one insurance company and are referred to as captive agents. Independent insurance agents represent several companies and place insurance policies for their clients with the company that offers the best rate and coverage. In either case, agents prepare reports, maintain records, seek out new clients, and, in the event of a loss, help policyholders settle insurance claims. Increasingly, some may also offer their clients financial analysis or advice on ways they can minimize risk. Many firms prefer to

distribute direct to the final customer or consumer. One reason is that they want complete control over market penetration. They may think that they can serve target customers at a lower cost or do the work more effectively than middlemen. Further, working with independent middlemen with different objectives can be troublesome William & Jerome (1996). If a firm is in direct contact with its customers it is more aware of changes in customer attitudes hence it is in a better position to adjust its marketing mix quickly because there is no need to convince other channel members to help. Strategic alliances offer an opportunity for companies to collaborate in doing business thereby overcoming individual disadvantages Somers (2005). The strategic joint effort of banks and insurers to provide insurance services to bank's customers is an emerging concept that is growing globally. This concept is referred to as bancassurance. The number of Zambians with insurance is dismal and the industry has barely scratched the surface in terms of potential earnings.

## **2.7 The Challenges of Insurance Distribution**

Zambia's financial services sector comprises a number of players with the most dominant being the banking and insurance industries. The insurance industry in Zambia is governed by the Insurance Act and regulated by the Pensions and Insurance Authority. With the increasing globalization and competition, many organizations are confronted with the problems of designing appropriate competitive strategies (Tomkins, 2001). Regulation has been one of the major impediments to the growth of insurance across the globe. Countries such as the USA and Japan, while being global banking superpowers, have only recently begun allowing banks to expand into the field of bancassurance following regulatory changes that removed constraints to possible expansion across industries. This is by no means limited to these two countries, but is a common occurrence in other areas of the world (Agrawal, 2002). In Zambia PIA still maintains full control and regulation of the industry and in specific on who can distribute insurance products on commission basis. Among the other challenge in insurance distribution is the lack of trust and poor reputation of the industry. These problems become more compounded under intermediary business

especially in Zambia. Particularly, the levels of commitment and inter-personal trust between the industry and local and/or international clientele have been singled out as contributing to the failure of increasing insurance penetration in Zambia. Mis-selling is a major challenge in the insurance industry. When alliance partners do not engage in learning races, their collaborative activity may face severe barriers, as the process of integrating knowledge across organizational boundaries is fraught with inherent complexity (Anand and Khanna, 2000). Knowledge transfer may be obstructed by substantial differences in terms of knowledge bases, corporate cultures, and organizational structures. Insurance brokers and agents play a major role in distributing insurance products, however evidence of mis-selling has resulted in agents and in particular life insurance agents promising clients what an insurer may not be able to deliver. When corporate strategies change as a result of a changing business environment, the assumptions upon which the business relationship was originally based also change. What was once a strategic investment may no longer remain strategic without modification to the terms of the contract. In the most extreme cases, the trust built between the two companies enables the adaptability to accommodate changes in the market or other conditions that impact one of the partners.

## 2.7 Summary

This chapter presented the theoretical basis of the study by reviewing what has already been done in the area of study. It highlights the importance of insurance in an economy, provides an overview of the global and Zambian Insurance markets together with the regulatory framework. The following chapter is the theoretical and conceptual framework which will provide the interrelationship between the concepts of the study.

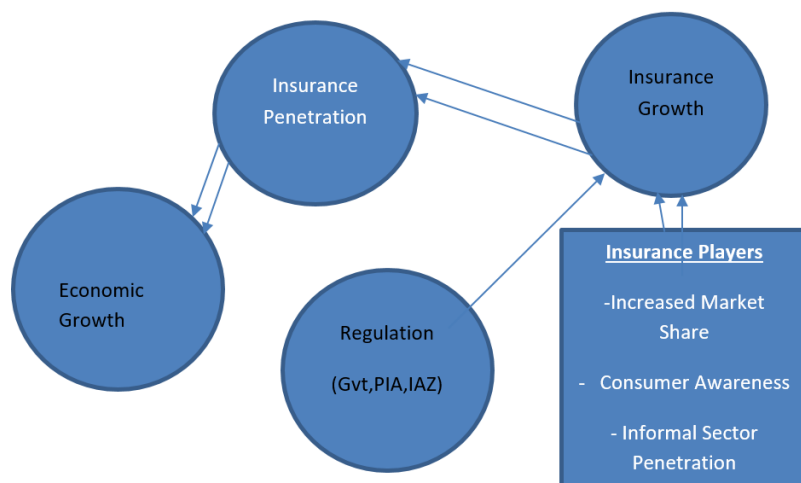
## CHAPTER THREE

### THEORETICAL AND CONCEPTUAL FRAMEWORK

#### 3.0 Introduction

This chapter provides the interrelationships and linkages between the concepts/constructs of the study. The conceptual framework served as a guide when collecting data and helped identify various factors affecting Insurance Penetration and growth. This chapter will highlight the main areas of study by addressing the research questions which have been highlighted in Chapter 1.

#### 3.1 Conceptual and Theoretical Framework



The study is based on issues surrounding insurance penetration and growth in the Zambian Insurance Industry context. In approaching this topic, the author found a range of literature on Insurance penetration, growth, Market Trends and Analysis and Regulatory Framework. Cowell (1989) says that, in the recent years there have appeared a variety of conceptual approaches aimed at defining the market penetration strategies for services. These approaches are applicable to the insurance Services. There are at least three perspectives (Eigler and Langeard, Gronroos and Shostack) that provide the basic understanding of market penetration strategies applicable to the insurance services. This framework has been put forward to help provide an understanding of the services concept. Eigler and Langeard (1977) suggest that the

fundamental characteristics of services are; intangibility where services are essentially intangible. It is often not possible to taste, feel, see, hear or smell services before they are purchased. Opinions and attitudes may be sought before hand and a repeat purchase may rely upon previous experience. Wilson (1972) suggests that the concept of tangibility may be divided further although somewhat arbitrarily, into services providing pure intangibles (e.g. security service), services providing added value to a tangible (e.g. insurance) and services that make available a tangible (e.g. retailing). Direct organization client relationships indicate that services cannot be separated from the person of the seller.

Consumer participation in the production process involves the innovation of products which depends on the consumers' behavior change Wilson (1972). Gronroos (1980) suggests that there are three fundamental characteristics of services which include intangibility. A service is an activity rather than a thing and production and consumption are to some extent simultaneous activities. He argues that this basic characteristics of services make the customer relations of service firms fundamentally different from those of consumer goods companies and that the service organization has two marketing functions, the "traditional marketing function" and "the interactive marketing function". The latter is concerned with what happens in the interface between production and consumption. Shostack too stresses the importance of intangibility as a fundamental characteristic of services. She argues that to extend marketing's conceptual boundaries, a framework is required which accommodates intangibility rather than denying it. A conventional framework used in market penetration is that an organizations " offering to the market place can consist of goods, services or a combination of both. Four broad categories on offer have been distinguished and they may be seen as lying along a continuum. These four categories are pure tangible goods like salt; tangible goods with accompanying services like motor car; a service with accompanying goods and services like passenger air transport; and pure service like massage. Johnson & Scholes (1997) says that most organizations have developed in ways which have resulted in limited coverage of the market by their products. Careful thought needs to be given to the way in which an organization positions its products in the markets which inevitably means selectivity of market coverage. However if the organization's aspirations outstrip the opportunities in

existing markets, it is natural to look for opportunities to exploit the current products in other markets. The common ways of doing this include extension into market segments which are not currently served; development of new users for existing products and geographical spread either nationally or internationally into new markets.



## CHAPTER FOUR

### RESEARCH METHODOLOGY

#### 4.0 Introduction

This chapter dealt with the methodology used in the study. It involved the methods the Researcher used to collect the data for the study. These include research design, data Collection and analysis procedures with the results from the study.

#### 4.1 Research Design

A number of issues such as data sources, research instruments, sample design, and sample size were put under consideration when designing the research. The research design was a case study, according to Cooper and Schindler (2006), cost considerations influence decisions about size and type of sample and the data collection methods. Further, case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. The merit of using a case study is that it allows an in-depth understanding of the behavior pattern of the concerned unit. Additionally a case study allows a researcher to use one or more of the several research methods depending on the circumstances. The use of a case study for this research enabled the understanding of the phenomenon in enhancing insurance market penetration. The reason for this choice was based on the knowledge that case studies are the most appropriate for examining the processes by which events unfold, as well as exploring causal relationships and also they provide a holistic understanding of the phenomena. The objective of the study was to determine the cause of low insurance penetration in the study area as well as sampled insurance players. The study adopted a case study research design and an interview guide was used to collect the data.

#### 4.2 Research Population

The research population for the purpose of this study was the insurance companies in Zambia, regulators and residents of Lusaka Province. The rationale for selecting this population was due to time and cost constraints, besides most if not all insurance companies are based in Lusaka.

#### **4.2.1 Sampling Design and Sample Size**

Cooper and Schindler (2006) explain that the basic idea of sampling is that by selecting some elements in a population, we may draw conclusions about the entire population. Therefore the following Insurance Industry Players were chosen being 5 Insurance Companies and the 2 regulators;

##### **Insurance Companies**

- Professional Life Assurance (z) Limited
- Professional Insurance Corporation (z) Limited
- African Life Assurance Company (z) Limited
- NICO Insurance (z) Limited
- Zambia State Insurance Corporation (z) Limited

##### **Regulators**

- Pensions and Insurance Authority (PIA)
- Insurance Association of Zambia (IAZ)

Insurance clients to whom questionnaires were administered were chosen randomly without prior arrangements. However, individuals from companies were identified as those in charge of the core insurance business.

#### **4.2.2 Data Collection**

Both primary and secondary data were obtained in order to meet the objectives of the research.

##### **4.2.2.1 Primary Data**

Questionnaire were administered to obtain data related to the following;

- Affordability of insurance services
- Distribution channels
- Accessibility of Insurance services
- Perception and cultural issues.

The questionnaires made use of the Linkert-Scale, closed questions which required yes or no answers, as well as open questions in order to get summaries of the respondents' views. For the corporate entities interviews were used to collect data.

#### **4.2.2.2 Secondary Data**

Desk and internet research was used to familiarize the researcher with previous studies. Secondary data was collected from both published and unpublished data sources. Data was gathered from the internet, magazines, books, journals and reports.

### **4.3 Data Analysis**

The data collected was analysed in relation to the research objectives. The data collected was analysed using the Statistical Package for Social Scientists (SPSS) and Microsoft excel.

Transcribed responses were summarized to give the general response on the particular research objectives under discussion. Where appropriate, data was presented in graphs to aid understanding.

### **4.4 Summary**

This chapter outlined the methodology that was used to provide answers to the research questions in line with the research objectives. It stated the target population and how the sampling was done. It outlined the methods that were used to gather information. The following chapter presents the data analysis and research findings.

## CHAPTER FIVE

### DATA ANALYSIS AND RESEARCH FINDINGS

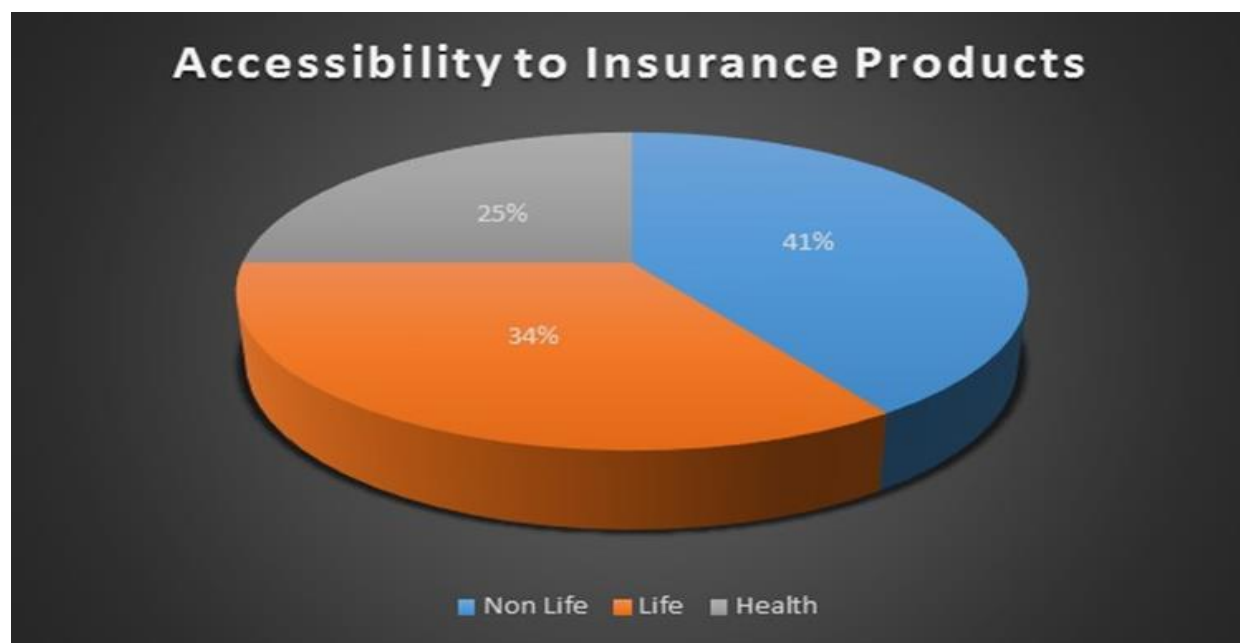
#### 5.0 Introduction

This chapter describes how data collected was analyzed. Graphical tools such as graphs and tables have been used to aid data presentation where possible. This chapter also presents the interpretation of the research findings from the data analysis.

#### 5.1 Access to Insurance Products and Services

Accessibility to Insurance Services by the general public is one of the factors that determine Insurance penetration and growth. Therefore, a series of questions were asked to ascertain the availability of Insurance Services by Insurance segments and products i.e. Non-Life Insurance, Life and Micro Insurance Services. The figure below indicates that 41% of the randomly

**Figure 5.0:** *Accessibility to Insurance Products*

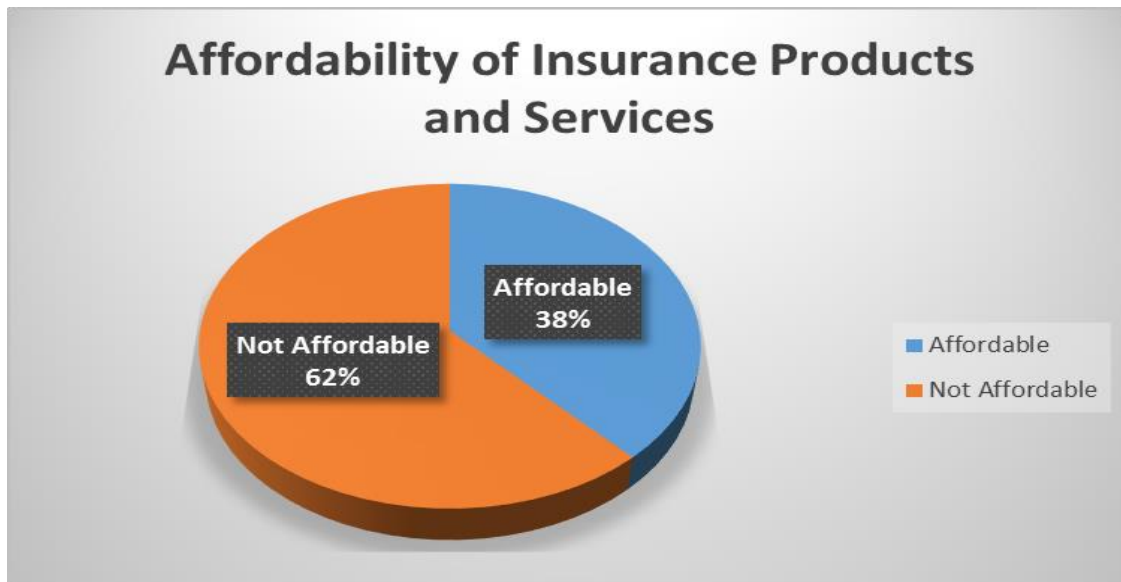


selected respondents had accessed non-life insurance products while 34% had accessed life insurance products and 25% had access to health insurance.

## 5.2 Affordability of Insurance Products and Services

Affordability of Insurance Services is another factor that affects Penetration and Growth of Insurance Industry. Respondents in the research area were asked questions related to whether insurance services were actually affordable in terms premiums. From the sampled data 62% indicated that the premiums were high hence they could not afford while 38% indicated that the premiums were affordable.

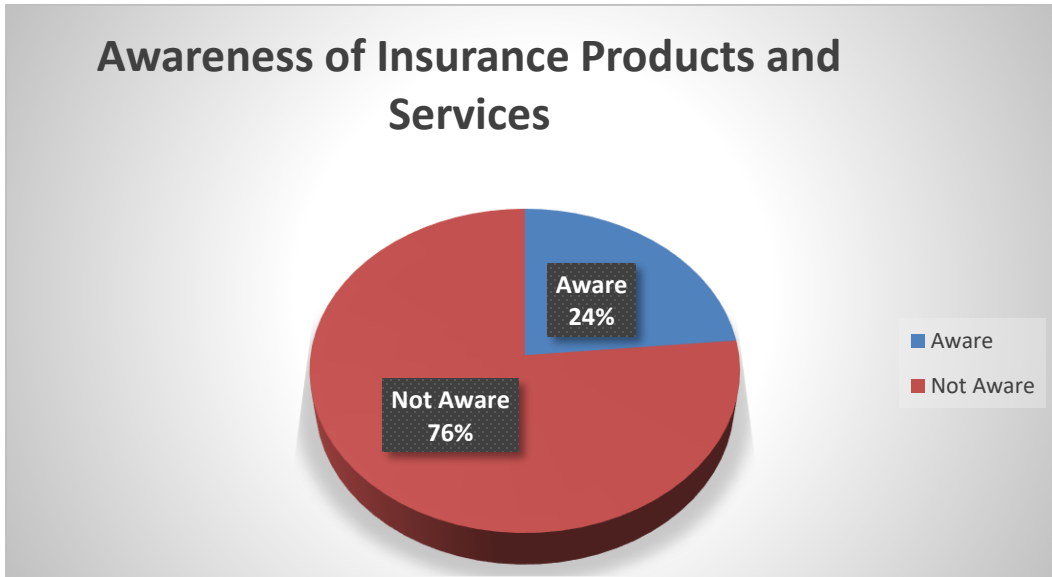
**Figure 5.1:** Affordability of Insurance Products



### 5.3 Awareness of Insurance Products and Services

Awareness involves deliberate actions by insurance industry players to educate the public about the necessity of taking out insurance and its benefits.

*Figure 5.2: Awareness of Products*



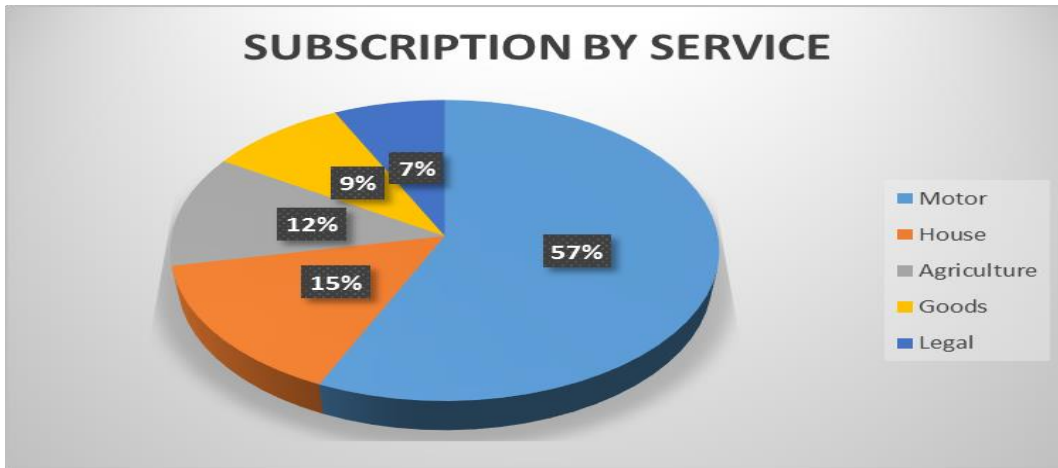
### 5.4 Insurance Subscription by Products

#### 5.4.1 Non-Life Insurance

Non-Life Insurance was divided into the following components and the respondents were asked to indicate which component they have subscribed for;

- Motor Vehicle Insurance
- House Insurance
- Agriculture Insurance
- Household Goods Insurance
- Legal Insurance

**Figure 5.3: Subscription by Service**

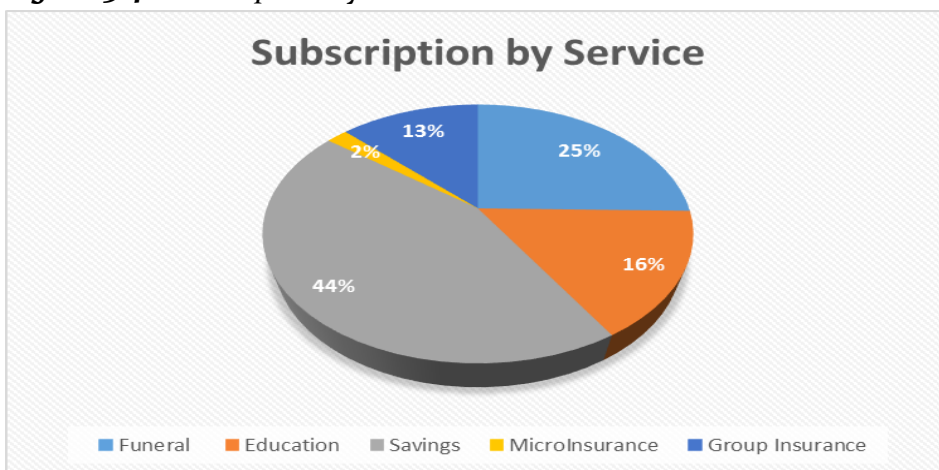


**5.4.2 Life Insurance**

Life Insurance was divided into the following components and the respondents were asked to indicate which component they have subscribed for;

- Funeral Insurance
- Education Insurance
- Savings
- Micro Insurance
- Group Life Insurance

**Figure 5.4: Subscription by Service**



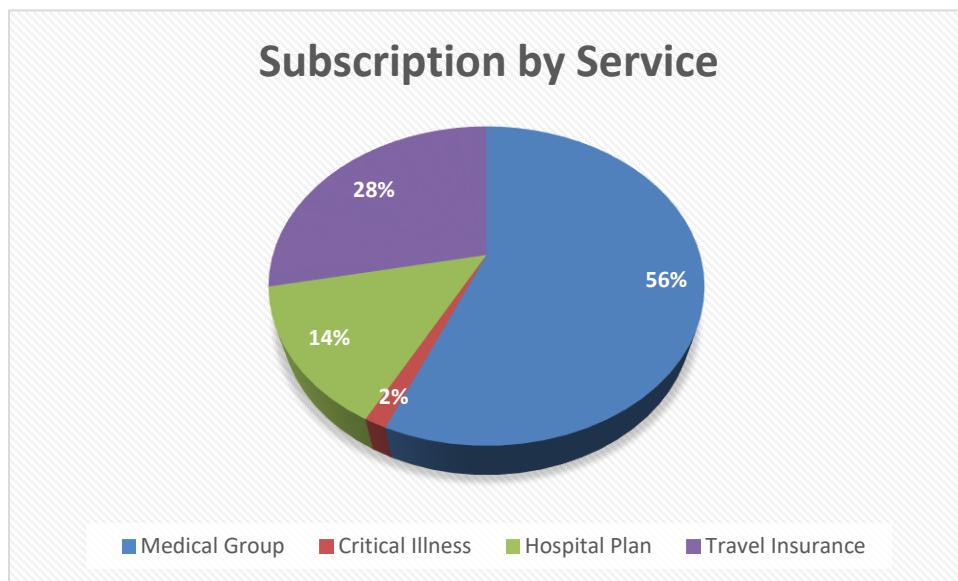
### 5.4.3 Health Insurance

Health Insurance was divided into the following components and the respondents were asked to indicate which component they have subscribed for;

- Medical Group Insurance
- Critical Illness
- Hospital Plan
- Travel Insurance

As can be seen by the graph below, medical group insurance has continued to dominate the market.

*Figure 5.5: Subscription by Service*

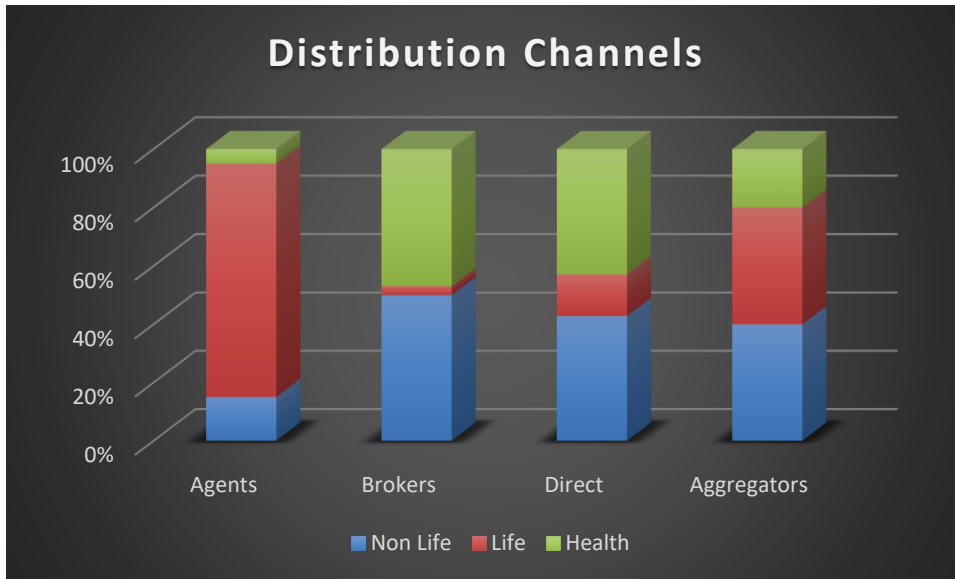




### 5.5 Channel Distribution

These are means/methods that are used to distribute Insurance Products by Insurance companies. Distribution Channels have huge impact on the insurance penetration and growth. Most Insurance Companies still use traditional methods of distributing insurance products.

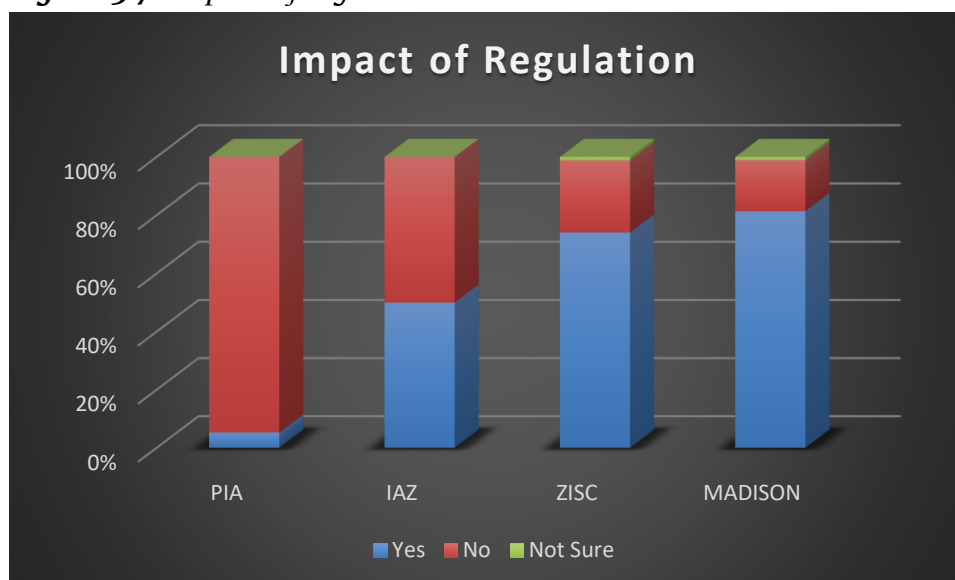
**Figure 5.6: Distribution Channels**



## 5.6 Impact of Regulation on Insurance Business

Specific questions were asked to key Insurance companies and regulators to ascertain whether the regulation has negatively affected the Penetration and Growth of Insurance Industry in the research area. Most Insurance companies felt that regulation has contributed to low ratio of insurance penetration, while the regulators believe that the regulation has enhanced insurance growth.

**Figure 5.7: Impact of regulation**



## 5.7 Clients Views

The following are the views obtained from the clients in the Insurance Industry

- a) “ The insurance companies should ensure that, the services they offer benefit the low-middle income groups” -Donald Mwamba.
- b) “ Informal Sector is the largest employer and has potential for insurance to blossom” -Smart Changwe.
- c) “More public awareness on insurance products”-Luke Kasanda
- d) “Making the products cheaper and widely accessible and paying claims promptly ” -Malikachana Zulu
- e) “Consider giving personal health insurance services” – Stanley Zulu

- f) “ Insurance can be improved by having a variety of services-Ackim Phiri
- g) “ Teach basic insurance to primary schools so that they appreciate it while they are young”- Yvonne Maambo
- h) “Automate Insurance processes to reduce the turnaround time for conducting business” –Paul Phiri

## CHAPTER SIX

### CONCLUSION AND RECOMMENDATION

#### 6.0 Introduction

This chapter deals with the overall conclusion of the study as a whole. It concludes the research and highlights all ideas from the findings. This research focused on Insurance penetration and growth in the research area. Four objectives were set for the research and information was gathered through literature review, surveys and questionnaires. The conclusions to the set objectives were presented by answering the four research questions.

#### 6.1 Summary of Main Findings

The main findings of the survey have been summarized as follows;

##### 6.1.1 Overview of Insurance factors relating to penetration and growth

According to this research, the Penetration of Insurance in Zambia is still low despite the Industry recording growth in the recent years. The following factors have been cited to have contributed to low penetration.

##### a) Accessibility of Insurance Services

The accessibility of Insurance services and products has remained limited to urban centers leaving the rural and semi-urban areas unreached. The Industry Players should do more to ensure that the large population in rural areas have access to insurance services. Health Insurance has been the lowest in terms of accessibility followed by Life and Non-Life Insurance Products.

##### b) Affordability of Insurance Services

The research established that the majority of the respondents about 62% were not able to afford the insurance premium due to low levels of income.

##### c) Insurance Awareness

Insurance literacy in the research area indicated that it was low, most respondents did not know what insurance is about and how it would benefit their lives.

#### d) Insurance Products Subscription

Motor Insurance, Savings and Group Medical Insurance have got the highest number of subscribed clients. However, health Insurance and micro insurance remain unreached to the majority of the population. The respondents cited lack of individual health insurance while the insurance industries indicated difficulties in packaging health insurance products to suit individuals in terms of affordability while making profits at the same time.

#### 6.1.2 Insurance Industry Regulatory Framework

A few elements of the regulatory framework were indicated to have hampered Insurance Penetration and Growth:

- **Capital Requirement:** The pending increase in the capital requirements for all licensed entities in the insurance sector is expected to be announced soon. This regulation will have both negative and positive impact on the Insurance Industry. Some Insurance companies might have to wind up while others might flourish.
- **No mention of medical or health insurance in the act:** In practice, health insurance is regulated under long-term insurance, but there is no mention of health in the act. This has created a regulatory grey area in which unlicensed players operate, thereby creating an un-even playing field. Though preliminary discussions are underway to consider the holistic regulation of the health insurance sector in Zambia, interdepartmental communication on the matter has proved challenging. This creates regulatory uncertainty that may undermine investment.
- **Legal ambiguities:** The 2005 amendments to the Insurance Act introduced a number of ambiguities, such as the lack of clarity on the

definition of short-term life insurance. According to the letter of the legislation, any life policy of less than two years as well as all funeral policies would by default be classified under general insurance even though they are related to life events and not assets. In practice, long-term insurance business is interpreted to cover all life policies irrespective of term and, therefore, includes shorter term life policies and funeral policies. Although the definitions seem to be adequately managed by PIA on a case-by-case basis, the discrepancy may result in confusion and open up space for regulatory arbitrage.

- **Demarcation uncertainties:** The 2005 amendment also introduced strict demarcation between long-term and general insurers. This may introduce artificial distinctions between products that are essentially underwritten on the same basis and where a composite or bundled product would be important to achieve insurance take-up. For example, funeral insurance and credit life insurance are deemed to fall under the long-term insurance license. Yet they are most often underwritten on a short-term basis. Two insurers were granted an exemption by PIA, which allows them to write life-related (funeral or credit life) short-term policies under their general licenses. This sets an interesting precedent and resents an opportunity for composite insurance underwriting, should Insurance be defined by the regulator as short-term contracts.
- **Risks of ad hoc regulation:** PIA addresses these ambiguities through its supervisory approach and has shown that it is willing to accommodate development and innovation. The authority is pragmatic and generally uses its judgment to manage potential problems introduced by uncertainties or loopholes in the legislation in a way that is favorable to Insurance development. This, however,

risks an ad hoc style of regulation. Exemptions are not transparent and may not be available to everyone. For example, the relaxation of demarcation for short-term life policies has been done on an individual exemption basis and every player must dedicate legal resources to petition PIA rather than simply building on the precedent set or guidance issued. If the loopholes in the legislation are not closed, the risk is that market uncertainties will be created in future at the expense of the broader development of the sector.

- **Agent restrictions and implications for bancassurance:** The insurance legislation holds that each agent may enter into a relationship with only one insurer. Post-demarcation, this implies that an agent may only sell either long-term or general insurance. This has not been an obstacle in practice, as the agency requirement has not been strictly enforced up to now, with the agency provision often sidestepped in favor of “group policyholders”. Indications are, however, that this will become an issue in the future. As no explicit provision is made in the act for bancassurance (insurance distributed by banks), bancassurance relationships are governed under the agency stipulations. The implication is that banks will have to choose between general and long-term insurance intermediation. This has been flagged as a constraint for future development.
- **CEO restrictions:** New entrants must have a local chief executive officer (CEO) with at least 10 years’ insurance experience. Though the act only requires residency in Zambia, PIA has strict local CEO requirements in line with the objectives of the Citizens’ Economic Empowerment Act. This has been highlighted as an obstacle for new entrants.

- **Limited consumer recourse:** The absence of an insurance ombudsman in Zambia is an issue. This means there is no dedicated, independent system for managing consumer complaints. As the Insurance market grows, this will become increasingly important, as the low-income population may be the most vulnerable and the least well informed of their rights.

### 6.1.3 Insurance Distribution Channels

The main distribution channels in insurance are the traditional individual agency channel, corporate agency (banks and others), broking channel and direct selling (which includes online selling). The researcher unearthed the following factors inhibiting insurance penetration and growth;

- **Mis selling;** this to some extent has dented the image of insurance companies and created apathy among the prospective clients.
- **Short Term Engagements;** Most agents work for a short time and later move one, the insurance companies keep on recruiting and training agents all the time.

## 6.2 Conclusion

Most African countries lag behind unlike the rest of the world in terms of insurance and Zambia is not an exception. Apart from South Africa, Namibia, and Mauritius, all countries have very low Insurance penetration ratios. This implies that there is substantial scope for future development, which in turn offers profitable opportunities for insurers that are willing to take on a relatively high level of risk. Insurance Companies need to be innovative and aggressive as their success will depend on their ability to devise new ways to approach Insurance in Zambia where most people are still very poor and not yet convinced of the benefits of insurance. In addition pursuing modern distribution channels such as banc assurance would help a great deal in accelerating Insurance Penetration ratio. The Insurance companies should cast their net wide to tap into the informal sector as there is potential for growth. Kenya's example shows that this can be done: the country is one of the poorest in the world, yet insurance



penetration has already reached 3.2%, which is amongst the highest in Africa. According to the researcher, generally there have been improvements in business environments, and governments have become more welcoming to foreign investors. This can be of vital importance in a highly specialized industry such as insurance, where the skills brought into the domestic market by these foreign companies (often in combination with partners with local knowledge) can provide the impetus for the industry's development. The main reason for optimism is that GDP per capita has been growing in Zambia and there is a direct link between GDP per capita and insurance penetration. At low levels of GDP per capita, the majority of people in a country are just fulfilling their day-to-day needs. However, as a country's GDP per capita rises, more people can afford insurance. Not only does this lead to a gradual increase in insurance penetration, but it also provides insurance companies greater incentive to enter the market, leading to greater competition and therefore to even greater access to insurance. The non-life insurance segment is expected to continue dominating the industry for years to come, but once incomes have risen enough, life insurance will also gain more traction in Zambia. Provided that improvements in political and economic stability continue, the industry is likely to perform well in the long run.

### 6.3 Recommendations

The research recommends that indeed the insurance industry is indeed a growing industry as far as acceptance is concerned. It is therefore important for insurance players to consider adopting the effective strategies in order to be able to enhance market penetration. The internal organizational capabilities vary from organization to organization, this therefore means that each organization has an opportunity to acquire more clients and thereby enhance market penetration. The study therefore recommends that general insurance companies should maximize on their internal capabilities in order to enhance market penetration. The external factors that contribute to market penetration indeed play a vital role in the success of any insurance companies. The study therefore recommends that the government regulations as well as other external factors should be aligned in a way that ensures that there is room for

companies to explore means of enhancing market penetration. Finally few measure below would help enhance Insurance penetration.

- Insurance players should intensify awareness campaigns to reduce the levels of illiteracy on insurance products and services.
- The potential for insurance growth and penetration exist in the unreached semi urban and rural areas.
- The Insurance companies should tap into the informal sector with Micron Insurance products.
- The regulatory framework should be revised and ensure that it is predictable.
- The Insurance companies should invest more in alternative distribution as a modern methods of distributing insurance products.

#### **6.4 Limitation of the Study**

The study findings accuracy was limited to the extent to which the respondents were honest in responding to questions. Given the sensitive nature of data collected, there may have been likelihood of answering questions in a certain way so as to avoid giving away crucial and confidential strategic information. This was despite the assurance that the study information would be used in a confidential manner. In addition, the findings may not be generalized to other sectors because the structure of other sectors is different from the insurance industries in terms of regulations and structure.

#### **6.5 Suggestions for Further Studies**

The researcher recommends that a replicate study be done on other financial institutions in the financial services sector so as to find out how other institutions like the banking industry is performing under the current financial regulations, the efforts being made by the banking sector to reach the unbanked communities. The researcher further recommends that a similar study be done on other institutions for the purposes of benchmarking.

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## APPENDICES

### APPENDIX I: INTRODUCTION LETTER

Information Communication University,  
Secretariat Box 30226  
Cairo Road, Lusaka, Zambia

October 2014

Dear Respondents,

I am a student in the school of Business at Information Communication University working on as study “Insurance Penetration and Growth, A Case of Lusaka Province”

You have been selected to participate in the study. I would be grateful if you would take some time and plan for a meeting to enable me interview you at your convenience. The information you give will be beneficial to assist giving innovative knowledge of the situation of insurance penetration and growth. The information you provide will be considered confidential and you response will not be exposed since the research is for purely academic purposes.

Thank you for your time.

Sincerely, Ornam Mulenga.

### APPENDIX II: SAMPLE QUESTIONNAIRE-CLIENTS.

#### A. GEOGRAPHIC CHARACTERISTICS

1. Residential Address
2. District: .....
3. Province: .....
6. Telephone No. (Mobile) of the Respondent: .....
7. Email Address of the respondent: .....

**B. ACCESS TO GENERAL INSURANCE SERVICES (Tick)**

1. Do you have any General Insurance Cover? No  Yes   
 2. If **YES** to question 1.

Indicate the name of the Insurance company .....

Indicate the type of insurance cover by ticking below;

- Motor Vehicle Insurance
- House Insurance
- Household Goods Insurance
- Agriculture Insurance
- Legal Insurance
- Others Please Specify.....

3. If **NO** to question 1. Indicate the reasons (tick)

- Cannot afford to pay for Insurance Services
- I have never heard of any insurance products
- I never been approached by any insurance company/representative
- Others Please Specify.....

**C. ACCESS TO LIFE ASSURANCE SERVICES (Tick)**

4. Do you have any Life Insurance Cover? No  Yes   
 5. If **YES** to question 1.

Indicate the name of the Insurance company .....

Indicate the type of insurance cover by ticking below;

- Funeral Insurance
- Education Insurance
- Savings

- Micro insurance
- Group Insurance
- Others Please Specify.....

6. If **NO** to question 1. Indicate the reasons (tick)

- Cannot afford to pay for Life Insurance Services
- I have never heard of any Life Insurance products
- I never been approached by any insurance company/representative
- Others Please Specify.....

**D. ACCESS TO HEALTH TRAVEL INSURANCE SERVICES (Tick)**

7. Do you have any Health Insurance Cover? No  Yes

8. If **YES** to question 1.

Indicate the name of the Insurance company .....

Indicate the type of insurance cover by ticking below;

- Medical Group Policy
- Critical Illness
- Hospital Plan
- Travel Insurance
- Others Please Specify.....

9. If **NO** to question 1. Indicate the reasons (tick)

- Cannot afford to pay for Life Insurance Services
- I have never heard of any Life Insurance products
- I never been approached by any insurance company/representative
- Others Please Specify.....

10. Do you need/require any of the above insurance services?

Yes     No

**E. SUGGESTIONS ON HOW INSURANCE SERVICES CAN BE IMPROVED**

- 1).....
- 2).....
- 3).....

Name of respondent: .....

Signature: .....

Date: .....

Name of Interviewer: .....

Signature: .....

Date: .....

**APPENDIX III: SAMPLE INTERVIEW QUESTIONS-INSURANCE COMPANIES/REGULATORS.**

- 1.0 Name of respondent
- 2.0 Name of the Insurance Company him/her working for?
- 3.0 What Position does the respond have?
- 4.0 For how long has the respond worked for the particular Insurance Company/Insurance Regulator?
- 5.0 Do you have any knowledge of Insurance regulation in Zambia?
- 6.0 What is the impact of Insurance regulation on Insurance growth and Penetration?
- 7.0 What are some of the challenges being faced by the Insurance Companies in terms of growth?
- 8.0 How can insurance growth and penetration be accelerated?

