MADISON GENERAL INSURANCE COMPANY (Z) LIMITED (MGen) – EXPORTING INSURANCE SERVICES TO TANZANIA: EXPERIENCE AND CHALLENGES

INTRODUCTION

Zambia is a landlocked country in Southern Africa. The neighboring countries are Congo (DR) to the north, Tanzania to the north east, Malawi to the east, Mozambique, Botswana and Namibia to the south and Angola to the west. Current population is estimated to be 14,309 million.

Zambia is a member of International organizations which include the United Nations, International Monetary Fund, World Bank and World Trade Organization. Zambia also belongs to the African Union, Southern Africa Development Community (SADC) and Common Market for East and Southern Africa (COMESA).

The government is pursuing an economic diversification program to reduce the economy’s reliance on the copper industry. The country’s focus is to promote broad – based economic growth, create employment and develop its human capital.

Madison Insurance Company Limited commenced operations on 1 April 1992 as the first private sector composite insurance company to enter the market following the liberalization of the insurance industry in 1989. The insurance market was nationalised in 1971.

Following an amendment to the Insurance Act that was effected in January 2005, composite insurance companies were required to separate in specialized companies leading to the formation of Madison General Insurance Company Ltd and Madison Life Insurance Company Ltd. Madison General Insurance Company Zambia Limited (MGen) underwrites all classes of short term or general insurance business.
MGen is a subsidiary of Madison Financial Services Company Limited which itself is owned by Lawrence Sikutwa and Associates Limited (LSA) - 80.5% and the International Finance Corporation (IFC) - 19.5%.

The Gross written premium income for the year ended 31 December 2013 was ZMW234,977 million (USD42,722 million) representing a market share of 22%. There are currently 15 players in the general insurance market.

**REGIONAL EXPANSION**

In June 2006 and in line with the regional expansion programme which was part of our strategic plan a decision was made to set up a subsidiary company of MGen in Tanzania to write all classes of general insurance business. The reason being that the local market was getting saturated with players defending their business and we had to look beyond the borders for growth.

The Tanzanian economy had consistently shown high economic growth in East, Central and Sub-Saharan Africa and therefore presented an economy worth investing in. With GDP growth averaging around 5.6% - 6.8% between 2002 and 2005 and with a population of over 36 million people there was potential for increased demand for products and services including insurance.

The insurance market average growth rate was 24% from 2001 and was expected to grow within the range 23% - 25% up to 2011.

The company started off with a capital outlay of US$900,000 which was eventually increased to US$1 million by 2007.

The positive recommendations that were given by the Pensions and Insurance Authority in Zambia and the Ambassador Zambian High Commissioner based in Tanzania to the Commissioner of Insurance - Insurance Supervisory Department greatly assisted MGen to be
issued with an insurance license to operate a general insurance company in Tanzania under the name MGen Tanzania Insurance Company Limited (MGen TZ).

EXPERIENCE AND CHALLENGES

At the time of registration we encountered a challenge that was posed by the regulatory requirement for us to have a certain amount of Cash in the Bank before we could obtain a business license. We were, therefore unable to open an account before the license was issued. This affected our ability to meet the minimum deposit in treasury bills required by law.

We eventually managed to get assistance from Stanbic Bank Zambia Limited, the primary bankers for MGen Zambia to facilitate the opening of an account with their counter-parts in Tanzania.

There were a lot of administrative costs that we encountered prior to registration which pushed up our operating expenses substantially.

According to the Tanzania Investment Act of 1997, section 24(i) "Every business enterprise granted a certificate of incentives under this act, shall be entitled to an initial automatic immigrant quota of up to five persons during the start-up period. These requirements could apply to all foreign investors". No time limit is mentioned but there is now a drive by the Insurance Regulator to localize positions including that of CEO.

There is a serious skills gap in the market ranging from underwriting skills to selling skills which have made it difficult for us to achieve some of our planned activities. Specialized training programmes with the support of our reinsurers have been arranged in an effort to create capacity building in the company. A staff exchange programme between MGen and MGen TZ shall be enhanced to aid the exchange of ideas as well as synchronize the company cultures.
The lack of full implementation of regulations on the externalization of risks abroad has impacted on growth. We were of the understanding that we would greatly benefit from coinsurance business in the market but due to flaws in regulatory enforcement and monitoring of externalized risks, the amount of business from this option is relatively small.

We found ourselves targeting sectors that did not respond according to our expectations due to cultural and ethnic inclinations.

Limited Information Communication Technology (ICT) infrastructure and the high cost of connectivity poses a challenge in terms of providing efficient service to clients. Tanzania is a vast country and the cost of linking head office to the branches is huge.

Despite having obtained clearance from the Regulator in Zambia for us to invest in Tanzania, we were directed by the Pensions and Insurance Authority to transfer the shareholding in MGen Tanzania to our parent company Madison Financial Services limited in April 2010. This was necessitated by the fact that the shareholding in Tanzania, being outside Zambia, could not be treated as an admitted asset for the company in terms of Section 38 of the Insurance Act 1997.

WHERE DO WE WANT TO GO NEXT

We have remained focused on our strategic vision of being a regional player. In this regard, we are looking and evaluating the opportunities of going into Rwanda and Congo (DR).

We are aware that DRC is still awaiting the implementation of new insurance legislation to open up the Market. We have been receiving a lot of enquires from a number of international mining companies based in Lubumbashi the provincial capital of Katanga region and also foreign reinsurance brokers whose clients operate there, to provide insurance services. Efforts to collaborate with the state owned local insurer Societe National D'Assurance (SONAS) which is a monopoly, has not yet yielded positive results.
CONCLUSION

There still remains great opportunity for business growth since insurance penetration in Tanzania is very low (estimated at 1% of GDP). Although recent industry growth has been strong, further regulatory reform would be welcome in the following areas;

- Review the current capital requirement
  - There are too many general insurance licenses leading to a number of very small companies
- Scale up the skills for underwriting and selling.

- Align insurance regulation to the expatriate staff quota as defined in the Tanzanian Investment Act 1997.

- Lobby government for improved technological infrastructure to assist insurers reach minimum efficiency levels.