LDC SERVICES: GENEVA PRACTITIONERS SEMINAR SERIES: “MAKING SENSE OF GATS AND APPLYING GOOD PRACTICES IN SERVICES NEGOTIATIONS”

SEMINAR 2: “KEY SECTORIAL ISSUES AND DOMESTIC REGULATION”

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Topic or title of presentation: KEY INSURANCE TRADE AND INVESTMENT ISSUES – A ZAMBIAN PERSPECTIVE

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"KEY INSURANCE TRADE AND INVESTMENT ISSUES – A ZAMBIAN PERSPECTIVE "

1) Introduction

Zambia is a landlocked country in Southern Africa. The neighbouring 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. The 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 Organisation. 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.

Zambia undertook an autonomous liberalization of the Banking Sector in 1992. There are 20 commercial banks operating in the country and 12 of them are foreign owned. It is worth noting that a different capital requirement is applied between foreign and local banks.

The insurance industry in Zambia is governed by the Insurance Act 1997 (as amended 2005) and supervised by the Pensions and Insurance Authority (PIA). Between 1971 and 1991 Zambia only had one insurance company and broker, the country's economy was nationalised. However, following the liberalization of the economy in 1992 the numbers have significantly increased with **33** insurance companies and **39** brokers at the beginning of 2015. The industry also has two local reinsurance companies and two reinsurance brokers, respectively. There are over 300 agents and other players viz Loss Adjusters, Risk Assessors, Claims Agents etc.

The Insurance Act, 1997 (as amended 2005) prohibited insurance companies from conducting both life and non-life insurance business i.e no composite companies are allowed to operate in the market save for reinsurance companies and microinsurers.

The market size is about US$283 million with non life contributing about two thirds of the premium underwritten.

2. Trade In Services

The Republic of Zambia has submitted its initial offer in the framework of the ongoing services negotiations under SADC and COMESA protocols on Trade in Services. The

Zambian offer takes into account the liberalization commitments in communication, construction, financial, tourism and transport services. The considerations under Financial Services excluded insurance. The reason for this exclusion was based on the fact that insurance legislation was under review

GENERAL LIMITATIONS RELATED TO THE INSURANCE SECTOR

The following are the current requirements for any entity to conduct insurance business in Zambia.

- The legal entity must be registered or incorporated in Zambia.
- No person or legal entity can carry on insurance business unless they are licensed under the provisions of the Insurance Act 1997 (as amended 2005).
- A licensed entity must maintain a principal office in Zambia.
- The Chief Executive Officer of a licensed entity must be approved by the Regulator and should also be resident in Zambia.
- There are no limitations imposed on shareholding.
- All assets, liabilities and interest situated in Zambia must be insured with a licensed entity under the Insurance Act. This does not apply to reinsurance business.

At this point it would be ideal to look at some of the proposed amendments that have been made in The Insurance Bill, 2013 to supplement what has been indicated above.

- An Insurer/broker applying for a licence under the Act shall be required to deposit capital with a custodian prescribed by the Regulator.
- Shareholding for a foreign owned licensed insurance company shall be limited to 70% (foreign) and 30% (local Zambian citizens). No person shall hold more than 70% of the share capital of a licensed insurance company.
- For a foreign owned broking company this shall be limited to 49% (foreign) and 51% (local Zambian citizens).
- Appointment of Chief Executive Office, Chief Financial Officer and Chief Underwriter to be approved by the Regulator.

- The Minister of Finance may prescribe investment guidelines to insurers relating to the limits for investment categories.
- Facultative reinsurance business to be placed abroad only after local capacity has been exhausted.

3) INVESTMENT ISSUES AND CHALLENGES

Portfolio Management of Insurance Assets

General insurance having a short term nature is limited to short term investments and these are primarily term deposits and treasury bills, while life insurance having a long term exposure extends to property and equities.

Assets are usually held predominantly in local currency. This entails that Asset-liability matching must be managed well to ensure that there is always adequate liquidity to meet obligations when they fall due.

There is a limitation on offshore investments as the Insurance Act 1997 (as amended 2005) does not permit the inclusion of foreign owned assets in the computation of the solvency for insurance companies.

Regulation of Insurance Industry

As indicated earlier, regulatory uncertainty is of particular concern to the insurance industry. In 2013 the government imposed a restriction through Statutory Instrument 33 to prohibit transactions in foreign currency. This had a big impact on the industry as reinsurance payments are done in hard currency and companies had to manage the exchange loss resulting from international transactions. However, this restriction has since been repealed in 2014.

The government has not approved the regulations proposal to increase minimum capital aimed at boosting growth of the industry and increasing capacity in providing risk cover.

What are some of the challenges and possible solutions arising from trade and investment in the insurance industry?

Low Penetration Levels

Today's market is primarily dependent on push and mandatory requirements rather than customer pull which comes from increased financial awareness, savings and disposable income.

The solution for the market would be to strive for product simplification, transparency in cost and pricing, effective distribution channels and improved customer service to boost sales.

There has been a move by the Insurers Association of Zambia (IAZ) to engage the public through a structured consumer awareness program to try and improve the uptake of insurance.

Taxation on Insurance Premium

Since insurance premiums are a form of savings, the current VAT of 16% is a heavy burden to the insured, making insurance less attractive.

The industry through the Insurers Association of Zambia is lobbying government to make insurance premium exempt from VAT.

Asset Classes

Insurers are limited to asset classes available in the market. The traditional asset classes being fixed income, government securities and equities. The limitations on off-shore investments and available hard currency investment instruments pose a challenge in the management of foreign denominated liabilities.

There is need for diversification to alternative asset classes and guidelines to open up options of offshore investments.

Capital Market Activity

There is a currently low trade volume on the equity markets and an inactive secondary market on Bonds, which makes the stock market investments highly illiquid and not attractive to short term insurers. Corporate Debt limits an investment decision which ultimately comprises returns.

A consideration would be to improve regulations to support increased equity market activity such as supporting co-management of institutional funds and opening up public pension funds to private management in order to stimulate trading activity.

Conclusion

Insurance by its nature is international and involves a lot of cross-border transactions by way of reinsurance and other professional services such as risk management, loss assessment, actuarial etc all of which have to conform to domestic regulation.

I am of the opinion that insurance regulations must be able to promote trade in order to increase penetration levels, contribution to gross domestic product (GDP) and build technical capacity in the market.

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