BANCASSURANCE IN ZIMBABWE – THE SCRAMBLE FOR STRATEGIC ALLIANCES, THREATS AND OPPORTUNITIES FOR INSURANCE BROKERS

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ABSTRACT

This study explored the development of bancassurance in Zimbabwe and the survival challenges and opportunities it presents to insurance brokers. Insurance and banking institutions in Zimbabwe are entering into strategic alliances (bancassurance) in an effort diversify their income streams against the backdrop of a liquidity crisis in the economy. One of such strategies is the formation of strategic alliances between banks and insurance companies Previous studies have considered the driving forces and benefits of bancassurance but not its survival challenges to insurance brokers. This study revealed that although the bancassurance threat is real, insurance brokers wield vast expertise on insurance and risk management which they must leverage on to counter the threat and supplement their income.

Key words

Bancassurance, strategic alliance, insurance broker, short term insurer, insurance

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1. INTRODUCTION

The role played by insurance as a risk financing mechanism is well recognized by individuals, industry and commerce the world over. Insurance is not a modern invention and has been transacted since the time of Hammurabi around 1600 BC. However, the way it is transacted and distributed has undergone tremendous changes throughout the ages mainly due to changes in technology and peoples' lifestyles. This study explored the development of bancassurance, a new phenomenon in the distribution of insurance industry in Zimbabwe and the survival challenges it poses for traditional insurance distribution channels.

2. BACKGROUND

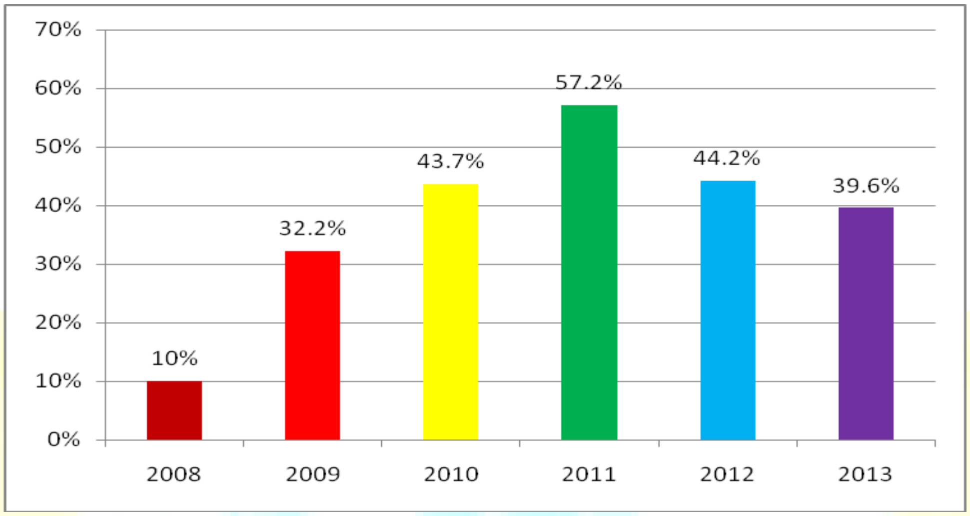
The insurance sector was not spared by the economic meltdown that ravaged Zimbabwe from 1998 to 2008. According to the Zimbabwe Insurance Survey (2007) capital bases of insurers were progressively eroded over the period from US$600 million in 1998 to an estimated US$2 million in 2008. The insurers' woes were compounded when Zimbabwe adopted the multicurrency system in February 2009.

The change over from the Zimbabwe dollar to a multicurrency system brought the much needed economic stability and sanity that had eluded policymakers for years.

However, the system was not backed by significant inflows of foreign currency and the whole economy is now reeling under a liquidity crunch (Biyam, 2010).

The industry capacity utilization that had on average sunk to as low as below 10% of installed capacity in 2008 has been on steady rise since 2009. However, economic activity remains over all subdued as most sectors are having challenges in securing lines of credit to kick start their operations. Capacity utilization for the manufacturing sector, the major consumer of insurance services in Zimbabwe, is shown in figure 1 below:

Figure 1: Capacity utilization in the manufacturing sector of Zimbabwe



Source: CZI State of the Manufacturing Sector Survey (2013)

The insurance sector rides on the success of industry and commerce and the challenges most sectors of the economy are currently facing have a direct impact on the volumes of new insurance business generated.

According to the Insurance and Pensions Commission (IPEC), 2012 was a very difficult year for most of the twenty three active registered insurance companies. This was largely due to liquidity challenges faced by the insuring public that resulted in them failing to insure their assets in full. Demand for insurance products has thus declined; despite it being very necessary it is increasingly being viewed as a luxury by both individual and corporate insurance consumers are reeling under the effects of the liquidity crunch as noted by Biyam (2010).

New insurance business has thus remained largely thin for all companies. According to IPEC (2012), in 2012 the gross written premium for general insurance business was US$194 million. A worrying revelation from the same report is that 88.1% of the business written was accounted for by 10 companies with 11.8% being shared by the remaining 13 companies.

Although consumers have through the ages increasingly become aware of the role of insurance in mitigating some financial hardships they encounter in life, insurance is still not a favoured item on most clients' shopping lists. As a result it has to be sold in order for them to buy, hence the saying: insurance is sold and not bought. There is therefore a real need for an intermediary (insurance broker) to identify and advise clients on their financial needs and the security that can be provided by insurance. In return, the insurance broker receives commission as compensation from insurers for business placed with them.

The insurance broker in Zimbabwe largely depends on commission and has thus traditionally become a permanent feature in the distribution of insurance products.

According to IPEC (2012) there were 30 registered insurance brokers in Zimbabwe in 2012. The insurance brokers were also not spared by the challenges faced by their principals (the insurers). In 2012 commissions amounting to US$14.881 million were paid to the insurance brokers.

The approximately $14.9 million paid as commission was not evenly distributed among the 30 active insurance brokers. According to IPEC (2012) 75% of the commission was earned by the top ten insurance brokers, namely, Aon Zimbabwe, Pan African Re, Marsh, ZIB, Glenrand MIB, Alex Forbes, HRIB, Capitol, Navistar and RBI. The remaining 20% was shared amongst 26 insurance brokers with some receiving paltry amounts that could hardly sustain their operations. In Zimbabwe, maximum commission rates are regulated by IPEC and both insurers and their intermediaries cannot vary them by negotiation and consent – it is cast in stone. Violation of the commission regulations attracts very stiff penalties in terms of the Insurance Act Chapter 24:07 of 1996 as amended.

Following the introduction of the multicurrency regime in February 2009 insurance companies have to comply with new minimum capital requirements. According to IPEC (2009) the minimum capital requirements are set at $300,000.00 for short term insurers, $400,000.00 for long term insurers, $500,000.00 for reinsurers and $100,000.00 for insurance brokers and would be reviewed periodically. The deadline for furnishing proof of compliance with new regulations was set for 31 March 2010. Twenty insurance brokers failed to meet the minimum capital requirements of US$100,000.00 and were subsequently deregistered in terms of Section 22 (1) (x) of the Insurance Act (Chapter 24:07) in August 2010.

The economic challenges being faced by insurance companies and brokers are common to other players in the Zimbabwe financial services sector, especially, commercial banks. The current liquidity crunch (Biyam, 2010) has had deleterious effects to their income streams. Figuratively speaking, they are drying up and cannot sustain organizational life (their operations) any more. Against this backdrop financial institutions in Zimbabwe are being forced to think outside the box in order to survive in the turbulent economic environment. This has seen the emergence of strategic alliances between insurance companies and non-insurance entities, specifically commercial banks being a case in point.

The strategic alliance is called bancassurance. According to SwissRe (2002) bancassurance represents a strategy by which banks and insurers cooperate in a more or less integrated way to work the financial markets. This includes, at its core, the distribution of insurance products by banks. This development poses a huge challenge to insurance brokers as banks takeover their traditional role.

The strategy is adopted for various reasons all which revolve around accessing and exploiting a previously untapped market. Bancassurance is widely gaining acceptance in the Zimbabwe financial sector and to date seven commercial banks, namely Stanbic, Kingdom, FBC, Barclays, CBZ, Standard Chartered and ZB are distributing insurance products for various insurance companies. This represents a departure from tradition as insurance in Zimbabwe has largely been distributed through insurance brokers with direct sales representing a very small portion of total sales. At first sight bancassurance represents the best synergetic scheme for both institutions. However, on further analysis, it becomes evident that the role of the insurance broker cannot and will never be the same in the Zimbabwe insurance sector.

According to Porter (1987) cited by Pitts and Lei (1996) the level of competition in any industry is a function of the threat of new entrants into the industry, the bargaining power of customers, the bargaining power of suppliers, the intensity of the rivalry among firms within the industry and the potential for substitute products or services. The existing regulations (banking and insurance) allow strategic alliances between banks and insurance companies. However, a bank can only distribute the products of a single insurer. The entry of a new distribution channel to the already over traded insurance broking sector has thus intensified the competition.The proliferation of non-insurance players distributing insurance products in Zimbabwe has intensified competition in a shrinking insurance market. Traditionally insurance has been distributed by insurance brokers and tied agents as legislation did not allow non-insurance entities to sell insurance products. Following the relaxation in insurance regulation by IPEC, insurance companies are increasingly entering into less expensive alliances with banks. Besides being less expensive they allow them vast nationwide access to captive markets represented by clients on the banks' databases. However, this development is pushing insurance brokers to the verge of extinction.

3. LITERATURE REVIEW

Bateman and Snell (2003) define strategic alliance as a purposive relationship between independent firms that share compatible goals, strive for mutual benefit and acknowledge a high level of mutual dependence. According to Klein (2001) bancassurance is a French term referring to the selling of insurance through banks.

One of the most significant changes in the financial services sector in Zimbabwe over the past years has been the emergence and development of bancassurance as an attractive and often profitable-complement to their existing activities. According to SwissRe (2002) strategic alliances, for example, bancassurance, are increasingly being used as a competitive edge in the financial services industry and those that are practicing it achieve increased income, reduced fixed cost, increased market share and customer outreach. In short, institutions in bancassurance partnership do very well financially than those who are not in such partnerships.

The above researches have primarily focused on the development of bancassurance but no attention has been given to the threats and opportunities it presents to insurance brokers.

Klein (2001) postulates that banks and insurance companies are increasing partnering in their operations. He further notes that the major drivers of bancassurance, *inter alia*, include intense competition between banks against a background of shrinking interest margins, regulatory changes regarding the banking and insurance sectors, changing customer preferences regarding investments, the realisation that joint bank and insurance products can be better for the customer as they provide more complete solutions than traditional standalone banking or insurance products and the increased mobility of their customers, who to a great extent tend to have accounts with more than one bank. Therefore, there is a strong need for customer loyalty to an organisation to be enhanced.

Islam (2002) largely concurs with Klein (2001) but contributes to this interesting development by summarising the major drivers of bancassurance. Islam (2002) concludes that banks are entering into bancassurance arrangements due to the pressure on banks profit margin and the desire to provide a one stop financial shop for the customer. Convenience has become a major issue in managing personal day to day activities. A bank which is able to market insurance products has a competitive advantage over its competitors. It can provide complete financial planning under one roof. In addition banks offer an untapped and successful mode of distribution. This is understandable, because Zimbabwean banks with their impeccable brand image, existing customer relationships and large customer database offer a natural market for insurance products. Islam (2005) points out that customers trust banks more than insurance companies, so insurance companies with the co-operation of banks can leverage the "trust factor".

Studies by Swiss Re (2002), Klein (2001) and Islam (2005) have primarily focused on the factors driving the development of bancassurance in various markets. Their studies. however, did not consider the threats and opportunities bancassurance presents to insurance brokers.

4. METHODS

A descriptive research design was used in this study and data was collected from senior executives of the insurance companies (10) and banks (7) in bancassurance alliances and a sample of 10 insurance brokers by way of self administered questionnaires and semi-structured interviews.

5. RESULTS AND DISCUSSION

The study revealed that bancassurance practice is a relatively new phenomenon in Zimbabwe with the longest alliance having been in existence for only 10 years. The practice has , however, gained prominence after the introduction of the multicurrency regime (partial dollarization of the economy) in February 2009 as partnering banks and insurance companies seeks to diverse income streams, increase revenue and dilute fixed costs in an illiquid economy. The study also revealed that insurance companies in bancassurance alliances have significantly increased their market share (5% on average), especially on personal lines insurance business as it is easy to understand and explain to clients. Banks have been able to hive off a sizeable chunk of personal lines insurance business from insurance brokers. However, they have not been able to penetrate the commercial lines insurance business due to lack of technical competence to handle complex insurance programs required by commercial clients.

The study revealed that banks are referring their commercial clients with complex insurance requirements to insurers as qualified leads. Insurance brokers should take advantage of this limitation and leverage on their expertise and offer diversified services to their clients instead of offering traditional insurance services. There is now scope for offering risk provide specialist ancillary services for a fee, for example, risk management consulting services, like, enterprise risk management, alternative risk transfer services, risk engineering, insurance product research and design, insurance programme design and coordination, reinsurance broking and other specialist technical advice which banks have no capacity to handle. Insurance brokers could also focus on the informal sector as it is now a force to reckon with following the economic malaise of the past decade.

In addition the study revealed that banks are distributing traditional insurance products with very few innovative or custom made products for the new channel. The banks surveyed indicated that the only custom made product was loan protection insurance providing for consumer loans covering either default or mortality risk of the borrower. There is need for both banks and insurance companies to collaborate and develop innovative products which can easily be distributed through bancassurance. Many banks are offering various financing schemes to their clients, for example consumer loans and agricultural financial support to the newly resettled farmers. Innovative bank products can be matched with insurance products in order to manage creditor default risk arising from insurable risks, for example, illness, death, hail and storm damage, etc. Most banks have established agribusiness units in effort to spearhead the development of efficient tailor made finance schemes to the new farmers. Regrettably, insurance has largely remained unknown to most the new farmers because most short term insurers have not changed their business models and still view this market is risky and unprofitable. Premiums for commercial insurance are paid annually in advance – that is the traditional model. However, it may not be suitable to new farmers as they have limited means and only receive payment for their produce at the end of the farming season. Agricultural finance to the newly resettled farmers should contain an insurance element if agriculture is to make its fair contribution to the country gross national product.

They study revealed that from a short term insurer's perspective, although bancassurance is a threat to insurance brokers, competition is healthy and challenges all players to be innovative for the benefit of insurance consumers. Short term insurers argue that insurance brokers in the Zimbabwean market have in the past wielded too much power which in some instances they were abusing for their selfish ends. For example, if relations between the insurer and the insurance broker soured, the insurance broker would transfer the whole portfolio they had placed to other insurers leaving the insurer in a very difficult financial position.

In addition the study revealed insurance brokers hold more expertise and experience on insurance business than banks. For example, they have knowledge of the whole market enabling them to place the risk at the best rates. However, the banks are not lagging far much behind as they have put in place strategies to increase their insurance competence. For example most bancassurance personnel have a basic insurance qualification as required by the Insurance and Pension Commission, namely, Certificate of Proficiency (COP) offered by the Insurance Institute of Zimbabwe. Some bank personnel are even studying for the diploma course in insurance with the Insurance Institute of Zimbabwe. In addition to the basic qualification, short term insurers are offering training for the bancassurance personnel on a continuous basis so that they remain up to date with developments in insurance market practice.

The study also revealed that Zimbabwean banks also have advantages over insurance brokers in the distribution of insurance products since they already have an existing relationship with clients on their databases which they can leverage on confirming the 'trust factor" advanced by

Islam (2002). In addition the study revealed that banks' core business is not insurance as they already have an existing infrastructure and they can accept a lower commission rate from the insurer, which naturally the insurance broker would vehemently object to. The low commission translates to a lower premium for the client and convenience for the client as they are able to provide a "one stop" financial supermarket.

However, the study revealed that although insurance brokers are aware of the competition posed by new players involved in the distribution of insurance services, they have done very little in using their perceived strength in technical expertise and market knowledge to thwart that competition. It is noted from the study that more players distributing insurance services have and more continue to emerge since the introduction of the multicurrency system in Zimbabwe in 2009 as the Insurance and Pension Commission continues to license them. Examples noted include banks, postal services, garages, retail shops and of late mobile telephone companies targeting the same clientele insurance brokers have served in the past.

6. CONCLUDING REMARKS

Although bancassurance in Zimbabwe is still in its early days, it is here to stay and is destined to grow from strength to strength as more banks and insurance companies enter the fray. Bancassurance offers convenience to the client, the so called "one stop" financial supermarket to today's discerning clients who do not have enough time to be queuing for services at various providers' offices. The bancassurance threat is real and insurance brokers should stop being "cry babies" and imploring the regulator to level the playing field. Zimbabweans are largely uninsured, going by market statistics for 2012. The gross written premium (GPW) for the year ended 31 December 2009 was a paltry US$194 million (IPEC 2012). The insurance awareness is very low in the populace. The insurance penetration rate is a miserable 1.8 % (IPEC 2012) and all players in the insurance industry should engage in some massive media campaign to raise insurance awareness among prospective clients, especially the new farmers and those in the informal sector. The players in the insurance industry have largely concentrated on the formal sector of the economy, but fact is, following the economic decline of the past decade the informal sector is now a force to reckon with. Actors engaged in informal activities need insurance coverage like anyone else. What is required are strategies targeted at offering tailor made insurance services and harness the vast untapped business that exists.

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