

UPLIFTING INSURANCE PENETRATION: INSURE THE UNINSURED

**Opportunities and challenges facing the insurance
industry from the economic reforms in Tanzania**

**By Mussa Juma, ACII, PhD (Actuarial Science)
Chartered Insurance Practitioner**

outline

- **Economic reforms**
- **Economic reforms in Tanzania**
- **Impacts of economic reforms**
- **Opportunities of economic reforms to the insurance industry**
- **Challenges of economic reforms to the insurance industry**
- **Conclusion**

Economic reforms

- Economic reform policies are projects at government level aiming at facilitation of attainment of sustainable development.
- The country may attain a sustainable development:
 - ❑ With good policies,
 - ❑ Appropriate integrative strategies,
 - ❑ Commitment and
 - ❑ Political will,

Focus of economic reforms

- The reform policies concentrated on different areas or sectors of the economy.
- Different policies affected different sectors of the economy differently.

Focus of reforms.....

- Accelerating growth of agriculture and rural sector development (ESAP),
- Poverty reduction (ERP, TASAF),
- Technical or managerial and entrepreneurial skills development (SIDP),
- Debt reduction leading to inflow of donors fund (HIPC),
- Middle class economy by 2025 (FYDP),
- Liberalization of the financial sector (FSAP) and agricultural sector (ESAF),
- Increasing government expenditure (FYDP) and control of money supply in the economy,
- Restructuring public enterprises through commercialization, privatization, divestiture or liquidation (PSRC)

Economic reforms in history

- National Economic Survival Programme (NESP)-1981/82;
- Structural Adjustment Programme (SAP)-1982/83 to 1984/85;
- Economic Recovery Programme (ERP)-1986/87 to 1988/89;
- Economic and Social Action Programme (ESAP)-1989/90 to 1991/92;
- Loans Advances and Realization Trust (LART)-1991;
- Financial Sector Adjustment Programme (FSAP)-1991;
- Rolling Plan and Forward Budget (RPFb)-1993/94 to 1996/97;
- Parastatal Sector Reform Commission (PSRC)-1993;

Economic reforms in history

- Enhanced Structural Adjustment Facility (ESAF)-1996;
- Sustainable Industrial Development Policy (SIDP)-1996;
- Tanzania National Development Vision 2025 (TNDV)-1997;
- National Poverty Eradication Strategy (NPES)-1998;
- Tanzania Assistance Strategy (TAS)-2000;
- Heavily Indebted Poor Countries (HIPC)-2000;
- Millennium Development Goals (MDG);

Economic reforms in history

- National Trade Policy (NTP)-2013;
- MKUKUTA;
- MKURABITA;
- Tanzania Social Action Fund (TASAF);
- Five Years Development Plan (FYDP)-2016/17 to 2020/21

Some of the economic reform policies

- Cost sharing in social services,
- Privatization
- Civil service reforms including company restructuring and retrenchment/redundancy,
- Trade liberalization,
- Price reforms,
- Financial sector reforms,
- Public sector reforms,
- Fiscal reforms,
- Monetary reforms
- Labour market deregulation

Price reform

- In the area of price reform, the guiding principle has been towards reducing distortions in the factor and goods markets.
- Actions have been taken on the exchange rates, interest rates and on price decontrol.
- Most restrictive regulations and controls have been removed providing policy environment which is more favourable to private sector expansion and growth

Fiscal reforms: Government expenditures

- Mfugale flyover,
- Salendar Bridge constructions,
- Road constructions,
- Busisi ferry,
- Kigamboni ferry,
- Aviation industry (aeroplanes and airports),
- Port capacity increase,
- Mining industry productivity increases,

Fiscal reforms: Government expenditures.....

- Food processing and manufacturing industries.
- Other manufacturing firms in the country
- Construction of schools and hospitals and installation works
- SGR- Dar es Salaam to Dodoma about 700km, Valued at around US\$1.4 billion Dar es to Morogoro Nearly 53% By 2020.
- (UTCOP) Uganda - Tanzania Crude Oil Pipeline Uganda to Tanzania about 1,443 km Valued at around US\$3.5 billion By 2020.
- Stiegler's Gorge Hydroelectric Power Station (SGHPS) To start US\$3.6 billion 2,100 MW project

Fiscal reforms: government taxation

- The introduction of new taxes including VAT
- Abolition of some restrictive taxes

Why economic reforms?

- Increased economic growth,
- Reduced inflation,
- Increased employment of factors of production,
- Reduced deficit,
- Increased tax revenue collection,
- Increased balance of payment and increased net exports.

Bases of effective reforms

- For effective reforms, the bases for transformation should be a first priority.
- In FYDP reforms, concentration has been on the following bases for the reform to be effective
 - ❖ Energy (hydro-Rufiji project and thermal power- Oil pipeline, gas pipe line construction),
 - ❖ Railway construction-SGR and
 - ❖ Roads construction (including bridges and flyovers)

Impacts of economic reforms to various social groups

- Increased competition in all sectors of the economy.
- Private sector activities have expanded.
- Jobs have been created although income disparities have widened.
- Private secondary education, hospitals, churches have become a worthwhile investment.

Impacts of economic reforms to....

- Weakening of family ties;
- Weakening of coping mechanisms of individuals and households;
- Erosion of capacity of institutions;
- Impact on farmer's income;
- Environmental degradation in tourism, mining and manufacturing reforms;
- Social hardship and the breakdown of social norms and values

Impacts of economic reforms to....

- While good policies exist and are being improved, there has been a failure of some policy implementation.
- This has led to failure to achieve some of the objectives of some policy reforms.
- Some reforms have not become self-financing.

Impacts of economic reforms to the various sectors of the economy

- Economic reforms lead to changing composition of aggregate production (GDP) in Tanzania.
- Division of GDP across productive sectors in the economy is affected by the reforms.
- It also leads to changing composition of employment across productive sectors and by status of employment.

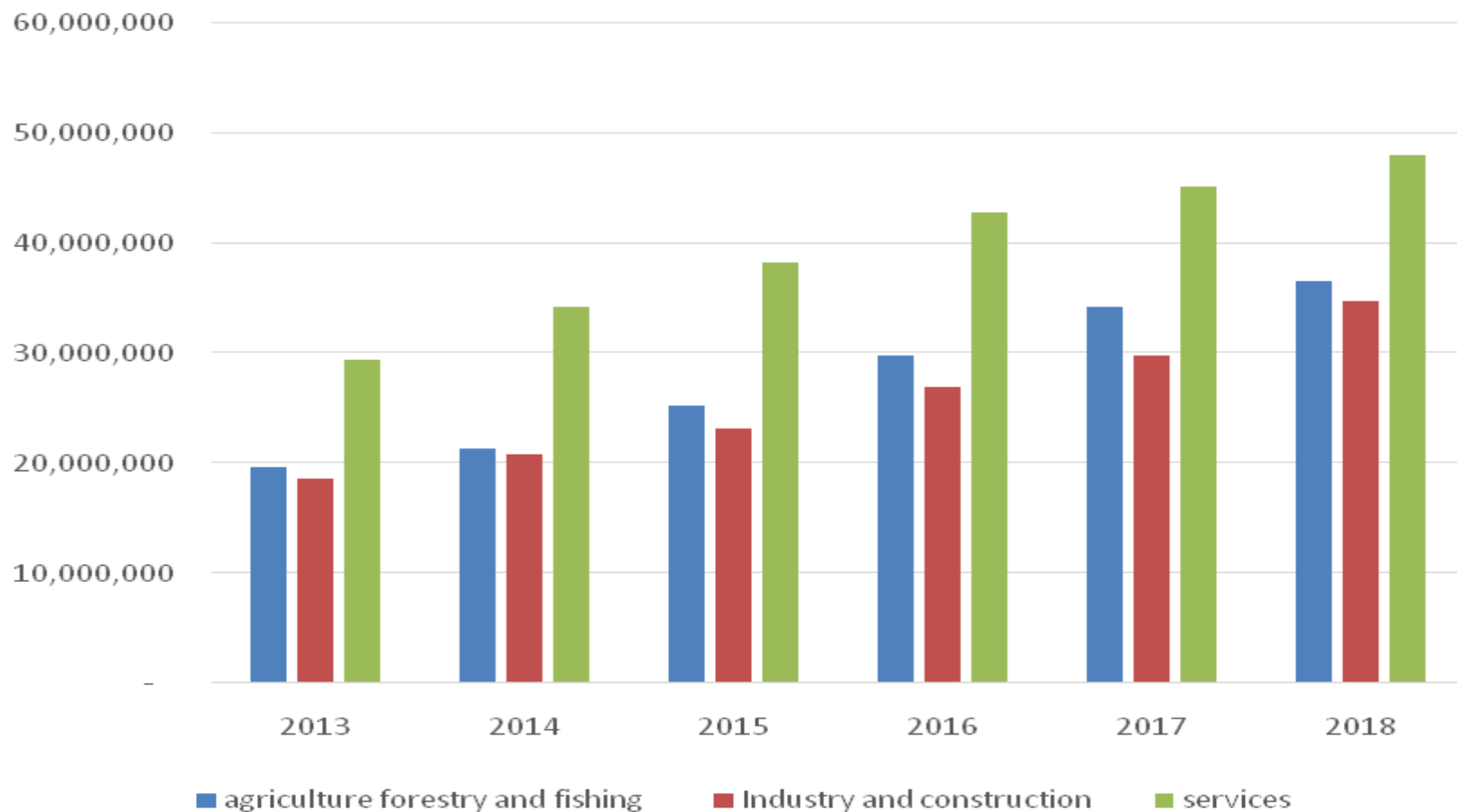
Impacts of economic reforms.....

- According to Timmer and Akkus (2008, 2009), there are four continuous and interrelated processes that define structural transformation:
 - ❑ a declining share of agriculture in GDP and employment,
 - ❑ migration from rural to urban areas and a rapid process of urbanization,
 - ❑ the rise of a modern industrial and service economy,
 - ❑ a demographic transition from high rates of births and deaths to low rates of births and deaths.

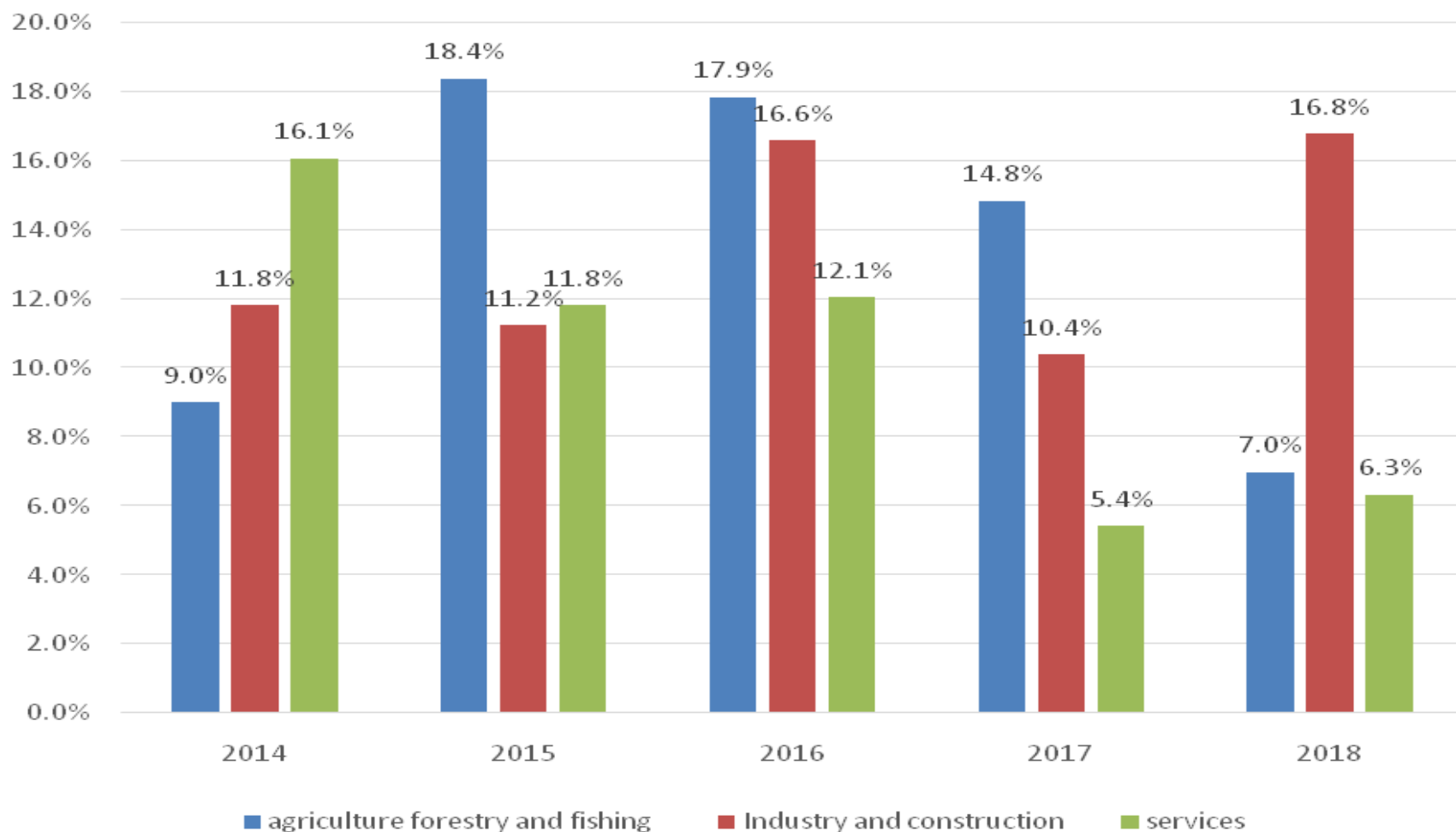
Impacts of economic reforms.....

- Off-farm activities are increasing in importance in the economy.
- Farm products processing industries are increasing in the country which reduces the exportation of raw bulk farm products
- For successful transformation of an economy, what matters is not only the rate of economic expansion (growth) but also the direction of economic sectors which it is expanding (Wuyts and Kilama, 2014)

GDP contribution by major economic activities from 2013 to 2018 (TZS Million)



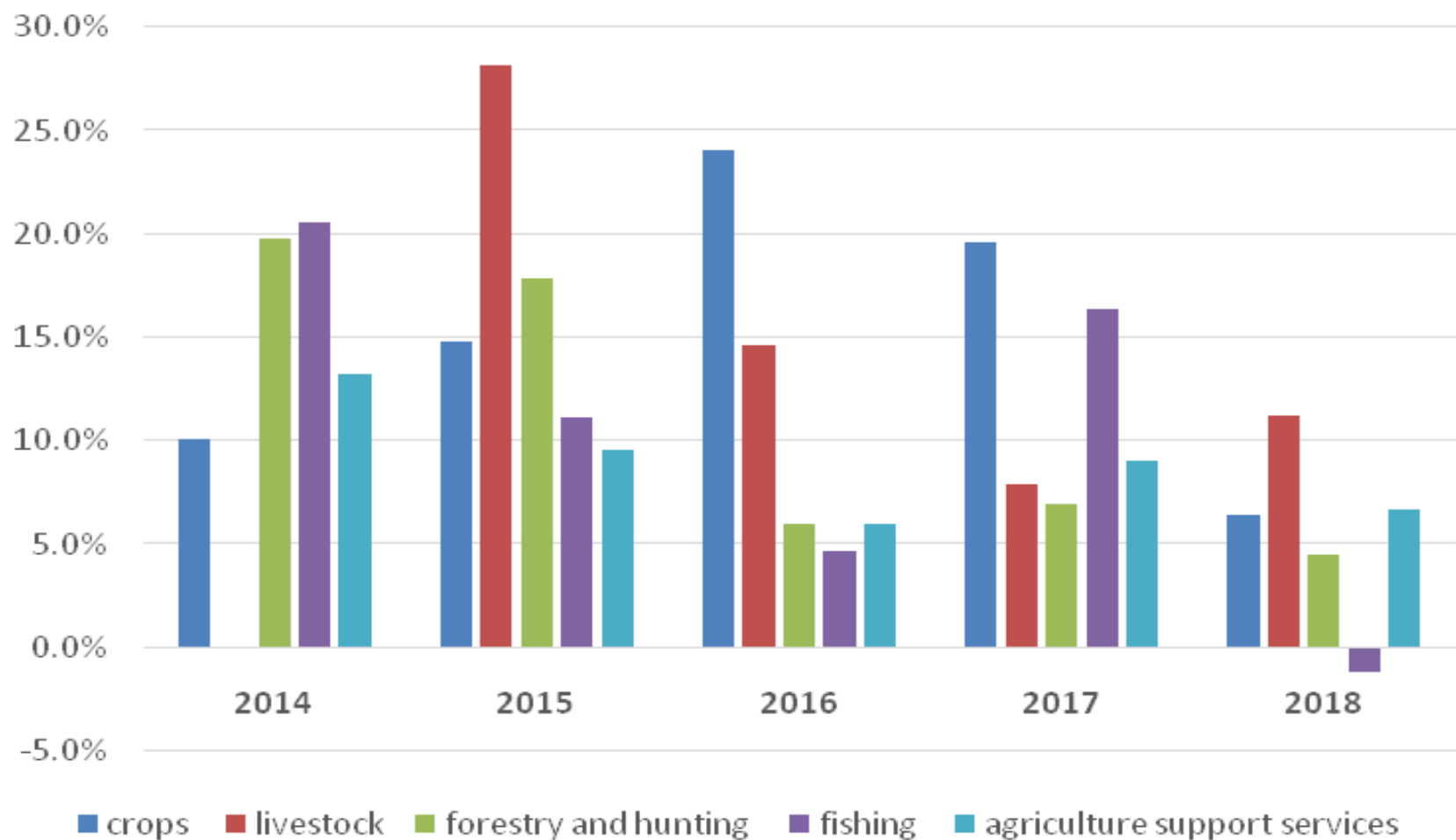
Growth rate of major economic activities from 2013 to 2018



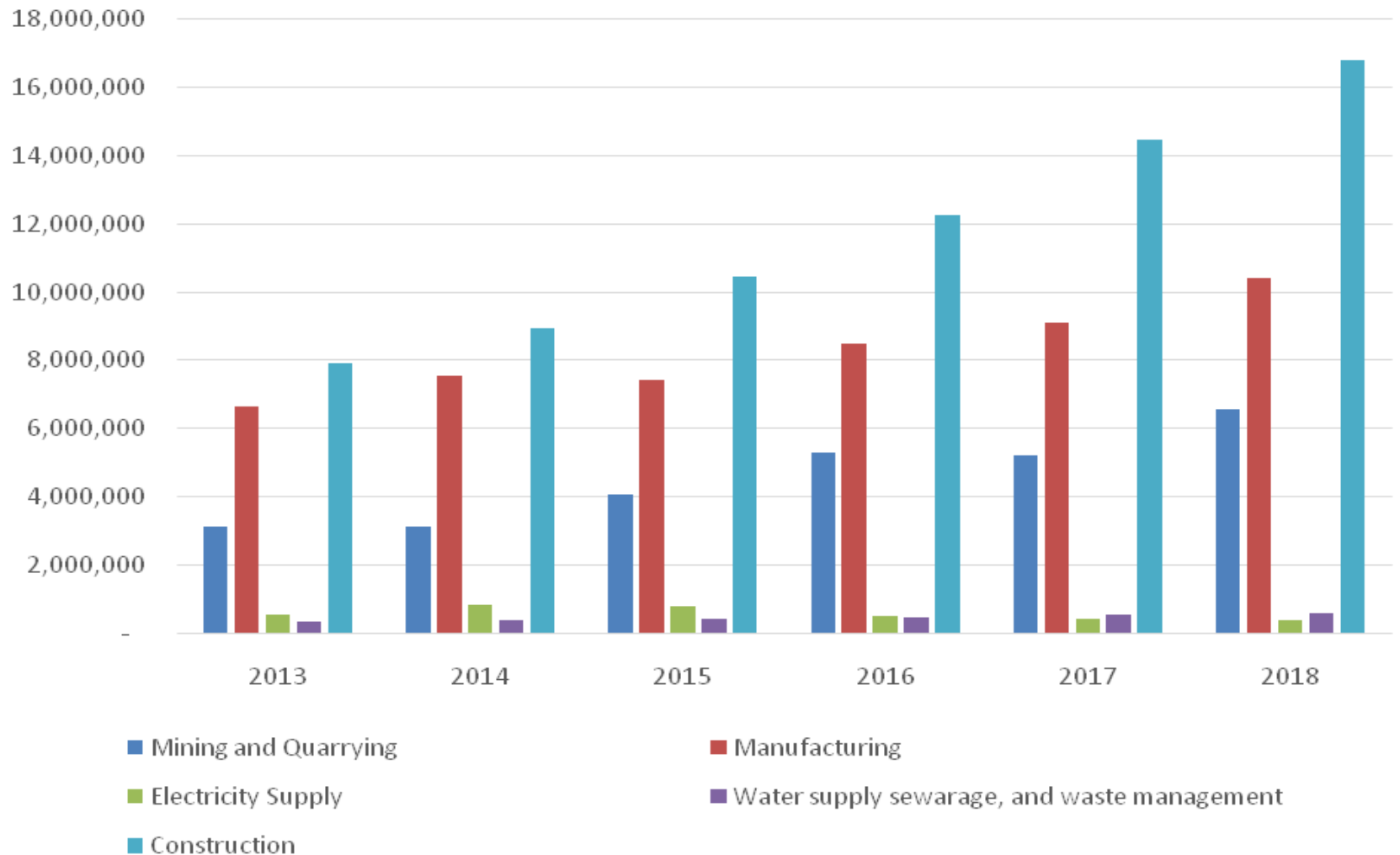
GDP Contribution of Agriculture, hunting and forestry from 2013 to 2018 (TZS Million)



Growth rate of agriculture, hunting and forestry from 2014 to 2018



GDP contribution by Industry and manufacturing from 2013 to 2018 (TZS Million)



Growth rate of Industry and construction from 2014 to 2018



Insurance industry players

- Insurers,
- Reinsurers,
- Brokers,
- Agents,
- Sales force,
- Other intermediaries,
- Risk surveyors,
- Actuaries,
- Loss assessors and adjusters,
- The regulator,
- etc

Insurance industry growth

- Growth in the number of insurance players in the market,
- Growth in number of qualified (chartered, certified, professionals) actuaries/ loss assessors/adjusters/surveyors /insurance practitioners/risk managers,
- Growth in GWP,
- Growth in NWP,
- Increase of employed Tanzanian in insurance sector
- Compliance with the insurance regulations
- Independence of CEOs, managers from the influence of owners (who are foreigners) in decision making with regard to market development

Insurance industry growth

- Insurance penetration ($GWP_{(t)}$ must increase at a higher rate than the rate of increase of $GDP_{(t)}$ in order for the insurance penetration to be increasing!!!!),
- Insurance density,
- Number and quality of insurance products,
- Level of insurance inclusion,
- Local shareholding in insurance companies,
- Extent of use of capital market to cover insurance risks,
- Insurance uptake,
- Insurance awareness

Impact of reforms to insurance industry

- Insurance growth is positively correlated to the growth of National Income or GDP:
- The higher the economic growth, the higher the insurance growth.
- Economic reforms in Tanzania are expected to increase insurance growth by affecting most of the variables which measure insurance growth

Contribution of Insurance to GDP for the last ten years (2008 - 2018)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|
| Gross premium written (TZS Millions) | 190,885 | 231,238 | 286,953 | 344,702 | 406,550 | 474,085 | 554,401 | 618,859 | 660,047 | 637,141 | 691,902 |
| National GDP (TZS Millions) | 32,764,940 | 37,726,824 | 43,836,018 | 52,762,581 | 61,434,214 | 72,977,200 | 82,603,388 | 94,349,316 | 108,362,324 | 118,744,498 | 129,364,353 |

Why insurance growth is lagging behind GDP growth?

- For most activities accounted for GDP there is less insurance attached to it.
- Insurance is not compulsory in many activities contributing to GDP
- Some big projects have a conditional insurance provided by foreign insurance and reinsurance companies
- Some insurance premium is not accounted into simply because they are lost through fake insurance issued to the insured
- A portion of the collected premium is entered into the books of account for calculating the growth

Why insurance growth is lagging behind GDP growth?.....

- Decisions concerning the interest of the government are not made by insurance companies because the majority of owners are foreigners
- Owners (foreigners) dictating what the Local CEO of the insurance company should do which is in the owner's interest not local insurance industry interest
- e.g. contribution to insurance day, presence of insurance companies at the exhibitions providing awareness of insurance products

Why insurance growth is lagging behind GDP growth?.....

- CEOs of foreign dominance insurance companies have less decision power to bring positive impacts to the local insurance market
- Even if they are CEOs but they are being directed by owners of their companies (who are foreign based) to implement which has already been decided by the owners

Opportunities of economic reforms to the insurance industry

- The economic reforms create new jobs and increases income and new activities in the economy.
- Welfare of the people is increased
- people are expected to increase property ownership and hence demand for protection against their loss or damage.
- The increase of income also increases the sense of care to the loved ones and self.

Opportunities to the insurance industry.....

- All these results into the need for security or protection
- If insurance is applied to the increased activities, and if the increase in income increases the willingness to purchase insurance, then we expect significant growth in insurance as a result of economic reforms in the country.

Challenges of economic reforms to the insurance industry

- Tanzania insurance market is significantly lacking qualified **LOCAL** (re)insurance experts to design appropriate insurance, micro-insurance and reinsurance programmes.
- The market is lacking local insurance experts to design products which are affordable, accessible and which meet and satisfy the needs of the Tanzanian customers

Challenges of economic reforms to the insurance industry.....

- Insurance players, including insurance companies and TIRA are lacking qualified/professional employees.
 - ❑ The players assume that anyone with any discipline can practice insurance business!
 - ❑ But in other fields, the skills and knowledge (acquired by undertaking a course) about the business is highly acknowledged, e.g. Medicine doctor, lawyers, accountants, engineers,
 - ❑ You can have experience of the business but lacking its skills and knowledge!
 - ❑ You can have knowledge and skills but lacking experience!

Challenges of reforms to the.....

- Players are lacking sufficient capital and reserves
- The market consists of many players who are struggling for capital and reserves
- Should we have few players who have sufficient capital and reserves with the employees having the right knowledge and skills or the opposite as we are now?
- Little innovations to tape the capital market through the use of insurance securitization

How can insurance industry benefit from these economic reforms?

- Expansion of compulsory covers,
- RBC, RBS
- Obligation of all insurers into micro insurance,
- Increase of local shareholding,
- Setting minimum risk retention,
- Compulsory training to acquire the required knowledge and skills within 2-3 years otherwise your employment ends

How can insurance industry benefit from these economic reforms?.....

- Automation of most insurance operations (investment in ICT),
- All insurance players to have locally stationed data centre,
- Review of various insurance documents to reflect the current market circumstances,
- Adjusting the international standards to fit the Tanzania insurance market, RBS, RBC, IFRS 17, Solvency II, etc)

How can insurance industry benefit from these economic reforms?.....

- Zero market misconduct/malpractice by all insurance players
 - Stop undercutting
 - Stop incentives to intermediaries
 - Stop overriding commission/administrative fees
 - Stop fake stickers/cover note
 - Stop denying claims within a stipulated time
 - If there is a need to use foreign loss assessors/adjusters, the insurer should seek approval from TIRA.
 - The foreign assessor/adjuster/surveyor must be accredited by TIRA.
- Request the necessary documents right during underwriting to minimize disputes relating to missing documents during the time of claim
- Research and development by the players

Conclusion

- Economic reforms implemented in Tanzania aims at increasing economic growth and welfare of Tanzanians.
- Indirectly the increase of economic growth increases insurance growth.
- Hence economic reforms increase the need for insurance.

Conclusion

- To grab the opportunities brought by the economic reforms, the insurance industry must set targets on the variables influencing insurance growth, and then work on strategies to realize the targets.

Insurance industry targets proposal

- Insurance penetration- 3% by 2021 and 5% by 2024;
- Insurance uptake (insurance inclusion)- 30% by 2021 and 50% by 2028;
- Insurance awareness- 45% by 2021 and 60% by 2024;
- Local Insurance Company shareholding- at least 51% by 2021;
- Local Qualified actuaries- at least 5 by 2024;
- Local Chartered insurer/insurance practitioner/risk manager-at least 20 by 2021 and 50 by 2024;
- Local Chartered insurance companies- at least 3 by 2024;
- Local Chartered insurance brokers-at least 5 by 2024;

Insurance industry targets proposal

- All insurance companies to have locally stationed data centre- by 2020;
- Local Qualified loss assessors/loss adjustors/risk surveyors- 5@category by 2021;
- Micro-insurance business for each insurance company- at least 5% by 2021;
- Retain all life risks- by 2021;
- Retain risks according to the schedule in the appendix-by 2021;
- Implement the minimum premium rates-by 2021;
- Adjust and use RBS, IFRS 17-by 2020;
- Insurers to use insurance linked securities –by 2024;
- Standardized minimum motor third party permanent total/partial disabilities and death-by 2021.