NBFIRA
Non-Bank Financial Institutions Regulatory Authority

2019 RESEARCH BULLETIN

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PREAMBLE

The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) publishes the Research Bulletin annually to discuss developments in the local economy and how they affect the different sectors in the financial industry.

The 2019/20 Research bulletin will focus on the Botswana insurance industry and the major developments that arose in the industry during this period.

GLOSSARY OF TERMS

Agent- means a person who represents an insurance firm and sells insurance policies on its behalf.

Broker- a person or company registered as an adviser on matters of insurance and as an arranger of insurance cover with an insurer on behalf of a client.

Claims Settlement Agent- means a party who helps complete a transaction between a buyer and a seller.

Capital Adequacy- means the statutory minimum reserves of capital which a financial institution must have available.

Insurer- means a person or company that underwrites an insurance risk.

Insurance Surveyor- means professionals who assess the loss or damage and serve as a link between the insurer and the insured.

Loss adjuster- an insurance agent who assesses the amount of compensation that should be paid after a person has claimed on their insurance policy.

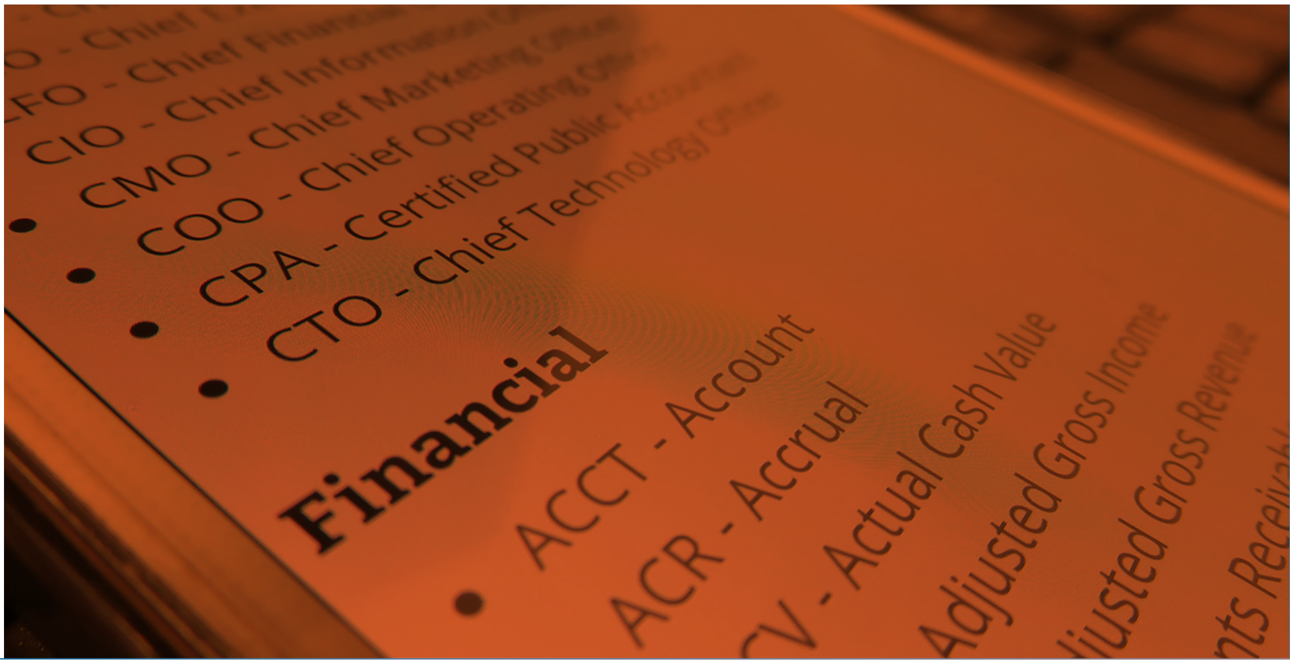
Loss assessor- Independent entity hired and paid by the insured (policy holder) to negotiate an insurance claim with the insurer (insurance company).

Reinsurer- means an insurance company that insures the risks of other insurance companies.

Risk manager- analysts that specialize in identifying potential causes of accidents or loss, recommending and implementing preventive measures, and devising plans to minimize costs and damage should a loss occur, including the purchase of insurance.

ABBREVIATIONS USED IN THE BULLETIN

AML/CFT	Anti Money Laundering/ Combatting the Financing of Terrorism
AU	African Union
BIBA	Botswana Insurance Brokers Association
BIC	Botswana Insurance Company
BIFM	Botswana Insurance Fund Management
BISTUA	Botswana Short-Term Insurance Underwriters Association
CIPA	Companies and Intellectual Property Authority
FIA	Financial Intelligence Act
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GWP	Gross Written Premiums
HHI	Herfindahl- Hirschman Index
IMF	International Monetary Fund
MCT	Minimum Capital Target
NBFIs	Non-Bank Financial Institution(s)
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
PCT	Prescribed Capital Target
RBSS	Risk Based Supervisory System
SADC	Southern African Development Community
SIEs	Systematically Important Entities



Foreword

The articles in this publication are contributed by staff of the Authority and guest authors who gave permission for publication of their work.

It is my pleasure to present the 2019/20 NBFIRA Research Bulletin which discusses issues pertaining to developments in the Botswana insurance industry. This bulletin gives highlights of major developments in the domestic insurance industry entailing major milestones, financial stability and financial literacy on insurance and other available risk mitigation products. The report further provides forecasts of the industry performance to the year 2023. A special report on the measurement of capital adequacy of insurers under the new Insurance Act, 2015 is included herein.

The purpose of the Research Bulletin is to provide a forum where research relevant to the economy and the financial sector, with particular reference to the non-bank financial sector can be disseminated. Comments and suggestions on papers published in the Bulletin are welcome from the wider public and will published in future issues. The scope of the bulletin includes dissemination of information on developments, the regulatory policy changes and initiatives; as well as news and information of interest to the members of the public.
The Research Bulletin is published on an annual basis and, as and when necessary, several volumes maybe published in any one year.

The articles in this publication are contributed by staff of the Authority and guest authors who gave permission for publication of their work. Articles of relevance to the non-bank financial sector are welcome from members of the public for future publications. Views expressed are not necessarily those of the Authority but of the authors and their contributors.

I wish to acknowledge all our guest authors, and the regulated NBFIs, Board, Management and Staff of NBFIRA for working diligently in providing all the information required to make this publication a success.

The document is only published as a soft copy on the Authority's website in view of cost considerations.

Sriram Gade (Mr.)
Acting Chief Executive Officer

Mandate

The Regulatory Authority derives its mandate to regulate and supervise the non-bank financial institutions (NBFIs) from Section 8 of the NBFIRA Act (CAP46:08). In terms of the NBFIRA Act, the principal object of the Regulatory Authority is to foster the following:-

- Safety and soundness of the NBFIs;
- The highest standards of conduct of business by the NBFIs;
- Fairness, efficiency and orderliness of the Non-Bank Financial sector;
- Stability of the financial system; and
- Reduction and deterrence of financial crime.

VISION, MISSION AND VALUES

To support its fundamental and principal object, the Regulatory Authority subscribes to the following vision, mission and values statement in order to embrace a culture of a high performance organization.

Vision: To be an efficient and effective regulatory and supervisory authority in line with international best practices.

Mission: To regulate and supervise the Non-Bank Financial Institutions for the purpose of contributing towards financial stability.

Values:-

Integrity	We adhere to the highest ethical standards.
Transparency	We are open and frank in our operations.
Fairness	We consistently promote equal treatment in our dealings with all stakeholders.
Accountability	We are responsible to our stakeholders.
Diligence	We are thorough and persistent in the execution of our duties.

Editorial Commentary

The 2018/19 Annual Research Bulletin is themed around developments, policies and practices that support the Authority in executing its mandate.

The objective of this issue is to provide insights into the Authority's role of regulating the insurance industry and to take stock of developments over the past decade. It further, documents the FITCH Solutions forecasts of the industry performance. Special guest authors were invited to raise awareness of the insurance products available in the domestic market and the importance of risk mitigation during one's active life. Furthermore, the report covers capital adequacy measures under the new Insurance Act, 2015. All articles were prepared by staff and guest authors of the Authority as indicated.

I wish to express my sincere gratitude to guest authors, who contributed articles from a financial literacy perspective to this edition. Ms Moswela is the Managing Director of Old Mutual Short Term Insurance (Botswana) Limited and has for a number of years been the Chairperson of Botswana Insurance Short Term Underwriters Association (BISTUA). Ms Kgomotso Entaile is Wealth Manager at Botswana Life Affluent. Furthermore, research by FITCH Solutions, Finmark Trust and Microinsurance Centre at Milliman are undeniable contributors to the strategic vision for the development of the insurance sector in Botswana; and to them we are profoundly indebted.

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The Insurance Industry in Botswana, Key Trends and Outlook

"The insurance market is closely linked to economic growth, when incomes rise you have more insurable assets."

Introduction

In the year 2019, the Botswana insurance industry was governed by the Insurance Industry Act, 2015 and its supporting regulations. It is further subject to regulation and supervision under the Non-Bank Financial Institutions Regulatory Authority Act (NBFIRA) of 2016, and other financial services laws such as, inter alia, the Financial Intelligence Act (FIA), the Income Tax Act, CIPA and the Financial Information Act. The FIA regulates the transactions of enterprises for anti-money laundering and combating the financing of terrorism purposes. In addition, the International Insurance Act, 2005, governs international insurance services such as reinsurance, captive insurance and related activities, which can provide services to foreigners and in currencies other than the Botswana Pula (BWP), no other person resident in Botswana shall commence or carry out insurance business unless he is licensed as an insurer under this Act.

The industry includes "an insurer, reinsurer, broker, agent, insurance surveyor, risk manager, loss assessor, loss adjuster and claims settlement agent, whether registered under the insurance industry Act or not." These are defined in the Insurance Industry Act, 2015. The regulator, NBFIRA has a dedicated department charged with the responsibility for advising Management and the Board with licensing and supervision of industry players. The department is supported by fully fledged Strategy, Legal & Enforcement, AML/CFT, Research and Corporate Services functions and collaborates with other regulatory departments within the corporation including the Retirement Funds, Capital Markets and Lending Activities departments.

The Botswana population is small and was 2.4 million at the last national census in 2011, and the majority of the population are without a life and health insurance cover. The 2015 SADC Finscope study for making access to financial services possible revealed that insurance coverage (including informal products) reached only 30% of the adult population in Botswana. Consequently, when the rest of the population is included, especially given the youthful populace, it is safe to say more than 70% of the people are without insurance cover. This suggests an opportunity exists for the industry in reaching the untapped market. Furthermore, although the insurance coverage is ranked amongst the top 5 countries in the SADC region (FITCH), the penetration ratio of 3% is low relative to a higher level of disposable incomes. The opportunity for insurance expansion is even greater in the General, personal accident and health insurance businesses where the penetration ratio is below one percent.

It is on this background that the Government developed a roadmap to financial inclusion having, five priorities for the intensification of developing a robust payment ecosystem, facilitating low cost savings, development of accessible risk mitigation products (including microinsurance), enabling productive credit, consumer empowerment and national coordination in order to promote access to financial services and wider population participation in the national economic activity. The insurance industry is expected to benefit greatly from financial inclusion initiatives. In addition, and in consideration of the small population, the government has adopted a strategic objective of premising the industry on a global platform allowing foreign players participation in the domestic market for economies of scale. Botswana is open to foreign direct investments underpinned by factors such as no exchange controls and thus free capital movement (FDI). The insurance company shareholding by foreigners is not restricted and continental and inter-continental trade in services negotiations were under way at the time of writing this article.

At the end of March 31, 2019 there were 23 insurance companies operating in Botswana with 15 being General insurers and reinsurers, and eight life insurers. Medical Aid funds were five while intermediaries were 208, including brokers (58) and Corporate Agents (150).

About this Article

This article aims to provide insights on the developments in the Botswana insurance industry, the evolution of its market size as well as provide an overview of leading companies in the insurance industry. As far as possible the article shares forecasts of FITCH Solutions Research on the outlook of the sector to the year 2023.

Regulation of the Insurance Industry

The insurance industry in Botswana is governed by the NBFIRA Act in accordance with the provision of the Insurance Act, 2015, together with it supporting rules and regulations. The Insurance Act further provides that "no person resident in Botswana shall commence or carry on insurance business unless he is licensed as an insurer under this Act." The Act further stipulated licensing requirements and conditions for granting the license as here under:-

Licensing requirements

An insurer seeking a license shall satisfy the Regulatory Authority that-

(a) It is a company registered under the Companies Act with its principal office in Botswana;
(b) Its controller, manager, principal officer and directors who handle the day to day management of the company are all resident in Botswana; and that
(c) Its controller, manager and principal officer are persons with sufficient business and insurance knowledge and experience.

Conditions for the Granting of Licenses

(a) The class or classes of insurance business in respect of which the application is made will be conducted in accordance with sound insurance principles;
(b) The relevant capital requirements for insurers are adequate, having regard to any regulations made in relation thereto under the Act have been complied with by the applicant;
(c) The margin of solvency of the insurer is adequate having regard to any regulations made in relation thereto under the Act; and
(d) The applicant complies with the requirements of the Insurance Act, the Regulatory Authority may grant the application for a license as an insurer and issue the prescribed licensing certificate.

Capital Requirements

The minimum and capital adequacy requirements for the insurance industry is addressed as a separate article in this issue of the Research Bulletin.

Botswana Insurance Industry Overview

Insurance business has a long history in Botswana dating back to pre-independence in 1966. However, prior to the year 1975, all insurance businesses were foreign, mostly South African and British companies. Local participation in the insurance business started in 1975 with the incorporation of Botswana Insurance Corporation on August 12, 1975. The company operated both life and general business segments until 1991 when it separated its life and general insurance businesses in order to comply with the Insurance Act, 1987. The separation gave birth to Botswana General Insurance Limited and Botswana Life Insurance Limited. Some of the important milestones in the insurance business are given in Tables 1 below.

Table 1: Some Milestones in the Insurance Business

Year	Description of the Development
1987	The Insurance Industry Act of 1987 was enacted.
2005	The International Insurance Act, 2005 was promulgated with the effect of promoting the country as an attractive location for providing international insurance services such as reinsurance and captive insurance, usually to non-citizens and in foreign currencies through International Financial Services accredited companies.
2006	General Insurance Botswana (GIB) Pty Limited failed.
2007	The Board of Directors of NBFIRA was appointed.
2008	The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) operations commenced and thus facilitated the takeover of supervisory responsibilities from the then, Ministry of Finance and Development Planning with effect from April 1, 2008. The insurance industry was thus supervised by NBFIRA with effect from April 1, 2008.
2009	As at March 31, 2009 there were 201 regulated entities in the insurance industry comprising of 16 insurers, 36 brokers and 149 corporate agents. In addition, there were over 1,000 individual agents.
2012	The Insurance Industry Regulations were promulgated.
2013	Commencement of collection of quarterly statistics from insurers through the regulatory returns.
2013	The year marks the start of collection of insurance premiums through post offices.
2013	The year saw the first distribution channel of insurance services through mobile phones.
2014	The Botswana Short-Term Insurance Underwriters Association (BISTUA) was established to provide a platform, but not limited to, discussion of matters of common interest to general insurers and to influence the environment in which the industry exists.
2014	Adoption of risk based supervision of the insurance industry.
2014	Cadogan Financial Limited (UK) was engaged for a consultancy to introduce risk based supervision of insurance businesses and other NBFIs.
2015	Maemo Insurance Company was liquidated by the Regulatory Authority.
2015	The Botswana Insurance Brokers Association (BIBA) was established to provide a common platform for discussion of matters of the insurance broker business and to influence the environment in which the industry exists.
2015	The Risk Based Supervisory System (RBSS) was commissioned in April 2015 for on line collection of regulatory returns from insurance market and other Non- bank financial institutions (NBFIs).
2015	Brammer Insurance company, a Mauritian business was placed under statutory management by the Regulatory Authority and later sold to Bona Life Insurance Company.

Year	Description of the Development
2016	The insurance industry was subjected to an AML/CFT effectiveness on June 24 as part of the national assessment. It was found that the FIA legal framework needed to be strengthened.
2016	Drafting of Medical Aids Regulations and promulgation pending announcement.
2017	A new data collection template was developed and recommended for collection of, inter alia, insurer statistics by the IMF in consultation with key industry players and the regulators with the view to improve monitoring of financial stability and conformity to data dissemination standards. The regulatory return is pending review to incorporate the changes and in the interim it was arranged for SIEs to report in the said format through Excel spreadsheets.
2017	Phoenix Assurance Company failed to meet license renewal requirements following its license expiry on March 31, 2017.
2017	An inspection conducted in April 24, 2019 reveals that Bona Life was experiencing management/shareholder conflict, lack of Board and Asset/Liability management problems.
2017	Symphony Medical Aid was placed under curatorship and was later acquired by Pula Medical Aid.
2018	As at March 31, 2018 (10 years since establishment of NBFIRA) there were 298 regulated entities in the insurance industry comprising of 3 reinsurers, 19 insurers, 57 brokers and 210 corporate agents. In addition, there were over 2,400 individual agents. All three reinsurers operate in the general insurance business; two joined the market in 2009 and one in 2013.
2018	The developments in the insurance sector over the past 10 years were documented as a part of the special section of the 2018 NBFIRA Annual Report.
2018	Onsite inspections of Bona Life in April and June 2018 reveal that Board issues at Bona Life remained unresolved.
2019	The Insurance Industry Act of 1987 was repealed and the 2015 Act commenced in 2019. The Act introduced a provision for the development a micro insurance business market.
2019	Phoenix resumed operations after a period of temporary closure but liquidity and credit issues remained a concern.
2019	Bona Life was released from Statutory management but remained under close monitoring by the Regulatory Authority.
2019	Exemptions for Etudiant and Itekanele to operate as medical aid funds were withdrawn.
2019	Pearson & Hardman Insurance broker fails to submit audited financial statements and its licensed was revoked.
2019	Licenses of Botlhe and Coversure medical aids were revoked.
2019	The entire board membership of Symphony medical aid resigned.
2020	Bona Life Insurance company was placed under statutory management to address capital inadequacy since 2017 and management problems emanating from the resignation of its founding Chief Executive Officer in January 2020.

> "As insurance firms adapt to maturing markets and economic turbulence, in the long run, their ability to integrate technology, talent, and business-model innovation into legacy environments may be the key to success.
> *Deloitte 2020 Insurance Outlook.*"

Industry Trends and Forecasts

SWOT Analysis of Botswana Insurance

FITCH Solutions Botswana Insurance Report published on January 1, 2020, outlined the following Strengths, Weaknesses, Opportunities and Threats (SWOT).

Strengths

- Botswana has one of the most developed life sectors in Sub-Saharan Africa, with per capita premiums estimated at USD229.1 in 2020.
- Innovation, especially in the life segment, is improving accessibility.
- There is general discipline in underwriting supported by a sound regulatory environment.

Weaknesses

- The Botswana market suffers a lack of scale, which is somewhat mitigated by the fact that many of the insurers see their businesses in the country as being part of a larger, regional operation.
- There is a comparative lack of insurable corporate/institutional risks.
- Widespread poverty will continue to limit demand for a range of life and non-life products.

Opportunities

- Innovative distribution strategies, particularly in the life segment, are an ongoing opportunity.
- The continued education of non-users of insurance and growth in financial inclusion could lead to new business sales.
- The microinsurance segment could be further developed.

Threats

- Profitability is mixed, especially in the non-life segment, amid heavy competition.
- Botswana has a lack of size and liquidity in domestic financial markets.
- As a very small and open country that depends heavily on volatile export segments, all Botswana's economic sectors are extremely vulnerable to swings in global economic growth and commodity prices.

Source: Botswana Insurance Report | Q1 2020 fitchsolutions.com

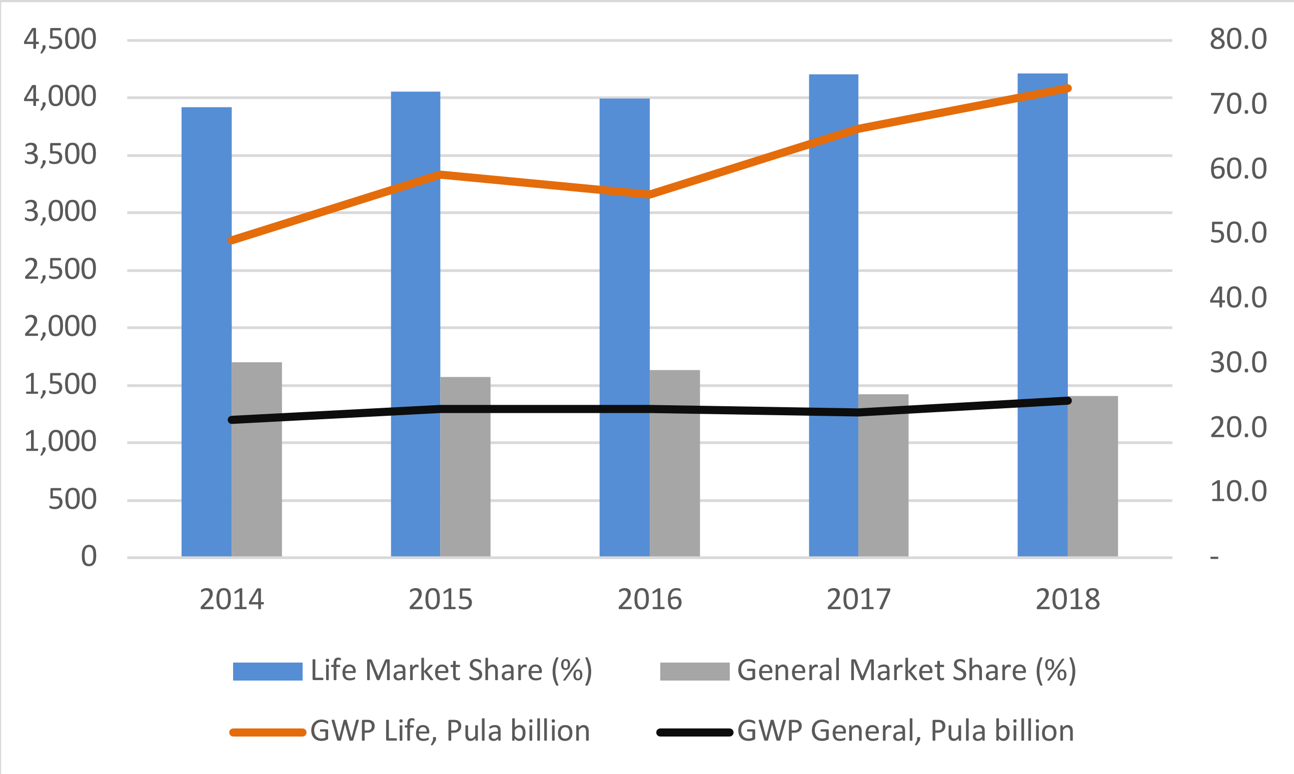
Table 2 below shows headline insurance statistics for the past 5 years together with forecasts by FITCH Solutions for the year 2019 -2023. The 2019 audited data is due for release on May 31, 2020.

Statistic	2014	2015	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
GWP Life, Pula billion	2,761	3,336	3,163	3,730	4,084	4,690	5,300	5,840	6,230	6,620
GWP Life y-o-y growth (%)	7.6	20.8	-5.2	17.9	9.5	14.9	13.1	10.2	6.6	6.2
Life Density Ratio (%)	0.13	0.15	1.37	0.16	0.18	0.20	0.22	0.24	0.25	0.27
Life Penetration Ratio (%)	1.94	2.29	1.86	2.07	2.15	2.34	2.45	2.42	2.38	2.32
Life Market Share (%)	69.7	72.0	71.0	74.7	74.9	77.3	78.9	80.0	80.6	81.1
GWP General, Pula billion	1,199	1,295	1,292	1,262	1,366	1,380	1,420	1,460	1,500	1,540
GWP General y-o-y growth (%)	1.9	8	-0.2	-2.3	8.3	0.8	3	2.6	2.8	2.8
General Density Ratio (%)	0.06	0.06	0.56	0.06	0.06	0.06	0.06	0.06	0.06	0.06
General Penetration Ratio (%)	0.84	0.89	0.76	0.70	0.72	0.69	0.66	0.61	0.57	0.54
General Market Share (%)	30.28	27.96	29.00	25.28	25.06	22.73	21.13	20.00	19.40	18.87
GDP	142,466	145,726	169,688	180,113	189,869	200,190	215,943	241,294	262,275	284,926
TOTAL POPULATION	2,156,366	2,195,134	2, 230,905	2,266,857	2,302,878	2,338,851	2,374,698	2,410,338	2,445,720	2,480,833
TOTAL GWP (Life and General)	3,960	4,631	4,455	4,992	5,450	6,070	6,720	7,300	7,730	8,160

**1- Density ratio is defined*

**2 - Penetration ratio is defined*

The Life sector dominated the market share of Gross Written Premiums over the past five years and has averaged 70 %, with premiums increasing over time. The GWP by the general insurance remained constant with its market averaging 30%. See Chart below.

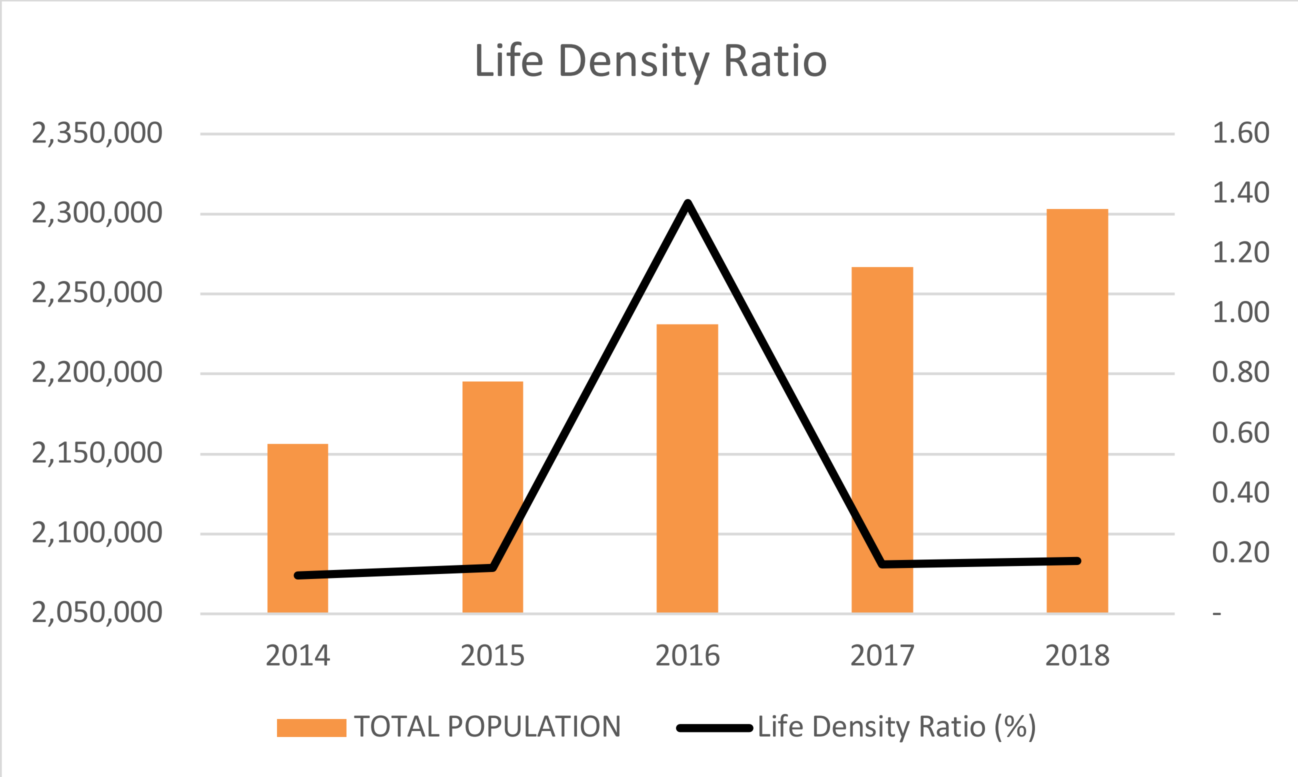


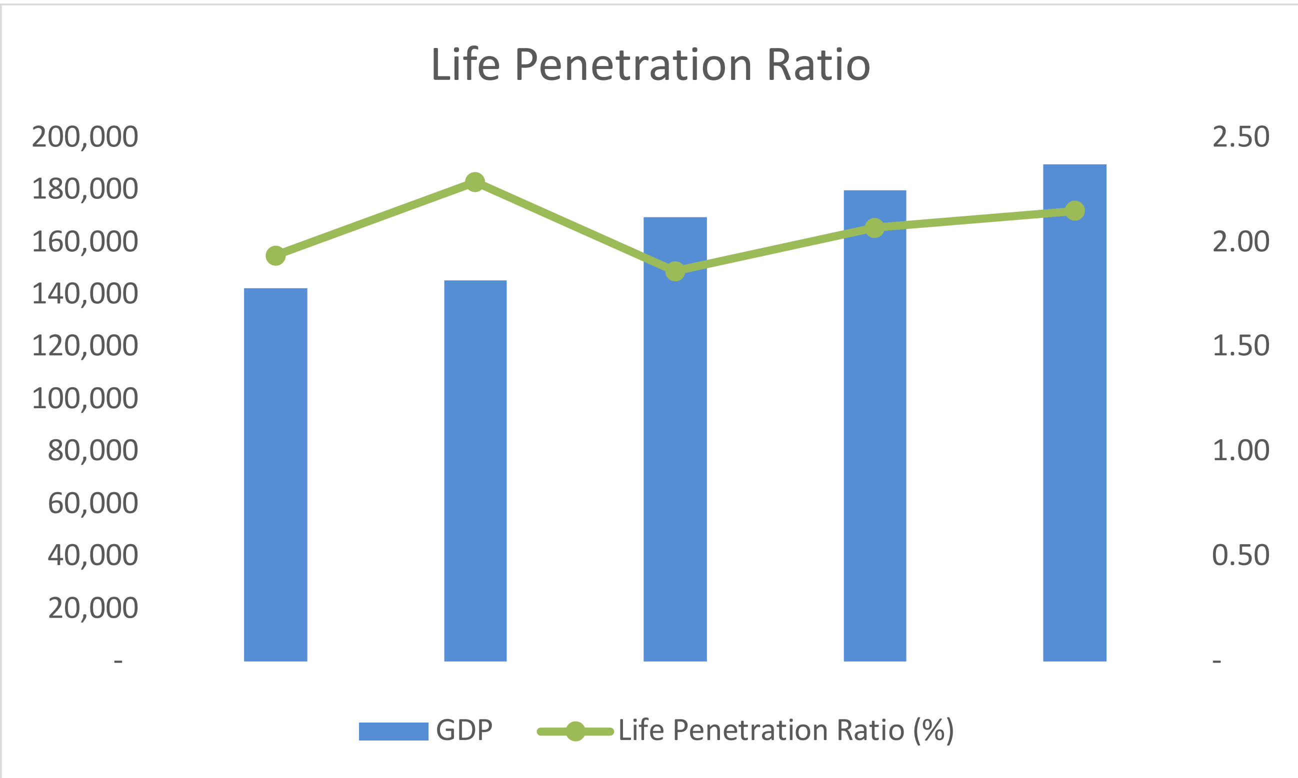
The Life insurance sector has over the past five years constituted the largest market share of gross written premiums. In 2014, the business sector accounted for 70% of the total insurance industry and had registered an increase to 75% in 2018. The share is forecast[1] to grow to 81% in 2023. Furthermore, the life insurance sector registered the density and penetration ratios of 0.13% & 1.94% in 2014 rising to 0.18% and 2.15% in 2018, respectively. The sector is expected to maintain the lead during the 2019 -2023 forecast period. The general insurance on the other hand was considerably small registering market share of GWP of 25% in 2018 but is expected to decrease to 19% by end of the forecast period in 2023. Meanwhile the insurance penetrations for the general insurance business stood at 0.72% in 2018.

Given the high adult literacy rate in Botswana, 85%, the majority of the population are amenable to embracing insurance in their lives and their businesses. Consideration of compulsory insurance schemes, for example motor vehicles cover and proper financial literacy programs by insurers and relevant authorities will help drive insurance penetration in the country.

> "The insurance market is closely linked to economic growth, when incomes rise you have more insurable assets."

[1]FITCH IBCA Botswana Insurance Report Q1, 2020

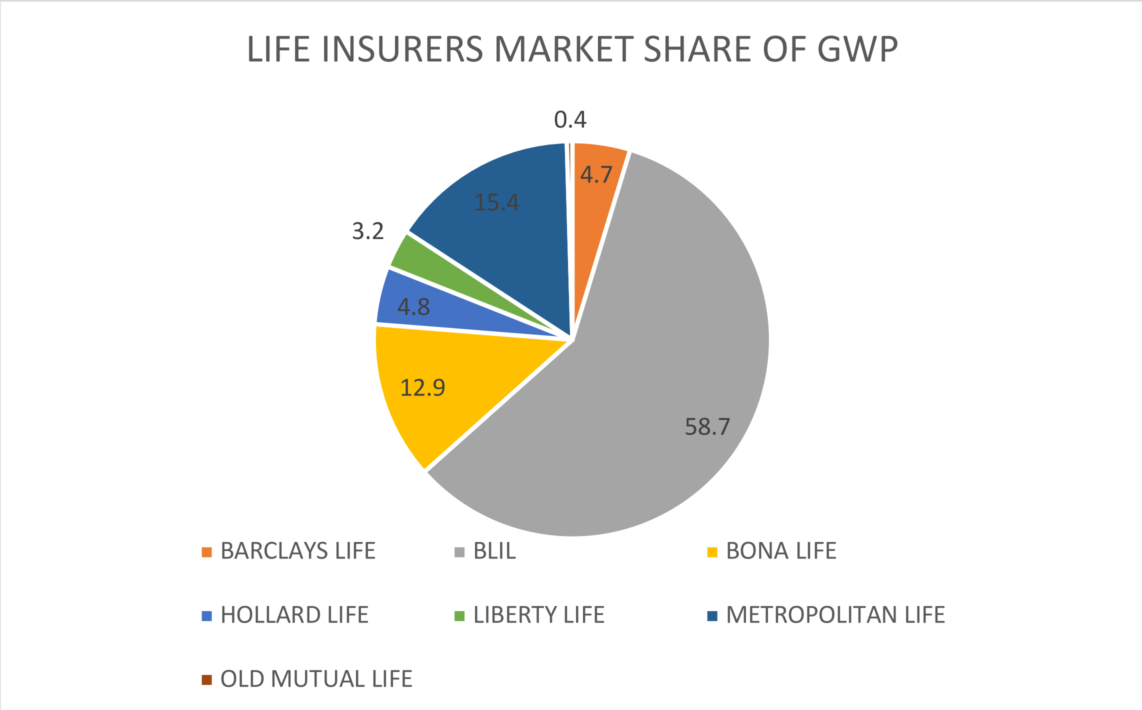

Life Density Ratio
2,350,000
2,300,000
2,250,000
2,200,000
2,150,000
2,100,000
2,050,000
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
-
2014
2015
2016
2017
2018
TOTAL POPULATION
Life Density Ratio (%)

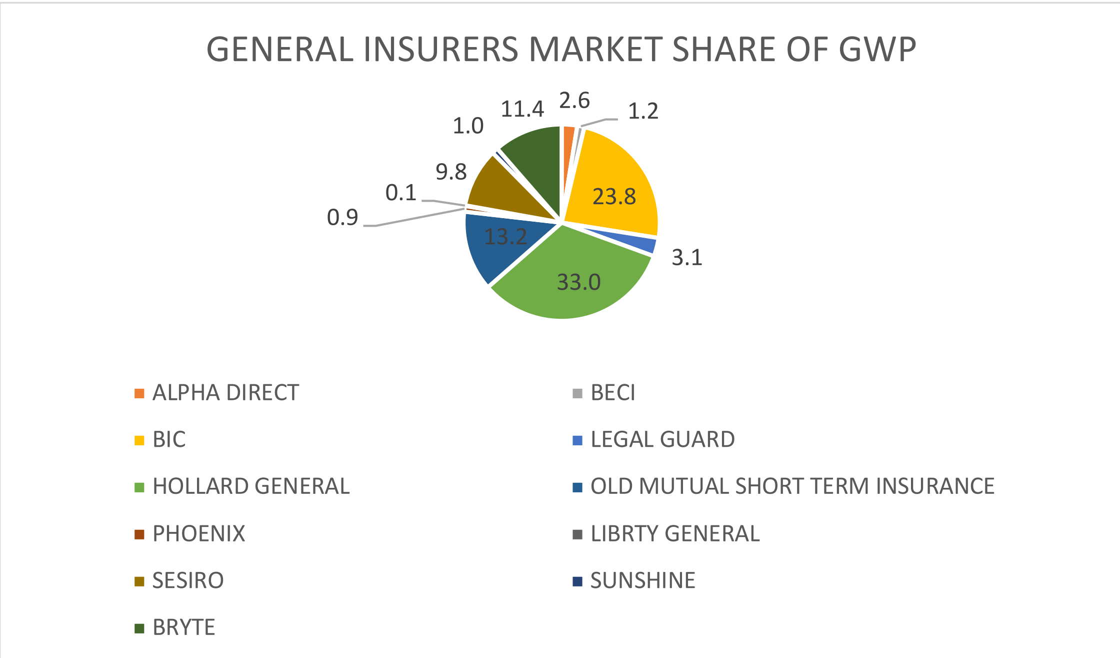

Life Penetration Ratio
200,000
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
-
2.50
2.00
1.50
1.00
0.50
-
GDP
Life Penetration Ratio (%)

Competitive Landscape

Insurance businesses in Botswana are required to operate as either the Life or General Insurance sectors, but not both. In other words, the law prohibits the carrying out of composite insurance business. However, shareholders may operate different business classes as separate entities. The competition issues of the insurance sector are addressed in an extraction of the 2019 financial stability report published in this report.

The following pie charts show the market shares of Life and General insurers during the year ended December 2018.





Top 3 Leading Companies in Life Insurance Sector

The Botswana life insurance is much larger than the general life sector. The FITCH Solutions SWOT analysis above points to threats emanating from population size and limited growth of the pension market arising therefrom. Consequently, the Government, has made trade in services commitments with SADC in February 2018 and is expected to make similar commitments with the AU in July 2020 to liberalize, inter alia, the insurance sector and other financial services. This it is envisaged will promote export of knowledge intensive business services and also attract foreign direct investment into Botswana.

Botswana Life

Since inception Botswana life has dominated the life insurance market of gross written premiums. Over the past five years ending December 31, 2018 its market share ranged between 59% and 74%; with the lowest market share recorded in 2018; as competition in the sector increased. See Chart A below.

Metropolitan Life

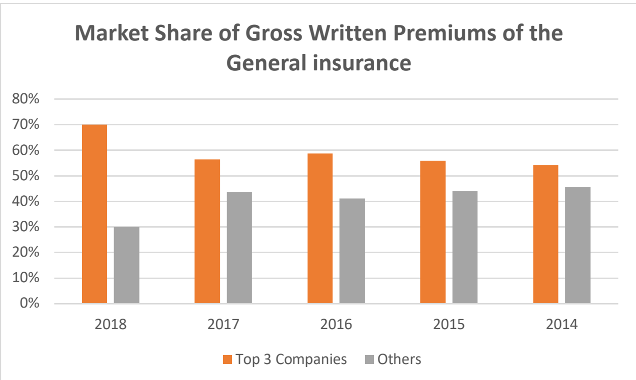
Metropolitan has over the review period recorded a market share of gross written premiums in the range of 13% in 2014 and 18% in 2016. The company has over the first three years increased its market share of gross written premiums on an annual basis but reached a peak in 2016 and since reported 15% markets share over the past two years. However, it maintained its second place as the largest life insurer over the entire review period.

Bona Life

Bona life entered the Botswana life insurance market in 2014/15 by acquiring Brammer Life and worked its way to being the third largest life insurer in 2017. Its market share over the past two years ranged between 9% in 2017 and 13% in 2018. At the time of writing this article Bona Life was placed under statutory management to address issues of key personnel and capital injection.

Top 3 Leading Companies in the General Insurance Sector

During the period ending December 2017 the Botswana general insurance was competitive with top 3 companies' market share of the gross written premiums remaining between 54% in 2014 and 56% in 2017 over the past five years. However, in 2018 Hollard acquired Regent and surpassed BIC in market share for the first time over the past five years and this resulted in a market concentration of 70% market share of top 3 insurers. The names of top 3 companies in each year are ranked in terms of market share. See Figure below.



Top 3 Companies by rank	2018	2017	2016	2015	2014
1	Hollard General	BIC	BIC	BIC	BIC
2	BIC	Regent General	Regent General	Regent	Regent
3	Old Mutual	Old Mutual	Hollard General	Hollard	Mutual &Federal

Capital Adequacy Measurement under the Insurance Act, 2015

By Omphile Botlhole and Lobone Koosaletse

Introduction

The purpose of this paper is to delve into insurer capital, explaining it, and comparing treatment of this capital in the past, present and future.

Definitions,

At its simplest, in insurance, capital can be defined as the difference between the assets and liabilities of an entity which is essentially the shareholder equity. This is effectively the accounting equation;

Capital= Assets-Liabilities

Whilst there are different types of capital, in determination of the capital situation of an insurer, these different types are combined.

For example, in an insurer, there will typically be;

- paid up capital
- Technical reserves
- Retained earnings and so on.

Purpose of capital

In insurance, capital is primarily required for the purpose of ensuring that an insurer can meet its obligations to its policyholders. The capital also serves as reserves which cater for unforeseen claims experiences beyond expectations. As such it is desirable for an insurer to have large capital reserves to better prepare themselves for all eventualities.

Larger capital reserves also allow insurers to grow, in turn further increasing the capital. As with more capital an insurer can expand their business either into their current business lines or explore newer insurance territories both in terms of new locations or products.

In measuring this capital it is imperative to consider the subsequent solvency of the entity and also how you calculate the assets and the liabilities of the insurer.

> "80% of respondents believe the insurance industry is moving fast enough to keep up with technological advancements.
> *Deloitte*"

HISTORY OF THE INSURERS CAPITAL MEASUREMENT REGIME IN BOTSWANA

Insurance legislation in the Republic of Botswana began in earnest with the introduction of the Insurance Industry Act of 1987, which commenced officially three years later on the 1st of July 1990. Before this insurers were left to their devices and essentially there was no specific legislation on capital. Insurers kept capital levels that they felt were adequate with no guidance from the state.

With the introduction of the Act, Insurers were subjected to capital requirements. These were outlined in Sections 9, 10 and 11 of the Insurance Industry Act and Regulations 4, 5, 6 and 7 of the Insurance Industry Regulations tied to that Act. (Please note that in this section of the paper, any mention of Sections or of Regulations, speak to the previous legislation being the Insurance Industry Act of 1987 and the related Regulations tied to that Act)

Sections 9 and Regulation 4 spoke to the minimum capital requirement to be held by both long and short term insurers. This specified that this requirement was P 2 million, which in today's money, considering inflation is equivalent to a minimum capital of P 4.64 million. In this, insurers were not allowed to include debentures, preference shares, non-voting shares etc. In essence debt instruments were not included in the determination of this capital.

The aforementioned Sections also stipulated minimum transfers from yearly profits. These were to be done before any dividend was paid. These transfers were to be made either directly to increase paid up share capital, or to a Capital Reserve Account which could only be reduced by transferring to the paid up share capital. The intention of this was to regulate dividend payments and encourage shareholders to grow their companies, the rates of these transfers differed, with a 25% transfer to be made for long term insurers and a 15% transfer to be made for short term insurers. For short term insurers a further 10% of gross profits were to be transferred to a Statutory Reserve Solvency Account as stipulated by Section 11.

Section 10 and Regulations 5, 6 and 7

These spoke to the solvency of insurers and specified the minimum solvency required of insurance companies. For short-term business the requirement was that assets should exceed liabilities by the greater of 1 million or 20% of the Net Premium income earned in that particular year. For long term insurers the requirement was that the assets should simply exceed liabilities this measure was basically identified if an insurer had enough of a buffer to settle claims in the case of extreme adverse situations, this was effectively the capital the insurer had. There were also reporting obligations placed on directors to inform the regulator in the case of a drastic fall in solvency. This shows the importance placed on insurer capital adequacy.

In determining this solvency margin, there were regulations that governed the measurement and admissibility of insurance assets, and how the liabilities were to be recorded. This was so as to not overstate the former or understate the latter in order to have a more realistic calculation. Regulation 6 spoke to short term assets and liabilities whilst 7 spoke to long term assets and liabilities

Limitations

Whilst the introduction of this legislation on capital was a welcome step in ensuring the stability of the sector. This approach had its limitations in that it was compliance based. That is it did not account for size and or complexity of offering by insurers. Essentially it was possible for two insurers with drastically differing portfolios in terms of risk and size to be expected to carry the same capital. This solution exposed the market to risks of collapse of insurers.

Whilst there were penalties for not complying with the aforementioned regulations and sections which ranged from penalties all the way to cancellation of licences. This approach had its limitations in that, if for example an insurer was very large. It was possible that by the time the issue was identified, or if there was an adverse situation in terms of large claims, it would be difficult for the insurer to recover.

Current Botswana Capital Regime

In March 2012, the Non- Bank Financial Institutions Regulatory Authority ("NBFIRA") published the Insurance Prudential Rules which, among others, respectively prescribed the valuation methods for liabilities, assets and the prescribed capital target (PCT) for insurers.

The minimum capital target (MCT) is the absolute amount of capital that an insurer is required to have for licensing and ongoing operation in currency terms.

Insurers are required to hold the greater of the MCT and PCT.

The Insurance Industry Regulations (2019) prescribe the MCT for the respective insurers as below:

General Insurers:

The greater of:

i. P5 million; or

ii. 25% of operating expenses estimated for the following year.

Reinsurers and Long Term Insurers:

The greater of:

i. P10 million; or

ii. 25% of operating expenses estimated for the following year.

The PCT on the other hand is the minimum amount of assets in excess of liabilities that an insurer should hold in order to cushion against negative fluctuations in experience that could result in premiums and technical reserves not being sufficient to cover losses suffered by the insurer. It also serves as a regulatory warning system. It is a risk based capital requirement that takes into account an entity's insurance and non-insurance risks and liabilities against the nature and spread its assets.

PCT for the respective insurers as per the Insurance Prudential Rules (2012) can be summarised as below:

General Reinsurers and Insurers

The PCT for general insurers comprises of three components namely the Insurance Risk Capital, the Market Risk Capital and the Maximum Event Retention.

The Insurance Risk Capital (IRC)

This element of the PCT takes into account the various statutory classes of business that the insurer has written, and the expected growth of the same for the following year and intends to cover the underwriting risk, credit risk, fluctuation risk inherent in the technical reserves and operational risk associated with the respective classes of insurance business.

The Market Risk Capital (MRC)

The MRC is intended to cover the market risk associated with the assets used to meet the insurer's technical provisions. Each asset class will attract a specific capital charge. The more risky the asset, the higher the capital charge. Cash or near cash assets attract a 0% charge therefore if an entity can meet all its technical provisions with cash or near cash assets then the MRC will be equal to zero.

The Maximum Event Retention (MER)

Catastrophe risk is one of the greatest risks faced by a general insurer therefore this component of the PCT takes into account an insurers exposure to losses arising from catastrophe. There is no prescribed basis for this calculation therefore each insurer is required to exercise its own judgment taking into account the extent the nature of their business. MER is defined as the largest possible loss an insurer will be exposed to in 250 years and is not limited to natural catastrophes but should also take into account the company's inherent risks.

After factoring in the above three elements a PCT will be determined and an insurer's assets in excess of liabilities must at a minimum meet this level.

Long Term Reinsurers and Insurers

The PCT for long term insurers has two overarching elements being the Termination Capital Target and the Ordinary Capital Target. These are calculated and the greater of the two is then used as the PCT of the insurer.

The Termination Capital Target (TCT)

The TCT ensures that an insurer is in a position to survive a large number of policy terminations in the form of lapses and surrenders. It I calculated using conservative assumptions and is based on liabilities in the event of lapses and surrenders.

The Ordinary Capital Target (OCT)

On the other hand the OCT takes into account each risk category and establishes the amount of capital that needs to hold in respect of that risk.

Conclusion

The now in force Botswana risk based capital approach is clearly more robust than the old regime however there have been suggestion that the approach is outdated. Other markets have an Own Risk and Solvency Assessment (ORSA) model, while others are in line with the Solvency II Directive of 2009, perhaps there is a need to review the Botswana model in line with international standards and emerging risks.

The Roadmap to Financial Inclusion

"Enhancing financial inclusion in Botswana is currently a key policy goal, with stakeholders from all financial sectors working to support and carry out the national objectives outlined in the Financial Inclusion Roadmap and Strategy 2015 – 2021 ("Roadmap and Strategy"). Insurance in Botswana (including informal products) currently only reaches about one third of its adult population, leaving 70% of adults without insurance coverage (and many more if including the total population). Though relatively high for the African continent, Botswana's insurance penetration is low for its income level and low when compared to others in the sub-region, such as South Africa and Namibia. In addition to areas for improvement in the insurance supply-side, the regulatory environment currently only has a definition for "microinsurance" but not further guidelines. The Roadmap and Strategy puts forth "Priority 3 – Develop accessible risk mitigation products" to address these issues and more in the insurance sector, with a focus on improving products and distribution as well as regulatory and policy interventions. The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) has been delegated as the primary stakeholder to coordinate all "Priority 3" risk mitigation strategies and activities." ***NBFIRA/Microinsurance Centre at Milliman.***

WHAT IS LIFE INSURANCE

- By MS KGOMOTSO ENTAILE

Life insurance is an agreement signed between the policy holder and the insurance company, which the life insurance company pays a specific sum to the insured person's nominated family individuals upon his/her death. The life insurance sum is paid in exchange for a specific agreed amount of premium.

For us to understand the term clearly and appreciate its importance in our lives, we need to consider life insurance as a 'back-up plan for life so that we are prepared financially, come what may. It ensures that your dependents, be it minors or adults and yourself receive financial support in the event you are not able to bring in the much needed income…Maybe due to an accident or an untimely demise.

It' significance is to avail 'the peace of mind that it brings along. However having an adequate amount of life insurance effectively sets your mind free of some import questions like;

- What will happen to my family financially after I die?
- How will my spouse and kids take care of their expenses after I am no more?
- How will I provide for my family in case I lose my job due to disability?

Life is beautiful, but also uncertain. Whatever you do, however smart and hard you work…you are never sure what life has in store for you. We therefore cannot afford to leave anything to chance!!

REASONS TO BUY LIFE INSURANCE

Through life journey as we grow up into different kinds of life commitments…. family or business we cannot but appreciate life insurance as indispensable and fundamental to a sound financial plan. Almost everyone is aware that they need life insurance but from my experience most people procrastinate until there is an important life event that pushes them to buy it. However there are some serious benefits to buying life insurance early on, especially if you are married or planning to. Have or planning to start a family, you are a business owner and have facilities/debts. Therefore the fundamental questions you should ask yourself when contemplating life insurance should be; will someone in my life be adversely effected from financial standpoint by my untimely death?

With all that said we can all agree that there are actually many reasons why one should purchase life insurance which include but not limited to the following

- To pay off debts
- To buy a business partner' Shares
- To replace the spouse's income
- To cover children's expenses
- To pay final expenses

TYPES OF LIFE INSURANCE

There are essentially two kinds of policies- Term life insurance and Whole life insurance.

Term life insurance lasts for a specific amount of time [Term] and expires at the end of the policy. It provides coverage for a certain period of time or a specified term of years therefore if the insured dies during the time period specified in the policy and the policy is active or in force the benefit will be paid

Whereas Whole life insurance on the other hand is a form of permanent life insurance, meaning the insured person is covered for the duration of their life for as long as premiums are paid on time. The benefit is paid out to a beneficiary or beneficiaries upon the policyholder's death provided the premium payments were maintained.

There are more insurance plans that fall into these two categories, each with their own benefits and drawbacks. For example- a Plan that is specific to a loan/debt at a financial institution like Personal loan or Mortgage etc

SHORT TERM INSURANCE LANDSCAPE IN BOTSWANA

- BY KUSHATHA MOSWELA

The Need for Insurance

The need for insurance arises mainly where individuals as well as corporations decided to transfer the risks that they face to an insurer. The transfer of the risks is influenced by many factors that include the lack of financial resources to provide for losses should the risks materialize, the lack of expertise and knowhow of controlling and managing the risks, regulatory requirements and opportunity to efficiently manage available financial resources.

Concept of Insurance

The concept of insurance is based on pooling of risks with the requirement that these risks are significant in number and independent from one another. This allows an insurance company to price these risks at a reasonable premium with the expectation that they have a low probability of occurring (there is uncertainty of occurrence) and their financial impact is quantifiable. An insurance company uses this principle to determine the price "premium" chargeable for the risks transferred to it.

Insurance companies have the expertise and required financial resources to manage these risks for a premium charge with the aim to deliver on both economic and financial value to their owners. The downside of pooling of risks is that if the risks are closely connected it may be possible for a single event to give rise to a large undesirable financial loss. There are regulatory rules that include the required technical calculations and capital requirements on insurers to minimize this events from happening.

Short Term Insurance in Botswana

Short Term insurance also known as General insurance relates to all other risks that are not associated with human life events of death, disability and longevity. As the name suggests that short term insurance runs for short periods of time that could be a month or a year before it is renewed or re-priced whilst the long term insurance once issued it runs until the insured dies, retires or is disabled which could be in a number of future years.

The Botswana short term insurance is relatively small compared to the overall GDP of the economy. It represents about 1% of the GDP. The key reasons/challenges why there is a low insurance penetration in Botswana are:

- Insurance is viewed to be complex and its benefits are not fully appreciated. This is a result of information asymmetry between the insurers and the customers.
- Affordability is a challenge in a market that is characterized by high unemployment and increased pressure on disposable income
- Accessibility to providers is a challenge particularly to those in the remote and rural areas

The above challenges pose an opportunity for the short term insurance market to develop appropriate responses that would result in an increased insurance penetration rate. These would be:

- Education and awareness of insurance and its benefits to the communities and interested parties
- Provision of affordable simple products
- Broadening the distribution channels of insurance to ease the accessibility of insurance products and services.

Classes of Business and Products

The main classes of short term insurance provided in Botswana are:

a. Property – this is a cover (product) is for buildings damage and loss from perils and events that include fire, earthquakes, flooding etc. The insurance company pays out the insured the financial losses incurred on the property as a result of the cause of the stated perils and events.

b. Motor – this cover (product) is for all types of motor vehicles including cars, bicycles, buses etc. There a different covers on these:

i. Comprehensive motor cover. This provides insurance for damages the insured's motor vehicle well damages to other persons vehicles caused by the insured vehicle.

ii. Third party cover – the cover is only for damages caused by the insured on other's motor vehicles. The insured's motor vehicle damages are not covered.

c. Accident – The cover (product) is on injuries and health care needs that result from accidents incurred by the insured. The amount of insurance cover is usually stated beforehand with limits.

d. Engineering – Cover (product) is on construction, commercial and industrial risks, machinery breakdowns and contract risks. This cover is taken by entities and corporations rather than individuals. The purpose will be to compensate the insured on losses experienced as a result of stated perils that would include machinery breakdown.

e. Transportation – This cover is also known as "Goods-in-Transit" and "Marine". It covers for damages and losses of products and material that are being transported from one area to the next. The value of these goods needs to be stated beforehand and the benefit is to compensate the insured for their financial losses on the goods.

f. Liabilities – This is cover to protect the insured on any damages that result in quantifiable financial losses to a 3rd party for any other reason that could include their professional practice, their products etc. The different liability covers which some are compulsory in certain practices include; Directors and Officers Liability, Public Liability, Product Liability etc.

Premium, Excess and Limits Variation

The premium is the price payable by the insured to the insurer for obtaining cover. The excess is the first loss amount that the insured pays in an event of an insurable loss. The limit is the maximum amount payable for the insurance loss.

Insurance like any other business faces competitive market forces. Premium is a key determinant from buyers and for this reason, premium rates are varied in relation to excess amounts and benefit limits.

The Botswana Short Term Insurance market is characterized by aggressive competition that is seeing a continued increase on the reduction of premium rates. This reduction is not commensurate with the excess and limits.

Distribution of Products

The main channels of distribution of short term insurance in Botswana are:

a. Intermediaries that include brokers and agents – this is the most dominant
b. Direct – walk in customers
c. BancAssurance
d. Affinities and partnerships (schemes and mobile network operators).

FINANCIAL STABILITY OF THE INSURANCE INDUSTRY

Introduction

This article presents an analysis of the financial health and stability of the insurance industry in 2018. The industry is monitored for financial stability assessment purposes. Over the past three years the assets of the insurance industry fell by 14%, registering an asset base of P19 billion in 2018 compared to P21 billion in 2016. The contraction in the asset base was mainly due to de-registration of BIFM from the Life insurance sector. On the contrary, the industry recorded growth in the revenues with gross written premiums increasing by 22% over the past 3 years to P5.5 billion in 2018 from P4.5 billion in 2016. In the past year, the growth in revenues was only 9 % but was higher than the annual GDP growth of 4.5% so relative to the economy the sector actually expanded.

Overall, the insurance industry financial sector was assessed to be financially sound. The sector contributed 3% to GDP and maintained high actual capital levels with strong liquidity and profitability indicators contributing to mitigation of financial risks. The commencement of the Insurance Act, 2015 and its supporting regulations introduced g capital adequacy measures and a grace period to May 2020 was granted.

In November 2017 the IMF sponsored a consultancy for effective monitoring and assessment of financial stability and made recommendations on insurance data collection tools[2] such that external factors, especially movements in foreign exchange (forex) and interest rates, can be factored into the balance sheets. Such information is considered important to assess the threats to domestic financial stability or vulnerability to global financial instability. The Regulatory Authority has since 2013 been collecting quarterly financial statistics from insurers and this information shall provide lead indicators of industry performance since the last audited information.

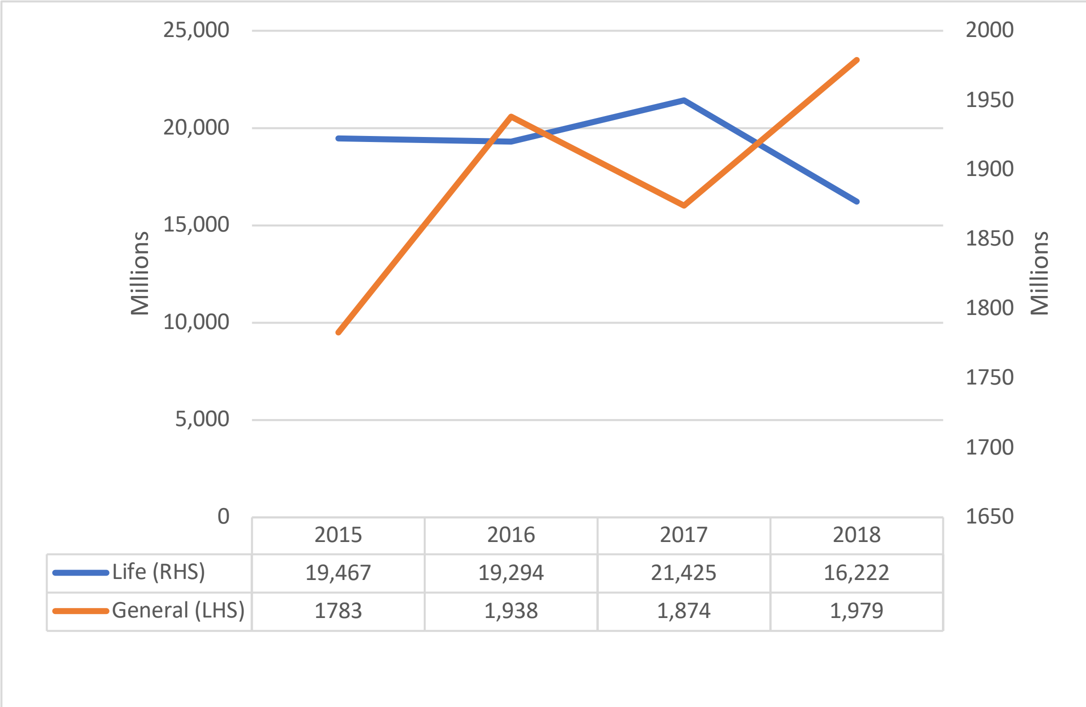
PERFORMANCE OF THE INSURANCE INDUSTRY

Asset Base

The insurers' assets as a percentage of total financial system assets decreased to 8% in 2018 from 10 % in 2016. During the corresponding period, and when expressed as a percentage of nominal GDP, the insurers assets ratio also registered a decrease to 10% in 2018 from 12% in 2016.

[2]*IMF Financial Stability Indicator Guidelines – "Experiences accrued to date and the discussions at the FSIRG underscore the need to improve the cross-country comparability of FSI data by limiting existing options on the type of consolidation basis. Consolidation basis is an important FSI methodological dimension, which should be selected appropriately to ensure better comparability and homogeneity of FSIs across countries".*

Figure 1: Life and General Insurer's Assets (2015-2018)



Source: NBFIRA

Penetration Ratios

The penetration ratio is expressed as a ratio of Gross Written Premiums (GWP) to nominal GDP. It is an indicative measure of the level of development of the insurance sector. During the review period, the penetration ratio for the Life sector remained higher at 2% compared to the General insurance sector at less than 1%, attesting to the former being a more developed market. However, both market segments registered a slight improvement in their contribution to nominal GDP during the year 2018. The combined penetration ratio ended the year 2018 at 3% compared to 2% in 2016. Refer to Table 1 below.

Table 1: Insurer's GWP as % of Nominal GDP During the year ended December 31

	2018		2017	2016
	GWP Pula Millions	As % of GDP	As % of GDP	As % of GDP
Life Insurers	4,083	2.1	1.64	1.61
General Insurers	1,366	0.7	0.3	0.4
Total Note 1	5,449	2.8	1.9	1.7

In US Dollar terms FITCH Solutions ranks the penetration ratio of Botswana among the top 5 in the SADC region as shown in Table 2 b below:-

Table 2 : GWP of Top 5 SADC Member states as a Percentage of GDP

Country	2018	2017	2016
Botswana	2.8	1.9	1.7
Mauritius	4.3	4.3	4.1
Namibia	7.1	7.1	6.8
South Africa	13.1	13.1	13.9
Zimbabwe	2.9	2.7	2.7

Density Ratios

The Density ratio represents the amount spent on purchasing insurance per capita during a single year and it is expressed as a ratio of GWP to population size. The Life insurance density ratio increased to P184, 000 in 2018 from P142, 000 in 2016 (representing 30% growth). The General insurers on the other hand registered a lower per capita increase in the density ratio to P62, 000 in 2018 from P58, 000 in 2016 (representing 7% growth). In both insurance market segments, there has been an increase in insurance spending despite slow growth in household incomes due to low public sector salary increments during the review period. Refer to Table 3 below. However, there is greater scope for improving coverage by improving uptake of traditional insurance products and development of micro-insurance products in tandem with expectations for migration to a high income economy.

Table 3: Gross Written Premium as % of Population Size (Density Ratio)

Insurer Business In Pula Millions	2018		2017		2016	
	GWP	Ratio	GWP	Ratio	GWP	Ratio
Life	4,083	184.3	3,729	164.6	3,162	141.7
General	1,366	61.7	1,261	55.6	1,292	57.9
Insurers	5,449	246.0	4,990	220.2	4.454	199.6
Population(Millions) * 1	2,215		2,266		2,231	

"The only way you will ever permanently take control of your financial life is to dig deep and fix the root problem."
Suze Orman

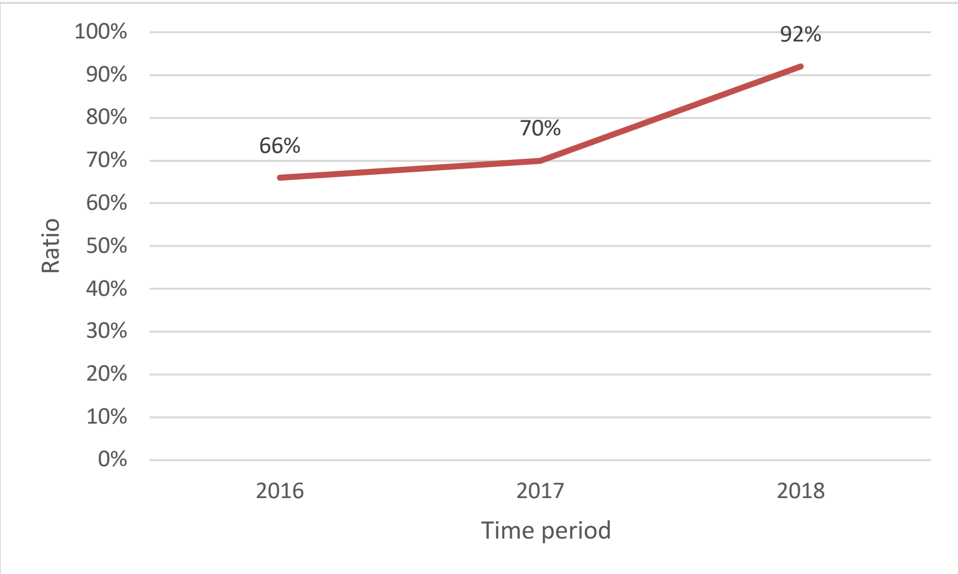
Note 1: Sum of GWP for the Life and General insurers.
Source: NBFIRA and Statistics Botswana.

Insurance Market Concentration Ratios

In the Life sector three entities were identified by the Regulatory Authority as being of systematic importance. In this paper we calculate the concentration ratio as the percentage of market share of GWP for General and Life insurers. The ratio is a simple indicator of the extent of competition in the General and Life Insurance markets and a USA Department of Justice[3] scale is cautiously used for interpretation. The reason being that the domestic market lacks economies of scale and therefore the few entities may still be competitive.

The concentration ratio of Life SIEs ended the year 2018 higher at 92% having registered 66% in both 2017 and 2016. The increasing trend points to lesser competition for market share of assets by entities not classified as SIEs and is a negative development. More importantly, a high concentration risk could be a potential for systemic risk. At these levels it needs constant monitoring as few entities continue to dominate the market. That being said, we caution that the US market scaling may not be relevant for Botswana as the former has a more sophisticated financial system and an appropriate scaling using developing countries' data should be established.

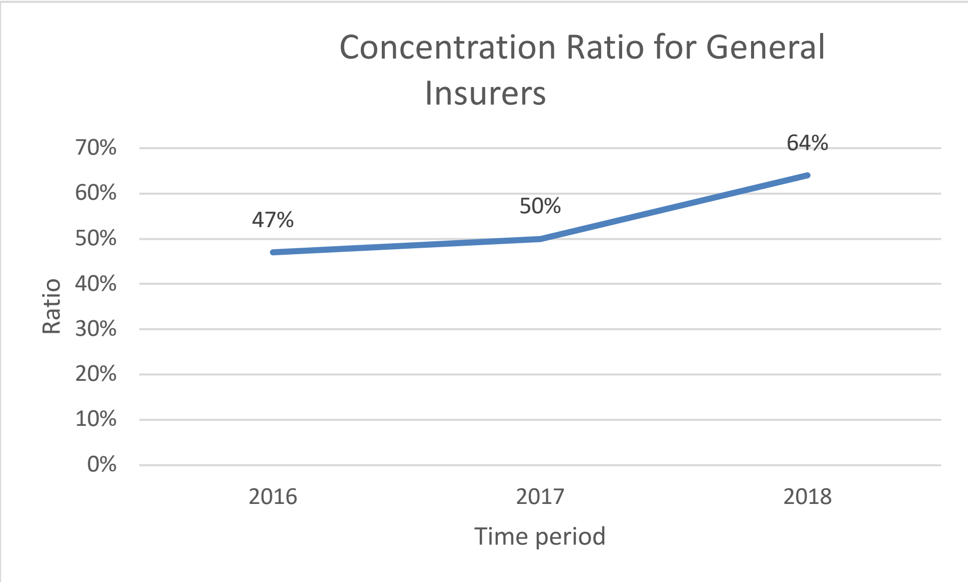
Figure 2: Concentration Ratio for SIE Life Insurers



[3]The USA Department of Justice Measuring Scale
If concentration ratio is: < 40%- Perfect competition
40-80%- Oligopoly
Near 100% - Monopolistic

The Regulatory Authority has also classified three Systemically Important Entities (SIEs) in the general insurance business sector. The concentration ratio (market share) of the General insurance SIEs is calculated on the basis of Gross Written Premiums to be 64% in 2018 and hence classified to be oligopolistic. The ratio was 50% and 47% in 2017 and 2016, respectively. The increasing trend points to concentration and hence needs close monitoring.

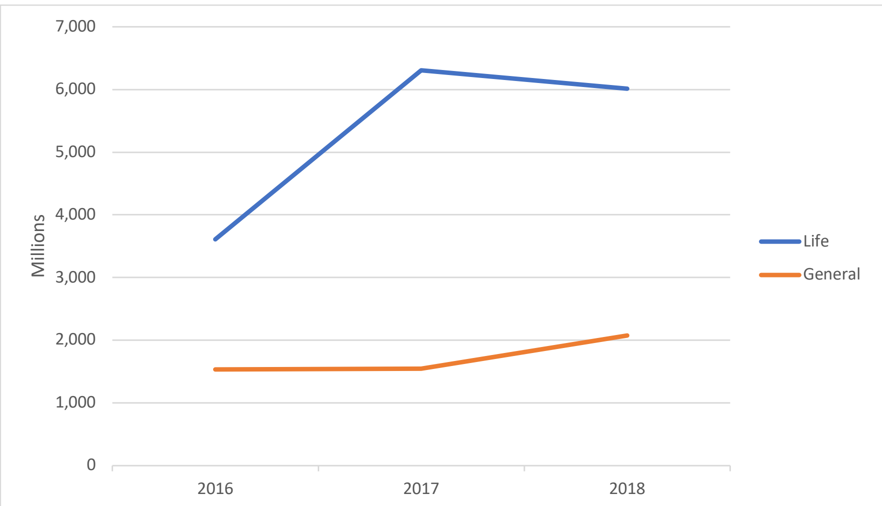
Figure 3: Concentration Ratio for SIE General Insurers



Insurance Herfindahl-Hirschman Indices

A better and more accurate measure of competition is achieved by the computation of an index called the Herfindahl-Hirschman Index (HHI)[4] . The HHI measures the asset market concentration of the business sector's largest firms in order to determine if the industry is competitive or nearing monopoly. And thus provides a more complete picture of market concentration than does the concentration ratios. In turn, it is regarded as a better measure of market concentration that is used to determine market competitiveness. Figure 4 below presents the indices for the Life and General insurers.

Figure 4: Herfindahl-Hirschman Index for Insurers



Scale:	HH Index	Classification of Market
	<1,500	Un-concentrated
	1,500 - 2,500	Moderately concentrated
	2,500 +	Concentrated

[4]The HHI is usually calculated separately for the life and General sectors. This index uses the market shares of all market insurers. It squares these market shares to place more weight on the larger insurers.
If there are n insurers in the market, the HHI can be expressed as: $HHI = s_1^2 + s_2^2 + \cdots + s_n^2$
Where s_i = market share of the i^{th} insurer, expressed as a percentage.
We propose adoption of a benchmark scale and quote the USA Department of Justice scaling to guide the deliberations as hereunder: -

Unlike the concentration ratio, the HHI will change if there is a shift in market share among the larger insurers. The higher the index the more the concentration and hence less competition in the market place. Development of benchmark scale for SADC is in dire need and in the interim we use the USA Department of Justice scaling to guide the deliberations as defined above.

Furthermore, the HHI can be used to determine whether mergers are equitable to society and thus also influence supervisory decisions. As the market concentration increases, competition and efficiency may decrease, and the opportunities for collusion and monopoly arise.

The Life insurance sector in 2018 with indices above 2,500, is cautiously concentrated and possibly uncompetitive. The underlying trend for the Life sector HHI was upward over the past 3 years, pointing to deteriorating competition status. On the other hand, the General insurance sector is considered moderately concentrated with HHI indices remaining between 1,500 and 2,500 over the same review period. Although competitive, the General sector is pointing to an increasing concentration trend from 47% in 2016 to 66% in 2018. Close monitoring of index increases of over 100 points is required and should generally provoke scrutiny.

Life Insurer: Capital Adequacy, Liquidity and Profitability Indicators

The Life insurers are prudentially regulated for capital adequacy and are subject to Minimum Capital Target (MCT) of P2 million and a Prescribed Capital Target (PCT) which is calculated on a risk based approach for specific corporations. The Life insurers are required to hold the greater of the MCT and the PCT. Under the New Insurance Industry Act, 2015, which commenced in May 2019, Life Insurers have been given a 12 months grace period to migrate to a MCT of P10 million with effect from May 2020. The methodology for calculation of PCT is prescribed in the Insurance Prudential Rules of March 1, 2012.

Table 4 below shows relative actual levels of capital held by Life SIEs to the total for Life insurers. The aggregated minimum prudential capital of the seven Life insurers will by implication be P80 million and is far lower than the actual capital level of P2.6 billion held in 2018. However this does not attest to its adequacy as individual company balance sheet risks ought to be taken into consideration for assessment of capital adequacy. In addition, it is evident that the SIEs at P2.4 billion in 2018 maintained a larger market share (94%) of actual capital held (i.e. P2.6 billion) in 2018. Generally the capital ratio of Life SIEs is higher than that of the industry but has over the years been decreasing ending 2018 at 17% compared to 19% in 2016. The industry capital to assets ratio fell significantly to 14% in 2018 from 15% in 2016, as both the capital and average assets were affect by the exit of BIFM.

Table 4: Actual Capital Levels for Life Insurers in Pula Millions

Year	Share Capital	Reserves	Retained Earnings	Total Capital a	Average Assets * b	Capital Ratios a/b%
Life Insurers						
2018	276	1,184	1,118	2,578	18,824	13.7
2017	323	1,110	1,508	2,941	20,260	14.5
2016	312	1,079	1,516	2,908	19,381	15.0
2015	255	1,124	1,422	2,801	19,627	14.3
Life SIEs						
2018	166	1,161	1,087	2,414	14,577	16.6
2017	167	930	1,290	2,387	13,860	17.2
2016	166	915	1,359	2,440	13,283	18.4
2015	166	970	1,207	2,344	12,274	19.1
Capital Market Share of SIEs (Percent)						
2018	60.1	98.1	97.2	93.6	77.4	..
2017	51.7	83.8	85.5	81.2	68.4	..
2016	53.2	84.8	89.6	83.9	68.5	..
2015	65.1	86.3	84.9	83.7	62.5	..

Table 5 below presents profitability and liquidity indicator statistics for Life sector. Over the three-year period ending December 31, 2018 profits before tax fell by 34% from P701 million in 2016 to P464 million in 2018, for the Life sector. During the same period the market share of SIEs increased to 94% in 2018 from 85% in 2016, after falling to 56% in 2017. This development was consistent with profitability trend for Life SIEs which fell by 34% to P396 million in 2017 from P598 million in 2016; followed by 11% growth to P438 million in 2018. Both the life business sector and the Life SIEs registered growths in revenue of 29% and 17%, in the three-year period respectively. While their respective expenditures fell by 16% and 61%, respectively, in the corresponding period.

The low revenue growth may be due to the reduction in the policies written; the Life sector recorded a fall in number of policies to 464,000 in 2018 from 662,000 in 2016. On the other hand, the penetration ratio increased to almost 1.7% in 2018 from 1.6% in 2016, buoyed by increasing revenues. Net incurred claims were almost unchanged at 2% in the past three years, underpinning liquidity during the poor underwriting period.

*Note * - Average assets is sum of current year plus prior year divided by two.*

Table 5: Profitability and Liquidity of Life Insurers

	2018	2017	2016
Profit - Pula Mio			
Life Insurers	464	703	701
Life SIEs	438	396	598
SIE market share	94%	56%	85%
Revenue (GWP) Pula Million			
Life insurers	4,084	3,730	3,162
Life SIEs	3,218	2,951	2,753
Expenditure			
Life insurers	4, 343	3, 173	3, 283
Life SIEs	3, 302	2, 485	2, 590
Life Insurers			
4. GWP as % of nominal GDP	2%	2%	2%
5. No. of Polices Issued	463,559	638,071	661,611
Net Incurred Claims – Pula Mio	2.0	1.8	1.9

General Insurers: Capital Adequacy, Liquidity and Profitability Indicators

Table 6 below shows overall capital positions of the general insurers over the review period. The Regulatory Authority has classified 3 entities as being of systemic importance. During the three years ending December 31, 2018, the capital ratio has registered a decrease of 6 % (i.e. from 44% to 38%) for the General insurers. On the other hand, capital ratio of General insurers registered an increase from 39% to 44%. In the corresponding period the SIEs market share of average assets increased from 52% in 2016 to 56% in 2018, whilst its market share of capital increased from 46% in 2016 to 64% in 2018. The capital ratio, however is not a good measure to conclude on adequacy of capital to mitigate balance sheet risks.

> A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life.
> *Suze Orman*

Table 6: Actual Capital Levels for General Insurers in Pula Millions

Year	Share Capital	Reserves	Retained Earnings	Total Capital A	Average Assets b	Capital Ratios a/b%
General Insurers						
2018	295	354	86	735	1,927	38.1
2017	307	316	107	731	1,906	38.4
2016	230	315	276	821	1,861	44.1
General SIEs						
2018	153	272	48	473	1,080	43.8
2017	153	145	36	334	922	36.2
2016	100	153	122	375	964	38.9
Capital Market Share of SIEs (Percent)						
2018	51.8	76.9	56.6	64.4	56.0	..
2017	49.8	45.8	33.3	45.7	48.4	..
2016	43.4	48.7	44.0	45.7	51.8	..

Table 7 below provides profitability and liquidity positions of the General Insurers and its SIEs for the review period. The profit before tax of the General Insurers and SIEs registered a 44% and 228% increase over the review period, respectively. In 2017, the latter registered a loss of P4 million in profits due to poor underwriting results at Old Mutual. The penetration ratios (GWP as percent of GDP) remained approximately 1% in the review period. The policies written fell in 2018 from 147,000 in 2016. The incurred claims fell by 7% in the past three years, after increasing to in P477 million in 2017.

Table 7: Profitability and Liquidity of General SIEs

	2018	2017	2016
Profit - Pula Mio			
General Insurers	110.5	36.0	77.2
General SIEs	89.2	(3.7)	27.2
SIE Market Share	80.5	(11.9)	35.1
2. Revenue (GWP in Pula Million)			
General Insurers	**1,366**	**1,262**	**1,292**
General SIEs	957	614	684
3.GWP As % of nominal GDP	**0.7**	**0.7**	**0.8**
Expenditure			
General Insurers	791	807	768
General SIEs	543	358	350
No. of Policies Issues	97,000 (excludes BIC)	32,946	147,291
Net Incurred Claims Pula Mio	423	477	457

"Stay on top of your finances.
Don't leave that up to others."
Leif Garret

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