Insurance Council of Zimbabwe

NEWS LETTER

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ICZ LAUNCHES THE ZIMBABWE INSURANCE CRIMES BUREAU

David Nyabadza elected ICZ chairperson

ZICB Launch

IFRS 17

Implementation in the Zimbabwean Insurance Sector

Contents
Insurance Council of Zimbabwe

Editor's Remarks

With the increase and changes in regulatory and financial reporting standards, staying compliant can be a challenge.

In terms of financial reporting, the Zimbabwe insurance industry recently implemented IFRS 17.

Apart from financial reporting, organizations are now being called to account for non-financial activities that include impact on climate, customer service, and contribution to the development of value chains, among other activities.

There are calls to consider the inclusion of Environmental, social, and Governance (ECGS) reporting to reflect on the level of stewardship and sustainability within companies.

These requirements come with additional investment costs in terms of skills and realigning operational policies and procedures. Some organizations will certainly struggle with the implementation of the requirements and compliance.

While ECG reporting is voluntary, organizations have to comply with the mandatory financial and regulatory reporting requirements in full.

Non-compliance bears the risk of qualified financials and/or penalties resulting in compromised corporate reputations.

This edition will provide an analysis of how local insurers are handling the new reporting requirements.

The Insurance Council of Zimbabwe, in liaison with the Regulator, IPEC, has been monitoring the progress made by its members in implementing the new reporting requirements and rendering the necessary support.

The aim is to have an industry whose growth and sustainability depend on compliance and accountability. ■

> *"This edition will provide an analysis of how local insurers are handling the new reporting requirements"*

IFRS 17 Implementation in the Zimbabwean Insurance Sector

By Stella Mupatsi and Taurai Jamu

Zimbabwean insurance companies are currently in the process of implementing International Financial Reporting Standard 17 (IFRS 17), a new accounting standard applicable to insurance contracts and investment contracts with discretionary participation features.

This standard replaces the previous IFRS4 standard, which allowed for a wide range of accounting practices with limited financial disclosures, making it difficult for investors to compare financial statements. IFRS 17 ensures greater comparability and strengthens report quality. The implementation of IFRS17 requires several steps, including impact assessments, designing solutions, building and testing actuarial and financial accounting processes and models, calculating opening balances, carrying out parallel runs, and deploying full IFRS17 reporting.

The standard applies to annual periods beginning on or after January 1, 2023, and requires compliance for financial statements starting on or after that date. However, implementing the standard is not without its challenges, which include a scarcity of actuarial and accounting skills and the complex technological solutions required.

Insurance companies will need to choose whether to build an IFRS17 solution internally or appoint a third-party actuarial or accounting firm. One of the benefits of implementing IFRS 17 is that it will make it easier to compare financial statements. This will not only be beneficial for insurance companies but also for investors, who will be able to compare the financial statements of different companies.

It will be possible to compare the financial statements of an insurance company against those of a bank or manufacturing company. This will make it easier for investors to make informed investment decisions. IFRS 17 will also improve the understanding of insurance contract performance. The new standard requires insurance companies to provide more detailed financial disclosures, which will allow investors to better understand the financial performance of the insurance contracts. This will ultimately improve competitiveness in the insurance industry.

However, implementing IFRS 17 is not

David Nyabadza elected ICZ chairperson

The Insurance Council of Zimbabwe (ICZ) has elected David Nyabadza as the Chairperson with James Mharadze elected as the vice-Chairperson.

Nyabadza is the General Insurance Cluster CEO of First Mutual Holdings and managing director of NicozDiamond Insurance.

Nyabadza who is an established business executive with diversified knowledge and experience in risk management is coming in with 20-year track record in the insurance Industry.

As an advocate for insurance development, David has served as chairman of the Zimbabwe Insurance and Pensions Apex Council and also serves on the executive committee of the African Insurance organisation (AIO) representing Southern Africa.

He is also a board member of Diamond Seguros in Mozambique, NicozDiamond and Clover leaf Panel Beaters.

Nyabadza holds an MBA from ESAMI, Bachelor of Commerce Degree in Insurance and Risk Management, (NUST) and is also an alumni of the GIBS Global citizen concert Executive Development Programme. Meanwhile,the vice chairperson James Mharadze is coming in with 21 years of experience in the insurance industry having worked in various capacities in the industry. Mharadzes' 14 years of experience are at senior management level.

He is a specialist knowledge in alternative/partner distribution channel management, business development, portfolio underwriting and digital transformation.

To page 7 ►

► From page 4

without its challenges. The standard is complex and requires actuarial and accounting skills, as well as technological solutions. Zimbabwean insurance companies will need to carry out impact assessments, which involve understanding the standard, identifying the key areas affected by the standard, identifying the knowledge, skills, and technology gaps, and analyzing the effect of the standard on the financial statements and key performance indicators.

After carrying out an impact assessment, each organization will need to develop an end-to-end, cost-effective operational solution, including data systems and organizational design and processes. The next step is to build and test the actuarial modeling processes and financial accounting and financial reporting processes to meet the IFRS17 requirements to enable statutory and operational reporting.

Zimbabwean insurance companies will also need to calculate opening balances, which are the balances that will be used as the opening balances for IFRS 17. IFRS 17, like any other standard, needs to be applied retrospectively as if it has always been applied. In this regard, there was a need to calculate opening balances as of the transition date, which is at least one year earlier than the first application date, by going back to the inception of each policy.

There are three possible approaches to restating the opening balances of insurance contracts. The first approach to transition is the full retrospective approach, which requires insurers to restate their financial statements as if they had always been applying IFRS 17 from the inception of each insurance contract. It involves restating all prior periods presented in the financial statements.

However, it may not always be possible for all contracts to source all the historical data and perform transition calculations using this approach. In Zimbabwe, for instance, there have been redenominations and currency changes that would have an impact on this approach.

The modified retrospective approach should be applied when it's not possible to apply the full retrospective approach.

The third option is the fair value approach, which involves measuring the value of insurance contracts at fair value. Insurance companies can use more than one single approach to perform their transition calculations as applicable across the different insurance and reinsurance contracts they have on file. For most recent contracts, companies are likely to apply the full retrospective approach because all the data is readily available. For older contracts, the modified retrospective approach and the fair value approach can be used.

Actuaries play a critical role in the valuation of insurance liabilities for IFRS17 purposes and provide assurance to management around the assumptions, parameters, and methodologies used. Accountants are responsible for assessing the accounting policy changes required in line with the IFRS17 standard and redesigning financial statements and disclosures.

> ***Close collaboration with external auditors is necessary to ensure the accuracy and completeness of transition calculations and disclosures.***

IFRS17 valuation involves an array of processes that call for close collaboration between actuarial and financial accounting. For instance, the change in best estimate liabilities now requires disclosure in detail.

The accountants will, therefore, need input from the actuaries to understand and explain the changes when making their disclosures. Both the actuarial and accounting divisions rely on information technology to solve the technical challenges around gathering, processing, and storing the data used for IFRS17 valuations.

A crucial consideration for insurance companies is whether to build an IFRS17 solution internally or to appoint a third party, which could be an actuarial firm or an accounting firm. A self-build approach provides an opportunity to tailor the solution precisely to the insurer's specific needs.

On the other hand, a vendor solution brings a standardized end-to-end model that can then be tailored to the individual insurer. Zimbabwean insurance companies may choose to appoint a third-party firm to assist with implementation and ensure compliance with the standard.

The selection of a third-party firm should be based on several factors, including the firm's reputation, expertise, and experience. It is also important to consider the firm's track record of successfully implementing IFRS 17 in other countries.

Close collaboration with external auditors is necessary to ensure the accuracy and completeness of transition calculations and disclosures. External auditors will review the IFRS17 implementation and assess whether it meets the requirements of the standard. They will also provide an opinion on whether the financial statements comply with the standard.

In conclusion, implementation of IFRS17 in Zimbabwe involves several steps that include impact assessments, designing solutions, building and testing actuarial and financial accounting processes and models, calculating opening balances, carrying out parallel runs, and deploying full IFRS17 reporting.

The implementation of IFRS 17 will make it easier to compare financial statements, improve the understanding of insurance contract performance, and ultimately improve competitiveness. Close collaboration with external auditors is necessary to ensure compliance with the standard. ■

David Nyabadza

James Mharadze

David Nyabadza elected ICZ chairperson

▶ *From page 5*

He is a complete insurance professional with experience in both short term insurance and life assurance industries comprising of 19 years in general insurance and two years in the life assurance industry, having worked for AIG Zimbabwe, Zimnat Lion, Optimal Insurance, CBZ Life and CBZ Insurance.

Mharadze has been the Principal Officer of CBZ Insurance for the past 7 years and his key responsibilities included implementation of board policies, designing and implementation of corporate strategies, financial management, coordination of all operations functions, performance management and stakeholder management.

He holds leadership roles in the Zimbabwe insurance industry as the current Vice Chairman of the Insurance Council of Zimbabwe (ICZ) and Chairman of the National Bureau of Zimbabwe. Mharadze holds a B.Comm (Hons) in Insurance and Risk Management Degree from NUST (Zimbabwe) and an executive MBA degree from Midlands State University (Zimbabwe). ■

Reinsurance arrangements: implications for the Funeral assurance sector

By Clementine Chinyuku

One of the major reasons for taking out insurance of any kind is the risk transfer principle, a strategy of managing risk where one party assumes the potential liability of another. Purchasing insurance is one way of transferring those liabilities. Funeral assurance is a contract where the assurer guarantees to cover the funeral costs of the insured.

While we all have experienced bereavement at some point in our lives, not all of us adequately plan for this, and a funeral may fall on us when we least expect it.

Funerals range from a spectrum of very simple, quick, and humble burials to lavish ceremonies that can last days with all the trimmings, including professional caterers and even professional mourners. The expenditure for even a simple funeral may be huge and, for most, considerably above one's monthly income. This may thus translate into substantially high financial risk for individuals.

Funeral assurance therefore serves to transfer the financial risk when a death happens to the funeral assurer, giving the bereaved family peace of mind that their loved one will receive a dignified burial.

Once the funeral assurance company assumes the financial risk transferred by the individual, they are now the bearers of that risk, and as they onboard more customers, the risk assumed accumulates. The potential consequence of the risk accumulation is that the funeral assurance companies become exposed to a concentrated financial risk. The accumulation of liabilities paid out may result in financial ruin for the

To page 8 ▶

From page 7

funeral assurance companies due to the accumulation of losses and catastrophes and may have a negative impact on their capital and solvency levels.

The COVID-19 pandemic was unprecedented and exposed the funeral assurance companies to claims that reduced the sector's solvency levels to near zero (IPEC, 2022), with the potential for ruin for several of the companies. None of the funeral companies had any form of reinsurance, and this position has been prevalent for many years despite calls by IPEC to consider reinsurance.

It is anticipated that in the same manner that the individual realizes the burden of the funeral risk and elects to transfer it to the funeral assurer, the funeral assurer uses the facility of reinsurance to transfer the financial risk, and the reinsurer further transfers the same risk to the retrocessionaire.

Reinsurance is basically insurance for insurance companies, and it developed from the realization by the insurance companies that they were unable to bear the full financial risk on their own. Reinsurance, therefore, is a form of insurance similar in nature to insurance in that it aims to reduce the variability of financial loss. It is a traditional and efficient risk management tool. The generic role of reinsurance includes risk spreading, smoothing of income, capacity provision, catastrophe protection, solvency enhancement, accumulation control, financial stability, and providing technical expertise.

Each insurer arranges reinsurance programs for specific reasons and benefits, and reinsurance solutions are tailored to address specific concerns of the insurer. A new insurance company may, for example, arrange reinsurance for capacity provision since reinsurance enables the insurer to underwrite more policies of higher values due to a portion of their liabilities being transferred to the reinsurer.

The generic role of reinsurance includes risk spreading, smoothing of income, capacity provision, catastrophe protection, solvency enhancement, accumulation control, financial stability, and providing technical expertise.

Other insurers may opt for reinsurance because it provides additional capital since they can offset the risk of loss in their insurance liabilities and release their capital to be invested elsewhere to increase their revenues. Some companies may be concerned by natural disasters such as the cyclones experienced over the past few years. Natural disasters have the potential to cause bankruptcy due to the accumulation of claims from these events, and shifting the insurance liabilities to the reinsurers gives financial relief to the insurer where such events occur.

Funeral assurers are insurers, and this implies that the concept of reinsurance may provide benefits to this insurance sector as in life insurance or short-term insurance.

Funeral assurers may not necessarily be concerned about increasing capacity given that the policy covers are prescribed and defined as benefits, while the issue of capital provision may not be a driving factor to purchase reinsurance since the funeral assurance model gravitates around providing a service. However, benefits such as risk spreading, accumulation control, and solvency provision may accrue to the funeral assurers.

Funeral assurers will certainly benefit from the other roles of reinsurance; key to this is risk spreading, which will reduce the financial risk that the funeral assurers carry. The COVID-19 experience gave a clear indication that accumulation risk can be potentially ruinous, and reinsurance through risk transfer allows that accumulation risk to be controlled by transferring a portion of the risk to the reinsurer.

This will smooth losses to a predefined amount and protect the funeral assurer's capital and solvency position in the same vein. The solvency position of the funeral assurance sector is particularly important as it not only indicates financial stability but also indicates capacity to pay claims and meet financial obligations and gives stakeholders confidence.

Stakeholder confidence is particularly important as the key stakeholder in this instance is the insured person or the potential insured's need to believe that the funeral assurers are sound enough to keep their promise when called upon to do so. This confidence is extremely important because of the nature of the intangible product, which is a promise of service in 10, 20, or even 30 years.

Reinsurance programs that are properly structured will therefore have a positive impact on strengthening the performance of the funeral assurance sector, improving solvency positions, providing protection from accumulation shocks, and supporting the sector's positioning for growth and profitability. ■

ICZ launches the Zimbabwe Insurance Crimes Bureau

The Insurance Council of Zimbabwe on July 4 2023 launched the Zimbabwe Insurance Crimes Bureau(ZICB)ICZ is a self-regulatory council of 20 short term insurers and 10 reinsurers.The Insurance and Pensions commissioner Grace Muradzikwa was the guest of honor at the launch, which was attended by insurance associations, the National Prosecuting Authority, the Zimbabwe Republic Police, and the Automobile Association of Zimbabwe.

ZICB is an independent, legal insurance crime fighting unit whose prime purpose is to minimize organized and opportunistic fraud and crime in the insurance industry of Zimbabwe. The bureau was set up with a mandate to reduce the prevalence of fraudulent claims in the Insurance Industry with a view to increasing the sustainability of the industry.

The Bureau aims to achieve the following:

1. Reduce the loss ratio and increase profitability.
2. Reduce the cost of insurance for the insured public.
3. Keep up with modern fraudsters modus operandi.
4. Cooperate with other Insurers through information sharing.
5. Restore public confidence.

ZICB has made significant progress in fighting Insurance fraud

The ZICB uses an analytics system provided by SAS through ECB International. The analytics system uses a set of algorithms to analyze each claim entered and raises a trigger in the event of an anomaly in its operational parameters. This trigger is the basis on which the ZICB investigation team deploys its investigative processes to ascertain the authenticity of the claim.

Since its inception in 2019, the ZICB has made significant progress in fighting Insurance fraud. The ZICB has worked on over 200 fraudulent alerts triggered in the SAS system and has successfully weeded out three insurance fraud syndicates, taking 12 cases to prosecution and securing one successful conviction to date. Collectively, the potential prejudice to the industry of US$420, 000.00 was intercepted by the ZICB.

ZICB intends not only to serve the short-term insurance sector but to extend its services to other sectors that include the funeral, life, and pensions sectors. ■

Technology and innovation in the insurance sector

By Eben Mabunda

Innovation on the back of new technologies has proven to be a key driver of change in the provision of financial services, and this has resulted in unprecedented efficiencies. Despite the doubts associated with the shifts. Rapid transformations brought about by Artificial intelligence, as evidenced by the The buzzword "Chat GPT" (an artificial intelligence chatbot developed by Open AI) casts a clear light on the major changes information technology is bringing to the history of Mankind.

When it reaches maturity, nothing after this AI sweep will be as it was before. The The same is true of how other 'technologies on steroids' are set to transform the essence of Insurance. Artificial Intelligence in the insurance market is estimated to reach a whopping USD 6.92 billion by 2028 and is expected to grow at a compound annual growth rate of 24.08% in the forecast till 2028. This is just an estimation of one strand of technology from the web (pun intended!).

Emerging Technologies

Emerging technologies such as nanotechnology, biotechnology, robotics, 3D printing, Blockchains, artificial intelligence, big data, augmented reality, and virtual reality Progressive Web Apps (PWA), geofencing, and predictive analysis have a direct and indirect link to modern-day business and ultimately to the insurance sector.

Believe it or not, going into the future, drones, real-time data sets, and satellites will give Insurers insights into various risks and the processing of claims will likely be automated. with speed. This beckons to players in the insurance sector in Africa and beyond to actively observe the trends and develop a clear strategy of how they can leverage the power of technology. We will now explore a handful of key innovative technologies and how they affect the insurance landscape.

Insurtech

Insurtech refers to technological innovations that are created and implemented to improve the efficiency of the insurance industry by encompassing digital and technological driven products that cover individuals and enterprises against financial loss and health insurance, life insurance, automobile insurance, and crop insurance for farmers.

These have proven a remedy for financial inclusion in the third world and are fast gaining traction in Africa. On the continent, Insurtech startups have been

To page 11 ►

The Role of carbon accounting in insurance

By Insurance 24

The insurance industry's balance sheets hold a significant portion of countries' economic assets and liabilities. This implies that, through key activities such as risk management, risk transfer, and investments, the insurance industry has the ability to support the transition to a resilient, net-zero future.

Zimbabwe has been intensifying its efforts against climate change and its effects. Recently, the government announced that it will closely regulate voluntary carbon offset trading in a bid to curb greenwashing and ensure benefits for local communities.

In Africa, many countries are keen to increase their presence in the voluntary carbon markets, and the Africa Carbon Markets Initiative (ACMI), which aims to support the growth of carbon credit production and the creation of employment, was set up.

The new partnership aims to harness Africa's largely untapped potential to contribute to the supply of carbon credits while unlocking billions in revenue.

Countries such as Kenya, Malawi, Gabon, Nigeria, and Togo have already started collaborating with the ACMI to scale carbon credit production via voluntary carbon market activation plans.

The global $2 billion voluntary carbon offset market involves companies buying credits from emission-reducing projects such as renewable energy or planting trees to offset their own emissions.

To page 12 ►

► *From page 10*

receiving venture capital funding in recent years, posing a disruptive threat. According to Briterbriges, "most insurtech startups in Africa are companies that focus on the access to and distribution of insurance products, rather than offering insurance as an underwriter perse.

They build products to help insurers, banks, or other businesses ramp up existing insurance lines or create new ones that function as added revenue streams, increasing product adoption for the main service."

Predictive Analysis

Predictive analytics have been used in mobile app development and could be a game changer. changer for Insurance players. An example is YouTube, which uses predictive analytics.

to suggest content to users based on their watching habits. The same is true with Spotify. But in the coming years, we will

The overall impact of this development could potentially aid Zimbabwean farmers and players in the Insurance sector if well harnessed

see new applications of this technology, especially in insurance. Embracing predictive analysis can go a long way in improving the accuracy of insurers, especially those offering property and casualty coverage. It can also help identify outlier claims that suddenly become high-cost losses. Using predictive analysis, insurers can thoroughly review claims raised previously for similar losses and identify potential complications early on.

Chatbot

An insurance chatbot is an AI-powered virtual assistant that can be programmed to help ease the journey of insurance customers by catering to their requirements and improving communication between the insurance company and its consumers. These provide 24/7 customer service, Meaningful interactions, Faster resolutions, Thorough processing, and other benefits.

Drones

Since 2017, when Hurricane Harvey hit the US, insurers have been employing drones to expedite the claims process. Over the years, the popularity of drones in the insurance sector has soared, and Predictably, more insurers are likely to embrace unmanned drones by 2023. According to covergo.com; as clients expect a seamless digital insurance experience, insurers can gain immensely by embracing state-of-the-art technology for

To page 13 ►

▶ From page 10

their business.

Forms of technology exist, as indicated above, that can be employed to derive value from the insurance sector, I just focused on a few.

Satelites

In 2022, Zimbabwe announced the launch of its first nano-satellite into space in a bid to help collect data to monitor disasters, boost agriculture, and enhance mineral mapping. A rocket carrying the tiny satellite, dubbed ZIMSAT-1, successfully launched from Virginia in the United States alongside Uganda's first satellite as part of the Japan Aerospace Exploration Agency (JAXA) multi-nation project.

The overall impact of this development could potentially aid Zimbabwean farmers and players in the Insurance sector if well harnessed. However, it remains to be seen the extent of the utilization of the satellite and the dissemination of the information gathered therefrom.

Elsewhere, satellites are being used to measure moisture levels and ground heat to work out the best conditions in which to grow various crops. This has been seen to reduce the area needed for livestock feed crops, which has in turn reduced deforestation.

Vital Stats

McKinsey research reveals that every second, 127 new devices are connected to the internet, and there will be 43 billion devices by the close of 2023. With the world becoming connected via the internet at a more rapid pace, the insurance business now depends on the Internet of things. Based on a survey published by "Appientive", 21% of Insurance organizations report they are

McKinsey research reveals that every second, 127 new devices are connected to the internet, and there will be 43 billion devices by the close of 2023

preparing their workforce for collaborative, interactive and explainable AI-based systems. It is predicted that investment in AI Insurance is high on decision-makers agendas.

Africa remains largely underinsured, with a penetration rate of less than 3%. According to the African Insurance Organization, Africa's aggregate insurance penetration stood at a meager 2.78% in 2019, a far cry from the global average of 7.23%. Meanwhile, global Research firm McKinsey & Co. places Africa's insurance penetration at just 3%.

McKinsey also found that 70.6% of gross written premiums (GWPs) in 2018 were in Africa, were in South Africa at a total value of $48.3 billion. This was followed by North Africa (totaling a combined 8.8%), East Africa (3.3%), Francophone Africa (2.7%), Southern Africa (2.6%), and Anglophone West Africa (1.9%). Currently, the insurance penetration ratio in Zimbabwe is at 3.6%, which is below the matrix for South Africa, a mature market with a relatively high penetration and density of insurance products, whose insurance penetration rate stands at 18 percent the highest rate in Sub-Saharan Africa.

However, Zimbabwe's figure is higher than Botswana's 2.8% penetration rate. A recent report by Deloitte on the African insurance adoption of technology noted thefollowing about Nigeria: "The Nigerian insurance industry is evolving from an analog to a digitally driven industry. Office processes are automated; manual registers and record keeping is being phased out, and out, and policy and clients' information are spoiled, electronically, policy documents are generated and transmitted electronically, and the client onboarding process has been streamlined.

However, despite the progress made so far, the industry still struggles with challenges, including inadequate access to public data, which limits automation of insurance, substandard product knowledge, delayed adoption of technology, the absence of innovative products tailored to meet clients' needs, data-related issues around premium payment, and poorly implemented CRM to personalize and address customer needs." Technology, therefore, presents the opportunity for must African insurers must employ technology to close the insurance exclusion that grips the Continent.

The bottom line is this, now more than ever, Insurance companies must seriously consider investing in various forms of technology that are best suited to the form of insurance they offer and to the requirement of the clientele they service.

Eben Mabunda is an Independent Financial Analyst with nearly a decade of experience in regional markets. Eben is also a business anchor for ZTN PRIME #DSTV294. ■

► From page 11

Organizations operating carbon credit projects in the country are largely unregulated as they are only registered with local councils and traditional community leaders, but the government now wants all carbon projects to be registered with authorities within the next two months.

Zimbabwe is the world's 12th largest creator of offsets, with 4,2 million credits from 30 registered projects last year. A single carbon credit represents a ton of carbon dioxide equivalent either removed from the atmosphere or prevented from entering it in the first place.

Those securities are bought by producers of climate-warming gases who want to offset their emissions.

However, on May 16, the government declared all previous carbon credit deals "null and void" as it looks to earn revenue from offsets.

Earlier in the year, the government indicated that the generation of carbon credits needed to be revamped to ensure that the government gets "a fair share of the proceeds from the trade". This is likely to have an immediate impact on the voluntary carbon markets, as some of the most profitable carbon projects are located in Zimbabwe and other neighboring African countries.

But how does this affect the insurance sector?

Insurance-Related Emissions

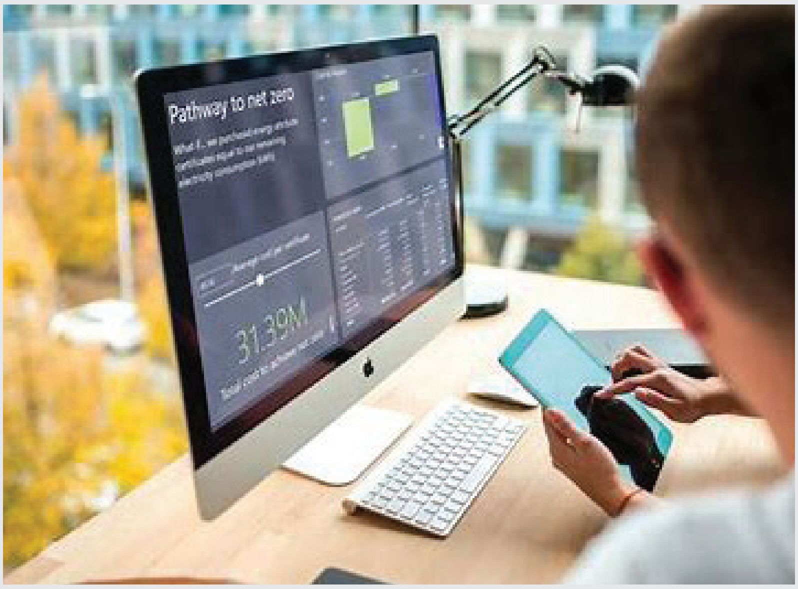
In line with the carbon accounting standards for financed emissions to account for the role of re/insurer's underwriting activities, a global, standardized approach for measuring the greenhouse gas (GHG) emissions associated with insurance and reinsurance underwriting Portfolios are needed.

Basically, carbon accounting standards cover lending and investment activities. Such a standard can enable insurers to consider the climate impact and transition path of their underwriting portfolios and inspire action through innovative decarbonization interventions, products, and policies.

All this while underpinning reporting consistency and promoting transparency. More importantly, the carbon footprint of insurance-related activities can inform underwriting decisions and catalyze decarbonization at the portfolio level through target setting, scenario analysis, and strategy development.

To page 14 ►

► *From page 13*



Sadly, this is a new phenomenon for the insurance industry in Zimbabwe.

"Follow The Risk" Principle.

When it comes to financed emissions, the "follow the money" principle is applied, meaning that the money should be followed as far as possible to understand and account for the climate impact that financial assets have in the real economy.

From the perspective of underwriting, the nature of the relationship between the financial institution and the client is fundamentally different.

Underwriting basically seeks to lessen risks related to economic activity but does not finance this activity or suggest any form of ownership.

However, re/insurers do not hold a capital interest in the client operations, and no financial or direct operational control is exerted.

The absence of ownership or control over the client's activity thus impacts the influence an insurer can have on the decisions made by the client in terms of decarbonization. Therefore, in the case of insurance-associated emissions, the principle applied is "follow the risk" instead of "follow the money."

A New Standard

The Partnership for Carbon Accounting Financials (PCAF) led the drafting of a scoping document that set out the guiding principles for developing a GHG accounting methodology for insurance and reinsurance underwriting.

The key objective of the scoping paper was to initiate wider engagement on insurance-related emissions and, through the feedback obtained, inform the consultation paper on the proposed approach.

The scoping paper was, therefore, broad in scope as it considered various potential approaches.

In 2022, the PCAF standard on insurance-related emissions was published and constituted the next step toward accounting for emissions related to underwriting activities.

What does this mean for reinsurers?

The absence of a global standard for insurance-related emissions meant that re/insurers were only able to measure, manage, and disclose emissions related to their operations (in line with the Greenhouse Gas Protocol (GHGP)) and investment activities (in line with PCAF's financed emissions standard).

The publication of the new standard has therefore set in motion a number of changes conducive to achieving net zero across the insurance sector.

The disconnect between the mounting expectations around committing to net zero targets across operations, investments, and emissions associated with insurance and reinsurance underwriting portfolios is being bridged with this latest PCAF release.

The reinsurance industry in Zimbabwe thus needs to plan and agree on methodology to tackle the challenge holistically and develop credible and actionable decarbonization plans.

Creating transparency for stakeholders is another business goal that can be enabled by the insurance sector in Zimbabwe.

Externally, re/insurers can inform the market of their climate impacts through disclosures made in line with the Task Force on Climate-related Financial Disclosures, as well as a range of other mandatory and voluntary methods.

Internally, informing stakeholders of their organization's impact can increase trust among internal stakeholders as well as inspire new engagements and product offerings with clients and business partners.

Carbon accounting can further help reinsurers manage their own climate-related transition risks by building an understanding of the exposure embedded in their underwriting portfolios.

For example, identifying carbon-intensive underwriting activities in specific high-risk sectors can help identify areas that might be adversely impacted by the introduction of carbon taxation.

On the other hand, climate-related opportunities for innovation and sustainable product development across resource efficiency, energy sources, products and services, markets, and resilience are opportunities for reinsurers.

With a transition to a low-carbon economy, re/insurers can independently develop innovative products and services that enable their clients to decarbonize their business activities.

Through carbon accounting, re/insurers can see which sectors and businesses in their own portfolios require the most help in their decarbonization efforts and play an active role in their transition. ■

Environmental, Social, and Governance (ESG) and Sustainability in Insurance

By Enock Rukarwa

Traditionally, the primary concern of investors has been the level of returns provided by an investment, with general ambivalence towards how those returns have been generated.

Now, the Insurance industry is seeing a drive towards responsibility in its stewardship of investor money, with investors seeking to understand how their savings are being invested.

ESG investing is used to screen investments grounded in corporate guidelines and to encourage companies to act responsibly. Across the globe, brokerage firms, mutual funds, and investment apps now offer investment products that employ ESG principles. This is in response to a gradual change in investor philosophy, wherein they are now ESG conscious.

Ethical or responsible investing is not a new development, with many asset managers offering funds or investments under various guises: responsible, ethical, sustainable, socially cognizant, or impact investing are terms that you may have seen almost interchangeably in many investment themes.

A set of standards has developed in the Insurance industry to evaluate how companies operate with respect to the world around them, the people they deal with, and whether they govern themselves in a responsible manner.

These are termed ESG, for environmental, social, and governance. The environmental factor within ESG is arguably the most tangible. Climate change and greenhouse gas emissions dominate the headlines, but this category also includes energy efficiency, resource depletion (including water), hazardous waste, pollution, deforestation, wildlife preservation, and wider green initiatives.

From a regulatory standpoint, a lot of work is underway to quantify the financial risks due to climate change. In the insurance sector, firms face challenges around climate change exposures and aligning underwriting strategies, which may require exiting some portfolios.

Insurance firms must also review their investment portfolios to ensure 'green' investments wherever possible. This will undoubtedly impact the firm's financial risks.

The significance of environmental, social, and governance (ESG) factors in insurers' underwriting business and investment portfolios is increasingly under the spotlight. This is the result of growing awareness of climate-related risks and their potentially devastating effects on society.

During the 2021/22 agricultural season, Start Network embarked on an innovative insurance policy in partnership with African Risk Capacity (ARC) and the Government of Zimbabwe. The policy was to protect more than 800,000 people in Zimbabwe from drought risk during the agricultural season. Such initiatives, if pursued religiously and consistently, will go a long way in addressing climate change-related risks and even mitigating the associated risks.

ESG considerations are specifically important in Africa given that many countries on the continent are highly vulnerable to climate-related risk. Drastic climate change has knock-on effects within African economies that impact poverty, food security, and economic development.

> ***A set of standards has developed in the Insurance industry to evaluate how companies operate with respect to the world around them***

African insurers typically do not yet fully consider ESG risks in underwriting, capital management, and risk management decisions. This is largely driven by a lack of regulation, policy, and voluntary initiatives to regulate and monitor ESG adoption by the insurance sector.

The insurance sector in Africa is very exposed to economic sectors and corporate clients with high levels of environmental, social, and governance (ESG) risk. Most of the large infrastructure projects in Africa, which typically carry significant ESG challenges, require insurance.

However, ESG risks are generally not considered during underwriting, capital management, or risk management decisions by insurers. The interest, activity, and commitment of the African insurance sector to proactively address ESG issues and to engage within and outside the sector with experts, policymakers, and businesses are currently minimal.

The African insurance sector is not contributing to or influencing ongoing discussions on the integration of ESG issues in underwriting or asset management. Regulators and supervisors contribute to this by not requiring insurers to consider ESG issues.

The important role of insurance companies and regulators in driving global sustainability agendas has led to an increase in expectations of this sector with respect to responsible business conduct.

Regulators and supervisors in Zimbabwe, hence IPEC et al., need to improve their capabilities to identify, monitor, assess, and contribute to the identification, reporting, and mitigation of ESG risks in and through the insurance sector. Sustainability reporting, disclosures, and commentary on the portion of business that impacts climate risk and social ills will go a long way in fostering the ESG agenda.

ESG principles can lead to sustainable business by incorporating toolkits that guide the business in the context of the environment. This will ensure that insurance business is carried out responsibly. ■

IIZ Golf In Pictures

ICZ sponsored the IIZ Annual Golf tournament which was held on 9 June 2023 at Chapman Golf Club.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