

## Caleb M Fundanga: The Bank of Zambia and the insurance industry

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the end of year cocktail party for the Zambia State Insurance Corporation Limited clients, Lusaka, 1 December 2004.

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The Master of Ceremony  
The Registrar - Pensions and Insurance Authority  
The Board Chairman-Zambia State Insurance Corporation  
The Board Chairman-Zambia State Insurance Pension Trust Fund  
Madam Managing Director - Ms Muyenga  
Distinguished Invited Guests  
Ladies and Gentlemen

Good Evening!

I wish to thank the Managing Director of Zambia State Insurance Corporation Limited - Ms Muyenga, for inviting me and my wife to be the Guest of Honour at this end of year cocktail party. Despite the fact that the Bank of Zambia is not directly associated with the insurance industry, this function gives me a rare opportunity to say something about the relationship between the Bank of Zambia and the insurance industry.

In the past few years, the Bank of Zambia has taken keen interest in the operations and performance of the insurance companies and pension funds. This is because insurance companies and pension funds have a direct impact on macro-economic variables, since most of them are leading players in the Government securities market. Whenever the Government wishes to raise funds, it is these institutions together with commercial banks that provide them.

Ladies and Gentlemen, many of you will agree with me that the recent downward trend and stabilisation in the macro-economic variables, such as interest, inflation, and exchange rates, has induced high levels of investor confidence in our economy. As many of us are aware, a stable macroeconomic environment is one of the critical ingredients for achieving sustainable economic growth and, ultimately, poverty reduction, in our country.

In this regard, allow me to reiterate what I have been saying at other fora that the insurance industry plays a critical role in the economic growth and development of any country. Here in Zambia, the insurance industry, with gross annual premiums of approximately K273 billion for life and non-life business, and about K550 billion for pensions, controls colossal sums of money which could be used for investment locally; and if properly regulated could contribute to developing a strong financial sector in Zambia.

However, the problem has been that the insurance industry has been under-regulated for many years. In this respect, it is high time that regulations are put in place to harmonise the operations of this important industry. I have several times been told that the Insurance Act of 1997 is inadequate in many areas such as licensing, separation of life and non-life business and investment outside the country. I have similarly been told that the Pension Schemes Regulation Act of 1996 is equally deficient.

To make matters worse, the Zambian public has insufficient knowledge of insurance matters. In addition, the industry itself has failed to co-operate to enable it handle mega risks and stop the externalisation of insurance funds.

Unlike the Bankers Association of Zambia (BAZ), whose existence and strength is cemented by the banks themselves, the insurance industry has a very loose arrangement about how it should promote a common front. There is neither a written nor binding memorandum of understanding among the insurance companies to foster cooperation on some of the thorny issues confronting the insurance industry today!

However, I must acknowledge here, that there is an organisation called **the Insurers Association of Zambia (IAZ)**, whose membership is compulsory but which may not be very strong in guiding its membership.

Ladies and Gentlemen, from my observation, the insurance and pension industry in Zambia is facing many challenges. These include:

- 1) Amendments to the Insurance Act of 1997 and the Pension Schemes Regulation Act of 1996 so that laws and regulations that impose stricter corporate governance practices and structures in all institutions managing pension and insurance funds are introduced;
- 2) The Investment Act must be harmonised with the Insurance/Pensions Acts in such a way that all insurance companies formed or already formed must have local ownership/equity partnership. This would greatly contribute to minimising capital flight and huge repatriation of dividends;
- 3) Need for the establishment of a national re-insurance company to avoid capital flight;
- 4) Insurance companies need to harmonise their operations so that clients benefit from fair competition. In other words, data on operations for all insurance companies should be captured easily for planning purposes; and
- 5) Along the same lines, the insurance companies should focus on their core-insurance business, as this has the effect of reducing outflow of capital.

If insurance companies had an avenue for co-operation amongst themselves, some arrangements to compensate for fore-gone income on ceded commission could be worked out under the co-insurance programme.

In this regard, I call upon my counterparts at the Pensions and Insurance Authority (PIA) to strictly supervise the industry in order to ensure, among other things, the proper investment of the insured funds. On our part as the Bank of Zambia, we would like to assure you of our continued support, and our doors are open for consultations.

As I do not want to take much of your leisure time, I wish to conclude by thanking you, once again, for accordng me the opportunity to share my thoughts with you. To this end, I wish you all a Merry Christmas and profitable New Year. Please, have a pleasant evening!

I thank you.