

## Caleb M Fundanga: The role of insurance brokers in the growth of the Zambian economy

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, on the occasion of the annual dinner of the Insurance Brokers Association of Zambia, Lusaka, 24 May 2006.

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- The Chairperson
- Distinguished Guests
- Ladies and Gentlemen

It gives me great pleasure to officiate at this annual dinner and to talk to you on the subject “**The Role of Insurance Brokers in the Growth of the Economy**”. It is my hope that our interaction this evening will give us a better understanding and appreciation of the important contributions that insurance brokers have made to the economic growth of this country. The insurance world will continue to have a vital role to play as we continue to move the economy towards further stability and growth.

**Mr Chairman**, before I talk about your role in the growth of the economy, I would like to begin by giving you a brief account of the macroeconomic developments in Zambia in the recent past. I know that many of you have been following the economic developments in the country. The economy has performed relatively well in recent years, with inflation and interest rates coming down. The exchange rate has relatively stabilized, following a steep appreciation in 2005.

The growth in real Gross Domestic Product (GDP) averaged 4.7 percent per annum during 2001-2005. This growth has been broad-based - extending beyond the recovery of the mining sector and has withstood adverse shocks such as droughts and increases in oil prices. During this period, investment was strong, particularly in the mining, agriculture and tourism sectors, which sets a basis for further favourable economic growth in the medium to long-term. More recently, in 2005, the economy grew by 5.0% in real terms, marking the seventh consecutive positive real growth in output. This impressive performance was attributed to a number of factors, including:

- i. Strong expansion in construction, driven by a robust demand for housing and large scale investment in the copper sector.
- ii. A marked pick up in mining production with the coming on line of the Kansanshi copper mine.
- iii. Favourable external sector performance largely driven by favourable copper prices on the world market.
- iv. Expansion in financial institutions and insurance sectors.

**Mr Chairman**, inflation declined to 15.9% at the end of December 2005 from 17.5% at the end of December 2004 despite several setbacks, including the partial drought that significantly reduced food supply and high prices of oil and petroleum products. Attainment of a single digit inflation has been Government’s goal for a long time. It is, therefore, pleasing to note that, in April 2006, annual inflation declined to 9.4%, the lowest rate in the last 30 years. This inflation outturn has been largely due to the conduct of appropriately tight monetary policy aided by prudent fiscal policy and the continued relative stability of the Kwacha.

With the anticipated bumper harvest of maize coming on the market as the marketing season opens this month, maize prices are expected to fall and assist in keeping food inflation in check and overall inflation at a single digit level. The challenge will be to anchor inflation at these single digit levels throughout this year and beyond. In order to do this, continued implementation of appropriate monetary and fiscal policies as well as maintaining relative stability of the exchange rate would be vital plus increased production of goods and services.

**Ladies and Gentlemen**, recently, the exchange rate market has been characterized by a general appreciation of the Kwacha against major foreign currencies. This has been mainly due to increased supply of foreign exchange on the market relative to demand. The key factors underlying the increased foreign exchange supply include:

- ii. increased copper output and exports as well as record high prices. Copper exports volume has in recent year registered sustained growth, increasing from 353,000 metric tons in 2003 to 423,000 metric tons in 2005. The price of copper rose to US \$4572.0 per tonne in December 2005 from US \$3134.79 per tonne in December 2004. By May 19, 2006, the price of copper had increased to US \$8016.29 per tonne,
- iii. increased non-traditional export earnings, from US \$410 million in 2003 to US \$476.7 million in 2005,
- iv. improved economic confidence following the attainment of the enhanced HIPC Initiative Completion Point in April 2005, which resulted in reduced external debt service obligations, and;
- v. increased foreign direct and portfolio investment, reflecting increased market confidence in the economy stemming from the greatly improved prospects for the copper sector, the cancellation of the bulk of Zambia's external debt, and the continued commitment to prudent fiscal and monetary policies.

**Mr Chairman**, all these factors have accounted for the current strengthening of the Kwacha. This has led to an outcry from some of our exporters of nontraditional commodities that they are losing external competitiveness and may close down their businesses. While I appreciate this outcry, I wish to state that the exchange rate alone does not determine external competitiveness of exports. Exporters should look at those areas in their production processes where they can attain efficiency gains and improve productivity. Besides the appreciation of the Kwacha which has an impact on inflation is beneficial to non-traditional exporters in several ways:

- reducing cost of capital goods
- reducing cost of imported raw materials
- reducing cost of freight/fuel

On its part, the Government can assist this process by directing investment in infrastructure and structural reforms, including labour laws, so as to reduce the cost of doing business in Zambia.

**Mr Chairman**, in the Government securities market, developments in yield rates were mixed in 2005. Overall, the composite weighted average Treasury bill yield rate stood at 16.2% in 2005, down from 17.8% recorded in 2004. In contrast, the composite yield rate on Government bonds stood at 23.0%, up from 20.9% registered in 2004. As at May 5, 2006, the composite weighted average Treasury bill yield rate came down sharply to 7.7% while the composite yield rate on Government bonds declined to 11.0%. The sharp reduction in yield rates on Government securities has been due to low inflation expectation coupled with high demand for these securities by the non-bank financial institutions and private sector.

**Mr Chairman**, with respect to developments in the money market, commercial banks lending rates have also been coming down, though not as fast as the decline in inflation and Treasury bills rates. Commercial banks nominal weighted average lending base rate declined from 29.8% in 2004 to 27.6 % in 2005. As at May 5, 2006, the weighted average lending base rates stood at 23.7%. Clearly, there is a need for commercial banks to do more to reduce lending rates in order to influence a substantial expansion of private sector credit. Lower lending rates will contribute to the reduction in the cost of doing business in Zambia. Sustainable lowering of lending rates by commercial banks should occur in the current environment of low inflation.

**Distinguished Guests, Ladies and Gentlemen**, the macroeconomic gains attained in 2005 will be consolidated in 2006. The real GDP growth is projected at 6.0% while inflation is projected at 10.0%. The Government will continue to pursue policies that would spur growth and assist in lowering inflation below the target.

**Distinguished Guests, Ladies and Gentlemen**, at this juncture, I wish to talk about your role as insurance brokers in economic growth, as the remarkable economic gains that I have outlined above would not have been possible without your contribution. In my humble understanding insurance brokers are independent intermediaries who provide the link between clients and insurance companies. By performing this function, your firms are important economic agents acting in the best interest of clients by providing them with sound and impartial professional and practical advice regarding insurance services.

The intermediary role that you play undoubtedly makes you critical in the growth of the Zambian economy in general, and the insurance services sector in particular. The advice that you provide to your clients is important because it promotes a more competitive market within the insurance industry. This may include an analysis of the most suitable firm, the various types of cover on the market and importantly a fair price for the given product. In some instances, you even go as far as carrying out surveys on various insurance products, negotiating prices of those products for your clients and presenting reports to insurance underwriters.

**Ladies and Gentlemen**, with your contribution, and that of other stakeholders, Zambia could easily achieve the national socio-economic goals in the medium to long-term. Every economic unit needs the services of a booming insurance sector, through your brokerage, for them to contribute more to economic growth and development. In this regard, I wish to urge you to continue facilitating and promoting investments in the insurance sector.

**Mr Chairman**, allow me to point out that, in order for you to contribute positively to the development of the insurance sector in the country, it is imperative that you carry out your work in an honest manner, maintaining the highest degree of integrity, only then can your firms become credible enough to attract business from the public and private firms operating in Zambia.

One of the most important attributes of a credible insurance broker is the ability to remit funds to insurance companies on time. As intermediaries between clients and insurance companies, you are entrusted with a heavy responsibility of looking after other people's funds. Clients pay premiums due to insurance companies through insurance brokers. To enhance credibility of your institutions and contribute to the growth of the insurance industry, I would like to urge you to ensure that you remit your clients funds to insurance companies on time and as agreed. Delays in remitting funds may tempt you to put such funds to other uses which may lead to default and erosion of the integrity upon which your intermediary role is based.

**Mr Chairman**, Zambia has come a long way to attain the current macroeconomic stability and economic growth. This has been as a result of Government's sound macroeconomic management and the critical contributions that various sectors of the economy have made, of which the insurance sector is a part.

Let me once again thank you for inviting me to share my thoughts with you on the role that your noble profession plays in this economy. On our part as Bank of Zambia, we shall keep on facilitating the development of, among others, the insurance sector by continuing to improve macroeconomic conditions that are critical to the expansion of your businesses. In turn, it is expected that other sectors of the economy will benefit and contribute to accelerated economic growth and development that the country is craving so much for in order to reduce poverty.

May I, at this juncture, point out that in order to facilitate your work, you may track some of the developments in our economy on the Bank of Zambia website, which you can visit on [www.boz.zm](http://www.boz.zm).

You can also contact us directly for any information you may require on the economy.

I thank you for your attention.