TOWARDS COMPETITIVE INSURANCE MARKET IN TANZANIA

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ABSTRACT

In 1985, the government of Tanzania decided to liberalise the economy. Pursuant to this policy, the banking industry became competitive following the enactment of the Banking and Financial Institutions Act, 1991. The insurance industry which is part of the financial sector has, however, remained the monopoly of the National Insurance Corporation of Tanzania Ltd., the nation's sole insurer for the last thirty-three years. The monopoly of transacting insurance business in Tanzania which has hitherto remained in the hands of the National Insurance Corporation of Tanzania Ltd. will come to an end after passage of the proposed insurance legislation. This paper examines the present state of insurance services delivery and makes suggestions on how to prepare for the forth-coming competitive insurance market.

INTRODUCTION

The process towards liberalisation of the economy started in 1985 after the installation of second phase government led by His Excellency, President Alli Hassan Mwinyi. In order to bring about reforms in the financial sector, a Presidential Commission of Enquiry into Monetary and Banking System in Tanzania (briefly referred to as the Banking Commission) was set up in 1989 under the then Governor of the Bank of Tanzania, Mr. Charles Nyirabu. With specific reference to the insurance industry, the Commission was required to examine and make recommendations on:

- Issue of policy documents
- Timely issue of premium notices
- Settlement of maturity and death claims
- Issue of loans under life policies
- Issue of policies in respect of various types of general insurance and settlement of class arising under them.[1]

The report contained 21 recommendations regarding the management of a liberalised and regulated insurance industry.

The recommendations are recapitulated below:

1. Government will appoint a "Controller" to administer the provisions of the Insurance Act.

2. Every insurer (i.e. any body carrying on insurance business of any class, i.e. Life, Fire, Marine or miscellaneous) must be registered under the Act, for that class of business.

3. Every application for registration shall be accompanied by certified copy of Memorandum and Articles of Association; name, address and occupation of directors; a statement of class of insurance business to be undertaken, together with a scheme of operation (project report); a statement certified by an auditor showing the paid up capital of the company as stipulated (say shs. 50 million for life and shs. 100 million for any one class of general insurance); a copy of the published prospectus; standard policy forms and a statement of the rates, advantages, terms

and conditions offered to policyholders etc.

4. An insurance company will not transact both life insurance and general insurance business. This provision will however not apply to an insurance company transacting reinsurance business only, and not doing any direct insurance business.

5. Every insurer has to keep deposited with a bank approved by the Controller for and on behalf of government an amount of say (shs. 10 million) if it is doing only life business or (shs. 100 million) if it is doing only one class of general insurance business.

6. Separate accounts will be maintained for each class of insurance business in regard to its receipts and payments. In respect of life business, the receipts shall form a separate fund called life fund: the assets of the fund shall be kept free from all encumbrance and distinct and separate from all other assets of the insurer (the deposit to form part of such assets), even from the shareholders' funds. The audited accounts of the insurer (Balance Sheet, Profit and Loss Account, Revenue Account), signed as specified, and in the form specified, have to be submitted in a specified time.

7. An actuarial valuation is to be made in respect of life insurance business once in 3 years and an abstract of the report in the form prescribed is to be submitted to the Controller.

8. The Controller may order revaluation if he is satisfied that the valuation made does not properly indicate the condition of the affairs of the insurer.

9. The register of policyholders and the register of claims have to be maintained in the form prescribed.

10. Investment of assets should be as prescribed. Every company carrying on insurance business should invest and keep invested in Tanzania its funds equivalent to its liabilities to holders of its policies in Tanzania. The investment should be in the following manner.

    (i) 30% in government securities

    (ii) Such further percentage not being more than 25% in government or other approved investment, the government may from time to time fix on its behalf by official notification.

    (iii) The balance in approved investments, subject to such restrictions as may be imposed by government by official notification.

11. There is to be no managing agency and the manager will not be remunerated by way of commission or bonus on the total insurance business or any part thereof.

12. The Controller will have powers of inspection and may appoint an auditor or an actuary to assist him in the investigation at the cost of the insurance company. He will also have powers, after giving an opportunity to the company to be heard, to appoint an Administrator (superseding the Board of Directors) if the conditions of the affairs of the insurer warrant. The decision will, however, be subject to approval by the Minister. On the report of the administrator, the Controller will take such action as may be necessary.

13. Agents will be licensed before they can canvass business.

14. Provision has to be made for rules regarding amalgamation, transfer of business, and winding up of insurers.

15. Surveyors and loss adjusters have to hold a certificate from the Controller. Their qualifications are to be prescribed.

16. Provision is to be made for assignment and nominating in regard to life insurance policy for making claim payments easy.

17. Provision is to be made to control expenses of management of insurance business by prescribing maximum limits.

18. Several provisions are to be made for Mutual Companies and Co-operative Life Insurance Societies.

19. Penalties are to be provided for non-compliance with provisions of the Act.

20. Suitable provisions should be made in regard to foreign insurers from countries which accord discriminatory treatment to insurers foreign to that country.

21. The Act should lay down the principles, leaving detailed supervision to be covered by regulations. These regulations may be made by the Minister, to carry out the purposes of the Act.[2]

The recommendations stated in 1.2 above centre on:

- Appointment and powers of Controller of Insurance
- Investment of insurance funds
- Valuation of the life fund
- Restriction on the carrying on of both life and general insurance business
- Licensing of insurance intermediaries i.e. agents and brokers
- Approval of surveyors and loss adjusters
- Control of management expenses
- Licensing of insurers etc.

These recommendations are necessary for the regulation of a competitive insurance industry in order to safeguard the interests of policyholders in particular, and the general public at large. The restriction on carrying on both Life and general insurance business, however, has not been taken favourably by NIC. This would mean that the Corporation would have to be split into two separate companies, one transacting life assurance business only while general insurance business would be written by another company. It is argued that the situation would create administrative problems in terms of establishing new organisations and reallocating employees; financial difficulties in sharing assets between the new life company and the general insurance company; marketing problems as far as utilising the existing distribution channels consisting of agents as well as an elaborate regional branch network.

Licensing of intermediaries as well as approval of loss adjusters and surveyor swill ensure that competent parties are allowed to operate in the market-place where sophisticated insurance services are provided. Such requirement will check on individuals who think that insurance can be sold by anyone in order to generate commission. The present situation permits individuals who have scanty or no insurance knowledge to operate as agents. In future, those who want to be insurance agents must satisfy the Insurance Controller that they are competent enough to act as such after acquiring adequate insurance knowledge.

In 1991, an "Act to consolidate the law relating to business of banking, to harmonise the operations of all financial institutions in Tanzania, to foster sound banking activities, to regulate credit operations, and to provide for other matters incidental with those purposes"[3] was passed. The Act is incited as the Banking and Financial Institutions Act, 1991. Following the passage of this legislation, the banking sector was liberalised. Several foreign banks such as Greenland Bank, Trust Bank, Stanbik Bank, Euro Bank, Standard and Chartered Bank etc. have been established to compete alongside local banks, viz. National Bank of commerce, Co-operative and Rural Development Bank, Tanzania Investment Bank and Tanzania Postal Bank. Four years after liberalising the banking industry, customers are now enjoying courteous and prompt services provided by competing banks.

Until now, the insurance industry is operating under monopolistic conditions. Although the draft insurance bill was ready by 1994, it has not yet been passed by parliament. On two separate occasions, the bill was withdrawn from a list of bills to be placed before parliament due to some technicalities.

> *"What confounds many Tanzanians is why reform should succeed in many other areas but fail, or prove excessively difficult, when it comes to the insurance industry. The most likely explanation is that it is not a matter of liberalising one specific company but rather changing the operational prerogatives of a mass of insurance brokers and companies depending on the IC who constitute a powerful lobby against liberalisation."*[4]

The then Minister of Finance Lt. Col. Jakaya Mrisho Kikwete said that the bill was withdrawn from parliament because "...the member felt it was not yet an ideal time to introduce [it]."[5] The incumbent Minister of Finance, Professor Mbilinyi pointed out that the bill would be placed before parliament but he did not specify the time. The paper discusses the present state of the insurance industry and suggests measures to be taken in order to prepare for the forthcoming competitive market.

HISTORICAL BACKGROUND

In 1967, the government of Tanzania decided to nationalise all major means of production including wholesale trade, transport, large scale farms, banking and insurance. As far as the insurance industry is concerned, the Insurance (Vesting of Interests and Regulation) Act, 1967, was passed in order to grant the National Insurance Corporation of Tanzania Ltd. (NIC), the monopoly of transacting insurance business in Tanganyika. The Act made it illegal for any person or company other than NIC to transact insurance business in Tanganyika. The National Insurance Corporation of Tanzania Ltd. was charged with the following duties:

(a) To provide, in accordance with the conditions appropriate in the normal and proper conduct of insurance business, adequate and proper insurance services and facilities throughout Tanganyika.

(b) To conduct its business without discrimination, excepting upon such grounds as are essential in the normal and proper conduct of insurance business.[6]

At the time of nationalisation, the government of Tanzania took over 49% of the shares in NIC which were held by foreign companies. The government had earlier invested 51% of the shares in NIC when the company was incorporated in October 1963.

The main objective of nationalising the insurance business was to stop the siphoning of funds to metropolitan countries and ensure that the resources mobilised locally are used for the development of the nation.

PERFORMANCE OF NIC

Under monopolistic condition, NIC has managed to spread its services throughout the country. The services, however, have concentrated mainly on urban population, ignoring the majority of the people who live in rural areas (about 80% of the

Table 1:
NON-LIFE PREMIUM INCOME: 1990-1995

YEAR	FIRE	MOTOR	MISC.	MARINE	AVIATION	TOTAL
1990	1,339,029,890	2,761,737,821	953,216,216	557,566,138	10,478,587	4,544,756,0C3
1991	1,696,863,081	3,899,852,968	1,344,676,626	596,015,624	21,017,173	6,601,732,976
1992	1,772,337,999	4,156,300,382	1,481,385,678	604,924,092	11,680,655	7,079,890,883
1993	2,307,349,045	6,667,022,793	2,577,814,533	541,386,828	1,241,625	10,466,483,419
1994	2,018,803,448	10,441,957,200	2,671,142,930	1,039,327,476	237,065,046	16,408,296,104
1995	3,140,747,000	12,665,664,000	2,850,633,000	1,204,084,000	631,926,000	20,493,054,000
TOTAL	12,275,130,463	40,592,535,164	11,878,868,983	3,985,738,020	913,409,086	65,591,213,385

Source: National Insurance Corporation (T) Ltd.

Table 2:
LIFE PREMIUM INCOME: 1990-95

YEAR	GROUP LIFE	ORDINARY LIFE	TOTAL
1990	458,435,991	603,595,994	1,062,031,985
1991	1,219,733,867	944,926,330	2,164,700,197
1992	2,029,870,147	1,409,787,308	4,539,676,823
1993	2,041,533,675	2,498,143,148	3,439,657,455
1994	3,022,436,166	2,571,131,312	5,593,567,478
1995	3,429.823,913	2,980,608,493	6,410,406
TOTAL	12,201,833,759	11,008,192,585	23,210,066,344

Source: *National Insurance Corporation (T) Ltd.*

Table 3:
CLAIMS FOR THE PERIOD 1990-1993

Fire	Amount in Tshs.	Claims Ratio
1990	331,646,186	27.7
1991	137,955,653	8.1
1992	690,410,023	39.0
1993	814,706,095	35.3
Miscellanueous & Accident		
1990	362,117,385	38.0
1991	567,427,442	42.2
1992	717,305,451	48.4
1993	949,880,254	36.8
Motor		
1990	1,428,846,518	51.7
1991	2,474,640,917	63.4
1992	5,741,784,981	138.1
1993	6,558,823,000	98.3

Source: *National Insurance Corporation (T) Ltd.*

the population). NIC has a network of branches in each of the twenty regions of Tanzania mainland. Dar es Salaam region has a total of five branches, viz. Metro, Life House, Mzizima, Kisutu and Ubungo Branch.

In terms of operations, the Corporation has enjoyed steady growth in both life and general insurance business. For instance, life assurance premium income increased from Tanzanian shillings 1.1 billion in 1990 to shillings 6.4 billion in 1995. Premium income in respect of general insurance business increased from shillings 4.5 billion to shillings 20.5 billion during the same period under review. Tables 1, 2 and 3 show the income generated from the various classes of insurance business during the period 1990-1995.

While Fire, Accident and Miscellaneous businesses have registered good underwriting results for the period 1990 - 1993, the motor insurance portfolio has experienced high claim costs. This may partly be attributed to escalating repair costs due to increased cost of labour and spare parts. Third party claims relating to bodily injury, death or damage to property arising from the use of motor vehicles have increased in recent years due to people's awareness of their legal rights. Table 3 below indicates the trend of claims in respect of Fire, motor, Accident and Miscellaneous business for the period 1990 - 93.

Although the Corporation has registered steady growth in all the classes of insurance during the period under review, it has continued to offer almost the same products since it was incorporated more than three decades ago. The old products were introduced from India and the United Kingdom. It was only in 1995 that the Corporation brought into the market new products, viz.: Home Protector, Business Protector, Car Protector and super Life Saver as a strategy aimed at countering competition when the industry is liberalised. Unfortunately, no research was carried out prior to the design of those products in order to determine their demand and suitability to the insuring public. The approach taken in designing the new products seems to have ignored the marketing concept which requires that the interests of the consumer be considered before any new product is introduced into the marketplace. In modern times, it is no longer a question of providing what the company has but what the customer wants. The company should therefore be customer driven.

TOWARDS LIBERALISATION OF THE INSURANCE INDUSTRY

As a result of pressure from both the International Monetary Fund as well as the World Bank, the insurance industry which forms part of the economy, has to be liberalised. When the banking industry was liberalised in 1991, it was expected that the insurance industry would follow suit. That remained the position until 1994 when the proposed insurance bill was introduced into Parliament but it was never discussed. The bill was reintroduced in 1995 with similar outcome.

Though the government did not provide any categorical statement as to why the bill was withdrawn, the Insurance Institute of Tanzania had earlier discussed the bill and made the following recommendations which were submitted to the Ministry of Finance:

- The appointee for the position of Insurance Commissioner must be an individual who is conversant with insurance matters.

- The government should encourage the establishment of a local reinsurance corporation in order to curb the outflow of reinsurance premium to foreign-based companies.

- The insurance industry should be regulated by an independent regulatory authority manned by insurance professionals and not the Bank of Tanzania.

- Risk surveyors and loss adjusters should also be registered and supervised by the Insurance Commissioner.

- The Advisory Committee proposed in the bill should include members from the Insurance Institute of Tanzania, The Institute of Finance Management (IFM), the agency force and the Insurance Commissioner as ex officio.

- Capital requirements for the registration of an insurance company should be reviewed downwards in order to encourage investors. The proposed figures of the equivalent in Tshs. of US $ 1 million and US $ 2 million for general and long term insurance respectively are considered too high.[7]

Further, insurance agents indicated their dissatisfaction over the proposed bill. They felt that the change had come too soon and that the industry was unprepared to cope with the situation. The industry needed more time to prepare for the competition.

The National Insurance Corporation of Tanzania Ltd., on the other hand, is not opposed to liberalisation of the industry. Affirming this position, the Managing Director of NIC observed that:

> *You open the market to benefit your own citizens because all developed countries apply this method. Commenting on NIC's readiness to face competition, Mr. Temu said NIC was well established in the country through regional branches and a committed workforce which felt part and parcel of the company.*[8]

The need for a liberalised insurance industry in Tanzania has come at a very appropriate moment. Policyholders as well as the general insuring public have shown dissatisfaction over the services delivered by NIC. Some of the problem areas include:

- Delay in issuing policies. It takes several months or even a year for a proposer to get his/her policy document
- Poor claims service
  Life assurance policyholders whose policies have matured are not getting their money in time. Death claims also take a long time before they are settled. Claims relating to general insurance business such as fire, marine or motor are also not being settled promptly even after submission of claims proofs.

- Corruption perpetrated by a few unscrupulous employees.

Given the problems stated above, a disgruntled policyholder has no other avenue because of the monopolistic situation. He has to put up with all those inconveniences. Under a liberalised market, a customer has the right to choose an insurer depending on some criteria such as the price of the product and the quality of service offered. Hence the need for liberalising the insurance market in Tanzania. Under competitive conditions, each insurer will have to be dynamic by designing appropriate products that meet customers' needs and make sure that the prices demanded for those products are affordable. Apart from designing appropriate and affordable products, companies operating in a competitive environment must provide a high quality of service in order to attract and retain customers. Customer needs can only be identified after carrying out market research. It therefore follows that insurance companies must value research by incorporating research and development (RD) department in their structures as well as allocating adequate research funds to facilitate the research function.

REGULATORY FRAMEWORK

A liberalised insurance industry may not work for the benefit of the policyholders and the public at large unless it is regulated. Professor Kimball summarises the purpose of insurance regulation as follows:

(1) to assure that the industry is sufficiently solid financially to meet the expanding demand of coverage.

(2) to assure that the industry operates with a sense of fairness, equity, and reasonableness in the market.[9]

As far as insurance regulation is concerned, the following areas must fall under the supervision of the insurance regulator:

- **Rate regulation** - rates must reflect past and prospective loss and expense experience, conflagration, and catastrophe hazards, reasonable margins for underwriting profits and contingencies, and for participating insurers, dividends, savings, or unabsorbed premium deposits allowed or returned by insurers.

- **Expenses** - insurer expenses must be controlled for effective financial regulation.

- **Reserves** - property and liability insurers are required to maintain unearned premium reserves and loss reserves.

- **Investments** - to ensure security of investment prospective policyholders.

- **Products** - contract terms should not be unfavourable to insured.

- **Licensing of intermediaries** - to ensure their competence before they are allowed to convass business.[10]

According to Mehr, the duties of an insurance commissioner fall under three areas, viz.: financial solvency trade practices and marketing of insurance. The specific duties are as follows:

Financial Solvency

- Licence insurers that meet the state's financial requirements
- Revoke insurers periodically and make spot examinations whenever expedient
- Require adequate valuation of reserve liabilities
- Require reasonable valuation of assets
- Approve classes of investments
- Require adequate rates
- Require filing of annual statements
- Limit insurer expenditures
- Act as a depository of securities in those states with depository laws
- Liquidate insolvent insurers

Regulation of trade practices

The commissioner has the power to:

- Approve policy contracts
- Require that rates be neither unfairly

discriminatory, inadequate, nor excessive

- Investigate complaints of policyowners and others as to rates, claims, underwriting, policy cancellations, commission payments, premium notices and refunds, premium misappropriations, an agent or broker acting without a licence, and other grievances.

Regulating the marketing of insurance
In regulating the marketing of insurance, the commissioner has the power to license insurance agents, brokers, adjusters and, in some cases, counsellors.[11]

As discussed under section 5.2 and 5.3 of this paper, a liberalised insurance market must be regulated in order to protect policyholders and the insuring public at large. The insurance commissioner is charged with the responsibility of administering the insurance regulatory legislation. In preparation for a competitive insurance market, the government of Tanzania drafted an insurance bill way back in 1994. As stated earlier, the bill has not yet been placed before Parliament. After receiving comments from interested parties such as NIC, Association of Insurance Agents and the Insurance Institute of Tanzania, it is hoped that some of the recommendations will be incorporated in the bill in order to assure its passage when it is tabled in parliament next time. The draft bill is divided into nine parts as follows:

Part I Preliminary

Short title, application, interpretation.

Part II Administration

- Appointment and qualification of Commissioner
- Commissioner's functions and duties

Part III Capital and other requirements for insurers other than Associations of Underwriters

- Application of part III
- Insurer to be a resident company in Tanzania
- Restrictions on general and long term insurance
- Separation of insurance and brokers
- Capital requirements
- Margin of solvency

Part IVProvisions Concerning Insurer other than Associations of Underwriters

- Application of Part IV
- Registration of an insurer
- Exclusion of friendly societies
- Application for registration
- Registration requirements
- Restriction on insurers whose officers are deemed unsuitable
- Grant of registration
- Cancellation of registration
- Prohibition on cancellation of registration
- Restrictions and reinsurances
- Amalgamation, sales and transfers
- Records and preservation of records
- Amendment of accounts etc.

Part V Association of Underwriters registered as Insurers

Part VI Third Party (Rights Against Insurers)

Part VII Registration Requirements of Insurance Brokers, Insurance Agents and
Agents for Brokers

Part VIII Special Provisions relating to Long Term (Life) and other Policies

Part IX Miscellaneous Provisions.[12]

THE CHALLENGES AHEAD

"Any company that is a by stander on the road to the future will watch its structure, values, and skills become progressively less attuned to industry realities".[13] It is quite clear that the insurance industry is heading towards competition. Under competitive conditions, each company is expected to strive and obtain its share of the business. For a company to succeed in the marketplace, it has to:

- Carry out research with the view to determining customer needs
- Design appropriate products to meet the identified needs
- Provide high quality of customer service

In order to achieve the goals stated in 6.1 above, the company must have well trained and motivated staff. Moreover, it must keep abreast of technological advancement in order to achieve operational efficiency. In a world of competition, each company will struggle to win and retain customers. Failure to do so will drive the company out of the marketplace. To ensure the survival of an insurance company, employees must therefore be dedicated to their jobs and observe the duty of utmost good faith. By observing the duty of utmost good faith, they should avoid all acts aimed at defrauding the company or dealing unfairly with customers by receiving or soliciting bribes.

CONCLUSION

This paper has discussed the move towards liberalisation of the economy, with specific reference to the insurance industry. Even though the insurance industry forms part of the financial sector which has been partly liberalised by approving the operation of foreign banks, the National Insurance Corporation of Tanzania Ltd. is still operating as a monopolistic organisation. NIC has operated under monopolistic conditions for almost three decades. This monopoly is expected to cease when the Insurance Vesting of Interests and Regulation Act, 1967 is repealed and replaced by legislation aimed at regulating the forthcoming competitive insurance market. The legislative measure will regulate important areas such as capital requirements for insurers, licensing of agents and brokers, insurance rates, investments etc.

In order to prepare for the forthcoming competition, NIC and other companies that intend to enter the market must ensure that they design products that meet customer needs. Such products must be affordable. The need to provide prompt and efficient customer service cannot be overemphasised. Moreover, the staff working for those companies must be well-trained, committed to the company and honest. Finally, companies must be dynamic by keeping abreast of technological change and adapt to consumers' ever changing needs. Insurance intermediaries on the other hand, will have to acquire insurance knowledge in order to meet licensing requirements. They also have to adopt new technology in order to provide rapid services to their customers, or else they will price themselves out of the market.

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