MINIMISATION OF LATE PAYMENT OF PREMIUMS BY INTERMEDIARIES AND PROBABLE SOLUTIONS FOR GENERAL INSURANCE COMPANIES IN LUSAKA, ZAMBIA.

BY

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A Dissertation Submitted to the University of Zambia in Partial Fulfilment of the Requirements for the Award of the Degree of Masters of Business Administration in Strategic Management.

THE UNIVERSITY OF ZAMBIA
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2021

DECLARATION

I, **Arnold Manokore** do hereby solemnly declare that this dissertation represents my own work, except where otherwise acknowledged, and that it has never been previously submitted for a degree at the University of Zambia or any other University.

Author's Signature: ……………………………….Date: ………………………………………

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APPROVAL

This dissertation by **Arnold Manokore** has been approved as fulfilment of the requirements for the award of the Degree of Masters of Business Administration in Strategic Management by the University of Zambia.

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ABSTRACT

This study sought to understand the premium remittance challenges faced by the Zambian general insurance industry, and suggest realistic solutions. The research used an embedded mixed methods design. Structured questionnaires were distributed to 319 respondents, via email and also by hand. Interviews were also conducted with representatives from the brokers and insurers association, regulator and a service provider. Results of the study showed that defaulting brokers deliberately reneged on their obligations in order to derive financial benefits from using collected premiums. The unethical behaviour was found to be promoted by weak governance and a general lack of accountability especially among large indigenous brokers; lack of strict enforcement, as well as absence of a framework to protect the interests of insurers in situations where brokers default. The study also found that the preferred long-term solution to premium problems is the cash and carry principle, which strengthens the insurer's position while bringing clarity and certainty to the status of insurance policies. Several amendments to the Insurance Act were recommended, as well as the need for further research to understand the likely impact of the cash and carry principle on insurance affordability, penetration, and sustainability of the insurance business in Zambia.

Keywords: Brokers, Premiums, Cash and Carry

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DEDICATION

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ABBREVIATIONS AND ACRONYMS

CIMA	Conférence Interafricaine des Marchés d'Assurances
EU	European Union
GIA	General Insurance Association of Singapore
GPW	Gross Premium Written
IAZ	Insures Association of Zambia
IBAZ	Insurance Brokers Association of Zambia
NICG	National Insurance Commission Guidelines
NICS	National Insurance Credit Standard
PIA	Pensions and Insurance Authority
PPF	Premium Payment Framework
USA	United States of America

OPERATIONAL DEFINITION OF TERMS

Insurance Intermediary: In this study, an insurance intermediary is an entity or individual that facilitates the placement and purchase of insurance, and provide services to insurance companies and consumers that complement the insurance placement process including premium collecting in some markets. Traditionally, insurance intermediaries have been categorized as either insurance agents or insurance brokers.

Insurance Broker: Typically work for the policyholder in the insurance process and acts independently in relation to insurers. Brokers assist clients in the choice of their insurance by presenting them with alternatives in terms of insurers and products. Acting as "agent" for the buyer, brokers usually work with multiple companies to place coverage for their clients. Brokers obtain quotes from various insurers and guide clients in determining the adequate policy from a range of products.

Insurance agents: Are, in general, licensed to conduct business on behalf of insurance companies. Agents represent the insurer in the insurance process and usually operate under the terms of an agency agreement with the insurer.

Insurance premium: It is the amount of money or consideration that an individual or business must pay in exchange of an insurance policy. The insurance premium is income for the insurance company and also represents a liability in that the insurer must provide coverage for claims being made against the policy. Further, premiums are also used to form a pool of fund where all claims of those who suffers losses or damages are paid from.

Policyholder: Is a person who has an insurance policy or contract with an insurance company.

Reinsurance Is insurance for insurance companies. It is the mechanism that insurance companies use to lower their risk or reduce their exposure to a specific catastrophic event. If an insurer has too much exposure to a potentially costly event, then that event could cause the company to go bankrupt or even shut down if it's unable to cover the loss.

Insurance policy: Is a contract between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. A contract of Insurance becomes binding upon payment of the charged premium to the insurance company, and the insurer promises to pay for loss caused by perils covered under the policy language.

Insurance claim: It is a formal request to an insurance company for compensation following a loss or damage of an insured item or property. The insurance company validates the claim and, once approved, a payment or settlement is issued to the insured or an approved interested party on behalf of the insured.

Underwriting: Is the process of evaluating the risk(s) associated with property, item or subject matter that needs to be insured, for the purposes of determining on whether the insurance company should deny or accept it. If the company makes the decision to accept, they then use the information gathered to come up with the terms and conditions of the

contract, and the premium to be paid by the policyholder.

Pensions and Insurance Authority: This is the registrar and regulatory authority for the Zambian Insurance market. Its main functions are to register and provide licences to all insurance players, renewal of licences, and regulatory role amongst others.

Insurers Association of Zambia: Is the association of all insurance companies which are licenced to operate in the Zambian Insurance industry. Its role is to communicate and facilitate meetings to discuss issues that promotes or affects the growth or operation of Insurance companies.

Insurance Brokers Association of Zambia: Like its counterpart, IAZ is the association of all insurance brokers which are licenced to operate in the Zambian Insurance industry. Its role is to communicate and facilitate meetings to discuss issues that promote or affect the growth or operation of Insurance brokers.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

A widely documented opinion in the literature is that brokers do not always act in the best interests of their clients. Instead, they seek to maximize their profits (Battalio & Loughran, 2008). Insurance brokers are highly autonomous entities that help insurance seekers to place risk in the insurance market on competitive terms (TheCityUK, 2011). They do that by finding suitable insurance policies for clients after identifying their risks and examining the products offered by various insurers. Thus, it is also expected that the broker serves the best interests of the client and not the insurer. Nevertheless, many African insurance markets have been grappling with the problem of delayed premium remittance by brokers to insurers (here neither the client's nor the insurer's interests are served) (Game & Gregoriou, 2014). Insurance debtors are a big problem in Africa and a significant risk for the insurance industry.

Delays by Zambian insurance brokers to remit premiums has heavily compromised the timely payment of claims to the detriment of client interests, and leading to loss in public confidence (PIA, 2018). In addition, this has generally weakened the underwriting capacity of the Zambian insurance market. As a result, insurance penetration levels remain very low, and the risk profile of Zambian insurers has worsened. The problem has been discussed at many fora in Zambia, but no tangible solution is in sight. This study sought to understand why brokers continue to withhold collected premiums for periods longer than the statutory limit of 30 days, and to explore ways in which this can be addressed for the greater good of the Zambian insurance market. This Chapter gives a background to the study, the problem and objectives, as well as the justification of the study.

1.2 Background to the Study

1.2.1 Insurance as the pooling of risks

Risk pooling is an insurance practice where groups or large numbers of people come and put their resources together to minimize the cost impact of the highest-risk individuals (Thompson, 2016). He went on to explain that health, car, home and life insurance all practice risk pooling by ensuring people who are unlikely to need insurance to cover the costs of people who are

more likely to need insurance. Nathaphan (1956) described it as the spreading of losses incurred by the few over the entire group, so that in the process, average loss is substituted for actual loss. In his explanation, Nathaphan also said that, the key mechanism is the law of large numbers wherein those who suffer from any misfortune are compensated from the pool.

1.2.2 Unethical Behaviour in Insurance Broking

Ethics implicitly regulates areas and details of behavior that lie beyond governmental control (Prakash & Gupta, 2013). Unethical behaviour by insurance brokers has traditionally been discussed within a remuneration framework in the past, where one insurance company offers a higher commission and the broker focuses on maximizing his income rather than offering his client the policy with the best coverage (Battalio and Loughran, 2008). Brokers do not always act in the best interest of clients, although they are ethically obligated to do so (Game and Gregoriou, 2014). It has been alleged that the compensation of agents and brokers through commissions, often related to the underwriting quality or volume of business placed with an insurer, constitutes an anticompetitive practice that is detrimental to buyers (Spitzer, Hunter, 2004 & 2005). Nevertheless, there is another source of potential risk that can distort the required ethical behaviour of insurance brokers. Specifically, it is the possibility of deferring the payment to insurance companies of premiums collected from clients. In this case, the broker collects the premiums payable under the client's insurance policy but does not immediately send the funds to the insurance company. Instead, the broker waits until the end of the legal period and uses this as working capital or invests on a short–term basis to earn extra income. While the practice is not illegal if done within the legal period, it is unethical behaviour since the client expects the broker to immediately forward the funds to the insurer to guarantee cover.

In the event of loss, the insured expects the claiming process to be smooth. However, there have been numerous cases of delays in claims processing occasioned by squabbles between insurers and brokers over non-remittance of premiums (PIA, 2018). The remittance of funds between the broker and the insurer is out of the sight of the clients, and understandably the client blames the insurer for the delays in claim settlement. This is not good for the growth of the insurance market. In the absence of the cash-and-carry principle (meaning the insurer only assumes the placed risk upon payment of the premium due), insurers are heavily exposed to broker counterparty credit risk, and this history affects their ability to place risk in the reinsurance market as well.

1.2.3 Overview of insurance markets in Africa

This section presents a brief overview of insurance penetration in Africa in general and Zambia in particular. Unlike developed and other emerging economies, insurance markets are relatively under-developed in Africa (Allen et al., 2011). According to Swiss Re, insurance penetration in Africa (3.65 per cent in 2012) was significantly below the global average of 6.5 per cent. Insurance markets are mostly dominated by the activities of the non-life insurance market. The South African market has the largest number of players in the insurance markets, followed by Nigeria and Kenya. There is high growth potential in many African countries.

Characteristics of the Insurance market in Africa

Africa's average penetration rate of 2.8% is substantially below the global average penetration rate of 6.2% as at 2015 (SwissRe, 2015). Although room for growth is there, the continent still performs favourably compared to other emerging markets (such as Central & Eastern Europe, and Emerging Asia). Countries with large economies and growing populations are leading insurance penetration in Africa (A. M. Best Company, 2014).

Among the top ten markets in the region, five (South Africa, Morocco, Kenya, Namibia & Mauritius) already have total insurance penetration rates above the continental average. Non-life products dominate in seven of the top ten markets (all but South Africa, Namibia and Mauritius, which are also considered the most mature markets on the continent). In terms of insurance penetration, Kenya and Morocco are considered comparable to other developed markets, whilst Nigeria and Egypt are under-insured. The rest of Africa has historically had a very low demand for insurance, with several initiatives arising to promote the industry, including: "recapitalization of insurance companies, organic consolidation, educating consumers, the establishment of insurance protection funds, improved distribution channels and stronger reporting and regulations." (A. M. Best Company, 2014).

The Southern and East African markets represent the highest levels of insurance development on the continent, with Namibia, South Africa and Mauritius exhibiting above average insurance penetration relative to their GDP per capita figures. Despite a lot of potential for high insurance demand in Central and West Africa growth led by oil exports has resulted in high inflation rates, placing pressure on the price of insurance, whilst restrictive legislative policies have left the sector underdeveloped. Both leading markets in the region (Nigeria & Ghana) are

nominally amongst the largest contributors to total premiums in Africa, however relative to the level of economic growth, they lag behind expectation.

In North Africa, Morocco and Egypt are the two economies that exhibit above average insurance penetration rates relative to their GDP's. Despite high GDPs in this region, most countries trail substantially behind in relation to insurance development when looking at the penetration rates. It has been suggested that the reason for this could be cultural /religious reasons as the dominant Muslim community forbids conventional insurance products.

On the regulatory side, several challenges still exist including: "lack of access to information across countries, poor harmonisation of regulatory supervision, licensing and claims processes. A positive signal that the sector is growing is that "'in 2013, total African insurance premiums by volume grew by more than 10%" - outpacing the continent's GDP growth which stood at 6% for that year (Schanz & Company, 2015).

1.2.4 Focus on the Zambian Insurance Market

Zambia's insurance market is massively underdeveloped, relative to the level of its economy. Its penetration rate declined from 1.6% in 1990 to 1.3% in 2013, despite GDP per capita almost tripling in the same period. The sector consisted of 21 general insurance companies, 37 Insurance brokers, 7 reinsurance companies including reinsurance brokers (PIA, 2018). Most of these companies have their head offices situated in Lusaka. Brokers handle over 75% of the business amongst themselves in the Zambian insurance market. General insurance companies only write business in classes such as agriculture, motor vehicle, house-owners, householders, business combined and many others excluding health and life insurance covers.

Minimum capital requirements were set at USD200, 000 as at 2013 and most companies remain small and massively undercapitalised (Schanz & Company, 2015). However, there is a massive potential for this sector to grow and new entrants into the market (particularly from South Africa) are looking to tap into this market. As in many other African countries, a challenge for insurance companies in Zambia is to raise the public's awareness and appreciation of the importance of insurance, as well as their confidence in the system (KPMG, 2012).

Finscope (2015), conducted a survey and found that 42% of Zambians had never heard about insurance. Over 95% of Zambians do not participate in the insurance market. The Insurance Association of Zambia (IAZ) is mobilizing resources to push the agenda of raising awareness. The IAZ's target was to have at least 6 million Zambians covered by an insurance policy by 2019, but the situation appears to be getting worse by the day, as market confidence continues to erode.

Insurance business in Zambia is governed by the Insurance Act no. 27 of 1997 as amended by the Insurance Act no. 26 of 2005. The IAZ has been lobbying that the old legislation is now outdated and there is need for a new Insurance Act that overhauls the existing legislation. Despite assurances from the Ministry of Finance and the Pensions and Insurance Authority, many of the anticipated reforms have not been legislated in line with the evolving insurance landscape in Zambia and elsewhere in the world. Thus, many of the contentious issues in the Insurance industry today could be a result of a legislative void as a result of the evolution of the market architecture.

Apart from necessary legislative reforms, Zambia has grappled with liquidity challenges arising from late remittance of insurance premiums by brokers. Insurance in Zambia is not provided on a cash-and-carry basis, and by the end of 2015, the sector had a whopping 52% of premiums stuck in debtors (IAZ, 2017). Brokers handle about 75% of the business in the insurance sector which would roughly equate to about 39% of the industry debtors book. As a consequence, many insurers have struggled to pay claims. The IAZ lamented that the sector faces “a double setback of high debtors’ ratio and also stiff competition resulting in undercutting of rates.” Stiff competition has driven premiums down, and risk profiles up (both factors that are not good for sustainable insurance market). The IAZ is working with the regulator to resolve the issue of liquidity and debt management, to keep it in line with the industry's growth, and to prevent it from potentially stifling the sector. It is thus important to understand the reasons why insurance brokers engage in opportunistic behaviour to the detriment of both the clients and the broader insurance value chain.

The common practice in most insurance industries in Africa, and other parts of the world is that, premiums are supposed to be paid immediately to the Insurer directly or through intermediaries. The Pension and Insurance Authority (2009), published the National Insurance Credit Standard which states that premiums collected and paid to intermediaries by policyholders are supposed to be paid to the insurers within 30 days of receipt. Generally, in

the Zambian Insurance market, premiums are being paid to insurance companies, somewhere between 3 to 6 months or even more than this period, in some instances (IAZ, 2017).

Looking at other markets that have suffered from the same problem of broker hold-up, Europe is case in point. Directive (2002), of the European Parliament and Council states that the insured has risk coverage from the time that the insured pays the premium to the broker. Consequently, the broker should advance the payment of premiums collected in case there is an incident that has to be managed by the insurance company. In brief, those insurance brokers that defer the payment to the insurer of the premiums collected from their clients have to face a trade–off between an (extra) increase in their profitability and an increase in the risk they bear.

1.3 Statement of the Problem

There is a problem of poor premium remittance by intermediaries in the Zambian Insurance market. Generally, the bulk (more than 75%) of the Insurance business in this market is transacted through intermediaries. The current debtors' book for the industry continues to grow at a worrying rate. Insurers Association of Zambia (2017), stated in a workshop held by the Pensions and Insurance Authority that, the debtors' book for the entire Zambian insurance market has been growing significantly from 45% in 2012 to over 60% in 2017. This has a negative impact on the insurers' ability to meet their immediate and future obligations. This research seek to find probable ways of reducing this high debtors ratio or at-least have it aligned with other regional markets' permissible rate of around 10% or below.

Currently, some insurers in the market are struggling to settle claims on time, and are even negotiating for a claim settlement plan with clients, and other service providers, such as panel beaters. If this problem is not understood by both players and regulators, no solution can be found. With no solution in sight, the general fear is that the insurance sector in Zambia will stall very soon, as the market fast loses confidence and the insurers also become insolvent. With this in mind, it then became relevant to conduct a study to understand why intermediaries continue to delay remitting premiums to insurers despite numerous calls for them to regularise the position.

1.4 Aim of the Study

The study generally sought to understand the motives and reasons for delays by insurance intermediaries in remitting premiums to insurers, with a view to suggest strategies to resolve the problems and increase the efficiency of claims management in the Zambian insurance market.

1.5 Research Objectives

1.5.1 General Objective

The study aimed is at finding probable solutions for late premiums remittance by brokers in Lusaka district, Zambia.

1.5.2 Specific Objectives

To facilitate achievement of the general objective of the study, the following specific objectives had to be addressed:

i. To identify the existing regulatory measures that are meant to deal with premium remittance issues in Zambia.
ii. To establish reasons for the delay in remitting premiums to insurance companies by insurance intermediaries.
iii. To devise probable strategies and solutions to improve premium remittance to general insurance companies in the Zambian insurance market.

1.6 Research Questions

This study sought to answer the following research questions:

i. What is the state of Zambian insurance regulation regarding the handling of premiums by intermediaries and the remedies for non-compliance?
ii. Why do intermediaries delay remitting premiums to insurers?
iii. How can Zambia's premium remittance problem be improved to enhance efficiency in claims management and ultimately industry confidence.

1.7 Justification of the Study

This study is justified for a number of reasons. To begin with, there is no study that has been done in Zambia to understand why brokers delay premium remittances, yet this has been a topical discussion point on many professional fora. A number of stakeholders which include but not limited to employees, shareholders, Government are affected in different ways. Currently, the Zambian Insurance market is not very attractive to foreign investors due to ever-increasing debtors on insurance companies' balance sheets. Industry growth is affected as a few investors are attracted to open up in the country.

Some companies are forced to shut down their operations, as their balance sheets continue to be depleted. Employees lose their jobs, shareholders lose return on their investments and the Government lose on tax returns and suffer on high employment rate. Recently two Insurance companies (A-Plus and Focus insurance Companies) were placed under compulsory liquidation (PIA, 2018). This study sought to inform policy discourse on regulatory reforms, especially the loading of risks on the brokers via new rules. By using in-depth interviews with market players, the study provided rich anonymous information into the motives and incentives for broker hold-up on premiums. This is usually difficult to capture in a public forum where the identity of the contributor cannot be withheld.

Insurance is a form of a risk transfer mechanism, which helps to stimulate business growth in an economy. Most businesses passes their financial risk obligations to insurance companies to pay them in the event that, they suffer from loss or damage to their business premises, machinery, property, motor vehicle, from risks such as, fire, lightning, storm, flooding, theft, accident and so forth. This means that the business is no longer required to tie down some of their capital to fund such unexpected risks. This fund can easily be channelled towards expanding business operations, thereby boosting the country's economic growth. With the threat of illiquidity due to broker hold-up, the entire insurance industry is at risk of folding, with negative consequences for the economy at large.

Policyholder protection is key in any insurance business across the world, as they are the reason why insurance companies exist. They are there to serve the interests of policyholders in the event that they suffer from various forms of losses. The problem comes when the insurance companies do not have the money to pay claims when losses arise, and this leaves policyholders exposed. Insurance companies require enough funding through premiums received from

policyholders through intermediaries, for them to be able to pay claims timeously. Therefore, many people and business entities stood to benefit from this study once premium remittance to insurers improves, and the debtors issue is addressed. This helps to attract more investors to come, thereby growing the industry. More jobs will be created in the processes, through expansion of the existing or opening of new insurance companies. Policyholders' confidence will be boosted through timeous and efficient claims settlement.

1.8 Scope of the Study

The study was restricted to general insurance companies, insurance brokers as well as reinsurance companies and brokers based in Lusaka. As the capital city of Zambia, almost all insurance players are represented in Lusaka therefore the study is representative of the general state of the problem in Zambia. While the insurance industry grapples with many challenges that threaten its viability, the researcher focused on the problem of late remittance of premiums by insurance brokers, since it has been constantly mentioned as the key threat to the industry.

1.9 Limitations of the Study

In carrying out this study, the researcher encountered a host of limitations, the most significant of them being information confidentiality. Firstly, being an employee of a competitor means that the questions posed by the researcher to other insurance companies were treated with suspicion despite assurance that the research was a purely for academic purposes. The researcher however capitalised his network in the insurance industry to build confidence in participants. Data collection through questionnaires resulted is largely structured responses, lacking the richness required to build understanding. However, this was planned for and the research used triangulation of data collection methods to increase the richness and reliability of information obtained. The results of this study remain reliable, useful, and relevant for the ongoing policy debate in the insurance industry of Zambia.

1.10 Organisation of the Dissertation

The organisation of the dissertation is a section in the dissertation which simply shows how chapters are arranged and what is contained by each chapter. Therefore, chapter one of the dissertation provided the introductory remarks to the study and a detailed background on how other markets were performing in view of the Zambian insurance market. This chapter also contained the statement of the problem, aim of the study, it described the research objectives

which mirrored the research questions. In addition, the chapter gave a justification as to why the study was undertaken. Furthermore, the scope and limitations of the study were also highlighted. Finally, the chapter addressed the organisation of the dissertation, ethical consideration and chapter summary.

Chapter two of the study which is the literature review, explained both theoretical and empirical evidence of the study. It gave varying opinions from different authors pertaining to the roles of brokers, factors influencing the choice of brokers and their expected conduct with regards to premium handling and remittance to insurers. The study chapter also gave a detailed analysis of unethical behaviour in insurance broking and insurance regulation in Africa which formed the basis of this study. In addition, an in-depth review of literature on why brokers delay to remit premiums to insurers, current regulatory framework and proposals to reduce or minimise delays on premiums remittance were also provided under this study chapter. Finally, a chapter summary was also presented at the end.

In addition, chapter three of the dissertation which is the blue print of this study was provided for in chapter three. Among the pertinent issues covered in this chapter included: research paradigm, research settings, research design, research methods, study population, sampling techniques, study sample size, data collection methods, data analysis, data presentation, models, test and tools. The chapter also described the research design matrix and finally a chapter summary was equally presented.

Chapter four of the study presented the findings of this research study from the data that was collected. The findings of the study in this chapter were presented in a form of figures. The results were then interpreted to give brief description and meaning to the statistics given in the data analysis and finally the chapter summary pointing out the pertinent issues that were covered under this chapter.

Chapter five of the study further discussed in detail findings of the study presented in chapter four. In discussing the findings of the study, reference was made to literature review, drawing similarities and differences. Furthermore, the chapter was summarised by highlighting all key concepts that were discussed in the chapter.

Lastly, chapter six of the study gave a summary of the study and also conclusions were drawn based on the findings of the study. In addition, recommendations aimed at minimising delays of premium remittances by brokers were equally provided for in this chapter. Finally

suggestions for future studies were also made explicit in this chapter with a chapter summary as the last component to be looked at.

1.11 Ethical Statement

This research made use of primary data collected through questionnaires and in-depth interviews. The consent of interviewees was sought through verbal consent at the beginning of each interview and participants were told that they were free to decline answering any questions they were not free to answer, and that they could exit the interview at any point. The researcher gave standard assurances to participants about the anonymity and confidentiality of their responses and contributions. Questionnaires used in the study were also anonymous so that responses could not be tracked back to the participants. The analysis of contributions from participants was done in such a manner that no bias or misrepresentation of their input would occur. The researcher obtained all necessary ethical clearances from the University of Zambia Research Ethics Committee. Therefore, on account of the above disclosures and assurances, the research meets the minimum ethical standards of the University.

1.12 Chapter Summary

This chapter has presented background information about this research to lay a foundation and set the agenda for the study. The research problem was articulated, along with the aim, objectives and justification of the research. The researcher also noted the scope and limitations of the study. Organisation of the dissertation was presented laying out the activities that took place in each chapter and ethical statement was also provided in this chapter. The next chapter presents a review of key literature.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, the researcher reviews literature on insurance intermediation to identify areas of vulnerability and potential for unethical conduct. Regulatory reforms are also reviewed, with a particular focus on dealing with the problem of delays in insurance premium remittance.

2.2 Insurance Intermediation

Insurance products can be sold through a wide range of distribution channels, including brokers, company agents and through direct sales channels. The majority of personal lines insurance is either sold directly or through price comparison websites. The preferred sales channel for commercial insurance is still brokers (or intermediaries), despite a decline in recent years.

2.2.1 The Business of Insurance Broking

Brokers play an important role in the insurance market and the majority of insurance business is placed through brokers (TheCityUK, 2011). They are a key part of the insurance market as they bring the risks to be insured to the underwriters. The legal name of placing insurance business is "insurance mediation" which is defined by the Insurance Mediation Directive of the European Union (IMD 2002, Article 2 No 3) as 'the activities of introducing, proposing or carrying out other work preparatory to the conclusion of contracts of insurance, or of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim.' According to Flesch (1998) the more legal definition of 'intermediary' rather than broker suggests that a broker is under pressure from both the policyholder and the insurer.

Insurance underwriters do not generally deal directly with policyholders. Instead, business is normally accepted through brokers that have been accredited. These will in turn place risks in the market on behalf of clients (TheCityUK, 2011). Brokers use their specialist knowledge to negotiate competitive terms and conditions for clients. Each broker is required to demonstrate an understanding of the insurer's market, as part of the insurer's assessment of its suitability to be accredited as a broker. All brokers must satisfy all relevant regulatory requirements.

Flesh (1998) argues that one of the advantages of engaging brokers is that they can be hold responsible if they fail in doing a proper job. Insurers are also interested in getting good business (i.e. an insurance portfolio) from brokers. Flesh (1998) believes that there are four main characteristics of good business:

- Risks where the premium is not negotiated down to the lowest offer in the market, i.e. where the insurer has a chance to make a profit.
- Policy with normal conditions, i.e. without special conditions where pricing becomes difficult and where the risk becomes more complex.
- A broker who is competent and who pays the premiums due promptly.
- A broker account which is profitable with a reasonable spread of risks.

In principle, a broker is normally asked by a (corporate) client to place a risk with an insurer or with a number of insurers. The broker will then prepare a submission based on the information provided by the client. Thoyts (2010) summarises the next steps a broker has to take: 'The broker's job is then to enter the market and find a lead for the risk, an underwriter who will accept the risk and set the rate of premium and terms.' However, it is not only important to find 'a' lead, but also to 'find the right lead, an underwriter whose expertise in the type of risk is recognised. If the lead underwriter's judgement is trusted, the market will happily follow.' (Thoyts, 2010). Once the broker found a lead underwriter who is willing to underwrite the risk, the underwriter will also indicate what percentage of the risk he/she is willing to take. The broker, on behalf of the client, can then either accept or reject the offer. If the broker accepts the offer from the lead underwriter (after consulting with the client) the broker tries to place 100% in the market, based on the terms and conditions agreed with the lead underwriter. If the lead underwriter has taken a percentage of the risk which exceed the company's/Syndicate's own limit then reinsurance has to be arranged unless an automatic treaty for this kind of risk is already in place. This is very often the case for standard risks where reinsurers automatically provide capacity when the risk is placed.

2.2.2 Factors influencing the choice of brokers by corporate buyers

Standard & Poor's, the US rating agency, conducted a survey amongst European corporate insurance buyers on how they select and evaluate insurance brokers (S&P, 2011 a). The survey participants were asked to rank 11 attributes of performance. The S&P report also published some of the findings from individual interviews and highlighted that some of the main

differentiation factors for a broker were a better understanding of the insured's business, the strength of the relationship with the broker, and the broker's claims management expertise.

The interviews with corporate insurance buyers also covered what would cause them to change brokers. The S&P report pointed out that the issues most mentioned were a 'problem or reduction in the level of client service or speed of response provided.' (S&P, 2011 a) More importantly, the report also mentioned that 'a breakdown of trust, perceived loyalty of the broker, and concerns about transparency' (S&P, 2011 a) were frequently mentioned.

2.3 The Concept of Insurance Intermediation

Insurance markets are characterized by various market failures, which arise to a great extent from uncertainty and information asymmetries between the two market sides. Most research in this field deals with the economic consequences of adverse selection and moral hazard phenomena due to private information on the side of the insured parties (Rejda, 1998). But in the transaction process of searching a contracting partner and writing an insurance contract, usually insurance companies are better informed than the persons seeking insurance with respect to the relevant characteristics of the products offered and the contractual terms.

Mediation in the insurance industry is subject to regulation in different countries in a context of free competition, though insurance companies are faced with more rules to protect policyholders than are brokers. The term "agent" may also refer to an intermediary who exclusively sells one insurance company's products and who is identified and treated as an agent of the insurer he represents. Agents of this kind are described as "captive agents" or exclusive agents. On the other hand, an insurance broker is not a salaried insurance company employee or identified with a single insurer but is rather an independent middleman. A broker typically has contracts with a number of insurers and is compensated by way of commissions paid by the insurers with which he places coverage. Brokers are sometimes referred to as independent agents where the mere acceptance by a broker of a commission paid by an insurer is insufficient to create an agency relationship between the broker and the insurance company.

As a general rule, when a broker agrees to sell a policy to a client and obtains a commission in return, the broker has a duty to the client to act with reasonable care, skill, and diligence. Eckardt (2002) analyses the influence of structural variables on the quality of advisory services such as size and number of employees and finds that advisory services are influenced to some

degree by the firm size and employment structure of insurance brokers, as well as by the degree of specialization on private clients.

2.3.1 Explaining quality differences between insurance agents and brokers

2.3.1.a Transaction Costs Concept

Because of the high search costs to acquire and process reliable information about insurance products and companies necessary to take a rational decision, insurance intermediaries have cost advantages compared to individual customers. They can realize economies of scale and scope by fixed cost investments in human capital and technology to assess the information about product prices, performance, and terms (Rose 1999; Traub 1994). Besides, they can realize gains from specialization and dynamic economies of scale due to learning effects. Additional transaction costs are reduced on the side of the customer as he or she has to deal only with one intermediary, instead of with a multitude of insurance companies (Rose 1999; Traub 1994). Altogether, insurance intermediaries thus help to reduce uncertainty with respect to quality and prices of insurance products and companies.

As insurance agents are tied to a certain insurance company, they are specialized in its products. They are to be expected to have profound knowledge about the characteristics of the product range this particular company offers as well as about the company itself (its past performance, its behaviour with respect to claim settlement etc.). Information on the products of other insurance companies is to be disseminated only as far as that information can be used as a sales argument in favour of their own products. In contrast to that, insurance brokers are not tied to a certain insurance company. As they are free to sell the products of different companies, they are to be expected to have a better overview of the insurance market and not only of the products of a certain company. They provide information with respect to more companies and their products, thus economizing more on transaction costs. Therefore, transaction costs theory supports the hypothesis that insurance brokers will provide more relevant information to the consumers, which amounts to more high-quality information and advisory services.

2.3.1.b The Concept of Agency

The relationship between insurance intermediaries and individual decision-makers is a typical agency relationship, where the welfare of the person seeking insurance (principal) depends in

part on the actions of the insurance intermediary (agent) (Jensen & Meckling 1976; Fama 1980; Fama & Jensen 1983; Macho-Stadler & Pérez-Castrillo, 1997; Salanié 1997).

The services provided by insurance intermediaries are experience and credence goods. So the relationship between insurance intermediary and customer is itself characterized by information asymmetries. Information asymmetries exist with respect to the extent to which an intermediary has actually acquired the available information about insurance companies and their products and to the extent that his or her recommendations are not distorted by self-interest. Again quality uncertainty and behavioural uncertainty exist (Traub 1994).

Because of the information asymmetries and market uncertainty, the intermediary has discretionary scope to pursue his or her own objectives, which may lower the welfare of the principal. Thus, a conflict of interests exists between insurance intermediaries and their clients. Information asymmetries result in hidden characteristics, hidden action, and hidden information.

As the consumers have only incomplete information about the qualifications and skills of the insurance intermediaries (hidden characteristics), they have only limited ability to assess the quality of the information processing done by the intermediary to recommend specific insurance products. Besides, the consumers have only limited information about the search efforts in acquiring and processing information about product characteristics by the intermediaries (hidden action), which may result in moral hazard behaviour. Moreover, the consumers do not know whether the intermediary uses all the information on hand in the interest of the consumer or whether he or she has additional information which is not used although it would be of interest to the consumer, but not to the intermediary (hidden information). In particular, remuneration practices play an important role in this respect. Insurance companies use them by granting high acquisition commissions to set incentives for the intermediaries to promote their products. In the end, they are paid by the insured as part of the insurance premium. But as the contract terms are not specific in this respect, consumers are very poorly informed.

Whether hidden characteristics, action, and information are more relevant with respect to insurance agents than to insurance brokers is mainly an empirical question. On the one hand, insurance companies which have invested in reputation, will have stricter requirements to the qualifications and control mechanisms of the services provided by the intermediaries which

distribute their products to prevent a loss of reputation due to low-quality services of their marketing channels. On the other hand, where the market share of insurance brokers is relatively small compared to insurance agents, insurance brokers have to build up reputation to compete successfully with insurance agents. Thus, strong incentives exist for them not to cheat with respect to their efforts in searching and processing information as this is their main competitive advantage to insurance agents.

The difference between insurance agents and brokers is, however, that the latter are free to negotiate the terms of an insurance policy with different insurance companies. By cooperating with other brokers they can further improve their bargaining position and negotiate for better terms for their clients. As these options do not exist for insurance agents, insurance brokers may provide their customers with relatively better insurance policies even if they use the existing discretionary scope to distort recommendations in favour of policies with high commissions.

2.3.1.c Law and Economics Literature

The law and economics literature states that legal rules set incentives to behave in a certain way. Thus, contract law and liability rules may help to overcome agency problems which are related to information asymmetries. Legal duties as to minimum information which have to be provided by intermediaries as well as more strict liability rules may induce insurance intermediaries to behave in the interest of their clients (Grundmann & Kerber 2001). However, necessary prerequisite is that the respective rules are enforced. If different legal rules are applied to insurance agents and brokers, different incentives are set which would result in different behavior, eventually leading to different market outcomes.

In sum, transaction cost and agency concepts arguments seem to support the hypothesis that insurance brokers should provide more high-quality information and advisory services than insurance agents. That is they are to be expected to reveal more information about the advantages and disadvantages of different insurance products and their suppliers and give more balanced recommendations.

2.4 Unethical Behaviour in Insurance Broking

The review of the literature in the preceding section suggests that brokers are more likely to act in the best interests of their clients compared to exclusive agents. However, empirical studies

have shown that this is not always the case, although they are ethically obligated to do so (Game & Gregoriou, 2014). Battalio and Loughran (2008) carried out a study using data from the New York Stock Exchange and showed that the main objective of brokers was to maximize their profits rather than the wealth of their clients, even in a well-regulated industry. They concluded that brokers' decisions may sometimes lead to actions that do not optimally serve their clients' interests. On the contrary, Game and Gregoriou (2014) claim that enhancing market competitiveness may help to reconcile broker and client interests.

2.4.1 Broker Compensation and Unethical Behaviour

The literature on the insurance market suggests that commissions received by insurance brokers to mediate a policy may encourage unethical behaviour. A relevant question that the literature raises is whether the market is aware of the existence of unethical behaviour regarding the commissions received by an insurance broker. In particular, it has been alleged that the compensation of agents and brokers through commissions, often related to the underwriting quality or volume of business placed with an insurer, constitutes an anticompetitive practice that is detrimental to buyers (Spitzer, 2004; Hunter, 2004, 2005). Perhaps the reason is that insurance intermediaries can help insurers to economize on information and transaction costs in insurance markets, as observed by Eckardt (2007). In this way, it is initially observed that commissions are directly linked to sales agents' ethical behaviour. Dobson (1991) argues that reputation bridges the conflict between wealth maximizing (i.e. technical competence) and social responsibility (i.e. fiduciary obligation to the client).

Latorre & Farinós (2015) found evidence suggesting that there is a statistically significant relationship between operating performance and some firm characteristics (such as size) and the broker firm's ethical behaviour. That is, the better the performance and the larger the firm size, the worse the ethical behaviour. The authors concluded that the ethical or unethical behaviour of insurance brokers is a matter of means, that is to say, firms will behave unethically if they can.

2.4.2 Underwriting Cycles and Unethical Behaviour

The opportunistic unethical behaviour of insurance brokers may also be understood from the point of underwriting cycles. In this context it can be argued that insurance brokers are more likely to engage in opportunistic behaviour in a soft market (typified by relaxed underwriting standards and stiffer competition to underwrite more business by insurers). Under these

conditions, brokers are tempted to take advantage of both insurers (by negotiating better commissions and remitting premiums late) and clients (by recommending products that earn higher commissions ahead of more suitable but low commission products).

Underwriting cycles are defined by Rubin (2000) as: 'The tendency of property and liability insurance premiums, insurers' profits and availability of coverage to rise and fall with some regularity over time'. A cycle can be said to begin when insurers tighten their underwriting standards and sharply raise premiums after a period of severe underwriting losses. Stricter standards and higher premium rates often bring dramatic increases in profits, attracting more capital to the insurance industry and raising underwriting capacity. On the other hand, as insurers strive to write more premiums at higher levels of profitability (following a hard market), premium rates may be driven down and underwriting standards relaxed in the competition for business. Profits may erode and then turn into losses if more lax underwriting standards generate mounting claims. The stage would then be set for the cycle to begin again.

Fitzpatrick (2004) pointed out that whereas all economies experience business cycles, underwriting cycles are not necessarily linked to the economy and they appear to be more volatile than typical macro-economic cycles. For Atkins & Bates (2008) underwriting cycles are a function of demand and supply in the insurance market. When (re)insurers are loss-making then they will typically try to prune their portfolios in order to return to profitability, which in turn reduces capacity in the market. When interest rates are high, (re)insurers are able to earn significant investment income which could easily balance out underwriting losses. However, when interest rates are very low and insurers earn less investment income, underwriting results become more important which reduces the capacity in the market. As a result, insurers will be forced to improve underwriting margins in order to compensate for declining investment returns.

One of the main factors influencing underwriting capacity is the occurrence of 'capital shocks' (Harrington & Niehaus, 2000) such as catastrophic events that diminish capital and consequently reducing underwriting capacity. Reinsurance capacity also impacts underwriting capacity in the primary insurance market, albeit to a lesser extent than the above mentioned factor. Primary insurers are dependent on being able to cede risks to reinsurers. If reinsurers decide to increase prices or reduce capacity then primary insurers will have to consider whether to write certain risks in light of increased prices or reduce reinsurance capacity.

Fitzpatrick (2004) argued that insurance brokers have a large influence in respect of the formation of the underwriting cycle as they represent the interest of insurance buyer thus have to try to obtain the 'best deal' (Fitzpatrick, 2004) from insurers. There is natural conflict of interest between underwriter and broker as the latter do not want to lose the client to another broker who can offer insurance for a cheaper price.

The *winner's curse* is a phenomenon in economic theory which tries to explain the behaviour of bidders in an auction (Thaler, 1988). Bidders will often pay a too high price for the underlying asset in order to get hold of the good. Fitzpatrick (2004) and Cummins and Doherty (2006) saw this theory as relevant for the insurance market However, they viewed the relevance from different angles. The former considered that underwriting behaviour is very often driven by the wish to generate new business and hence underwriters would charge an insufficient price because of an over-optimistic assessment of the risk. The latter regarded the underwriter's behaviour after realising that undercutting prices led to losses. Cummins and Doherty (2006) argued that, as a consequence of this bad experience, the underwriter would be more conservative in his behaviour, by either declining the risk or quoting a non-competitive price. Both arguments are not wrong and both types of behaviour can be found in the market. Where prices are under pressure (soft market) underwriters who are keen to get new business are likely to have a more optimistic view of the risk, consequently under-pricing it, whereas in a hard market they take a more conservative pricing stance due the scarcity of capacity.

Thus, given the foregoing arguments, it is possible that observed unethical behaviour of brokers (in particular delays in remitting premiums to insurers) are a reflection of the perceived market power that brokers have in the context of a soft market.

2.4.3 Addressing Unethical Behaviour through Regulation

European Directive (2002) of the European Parliament and Council regulate insurance mediation activity. Its chapter 3, article 12, paragraph 2 states that insurance intermediaries should give advice on the basis of the analysis of a sufficient number of insurance contracts available on the market so that they can make a recommendation, following professional criteria, regarding which insurance contract would be appropriate for needs of the client. This places a fiduciary duty on the broker to act in the client's best interests. Moreover, paragraph 4.a establishes that the amounts paid by the client to the intermediary are considered as paid to the company, while the amounts paid by the company to the intermediary will not be considered

paid until the client actually receives them. The two preceding points mean that the risk associated with opportunistic behaviour of the broker is shifted to the broker, so that the client is protected.

The aforementioned European directive (in countries like Germany, Spain, Italy, France) also obligates the broker to promptly remit all premiums collected from clients to the insurer. In the event of a claim, the European Directive establishes that the payment of the claim will be through banking transfers to the broker. However, it is probable that the insurer will use bank cheques, which eliminate the possibility of unethical action by the broker, and the client actually receives the payment for the compensation claim quickly.

2.5 Insurance Regulation in Africa

The 2008 financial crisis stressed the importance of evaluating the soundness of financial institutions, including insurance companies. This has become the focal point of policy makers and regulators by introducing regulations that are more stringent. According to Rubio-Misas et al. (2017) "insurer solvency not only protects policyholders by ensuring that the insurer will be able to meet its financial obligations in the future, but also contributes to the stability of the financial system".

Insurance is a significant and growing segment of the financial sector. However, Das et al. (2003) noted that "its failure can cause a significant and costly disruption, but it is unlikely to lead to financial instability". Rubio-Misas et al. (2017) citing Klein (2014) also confirm that "regulators are interested in limiting excessive insolvency risk to avoid a potential problem of contagion to other insurers…and the negative externalities that could arise if the costs of unpaid claims are shifted beyond policyholders to their creditors".

2.5.1 Correlates of Insurance Sector Soundness

Chen and Wong (2004) investigated the determinants of the financial health of Asian insurance companies and found that the factors significantly affecting property-liability insurers' financial health are firm size, investment performance, liquidity ratio, surplus growth, combined ratio, and operating margin. Furthermore, the factors that have statistically significant impact on life insurers' financial health are firm size, change in asset mix, investment performance, and change in product mix, with the last three features relating to Japan.

Pasiouras and Gaganis (2013) investigated the relationship between insurers' soundness and insurance regulatory policies, using an international dataset of more than 1700 insurers from 46 countries. They found that the supervisory power of the authorities, as well as regulations related to both technical provisions and investments, have an impact on soundness.

Shim (2015) investigated whether market concentration is related to an insurers' financial stability in the U.S. property–liability insurance industry over the period 1992 – 2010. The findings showed that higher market concentration is related to the lower financial stability of insurers. Cummins et al. (2017) also explored the association between life insurers' soundness and competition in ten EU countries for the period from 1999 to 2011. They found that competition reallocates profits from inefficient to efficient insurers. Furthermore, competition enhances the soundness of the EU life insurance markets, though the soundness-enhancing effect of the competition is greater for weak insurers than for healthy ones.

2.5.2 Regulatory Reform and Insurance Capacity Enhancement

Insurance regulators are increasingly looking to nurture risk capacity, cultivate insurance expertise and retain premiums within their insurance markets. As Pete King (2018) points out: "Whether it's driven by protectionism or a desire to develop local insurance markets, each country has its own rules and regulations on insurance…As a result, insurance can be a complex and time-consuming process …"

Even with the above restrictions, the benefits of a 'harmonised and unified' regulatory environment within the CIMA region are clear. Having the same regulations and supervision applying to all 15 countries brings clarity and consistency, as well as greater assurance that insurance programmes are compliant. CIMA anticipates that the changes to the Code will not only strengthen the local market and reduce its reliance on outside reinsurance markets, but also simplify the supervision of insurance for the benefit of local consumers and companies operating in the region.

2.6 Regulation of Premiums and Insurance Cover in Zambia

According to The Pensions and Insurance Authority Guidelines (2009), a contract of insurance shall cease to operate if premium is not paid within thirty (30) days after the due date of premium, or such period as the contract will stipulate. They stated that the due date shall be the commencement of cover or the date stipulated in the contract of insurance. Its guideline number

2 went on to say that, where a business is placed through an intermediary, the intermediary shall remit the received premiums to the insurer not later than the 30th day after the period within which the premium fell due. From the guidelines, there are no stated penalties imposed for the intermediaries who default to remit the premiums within the stipulated thirty (30) days period.

The Insurance Act of Zambia Number 26 (2005, clause 21) sub clause (1) states that where any premium on a policy is paid to an intermediary by a client, the intermediary shall, within thirty (30) days of due date of the premium, transmit the premium less any agreed commission or other charges payable by the insurer to the intermediaries, to the insurer of the policy concerned. Sub clause (2) of same clause states that if the intermediary contravenes sub clause (1), the intermediary shall, in addition to the outstanding premium pay to the insurer interest on the premium at the Bank of Zambia rate. Under sub clause (3), the Act went to say that notwithstanding sub clause (2) any intermediary who contravenes this section shall be guilty of an offence and be liable, on conviction, to a fine exceeding twenty thousand penalty units.

Under sub clause (1) of the Insurance Act of Zambia Number 26, (2005, clause 76), a contract of general insurance shall cease to operate if a premium is not paid within thirty (30) days after the due date of the premium or within such period as the contract may stipulate. Sub clause (2) further says that, for the purposes of this section, a premium paid to a intermediaries who arranged the contract shall be deemed to have been paid to the insurer.

On the other hand a credit intermediary is allowed a credit period of about thirty (30) days before they can remit the premiums to the insurer, although paying to the intermediary is as good as paying to the insurer (Kabaila Jr, 2014).

Given the above regulatory measures, it appears that the insured is protected by the law from non-remittance of premiums to the insurer, and that the law places an obligation on the insurer to honour policies without regard to whether premiums have being remitted or not. Be it as it may, the insured is still exposed to the unethical hold-up by the broker to the extent that such hold-up incapacitates the insurer. It is therefore important to revisit the regulation of brokers to protect the integrity and interests of the whole market.

2.7 The No Cash No Cover Reform Agenda

Singapore

The General Insurance Association of Singapore (GIA) introduced new rules on the payment of premiums in a bid to reduce claim disputes between customers and insurers (Secher and Chatters, 2016). They further explained that, the rules require premiums to be paid to insurers or intermediaries on or before the inception date or renewal of the policy. The rules further stated that if full payment is not made by this date, there will be no cover as these are designed to improve efficiency in the collection of premiums.

Mauritius

Where the premiums deposited in a bank account have been collected on behalf of or for one or more insurers, the insurance intermediaries were required to maintain records clearly recording the deposits in, the interest accrued and withdrawals from the account on behalf of each insurer separately, and prepare a monthly reconciliation of all funds transacted in the bank accounts (Government Gazette of Mauritius, 2008). The publication went to say, the insurance intermediaries would keep copies of all the records and furnish to the insurer copies of the records pertaining to such deposits, interests earned on such deposits and withdrawals at the time the premium is remitted in accordance with the terms of the agreed period or at the time of settlement of account, whichever is earlier. Further, it stated that no insurance intermediary is authorised to withdraw monies from the bank accounts, without the prior written consent of the Commission.

Malawi

The Malawi Gazette Supplement (2011) stated that, insurers need to maintain adequate solvency margin ratios at all times to cushion and enable them absorb losses from adverse events arising in the course of business. The timely collection of premiums is crucial for the building up of an insurer's technical reserves, which are necessary for the maintenance of sufficient margin of solvency by an insurer. In their resolutions, the Gazette provided that, intermediaries shall cause policyholders to make out all insurance premium cheque payments in favour of insurers. The objectives of this directive included to address the problem of overdue and outstanding premiums that has been prevalent in the insurance market for so long, and to promote transparency, and accountability in the insurance industry.

West Africa

Boah-Mensah (2014) stated that, the insurance sector in Ghana held widely the view that, prompt claims payment and premium debtors are some of the principal challenges that threaten its survival. The industry was coming into a new era after the introduction of a new policy dubbed ‘No premium, No cover’. A month later after its introduction, most of the companies reported an about 80% out-turn in their premium budget, and this policy helped to improve their liquidity situation as they are now armed with resources to pay claims when they fall due.

National Insurance Commission Guidelines, 2013, of Nigeria provided that all insurance covers would only be issued on a strict no premium no cover basis. The only cover that would be recognised as income in the books of the insurer is for which payment has been received directly by the insurer or indirectly through a duly licenced insurance intermediary. Any insurer, who grants cover without having received premium in advance or receipt notification from the relevant insurance intermediaries, would be liable to a penalty in respect of each cover so granted, and in addition, may be a ground for suspension of the licence of the insurer.

The Case of Conférence Interafricaine des Marchés d'Assurances

In West Africa, one organisation that has helped to simplify the insurance process is the Conférence Interafricaine des Marchés d'Assurances (CIMA). This regional insurance oversight body was created based on the notion that a large single market with common rules and a common regulatory authority will result in a more effective and efficient supervisory structure, and will promote stable and secure insurance markets in the region. CIMA (1992) covers 15 countries in Francophone Africa[1] bringing virtually all insurance supervisory, legislative and regulatory powers under the CIMA Code. According to the Code, its aims include “taking all necessary measures to strengthen and consolidate close cooperation in the field of insurance,” and “pursuing the policy of harmonisation and unification of legal and regulatory provisions relating to technical insurance and reinsurance operations.”

As part of a desire to retain premiums within the region, and in common with many territories around the world, the CIMA Code prohibits the direct insurance of any risk concerning any person, asset or liability situated in a member country with a non-admitted insurer. As an

[1] The 15 CIMA countries are Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Congo, Cote d’Ivoire, Equatorial Guinea, Gabon, Guinea Bissau Mali, Niger, Senegal and Togo.

exception to this rule, non-admitted policies are allowed only for very specific lines of business and they require prior approval from the local regulator (CIMA, 1992). Foreign ownership of insurance companies domiciled in CIMA member states is permitted under the CIMA Code. Companies with foreign ownership operate under the same laws as locally-owned, locally-domiciled companies and must satisfy local legislation and regulatory requirements.

Aimed at bolstering the strength of regional insurers and retaining more premiums locally, the CIMA Code has seen a number of significant amendments in recent years, to include:

- The minimum capital requirements were increased from XAF/XOF1bn[2] ($1.70m) to XAF/XOF5bn ($8.52m) for joint stock insurance companies and from XAF/XOF800m ($1.36m) to XAF/XOF3bn ($5.11m) for mutual, reflecting the regulator's apparent desire to encourage smaller companies to consolidate, so that the market is served by larger, financially strong insurers.
- Local mandatory retentions were increased from 25% to 50% for the main lines of business, to encourage the retention of even more premiums within individual countries and within the CIMA region.
- In an effort to reduce insurers' credit risk, **cash before cover** has been in effect since 2011, barring insurance companies from issuing any policy documents until the full premium has been received (for new policies and renewals). Failure to comply may result in suspension of local insurer's licence. Multinational companies must plan ahead to ensure early premium payment and contract certainty for insurance policies bought in CIMA countries.

2.8 Overview of Literature Review

The literature review indicated a number of factors leading to delays in premium remittance by intermediaries. Among these factors the common ones were: lack of adequate systems within the broking firms, willingly diversion of premium funds to other uses for personal gain by intermediaries, lack of proper law enforcement by the regulator and outdated laws governing the insurance industry. The literature review suggested that, the absence or inadequate provision of the factors stated above caused intermediaries to delay in remitting premiums to

[2] The CFA franc is the name of two currencies used in parts of West and Central African countries. The two CFA franc currencies are the West African CFA Franc (XOF) and the Central African CFA Franc (XAF). Although theoretically separate, the two CFA franc currencies are effectively interchangeable.

insurance companies. On the other hand, if these factors were adequately provided for, delays on premiums remittance would have been minimised or avoid by intermediaries.

2.8.1 Analysis of Southern Africa's Non-Life Insurance Markets

South Africa

South Africa is the largest insurance market on the continent, accounting for USD 54, 9 billion (76.4%) of Africa's total insurance premiums in 2012. The country had a penetration rate of 14.2%, and "despite weakening economic environment in 2014, non-life premium rose by 2.5%" (Swiss Re, 2015; 2016). As at 2013, South Africa had 96 domestic non-life insurance business, 74 domestic life insurance businesses and 4 composite businesses (Schanz & Company, 2015). Many of the larger players in the South African market are leading the way in terms of market penetration on the continent.

Businesses such as Old Mutual, Sanlam Emerging markets and Hollard Insurance are setting up subsidiary businesses regionally and there is scope to investigate what determinants contribute to attractive markets for regional insurers to tap into other African markets. The minimum capital requirement is USD685,000.00 (with the total amount as paid up share capital); additionally, the sector is fully privatised (Schanz & Company, 2015). Bancassurance further strengthens the sector's ability to proactively target potential customers in the country.

Botswana

Botswana is one of the few insurance markets with a life insurance market approximately double the size of the non-life market. The country has the fourth largest penetration rate in Africa. Although small in absolute terms, this is one of the more advanced insurance markets in Africa, with a penetration rate well above 3% since 2005. In 2012, the market consisted of 12 general (non-life) insurance companies, 7 life insurance companies, and 42 insurance brokers, per the Non-Bank Financial Institutions Regulatory Authority (KPMG, 2012). Most of the premiums for the non-life market, however, are still in rudimentary policies such as fire and car insurance, and four companies account for 75% of the premiums in the non-life market. Botswana has set minimum capital requirements at USD100,000 to USD 500,000 depending on the size of gross premiums to be underwritten, with the paid-up share capital requirement established on a case by case basis through the Ministry of Finance (Schanz & Company, 2015).

Mauritius

Mauritius is also among the most developed insurance markets in Africa, with a penetration rate above 3% since 1990, and at 5.5% as at 2015 (Swiss Re, 2016). The life market is more than double the size of the non-life market, “thanks to a relatively high level of income, macroeconomic stability, an established financial sector, a business-friendly investment climate, and good economic policy making” (KPMG, 2012). The country as at 2013 had 6 life insurance providers and 13 licensed non-life insurance companies (Schanz & Company, 2015). Despite the size of the market relative to GDP and population being impressive, the maturity of the market is similar to other African markets. “Apart from life products, motor and property insurances lines are the principal product lines. Car insurance is the largest component in the non-life insurance segment, accounting for 43.6% of premiums in 2012” (KPMG, 2012). The market is supported by the fact that car insurance is mandatory. Minimum capital requirements are USD630,000.00 as paid-up share capital.

Mozambique

Mozambique’s insurance market is marked as one with high potential since its penetration rate of 1.3% is massively unrepresentative of the country’s population. Since the economy has been disrupted post-independence with many bouts of civil unrest, the economy has not grown excessively since 1990, relative to other countries within the region. Thus, without macroeconomic stability, the sector has struggled to actively take steps towards rapid growth. The market is still dominated by the non-life market which accounts for 84% of gross written premiums as at 2013 (Swiss Re, 2016). Whilst regulatory frameworks and bodies are in place to oversee the operations and growth of the insurance sector, mostly foreign companies have dominated the market with several South African players having tapped into the market through acquiring local companies. As at 2012, there were 3 domestic life insurers, 2 domestic non-life insurers and 13 foreign composite insurers in the country (Schanz & Company, 2015). The minimum capital requirement ranges between USD440,000.00 and USD895,000.00 (Schanz & Company, 2015).

Namibia

There are approximately 28 insurance companies in Namibia, with 16 of them being life companies which accounted for 74% of gross written premiums in 2012. 12 are domestic nonlife insurance companies whose primary focus has been on retail insurance - with the

market being dominated by South African insurance companies. Namibia's insurance penetration rate of 7.6% as at 2012 was amongst the highest on the continent. However, the market is still riddled with its own growth challenges, including low financial literacy and over-reliance on South African companies to drive growth. According to Bester et al (2004), "until independence, financial institutions in Namibia were regulated under the appropriate South African legislation and the Namibian regulation is, therefore, closely related to the South African counterpart". The minimum capital requirements have been set at USD68,000.00 to USD274,000.00 which does not have to be in the form of paid-up share capital.

Madagascar

Madagascar is a nascent insurance market on the continent, with a penetration rate at 0.6% in 2013. The country has made headway in defining an appropriate regulatory framework for the sector to thrive; being the first to introduce a risk-based capital framework to reflect the economic impact of balance sheet risks - ensuring regulatory and supervisory bodies ensure insurers have adequate resources to avoid insolvency and manage financial or external shocks (Schanz & Company, 2015). They have also established a guarantee/policy holder protection fund, to assure their customer base of stability in the sector, through appropriate measures for claims to be paid out. Minimum capital requirements are USD16, 000.00 to USD266, 000.00 (Schanz & Company, 2015).

2.8.2 Analysis of Africa's General Insurance Perspective in relation to premium remittance

There was vast literature in the African context on delays on premium payments and remittances by intermediaries. According to the studies which were reviewed the majority of these studies postulated that most Insurance Markets in Africa were suffering from poor premium remittance by intermediaries or brokers. This assertion was supported by the Conférence Interafricaine des Marchés d'Assurances (CIMA) which virtually brought all insurance supervisory, legislative and regulatory powers under the CIMA Code. According to the Code, its aims include "taking all necessary measures to strengthen and consolidate close cooperation in the field of insurance," and "pursuing the policy of harmonisation and unification of legal and regulatory provisions relating to technical insurance and reinsurance operations."

Aimed at bolstering the strength of regional insurers and retaining more premiums locally, the CIMA Code has seen a number of significant amendments in recent years, which included increasing of minimum capital requirements from $1,70m to $8.52m for joint stock insurance companies and from $1.36 to $5.11m for mutual companies. Also local mandatory retentions were increased from 25% to 50% for main lines of business. Lastly, in an effort to reduce insurer's credit risk, **cash before cover** has been in effect since 2011, barring insurance companies from issuing any policy documents until the full premium has been received (for new policies and renewals). Failure to comply may result in suspension of local insurer's licence. There are also other countries that have really made huge headway in trying to promote and develop their markets.

Although small in absolute terms, Botswana is one of the more advanced insurance markets in Africa, with a penetration rate well above 3% since 2005. Which is the fourth largest penetration rate in Africa. Its minimum capital requirements has been set at USD100,000 to USD 500,000 depending on the size of gross premiums to be underwritten, with the paid-up share capital requirement established on a case by case basis through the Ministry of Finance (Schanz & Company, 2015).

Mauritius is also among the most developed insurance markets in Africa, with a penetration rate above 3% since 1990, and at 5.5% as at 2015 (Swiss Re, 2016). Despite the size of the market relative to GDP and population being impressive, the maturity of the market is similar to other African markets. They put in place measures which stated that if premiums are deposited in an intermediary's bank account on behalf of or for one or more insurers, the insurance intermediaries were required to maintain clear records of all deposits, the interest accrued and withdrawals from the account on behalf of each insurer separately, and prepare a monthly reconciliation of all funds transacted in the bank accounts (Government Gazette of Mauritius, 2008). The publication went to say, the insurance intermediaries would keep copies of all the records and furnish to the insurer copies of the records pertaining to such deposits, interests earned on such deposits and withdrawals at the time the premium is remitted in accordance with the terms of the agreed period or at the time of settlement of account, whichever is earlier. Further, it stated that no insurance intermediary is authorised to withdraw monies from the bank accounts, without the prior written consent of the Commission.

Madagascar has made headway in defining an appropriate regulatory framework for the sector to thrive; being the first to introduce a risk-based capital framework to reflect the economic impact of balance sheet risks - ensuring regulatory and supervisory bodies ensure insurers have adequate resources to avoid insolvency and manage financial or external shocks (Schanz & Company, 2015). They have also established a guarantee/policy holder protection fund, to assure their customer base of stability in the sector, through appropriate measures for claims to be paid out.

Apart from regulatory reforms, a number countries implemented the cash before cover policy to help deal with the delayed premium remittances by intermediaries. According to Boah-Mensah, (2014), Ghana introduced the No Premium, No Cover policy due to poor claims payment and premium debtors as the most principal challenges that threaten its market's survival. A month after its introduction, most of the companies reported an about 80% out-turn in their premium budget, and this policy helped to improve their liquidity situation as they are now armed with resources to pay claims when they fall due.

National Insurance Commission Guidelines, 2013, of Nigeria provided that all insurance covers would only be issued on a strict no premium no cover basis. The only cover that would be recognised as income in the books of the insurer is for which payment has been received directly by the insurer or indirectly through a duly licenced insurance intermediary. Any insurer, who grants cover without having received premium in advance or receipt notification from the relevant insurance intermediaries, would be liable to a penalty in respect of each cover so granted, and in addition, may be a ground for suspension of the licence of the insurer.

The Malawi Gazette Supplement (2011) stated that, insurers need to maintain adequate solvency margin ratios at all times to cushion and enable them absorb losses from adverse events arising in the course of business. The timely collection of premiums is crucial for the building up of an insurer's technical reserves, which are necessary for the maintenance of sufficient margin of solvency by an insurer. In their resolutions, the Gazette provided that, intermediaries shall cause policyholders to make out all insurance premium cheque payments in favour of insurers. The objectives of this directive included to address the problem of overdue and outstanding premiums that has been prevalent in the insurance market for so long, and to promote transparency, and accountability in the insurance industry.

2.8.3 Zambian Perspective

Zambia's insurance market is massively underdeveloped, relative to the level of its economy. Its penetration rate declined from 1.6% in 1990 to 1.3% in 2013, despite GDP per capita almost tripling in the same period. The sector consisted of 23 insurance companies as of October 2013, of which 8 were life insurers and 15 provided non-life insurance (KPMG, 2012). However, most companies remain small and massively undercapitalised. Minimum capital requirements were set at USD200,000 as at 2013 (Schanz & Company, 2015). There is massive potential for this sector to grow and new entrants into the market (particularly from South Africa) are looking to tap into this market. As in many other African countries, a challenge for insurance companies in Zambia is to raise the public's awareness and appreciation of the importance of insurance, as well as their confidence in the system (KPMG, 2012).

The common practice in most insurance industries in Africa, and other parts of the world is that, premiums are supposed to be paid immediately to the Insurer directly or through intermediaries. The Pension and Insurance Authority (2009), published the National Insurance Credit Standard which states that premiums collected and paid to intermediaries by policyholders are supposed to be paid to the insurers within 30 days of receipt. Generally, in the Zambian Insurance market, premiums are being paid to insurance companies, somewhere between 3 to 6 months or even more than this period, in some instances.

The legislative reforms in Zambia are way outdated and requires an urgent review to align the laws to the ever evolving changes and risks. The Pensions and Insurance Authority Guidelines were issued in 2009. These were mere guidelines which stated that a contract of insurance shall cease to operate if premium is not paid within thirty (30) days (either to the intermediary or the insurance company) after the due date of premium, or such period as the contract will stipulate. The guidelines went on to say that, where a business is placed through an intermediary, the intermediary shall remit the received premiums to the insurer not later than the 30th day after the period within which the premium fell due. From the guidelines, there are no stated penalties imposed for the intermediaries who default to remit the premiums within the stipulated thirty (30) days period.

The industry is mainly governed by the Insurance Act which was last reviewed in the year 2005. It states that where any premium on a policy is paid to an intermediary by a client, the intermediary shall, within thirty (30) days of due date of the premium, transmit the premium

less any agreed commission or other charges payable by the insurer to the intermediaries, to the insurer of the policy concerned. Sub clause (2) of same clause states that if the intermediary contravenes sub clause (1), the intermediary shall, in addition to the outstanding premium pay to the insurer interest on the premium at the Bank of Zambia rate. Under sub clause (3), the Act went to say that notwithstanding sub clause (2) any intermediary who contravenes this section shall be guilty of an offence and be liable, on conviction, to a fine exceeding twenty thousand penalty units.

Under sub clause (1) of the Insurance Act of Zambia Number 26, (2005, clause 76), a contract of general insurance shall cease to operate if a premium is not paid within thirty (30) days after the due date of the premium or within such period as the contract may stipulate. Sub clause (2) further says that, for the purposes of this section, a premium paid to a intermediaries who arranged the contract shall be deemed to have been paid to the insurer.

On the other hand a credit intermediary is allowed a credit period of about thirty (30) days before they can remit the premiums to the insurer, although paying to the intermediary is as good as paying to the insurer (Kabaila Jr, 2014).

Given the above regulatory measures, it appears that the insured is protected by the law from non-remittance of premiums to the insurer, and that the law places an obligation on the insurer to honour policies without regard to whether premiums have being remitted or not. Be it as it may, the insured is still exposed to the unethical hold-up by the broker to the extent that such hold-up incapacitates the insurer. It is therefore important to revisit the regulation of brokers to protect the integrity and interests of the whole market.

The market has grappled with liquidity challenges arising from late remittance of insurance premiums by brokers. Insurance in Zambia is not provided on a cash-and-carry basis, and by the end of 2015, the sector had a whopping 52% of premiums stuck in debtors (IAZ, 2017). As a consequence, insurers have struggled to pay claims. The IAZ lamented that the sector faces “a double setback of high debtors’ ratio and also stiff competition resulting in undercutting of rates.” Stiff competition has driven premiums down, and risk profiles up (both factors that are not good for sustainable insurance market). The IAZ is working with the regulator to resolve the issue of liquidity and debt management, to keep it in line with the industry's growth, and to prevent it from potentially stifling the sector.

Looking at other markets that have suffered from the same problem of broker hold-up, Europe is case in point. European Directive (2002) of the European Parliament and Council states that the insured has risk coverage from the time that the insured pays the premium to the broker. Consequently, the broker should advance the payment of premiums collected in case there is an incident that has to be managed by the insurance company. In brief, those insurance brokers that defer the payment to the insurer of the premiums collected from their clients have to face a trade–off between an (extra) increase in their profitability and an increase in the risk they bear.

2.9 Chapter Summary

In this chapter, the researcher reviewed key literature from books, magazines, journals and dissertation especially those that were of relevance to this study. That is, the chapter discussed on insurance intermediation, touching on issues such as the role of intermediaries, the forms and drivers of unethical behaviour in intermediation, as well as the regulation of the intermediation business both in other markets and Zambia. The chapter also discussed measures that were put in place by other different markets to help curb the premium remittance challenge. The next chapter addresses the methodology of this study, by detailing and justifying the choices the researcher made in conducting the research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives a description of the steps and procedures that were taken to accomplish the research project. The sections covered in the chapter are: 1) research paradigm; 2) research setting; 3) research design; 4) Research Methods; 5) Population and sampling; 6) data collection procedures; and 7) data analysis and presentation procedures; 8) Tools; 9) Research design matrix.

3.2 Research Paradigm

In thinking about, planning, and executing this research, the researcher was guided by beliefs that identify with pragmatism. Pragmatism is a way of thinking that gives prominence to the idea that research is supposed to be guided by the needs of the research problem not some pre-determined methodological agenda (Creswell, 2014). Thus, pragmatism supports the triangulation or mixing of research methods to ensure the best outcome within the context of a given research problem. The contention of pragmatism is that researchers should not be restricted by the characteristics of certain methods but instead should mix the strengths of different methods that best suit the research context. This researcher identified with this philosophy, especially given that the research problem related to a pressing practical problem that required understanding and a solution. The flexibility that is built into pragmatism meant that the researcher could combined many types of data, data collection methods, as well as data analysis procedures to give a rich perspective into the problem of late remittance of premiums by brokers.

3.3 Research Setting

The research setting refers to the place(s) where data was collected during the course of the research. This study was conducted in Lusaka, Zambia where most head offices and branches of general insurance companies, insurance brokers and other stakeholders are located. Data was collected from various general insurance companies, insurance brokers, PIA, IAZ, IBAZ and reinsurers. Its focus was to understand the reasons why intermediaries delay to remit premiums and at the same time trying to find probable solutions.

3.4 Research Design

Polit and Hungler (1999) described the research design as a blueprint, or outline, for conducting a study. The research design is the researcher's overall plan for obtaining answers to the research questions. Creswell (2014) views research designs as 'types of inquiry' within qualitative, quantitative, and mixed methods approaches that provide specific direction for in the actual conduct of the study. Thus, Creswell's (2014) idea of a research design is that each research design is informed by the research approach taken by the researcher. According to Saunders et al (2012) the research process can be represented as an onion. Several layers and approaches are available and must be consistently employed when conducting research. In accordance with the research onion, considerations on several issues must be taken into account before the central point and core of the onion, the data collection and data analysis, is addressed.

In line with pragmatic thinking, the researcher chose the mixed methods approach as appropriate for addressing the demands of this research. It combined both qualitative and quantitative data to arrive at answers to the research questions. A mixed methods study is particularly appropriate where the researcher wants to gain a comprehensive understanding of a problem (using both inductive and deductive logics), often with a view to provide an appropriate solution.

3.5 Research Methods

A research method is basically a means or procedure for gathering data. Research methodology supports the types of question that can be tackled and the nature of the evidence gathered (Saunders et al, 2012). Creswell (2014) identifies three key mixed methods designs as: convergent parallel mixed methods design (collecting and analysing both quantitative and qualitative data alongside each other, then integrating at the end); explanatory sequential mixed methods design (collecting and analysing quantitative data first, followed by collection and analysis of qualitative data to give a detailed explanation to the quantitative results); and exploratory mixed methods design (collecting and analysing qualitative data to explore issues that are then further studied using quantitative data).

This study adopted a variation of the convergent mixed methods design, where quantitative data collected using semi-structured questionnaires formed the main part of the research; with qualitative data obtained through semi-structured personal interviews and workshop discussions (focus group) playing a supporting role. According to Creswell (2014), the design

is referred to as an embedded mixed methods design. The research gave more weight to the quantitative analysis as it was important in this study to summarise the general attitudes and opinions of participants in the insurance industry regarding the problem of premium remittance delays. Summarising alone was not sufficient; the research needed to gain insight into the thinking of participants, their experiences, and what they viewed as possible solution. This second part was exploratory in nature so it required open-ended responses. Interviews and workshop discussions provided an ideal data collection method. Thus the qualitative component of the research design was necessary for this purpose.

The researcher did not use a sequential explanatory mixed methods design, although it is close to the design described here. This is because, in this research the two types of data were collected concurrently and the researcher did not have to wait to first analyse quantitative data in order to proceed to the qualitative data collection. The embedded design saved time, and also allowed the researcher to collect data from participants as and when they were available, without having to wait for completion of any part of the data collection. This maximised response rate from participants, given that the topic was somehow sensitive, especially for brokers. The researcher took advantage of an official workshop that was conducted by the PIA (to discuss the debtors' issue affecting the Zambian Insurance industry), to take notes, distribute questionnaires and conduct interviews during tea and lunch breaks. Thus, the embedded design was considered very effective for this study.

3.6 Population and Sampling

3.6.1 Population

Population is defined as the totality of all subjects that conform to a set of specifications, comprising the entire group of persons that is of interest to the researcher and to whom the research results can be generalised (Polit and Hungler, 1999). PIA (2018) published report provided that there were 21 registered general insurance companies, 37 broking firms, 7 reinsurers & reinsurance brokers. In the same report, it was reported that, the total number of the industry workforce including those from long-term was 2, 615 at the end of 2018. Further it also provided the gross premium contributed by both short-term and long-term companies, of which short-term (general insurance) contributed about 60% of the total figures.

For this research, the researcher estimated (applying the same proportion of 60% to the total workforce) the targeted population at 1, 569.

3.6.2 Sampling

LoBiondo-Wood and Haber (1998) described a sample as a portion or a subset of the research population selected to participate in a study, representing the research population.

Yamane (1967) provided a simplified formula to calculate sample sizes in the form of an equation: **n = N / (1 + Ne^2)** where n= corrected sample size, N = population size, and e = margin of error (0.05). The researcher applied this formula onto the target population of 1 569, and obtained a sample size of 319.

The researcher used stratified random sampling method to determine the sample size from 21 General Insurance Companies, 37 brokers, 7 Reinsurers & reinsurance brokers, regulatory body, Insurers Association of Zambia and Insurance Brokers Association of Zambia, and these were divided further for sampling as the individual groups or stratum.

Random samples were drawn from general insurance companies (103), brokers (182), and the reinsurance fraternity (34) for data collection. The respective chairpersons were targeted for the two associations, one service provider and the regulator by way of purposive sampling. An additional 23 respondents were elicited by way of availability sampling, using a PIA workshop as the setting. A total sample of 319 was targeted for the questionnaire survey and 4 were targeted for the interviews.

3.7 Data Collection Methods

Data collection instruments refer to devices used to collect data such as questionnaires, interview schedules and checklists (Seaman 1991). The researcher used structured questionnaires, semi-structured personal interviews and workshop based discussions for collecting data from participants.

i. **Structured Questionnaires**

A questionnaire (shown in Appendix) is a data collection instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents (Abawi, 2013). A single Likert-scale type structured questionnaire was used as the main data collection instrument to gather information from the respondents. The researcher obtained email addresses of all potential participants through central communications received from the insurers and brokers associations, as well as the COMESA bureau. After randomly selecting

participants in each stratum, the researcher sent questionnaires to all selected participants via email, for completion. A period of 2 weeks was provided to respondents to return the completed questionnaires. Due to the size of the targeted number of respondents, the researcher found this to be the best method to employ as he wanted to reach to as many people as possible within a reasonable period of time. It is less expensive as opposed to conducting personal interviews. The researcher however had to hand-deliver some of the questionnaires for a few cases where either the mail had not delivered or where the participant had missed the email. Most of these hand deliveries were made during an official workshop held by PIA.

Questionnaires proved very effective for a number of reasons. Firstly, since each participant completed the questionnaire at their own convenient time, it was not necessary for the researcher to be present and so this saved the researcher's time, unlike for personal interviews. The administration of questionnaires is non-intrusive, therefore respondents felt comfortable to indicate their true attitudes and opinion without any undue influence from the presence of the interviewer. In addition, the questionnaires were anonymous therefore participants responded without fear of identification. This aspect was very important in this study as the issue of premiums remittance is a bit sensitive especially on the brokers' side.

ii. Personal Interviews

Interviews consist of collecting data through asking of questions, and data can be collected by listening to individuals, recording, filming their responses, or a combination of methods (Geneva Workshop, 2013). There are four types of interviews which are structured interview, semi-structured interview, in-depth interview, and focused group discussion. The researcher used semi-structured interviews to gather information from Insurance Association of Zambia (IAZ) and Insurance Brokers Association of Zambia (IBAZ). The researcher booked for appointments to meet and discuss with the respective respondents, and these were conducted using an interview guide.

Questions as well as their order were already scheduled and the researcher allowed for additional intervention where necessary to give more explanation to clarify the question, and to ask the respondent to provide more explanation if the answer they provide is vague. The main advantages for using this method for this target group was that, it allowed the researcher, firstly to collect complete information with greater understanding as it is more personal.

Secondly, interviews allow for more control over the order and flow of questions. Lastly, the researcher could introduce necessary changes in the interview schedule based on initial results.

iii. Workshop Based Discussion

It is an informal or formal meeting to share notes, experiences and ideas regarding the topic(s) at hand. The researcher took advantage of a workshop organised by the Pensions and Insurance Authority, who is the Regulatory body, to take anonymous notes on the proceedings of the workshop for further incorporation into the analysis. The purpose of the workshop was to discuss and provide the regulator with proposals for a new bill on how to solve the problem of ever increasing debtors' position in the industry. All members of the insurance industry were invited, and over 50 members participated. The researcher was taking notes during the course of the workshop. This was very useful and important tool as members were more open during the interactions, such that, the researcher managed to obtain valuable quality information needed. The researcher also took time to have informal talks with some of the very active members at the workshop to seek their views in a way that added value to the research.

3.8 Data Analysis and Presentation

According to Kombo and Tromp (2006) data analysis refers to the examination of the data that has been collected in a study and making deductions and inference. It involves uncovering underlying structures, extracting important variables, detecting anomalies and testing assumptions. In order to achieve this, questionnaire responses were first assessed for completeness and then input and analysed using Microsoft Excel 2018 generating frequencies and percentages. The researcher used bar graphs to present responses to different questions. Interview responses were manually analysed by grouping the themes and codes together with the help of Microsoft Excel 2018.

3.9 Tools

In this study, Microsoft excel was used to describe both quantitative and qualitative data. In addition, tables and bar graphs were used to present quantitative data, whereas content presentation was used for qualitative data.

3.10 Research Design Matrix

The research design matrix of the study compromises the research objectives, research questions, sampling techniques, data collection and data analysis as shown in Table 3.1.

Table 3.1: Research design matrix

Research Objectives	Research Questions	Population and Sampling	Data Collection Methods	Data Analysis
To explain existing regulatory measures that are meant to deal with premium remittance issues in Zambia	What is the state of Zambian insurance regulatory regarding the handling of premiums by intermediaries and remedies for non-compliance	Members of the regulatory body were enlisted	In-depth interviews	Qualitative content analysis
To establish the reasons why insurance intermediaries delay in remitting premiums to insurance companies	Why do intermediaries delay remitting premiums to insurers	All licenced intermediaries staff members were enlisted	Survey questionnaires	Bivariate data analysis
To devise probable strategies and solutions to improve premium remittance to general insurance companies in the Zambian market	How can premium remittance problem be improved to enhance efficiency in claims management and ultimately industry confidence	All licenced intermediaries staff members were enlisted	Survey questionnaires	Bivariate data analysis

3.11 Chapter Summary

In this chapter, the researcher detailed how the study was conducted, including the reasoning behind the sampling methods employed as well as data collection procedures. The choices detailed and justified in this chapter demonstrate the pragmatic use of data and method triangulation that the researcher employed in coming up with rich findings. The next chapter presents and analyses the research results and also provides a brief discussion.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

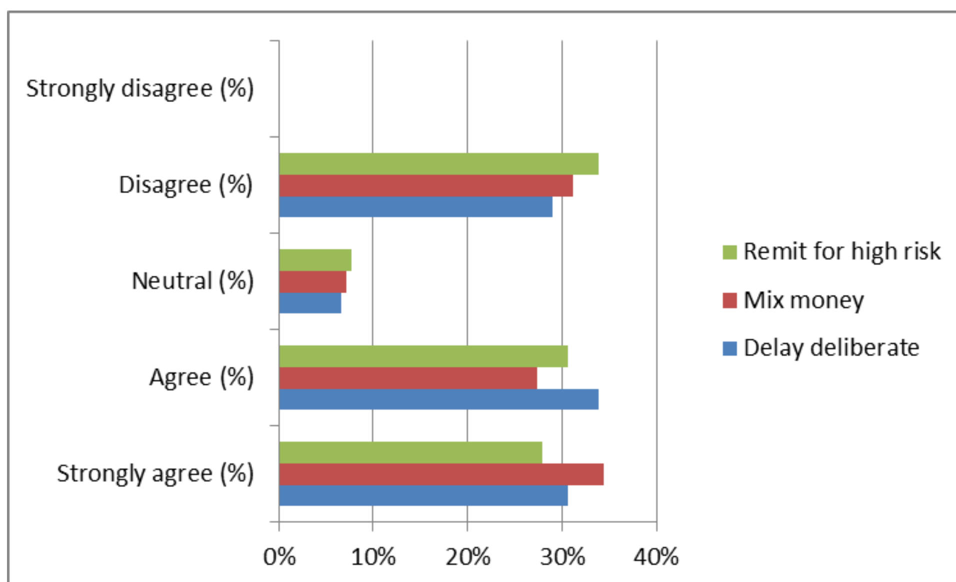
In this Chapter, the researcher presents the results of the analysis of data that was collected during the course of the study. The researcher shall analyse the data in detail which was obtained during the course of the research study. This data was analysed using Excel. Having analysed the data, the researcher shall present the results of his findings accordingly in this chapter.

4.2 Data Analysis

4.2.1 Analysis of Questionnaire Survey Responses

Data was collected from General Insurance Companies, brokers, reinsurers, regulatory body and the two association bodies and a total of 183 respondents managed to provide their responses. The results of the analysis are presented and interpreted below.

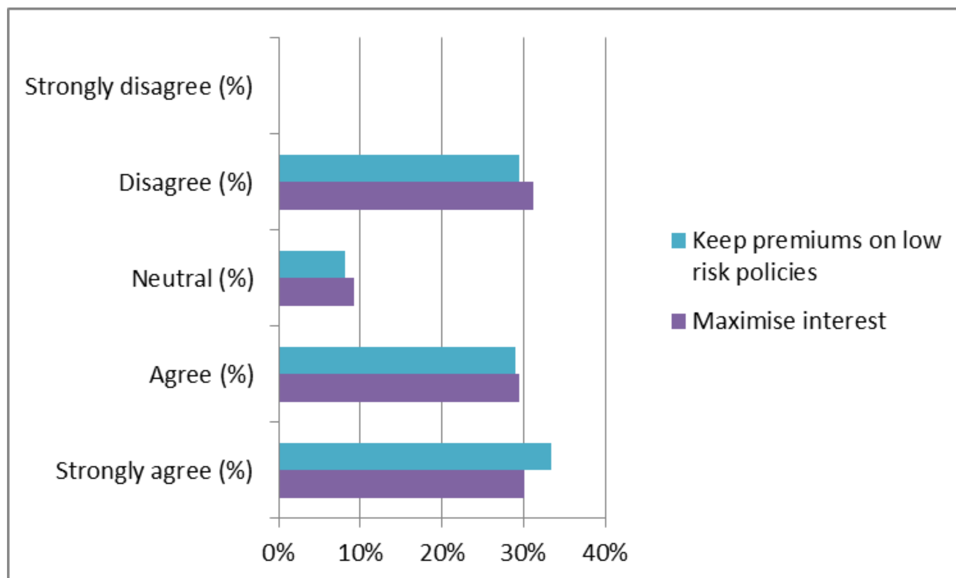
Figure 4.1: Responses on brokers' handling of premiums



Respondents generally agreed (62%) that brokers were handling premiums improperly, with only a minority (32%) disagreeing with the assertion. Of particular concern was the observation that brokers mixed (commingled) clients' premiums with their own finances, thus ending up using some of the premiums to meet running expenses, in contravention of the law. Also

worrying was issue that late remittances were deliberate, with some brokers only remitting premiums for clients they knew were highly susceptible to loss, and in some cases only remitting premiums after a loss had been suffered. This behavior suggests opportunism on the part of brokers, leading to adverse selection (insurers only getting premiums for very high risk clients), and a potentially unmanageable claims situation on the part of insurers.

Figure 4.2a: Responses on financial motives why brokers remit premiums late

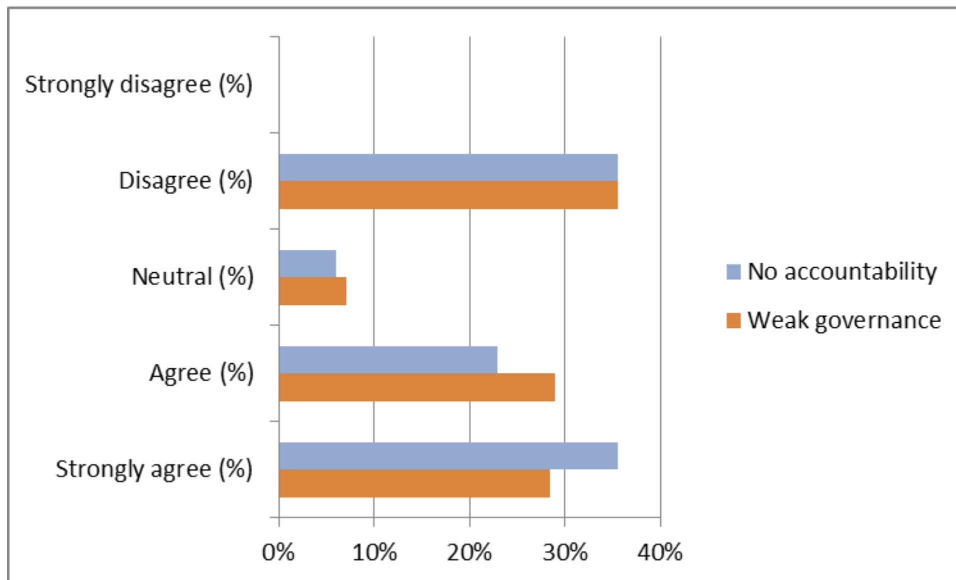


On why brokers remitted premiums late, the research grouped the reasons into four categories depicting underlying considerations by brokers when deciding to remit or not to. These are financial, governance, regulatory, and market discipline factors.

Respondents generally agreed (61% on average) that key financial motives for delaying remitting premiums were to maximize interest on premium investments and to keep premiums on low risk policies (risk arbitrage). It was worrying to note that whereas maximizing interest is a reasonable objective for brokers, the more important reason for delaying premiums appears to be the desire by brokers to only remit premiums on very risky policies, hoping to keep the premiums paid by non-claiming clients as their own. This means that participants in the insurance sector believe that brokers are taking premiums with no intention to pass them on to insurers in full. Instead, according to responses to this question, brokers are selecting risks to pass to the insurer, and retaining premiums that otherwise would have been the surplus of insurers. Thus there is a general belief that brokers are eating into the profits of insurers without exposure to any risk at all (risk shifting tendencies). Assuming this is true; at least for some of the brokers, the absence of serious regulatory sanctions for premium remittance delays poses a

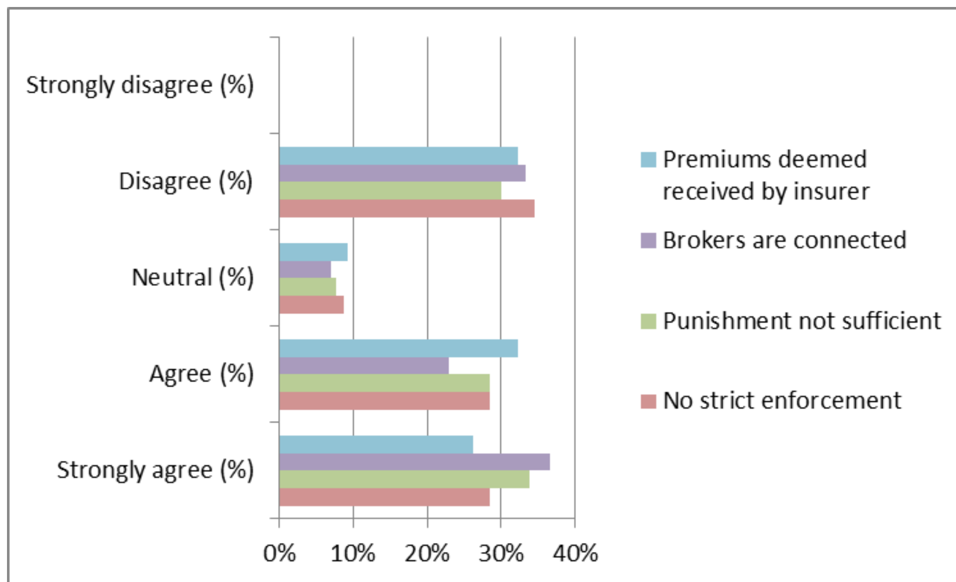
great threat to the insurance sector. What the sector could be facing may not be a mere liquidity challenge, but a serious misalignment of incentives for brokers.

Figure 4.2b: Responses on governance reasons why brokers remit premiums late



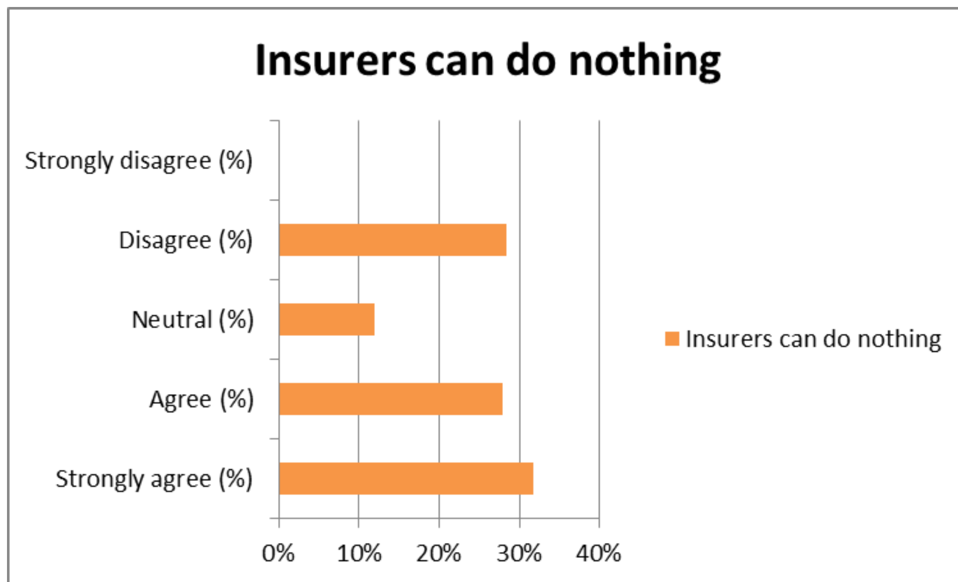
On governance, respondents cited a general lack of accountability as a major setback in dealing with premiums. Since brokers are autonomous, the market relies on good governance of the brokers, with clear oversight and effective internal controls to manage compliance issues and safeguard trust funds. However, there are mixed feelings on the adequacy of governance mechanisms in the broking industry, which creates room for abuse of trust funds and general noncompliance with laws and regulations. Only about 35% of respondents disagreed with the assertion that there is weak governance and lack of accountability in the broking business.

Figure 4.2c: Responses on regulatory reasons why brokers remit premiums late



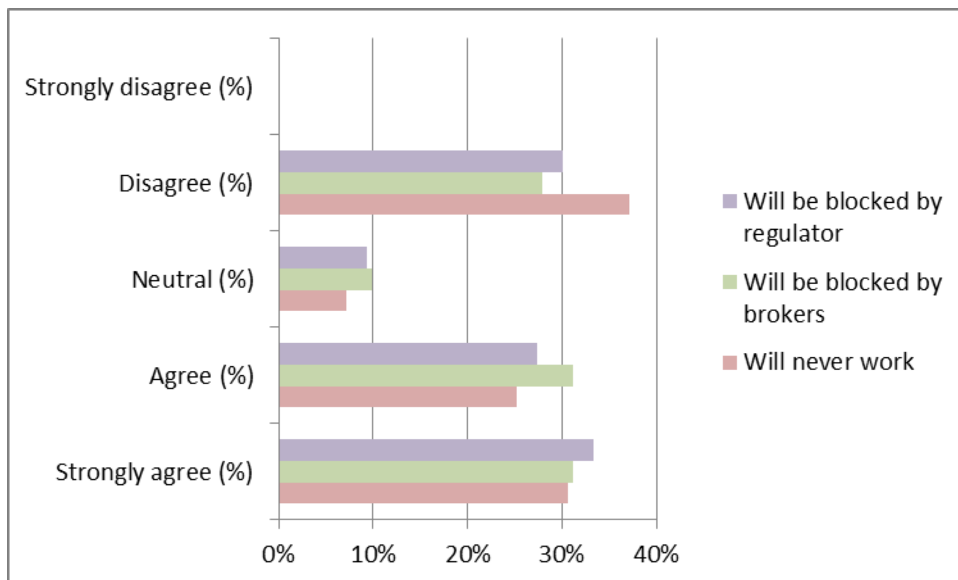
There is general consensus in the industry that the regulation of premiums has a number of loopholes. The starting point is on the idea that premiums received by a broker is deemed received by the insurer for purposes of establishing insurance cover. Respondents agreed that this was one of the major reasons for the misaligned incentives and risks for brokers and insurers. Brokers take comfort in this clause to continue collecting premiums without remitting on time, knowing very well that insurers cannot deny cover on grounds of non-remittance of premiums. Added to this is the penalty prescribed under the Insurance Act which is felt to be not deterrent enough. Besides the enforcement of legal provisions is believed to be not strict enough, and even where enforcement is attempted, respondents felt that some brokers were connected and would use their connections to block any serious sanctions.

Figure 4.2d: Responses on market discipline reasons why brokers remit premiums late



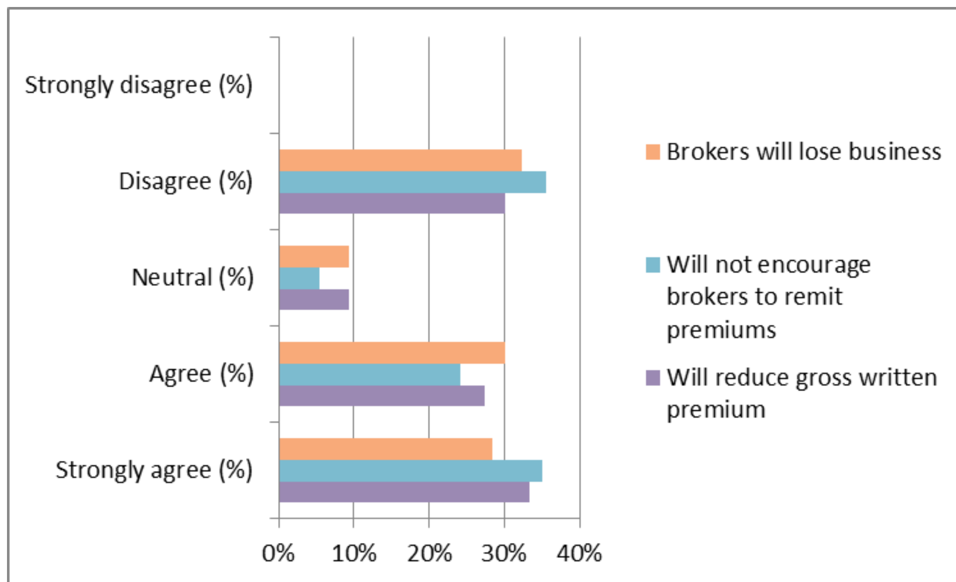
Insurers can do virtually nothing about defaulting brokers. They just have to negotiate for remittance. This was the feeling of the majority of respondents.

Figure 4.3a: Responses on the feasibility of the cash and carry principle



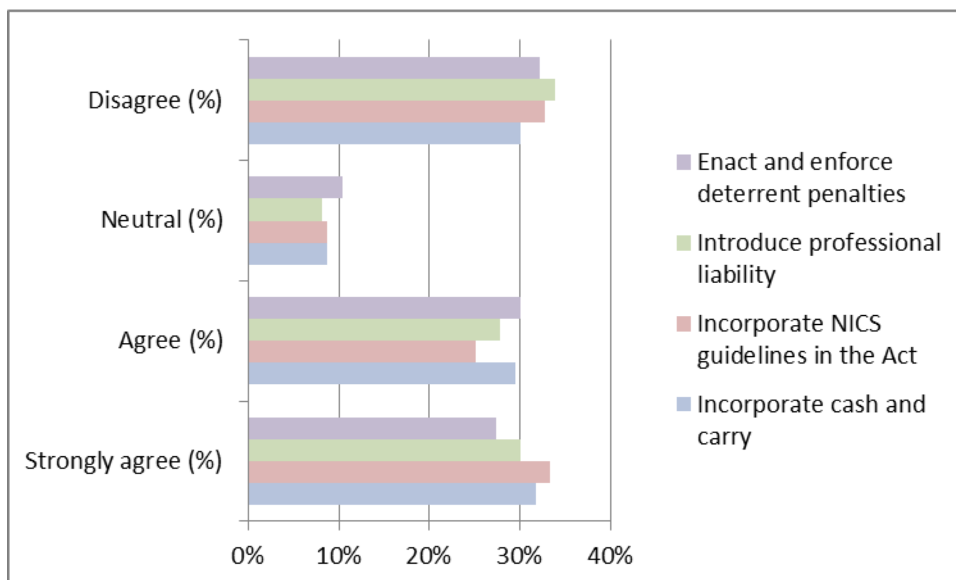
Whereas the cash and carry principle has been at the top of the agenda on reforms to the Insurance Act, respondents were generally pessimistic about the odds of it being enacted. Generally, respondents felt that in spite of its potential to resolve the premium remittance problem, brokers are likely to block enactment of the cash and carry principle.

Figure 4.3b: Responses on the effectiveness of the cash and carry principle



Respondents agreed that the cash and carry principle would cause loss of business to brokers, and thus reduce gross written premium for the industry. However, there were some mixed feelings about the effect it would have on brokers' handling of premiums. Responses appear to suggest that there is more to the defaulting behavior of brokers than just laws and regulations.

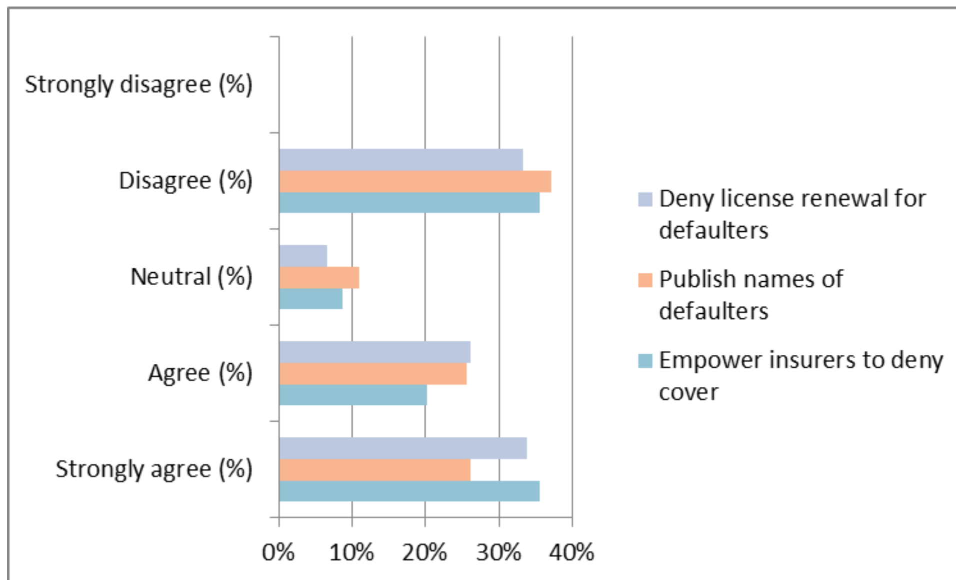
Figure 4.4a: Responses on suggested amendments to the Insurance Act



Respondents had mixed feelings on measures that should be taken to solve the premiums challenge. While the responses are difficult to tell apart, there is a general preference for preventative legislative measures (cash and carry, and enactment of NICS guidelines) to corrective punitive measures (penalties and professional liability). Thus the subtle message

from the responses is that the long-term solution is for as little room as possible to be left for debtors to arise, instead of perfecting means of punishing defaulters.

Figure 4.4b: Responses on suggested regulatory enforcement measures



Respondents generally shows preference for measures that empowered insurers to act on defaulting brokers, which may include blacklisting and also to ensure that the regulator tightens licence renewal requirements (for example, once blacklisted, a broker may not get a licence renewal until the matter is fully resolved). However, respondents did not show preference for the suggestion that a list of defaulting brokers be published by the regulator on a quarterly basis. This may be taken to mean that, while insurers are hurt by the default, they feel that the industry may suffer more reputational damage if the issue of defaults is taken into the public domain.

4.2.2 Analysis of Interview Responses

The researcher developed further some interview guide questions in order to specifically understand the respondents' feelings with regards to why intermediaries remit premiums late to insurers. Four participants took part in the personal interviews; and represented the Insurance Brokers Association of Zambia, The Insurers Association of Zambia, Service Providers and the regulatory body. Their responses are discussed in the following sections:

a) What can you say about the delays by brokers on premium remittances?

The researcher first interviewed a representative of IBAZ in the quest to understand the brokers' feelings and opinions with regards to delays to remit premiums to insurers. In his response, the IBAZ representative noted that the alleged conduct of some brokers in the market was not a good reflection on the integrity and professionalism that is expected from them. The respondent further noted with concern the huge consequences on the growth of the industry as well as its overall image. He however advised the researcher that there are many brokers in the market who are upholding high standards of professionalism, and are meeting their obligations to insurers.

A second respondent, an insurer, said that intermediaries have contributed to the demise of some of the insurance companies who have had their licenses withdrawn by the regulator because they failed to meet the required minimum capital requirements because of a huge debtors' book.

Speaking on behalf of service providers, another respondent said that most insurance companies are now struggling to meet their claim payments on time for jobs authorized on vehicle repairs and panel beating. He further said that, some are even now negotiating to settle their bills in monthly installments, which sometimes stretch to more than six months, and this includes some of the big players.

Lastly, a representative from the regulator stated during that the challenge also comes from insurers themselves as they still go on to sign quarterly returns even for brokers that are owing them huge sums. He further advised that, they hope this problem shall be addressed to some extent once their new computer system (PSMIS) is fully functional.

b) In your view what could be the motives or reasons for these delays?

The first respondent said that, *"some brokers divert premiums for their personal use, using the money for other things like paying salaries, buying vehicles and even properties…because some brokers are really living great."*

He further lamented the lack of administrative capacity by some brokers, which makes it very difficult for them to complete reconciliations and process payments within the statutory time period. He said *"I think some brokers do not have good systems to properly and timeously*

manage their voluminous transactions according to placement of binders…it could be a matter of brokers failing to accurately trace transactions and reconcile all paid premiums for them to correctly remit on time to each and every insurer, especially the big indigenous brokers."

According to the insurers' representative, unpaid premiums for Quasi-Government policies is also contributing to this debtors gap, although she did not believe that the impact was that big.

c) What is your assessment of the existing Insurance Regulatory framework especially with regards to the handling of premiums?

The respondent who spoke on behalf of insurers said that the current regulatory framework is good as the Act clearly states that premiums received by the broker are deemed as received by the insurer; which means the client should not be allowed to suffer in the event of a claim. However, she felt concern for insurance companies under such circumstances, as they also need to receive premiums well in time to enable them to settle claims quickly.

The respondents both felt that the Act and the National Insurance Credit Standard are fine when read together, as they clearly stipulate when premiums are supposed to be paid by the client to the broker or insurer, and also when the broker is required to remit all received premiums to the insurer. The respondent went on to say that, however, the market does not seem to be clear on what is supposed to be done when a broker does not remit the premiums within the stipulated 30 days credit period.

d) Ongoing discussions in the market appears to have two (2) proposals to resolve the premium remittance crisis, and these are:

i) Cash and Carry business (no premium no cover)

ii) Regulatory reforms specifically in relation to the Insurance Act and the National Insurance Credit Standard.

Question: What is your opinion / position on each of the proposed two best practices above?

The first respondent said he would definitely go for the cash and carry option as it saves a whole lot of costs as policies are only raised where premiums have been paid, and it saves on printing expenses, labour and time for the issuing staff member, thereby help to serve better those that have paid.

The other respondent said, that, cash and carry basis will be the best way forward as it helps to improve liquid positions for both insurers and brokers as they will receive cash up front. She further said that, this is good because this goes down a long way in improving turnaround times on claims settlement as companies will always have funds available.

Both respondents agreed that the cash and carry proposal is the better option as it will help to improve companies capital margins and solvency ratios, such that more companies will continue to get their licences at renewal, thereby promoting a health competition in the industry for the benefit of policyholders, industry itself and the economy at large. One of the respondents however noted that the benefits of cash and carry would only arise if it is coupled with improved regulatory reforms and enforcement.

It was also revealed during the interviews that the National Insurance guidelines had less effect as they were mere guidelines and not part of the Act. Thus, respondents suggested that the second option could be a good compromise, given the current state of the industry. Specifically, enacting the NICS guidelines to be part of the Insurance Act would allow brokers time to clean up their books before full implementation of the cash and cash principle. If the standards are reviewed, enacted and consistently enforced, premiums remittance by brokers will definitely improve. The regulator would be required to play a big role by enforcing charges on all defaulters.

(e) What other measures if any, do you think may need to be considered in addition to the above two?

One respondent advised that, there is also need for those quasi-government policies to comply with the above proposals as they help reduce the overall market debtors thereby improving the image of the insurance industry as the whole.

The other respondent noted in closing that, the current option where brokers are required to collect cash/ premiums on behalf of the insurers is good because it enables the broker to service his/her client(s) better as they will still be required to handle other services such underwriting and claims issues. She further stated that, by taking or removing one function, it does not give the broker the full authority to the client which he/she deserves.

4.3 Chapter Summary

In this chapter, the researcher presented the results of both the questionnaire survey and the personal interviews. The results were interpreted, integrated, and discussed relative to the literature. The next chapter discusses the findings of the results in detail for this study.

CHAPTER FIVE

DISCUSSION

5.1 Introduction

This chapter discussed the research findings presented in chapter four of the study on addressing delays on premium remittances by insurance intermediaries in the Zambian insurance market while making reference to the literature review. The discussion was presented according to the research objectives of the study which were:

i. To explain the existing regulatory measures that are meant to deal with premium remittance issues in Zambia.
ii. To establish the reasons why insurance intermediaries delay in remitting premiums to insurance companies.
iii. To devise probable strategies and solutions to improve premium remittance to general insurance companies in the Zambian insurance market.

5.2 Discussion of Findings

5.2.1 Existing regulatory measures.

According to The Pensions and Insurance Authority Guidelines (2009) a contract of insurance shall cease to operate if premium is not paid within thirty (30) days after the due date of premium, or such period as the contract will stipulate. They stated that the due date shall be the commencement of cover or the date stipulated in the contract of insurance. The guidelines went on to say that, where a business is placed through an intermediary, the intermediary shall remit the received premiums to the insurer not later than the 30th day after the period within which the premium fell due. However, from the guidelines, there are no stated penalties imposed for the intermediaries who default to remit the premiums within the stipulated thirty (30) days period.

On the other hand a credit intermediary is allowed a credit period of about thirty (30) days before they can remit the premiums to the insurer, although paying to the intermediary is as good as paying to the insurer (Kabaila Jr, 2014). He further said that failure to remit premiums has severe consequences including termination or non-renewal of licence by the regulator and

some intermediaries have tasted this wrath of the law especially where they issue cover notes on behalf of insurers.

Analysis of responses from the interviews shows that the National Insurance guidelines had less effect as they were just mere guidelines and not part of the Act. Thus, respondents suggested to have the NICS guidelines enacted to be part of the Insurance Act as a starting point. They felt that this would allow brokers time to clean up their books before full implementation of the perceived long-term solution of the cash and cash principle. If the standards are reviewed, enacted and consistently enforced, premiums remittance by brokers will definitely improve. The regulator would be required to play a big role by enforcing charges on all defaulters.

The Insurance Act of Zambia Number 26 (2005, clause 21) sub clause (1) states that where any premium on a policy is paid to an intermediary by a client, the intermediary shall, within thirty (30) days of due date of the premium, transmit the premium less any agreed commission or other charges payable by the insurer to the intermediaries, to the insurer of the policy concerned. Sub clause (2) of same clause states that if the intermediary contravenes sub clause (1), the intermediary shall, in addition to the outstanding premium pay to the insurer interest on the premium at the Bank of Zambia rate. Under sub clause (3), the Act went to say that notwithstanding sub clause (2) any intermediary who contravenes this section shall be guilty of an offence and be liable, on conviction, to a fine exceeding twenty thousand penalty units. Respondents from the interviews felt that the fines were not very punitive to deter a broker from misbehaving and delaying to remit the premiums. Secondly, the penalty units were set a long-time ago in 2005 and they look way outdated. Further, there is also lack of clarity as to what constitute the amount of penalty units stated in the Act.

Under sub clause (1) of the Insurance Act of Zambia Number 26, (2005, clause 76), a contract of general insurance shall cease to operate if a premium is not paid within thirty (30) days after the due date of the premium or within such period as the contract may stipulate. Sub clause (2) further says that, for the purposes of this section, a premium paid to intermediaries who arranged the contract shall be deemed to have been paid to the insurer. Analysing responses from interviews, they felt that the honours is also with the insurers to make sure that they reverse and cancel all policies which remain unpaid after the expiry of the required credit period. Further, they said that the current trend in the market has been that insurers have not been consistent in that respect and most brokers capitalised on that.

Given the above regulatory measures, it appears that the insured is protected by the law from non-remittance of premiums to the insurer, and that the law places an obligation on the insurer to honour policies without regard to whether premiums have being remitted or not. Be it as it may, the insured is still exposed to the unethical hold-up by the broker to the extent that such hold-up incapacitates the insurer. It is therefore important to revisit the regulation of brokers to protect the integrity and interests of the whole market.

5.2.2 Why brokers delay remitting premiums to insurers

Since brokers are autonomous, the market relies on good governance of the brokers, with clear oversight and effective internal controls to manage compliance issues and safeguard trust funds. However, there are mixed feelings on the adequacy of governance mechanisms in the broking industry, which creates room for abuse of trust funds and general noncompliance with laws and regulations.

A brief reflection on the findings of this study confirms the general assertion in the literature that brokers do not always act in the best interests of their clients (Battalio & Loughran, 2008). Instead they seek to maximise their own profits. The findings on reasons for delays in remitting premiums also reveal that adverse selection and moral hazard are serious problems that affect the broker-insurer relationship. Specifically, insurers' portfolios have become riskier because some brokers appear to be selecting what could be said to be bad risks and fully remit premiums, while retaining what is perceived to be low risks (and premiums thereon) on their books . This is a clear manifestation of adverse selection and some of this habit only comes to light when there is a claim.

Findings from literature review provided that the law and economics states that, legal rules set incentives to behave in a certain way. Thus, contract law and liability rules may help to overcome agency problems which are related to information asymmetries. Legal duties as to minimum information which have to be provided by intermediaries as well as more strict liability rules may induce insurance intermediaries to behave in the interest of their clients (Grundmann & Kerber 2001).

Review of literature also suggested that brokers are more likely to act in the best interests of their clients compared to exclusive agents. However, empirical studies have shown that this is not always the case, although they are ethically obligated to do so (Game & Gregoriou, 2014). Battalio and Loughran (2008) carried out a study using data from the New York Stock

Exchange and showed that the main objective of brokers was to maximize their profits rather than the wealth of their clients, even in a well-regulated industry. They concluded that brokers' decisions may sometimes lead to actions that do not optimally serve their clients' interests. On the contrary, Game and Gregoriou (2014) claim that enhancing market competitiveness may help to reconcile broker and client interests.

New York Insurance Law § 2120 (McKinney, 2000) imposes a fiduciary duty upon insurance agents and intermediaries with respect to funds received or collected by insurance agents and intermediaries, which includes but is not limited to policy premiums remitted by insureds. This statute prohibits the commingling of any such funds with the insurance agents or intermediaries own funds unless its principal(s) expressly consent to commingling.

On the other hand, because of the clause in the Insurance Act that presumes cover upon payment to broker, insurers are forced to honour claims even on cases where they never receives premiums, thus being exposed to moral hazard of the broker. The main contributing factor to this has been the fact that insurers have not been reversing and cancelling policies with long-outstanding premiums. Brokers then takes advantage of the fact that cover is in place to engage in premium retention behaviour that increases the exposure of the insurer beyond expected levels. This is a clear manifestation of moral hazard. The finding that the premium delays are prevalent among some larger indigenous brokers confirms the findings of Latorre and Farinós (2015), who noted that unethical behaviour by brokers is a matter of means. If the can, they will. In this case the large indigenous brokers control a good chunk of the broking business portfolio; and because they underwrite a lot of business from government, they wield power in the market.

The analysis of questionnaire responses suggested that respondents felt that brokers were deliberately defaulting, with the hope to not only earn more interest from premium investments but also that more clients will not claim and they can hold onto their premiums. This behaviour was believed to be based on perceived broker power, weak governance of brokerage firms, lax enforcement of statutory provisions, a general lack of coherence in the current legal and regulatory regime, and lack of enforceability of premiums by insurers. Respondents showed some degree of bias towards the cash and carry principle but were pessimistic about the odds of it being enacted due to possible broker disapproval. Furthermore, respondents indicated preference for measures that prevent the generation of debtors in the insurance business to measures that merely impose penalties for default, and thus are corrective in nature.

Generally, the feeling was that broker incentives are more complex and deep-rooted. Results of the interviews generally agreed with the preceding analysis, except that it came out in the interviews that some brokers actually lack capacity to manage the volumes of work, leading to delays. This may somewhat explain the sentiment of about 30% of respondents in the questionnaire survey who disagreed with the majority view. Also, the interviews revealed that some brokers had actually resorted to settling the premiums on a fortnightly basis to send a clear signal to the market that they are committed to meeting their obligations. Overall, the research revealed that brokers are engaging in serious opportunistic behaviour that threatens the entire industry.

5.2.3 How can premium remittance problem be improved

The cash and carry principle has been at the top of the agenda on reforms to the Insurance Act, respondents were generally pessimistic about the odds of it being enacted. Generally, respondents felt that in spite of its potential to resolve the premium remittance problem, brokers are likely to block enactment of the cash and carry principle.

Analysis of literature review provided that The General Insurance Association of Singapore (GIA) introduced new rules on the payment of premiums in a bid to reduce claim disputes between customers and insurers (Secher and Chatters, 2016). The rules required premiums to be paid to insurers or intermediaries on or before the inception date or renewal of the policy. The rules further stated that if full payment is not made by this date, there will be no cover. Secher and Chatters said changes to the Premium Payment Framework (PPF), which was first introduced in May 2005, are designed to improve efficiency in the collection of premiums.

The Malawi Gazette Supplement (2011) stated that, insurers need to maintain adequate solvency margin ratios at all times to cushion and enable them absorb losses from adverse events arising in the course of business. The timely collection of premiums is crucial for the building up of an insurer's technical reserves, which are necessary for the maintenance of sufficient margin of solvency by an insurer. In their resolutions, the Gazette provided that, intermediaries shall cause policyholders to make out all insurance premium cheque payments in favour of insurers. The objectives of this directive included to address the problem of overdue and outstanding premiums that has been prevalent in the insurance market for so long, and to promote transparency, and accountability in the insurance industry.

When analyzing data from the questionnaires, some respondents agreed that the cash and carry principle would cause loss of business to brokers, and thus reduce gross written premium for the industry. However, there were some mixed feelings about the effect it would have on brokers' handling of premiums. Responses appear to suggest that there is more to the defaulting behavior of brokers than just laws and regulations.

It was also revealed during the interviews that the National Insurance guidelines had less effect as they were just mere guidelines and not part of the Act. Thus, respondents suggested that enacting the NICS guidelines to be part of the Insurance Act would allow brokers time to clean up their books before full implementation of the perceived long-term solution of the cash and cash principle. If the standards are reviewed, enacted and consistently enforced, premiums remittance by brokers will definitely improve. The regulator would be required to play a big role by enforcing charges on all defaulters.

There were some mixed feelings from respondents on measures that should be taken to solve the premiums challenge. While the responses are difficult to tell apart, there is a general preference for preventative legislative measures (cash and carry, and enactment of NICS guidelines) to corrective punitive measures (penalties and professional liability). Thus the subtle message from the responses is that the long-term solution is for as little room as possible to be left for debtors to arise, instead of perfecting means of punishing defaulters.

Generally, respondents from both interviews and questionnaire agreed that the cash and carry proposal is the better option as it will help to improve Companies capital margins and solvency ratios. Boah-Mensah (2014) stated that, the insurance sector in Ghana held widely the view that, prompt claims payment and premium debtors are some of the principal challenges that threaten its survival. The industry was coming into a new era after the introduction of a new policy dubbed 'No premium, No cover'. He further stated that a month later after its introduction, most of the companies reported an about 80% out-turn in their premium budget, and this policy helped to improve their liquidity situation as they are now armed with resources to pay claims when they fall due. During analysis of our interview, one of the respondents however noted that the benefits of cash and carry would only arise if it is coupled with improved regulatory reforms and enforcement.

5.3 Summary of Key Findings

The study made the following findings from both quantitative and qualitative analysis:

i. Brokers deliberately delay remitting premiums to insurers, mix clients' funds with their own and only remit premiums for very high risk policies, or policies already in loss.
ii. Some insurance brokers utilize premiums as working capital, with no intention of remitting them to insurers at all.
iii. Most Insurance brokers suffer from poor governance and lack of accountability, making it difficult for them to comply with statutory and regulatory requirements.
iv. Insurers have not been cancelling covers where premiums are long outstanding.
v. Brokers who default on remitting premiums rely on the lack of statutory clarity on what insurers are empowered to do in the event of default by a broker.
vi. Enforcement of the 30-day statutory provision on premiums has not been strict, and brokers have taken advantage of that.
vii. The cash and carry principle is the long term solution to Zambia's premium problem.
viii. Revising and including the National Insurance Credit Standard guidelines in the Insurance Act is a good intermediate alternative solution to the premium problem.

5.4 Chapter Summary

The results of the study were interpreted, integrated, and discussed relative to the literature in this chapter. Findings of the research were also discussed in detail in relation to the research objectives that were set and a summary of key findings was provided. The next chapter presents the conclusions from the study as well as recommendations.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The aim of the study was to address factors responsible for the delays in premiums remittances by intermediaries. In this Chapter, the researcher summarises the key findings of the study, draws conclusions from the findings, and makes recommendations on measures to solve the premium challenge in the Zambian insurance market.

6.2 Conclusions

This study sought to understand the premium remittance challenges faced by the Zambian insurance industry, and proffer realistic solutions. The research used an embedded mixed methods design. Structured questionnaires were distributed to a randomly selected sample of 319 respondents, via email and also by hand. Four interviews were also conducted with representatives from the brokers association, the insurers association, service provider and regulatory body.

The findings of the study showed that there were various factors that caused delays in premium remittance by intermediaries. Amongst them were the various challenges with the existing regulatory measures that are in place. The Insurance Act of Zambia Number 26 (2005, clause 21) sub clause (1) which states that where any premium on a policy is paid to an intermediary by a client, the intermediary shall, within thirty (30) days of due date of the premium, transmit the premium less any agreed commission or other charges payable by the insurer to the intermediaries, to the insurer of the policy concerned. Sub clause (2) of same clause states that if the intermediary contravenes sub clause (1), the intermediary shall, in addition to the outstanding premium pay to the insurer interest on the premium at the Bank of Zambia rate. Sub clause (3) of the Act went to say that notwithstanding sub clause (2) any intermediary who contravenes this section shall be guilty of an offence and be liable, on conviction, to a fine exceeding twenty thousand penalty units. The study revealed that the fine imposed under Sub clause (2) of the Act were not very punitive to deter a broker from misbehaving and delaying to remit the premiums. Furthermore, the study showed that the penalty units stated in Sub clause (3) were set a long-time ago in 2005 when the Act was last reviewed and they look way

outdated. And also there is lack of clarity as to what constitute the amount of penalty units stated in the Act.

The regulatory body (PIA) issued some guidelines in 2009 which stipulated that where premiums are paid through the broker must be remitted to the insurer within 30 days of receipt. This was done in trying to get premiums remitted to the insurers. However, the study revealed that the guidelines did not state penalties imposed for the intermediaries who default to remit the premiums within the stipulated thirty (30) days period. Further, the study showed that guidelines were less effect as they were just mere guidelines and not part of the Act hence difficult to enforce.

Given the above regulatory measures, it appears that the insured is protected by the law from non-remittance of premiums to the insurer, and that the law places an obligation on the insurer to honour policies without regard to whether premiums have being remitted or not. Be it as it may, the insured is still exposed to the unethical hold-up by the broker to the extent that such hold-up incapacitates the insurer.

Since brokers are autonomous, the market relies on good governance of the brokers, with clear oversight and effective internal controls to manage compliance issues and safeguard trust funds. Findings of this study confirms the general assertion in the literature that brokers do not always act in the best interests of their clients (Battalio & Loughran, 2008). Instead they seek to maximise their own profits. The findings on reasons for delays in remitting premiums also reveal that defaulting brokers deliberately reneged on their obligations in order to derive financial benefits from using collected premiums. The unethical behaviour was found to be promoted by weak governance and a general lack of accountability especially among large indigenous brokers; lack of strict enforcement as well as absence of a framework to protect the interests of insurers in situations where brokers default.

The findings of the study also revealed that brokers deliberately delay to remit premiums to insurers due the clause in the Insurance Act that presumes cover upon payment of premium to broker. Because of this insurers are forced to honour claims even on cases where they never receives premiums, thus being exposed to moral hazard of the broker.

Further findings from the study also revealed that another major contributing factor to this has been the fact that insurers have not been reversing and cancelling policies with long-outstanding premiums. Brokers then takes advantage of the fact that cover is in place to engage

in premium retention behaviour that increases the exposure of the insurer beyond expected levels. This is a clear manifestation of moral hazard. The finding that the premium delays are prevalent among some larger indigenous brokers confirms the findings of Latorre and Farinós (2015), who noted that unethical behaviour by brokers is a matter of means. If the can, they will. In this case the large indigenous brokers control a good chunk of the broking business portfolio; and because they underwrite a lot of business from government, they wield power in the market.

The findings of this study also revealed that, the cash and carry principle can be one of the main final and lasting solution to the delays on premium remittance by brokers. From the countries that implemented this principle they managed to positively improve their results drastically. Boah-Mensah (2014) stated that after the introduction of the no premium, no cover policy, most companies reported an about 80% out-turn in their premium budget within a month. And the policy helped to improve their liquid situation as they were now armed with resources to pay claims.

6.3 Recommendations

After reflecting on the findings and conclusions of this study, the researcher made the following recommendations on what must be done to improve on premium remittance problem by intermediaries to insurance companies.

Firstly, the study recommended for all insurance brokers to develop and install robust information and technology (IT) systems to help them in managing business transactions efficiently. This helps to easily track all payments made through their system and be able to remit when they are due to each respective insurer thereby eliminating the risk of moral hazard. Further, all brokers needs to upheld corporate governance standards for them to have clear standards in terms of running the business, thereby eliminating the risk of unethical behaviour.

With regards to the regulatory measures, this study recommended for an urgent update and revision of the current Insurance Act which was last updated in 2005, to fall in line with the current changes and events in the insurance industry. The existing penalties in the Act for defaulting brokers also needs to be revised and put measures that are more punitive to deter such acts. Further, the penal sum requires some clarification as to what constitute each unit. Lastly, the National Insurance guidelines were seen to have less effect as they are just mere

guidelines and not part of the Act. This research study therefore recommend to have the NICS guidelines enacted to be part of the Insurance Act as a starting point.

Finally, the study recommends that the cash and cash principle be implemented as the overall main solution. This needs to be implemented together with the above set of recommendations so as to complement each other. In the end this helps to improve the liquidity position of insurance companies thereby also improving the claims turning around period. Customers and investors' confidence will be boosted for the growth of the insurance industry.

6.4 Suggestions for Further Research

In view of the fact that the cash and carry principle emerges from the study as the preferred long-term solution to the premium handling problems in Zambia, the researcher recommends that further research be undertaken to assess the likely impact of its implementation on the affordability of insurance services, and therefore the penetration rate for insurance services in Zambia.

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APPENDICES

Appendix "A": Research Questionnaire: On Delayed Premium Remittance

THE UNIVERSITY OF ZAMBIA

GRADUATE SCHOOL OF BUSINESS

Dear responded, you have been randomly selected to participate in this study which seeks to devise probable solutions to the delayed premium remittance problem by intermediaries in the Zambian Insurance market. A few participants have been selected in this study and you are privileged that you are amongst them.

The findings of the study will be useful to the school, the Zambian Insurance Industry and Government at large as they endeavour to improve on the challenge of delayed premium remittance by intermediaries.

Ethical Assurance

1. Kindly note that your participation in this study is voluntary and not forced. However, your support and co-operation will be greatly appreciated.

2. All responses given in this questionnaire will only be used for research purposes and perhaps policy direction in the insurance sector as well as the broking profession.

3. Do not write your name.

SECTION A: DEMOGRAPHIC INFORMATION

Please tick the correct response.

COMPANY (TICK TYPE OF YOUR ORGANISATION)	INSURANCE CO.	I.B.A.Z	REGULATOR

SECTION B: LATE REMITTANCE OF PREMIUMS BY INSURANCE BROKERS

Kindly indicate your extent of agreement or disagreement with the following statements regarding the conduct of brokers by ticking in the appropriate box [Strongly disagree (SD), Disagree (D), Neutral (N), Agree (A), Strongly agree (SA)]:

Item	**SD**	**D**	**N**	**A**	**SA**
Handling of Premiums:					
Defaulting brokers deliberately delay remitting premiums to insurers					
Defaulting brokers mix collected policyholder premiums with own working capital					
Defaulting brokers only remit premiums on policies which they consider will highly likely going to suffer losses or that have suffered losses already					
Financial incentives:					
Defaulting brokers want to maximise interest from premium investments					
Defaulting brokers hope to retain all premiums on low-risk clients					
Governance:					
I feel that poor governance of broking firms is to blame for the delays in remitting premiums					
Defaulting brokers feel that they are accountable to nobody					
Regulation:					
Defaulting brokers takes advantage of the Act which states that premiums received by brokers are deemed to have been received by insurers					

Defaulting brokers fail to remit premiums because they will still go un-punished even after then					
I feel that defaulting brokers take advantage of lack strict enforcement of regulations					
Defaulting brokers use their connections to block attempts to reform premium regulation					
Market discipline:					
Defaulting brokers fail to remit premiums because they know that the insurers can do nothing about it					

SECTION C: MEASURES TO ENCOURAGE TIMELY REMITTANCE OF PREMIUMS BY INSURANCE BROKERS

Kindly indicate your extent of agreement or disagreement with the following statements about the cash and carry principle, by ticking in the appropriate box [Strongly disagree (SD), Disagree (D), Neutral (N), Agree (A), Strongly agree (SA)]:

Item	**SD**	**D**	**N**	**A**	**SA**
Feasibility:					
The cash and carry principle will never work in the Zambian market					
Brokers will successfully resist the enactment of the cash and carry principle					
The regulator will refuse to enact the cash and carry principle					
Effectiveness:					
The cash and carry principle will lead to reduction in gross written premium in the market					
The cash and carry principle will not encourage brokers to remit premiums in time					
The cash and carry principle makes insurance brokers lose business					

Kindly indicate your extent of agreement or disagreement with the following statements about possible legislative and regulatory reforms, by ticking in the appropriate box [Strongly disagree (SD), Disagree (D), Neutral (N), Agree (A), Strongly agree (SA)]:

Item	**SD**	**D**	**N**	**A**	**SA**
Amendments to the Insurance Act:					
The National Insurance Credit Standard guidelines must be amended and be enacted as part of the Insurance Act					
Clear and punitive penalties for defaulting brokers must be in place, and effectively be enforced.					
Defaulting brokers must lose their licenses on renewal and be blacklisted.					
The Insurance Act must be amended to include a clause that says that any broker who owes the insurer more than 15% of gross written premium shall be deregistered					
The Insurance Act must be amended to allow insurers to refuse cover on policies with unpaid premiums					
Regulatory Enforcement:					
The regulator must strengthen enforcement of the existing statutory provisions on handling of premiums					
The regulator must regularly publish a list of brokers with unacceptably high premium debts on quarterly basis					
Defaulting brokers must be required by law to assume professional liability to pay claims on policies where they would have withheld premiums beyond the statutory limit					

End of Questionnaire: Thank you for taking your time to complete this questionnaire

Appendix "B": Interview Guide: On Delayed Premium Remittance

THE UNIVERSITY OF ZAMBIA

GRADUATE SCHOOL OF BUSINESS

Dear responded, you have been randomly selected to participate in this study which seeks to devise probable solutions to the delayed premium remittance problem by intermediaries in the Zambian Insurance market. A few participants have been selected in this study and you are privileged that you are amongst them.

The findings of the study will be useful to the school, the Zambian Insurance Industry and Government at large as they endeavour to improve on the challenge of delayed premium remittance by intermediaries.

Ethical Assurance

1. Kindly note that your participation in this study is voluntary and not forced. However, your support and co-operation will be greatly appreciated.

2. All responses given in this questionnaire will only be used for research purposes and perhaps policy direction in the insurance sector as well as the broking profession.

INTERVIEW GUIDE QUTIONS

I will begin by asking you some few demographic information.

SECTION A: DEMOGRAPHIC INFORMATION

COMPANY (TYPE OF YOUR ORGANISATION)	INSURANCE CO.	I.B.A.Z	REGULATOR

a) What can you say about the delays by brokers on premium remittances?

b) In your view what could be done the motives or reasons to these delays?

c) What is your assessment of the existing Insurance Regulatory framework especially with regards to the handling of premiums?

d) Ongoing discussions in the market appears to have two (2) proposals to resolve the premium remittance crisis, and these are:

e) Cash and Carry business (no premium no cover)

f) Regulatory reforms specifically in relation to Act and the National Insurance Credit Standard.

g) What is your opinion / position on each of the two proposals above?

h) What are other measures if any, you think may need to be considered in addition to the above two?

I appreciate the time you took to participate for this interview. Is there anything else you think would be helpful for me and this research?

As we close this interview, would it be alright for me to call you at home if I have any more questions**.**

Once again, thank you very much your time.

End of Questions

Appendix "C": Ethical Clearance Form

THE UNIVERSITY OF ZAMBIA

DIRECTORATE OF RESEARCH AND GRADUATE STUDIES

Great East Road | P.O. Box 32379 | Lusaka 10101 | **Tel:** +260-211-290 258/291 777
Fax: +260-1-290 258/253 952 | **Email:** director@drgs.unza.zm | **Website:** www.unza.zm

APPROVAL OF STUDY

19th April, 2021.

REF NO. **HSSREC-2021-APRIL-012**

Mr Arnold Manokore
University of Zambia
C/o School of HSS
LUSAKA.

Dear Mr. Manokore,

RE: "APPLICATION FOR WAIVER – ETHICAL CLEARANCE

(MINIMISATION OF LATE PAYMENT OF PREMIUMS BY INTERMEDIARIES AND PROBABLE SOLUTIONS FOR GENERAL INSURANCE COMPANIES IN LUSAKA ZAMBIA)"

Reference is made to your application for waiver for the study captioned above. The **HSSREC** resolved to approve this study noting that there are no ethical concerns.

On behalf of The University of Zambia Humanities and Social Sciences Research Ethics Committee IRB, we would like to wish you all the success as you carry out your study.

In future, please ensure that you submit an application for ethical approval early enough.

On behalf of HSSREC, we would like to wish you all the success as you carry out your study.

Yours faithfully,

Dr. J. L. T. Ziwa

VICE CHAIRPERSON
THE UNIVERSITY OF ZAMBIA HUMANITIES ANDSOCIAL SCIENCES RESEARCH ETHICS COMMITTEE (HSSREC) - IRB

Excellence in Teaching, Research and Community Service