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IMPORTANCE OF INSURANCE AND PENSIONS SECTOR CONTRIBUTION TO ECONOMIC GROWTH AND EMPLOYMENT IN ZIMBABWE SINCE 2019

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Abstract

The current study seeks to demonstrate the impact of the insurance and pensions industry's contribution to economic growth through increasing the real gross domestic product, employment creation, savings mobilization for investments, social protection, and provision of various risk mitigation insurance products. The study used both a descriptive and an econometric approach to estimate the impact of the insurance and pensions industry's contribution to the real gross domestic product using quarterly time-series data. The main findings indicate that the industry contributes to sustainable economic growth by mobilizing resources that are invested in various asset classes. The estimation results suggest that investment in prescribed assets and equities positively contributes to real Gross Domestic Product while investment in the money market and property negatively relates to real output during the period under investigation. In addition, the insurance and pension industry also enhances social protection systems, offers products and services that enhance risk mitigation, and creates employment. The study recommends that the government should expedite the legislative processes of the Insurance Bill and Pension Bill, as this will strengthen IPEC's regulatory framework and help create an enabling business environment. For example, provisions on offshore investments will help with diversifying sovereign risk and enhance real returns; restore confidence and build public trust in long-term insurance products that promote gross savings, through issuing unequivocal guarantees that the United States Dollar denominated policies that insurers are selling will remain as such into the future; and create a stable operating environment characterized by a stable exchange rate and low inflation rates for

the industry to effectively contribute to economic growth and employment creation.

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1. Introduction

The insurance and pensions industry plays an important role in promoting sustainable economic growth and development in Zimbabwe, hence its inclusion in the National Development Strategy 1 (NDS1). The industry contributes to key pillars of NDS1 that include the economic growth and stability cluster; infrastructure and utilities; and social protection national priority areas. The industry contributes towards the national priority areas through savings mobilization, provision of financial protection, revenue generation for the government through taxes, and complementing government social security programmes. It is also instrumental in promoting financial inclusion; employment creation; and increasing per capita incomes.

2. Research Objectives

The main objectives of the paper are to:

i. demonstrate the impact of insurance and pension industry contribution to economic growth through increasing the real gross domestic product, employment creation, savings mobilization for investments, social protection, and provision of various insurance products.
ii. proffer recommendations to inform policy formulation.

3. Methodology

The paper used a descriptive approach for analysis and an econometric model to estimate the impact of the insurance and pensions industry contribution to the real gross domestic product using quarterly time-series data.

The following model specification was guided by economic growth theory and some empirical studies: $RealGDP_t = \beta_0 + \beta_1\, PA_t + \beta_2 EQ_t + \beta_3 MM_t + \beta_4 PE_t + \beta_5 X_t + \beta_6 Employment_t + \varepsilon_t$

Where $RealGDP_t$ – Quarterly Real Gross Domestic Product, and $t = Q1\ 2019, \dots, Q3\ 2021$

PA –Total Investment in prescribed assets

EQ – Total Investment in equities

MM – Total Investment in money market

$PE -$ Total Property and Operational Investment

$X_t -$ Vector of control variables

Employment - a proxy for the total number of workers in the insurance and pensions industry[1]

4. Data Sources

The prescribed assets, equities investment, money market investment, and investment property data were obtained from IPEC quarterly reports. The employment figures were obtained from an industry data call while the real gross domestic product was obtained from the 2022 National budget statement. Inflation, exchange rate, and international remittance inflows were extracted from the Reserve Bank of Zimbabwe's quarterly reports.

5. Insurance And Pensions Industry's Contribution to Economic Growth

The insurance and pensions industry promotes economic growth through various channels. The premiums paid by policyholders and contributions remitted by pension fund members generate savings that feed into the wider economy. The transmission mechanism is through investments in the capital market and other sectors of the economy.

The industry directly impacts the economy through the following:

Investing in Prescribed Assets (PAs)

Prescribed asset investments in long-term government projects of national interest foster socio-economic development and contribute towards attaining a middle-income economy objective by 2030.

The scope for prescribed assets investments covers housing delivery, agricultural production, and energy among other areas[2].

The trend for total prescribed assets investment by the industry in nominal terms has been positive, since 2019, as shown in Figure 1. The industry's total investments

[1] The total figure is a sum of employment figures supplied by loss assessors, corporate agents, sole agents, 9 self-administered funds, 6 standalone funds, 5 insured funds, 14 insurance brokers, 25 insurance companies, and 5 re insurers.

[2] Examples of Prescribed Assets Projects the industry is invested (See appendix 2)

in prescribed assets increased from ZW$14.7 billion to ZW$25.3 billion between 2019 and 2021. The total contribution of prescribed assets investment to the quarterly real domestic product ratio grew from 22% to 31% in the same period.

Energy Sector: The industry is contributing to economic growth through investment in energy production. The participation of National Railways of Zimbabwe Contributory Pension Fund in the Kariba hydroelectricity power expansion project, ZB Life Assurance in Hwange thermal power station rehabilitation, Old Mutual investment in Harava solar plant in Seke and Cross Mabale solar energy plant in Dete, and Coverlink Microinsurance in Munyati, and Dunavet solar projects, among others, increased the power production capacity of the country. This reduces the import bill for electricity and saves the country's foreign currency.

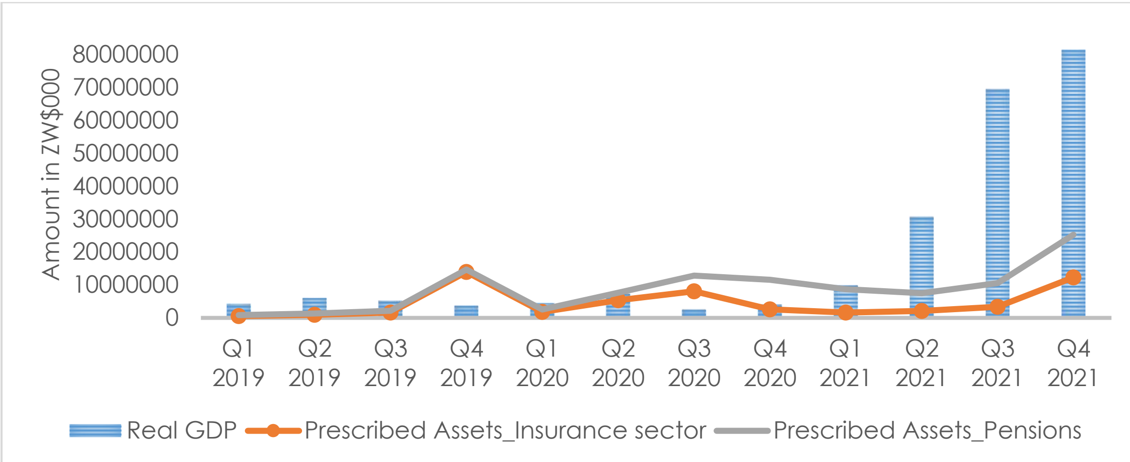
Agriculture: Pension funds and insurance companies participate through the following:

- Funding of Agrobills, which increases liquidity in the agricultural sector, thus, providing farmers with funds to grow more crops for export and food security in the country (for details see appendix 2).
- Training of farmers and genetic improvement of cattle breeds using advanced technology increase agricultural sector productivity e.g. Nurture BX Genetics project.
- Participation in the production of export-oriented products such as tobacco, macadamia nuts, and avocados to complement the government of Zimbabwe's export-led growth initiatives.

Infrastructure: The pension funds and insurance companies directly assist the government in raising funds for capital projects. Investing in projects with a prescribed asset status such as Sumben Housing Project, ZimCampus student accommodation project, and Arlington Estates for industrial development among others is a catalyst for economic growth and development.

Figure 1 shows quarterly real Gross Domestic Product (GDP)[3] and total investment in prescribed assets trend in the insurance and pensions industry.

Figure 1. Quarterly Gross Domestic Product (GDP) and total investment in prescribed assets.



Investment in prescribed assets is expected to continue contributing positively to economic growth since it adds to the stock of capital available to an economy, which is a crucial determinant of productivity.

The current study found a correlation coefficient of 0.62 between the total investment in prescribed assets and real GDP, indicating a positive strong linear association between prescribed assets investment and real output.

Investing in Equities

Investment in quoted equities contributes towards stock market development by improving the liquidity of various intermediaries. Stock market development increases real output since it is a positive function of real income and wealth (Gurley and Shaw, 1960).

The insurance and pensions industry is heavily invested in equities, which enables it to hedge against inflation and preserve the value of policyholders' funds. As

[3] The quarterly real GDP was calculated using the Denton method (see appendix 1)

illustrated in Table 1, investments in equities in the insurance sector increased from ZW$4.69 billion as at 31 December 2019 to ZW$10.47 billion as at 31 December 2021, and equities investments in the pensions sector also increased from ZW$7.16 billion to ZW$169.22 billion in the same period.

Table 1 shows the trend for equities investments, equity to total market capitalisation ratio, and real Gross Domestic Product.

Table 1. Quarterly real GDP, Equity to total market capitalisation ratio, and total investment in equities (ZW$000)

Period	Q4/2019	Q4/2020	Q4/2021
Quarterly real GDP	365, 664	4, 077, 338	81, 334, 624
Insurance Investment in Equities	4, 692, 600	16, 763, 520	10, 465, 490
Pensions Investment in Equities	7, 163, 292	40, 789, 088	169, 218, 238
Total Industry Investment in Equities	11, 855, 892	57, 552, 609	179, 683, 728
Total Industry Equity Investments/Total Market Capitalisation ratio	40.2%	18.1%	13.6%

Table 1 shows that, as at 31 December 2021, the market value of the industry's equities investments was 13.6% of the total stock market capitalisation, 26.6 percent lower than 40.2% registered as at 31 December 2019. Although the equity investments increased in nominal terms, equity investments to stock market capitalisation proportions fell, indicating that in relative terms the exposure of the industry to the stock market decreased during the period under investigation.

From the model estimation, the degree of linear association between total investment in equities in the insurance and pensions industry and quarterly real

GDP was 0.89 (see Appendix 4). This indicates that there is a strong positive relationship between real output and investment in equities on the stock market.

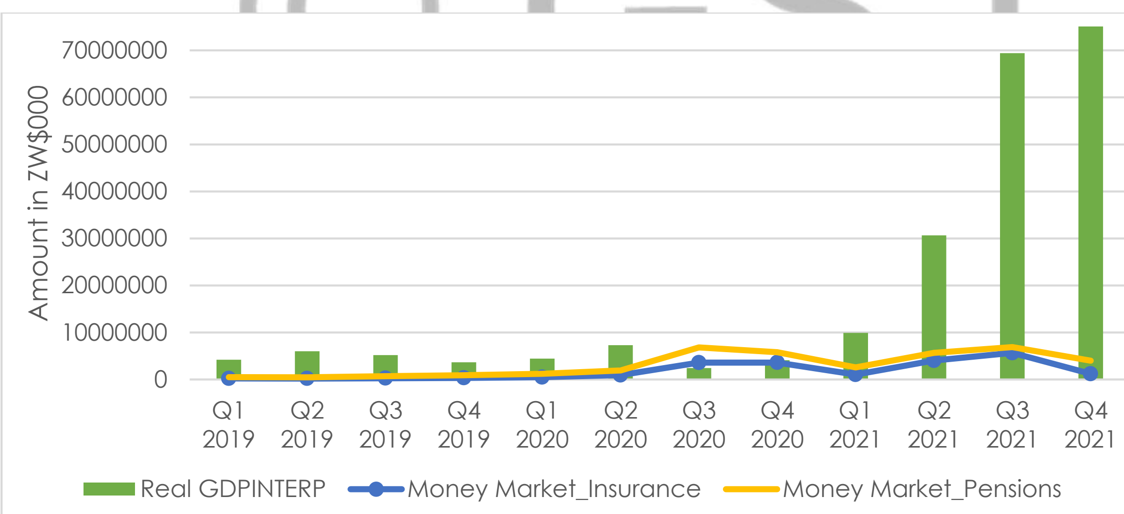
Investing in Money Market

The money market contributes to the economic stability and development of a country by providing short-term liquidity to governments, commercial banks, and other units of the economy, such as agriculture and small-scale industries. Thus, it provides financing to local and international traders who are in urgent need of short-term funds to pay for goods and services.

Figure 2 shows that the total money market investments from the insurance sector increased from ZW$324.09 million as at 31 December 2019 to ZW$2.49 billion as at 31 December 2021 while in the pensions sector, the investments increased from ZW$582.01 million to ZW$2. 81 billion in the same period.

Figure 2 shows the investments in the money market and real Gross Domestic Product trends.

Figure 2. Money market investment and real GDP profile



The correlation coefficient for the industry's total investment in the money market and quarterly real GDP was - 0.26, indicating a weak negative linear relationship between real GDP and total money market investment from the insurance and pensions industry.

Investing in Property

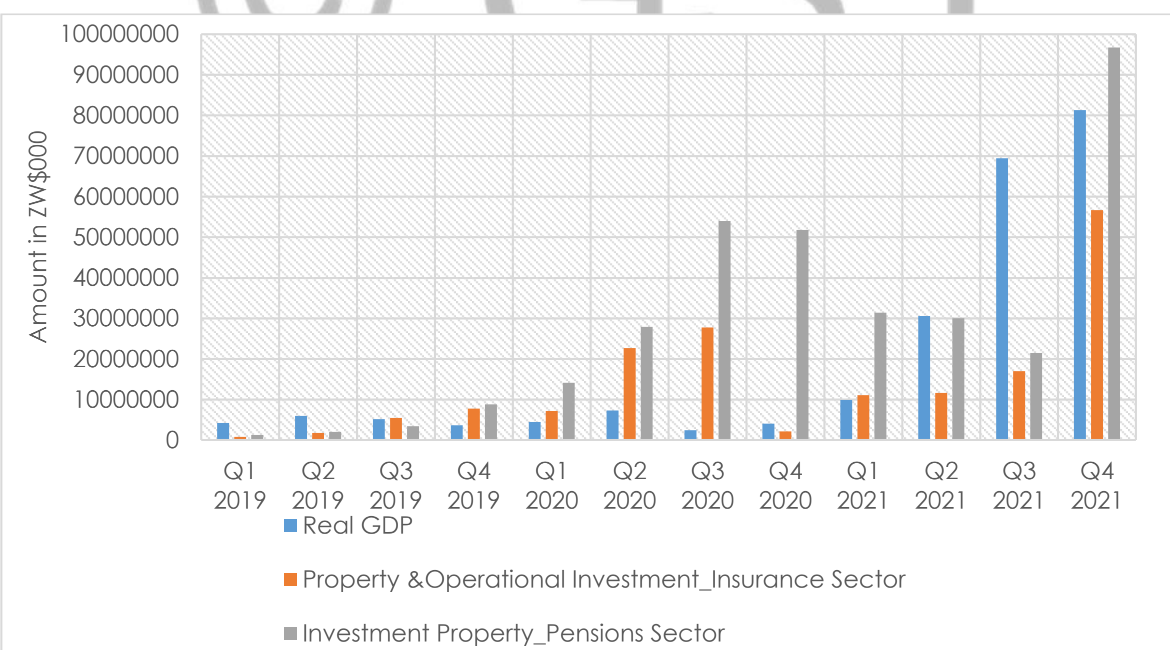
Property investment is one of the asset classes used by investors to diversify risks. The property value-addition activities such as the extension of buildings, and renovations stimulate the economy through the purchase of goods and services to be used for value addition purposes.

For pension funds, investment in the property asset class as at 31 December 2021 was ZW$96.7 billion, up by 544.09% from ZW$8.8 billion registered in the corresponding period in 2019 (Figure 3). In nominal terms, the insurance sector property and operational investments grew by 626.9% between 31 December 2019 and 31 December 2021[4].

However, it is imperative to note that the growth in property values is also driven by revaluation gains as opposed to new capital expenditures or new purchases.

Figure 3 shows insurance and pensions industry investments in property and quarterly real GDP covering the period 2019 to 2021.

Figure 3. The trends in property investment and real GDP from January 2019 to December 2021.



[4] The growth in property values is a combination of both revaluation gains and new capital expenditures.

The correlation coefficient for the industry's total investment in property and quarterly real GDP is - 0.11, indicating a weak negative relationship between real GDP and investment in property. In the period under investigation, investing in property was mainly for value preservation, so the opportunity cost of the funds invested was high.

Social protection

The insurance and pensions industry provides an efficient way to support the Government in the provision of pensions, healthcare, and social security.

Pension products contribute significantly to guaranteeing a stable and lifelong level of revenue limiting the impact of demographic change on the state budget. In addition, the payment of monthly pensions reduces the level of income inequality, which is a key constraint to economic growth.

The insurers are also managing other fields of social security such as compensation and rehabilitation following accidents at work. These products have a double economic impact, protecting workers from the economic consequences of accidents, and encouraging a healthy working population.

Microinsurance and micro-pensions are social protection tools that transform the economy by providing access to financial services, which can unlock new opportunities and increase the economic participation of previously marginalised population groups.

The micro-insurance and micro-pension schemes close the gap in the overall set of social protection systems that primarily affects the informally employed. Thus, the schemes safeguard population groups not covered by statutory social security; and provide security against risks not usually covered such as drought, animal diseases, earthquakes, and flood disasters.

Mobilization of foreign currency

Insurance companies pool resources through underwriting business in foreign currency. Premiums are also received from entities or individuals authorised to trade in foreign currency. The funds mobilized are channeled to the corporate and public sectors.

The foreign investments by Pension Funds generate foreign currency for the country through dividends repatriations from foreign corporations. The foreign currency can be used to finance capital projects locally, pay foreign-based pensioners, and settle local obligations. Recent amendments to legislation and issued investment guidelines are making it possible for pension funds to invest offshore; the level of foreign investments is therefore expected to improve.

However, at the moment, local insurance companies are not allowed to make offshore investments, and this may negatively affect the industry's ability to diversify sovereign risk and earn positive real returns.

Provision of risk mitigation products

Entities in the insurance sector develop unit-linked investment products which help individuals in building capital that can be deployed towards the productive sector.

Insurance companies also provide guarantees to financial institutions such as banks and microfinance institutions, to enable them to extend loans to Micro Small to Medium Enterprises that do not have collateral security thereby promoting financial inclusion. For instance, Export Credit Guarantee Corporation of Zimbabwe (ECGC) provides financial guarantees to financial institutions to enable companies to access loans for working capital and capital expenditure without the issue of collateral security being a limiting factor.

Whilst efforts of both micro and conventional insurance companies in designing inclusive products are evident, the country's insurance penetration rate remains relatively low at 3.6% as of December 2020. The low penetration rate is partly a result of the historical insurance model in Zimbabwe, which is concentrated in urban areas mainly focusing on the formally employed. Thus, the rural and informally employed population is excluded.

To promote insurance accessibility, affordability, and financial inclusion, the Commission developed a Microinsurance Regulatory Framework in 2017, that provides an avenue for informal insurance providers such as cooperatives, mutual societies, and burial societies not registered as microinsurers but self-insuring their members to:

i. partner with a licensed underwriter i.e. become an agent;
ii. form an insurance entity and register as a microinsurance, and
iii. have their members join an existing microinsurance entity.

There are products and services offered in the market that enhance risk mitigation, encourage investment, and improve productivity, such as weather-based insurance. Examples include the:

a) Ecofarmer product – offers weather index-based insurance to farmers under natural regions 1, 2, and 3. The Ecofarmer product helps to combat the effects of climate change without physically engaging the farmers. The Ecofarmer product also has a Combo package, which provides training in best farming practices, funeral insurance cover for individual farmers; and weather index insurance to cover maize crop failure for one season.
b) Old Mutual Life Assurance Company Weather Insurance Index Product - offers protection against drought and excess rainfall to smallholder farmers in three categories which are crop insurance, livestock insurance, and agri-assets insurance farm buildings, equipment, and machinery.

However, the public lacks trust in the insurance industry, due to its susceptibility to government policy shifts which affects the value of their policies. An example is the concern from industry stakeholders over the US dollar insurance policies and pension fund products on offer in the market, as to whether the benefits will be redeemable in US Dollars in the long term given the functional currency changes that took place in 2019.

Employment creation

The sector contributes to employment creation directly and indirectly through financing activities in other sectors of the economy which have downstream and upstream linkages. In 2019, direct employment in the insurance sector accounted for 0.2% of currently employed persons who are 15 years and above, with 52.1% male and 47.9% female. The proportion of employed persons who are 15 years and above involved in insurance activities stood at 0.4% as at 31 September 2021, indicating 0.2 percentage points higher than 0.2% recorded as at 31 December 2019[5].

Indirect employment opportunities are created through the provision of capital for various projects such as infrastructure development, agriculture as well as on-lending to Small to Medium Enterprises, which in turn have spillover effects to other sectors of the economy.

In addition, pension funds and insurance companies outsource various services which indirectly results in employment creation. Examples include asset management, real estate agents, information and communication technology services, broking services, independent audits, and actuarial services.

Employment opportunities generated by the industry promote economic growth through improved disposable incomes which provide purchasing power for goods and services. This increases the level of consumption in the economy.

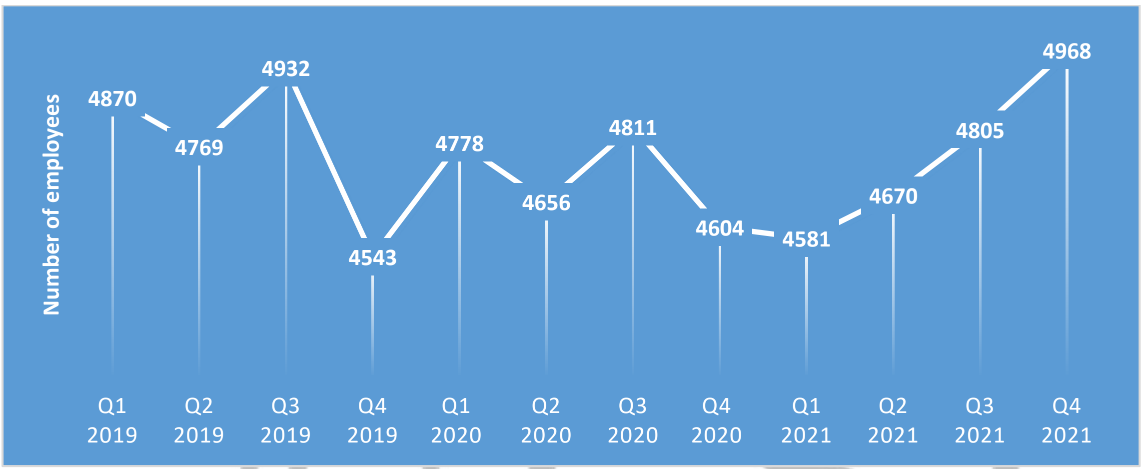
The insurance and pensions industry's contribution to national employment was adversely affected during the period under analysis owing to the Covid-19 pandemic. The industry adopted the new normal by transitioning to remote working and increasing the use of digital technology. Resultantly, as illustrated in Figure 4, the number of direct employees in the industry was fluctuating but on a downward trend. Between the first quarter of March 2019 and the first quarter of 2021, the number of employees decreased from 4,870 to 4,581 as the employers

[5] According to the 2019 and Third Quarter 2021 Labour Force Survey reports

streamlined their staff in response to the pandemic. Figure 4 shows a positive trend for total employment in the industry after the first quarter of 2021. The change in employment trajectory was generated by improved economic activity following the relaxation of Covid-19 restrictions owing to improved vaccination levels.

The trend for the number of employees in the industry is illustrated in Figure 4.

Figure 4. Total number of staff employed in the industry.



6. RESULTS AND ANALYSIS

The results of the model presented in Table 2 (see Appendix 3) are interpreted under this section. The variables of interest are total investments in prescribed assets, equities, money market, employment, and property. The control variables used include the inflation rate, exchange rate, and international remittance inflow. The control variables are not at the centre of analysis in this paper; they are briefly discussed for completeness' sake.

The results revealed that total investment in prescribed assets by entities in the insurance and pensions industry significantly affects economic growth in Zimbabwe. According to the results in Table 2, on average, investing ZW$1000 in prescribed assets contributes ZW$634 towards the real gross domestic product.

Equity investment also promotes growth in the country. A significant positive relationship was found between total equity investment and real output. The results show that, on average, equity investments of ZW$1000 increase real GDP by ZW$1150.

Employing an additional worker in the insurance and pensions industry increases real GDP by about ZW$233, 886. Employed workers are given salaries and wages which revive domestic demand for goods and services. In addition, the productivity of employed workers also contributes directly to real output.

The total investment in the money market coefficient was negative but insignificant. The negative relationship may be due to the fact that during the period under investigation, the interest rates were lower than the inflation rate. Thus, the real returns on money market investments were in the negative territory.

However, the negative sign on Investment in Property reflects institutions' dilemma of having to liquidate assets to comply with prescribed assets. The revaluation gains in properties dilute compliance ratios and this keeps recurring each time the pension funds rebalance their portfolios. Therefore, may keep disposing of assets to comply with prescribed assets requirements lowering the country's growth prospects.

As far as control variables are concerned for the period under analysis (2019-2021), the exchange rate is positively and significantly impacting the real output level while the inflation rate is insignificantly impacting economic growth, but the direction is negative. Moreover, international remittance inflows negatively impact the real GDP.

7. Study Recommendations

Expedition of law-making process: The Commission urges the Government to expedite the legislative processes of the Insurance Bill and the Pension bill. The envisaged legal reforms will strengthen IPEC's regulatory framework and help create a conducive business environment that for example, provides for companies to make offshore investments, thus, allowing the entities to invest mobilised resources in markets earning competitive rates of return.

Policy consistency: To restore confidence and build public trust in long-term insurance products that promote gross savings, we recommend the government issue unequivocal guarantees that the United States Dollar denominated policies that insurers are selling will remain as such into the future.

Stable macroeconomic environment: Government needs to create a stable operating environment characterized by a stable exchange rate and low inflation rates for the industry to effectively contribute to economic growth and employment creation.

8. Conclusions

In conclusion, the outcome of the investigation shows that the insurance and pensions industry contributes to sustainable economic growth by mobilizing resources that are invested in different classes of assets. Furthermore, the industry also creates both direct and indirect jobs in the economy.

Hence, this sectorial analysis of economic growth drivers provides a framework to identify strategic policy choices that ensures the sustainability of the insurance and pensions sector.

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APPENDICES

Appendix 1. Quarterlising the annual real GDP using the Denton Method

The annual real GDP data quarterlised using the proportional Denton Method in this paper was obtained from ZIMSTAT. However, the annual real GDP for 2021 was an estimate of ZWL$191,297.50 million presented in the 2022 National Budget Statement.

The proportional Denton method was used to benchmark Industrial Index (the quarterly indicator) to the corresponding annual real GDP. Thereafter, a Least Squares balancing procedure is done to reconcile one year at a time the benchmarked series obtained at the first step with the given annual and quarterly constraints of that year.

The quarterlisation process was done using the Stata command: denton real_gdp using Output1.dta, interp(industrialindex) from (Macro.dta) generate(gdpinterp)

The conversion process using the Denton method ensures that the sums of the estimates for the four quarters of the year should be equal to the annual estimates.

Source: IMF Quarterly National Accounts Manual, 2017 Edition, pp 86-119.

Appendix 2. Prescribed Assets Projects the Industry is Invested

Item	ISSUER	PURPOSE	AMOUNT	Currency
1	Agribank and FBC Agro Bills	Financing the 2019/20 Agricultural season	100 million	ZWL
2	Agribank and FBC Agro bills	Financing the 2019/20 Agricultural season	200 million	ZWL
3	Copper Meadows	Development of residential stand	400 million	ZWL
4	Datvest – Coutic Investments (Pvt) Ltd	To construct a specialist hospital	3.5 million	USD
5	Guruve Solar Park	Solar Energy Project in Dunavet, Guruve	4.75 million	USD
6	IDBZ	To finance priority infrastructure projects	2 billion	ZWL
7	IDBZ	To finance priority infrastructure projects	250 million	USD
8	IH Advisory/ Innscor Africa Limited	To purchase stock feed for Innscor and Colcom and to finance contract farming	100 million	ZWL

9	Mazvel Investments (Pvt) Ltd (IDBZ SPV)	Development of residential stands in Mt Pleasant, Harare	10.2 million	USD
10	Northern Farming/CICADA	To support contract farming for the 2020 winter wheat farming season.	150 million	ZWL
11	Untu Capital (Additional 40 million on prior amount)	Onward lending finance Micro, Small and Medium Enterprises.	40 million	ZWL
12	Whakiwe (Pvt) Ltd (IDBZ SPV)	Development of residential stands in Wilsgrove Park, Bulawayo	2.6 million	USD
13	Zimbabwe Electricity Industry Pension Fund	Development of a specialist hospital and specialist psychiatric rehabilitation centre in Harare	4.695 million	USD
14	Nurture BX Genetics	To purchase cattle, train farmers and breed improvement	Equivalent of up to 30 000 livestock units	USD
15	New Glovers (Pvt) Ltd	solar Energy Project in Munyati, Kwekwe	8.3 million	USD
16	Untu Capital (Additional 40 million on prior amount)	Onward lending finance Micro, Small and Medium Enterprises.	40 million	ZWL
17	ZimCampus Pvt Ltd	Developing student accommodation facility in Bulawayo	8.5 million	USD

Appendix 3: Table 2 The Impact of Industry contribution to real output regression results.

Dependent Variable: Real GDP **Explanatory Variables**	**Coefficients**
Total Investment in Prescribed Assets	0.634** (0.162)
Total Investment in Equity	1.150*** (0.0717)
International Remittances Inflow	-3.818** (1.105)
Total Investment in Money Market	-0.109 (0.177)
Total Investment in Property	-0.571* (0.206)
Inflation rate	-22,352 (11,679)

Exchange rate	1.391e+06*
	(449,756)
Employment	283,8661*
	(80,006)
Constant	-4.154e+08*
	(1.426e+08)
Observations	12
R-squared	0.995

Note: (a) Standard errors in parentheses, (b) ***; ** and * means statistically significant at 1%, 5% and 10% respectively.

Appendix 4. Pearson correlation coefficients

Variables	Real GDP
Real GDP	1.000
Prescribed assets Investments	0.62
Equity Investments	0.89
Money market investments	-0.26
Property Investments	-0.11