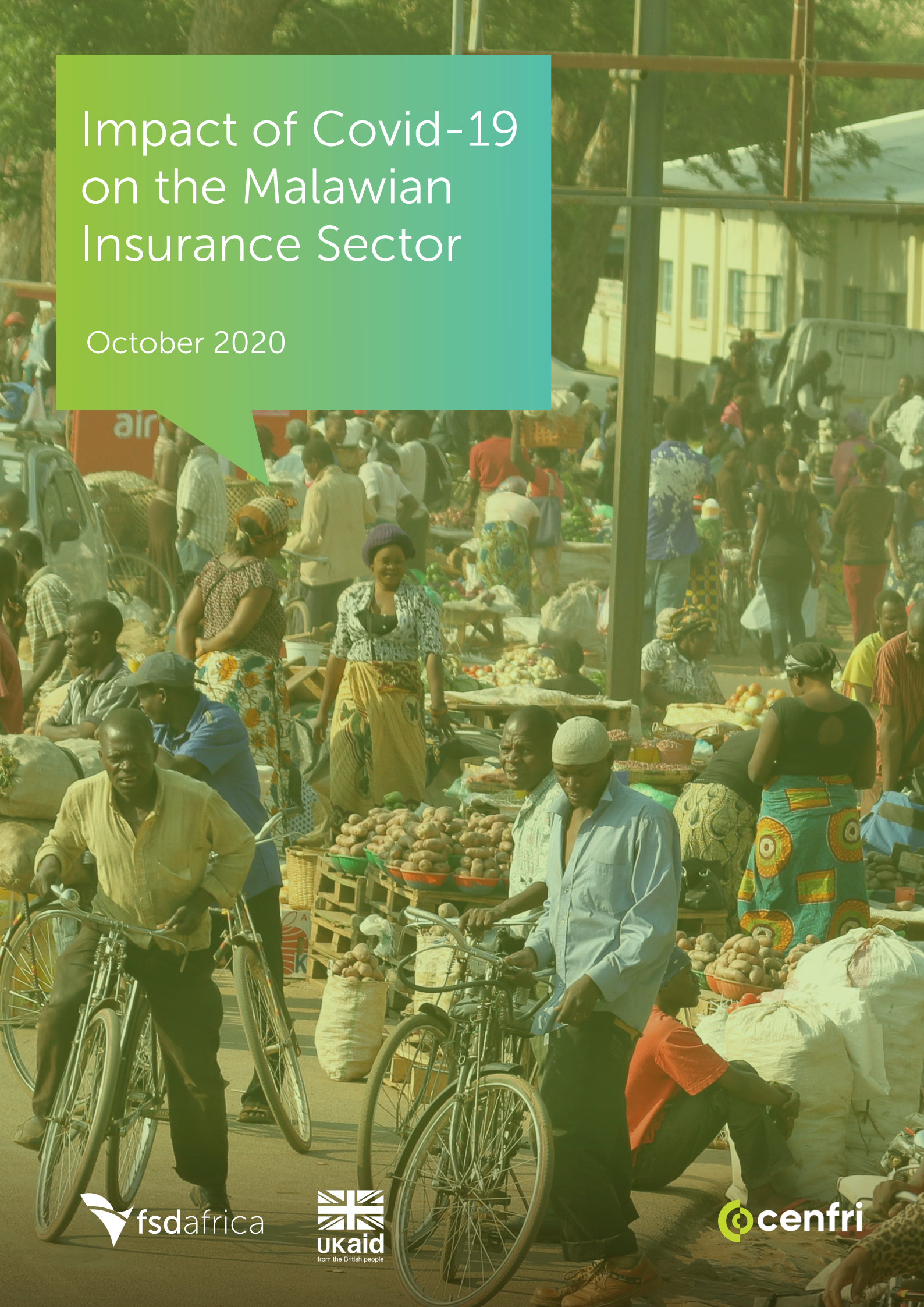


Impact of Covid-19 on the Malawian Insurance Sector

October 2020



COVID-19 Context

Timeline of government lockdown and restrictions

20 MAR

..... President Peter Mutharika declared a state of emergency due to the threat of Covid-19.

2 APR

..... Country's first three cases of Covid-19 were confirmed.

14 APR

..... 21-day lockdown to contain the spread of Covid-19, but essential services, which the insurance sector was classified as, were allowed to operate.

17 APR

..... The lockdown was suspended following a high court decision. All essential services were allowed to continue operations up to a certain capacity in the office at a time. All other businesses not classified as essential remained closed.

9 AUG

..... Stricter measures were put in place, requiring the wearing of face masks and banned the gathering of 10 people or more.

15 SEP

..... 5,700 confirmed cases of COVID-19, representing 0.03% of the total population. Only 178 deaths have been reported.

Sources: Worldometers (2020), BBC (2020), Mail and Guardian (2020)

Impact of COVID-19 on the insurance sector

While insurance was considered an essential service, insurers were only allowed to have a certain percentage of their employees in the office. Interviews indicated that between 30-50% of staff members remained in office. The Covid-19 pandemic and containment measures put in place had implications on insurers' business operations.

This section draws on interviews conducted with insurers and the regulator in May – June 2020 and survey responses from June 2020.

Changes adopted to enable remote work

- Provide staff members with laptops
- Provide staff members with internet connectivity
- Invest in systems to allow remote access to servers
- Upskill own staff members to use the remote infrastructure
- Finding new ways to communicate with brokers and agents

Impact on operations

Insurance value chain



Sales

Impact:

- Sales stagnated as insurers are heavily reliant on physical sales through brokers and agents
- Consumers hesitant to engage with agents, brokers and insurers remotely

Response:

- Investing in systems to enable the digitization of the sales process
- Creation of agent and broker web portals
- Accepting digital signatures, in instances which physical signatures used to be required



Premium collection

Impact:

- Increased inability of customers to pay, resulting in lapses and reductions in risk coverage for businesses
- Inability of customers to pay large annual premiums

Response:

- Premium holidays offered on case-by-case basis
- Allowing large, annual premiums to be paid in installments



Servicing

Impact:

- Skeleton staff at office so digital engagement with customers required
- Increased proactive communication with clients

Response:

- Investing in and utilising digital communication channels such as whatsapp and email
- Training of staff members on how to use these channels of communication



Claims submissions and processing

Impact:

- Reductions in motor claims due to restrictions on movement
- Rise in pension and annuity withdraws
- Sharp rise in liability and accident claims (possibly a lagged effect)

Response:

- Investments in digitising the claims process through creating web portals
- Accepting digital signatures, in instances which physical signatures used to be required
- Claims being paid through digital means such as to bank account or mobile money accounts

Impact of COVID-19 on financial positions

Covid-19 has put additional pressure on insurers' financial positions, resulting in:



Increase in:

- Operational expenses due to increased investments in the digitisation of existing infrastructure
- Liability values in the medium term due to early withdrawals of pension and annuity products



Decrease in:

- Premium income due to reduced sales and increased lapses
- Investment returns due to ensuing economic crisis

Operational expenses prior to COVID-19:



Expense ratio

Life **13%** Non-life **36%**¹



Combined ratio

Life **N/A** Non-life **99%**



Claims ratio

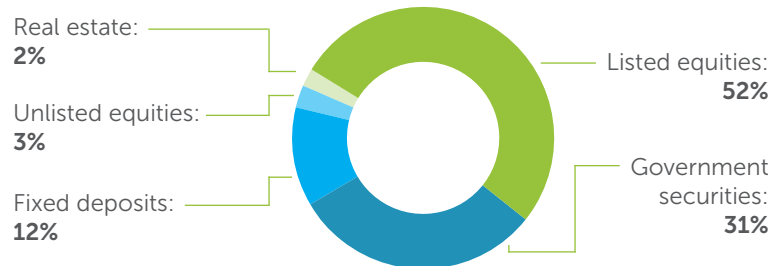
Life **36%** Non-life **59%**

Source: Reserve Bank of Malawi Annual Report (2019)

¹ This refers to the management expense ratio

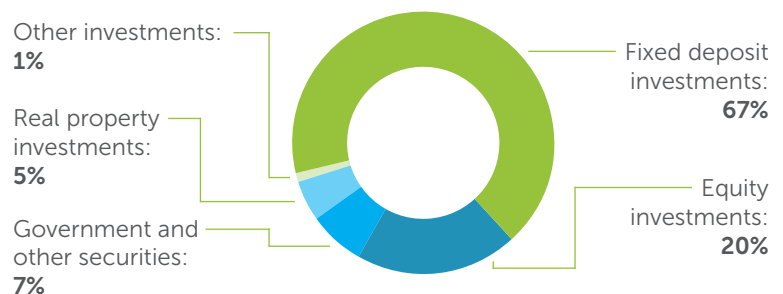
Insurers' investment assets prior to Covid-19

Breakdown of investment assets in Malawian life insurance market



Source: Reserve Bank of Malawi Annual Report (2019)

Breakdown of investment assets in Malawian non-life insurance market



Source: Reserve Bank of Malawi Annual Report (2019)

Impact of COVID-19 on the regulator

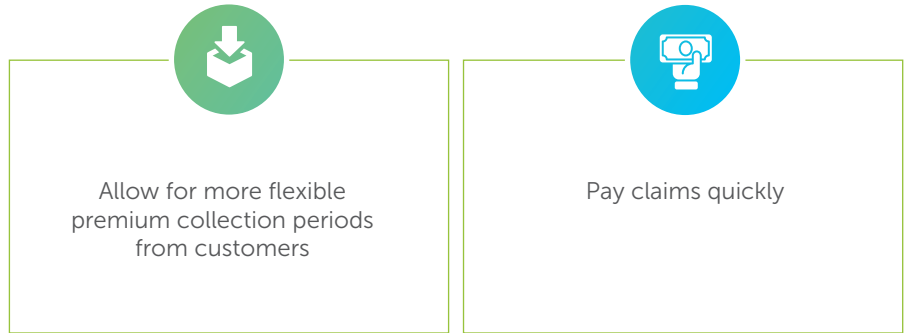
Regulatory response

As of 15 September 2020, the Reserve Bank of Malawi (RBM) had not yet issued a circular to insurance industry.

Since the national state of disaster was declared, the RBM has:



The RBM has requested that insurers:



Challenges and opportunities

Insurers

Challenges:

- Pressure on balance sheets from reduced premium incomes and decreased investment incomes raises liquidity and solvency challenges
- High cost of internet makes engaging with customer digitally challenging from both the insurer and consumer point of view. This is also a major challenge the RBM faces
- Initial hesitancy of consumers to engage insurers remotely
- Reduced disposable income of consumers
- Lack of clarity and guidance from the RBM is creating uncertainty in the insurance industry

Opportunities:

- Increased demand for products critical illness, hospital indemnity and income protection
- Room for innovation in terms of both how products are distributed, but also in how they are designed
- Fast tracking the digitalisation of the insurance value chain, resulting in more efficient operations
- Capacitate brokers and agents with the skills and technology to sell remotely

Sectors most heavily impacted by Covid-19

Preliminary assessments from IFPRI indicate that social distancing measures will have long-term negative impacts on the Malawian economy, particularly:



Services sector

Estimated GDP loss of US\$155 million

- Hotel and restaurants (accounting for 26% of estimated loss)
- Wholesale retail trade (accounting for 16% of estimated loss)



Industry sector

Estimated GDP loss of US\$48 million

Source: IFPRI (2020)

Annexure

Pre-COVID-19 starting point

Overview of insurance sector:

The Reserve Bank of Malawi (RBM) regulates the insurance industry in Malawi



Source: Reserve Bank of Malawi Annual Report (2019)

	Number of insurers	Gross written premiums (MK billion)	% GWP
Industry	13	90.4	--
Life	5	35.8	40%
Non-life	8	54.6	60%

Source: Reserve Bank of Malawi Annual report (2019)

Split between product line for life insurer (% GWP per product line)	Annuity	30%
	Individual life business	33%
	Group risk	37%
Split between product line for non-life insurer (% GWP per product line)	Fire	17%
	Motor	57%
	Personal accident	9%
	Miscellaneous	17%

Main distribution channels:

Brokers
Agents
Direct sales

Source: Stakeholder interviews (2020)



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