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Insurer's Profitability: A Study of Tanzania Insurance Industry

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ABSTRACT

Insurance is an instrument of security, savings and peace of mind. There is remarkable prospective for growth in the insurance industry because of diversity and depth of the market. Profitability of insurance companies were further eroded due to losses on investments in volatile capital markets and higher cost of guarantees as well as lower revenues from administration fees. General insurance business in Tanzania experienced a growth of 11. 76% in gross premium income from Tsh.410.7bn/- to Tsh. 459bn/ during the nine month period in 2015 and 2016 respectively. The insurer's investment portfolio was in favour of term deposits and government securities to shares in the equity market and remained by profitable supported by underwriting income. Total investments increased by 10.61% , the largest share of insurer's investment assets comprised of bank deposits(49.16%), followed by government securities (18.79%), real estate(16.42%), shares (9.2%), and other monetary investments (0.96%). Insurance sector remained profitable supported by underwriting income. Return on income for general insurers were 8.3%.

Keywords: Insurance, life insurance, non life insurance, Profitability.

INTRODUCTION:

Economic growth trends are strong in East Africa. Although Tanzania economy is improving there are still challenges in terms of widespread poverty and limited average household income rates. The main objective of the Insurance sector is to provide financial stability to individuals, organizations and businesses. The Insurance sector is closely linked with macro economic factors, regulation and supervision, and the achievement of national development objectives, as well as the International trade regime. The Tanzanian Insurance industry was liberalized in 1996 with six private insurance firms. Insurance firms were required to meet share capital solvency and margin requirements and must also hold a certain percentage of their assets in specified investment notes (Gumbo 2007). According to Patrick (1966) there are two possibly coexisting, relationship between financial sector and economic growth. Developing countries have supply leading patterns of causality of development and have considered locally incorporated insurance institutions or state owned monopolies an essential element of economic development. With only 10% market share, life insurance in Tanzania is at the early stage of development. Market penetration (0.1%) and density (USD0.6) are particularly low in life segment. (BMI Report- 2016). Tanzania's non life insurance segment is considerable larger and developed. Insurers are seizing up the rapid growth in mobile network by partnering with raising telecom players to provide low cost basis cover policies.

REVIEW OF LITERATURE:

Anoop Rai (1996) studies Cost efficiency of International Insurance companies in eleven different countries and found that insurance firms in Finland and France have the lowest inefficiency while the firms in UK have the highest on average, small insurance firms are more cost efficient than large firms worldwide.
Hao (2007) in his article Efficiency test on Taiwan life insurance industry using X efficiency Approach investigated the cost efficiency of 26 life insurance firms in Taiwan and reveal that larger market share reduced

inefficiency , hence increased profitability. It is proved that there is a relationship between efficiency and profitability of life insurance holding in the market.

Hifza Malik (2011) found that there is no relationship between the profitability and age of the insurance companies and a positive relationship between size of the company and profitability.

Jeng & Lai (2005) investigated on Ownership structure; agency cost specialization and efficiency in Japan and found that Non speciliased independent firms to be less successful than non life insurance industry firms.

K liumpes (2004) in his paper Performance benchmarking in financial services evidence from the UK life insurance industry investigated 40 life insurance companies and the results indicate that no evidence that mutual form has higher cost inefficiencies than stock firms.

Hwang and Gao (2003) investigated the determinants of the demand for Life Insurance in an Emerging Economy with a Case of China. They found that certain cultures led to lower uptake of life insurance whereas urbanization which leads to diffusion of cultures was related to more uptake of insurance.

Park, Lemaire and Chua (2010) studied challenges insurance penetration in Arab countries and found that Moslem religion led to lower uptake of insurance.

Chui and Kwok (2009) studied culture and its effect on insurance consumption. They found that culture has an effect on insurance consumption.

OBJECTIVE OF STUDY:

To analyze the profitability of insurance companies in Tanzania.

METHODOLOGY:

Study: the present study is conceptual in nature. It aims at providing an insight at the prospects of economic growth of the leading insurance companies.

Data collection: Secondary data has been used for the purpose of the study that includes various journals, websites, and articles.

Analysis: Percentage method used for data analysis.

FINDINGS AND DISCUSSION:

Alliance Insurance Corporation:

Alliance Insurance Corporation Ltd was incorporated on 24th of January, 1996 under the Companies Ordinance act (Cap 212). The company was granted a certificate of registration as an insurer on the 23rd of July, 1998 and began trading in the month of November, 1998. The company also obtained a certificate of incentives in accordance with the provisions of section 17 of the Tanzania Investment act 1997 operative 1st of July, 1999.

Financials: Strong net worth of TZS 36.79 billion as at 31.12.2015 and delivering uninterrupted profits year after year.

Rating: Rated ‘AA-(TZS)’ by Global Rating Company for sound financials & claims paying ability.

Composite Insurer: Offering the complete range of Life &non-Life products under one roof.

Profitability ratios are a class of financial metrics that are used to assess a business ability to generate earnings compared to its expenses and other relevant cost incurred during a specific period of time. For the most of these ratios, having a higher value relative to a competitor’s ratio or relative to the same ratio from a previous period indicates the company is doing well.

Ratio calculation on Alliance Insurance company limited through return on equity(RO)E, return on asset (ROA), Debt to Equity ratio, Gross profit, Net Profit Margin, Operating return on Total asset, Asset turnover;

Table 1: Ratio’s of Alliance Insurance Company.

Financial Ratio	2012	2013	2014	2015	2016
ROA	9.7%	9.7%	9.65%	9.6%	(29%)
ROE	11.9%	12.70%	12.86%	13.51%	(36.6%)
Debt to equity	36.05%	38.1%	37%	37.1%	40%
Current Ratio	1.68	1.70	1.71	1.65	1.68
Net profit Ratio	11.6%	11.8%	12%	12.5%	(37%)

Source: Data from Financial statements (2017)

Mo Assurance Company:
MO Assurance Company (MOA) which started its journey as Golden Crescent Assurance is the first step into the Financial Services sector by the promoters of METL (Mohammed Enterprises Tanzania Limited) Group of Companies. METL is a household name in Tanzania, whose products are popular in every Tanzanian home and which contributes to nearly 3% of GDP of the country.
The Company started Operations on 1st March 2007 and has established itself as a stable and growing non-life insurer in the market with a healthy portfolio mix and notable presence in the micro insurance segment. MOA has pioneered the foray into mobile insurance scene with unique micro life and micro health insurance schemes. Presently under MOA's micro insurance umbrella more than 600,000 people are covered**.** We had also ventured in to Agriculture Insurance through weather index insurance schemes for farmers. The focus of the Company is to provide affordable insurance coverage to maximum number of people. MOA's aim is to position itself as **"**People's Insurance Company".
Mo Assurance deals in over 20 types of general insurance products. Mo Assurance provides grassroots micro insurance developed and introduced in Tanzania with the support of partners, including Micro Ensure. Micro Ensure is the distribution wing of the ILO's previous Micro Insurance Agency. Mo Assurance offers micro life and micro health insurance schemes, as well as agriculture insurance through weather index insurance schemes for farmers.
Jubilee Insurance: Is one of the insurance companies listed in DAR-ES-SALAAM stock of exchange?

Table 2: Financial ratios of Jubilee Insurance.

Financial Ratio	2012	2013	2014	2015	2016
ROA	12.56%	32.6%	40%	80%	27.2%
ROE	34%	12.70%	70%	41%	32%
Debt to equity	36.05%	39.2%	30%	4%	40%
Current Ratio	1.68%	1.70%	1.50%	1.65	1.68%
Net profit Ratio	21.43%	12.45%	15%	15%	65%

Source: Financial Statements of Jubilee Insurance Company (2017)

Bumaco Insurance Company Ltd:
In early 1980 the shareholders of BUMACO, a private firm of Business Management Consultants, conceived an idea of providing Insurance services to its clients as an added value to its core. Bumaco Insurance agency was established. In 1999 the agency was transformed to a broker. In 2008, Bumaco Insurance Brokers gave way to a fully-fledged Insurance Company, a fast moving Insurance provider of all the time.
With over 30 years' experience in Insurance, Bumaco Insurance Company Ltd is duly registered, with 100% of its equity in Tanzania. The company exists to provide non-life insurance services with certainty. The company deals with the following companies.
Motor Third Party, Bonds (Financial Guarantee), Fidelity Guarantee, Money Insurance, All Risks, Employers Liability, Electronic Equipment, Theft/ Burglary
Third Party Fire & Theft, Professional Indemnity, Ziada Auto, Ziada Personal Accident,, Ziada Domestic Package, Personal Accident

Table 3: Ratio's of Bumaco Insurance.

Financial Ratio	2012	2013	2014	2015	2016
ROA	6.32%	7.6%	7.56%	8.1%	6.3%
ROE	23.45%	22.70%	20%	20.8%	17.45%
Debt to equity	12.05%	49.2%	40%	51%	37.40%
Current Ratio	18%	12.10%	16.0%	1.65	16.58%
Net profit Ratio	21.43%	22.5%	23%	25.1%	20%

Source: Financial statements of Bumaco Insurance (2017).

Reliance Insurance Company Limited:
Reliance Insurance Company (T) Limited was promoted in 1998 in the light of the opportunities offered by the privatization of the insurance industry. Local businessmen of repute joined hands with Pan Africa Insurance Company Limited of Nairobi, Kenya to infuse the envisaged initial paid - up capital of T.Shs.600 million. APA Insurance Limited acquired the shares consequent to merger of Pan African Insurance and Apollo Insurance.

The company was among the first few companies licensed in 1998 and started operation October 1998. The company has been making steady progress and has built a strong financial base and reputation for strong customer oriented culture. The shareholding in the company is as under:

APA Insurance Limited:	34.00%
Tanzanians:	33.33%
Other foreign investors:	32.67%

One of the leading private non-life insurers in Tanzania offering wide range of products to cover all kinds of property and liability risk exposures like Fire, General Crime and Accident, Motor Vehicles, Cargo etc. Committed to excellence in customer service and Corporate Good Governance.

Return on Equity (ROE) is the amount the net income returned as a percentage of shareholder equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. From the above financial analysis ROE has high value in year 2009 compare to year 2010.Increase in ROE may be due to increase in idle cash or lower taxes and etc.

Return on Asset (ROA) is an indicator of how profitable a company is relative to its total asset. It gives an ideal as to how efficient management is at using its Asset to generate the earning. The Asset of the company comprised of both debt and equity. The ROA figure gives the investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number, the better, because the company is earning more money on less investment. From our financial Analysis year 2009 has high ROA figure than year 2010.

Debt to equity it shows the proportion of equity and debt a firm is using to finance its asset and the extent to which shareholder equity can fulfill obligation to creditor in the event of business decline. Lower debt to equity ratio indicates lower risk since the debt holders have fewer claims on the company's asset. From the above financial analysis year 2009 has high debt to equity ratio compare to year 2010.

Zanzibar Insuarance Cooperation:

Zanzibar insurance cooperation was established on the 20 June 1969 under the public enterprises Decree of 1966 legal notice no; 11 of 1969.the cooperation is a parastatal organization owned by the revolution government of Zanzibar through the minister of finance and economic affairs. Zanzibar insurance cooperation is a composite insurance company that always provide fair and equitable service which is reasonable to all policy holders .the cooperation operates its business through its head office in Zanzibar and its branches of chackechacke in Pemba and dare s salaam, Mwanza, Arusha, Mbeya and Dodoma I Tanzania mainland

The company posted an underwriting profit of TZs 3,754.9 million in 2015 compared to a profit of TZS 2,115.6 million during the previous year. After taking into account investment income and other income, the result was a pretax profit of TZS 6,068.5 million compared to a pretax profit of TZS5, 239.5 million in previous year. Meanwhile the insurers' net assets increased to TZS 47803.9 million at the end of 2015 compared to TZS 41588.2 million at the previous year end.

The management has good control over the expenses since the percentage change of expenses has decrease from 96% in 2014 to 93% in the year 2015

Table 4: Insurer's Profitability: Market Top Performers.

Particulars	Amount (TZS)(bn/-)
Underwriting Profits	3.44
NIC	3.28
Alliance Insurance	2.6
Jubilee Insurance	1.95
Insurance Group	1.47
Underwriting losses	--
Metropolitan Tanzania	4.47
Britam Insurance	2.13
AAR Insurance	1.18
Net Income	--
Alliance Insurance	4.95
Reliance Insurance	4.28

Particulars	Amount (TZS)(bn/-)
NIC	3.62
Jubilee Insurance	2.72
Strategies Insurance	1.82
AAR Insurance	1.78

Source: The Banker – Financial Guide April 2017.

CONCLUSION:

TIRA figures show that total volume of business, in terms of gross premium written for both general and life insurance businesses increased by 12.03%from about 460.9bn/- at the end of the third quarter in 2015 to about 516.4bn/-. At the end of September 2016. Insurance sector remained profitable.

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