An investigation into the effectiveness of risk mitigation strategies adopted by long term insurers in post dollarization Zimbabwe

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DEDICATION

I would like to dedicate this project to my family with particular mention to my wife, Mercy and sisters, Edeline and Nyembezi who went the extra mile and covered up for my shortcomings as I strived to complete the work. To the rest of family and friends I would like to say, a BIG thank you all for putting up with me. Above all I would like to thank the Lord Almighty who made it all possible even in the face of seemingly insurmountable obstacles.
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For all your contributions I say thank you all and I am certainly all the better for it.
DECLARATION

I, NICKSON BUSU, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the acknowledgements, references, and by comments included in the body of the report, and that this dissertation is therefore my original work and has not been presented in part or in full for any other degree in any other University.

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ABSTRACT

The local life assurance industry is a major player in the financial sector and has funds under its management which arguably rival any other single sector in the economy. Events in 2008-9 saw substantial loss of policyholder funds as a result of dollarization when the erstwhile currency of the day, the Zimbabwean dollar was dumped. That such huge losses occurred under the watch of sector players and the regulators raises questions about the sector’s preparedness to meet the myriad of risks that are part and parcel of today’s complex business environment. The study therefore aims to investigate the effectiveness of risk mitigation strategies being used in the long term insurance sector following dollarization in January, 2009. Other objectives include finding out if there are any regulatory issues that need to be addressed to improve viability of the sector.

To accomplish these objectives the study targeted the 10 life assurance companies that serve the market with a view to conduct in-depth interviews with at least two officials from each of the companies targeted.

The study established that whereas there were risk management frameworks used in the sector these largely fell behind in terms of current best practice. Additionally it was found that there are issues to do with both regulation and self-regulation by industry practitioners themselves that need to be tackled to take the industry forward.

Finally the study recommended that the industry move forward by embracing ERM frameworks in line with global trends in risk management. Regulators as well were called to complement self-regulation efforts through enacting various supporting legislation. The study then identified the need to conduct in depth case studies at individual player level as an area of further study. Such studies should yield blueprints which should then be used to take the industry forward.
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List of Acronyms

BSC.........................Balanced Scorecard
COSO.........................Committee of Sponsoring Organizations
ERM.........................Enterprise Risk Management
ERS.........................Enterprise Risk Scorecard
GDP.........................Gross Domestic Product
GFC..........................Global Financial Crisis
IIZ............................Insurance Institute of Zimbabwe
LOA............................Life Offices Association of Zimbabwe
IPEC..........................Insurance & Pensions Commission
OECD..........................Organization for Economic Co-operation & Development
USD..........................United States Dollar
UZ, GSM.......................University of Zimbabwe, Graduate School of Management
CHAPTER 1
INTRODUCTION

1.0 Introduction

This chapter sets the scene for the research as it introduces the topic. It provides a brief background to the study itself as well as the industry in which the study was conducted.

Further the statement of the problem is given, followed by the study objectives and study questions. It then goes on to give Proposition Statements which are the starting premise of the study before concluding with the study scope.

1.1 Background to the Study

In a much narrower sense, the term dollarization refers to a situation where a country adopts the US dollar as legal tender. However, in its broadest sense, dollarization is a generic term used to characterize countries that use foreign currencies for their financial transactions – the foreign currency does not need to be the US dollar (Minda, 2005). Whereas the narrow meaning would most likely have been the original meaning, the term has evolved over time and gravitated towards the broader definition. Until recently, Panama, which has used the dollar as its official currency since 1904, has been the only significantly sized country that has opted for official dollarization (ibid).

Ponsot (2003), as cited by Minda (2005) uses two distinct criteria to differentiate between the different forms of dollarization namely:

a) the degree to which a foreign currency is used in an economy and
b) the extent to which the arrangement becomes official.

Using these two criteria to differentiate, we can then make further distinctions between partial and complete dollarization using criterion a) and between de facto and de jure dollarization using criterion b).

Different authors ascribe different meaning and interpretation to the term dollarization. Some choose to call it, just simply, adoption of multi-currencies. The adoption of the use of foreign
currency in Zimbabwe, which started in January 2009, has been termed dollarization by some yet others choose to simply call it use of multi-currencies. This study adopts the broad definition of dollarization by Minda (2005).

Following a decade of inflation that peaked with hyperinflation reportedly around 231 million percent (Hanke and Kwok, 2009) in 2008, the official Zimbabwean currency collapsed. In its place, the USD and the South African Rand became the widely accepted currencies of choice. The authorities intervened in January 2009 just to ratify the de facto dollarization that had taken place simply to make the arrangement official. Unfortunately the country lacked the financial resources to embark on a proper process of dollarization that would include official demonetization of the Zimbabwean dollar. Government lacked the resources to simply convert monetary balances and financial assets to the new currency using an equitable exchange rate. Monetary balances and paper assets denominated in the old currency, the Zimbabwean dollar were simply wiped out as the erstwhile currency has not been officially demonetized. In the long term insurance sector, insurers used unofficial exchange rates which they used to convert insurance contract values to the new currency. Mostly the values yielded were paltry and in many cases amounted to zero. The country lacked the resources (in foreign exchange and reserves), to convert Zimbabwe dollar denominated balances and paper assets to the new currency (F Murambiwa, 2013). Understandably there is widespread disgruntlement among Zimbabwe dollar policyholders that they were short-changed and confidence in the sector has plummeted.

While the value loss can be quite simply explained through inflation, questions arise as to how players in the sector, and indeed legislators were simply unable, at best to prevent or at worst minimize the financial losses that occurred when the currency was converted. Yet conceptually, the risk of inflation is quite easy to comprehend and deal with for a financial institution. Many wonder then how the entire industry, including big players in the sector such as Old Mutual and First Mutual were unable to mitigate against this simple risk of inflation? This research therefore seeks to find out the extent to which the industry and sector at large is prepared for the myriad of risks that confront the industry on a day to day basis?
This is not the first time that inflation, and the resultant value erosion of financial assets has wreaked havoc on investors: Coomer and Gstraunthaler (2011) drew several parallels between the on-set of hyperinflation in Zimbabwe with the pattern of hyperinflation in post World War Germany in 1920-23. It was also reckoned by Burdekin and Burkett (1992, 479-495) that-following hyperinflation in Germany; “the social insurance contributions of years amounted in the end to no insurance whatsoever; the public purse in 1923 was paying them at rates which ranged upwards from the insulting to the disgraceful; and their numbers, excluding the unemployed, were reckoned at the end of the year at more than 5,600,000”. Maier (1975), concerning the same German episode, states that revaluation pressure groups – encompassing both pensioners and other holders of former paper assets – were still actively campaigning as late as 1926. Indeed fast forward to Zimbabwe in 2015 and policyholders and pressure groups such as The Zimbabwe Pensions and Insurance Rights Trust (ZimPIRT) are still clamoring for justice, some five years after currency conversion and revaluation of their assets, albeit with very doubtful prospects of success.(info@oldmutualhypocrisy.com /accessed 28 January, 2015).

While there is scant evidence of similar episodes in recent history from the wider world, Zimbabwe’s experience opens the door to questions about the state of preparedness of Zimbabwean insurers to the myriad of risks that they confront in today’s complex world! There is no evidence of a similar study having been conducted elsewhere and certainly not in Zimbabwe and to this extent, the study aims to be ground breaking.

This study therefore aims to investigate the effectiveness of risk mitigation strategies used across the long term insurance industry in Zimbabwe in the backdrop of the hyperinflation which culminated in the demise of the erstwhile currency of the day (Zimbabwe Dollar) in 2008.

1.1.2 Industry Background
Hundreds of thousands of policyholders lost significant investments and savings, most of them painstakingly accumulated over entire lifetimes. In essence those approaching retirement were driven to penury while the younger savers had to start rebuilding their portfolios from scratch.
This is confirmed by previous studies as anecdotal accounts suggest that hyperinflations leave a long-lasting mark in people’s memories of the hardships introduced by run-away inflation (Guerrero, 2006). The Zimbabwean experience was utter devastation of livelihoods on a widespread scale.

This is a serious indictment to the sector and the country which boasts one of the highest literacy levels on the continent. Consequently confidence in the sector plummeted and the prevailing market view is that insurance companies, as custodians of policyholder funds fleeced policyholders, to put it bluntly, while the regulator literally slept on the wheel. It is understandably proving difficult to sell long term products as investors are wary of falling into the same pitfalls described above. Understandably, investors now take a short term view of investments. The picture points to a gradual demise of the long term insurance industry.

But the truth of the matter is that insurance plays a vital role in any functional economy. The very long term nature of insurance allows the sector to bankroll economic development initiatives that spur economic growth. In relatively more developed South Africa, the assets of Insurance companies and pension funds constituted well over 80% of the country’s GDP (Munro and Snyman, 1994) making the insurance sector the biggest driver of growth.

A typical vehicle used to accomplish this function is the so-called prescribed assets regulation which in Zimbabwe, prior to dollarization, required long term insurers to place a minimum of 35% of their investments in government and quasi government stock (Pensions and Provident Funds Act). Presently while this requirement still holds on paper, its enforcement has been hampered only by the absence of viable government paper such as Treasury and Municipal bonds and other gilt-edged stocks. However, if truth be told, the country and the economy need the sector to survive in as much as the sector needs a functional economy to thrive. Studies conducted across 27 economies over a ten year period led to the conclusion that, insurance development contributes to economic growth and that this relationship is much more stronger, in the case of developing economies (Han, Li, Moshirian and Tian, 2010).
Further, long term investments have been described as playing a more active role in the financing of long-term, productive activities that support sustainable growth, such as cleaner energy, infrastructure projects, and venture capital. (Croce, Stewart and Yermo, 2011).

To put all this in perspective, in an article in the Zimbabwe Independent of 15 August, 2014, Sanderson Abel – an economist writing with the Bankers Association of Zimbabwe bemoans the “consequences of low national savings” on the Zimbabwean economy in an article so headed. The author correctly observes that since charity begins at home, Zimbabweans need to cultivate a culture of saving if at all the economic downturn is to be overcome.

In all fairness, the revival of the long term insurance sector has been at best sluggish post the hyperinflationary period as shown by half yearly IPEC industry updates. Presumably this has been in part due to the poor performance of the economy which has translated into low disposal incomes across all sectors of the economy. But it is also contended in the market that a major contributory factor is the lack of confidence in the sector following the value losses associated with the advent of dollarization in January 2009.

However, with insurance being a fundamental pillar of any viable economy, it is vitally important that the sector be revived if Zimbabwe is to cherish any hope of restoring its economy to its former glory. Confidence needs to be rebuilt and to do so safeguards need to be put in place to restore the guarantees that are the premise upon which the insurance product is based. Players need to rebuild the trust they broke with the markets. For the sector the clarion call should be, never again shall the financial ruin visited upon policyholders be allowed to happen under our watch! Opinion in the insurance fraternity itself is inclined towards reform and the industry has resolved to work with government to bring about reforms in the sector. While citing the immediate past president of the Insurance Institute of Zimbabwe (IIZ) – DrChomiMakina, the Zimbabwe Broadcasting Corporation reported on 11 November, 2014 that, “proposed legislation seeks to align the current legislation with international best practice……we shall do our best”.

5
At the time of writing, a draft amendment to the Insurance Act, couched as Pension and Provident Funds Bill, 2013 is under consideration. It seeks, among other issues, to repeal the Pension and Provident Fund Act: 24; 09. In this context the research aims to add to an ongoing debate and contribute through generating possible solutions to avert, in the future the kind of debacle that led to value erosion of insurance policies and other forms of paper assets.

1.1.2.1 Regulatory Framework

In Zimbabwe Life assurance companies are regulated by the Companies Act: Chapter 24; 03 the Insurance Act: Chapter 24; 07 and The Pension and Provident Funds Act, as amended in 2006. Sectorally insurance players come under the supervision of the Insurance and Pensions Commission (IPEC), under the auspices of the Ministry of Finance. This body is mandated to do the following:

1. Register, regulate and monitor insurance industry players
2. Register, regulate and monitor pension industry players
3. Monitor and ensure compliance of (a) and (b) above to set standards as per the relevant Acts.
4. To provide information to the public as well as, encourage and promote investment in insurance, pension and provident funds.
5. To advise the Minister on matters relating to insurance, pensions and provident funds.
6. To perform any other functions permissible in the Act.

This study however only focuses on the long term players commonly referred to as life assurers. Specifically IPEC collates returns at least twice annually on the solvency and viability of insurance companies (IPEC June 2014 Report). If anyone is to raise alarm bells about viability issues in the sector then IPEC is best placed and mandated to play this role.

1.1.2.2 Industry Structure

The industry was formerly dominated, at least up to the time of dollarization (January, 2009), by five or six life assurance companies almost all privately owned. The post hyperinflationary era however saw expansion of the number of players with the entry into the market of a major banking player (CBZ), another banker and short term player, Altfin as well as most recently,
Nyadzso, hitherto, a major player in the funeral assurance business. According to IPEC (June 2014 Report) there are now a total of 10 players in this market segment dominated by Old Mutual, Nyaradzo and First Mutual Life. These developments tend to conflate issues somewhat in that Nyaradzo, which formerly was accounted for as a funeral assurer is now reflected as a life assurer. The changes however further underscore the continued blurring of traditional product boundaries as almost all of the life assurance players are retailing funeral products and reporting the figures under their life portfolios. Partly this explains why the two products have been lumped together for purposes of this study.

1.1.2.3 Internal Organizational Structures:

1.1.2.3.1 Appointment of Actuary

Due to the nature and complexity of the life assurance product, regulators have legislated for the periodic actuarial evaluation of life assurance funds to be done at least triennially (Insurance Act, Chapter 24;07). According to guideline 6 of the OECD Guidelines on Insurer’s Governance, “although the specific position and duties of actuaries vary across jurisdictions, the role of the actuary in the corporate governance of insurers has become paramount in the life sector and is increasingly developing in the non-life sector in most OECD countries (OECD guidelines on Insurer’s Governance, 28 April 2005)”. Although the OECD guidelines do not constitute regulations, they are recognized as constituting best practice in corporate financial governance and they are widely adopted benchmarks on best practice even beyond the countries of the OECD itself. The guidelines specifically provide for the whistle blowing function of the Actuary who should act independently of management and have direct access to the board. Consequently all players in the life insurance sector need to have access to either a resident or consulting Actuary to undertake such periodic evaluations as well as provide advice pertaining to the designing and structuring of products on an on-going basis. In practice, insurers in the long term segment of the market therefore consult with their actuaries on a continual basis. This is intended as a major pillar of the risk management activities that are core to the operation of any insurance business. So before regulators
become awake to problems affecting an insurer, internally the actuary must raise the first alarm bells and advise management on corrective measures.

1.1.2.3.2 Appointment of Auditors

Guideline 7 of the OECD (Insurers) provides for the appointment of an external auditor to whom the actuary must report, and who, like the actuary, must act independently of management. The auditor who also has a whistle blowing function must conduct annual audits to investigate the financial soundness of the insurance entity and reports to the board. Like the actuarial function discussed above, this is intended as another pillar of the risk management activities of an insurance concern.

1.1.2.3.3 Investments Committee

The long term insurance sector survives in no small measure on the success or otherwise of its on-going investment activities. Upon this unit, reliance is placed in ensuring the assurers’ are able to meet their long term contractual obligations. The general structure is to have an Investments Committee whose brief is to basically oversee and direct the investment activities of the organization. Usual members of the investments committee include the Finance Director, Investments Manager, Finance Manager and Managing Director/General Manager. Where available, the actuary can also become a member of the investments committee. Importantly the risk of inflation falls under the purview of both the Actuary who must anticipate future trends and the Investments Committee which has the benefit of being informed by current trends.

1.2 Broader Spectrum of Risks

While the researcher has thus far underscored the risk of inflation, insurers, by the nature of their business are exposed to a much broader spectrum of risks some of which are indicated below. However, as this study is not based on an individual case study, the researcher shall abstract pertinent risks of a generic nature while acknowledging the uniqueness of risk factors that confront individual players:
a) Business and Operational Risks  
b) Financial Risks  
c) Environmental Risks  
d) Reputational Risks

It is therefore critical that insurance companies effectively deal with the plethora of these and other risks that are unique to the sector. In this vein the study aims to unpack the state of preparedness of the Zimbabwean long term insurance sector players to confront such risks.

1.3 Statement of the Problem

Policyholders who had religiously honoured their contractual obligations over sustained periods of time, (some policies being dated from the early eighties and even prior) were simply rendered penniless as, when it came to dollarization, insurance companies where simply unable to deliver their end of the bargain. As the currency was re-denominated to United States dollars the conversion values that were awarded on the bulk of the portfolios were in most cases naught, or just a small token, effectively wiping out lifetime savings for hundreds of thousands of policyholders (info@oldmutualhypocrisy.com /accessed 28 January, 2015).

While no solution is in sight over what to do with policyholders who were so deprived, life assurance companies have again started to write life assurance business although the take up is admittedly slow (IPEC, 2014 Half Yearly Report). According to the Zimbabwe government budget statement released in November 2014, the Minister of Finance merely mooted at the setting up of a commission of inquiry – ostensibly to look into the plight of stakeholders who were deprived when the erstwhile currency collapsed. On money lost by people in insurance policies and pension benefits during conversion from the Zimbabwe dollar to US currency, Chinamasa said a Commission of Inquiry to be set up will bring closure to the matter, adding stakeholders will be consulted at all stages to gather input (Zim 2015 Budget, Hon P Chinamasa).
The question that should be of prime concern to stakeholders is whether, in the wake of the problems enunciated herein, the sector has instituted any measures to safeguard the public against similar future losses and if so, to what extent are these measures effective?

1.4 Objectives of the study

The main objective of the study is to establish the effectiveness of risk mitigation strategies deployed in the long term insurance sector. This will also lead to further sub-objectives namely:

1) To establish if there are any frameworks deployed to address risks that confront the industry
2) To interrogate the adequacy or lack thereof, of deployed risk management frameworks
3) To identify if there are any regulatory interventions that can be deployed to support the long term viability of the long term insurance industry.
4) To suggest self-regulatory measures to improve the management of risks in the long term insurance sector

1.5 Major Research Question

The main research question that the researcher seeks to answer is: how effective are risk mitigation strategies deployed in the long term insurance sector?

1.6 Research sub-questions are;

1) Are there any frameworks deployed to address risks that confront the industry
2) Are identified risk management frameworks adequate to address risks facing the industry?
3) Are there any regulatory interventions that can help improve the viability of the industry?
4) Are there any measures (self regulation) that can be deployed to improve the management of risks in the long term insurance sector.
1.6 Proposition Statements

The following proposition statements will be addressed along the course of the research:

i) The Zimbabwean long term insurance sector has not learnt anything from the hyperinflation experience and consequently has not implemented risk management strategies sufficient to mitigate against risks facing the industry.

ii) Regulation of the Zimbabwean insurance sector has not responded to fundamental structural flaws in the industry and as such the industry remains exposed to various risks.

1.7 Scope of the Study

The study is concerned with both long term assurance companies and funeral assurance companies headquartered in Harare, the country’s capital. This is recognition that these players ply the long term segment of the market, with funeral policies routinely being issued with terms of up to 20 years. By virtue of the uniqueness of this market, arguably long term assurers bore the biggest brunt, in terms of value loss, and presumably were least prepared or the most affected by events leading up to the collapse of the erstwhile currency of the day. This is not to say other forms of insurance coverage were not affected by inflation nor were other financial industry players: rather it is merely an attempt to focus on the most affected of the subsectors of the financial sector.

Given the research topic, the researcher shall have only but limited time to collect relevant data and to conduct interviews.

1.8 Dissertation Outline

The dissertation contains five chapters as shown below:-

Chapter 1 introduces the study by giving the background before defining the problem and stating the research objectives. The chapter concludes with the scope of the study.
Chapter 2 looks at relevant literature specifically with a focus on contemporary risk management frameworks.

Chapter 3 outlines and justifies the research methodology used in conducting the study.

Chapter 4 discusses the research findings and interprets the gathered data.

Chapter 5 concludes the study by giving recommendations ensuing from the findings from the preceding chapter.

**1.9 Chapter Summary**

The chapter looked at the general background of the insurance industry in Zimbabwe and the structure of the industry. The problem statement and the research’s sub-questions were also raised.

The next chapter takes a look at the literature pertaining to risk management frameworks or models before deriving a conceptual framework for the study.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter looked at available literature on the subject of risk management frameworks and ended by discussing a conceptual and analytical framework for the study. According to Boote and Beile (2005), setting the context of the research and identifying any gaps not covered by existing literature are the main purposes of literature review. This helps in focusing and training the study on a particular problem and avoids replicating of prior studies. In this sense this chapter shall review literature from various authors focusing on enterprise risk management frameworks. Specifically the COSO framework of Risks approach has been looked at, as did the Hierarchy of Risks approach, together with a Generic approach to risk management. From the studied literature a conceptual framework for the study was derived.

2.1 What is Risk?

Rejda (2005) notes that there is no single definition of risk and that its definition and concept depends on specific application and situational contexts. Nonetheless, the researcher finds it useful to look at definitions of risk from a wide spectrum of authors:

Some authors define risk in terms of both the probability and the consequences of an event happening (Adams, 1995), (Brun, 1994). Risk is “the probability of an adverse future event multiplied by its magnitude, Adams (1995, 69)” Sharpe (1964) defined risk as volatility emanating from the market that cannot be diversified away, while according to McNamee and Selim (1998) risk is defined as the uncertainty of plans and decision outcomes. On the other hand Irwin (2007) defined risk as the anxiety of unknown future events and the negative consequences of their outcomes. Yet again according to Chidakwa (UZ – GSM 2014) risk was also defined as,a condition in which there exists a quantifiable dispersion in the possible outcomes from any activity. While there may be as many definitions as there are authors on the subject of risk, there is a running thread across most of them and this thread is underscored by the possibility of
failure to achieve desired outcomes due to inadequacy of available knowledge about either the form or magnitude of risk causing events. For purposes of this study all the above definitions shall inspire the concept of risk— in particular Adams (1995) definition which bears restatement here as – the probability of an adverse future event multiplied by its magnitude. Only risk of an adverse or negative nature therefore shall be of concern to this study.

Having adopted a working definition of risk the study shall now proceed to look at different conceptual frameworks that have underpinned the evolution of latter-day risk management philosophy.

2.2 Enterprise Risk Management (ERM)

Various authors have bemoaned the absence of a universal approach and common language in the literature pertaining to risk. According to Babbel and Merrill (1998, 1999), in the insurance marketplace, there is a deep need for a unified valuation model—one that efficiently takes into account the important financial risk factors across all major asset categories and over both sides of the economic balance sheet in a consistent framework.

This really speaks to the fact that risk management as a stand-alone domain is a fairly recent development which is still evolving. ERM is the strategy that aligns the firm's business with the risk factors of its environment in the pursuit of strategic objectives, Rosen and Zenios (2002). Barnaby and Hass (2009) identified a growing trend towards ERM while according to Elahi (2013) in today's volatile and uncertain business environment, risk management deserves executives' attentions at a strategic level.

These views among many other authors marked the groundswell of opinion towards the evolvement of ERM frameworks. Below various ERM frameworks shall be examined in some measure of detail.
2.3 COSO Framework (2004)

As a starting point the researcher looked at the COSO enterprise risk management (ERM) framework of 2004. Tellingly, COSO’s original brief was about internal controls and the expansion of the framework to cover risk is a latter day development – almost an afterthought. The wording of the framework is couched as an appeal to various stakeholders including academia, to embrace and adopt the framework itself. Acknowledging that the framework comprised merely of recommendations and suggestions, the authors of the framework hoped and aimed to assist organizations to manage risks.

According to the COSO ERM framework, enterprise risk management is a process, effectuated by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (COSO, 2001). In other words this is an all-encompassing and pervasive strategy that involves everyone at all levels in the enterprise and touching on all activities and business units. According to the COSO framework, ERM aligns risk management and business strategy and embeds a risk management culture into business operations. It sees everyone in the organization as a risk manager.

Figure 2-1 helps to illustrate the interplay between the organization’s strategies and it’s activities across its business units on the one hand and its risk management activities on the other.
2.3.1 Goals:
The framework sets goals at four levels namely:

- **Strategic**: high level goals which are aligned with the organisation’s mission
- **Operational**: efficient and effective use of resources
- **Reporting**: reliability of reporting
- **Compliance**: compliance with laws and regulations

Figure 2.1 Enterprise Risk Management Framework

2.3.2 Activities
Activities are viewed at different levels of the organization namely:

- Enterprise level
- Divisional or subsidiary level
- Business unit level
- Process level

2.3.3 Components of COSO (ERM) Framework
Activities and goals are then mapped across a framework of interrelated ERM components as set out below:

- Internal environment - establishes a philosophy regarding risk management
  It recognizes that unexpected and expected events may occur, establishes the entity’s risk culture, considers all other aspects of how the organization’s actions may affect its risk culture.
- Objective setting - A process to set objectives that are aligned with the organization’s mission and are consistent with its risk appetite
- Event identification – Internal and external events affecting achievement of objectives must be identified, distinguished between risks and opportunities
- Risk Assessment - Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed, employs a combination of both qualitative and quantitative risk assessment methodologies.
- Risk response – identifies and evaluates possible responses to risk management, decides whether to avoid, accept, reduce or share risk, developing a set of actions to align risk with its risk appetite
- Control activities – policies and procedures help ensure the risk responses are effectively carried out
- Information and communication – relevant information is identified, captured and communicated that enables people to carry their responsibilities
- Monitoring – the entire ERM is monitored through ongoing activities and separate evaluations and modifications made wherever necessary
The result of the COSO framework application is that all activities at every level of the business and in every business unit are rigorously tested for their potential risk impact throughout the organization. This is achieved through embedding risk management in the business strategy, mission and objectives in a way that enables the organization to accomplish its goals. Criticisms have however been leveled against the COSO framework of ERM, chief among them being that it takes a unitary view of risk. The Hierarchy of Risk approach discussed below was in fact born out of disenchantment with the COSO model.

2.4 Hierarchy of Risks Approach

This is a more recent framework whose advocates premised it upon perceived shortcomings of ERM. In fact they have touted it as the next best thing after ERM.

“It avoids ERM’s one-dimensional view of risk and views risk as events that require multiple angles of analysis. For example, the hierarchy of risk approach may identify a credit risk event as a counterparty risk, a reputational risk, and ultimately a strategic risk to the organization” (http://post.nyssa.org/nyssa-news/2010/05/ accessed 29 January 2015). This view is corroborated by Elahi E (2013), when he says different categories of risks are not unrelated to each other as one type of risk may well transform into other risk categories. Risks are in fact ubiquitous and they seldom if ever remain the same.

The framework measures risks and synthesizes them into three categories namely:

Reputational Risk - a subjective assessment of the potential effect, both positive and negative, that a risk event can create and that it can be responsible for up to 95% of market value.

Financial Risk - an analysis of a risk event’s expected financial impact—legal costs, operational expenses, expected gains in market share

Competitive Impact Risk - an analysis of a risk event’s expected financial impact—legal costs, operational expenses, expected gains in market share

The framework synthesizes the above risks against the organization’s objectives and strategies after which they are cascaded up to board level to enable the board to take ownership by taking a
strategic view of risk. The five components of the Hierarchy of Risk framework are elaborated below:

- Link risk with performance. Risk involves both the cost of capital and the return on capital.
- Recognize that risk is both a threat and an opportunity. Many companies have reversed their fortunes by adapting to shifting client and market demands.
- Identify and escalate, through the company’s governance structure, the analysis of the multiple “faces” of risk. Remember that a single event can have multiple risk dimensions.
- Reaffirm the organization’s risk culture and risk appetite by effectively communicating risk identification and strategic decisions taken on risk events.
- Risk management is not a static decision. The system must remain flexible and adaptive. Challenge underlying risk assumptions.
The framework is illustrated in Figure 2.2 below:


**Figure 2.2 The Hierarchy of Risk Framework**


As with all theory, the Hierarchy of Risks approach is yet to stand the test of time. It remains unknown whether it will live to the billing that its advocates have made it out to be. Notwithstanding it has so far succeeded in puncturing holes into the earlier ERM framework and opened up the debate widely, and it would appear, riding on the tide of the global financial crisis (GFC) of 2008 that, widespread use of ERM failed to prevent or even anticipate.
2.5 Generic Approach to Risk Management

Figure 2.3 above depicts the generic approach to risk management and serves to illustrate the following risk treatment options:

- **Retain** – accept the risk and prepare for the possibility of loss to occur. Most risks are retained when the consequences are deemed minor.
- **Reduce** – the risk impact can be limited by changing the way things are done or by creating conditions that reduce the likelihood that a loss will occur.
- **Share** - find someone to share some of the risk. Ways to share the risk include insurance, syndication, hedging, limiting legal liability by properly structuring contracts and customer mandates.

Source: Adapted from Chidakwa (GSM Lecture Notes, Risk Management, UZ, 2014)
Avoid (the risk) – Do not conduct the activity. If the risks are too severe and the possibility of occurrence too great, it is unacceptable to conduct the activity.

According to Francis and Richards (2007), closely linking risk management to strategy is the hallmark of Enterprise Risk Management. This resonates with the COSO framework above which embraces ERM as a tool to be aligned with the business strategy and to be used to accomplish the business objectives. While risks are inevitable and incidental to the attainment of a business’ objectives, they are nonetheless not always avoidable. Anything which gets in the way of an organization’s attainment of its goals is a risk.

Mcnamee and Selim (1998) identified six elements of an ERM framework namely:

- Risk identification – what could go wrong
- Risk Analysis – establishing the likelihood and consequences of the event
- The Risk Management Solution – any of various risk mitigants selected
- Evaluation and Audit – review system of adopted solutions
- Performance Measurement – reviewing the costs of adopted solutions
- Final Review – using lessons learnt to guide and inform the future

2.6 Traditional Econometric Models Vs ERM

While risk measurement was traditionally heavily skewed towards quantitative analyses there has been recognition of the inadequacy of traditional models to quantify and anticipate major risk events of our time such as the September 11, terror attacks, hurricanes Katrina and Hugo to name but a few of major recent catastrophes. Taleb (2005) observed that many an econometric model sit on very rickety – even plainly wrong assumptions. In other words any model is only as good as the assumptions that underpin it. This is why quantitative models were unable to identify increased risk levels in the case of Enron, Adelpha, Parmalat among a host of other major business failures of our time. Consequently there has been a growing awakening to the inadequacies inherent in traditional quantitative approaches to risk management. According to Hawkins (2014) these models fail because they make a fetish of figures. In fact there has been a
confluence arguing for separate measurement of risk as distinct from performance. This explains how the COSO framework, which was initially set purely as an internal organizational control framework, was expanded in scope to embrace ERM. In this vein, Colandro and Scott (2006) advocate for an Enterprise Risk Scorecard (ERS) and identified four perspectives that borrow directly from Kaplan and Norton (1996)’s Balanced Score Card (BSC) and these are:

- Financial Risk Perspective
- Customer Risk Perspective
- Internal Risk Perspective
- Learning and Growth Risk Perspective

Much as a BSC translates an organization’s mission and strategy into tangible measures and objectives, Colandro and Scott (2006) argue the case for a separate scorecard from a BSC (performance) and hence their case for an Enterprise Risk Scorecard (risk), specifically to address aspects of risk. According to them a confluence in measurement criteria argued for the need to adopt separate scorecards which they said would allow for introduction of a common universal language in risk management. In similar vein, Moullin (2004) described how risk measurement could be incorporated into a performance BSC. While his analysis was short on the modalities of achieving this integration, he nonetheless identified a yawning gap in terms of the BSC – a purely performance measure, being unable to cover risk metrics adequately. This is not surprising given that risk is a different domain from performance.

Francis and Richards (2007) made the case for accelerating ERM as a core business when they observed that all entities face a myriad of risks which if left unattended and unmitigated, will result in lost revenues or simply business failure. Similarly, the Institute of Internal Auditors Research Foundation (1999) observed that many organizations have accepted the need to identify and manage a basket of threats and exposures they face in today’s complex global environment. In like manner, the Securities and Exchange Commission (2002) - USA advocated for a control framework. Barnaby and Hass (2009) also identified a growing trend towards ERM or enterprise risk management.
2.7 Uniqueness of Zimbabwean Experience

The researcher would very much have wanted to make comparisons between Zimbabwe’s experiences with hyperinflation and experiences elsewhere in the contemporary world. However, Zimbabwe’s experience is so unique that there are no ready parallels from recent times and what this dimension meant was that, unfortunately there is a dearth in literature, particularly dealing with applicable mitigation strategies. So dire was the situation that Zimbabwe became the only modern day country to exceed German’s 1920s experience at printing money with a currency that halved every 24 hours at some point (Hanke & Kwok, 2009). This implies that Zimbabwe, as is often the case, has to chart homegrown solutions to problems that are uniquely Zimbabwean. The following section offers a peek into the rapid inflationary descent as Zimbabwe hurtled down the economic precipice for a whole decade, leading up to dollarization in early 2009.

2.8 Inflation Risk in Zimbabwe pre 2008

Table 2.1 below shows the rapid rate of inflation that preceded the demise of the Zimbabwean currency in 2008:
The Zimbabwean experience shown in above table proved beyond doubt that conventional risk management strategies normally used to hedge against inflation risk become ineffective during a hyperinflationary onslaught.

Table 2.2 also shows the inflation ascent in juxtaposition to the attenuation in the GDP rate, a trend that transcended all economic variables. In short the reduction in the value of the currency was attended by concomitant diminution of financial and other assets that translated to massive erosion of balance sheet sizes, most notably in the financial sector.
### Table 2.2 Macroeconomic Trends 1998-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth Rate</th>
<th>Annual Inflation %</th>
<th>MI Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>(0.8)</td>
<td>47</td>
<td>26</td>
</tr>
<tr>
<td>1999</td>
<td>(2.1)</td>
<td>57</td>
<td>39</td>
</tr>
<tr>
<td>2000</td>
<td>(7)</td>
<td>55</td>
<td>53</td>
</tr>
<tr>
<td>2001</td>
<td>(3)</td>
<td>112</td>
<td>144</td>
</tr>
<tr>
<td>2002</td>
<td>(4)</td>
<td>199</td>
<td>171</td>
</tr>
<tr>
<td>2003</td>
<td>(10)</td>
<td>599</td>
<td>491</td>
</tr>
<tr>
<td>2004</td>
<td>(2)</td>
<td>133</td>
<td>234</td>
</tr>
<tr>
<td>2005</td>
<td>(4)</td>
<td>586</td>
<td>547</td>
</tr>
<tr>
<td>2006</td>
<td>(3)</td>
<td>1281</td>
<td>1315</td>
</tr>
<tr>
<td>2007</td>
<td>(6)</td>
<td>7982</td>
<td>66659</td>
</tr>
</tbody>
</table>

MI being Monthly Inflation

**Source: RBZ 2009**

The trend continued to increase where in July 2008 the official rate of inflation was 231 million percent, while independent analyst Steve Hanke estimated it at 89, 7 sextillion percent (Hanke and Kwok, 2009). Then followed a period during which, between July 2008 and February, 2009, the Zimbabwean authorities ceased to release any inflation data at all for the simple reason that such data had ceased to make sense. What this void presents is a statistical dilemma in which nobody can authoritatively profess to know the true extent of inflation in Zimbabwe at the time. To this unknown extent, any attempt to compute or use Zimbabwean inflation data from this period is fraught with distortions.
What comes to the fore however is that insurers who are in the business of accepting risks, could be caught flat footed by what is arguably the commonest risk to a financial institution (inflation). How much more then are the local players prepared for the more complicated risks; or the whole range of risks that they confront on a day to day basis? Put differently, do Zimbabwean insurers have adequate risk mitigation strategies in place consistent with the nature of their operations?

2.9 Conceptual and Analytical Framework for the Study

From the surveyed literature it has emerged that risk management cannot be handled as a stand-alone dimension of managing a business. There is a compelling need to integrate the business’ risk management function and enmesh it with and within the organisation’s objectives and above all its strategy. Also emerging is a compelling imperative to take a holistic approach to risk management that permeates all activities in an organization and straddles all levels starting from the board right down to the shop floor. Dealing with risk needs not be the responsibility of a limited number of staff. Risk ownership should actually be shared by everyone in the company (Elahi, 2013) The idea is to make everyone a risk manager. Figure 2.4 shows a conceptual framework that covers a holistic approach to risk management that has been adapted and borrows from both the Hierarchy of Risks framework and ERM frameworks discussed above:
The above figure which is an adaptation from both the Hierarchy of Risks framework and the ERM framework simplifies the framework but retains the basic conceptual framework which has:

a) risks cascading upwards in the organization starting from the shop-floor, right up to the board level.

b) In this adapted version, operational risk committees on the shop-floor feed into the risk management committee which in turn, feeds into the board risk committee.
c) Key to the adapted framework shall be the build-up of risk management activities following a clear reportage link with the board. Two way communication channels are essential to the process with the shop-floor apprising the top levels of ground level risk management activities on the one hand and the board communicating policies, procedures and control frameworks down the ladder.

Much as proponents of either framework (ERM Vs Hierarchy of Risks) are wont to accentuate the superiority of the one framework over the other, the researcher found the two to neatly dovetail in such a way as demonstrated on the above adapted framework – in fact a hybrid between the two.

It shall therefore be a key objective of the study to ascertain whether players in the long term insurance sector have embraced the tenets of the adapted framework and included them in their risk management activities, and if so, to what extent, such strategies are effective. This study therefore aims to unravel this subject and contribute to the existing body of literature with a specific focus on the long term insurance sector in Zimbabwe. The next chapter sets out the methodology used to accomplish this task.

**2.10 Chapter Summary**

This chapter started by looking at various definitions of risk from different authors that were discussed briefly. It then proceeded to look at the various risk management frameworks which were discussed to some length. Inflation trends in the decade leading up to 2008 were also looked at in an attempt to set the backdrop to the study. The chapter concluded by proposing a conceptual and analytical framework by which players in the long term insurance sector will be measured.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology used to conduct the research. Various concepts, including the design of the research, population determination, sampling procedures and data collection methods were also discussed. Lastly, the chapter looked at ethical issues and limitations of the study.

3.1 Research Methodology

This is a systematic and scientific approach to problem solving. Procedures followed in the process by researchers of explaining, describing and predicting phenomena are collectively referred to as methodology (Rajasekar et al 2013). It is an outline of the explicit rules used to answer the research questions (Dawson, 2002). Bryman and Bell (2007) made the distinction between quantitative and qualitative studies thus:

- A quantitative approach which uses a deductive approach and basically starts from theory and aims to prove or disprove a hypothesis and
- A qualitative approach which uses an inductive approach whereby the study aims to generate theory from results of investigation using an interpretivist or phenomenological approach.

The approach adopted by the researcher for this study is the qualitative approach and this was motivated by the following:

The study was conducted across an entire industry with very disparate configurations and structures. Such a setting, unlike in a single case study, is besought with widely divergent perspectives starting from the company level and cascading down to the polled individuals within those companies. It was therefore necessary to delve into the particular representative’s understanding of the phenomena under study and to achieve this it was necessary to capture how they understand and interpret issues. A qualitative approach therefore allowed for such in depth enquiry and afforded the opportunity to probe and check understanding. The area under study
was expected to generate rich and subjective data which is not easily generalizable as individuals interviewed interpret events differently. This context therefore lends itself to a qualitative rather than a quantitative study.

3.2 Population

Population has been described as the aggregate of all objects, subjects or members that conform to a given set of specifications (Polit and Hungler 1999). Greener (2008) defined population as the full universe of people or things from which the sample is selected.

According to the Insurance and Pensions Commission mid-year report for 2014, there were 10 companies operating in the life insurance market in Zimbabwe as at 30 June 2014. In this study the population therefore consisted of the 10 life insurers who ply the long term insurance segment of the sector. The intention was to capture the views and practices on risk management at all of these players and to do so it was hoped to interview a maximum of two executives from each of the representative companies.

3.3 Sampling Procedure & Respondent Profiling

Judgmental or purposive sampling is a technique where interviewees are selected based on a set of pre-determined qualities that are representative of the population under study (Myers, 2009). It is a non random technique not underpinned by theory and allows the researcher to set the criteria of selection and proceed to look for candidates that satisfy the set criteria (Bernard, 2002).

The population of the study consisted of the 10 life insurance companies as classified by IPEC that plied the long term (life assurance) segment of the insurance market as at 30 June 2014. Hence the researcher sought to interview at most two people from each of the target organizations meeting the specification given hereunder. As confirmed by literature (Myers, 2009) and in keeping with purposive sampling techniques, the researcher believed that targeted respondents ought to satisfy basically two criteria namely:

a) They needed to have been working in the sector for sufficiently long to appreciate fully the processes and procedures used in their organizations.
b) They needed to have attained seniority levels consistent with a minimum of supervisor level and above and occupy currently holding such senior positions within their organizations.

In this particular case, the sample size equated to the target population thus rendering the question of sample size determination irrelevant.

3.4 Data Collection Techniques

3.4.1 In-Depth interviews

Charmaz (1990) indicated the aim of an in-depth interview as being to create categories from the data and to then analyze the relationships between the categories in an attempt to show how the lived experiences of the participants can be understood. Rubin and Rubin as cited by Myers (2009) likened qualitative interviews to night goggles which allow us to see that which is not normally seen and examining that which is normally looked at but hardly ever seen. They (in-depth interviews) also help by capturing direct quotes from participants.

This method was therefore adopted for this research as it fosters a better understanding of the risk perceptions across a wide spectrum of industry practitioners and allowed the researcher to, as it were, take it from the horses’ mouths.

3.5 Data Collection

The researcher used semi-structured interviews as the platform to gather data from respondents with the aid of an interviewing guide. A fair amount of note taking using various shorthand methods like abbreviations and acronyms were used in order to capture as much of the data as possible during the course of the interviews. Within reasonable time after concluding an interview, the researcher went through a review of the interview notes, so as to capture and include any missed material from the interviews whilst the information was still fresh in memory.
3.6 Credibility of Research Findings

Achieving credibility when doing a qualitative study is difficult (Shenton, 2003). Nonetheless it is critical to attain some measure of trustworthiness and to do this Lincoln and Guba (1985) laid down a framework which if followed, assures that trustworthiness is achieved. The framework looks at four dimensions namely:

- **Transferability** is to do with demonstrating that findings can be generalized to similar contexts.
- **Credibility** deals with the degree of congruency between findings and the real world. Use of proven and well established research methods is one way of improving credibility.
- **Dependability** – Leech et al (2010) likens dependability to the concept of reliability which is applied in quantitative studies. Keeping of audit trails of all interviews helped the researcher to achieve dependability.
- **Confirmability** – this dimension measures objectivity or the extent to which researcher bias has been eliminated (Moorefield-Lang, 2010). To achieve this, the researcher self-introspected and tried as much as possible to remove any emotional involvement or considerations while doing the study.

3.7 Ethical Considerations

Fieser (2009) defined ethics as the moral philosophy which involves systematizing, defending and recommending notions of what is wrong and what is right. Research ethics, as enunciated in anthropology are meant to safeguard both the subjects of research and the researchers themselves from delving into sensitive areas that may make either party uncomfortable with the research (Skovdal and Abede, 2012). According to Kothari (2004) ethical issues can be grouped into the following categories:

- Protection from harm
- Informed consent
- Right to privacy
- Honesty with professional colleagues
In this vein each participant was asked before participating in the interview if they would do so of their own free will. Only upon securing such assurance would the interview proceed in all cases. Anonymity was also promised as positions rather than names of participants were recorded for purposes of the interview. The potential benefits accruing to wider society and the industry as a result of participating in the study were highlighted while lastly participants were apprised of their right to withdraw from an interview should they feel compromised in any way.

3.8 Limitations of the Study

Any factors that impact or influence interpretation of the results of a study are regarded as limitations to the study (Brutus, 2013). It would have been ideal to gather views from a wider spectrum of practitioners at each of the representative organizations but this was not possible for reasons of practicality. As such the results of the study are affected by the biases and worldviews only of the interviewed executives.

3.9 Chapter Summary

The chapter outlined the methodology used to conduct the study and justified choice of method used. It concluded by outlining the ethical issues covered during the study before ending with the limitations of the study.
CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter presents the research findings and discusses same on the backdrop of the study objectives outlined in chapter 1, namely:

1) To establish if there are any frameworks deployed to address risks that confront the long term insurance industry.
2) To interrogate the adequacy or lack thereof, of deployed risk management frameworks.
3) To identify if there are any regulatory interventions that can be deployed to support the long term viability of the long term insurance industry in Zimbabwe.
4) To identify self-regulatory measures that can improve the management of risks in the long term insurance sector in Zimbabwe.

The researcher managed to secure appointments and conducted 16 interviews with the desired number of two participants from a total of 8 out of the 10 organizations targeted by the study. This turnout from a possible turnout of 20 participants from the 10 organizations yielded a turnout of 80% and is considered a good enough sample from the population under study bearing that the sample size of 10 organizations equated to the population of the study. Table 4.1 summarizes the cross-section of interviewees selected and successfully accessed:
Table 4.1 Participant Profiles

<table>
<thead>
<tr>
<th>Participant Title/Position</th>
<th>Length of Service to Company in Years</th>
<th>Length of Service to Industry in Years</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing &amp; Business Development executive</td>
<td>3</td>
<td>22</td>
<td>Executive</td>
</tr>
<tr>
<td>Life Admin Manager</td>
<td>3</td>
<td>26</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>Marketing &amp; Sales Manager</td>
<td>21</td>
<td>21</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>Training Manager</td>
<td>7</td>
<td>18</td>
<td>Manager</td>
</tr>
<tr>
<td>Life Underwriter</td>
<td>11</td>
<td>14</td>
<td>Supervisor</td>
</tr>
<tr>
<td>Supervisor</td>
<td>16</td>
<td>16</td>
<td>Supervisor</td>
</tr>
<tr>
<td>Life underwriter</td>
<td>23</td>
<td>32</td>
<td>Supervisor</td>
</tr>
<tr>
<td>Administrator</td>
<td>33</td>
<td>33</td>
<td>Supervisor</td>
</tr>
<tr>
<td>Group Internal Auditor</td>
<td>4</td>
<td>20</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>Assistant Accountant</td>
<td>4</td>
<td>4</td>
<td>Manager</td>
</tr>
<tr>
<td>Managing Director</td>
<td>0.33</td>
<td>20</td>
<td>Executive</td>
</tr>
<tr>
<td>Human resources Manager</td>
<td>5</td>
<td>5</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>Life Underwriter</td>
<td>7</td>
<td>26</td>
<td>Manager</td>
</tr>
<tr>
<td>Assistant Manager</td>
<td>20</td>
<td>20</td>
<td>Manager</td>
</tr>
<tr>
<td>Finance Manager</td>
<td>8</td>
<td>9</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>Team Leader</td>
<td>5</td>
<td>15</td>
<td>Manager</td>
</tr>
</tbody>
</table>
Source: (Own Compilation from findings)

Table 4.1 reflects a breadth and wealth of profiles in terms of both service rendered to the industry and seniority of position. This gives assurance that participants were sufficiently grounded in terms of both knowledge and skills in a way that lends credibility to the views they expressed. Although not directly asked the question, a handful of the participants were armed with at least a higher university degree while one is currently working on their PHD. Again this is a reflection of the level of understanding of the interviewees targeted which should lend credibility to their opinions.

Of the 10 targeted life offices, the researcher was able to access eight of them. Of the two offices the researcher was unable to access, both of them are recent entrants to the industry and there was clearly a lack of co-operation from the targeted officials who regarded the researcher’s overtures with undisguised suspicion.

The responses shall now be presented in accordance to the research questions.

4.1 Responses

4.1.1 Are there any frameworks deployed to address risks that confront the industry?

In all of the accessed organizations there are existing frameworks and established structures that handle risk issues. The structures ranged from selection of lives (underwriting) departments, audit departments and actuarial services as a basic industry standard on the lowest scale to highly specialized and dedicated units such as Risk and Compliance, Group Audit & Risk Management and a stand-alone Risk department. The trend was that on the bottom of the scale, the smaller companies had in their structures the standard Underwriting and Audit departments in-house while they outsourced actuarial services. On the top end of the scale are the big operators, mostly belonging to larger holding companies where they have specialized departments such as Risk or Audit and Compliance, Group Audit and Risk Management or in one of the cases a stand-alone Risk department. These bigger operators mostly have an in-house Actuarial department.

It is therefore a finding of the study that 7 out of the 8 organizations accessed are fully compliant in terms of conducting regular external audits and actuarial evaluations as
stipulated in the statutes. In fact, whereas the regulations require that an actuarial evaluation be conducted at least once every three years, the study established that actuarial evaluations are being conducted at least once every year at all of the companies accessed except one. The only exception was a company where the regulators have suspended the fund thus barring the company from writing new business. This company’s non-compliance was explicable given that it is not currently operating normally while it presently awaits determination as to whether its operating license shall be restored or revoked.

In terms however of the level of representation of the risk structures, the study found out that in as much as it is a listing requirement to have an audit and or risk committee at board level, the listed players do in fact meet the requirement. However, there appears to be no clear link between the risk activities occurring at the operational level and the issues tackled at board level. At only one of the top three companies (itself not listed), does the Audit Manager attend risk meetings at board level, and only so upon invitation.

So indeed while the structures and frameworks to tackle risk do exist the next question was how effective are they in dealing with the plethora of risks that the industry faces?

4.1.2 How adequate are Deployed Frameworks?

The study found out that whereas all the targeted organizations do in fact have existing frameworks that ought to handle risk management issues, these frameworks clearly preponderate towards a silo based approach to risk management. Additionally there was a clear disjoint between handling of risks at operations and what happens at board level. Yet Information and communication channels should be in place to make business leaders, as well as individuals, aware of risks that fall into their area of responsibility and the expected behavior to mitigate negative outcomes Johnson & Johnson,(2013). Practitioners are still steeped in tradition whereby mortality risks for instance, are the preserve of the life underwriting and actuarial departments alone. In like manner various departments look at risks from a unitary perspective and in this vein the audit department was always readily mentioned as an enforcer of risk practices. Off the cuff, only one participant was able to pinpoint the existence of treasury risks without prompting and this was a clear indication that the bulk of the participants, coming from an operational background as they did, appreciated risk only from a departmental point of view rather than a holistic point of view.

The study was able to establish only a fleeting awareness to Enterprise Risk Management (ERM) frameworks and this notably only among the bigger players. In fact at one of the leading
players, a Group Risk Executive has only recently been appointed and structures and other personnel for the unit have yet to be put in place. At another leading player, there is a gradual migration from the silo approach to risk management towards ERM. An in-house developed risk compliance platform at this company is only enjoying very limited use and it is yet to be widely adopted in the organization. In the words of the manager interviewed, they are probably, “the only manager currently complying with the requirement within the entire organization”.

At a second leading player in the industry, the belated appointment of a risk executive is realization that the traditional approaches to risk management currently in use are falling short of the requirements. The fact that the intended risk management department is still to take shape is however testimony that this particular organization has just only gone beyond the awareness stage in its journey towards ERM.

Outside the circle of big players (who tend to copy each other’s practices) ERM received only cursory mention- an indication that the industry is still steeped in old habits and traditions of approaching risk. Where handling of risks at board level was indicated, this was clearly just to satisfy the listing requirements of the local bourse. Both Francis and Richards (2007) and Elahi (2013) emphasized the need for organizations to look at risk at a strategic level. Yet the apparent disconnect between floor level risk activities and board committee activities proves that risks in the industry are not being handled at the appropriate level. In light of these observations the study therefore found existing frameworks to be inadequate to address various risks that confront the industry in today’s complex business environment.

4.1.3 What do you regard as the most critical risks facing your company?

This question was aimed at unveiling the individual perceptions of risk with the purpose of revealing whether or not same company interviewees shared the same perception about the criticality of risks. The following table 4.2 gives a summary of the responses:
Table 3.2 Individual Perceptions on Criticality of Risks

<table>
<thead>
<tr>
<th>Risk 1</th>
<th>Risk 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1 Anti-selection</td>
<td>Health Risks</td>
</tr>
<tr>
<td>A2 Document loss</td>
<td>Aids</td>
</tr>
<tr>
<td>B1 Liquidity Risk</td>
<td>Currency Risk</td>
</tr>
<tr>
<td>B2 Fraud</td>
<td>Inadequate skills</td>
</tr>
<tr>
<td>C1 Political</td>
<td>Economic</td>
</tr>
<tr>
<td>C2 Reputation Risk/Legacy Issues</td>
<td></td>
</tr>
<tr>
<td>D1 Political</td>
<td>Economic</td>
</tr>
<tr>
<td>D2 Reputation</td>
<td></td>
</tr>
<tr>
<td>E1 Operational (IT Challenges)</td>
<td>Fraud</td>
</tr>
<tr>
<td>E2 Liquidity</td>
<td>Fraud</td>
</tr>
<tr>
<td>F1 Political</td>
<td>Poor Corporate Governance</td>
</tr>
<tr>
<td>F2 Inadequate Skills</td>
<td>Fraud</td>
</tr>
<tr>
<td>J1 Anti-selection</td>
<td>Inadequate skills</td>
</tr>
<tr>
<td>J2 Poor Corporate Governance</td>
<td></td>
</tr>
<tr>
<td>K1 Liquidity</td>
<td>Reputation</td>
</tr>
<tr>
<td>K2 Poor Corporate Governance</td>
<td>Political</td>
</tr>
</tbody>
</table>

Source: (Own Compilation from findings)
The critical risks ratings shown on the above table are widely divergent even between interviewees from the same company (any same letter prefixed participants e.g. K1 and K2 or B1 and B2 came from the same company). This divergence of views is explained by the fact that in all instances interviewees came from different departments. The differences in risk perception can therefore be interpreted to reflect risk perceptions that are colored by departmental biases or influences. If the respective companies were practicing ERM, one would expect same company respondents to share the same views about the order of criticality of risks facing their organizations. Yet literature enjoins against continued use of risk silos hence, according to the Institute of Management Accountants (2011), in today’s increasingly risky world, companies can no longer rely on a silo-based approach to risk management but rather require an integrated and holistic perspective of all the risks facing the organization.

This further buttresses the finding that by continuing to approach in silos, the industry is falling foul of current best practice in terms of risk management hence differently placed employees are unlikely to share the same views about the most critical risks their organizations face.

4.1.3 Are there any regulatory interventions that can be deployed to support the sector?

There were several areas that were raised by practitioners as being in need of regulatory attention and in summary these have been captured under Figure 4.1 below:
4.1.3.1 Capital Requirements
There was agreement across the industry that the current straight-jacketed capital requirement regime is at best discriminatory and at worst inhibitive to smaller players and start-ups. Practitioners felt that capital requirements should not be uniform across the board but rather should be based on the liabilities carried by the respective player. In the words of one interviewee, “What rationale is there in setting a capital limit of USD 3 million and applying the same to all players regardless of size of their book? After all this figure can be equated to the price of a single up-market residential property”.

From these and similar sentiments expressed by almost all interviewees, researcher got a sense that while the minimum capital requirement becomes onerous when applied to the small industry players, it is at the same time woefully inadequate, when the same figure is applied to industry giants whose liabilities stretch to tens if not hundreds of millions of dollars.
4.1.3.2 Policyholder Protection Scheme
Two of the interviewees highlighted the need for regulators to set up a policyholder protection scheme along the lines of the Depositor’s Protection Scheme being run to cater for banks that default. They felt that such a scheme would have provided a fall-back to thousands of policyholders who lost their savings due to hyperinflation. Interviewees still bemoan the reputational damage suffered by the industry at large, following wholesale loss of policy values when the country dollarized. Understandably, interviewees felt passionate about the need for setting up a Policyholder Protection Scheme which they believe would obviate future catastrophes like the one experienced at dollarization.

4.1.3.3 Fit and Proper Legislation
All the participants felt that regulators should insist and enforce minimum qualifications and skills as pre-requisites for appointment to senior positions in the various companies. This was indicated as the best way to foster good corporate governance across the industry. The South African Financial Services Board which enforces a Fit and Proper requirement for all financial institutions was cited as a good example for Zimbabwe to follow. In the same vein it was suggested that regulators impose maximum term limits for CEOs as the current set up where a CEO can hold office for as long as they feel like is prone to abuse.

4.1.3.4 Accountability for Legacy Issues
It is common knowledge that policyholders lost their savings due to hyperinflation. However rather than pointing fingers at insurers and distancing themselves from the problem, the government should accept responsibility and even offer compensation to insurance companies in lieu of assets that were held as prescribed assets. This they (participants) believed to be one step towards enabling insurance companies to compensate the affected policyholders.

4.1.3.5 Prescribed Assets
One participant felt strongly that Prescribed Assets should not be compulsory for life funds but rather they should be offered in competition with other investment alternatives. While
other participants echoed this sentiment they did not regard it is a big issue currently because the requirement is not being enforced, due to unavailability of the prescribed assets (government and quasi-government stocks).

4.1.3.6 Over-regulation
One particular player felt the sector is overregulated in such a way as to stifle innovation. As an example they cited prohibitions against offshore investing activities as a particularly crippling provision that limits players from divesting widely.

4.1.3.7 IPEC Reform
Although IPEC issues still fall under the framework of regulatory reform, there were far too many issues specific to IPEC such that they need to be isolated from the other general regulatory concerns.

The following figure summarizes the issues raised against IPEC and noteworthy is the fact that the same complaints were raised by almost all the respondents.
The industry regulatory arm, IPEC came out for particular hammering from the practitioners and the following were some of the concerns raised:

a) IPEC is very lax when it comes to supervision of insurance companies and has not been seen to impose penalties on players that are clearly in breach. The wide disparity between the very elaborate and comprehensive supervisory role played by the RBZ over the banking sector and the often tokenistic role played by IPEC was cited as evidence of poor execution of its mandate.

b) IPEC does not play a supportive role but is very quick to wield the axe. The number of de-registrations and suspension of players across the industry was cited as testimony to IPEC’s propensity to play the hangman’s role. This contrasts sharply with expectations from players that IPEC should nurture and support players for the overall betterment of the industry.

c) IPEC is perceived as ineffective and staffed by political appointees who lack depth of understanding of the insurance business model. IPEC was said to look aside when big players flout the rules. A case in point raised involves a chief executive at a leading player
now generally known to own more than 40% of the equity of a listed sector player. IPEC has reportedly not acted on this anomaly despite that it is in clear violation of corporate governance ethics that require the clear separation between ownership and management. In banks for instance, shareholders are barred from owning more than 15% of equity besides being barred from occupying executive positions.

d) There currently exists a loop-hole allowing multiple coverage of risks under funeral insurance and IPEC should step in and put a cap in terms of maximum coverage per single life or risk.

e) IPEC should set realistic minimum pension limits as opposed to the current paltry $20-00 per month. This was seen as one way of protecting policyholders once they reach retirement.

While there was near unanimity in terms of the industry’s complaints against the regulator, the participants were rather muted in their own self-criticism as the following section reveals:

4.1.4 Are there any Self-Regulatory Measures that can be deployed to improve the sector?

There was general agreement amongst practitioners interviewed on the need to shore up the functions of the self-regulatory association of life assurers commonly known as the LOA (Life Offices Association). The following are direct comments made by some of the interviewees:

a) The LOA has gone quiet. It is not being visible.

b) The LOA is only active on Underwriting issues but does not address issues at claim stage and needs to introduce a claims register

c) LOA should foster best practice and good corporate governance across the industry

d) The industry should collaborate rather than compete and the LOA as a platform for collaboration is not being put to good use.

e) Companies are paying lip service to the LOA and often send delegates to attend meetings who have little appreciation of the issues at stake. It is important to send
representatives who have the mandate to commit resources on behalf of their organizations in the furtherance of resolutions reached by the LOA.

The study therefore found that there is much that needs to be done in terms of meta-regulation by the industry itself. While structures might exist already to play this role of self-supervision, the structures need to be revamped and brought to life again. One participant observed that the newer entrants to the industry appear less inclined to understand and appreciate the importance of collaborating with other industry players.

4.2 Conceptual Framework Re-visited

The discussion on findings would be incomplete without re-visiting the adapted conceptual framework of the study.
The underlying premises upon which the framework was based remain the same but risks garnered from the study are now reflected in place of the more generic risks of the original framework.

- The requirement to have a reporting link between shop-floor risk initiatives and the apex board risk committee with top-down as well as bottom-up communication lines.
- The requirement to have an all-embracing platform that tackles risks holistically.
- Embedding of risk initiatives into organizational objectives and strategies.

In sum the findings indicate the near total absence of all the three pre-requisites of the adapted conceptual framework. For instance, the divergence of views between same office participants on the criticality of risks and the absence of management level risk committees which represent the all-important link between the shop-floor and the board risk activities speak loudly to the gap between the adapted framework and industry practice. According to the Institute of Management Accountants (2011), In today’s increasingly risky world, companies can no longer rely on a silo-based approach to risk management but rather require an integrated and holistic perspective of all the risks facing the organization. The findings reflect an industry that is still deeply steeped in the silo approach.

4.3 Chapter Summary

This chapter started by giving a profile of the participant interviewees drawn from across the insurance companies targeted by the study. It then went on to detail the findings of the study; basically summarizing the views expressed from the cross-section of interviewees, re-visited the study conceptual framework and discussed the findings. The next chapter shall now give the conclusions and recommendations as well as point to areas of further research.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter shall draw conclusions from the findings elaborated on in chapter four and these conclusions shall lead onto the recommendations following from the study. But all this shall be done in relation to the objectives for which the study was set up in the first place. Lastly the chapter shall comment on contribution to literature as well as allude to areas of further study.

5.1 Conclusions

The major findings from this study are that whereas there are various frameworks deployed in the industry to deal with risk issues, these frameworks need to move away from the traditional silo approach to risk management in favour of ERM. The second major finding was on the need for regulatory reform covering various aspects of the industry and also, reform of the regulatory arm itself, IPEC. Finally a need was also established for meta-regulation at the sectoral level by sector players themselves. The following are the conclusions with respect to each of the study objectives as set out in chapter 1:

5.1.1 To establish if there are any frameworks deployed to address risks that confront the industry.

From the findings in the preceding chapter, it was concluded that indeed there are various frameworks used in the sector to address risks and these included regular audits and actuarial evaluations.

5.1.2 To interrogate the adequacy or lack thereof, of deployed risk management frameworks.

Following the study’s findings the researcher concluded that existing frameworks are inadequate to deal with the complex and diverse risks that are part and parcel of today’s business environment.
5.1.3 To identify if there are any regulatory interventions that can be deployed to support the long term viability of the sector.

Various regulatory issues outlined in chapter four led the researcher to conclude that there is a very strong case for the regulators to deploy various interventions in support of, and to improve the sector’s viability.

5.1.4 To suggest self-regulatory measures to improve the management of risks in the long term insurance sector.

From the findings the researcher concluded that the sector needs to self regulate to improve the management of risks that the industry faces.

5.2 Recommendations

5.2.1 Breaking of Silos

The findings demonstrated that whereas there are traditional frameworks used across the industry to approach risks, these frameworks are inadequate to deal with the multi-dimensional and complex nature of today’s risks. The researcher therefore recommends that the sector breaks the traditional silos that it uses to segment and approach risks in favor of a holistic approach which is encapsulated in modern Enterprise Risk Management frameworks.

5.2.2 Regulatory Reform

The findings reveal a plethora of issues raised by industry players as being in need of urgent reform. The researcher recommends therefore that regulators approach all these issues and, in consultation with insurance companies, review the current regulations with a view to introducing reforms.

5.2.3 Self-Regulation

Participants were quick to point out the ineffectiveness of the self regulatory body (LOA) and highlighted in particular that the body is not being taken seriously by industry players. Curiously none of the participants was able to accept responsibility for this state of affairs, preferring to blame nameless and faceless “others”. This is a serious indictment to sector players themselves.
The researcher therefore recommends that the entire industry introspects and come together to shore up the self regulatory body (LOA) as this will no doubt go a long way in helping the industry deal with common sectoral risks. The LOA needs teeth and only sector players can make this possible in order to make it effective once more.

5.3 Proposition Statements Re-visited

At the start of the study two bold propositions were made and it shall be appropriate at this point to examine whether these have been validated or disproved:

Proposition 1

*The Zimbabwean long term insurance sector has not learnt anything from the hyperinflation experience and consequently has not implemented risk management strategies sufficient to mitigate against risks facing the industry.*

This proposition has been validated by the lack of evidence of significant shifts from risk management practices and frameworks of yesteryear to newer frameworks such as ERM. While there may be awareness of the need to change these practices, substantively there is little on the ground to demonstrate improved readiness to tackle various risks.

Proposition 2

*Regulation of the Zimbabwean insurance sector has not responded to fundamental structural flaws in the industry and as such the industry remains exposed to various risks.*

This proposition has again been validated as there has not been a wholesale approach towards regulatory reform. The evidence of intent to enact reform can at best be described as both piecemeal and lethargic.
5.4 Contribution to Literature
The researcher could not find ready evidence of a similar study in the Zimbabwean market. At the same time there is an ongoing debate with an aim to change legislation to do with Pensions and Provident Funds which fall under the focal sector of the study. It is hoped that this study will add to the ongoing debate and contribute to the body of knowledge and improvement of risk management frameworks in the long term insurance sector. By so contributing, it is hoped the study lays a foundation to an industry that is an invaluable pillar of any vibrant economy, an ingredient so badly needed in the Zimbabwean economy.

5.5 Areas of Further Research
Due to time and resource constraints, this study merely pointed out deficiencies in the adequacy of current risk management frameworks in the focal industry as well as giving pointers as to what areas the regulators can initially look into. While these shortcomings have been abstracted at industry level, there is evidence that each of the players in the sector naturally falls short to varying degrees, depending on where they are right now in terms of best practice. The study therefore exposes a yawning gap for an individual case study approach with respect to each sector player, as a starting point, and as an essential step in bringing the Zimbabwean long term insurance player up to speed with current trends. The results of such focused studies should then form the blueprint for individual sector players to close existing gaps in the generation of risk management frameworks that have clearly been outpaced by ever evolving risk profiles.

5.6 Chapter Summary
This chapter concluded the study by giving the conclusions and recommendations before ending with contribution to literature and areas for further research.
Dear Madam/Sir

You are kindly invited to participate in this study being conducted by the undersigned to assess the effectiveness of risk management frameworks used by life companies in the Zimbabwean long term insurance sector. This study is being done as part of the requirements for the Master in Business Administration Degree at the University of Zimbabwe, Graduate School Of Management. I would appreciate if you could set aside time for an interview with the undersigned whose format of questions is indicated below. It is expected to take an average of 30 minutes to complete the interview.

Kindly note that participation in this project is strictly voluntary and no inducement or compensation for participating shall be offered. Accordingly should you decide to withdraw from the interview process for any reason, you may do so. It is however hoped that your participation shall enrich the study in ways that are beneficial to both the insurance sector and the university community.

The findings will be treated confidentially and will only be used for academic purposes. For any clarification regarding this study please do not hesitate to call-back the researcher on the following mobile numbers; Econet: 0772 256 722 or Telecel: 0736676283 or by e-mail at busunick@gmail.com

Thank you in advance for your cooperation.

NicksonBusu
Appendix B – Interviewing Guide

To maintain confidentiality only your position /title in the company shall be required. Even where you volunteer your name, it shall not be included with the research findings. The company name shall also be coded as A, B, C, etc and thus your responses shall be coded as A1 or B1 to show that you are the first respondent from company A or B respectively as the case may be.

1- What is your position/title in the company?
2- What is your ranking e.g. Manager, Senior Manager, Executive?
3- How long have you been employed:
   a- In the company?
   b- In the sector/industry?
4- Risk Management activities in your company are conducted by which department/s?
5- Do you have a risk committee and if so how is it constituted?
6- When was the last period for which an actuarial evaluation of the business conducted?
7- When was the last time an external audit of the business conducted?
8- What risk management frameworks do you use as an organisation?
9- Do the frameworks you use meet the risk mitigation requirements of the organisation?
10- If so/not how?
11- Which do you regard as the most critical risk factors facing your organisation?
12- Why?
13- How often does review of risk management activities take place in the organization?
14- Does your organization use ERM frameworks or a silo based approach to risk management?
15- Can you justify the approach used?
16- Are there any regulatory measures that could improve risk management initiatives in the sector? Elaborate?
17-Are there any self regulatory measures that could improve risk management effectiveness in your company or sector?
Elaborate?

18-Is there anything else you would like to say about the state of risk preparedness of
Your company?
The industry?

Thank you once again for participating in the study, the results of which shall be retained for academic purposes as part of the university records.

Nick Busu
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