Demystifying Insurance Part 23

Welcome to part Twenty Three of Demystifying Insurance, a continuation of the Life Offices Association (LOA)'s ongoing National drive to make insurance easily understood by all. In today's article, we explore how life insurance companies in Zimbabwe converted values from the Zimbabwe Dollar to the American Dollar in 2009.

From ZWD to multi-currencies
In a previous article we looked at how Zimbabweans in general moved to partial dollarization, how certain companies were licensed to trade in foreign currency and how values of certain commodities were arrived at.

We also explored how the Nation completely moved from use of the Zimbabwean dollar to the use of foreign currencies.

Covering promises
In this week's article we discuss how life insurance companies, in particular, converted values from the Zimbabwean dollar to the United States dollar in 2009.

All businesses including insurance companies had to convert, from Zimbabwe dollars to US dollars, the values of each of their clients' investments. Life insurers had benefit obligations to their policyholders, which constituted promises to them.

In order to cover these promises, life insurers at the time held assets in the form of policyholder funds. These assets, which included property, equity stocks, bonds, and cash, belonged to the policyholders.

Converting value
As there was no available trading exchange rate at the time of conversion, it was logical to first convert the value of total assets held into US dollars.

The value of the assets in foreign currency was then distributed to the policyholders, in proportion to the magnitude of each policyholder's fair Zimbabwe dollar share of assets.The different asset classes were converted or valued differently depending on the nature of the asset class. A brief description of how the different asset classes were valued in US dollars is outlined below.

Conversion of prescribed assets and other fixed interest securities
Prescribed assets mainly constituted bonds issued by the government. On conversion to foreign currencies in 2009, these bonds were not converted into foreign currency.

The reason is because bonds represent borrowings done through the financial system, and hence they are paper-based money.

As we established in previous articles, paper-based money lost value because of its fixed nature. Moreover, as paper based money is not supported by an asset, there is no easy way of determining its value, except for value attribution by authorities and the market.

Even if they had been converted they would have still had an insignificant value. This can be attributed to the fact that they were of a fixed amount in Zimbabwean dollars and hence their real value had been eroded by hyperinflation.

Other fixed interest securities (bank deposits for example) were also given a zero US dollar value, as there was no exchange rate to convert such bonds or cash because of the lack of an exchange rate.

Companies, however, are still holding the Zimbabwe dollar balances, as the Zimbabwean dollar was not demonetized – as and when an exchange rate is made available they can be converted.

Join us next week as we discuss the post-dollarization conversion of assets and liabilities from ZW$ denominated values to US$ values.

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