Life Offices Association of Zimbabwe

Demystifying Insurance Part 28

Welcome to part Twenty Eight of Demystifying Insurance, a continuation of the Life Offices Association (LOA)'s ongoing National drive to make insurance easily understood by all. Today we conclude our hyperinflation question and answer session by looking at the process that determined the values of policyholder funds.

Today's article explores questions raised by policyholders and pensioners about hyperinflation and the currency conversion of their values.

How were the values calculated?
Assets in various investment instruments, such as equity and property, back your pension or policy. Each of these assets had a US$ value attached to them. The total US$ value of assets was apportioned to pensioners and policyholders, (including active pension fund members) in line with their individual ZW$ proportionate asset share.

All the rules and due diligence were applied to ensure equity and fairness among all policyholders, which includes pensioners.

Who determined the figures?
Experts from various fields including Actuaries, Property Valuers, Auditors and Accountants were all involved. The process was rigorous and required a board approval and the result presented to the commissioner of insurance.

Why did it take long to do the conversion?
It is because it was a very complicated process requiring a lot of due diligence to ensure accurate conversion and allocation of asset values to each policyholder.

Why were the values so low?
Insurers were not spared the harsh economic environment all businesses and individuals were operating under. As explained above, hyperinflation resulted in loss of value for all investors. Insurers did their best at the time to ensure a fair distribution of the little that remained available to the relatively high number of policyholders with a claim on those assets.

Why are some amounts less than those being paid by NSSA and the Government?
Amounts being paid to policyholders and pension funds are based on a true valuation and allocation of assets values. Government and NSSA pension funds are partially funded pension schemes which do not entirely rely on assets built up over the years but also on tax or contributions of currently active members.

This is done in the hope that future pensioners (currently active members) will be at least partially catered for by future active members. In principle, Government sets pension levels as a percentage of current salary. Some pensioners earn more than those being paid by NSSA and the Government depending on their asset shares.

How can an insurer keep my money for so many years, and then tell me — with all their buildings — that my pension is so little?
Buildings are part of the assets taken into account when calculating the asset values for all policyholders including pensioners and active pension funds members. Though it seems that there are many buildings of great value, the number of policyholders and pensioners with a claim on them is relatively very high.The amount of pension contributions made during active pension fund membership, length of pension fund membership and investment returns are the main contributing factors to the pension amount.

What exchange rate was used to convert my monthly pension amounts or policyholder?
No exchange rate was used. The total assets backing the investments were distributed equitably amongst all policyholders and pension funds.

Why did you not convert using the traditional exchange rates?
At the end of 2008, there were several exchange rates being used in the country including billions cash rate, trillions cash rate, transfer rate and the Old Mutual implied share price exchange rate. All of these were neither official nor economically justifiable to use.

What will happen to those with low capital values, who will retire after this exercise?
They will still be offered pensions that can be supported by their capital values or full commutations in line with the limits agreed to by the Commissioner and the industry.

Why were some of the pensioners offered a single lump sum payment with no further monthly pensions?
Insurers offered a lump sum payment where the monthly pension amount was so little and expenses associated with the payment would be relatively onerous. It would also have been unfair to continue holding onto pensioners' lump sum amounts with an expectation of a very huge investment growth (for example 1000%) as this was unlikely to emerge in a stable currency environment. If they continued to hold those amounts, administration fees could erode them.

Are the monthly pensions going to increase?
Increases will be on an annual basis if investment returns permit.

Since the amount I am getting is so small can I please commute (be paid a lump sum) and what are the requirements?
Insurers will use the threshold approved by the Insurance and Pensions Commission to pay out lump sums. This is currently set at $10 per month. As and when the Commissioner increases the minimum pension payable upward, they will comply.

Is my Company aware that this is the money you want to pay me?
Companies have been advised though their pension funds' board of trustees.

Why are you not borrowing money from sister companies out of this country to pay decent pensions?
The laws of the country in which they operate govern each company and these may include not being able to remit funds outside the country governing each Company. Secondly, each company must carry its own liabilities, which have been ring-fenced to take care of their own policyholders. No cross-subsidization is allowed, as this will prejudice policyholders in other countries. In addition, some life insurance companies do not have branches outside of Zimbabwe.

Conclusion
The above are some of the questions that individuals may have had concerning hyperinflation and the currency conversion process.This brings us to the end of the series on the causes and effects of hyperinflation — we trust you found the responses to these questions and other previously published articles enlightening.

What happens when the Zimbabwe Dollar makes a comeback? Join us here next week to find out.

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