



**Life
Offices
Association**
o f Z i m b a b w e



Demystifying Insurance Part 31

Welcome to part thirty-one of Demystifying Insurance, a continuation of the Life Offices Association (LOA)'s ongoing National drive to make insurance easily understood by all.

Following on from our previous articles, radio shows and the Mai Chisamba Show on TV, today's feature examines a commonly asked question — why policyholder values appear low in relation to the seemingly immense properties under the control of insurers around the country.

Property values overview

Property was one of the assets held in significant proportion as an inflation hedge. The good news is that the land and buildings held in the ZW\$ era remained available after conversion in 2009. The only important issues were working out what value was to be ascribed to property in US\$ terms and ensuring that a fair share of that value was distributed to each policyholder.

How values were determined

Professional property valuers were engaged to determine these values. As mentioned in earlier articles, the value of property is derived from the rental income expected to be received throughout its lifetime, which in turn is used to pay out benefits.

An inability of tenants to pay appropriate levels of rentals would result in low values. As hyperinflation set in, voids arose by reason of the closure of many companies that rented premises. On dollarisation in 2009, property values were depressed due to

the shortage of liquidity which saw most of the properties remaining unoccupied.

Other options

An alternative to waiting for rentals over the years would have been to sell the properties, but this would still have yielded a low value as there were no investors able or willing to buy at a higher price. Furthermore, forced selling would have yielded an even lower value due to the prevailing shortage of liquidity.

What this means is that property did not lose value (in the sense that buildings were eroded or destroyed) but rather in the sense that they did not receive adequate value due to market forces. This, coupled with low or 'zerorised' values of other asset types, meant a very depressed total value of assets to distribute to participating policyholders.

It is important to note that at the time of dollarisation all properties belonged to policyholders and not to shareholders — and all the value derived from them was distributed to the existing policyholders in proportion to their share before dollarisation. This process was audited, clearly implying that insurers could not have benefited from properties at the expense of their valued clients. All assets belonging to shareholders as a cover for insurance liabilities were only held in various shares.

Law of averages

The main reason for low post-dollarisation values was that the number of participating policyholders

did not decrease in direct proportion to the decrease in asset value. A huge number of policyholders remained to share in the lower post-dollarisation asset values. For example, the Insurance and Pensions Commission report for Life Assurers for the half year ended 30 June 2013 revealed that the total value of property under the management of life assurers is US\$474 million. An estimate of the number of claimants is 1 million. This means that on a basic average, each of the claimants would have a capital value of just \$474 from property.

Of course some have more and others less depending on the amount of contributions paid in. The most important aspect was therefore to ensure that a fair share was distributed to all policyholders without prejudice.

Intergenerational transfer

This brings us to a final discussion on the concept of intergenerational transfer of assets. The property held by insurers does not only belong to pensioners. The owners of the properties include current active members of pension funds. Some of these active members contributed towards the construction of the properties but others have a share in the property despite it having been built before they made their contributions.

One would ask how that would be possible. When rental, dividend and interest income from assets is not enough to pay pensioners on its own, it would be necessary to disinvest by selling part of the assets held.

Due to the indivisibility of property, whereby it cannot be sold in part just to finance little financial needs — and in the absence of investors willing to buy the whole at a reasonable price — the property is gradually sold to active contributors. What this means is that while existing assets are being sold to pay benefits, new contributions are not entirely used to buy new assets.

Current contributors are gradually buying shares into existing properties. Current beneficiaries, meanwhile, are gradually selling out part of their share ownership in the property to these new contributors, in order to be paid their benefits. This results in a falling share ownership in the properties by pensioners over time. In other words, if one owned one brick 15 years ago, they may only own a quarter of a brick today. This is expected, since people would have sold their savings assets to realise an income post retirement.

In conclusion

Low values were the result of a large number of policyholders sharing in the little value derived from existing assets.

No assets were transferred from policyholders to the insurers' shareholders — and ultimately all policyholders and shareholders suffered, without discrimination, from the decline in value.

