



THE CELL NEWS



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Hedge against inflation by insuring in forex

The performance of any insurance program taken by any organisation or individual is directly controlled by the economic situation. Inflation and economic instability tend to rock havoc on the benefits that are provided by insurance in general. This is evident in claims settlement and the rate at which asset revaluations are conducted. In a typical hyper inflationary environment like Zimbabwe, coping with the requirements of one's insurance program is a daunting task. The asset values under various insurance policies are always on a rise, rendering the sums insured useless and insurers request for additional premiums at a festering rate.

This scenario has left insurers with very few options to deliver quality service to their customers, without being prejudiced by the average clause. It has become inevitable for claims to be averaged at the current moment in Zimbabwe because of the ever increasing inflation levels. Many companies have tried to come up with inflation-proof methods of administering the insurance policies and reduce the impact of average condition on the claims. The rent-a-cell option has become one of the only options that have been used by risk conscious clients to hedge against inflation.

With the current rate of inflation, most methods have only proven to be additional hustles for both the clients and the insurers. The insurers have been forced to increase transaction levels from an annual policy to monthly and quarterly policy arrangements, thus increasing transactional costs. Clients have been forced to pay frequent additional insurance premiums. This affects most organisations' cash flows especially when the levels of production are low. Insurance costs, in some instances are proving to be more than the gross revenues for most manufacturing organisations.

Some other sound option, besides the rent-a-cell captive, that most organisations have used is insuring their portfolios on hard currency. This option is proving to be a helpful move to combating the adverse effects of inflation on values of insurance. Organisations and individuals who have insured their policies in hard currency have encountered fewer problems regarding under-insurance and the effects of the average condition. This is mainly because the

values of policies on hard currency move in line with inflation trends. The values of property in an inflationary environment tend to appreciate with increase in inflation levels. The rate of appreciation is, in most cases, in line with the foreign currency values.

This effectively means that when a policy has been insured in foreign currency, the values are always in line with the rate of inflation and no average is applied when a claim occurs assuming the sum insured was correct from day one. The emergence of foreign currency denominated products has been popular in the past few months as a result of the deteriorating economic situation, with most organisations opting for this product to avoid average condition.

Any policy can be insured in foreign currency denominated policies as long as the insured can pay for the insurance premiums in the requested currency. In most instances organisations have opted to insure the critical policies in this mode. These include the motor fleet policy, assets all risk policy, machinery breakdown, electronic equipment and any other crucial covers depending on organisations. Individuals with free funds have put their motor policies on forex products as well. The major attraction is claims settlement. In case of total losses, the insured is paid in foreign currency without average applying. Where there is a partial loss repairs are authorised locally and payment done by insurance companies.

A few constraints are faced when an organisation wants to go for this option. First of all, not all insurance companies including Cell Insurance, are authorised to transact forex products, only a few insurance companies have been cleared by the Exchange Control Authorities and IPEC to transact business in forex. Secondly, anyone wishing to insure in forex have to pay their premiums from "free funds" emanating from any legal source outside the country. This can be payment by any relative of the insured resident outside the country for individuals, or a companies with a head office or subsidiary outside the country. It is not possible even for the insured with local forex accounts to pay premium from the local foreign currency pool.



Did you know?

The word "Honeymoon" carries the significance that the first month of marriage is the sweetest.
(Golden Honey Blossom)

What's the Buzz?

THE equities opened the week firm rallying past the 2billion point mark on positive sentiment across the board driven by stagnant money market rates and firming US Dollar rates. Money market rates remained between 80% to 100% for short-term, 150% for long-term with a surplus of \$76trillion (Herald 15 April 2008)

AFRICAN stock exchanges may be in for a rough time this year due to political risks and uncertainties. The bourses made impressive returns last year on the back of relative immunity from shocks that hit equities in developed countries (Herald 7 Feb 2008)

FINANCIAL results of commercial banks for the year ending December 31 2007 show that most institutions posted huge profits in Zimbabwe dollar terms largely from non-core banking activities. According to the recently released financial results involvement in non-banking activities increased towards the end of last year following last October's cash crisis that threatened some banks with insolvency. (Zim Independent 11-17 April 2008)

TOYOTA Motor Corporation is recalling 539 500 Corolla and Matrix passenger cars in the United States because the bolts in the power window system can become and ultimately cause a window to shatter. (Zimbabwe Independent 11-17 April 2008)

ZIMBABWE's increasingly worthless local currency has once again caused headaches to business as most of their machines struggle to cope with the rising numbers of zeros that has been spawned by an alarming increase in prices and commodities (Business Connect 29 Feb-14 March 2008)

THE small to medium-scale enterprises sector is losing more than 40% of productive time monthly due to absenteeism, illness and funerals associated with the HIV and AIDS pandemic, a study has revealed (Herald 24 March 2008)

Disasters - *Can we handle them?*

September 11 is a day that shook the whole world. The horror that took place at the Twin Towers is still fresh in many peoples minds worldwide and is probably the world's worst terrorist attack ever performed. In another point of view, it was the day the world risk was put to a new definition - *expect the impossible*. Nobody in their right frame of minds ever thought that a jet aircraft with all passengers and tanks full of jet A1 fuel could act just like any other missile bomb strong enough to bring down a structure as big as the Twin Towers. The events that took place at the Twin Towers happened at the least expected time in the least predicted or known way. Is this a manifestation that risk in general, is evolving beyond our comprehension?

The ability of organisations to handle disasters is one of the great questions which was answered by the Twin Towers collapse a few years ago. Even the most sophisticated and developed nations like USA have been put to test with the recent changes in risk structure and have been found wanting. The situation is even much worse for less developed countries that are still grappling with basic business survival techniques, if they are to be in the September 11 situation. Questions that come to mind are : does your employees know how to react to a fire breakout on your building?. If an earthquake occurs, what is the best way to react to the situation?. If you are involved in an accident what is the first life saving measure to take?

When the Twin Towers were hit by two airplanes many lives that could have been saved were lost as a result of not knowing what to do. People jumped out 80 floors high plunging in parked vehicles and bare concrete roads. The risk management systems that were in place were also out of sync. Thinking of it, what were people in the 90th floor supposed to do when their building was burning from the bottom?. The buildings had some fire escape stairways but were these ample to save thousands of people trapped in more than 80 floors , one hundred metres from the ground?. If an escape plan like using parachutes was in place, so many people would have survived. At least people trapped in the top floors would have jumped safely with their parachutes and landed peacefully on the ground before the towers collapsed.

A few months ago in 2007, Southern Africa experienced some seismic movements that caused some mild tremors emanating from Mozambique. This affected Zimbabwe and South Africa, especially those towns close to Mozambique. What were people's reactions? Some jumped out of their beds in panic, some climbed on their roof tops some fell down in prayer thinking that it was the second coming. The point is almost all people did not know how to react to such a strange phenomena. Earthquakes were never experienced in this part of Africa, but these seismic movements proved that earthquake risk is now imminent. If a full fledged earthquake

is to occur with an epicenter close-by, do the people know how to react to the consequences? Do the local authorities and government have enough facilities to cope with the damages and casualties?. Kobe earthquake which almost collapsed the city of Japan came as a surprise and it took more than 24hours for the government to send enough emergency aid. In Zimbabwe there have been several incidences where the fire brigade was overwhelmed by what seems to be a medium-sized fires. How about the Civil Protection Unit, does the organisation have any hard policies and resources to protect the ordinary man in the street from adverse effects of disasters yet they do not even have an emergency helicopter?

Given these scenarios it has become imperative for corporate organisations, especially in less developed countries, to play a very critical role on the articulation of basic risk management measures that can be taken when an unfortunate situation arise. Some organisations involved in heavy operations have tackled issues to do with fire risks and general health and safety risks. But if you take a basic service oriented organistaion, there are many areas that might need covering. For instance if an armed robber sticks out a gun does anyone know how to react, let alone contact the police? Do employees know emergency numbers in case of a fire, accident, robbery?

To assist in improving the situation an organisation can start to build a conscious risk culture that cascades down even to personal risk management. This might seem as a little island of hope which can save one's life. Some of the measures that an organisation can take to alert its workforce of basic risk management practices includes the following:

1. Train your employees on fire prevention and effective reaction methods.
2. Display fire rules and indicate clearly where fire fighting equipment is located.
3. Train your staff to know the emergency numbers in case one needs to contact fire brigade, ambulance services, police or any other emergency service provider.
4. Train your staff on basic medical first aid procedures. This might come in handy where emergency medical aid takes long.
5. Always provide current information and trends of accidents, earthquakes, floods, road traffic accidents and all other related issues.
6. Work towards a full risk management policy for the whole organisation and implement it in daily operations.

It is therefore imperative for organisations to educate their employees on the basics of risk management . It might help in preserving unnecessary loss of lives due to lack of knowledge or not knowing what to do when such issues arise.



Buzz corner

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