Determinants of Profitability in the Zimbabwean Insurance Industry from 2009-2017

Takesure Chinorwadza*, Valentine Martha Mutandagai2 and Takudzwa Mutonhori3

1Senior Research Economist, Economic Research Unit - Harare, Zimbabwe
2Investment Advisor, Sentinel Wealth Group - Gaborone, Botswana
3Research Economist, Economic Research Unit - Harare, Zimbabwe

*Corresponding author: tchinorwadza@gisp.gov.zw

Abstract - This study sought to evaluate the determinants of Zimbabwe Insurance Industry’s performance from 2009-2017. During the period under review, Zimbabwe was operating with a stable currency regime. The study used return on equity (ROE) as a proxy of profitability. A combination of firm specific factors and macroeconomic factors were considered in the regression model to ascertain their impact on profitability. Panel data for 8 life assurance companies was subjected to Multiple Regression using e-views 8 statistical package. A Random Effects model was adopted and the results imply that firm specific variables; expense ratio and equity capital are significantly and positively related to profitability. Findings further registered a positive relationship between GDP growth and profitability. A negative relationship was registered between ROE and inflation rate.

Keywords: ROE, Firm specific factors, Macroeconomic factors, Random Effects

1. INTRODUCTION

The insurance sector plays a pivotal role in the functioning of the economy and as such, it commands a stake in the field of economic research. The sector’s role of risk pooling, risk sharing and risk transferring need not be undermined. Its contribution to employment statistics cannot be ignored as well (Insurance and Pensions Commission, 2017). Several studies were done in a bid to understand the determinants of the profitability of the insurance sector with different views having been registered. Empirically, factors which include age, size, premium growth, market share, leverage ratio, capital growth, tangibility ratio, loss ratio, GDP growth and inflation rate have been considered as explanators of profitability of insurance industries in different countries (Örtynski, 2016; Kozak, 2015; Almajali, Sameer and Al-Soub 2012). The determinants can be disaggregated into firm-specific and macroeconomic factors. Understanding these factors is of paramount importance for all economic players hence this study which seeks to unearth the key explanators of profitability in the Zimbabwean insurance sector.

Stylised Facts About Zimbabwe’s Insurance Sector

Zimbabwe till 2009 which marked the dawn of a multi-currency system had been facing macroeconomic challenges which includes hyperinflation, high unemployment, low industry capacity utilisation, high trade imbalances and huge budget deficits hence a tight fiscal space. This forced the country to dump its local currency in favour of the United States Dollar (Global Finance Data, 2010). According to Hanke and Kwok (2009), inflation had grown from 55.22% in 2000 to 231 million % and this forced Zimbabwe to dump its local currency. Due to this economic downturn, insurance prioritisation levels were low, disposable incomes shrunk, companies closed, unemployment surged and the insurance industry was characterised by market failure.
which manifested through moral hazard as well as fraud. The proliferation of an overwhelmingly informal sector necessitated a launch of the micro-insurance framework by Insurance and Pensions Commission (IPEC), which was done to impact on the previously marginalised groups which includes vendors, small scale producers, peasant farmers as well as low income earners.

The introduction of a multi-currency system especially the United States dollar in 2009 was viewed as a panacea to the macroeconomic challenges that were being faced by the country which were blamed on the use of an unstable currency which is the Zimbabwean dollar. During the period under review, meaningful investments were made in the insurance sector and the internet of things increased. Internet usage increased to 46.5% in 2016 from 7.4% in 2010, IPEC 2016. Owing to the introduction of a stable currency, premium income increased by 4% and total assets grew by 9% as a result of increased investments in properties and equities. The insurance sector registered a 32% growth in terms of total assets to US$5, 4 billion in March 2017 compared to US$4.1 billion in 2016 at the backdrop of growth in equities and asset revaluations (IPEC, 2017). In 2018, the Zimbabwean insurance industry was made up of 120 insurance companies. Of these, the distribution is as follows; 11 life assurers, 9 funeral assurers, 34 insurance brokers, 2 life-reassurers, 27 life assessors, 2 micro insurers, 6 reinsurance brokers, 21 short term insurers and 8 short term reinsurers (IPEC, 2018).

2. LITERATURE REVIEW

Theoretical Review

The attention devoted in literature to the determinants of profitability in insurance industry has been low if compared to the extensive studies on the banking industry and the financial sector (Ortynski, 2016). This section seeks to unpack available literature in relation to profitability of the Insurance Sector. Undoubtedly, profitability has always been an anchor objective for many corporates and insurance companies are not an exception. If an insurance company consistently make loses from its operations, it therefore makes it impossible to fulfil its obligations. In that regard, insurance ceases to make sense if the insurer fails to pay claims. Premiums have always been a stand-out amongst the determinants of profitability. One key principle has been developed over time in relation to the determination of premiums is the principle of equivalence.

The Equivalence Principle

The principle asserts that insurance premiums be equated to claim payments that are expected that is the probability of claims + costs of administering claims. Assuming premium is \( \chi \) it follows that;

\[
\chi = p + \frac{1}{n} C(n) \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots (1)
\]

Where; \( p \) denotes the probability of claims payments;

\( n \) denotes the number of insurance contracts and

\( C(n) \) is the total cost of managing the portfolio of \( n \) contracts.

An interesting mathematical deduction is that, a premium dictated by this principle yield zero profit. It therefore follows that profitability is guaranteed if and only if premiums are set higher than the equivalence premium. This notion has underscored the importance of having the services of actuaries in the insurance sector to help in determining premium levels which guarantees return on investments.

Empirical Review

In establishing the explanators of Kenya`s insurance sector`s profitability, Ngoya (2016) employed a hybrid of qualitative and quantitative data analytics. The study considered the impact of market penetration, claims costs, reinsurance costs as well as commission expenses on profitability. The study unpacked a positive relationship between commission expenses and profitability whilst a negative relationship was registered for cost of claims, market penetration and reinsurance costs. Ordinary Least Squares (OLS) was adopted during the study. In a much related study, Kozak (2015) posits that a reduction in operational costs positively impacts on profitability. Capturing the impact of firm specific and macroeconomic factors for companies in Poland for the period of 2006 to 2013, Ortynski (2016) through panel data analysis showed that company size has a positive significant relationship with profitability. In terms of macroeconomic factors, a positive relationship was registered between Gross Domestic Product (GDP) growth rate and profitability. The findings conform to the findings by Almajali,
Sameer and Al-Soub (2012) for Aman Stock Exchange listed insurance companies. However, contrarian views were posted by Lee (2014) who failed to establish a significant relationship between profitability and firm-specific factors inclusive of growth of the firm and portfolio diversification. For macroeconomic variables, Lee (2014) and Mazviona (2017) failed to establish a meaningful relationship between inflation and profitability. In sharp contrast to Lee (2014) and Mazviona 92017), Doumpos, Gaganis and Pasiouras (2012) had earlier found a high correlation between profitability and inflation rate.

Pervan, Ćurak and Marijanovic (2012), through a dynamic panel model submitted evidence supporting a significant relationship between years in operation as well as market share and profitability. The finding on age of the company was however disputed by Almajali, Smeer and Al-Soub (2012) and Mehari and Aemiro (2013) who argued that age of a company is not significantly related to financial performance. The authors underscored the link between past performance and present performance of a firm thus submitting that performance has a memory effect. As such, during their analysis, a lagged value of the dependent variable was included. Concurring to submissions by Lee (2014), the authors also reported an insignificant relationship between portfolio diversification and profitability.

Establishing the link between financial leverage and performance, Adams and Buckle (2003) revealed a positive significant relationship between leverage and profitability. This finding was supported by Almajali, Smeer and Al-Soub (2012) and Boadi, Antwi and Lartey (2013). However, the authors registered different findings on the link between tangibility and performance. Apparently, Almajali, Smeer and Al-Soub (2012) registered a positive link between tangibility and negative relationship was established between tangibility and performance by Boadi, Antwi and Lartey (2013).

3. METHODOLOGY

Regression was done using the statistical software e-views 8.1 to achieve two major objectives which are;

- To prove the conformity of the study’s results to empirical evidence
- Estimating and specifying a profitability model for the insurance sector in Zimbabwe

**Data and data sources**

The study used company-level data for the year 2009-2017. Focus was on 8 life assurance companies and a panel dataset was collected from the IPEC (a statutory body created through an Act of Parliament), national statistics agency (ZimStats) and researchers’ calculations from published financial statements.

**Model Specification**

The general model to be estimated is adopted from Ortyński (2016) and is a linear equation;

\[ Y_{it} = \alpha + \beta X_{it} + \mu_{it} \ldots \ldots \ldots \ldots (1) \]

Where \( Y_{it} \) is a vector of profitability of firm i at time t with i=1…N and t=1…T, \( \alpha \) is a constant, \( X_{it} \) is a matrix of explanatory variables, \( \beta \) is a vector of parameters of explanatory variables and \( \mu_{it} \) is the one-way error component model for disturbances. \( \mu_{it} = \mu_{i} + v_{it} \) where \( \mu_{i} \) is unobserved firm specific effect and \( v_{it} \) is the idiosyncratic error.

This study used return on equity (ROE) as a proxy of profitability. In terms of calculation, ROE was obtained by subtracting preferred dividends paid from net income and then divide by total stockholders’ equity and multiplied by 100 that is;

\[ \text{Net Income−Preferred dividends paid} \times 100. \]

\[ \text{Total stockholders' equity} \]

ROE has been considered as a measure of a firm`s efficiency when it comes to generating income from the equity of shareholders. In practice, a range between 15% and 20% is considered desirable. Adoption of ROE as a proxy of profitability though in tandem with empirical literature was a result of the structure of data at the disposal of the authors. Asset structure was not readily available thus the need to adopt ROE ahead of Return on Assets (ROA).

The specific model is as follows;

\[ ROE_{it} = \alpha + \beta_{1} gdp gewth_{it} + \beta_{2} infl_{it} + \beta_{3} ln eqty capsit + \beta_{4} expratio_{it} + \varepsilon_{it} \ldots \ldots \ldots \ldots (2) \]

**Justification of variables**

\( GDP \) \( GROWTH \) \( RATE \) \( (gdpgwth) \).

GDP is the sum of gross value added by all resident producers in the economy plus any product taxes minus subsidies not included in the
value of the products (World Bank, 2012). GDP growth reflects an increase in business activities with a positive growth expected to impact positively on performance of companies whilst a negative growth signifies a retardation in business activities thus expected to have a negative impact on profitability.

**INFLATION RATE (infl)**

This typically refers to a general upward trend in the price level of prices within an economy and the Consumer Price Index (CPI) was used in this study. Few researchers have penned the impact of inflation on the performance of insurance industry, D’Arcy (1979) and Doumpos, Gaganis and Pasiouras (2012). A high correlation between profit and inflation rate was registered in their studies.

**EQUITY CAPITAL (eqtycap)**

Some studies have investigated the influence of ownership structure on profitability and laborious work has been done pertaining to the relevance of capital structure (capital structure irrelevance theory, pecking order theory, market timing theory and trade-off theory). According to Browne, Carson and Hoyt (1999), as equity returns increase, returns on an insurer’s investment portfolio may also increase and this may improve the performance of the insurance company. Some authors argue that equities have the benefit of providing inflation hedge over the long term (Booth et al. 1999).

**EXPENSE RATIO (expratio)**

Operating expenses should be considered as a determinant and prerequisite for improving performance, since expenditures are controllable expenses. If efficiently managed, they can contribute positively to the performance of insurance companies. When an insurer is growing, there should be a progressive decline in the expense ratio. There has been limited literature on the effect of expenses on company performance in the insurance industry.

### 4. PRESENTATION OF RESULTS AND FINDINGS

**Descriptive Statistics**

Table 1 shows that there were 72 observations for each variable as recorded from 2009 to 2017 for the 8 cross sections. The independent variable (ROE) fluctuated between -4.73% and 17.53%. Since ROE is an indicator of a firm’s efficiency at generating returns from every unit of shareholders’ capital, a negative value indicates inefficiencies in putting shareholders’ equity into profitable use. A positive figure is always desired and it indicates a positive return for shareholders thus signifies a profit.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>72</td>
<td>0.104467</td>
<td>0.116500</td>
<td>0.175300</td>
<td>-0.047300</td>
<td>0.063635</td>
</tr>
<tr>
<td>GDPGrowth</td>
<td>72</td>
<td>0.058444</td>
<td>0.045000</td>
<td>0.119000</td>
<td>0.006000</td>
<td>0.386679</td>
</tr>
<tr>
<td>INFL</td>
<td>72</td>
<td>0.016789</td>
<td>0.016300</td>
<td>0.062000</td>
<td>-0.024100</td>
<td>0.261521</td>
</tr>
<tr>
<td>LOG(EQCPTL)</td>
<td>72</td>
<td>16.36737</td>
<td>16.64775</td>
<td>17.19883</td>
<td>14.12574</td>
<td>0.956954</td>
</tr>
<tr>
<td>EXPRATIO</td>
<td>72</td>
<td>0.581111</td>
<td>0.630000</td>
<td>0.780000</td>
<td>0.430000</td>
<td>0.104161</td>
</tr>
</tbody>
</table>

*Source: Own calculation.*

<table>
<thead>
<tr>
<th>Variable</th>
<th>ROE</th>
<th>GDPGrowth</th>
<th>INFL</th>
<th>LOG(EQCPTL)</th>
<th>EXPRATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDPGrowth</td>
<td>-0.269251</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INFL</td>
<td>-0.637850</td>
<td>0.683210</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOG(EQCPTL)</td>
<td>0.57267</td>
<td>-0.062366</td>
<td>-0.5228</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>EXPRATIO</td>
<td>-0.52233</td>
<td>-0.270690</td>
<td>0.2072</td>
<td>-0.803785</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source: Own calculation*
The correlation coefficient explains the linear relationship that exists between any two variables. Table 2 indicates a positive correlation between ROE and equity capital and a negative correlation with the GDP growth, inflation and expense ratio. Accordingly, the results do not suggest the presence of multicollinearity amongst the independent variables. According to Gujarati (2004), multicollinearity exists when a pair-wise correlation between variables exceeds 0.8. The results saw a high pair-wise correlation of 0.683210 between GDP growth and inflation though it is not suggestive of the presence of multicollinearity. The results support that the independent variables are best linear unbiased estimators (BLUE).

The Durbin-Watson (D-W) test carried out reported a value of 2.668346, a value which dispenses presence of autocorrelation. It therefore follows that the error terms are not correlated with each other.

**Multiple Linear Regression**

Data used in the research is panel data thus warranting the choice between Fixed Effects (FE) and Random Effects (RE) model. FE model allows for heterogeneity among different cross-sections allowing each cross-section to have its own intercept. The RE model though it allows heterogeneity, the individual specific effect is uncorrelated with the independent variable. In practice, the choice between the FE or RE model can be solved by invoking the Hausman Test (Eviews 8 Users’ Guide I).

**Hypothesis:**

- $H_0$: RE model is appropriate
- $H_1$: FE model is appropriate

**Decision Criteria:** Reject $H_0$ if p-value is less than 5%, accept $H_0$ if p-value is greater than 5%.

**Table 3: Fixed effects model**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.424546</td>
<td>0.115145</td>
<td>-12.37173</td>
<td>0.0000</td>
</tr>
<tr>
<td>GDPGWTHER</td>
<td>0.018726</td>
<td>0.101112</td>
<td>0.185197</td>
<td>0.8537</td>
</tr>
<tr>
<td>INFL</td>
<td>-0.242426</td>
<td>0.173195</td>
<td>-1.399731</td>
<td>0.1667</td>
</tr>
<tr>
<td>LOG(EQTYCAP)</td>
<td>0.082722</td>
<td>0.005528</td>
<td>14.96374</td>
<td>0.0069</td>
</tr>
<tr>
<td>EXPRATIO</td>
<td>0.306379</td>
<td>0.047721</td>
<td>6.420154</td>
<td>0.00250</td>
</tr>
</tbody>
</table>

**Effects Specification**

<table>
<thead>
<tr>
<th>R-squared</th>
<th>Adjusted R-squared</th>
<th>S.E. of regression</th>
<th>Sum squared resid</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.908270</td>
<td>0.891452</td>
<td>0.020965</td>
<td>0.026373</td>
</tr>
<tr>
<td>Mean dependent var</td>
<td>S.D. dependent var</td>
<td>Akaike info criterion</td>
<td>Schwarz criterion</td>
</tr>
<tr>
<td>0.104467</td>
<td>0.063635</td>
<td>-4.740871</td>
<td>-4.361427</td>
</tr>
</tbody>
</table>
Table 4. Random effects model
Dependent Variable: ROE
Method: Panel EGLS (Cross-section random effects)
Date: 12/03/20   Time: 11:13
Sample: 2009 2017
Periods included: 9
Cross-sections included: 8
Total panel (balanced) observations: 72

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.424546</td>
<td>0.115145</td>
<td>-12.37173</td>
<td>0.0000</td>
</tr>
<tr>
<td>GDPGWT</td>
<td>0.018726</td>
<td>0.101112</td>
<td>0.185197</td>
<td>0.8536</td>
</tr>
<tr>
<td>INFL</td>
<td>-0.242426</td>
<td>0.173195</td>
<td>-1.399731</td>
<td>0.1662</td>
</tr>
<tr>
<td>LOG(EQTYCAP)</td>
<td>0.082722</td>
<td>0.005528</td>
<td>14.96374</td>
<td>0.0068</td>
</tr>
<tr>
<td>EXPRATIO</td>
<td>0.306379</td>
<td>0.047721</td>
<td>6.420154</td>
<td>0.0230</td>
</tr>
</tbody>
</table>

Effects Specification

<table>
<thead>
<tr>
<th>S.D.</th>
<th>Rho</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.000000</td>
<td>0.0000</td>
</tr>
<tr>
<td>0.020965</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Weighted Statistics

<table>
<thead>
<tr>
<th>R-squared</th>
<th>Mean dependent var</th>
<th>0.104467</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R-squared</td>
<td>S.D. dependent var</td>
<td>0.063635</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>Sum squared resid</td>
<td>0.026373</td>
</tr>
<tr>
<td>F-statistic</td>
<td>Durbin-Watson stat</td>
<td>2.668346</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td></td>
<td>0.000000</td>
</tr>
</tbody>
</table>

Unweighted Statistics

<table>
<thead>
<tr>
<th>R-squared</th>
<th>Mean dependent var</th>
<th>0.104467</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum squared resid</td>
<td>Durbin-Watson stat</td>
<td>2.668346</td>
</tr>
</tbody>
</table>
Table 5: Hausman Test

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq. d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>0.000000</td>
<td>4</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

* Cross-section test variance is invalid. Hausman statistic set to zero.

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Fixed</th>
<th>Random</th>
<th>Var(Diff.)</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDPGWH</td>
<td>0.018726</td>
<td>0.018726</td>
<td>0.000000</td>
<td>0.0000</td>
</tr>
<tr>
<td>INFL</td>
<td>-0.242426</td>
<td>-0.242426</td>
<td>0.000000</td>
<td>0.0000</td>
</tr>
<tr>
<td>LOG(EQTYCAP)</td>
<td>0.082722</td>
<td>0.082722</td>
<td>0.000000</td>
<td>0.0000</td>
</tr>
<tr>
<td>EXPRATIO</td>
<td>0.306379</td>
<td>0.306379</td>
<td>0.000000</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Following the decision criterion, it therefore follows that the study accepts the null hypothesis and conclude that the RE model is appropriate.

From table 4, the specific model is as follows;

\[ ROE = -1.424546 + 0.018726 GDPGWH - 0.0242426 INFL + 0.082722 LOG(EQTYCAP) + 0.306379 EXPRATIO \]

R-squared of the model is 0.908270 meaning that the model explains 90.82% of the total variability in the performance of the insurance sector. Despite a moderate R-squared value, an F-statistic of 165.8504 was recorded implying that the null hypothesis that the model is not adequate can be rejected since the p-value of the F-statistic is sufficiently low (0). The authors therefore conclude that the model is correctly specified and fitted.

Results indicate that GDP growth (GDGPWH) has a positive influence on the profitability of the Zimbabwean insurance sector. This follows that an increase in GDP ceteris paribus will lead to favourable business environment conducive for profitability. The result conforms to the findings of Ortynski (2016) who argues that economic growth propels profitability in the insurance sector as such growth is expected to cause an increase in demand for insurance. In the Zimbabwean context, the country recorded positive economic growth during the period under review. Economic growth can be argued to have brought about advances in the world of technology and as such it is logical to assume that such advances led to efficient and cheap administrative methods of claim management. It remains a useful assumption to say that economic growth led to high demand of insurance covers as economic activity was booming during the period under review.

Inflation rate (INFL) was found to have a negative insignificant relationship with the profitability of the insurance sector. The result can be supported by economic literature which posits that a high inflation rate slows business activities as it leads to the erosion of purchasing power of economic agents. Inflation can be viewed as an enemy of savings hence negatively impacting on investment. With a country battling high inflation, economic activity tends to be slowed. The study’s
findings are in line with the results registered by D’Arcy (1979) and Mazviona (2017).

The study findings revealed a positive significant relationship between equity capital and profitability. Equity can be viewed as the bases upon which business operations glides. The result obtained is in conformity with the findings of Browne, Carson and Hoyt (1999). This means that more capital influx will enable firms to expand and open new branches which in turn may lead to growth accompanied by economies of scale and hence improved financial performance. This can be supported by the statistics proffered which indicated an increase in market capitalisation in the introduction section. In the Zimbabwean context, it can be argued that the introduction of a multi-currency system opened up avenues for new investors given that the main currency was the United States Dollar which is considered to be a stable currency. As such, more investors were willing to put their foreign currency due to the adoption of a stable currency.

The study also confirmed a positive significant relationship between expense ratio and profitability. The finding is however not in line with the precepts of economic and accounting principle. An expense is a cost to the business and can be viewed to have a negative impact on profits of any business. The established nexus is suggestive of a scenario where major expenses incurred by insurance firms positively impacted on the performance of the industry. Though literature is starved with empirics on this variable, the study’s finding is supported by Hoffman (2011) who found a positive relationship between expenses and profitability. Bourke (1989), also found a positive relationship between total profits and staff expenses. Evidence from the data provided revealed high proportion of expenses going towards salaries and operations with statutory deductions contributing less towards total costs. High staff costs can have a positive impact on motivation and ultimately performance hence the study registered a positive link between expense ratio and profitability.

5. CONCLUSION AND RECOMMENDATIONS

The general objective of this study was to establish macroeconomic and firm specific factors that determine the profitability of the insurance sector in Zimbabwe for the period 2009 to 2017. Specifically, the objective of the study was to evaluate how growth rate of GDP, inflation rate, equity capital and expense ratio impact on the profitability of the insurance sector being proxied by return on equity. The results indicated that firm specific variables are crucial determinants of profitability in the insurance sector as signalled by their significance after running the regression.

As established by the study, it is imperative that government pursue growth stimulating policies as economic growth has a positive impact on profitability. Any contraction in the economy is likely to be met with a decline in business activities. On the same related note, the government must keep a close eye on inflation rate. Inflation since it erodes purchasing and transactionary power of agents, any increase in the rate will impact negatively on profitability. This therefore means the need for the government to guard jealously the avenues through which inflation can trickle in and chief among which is the monetary policy.

Equity capital was seen to be positively significantly related with profitability thus the need to consider it as a good option of finance. However, there is need for a comparative analysis with other sources of finance. One danger is ending up having greater bulk of capital in equity thus leaving a company lowly leveraged yet leverage is a key determinant of profitability.

The study unpacked the impact of a rarely studied firm specific variable (expense ratio) and revealed a positive significant relationship. This variable has a direct impact on profitability since it eats out from revenue thus expected to impact negatively on profit. However, the study indicated a positive relationship with analysis of data indicated that the bulky of the expenses were operational expenses which creates a platform conducive for efficiency. It is therefore imperative that administration costs be kept at the lowest possible levels by automating more functions online.

Suggestions for future studies

This research was on a sector approach and highlighted the significance of firm specific variables. It is against this backdrop that there is need for studies at micro level (focusing on single companies). This will enable studies on socio-economic factors’ relevance to profitability. It was difficult to study the impact of variables like consumer income, education and family size on profitability of insurance companies. These factors however play a significant role in the profitability
of insurance companies. More to that, this will enable researchers to use primary data which is accurate and suffers from limited bias as compared to secondary data.

6. REFERENCES


