

National University of Science and Technology



FACULTY OF COMMERCE
DEPARTMENT OF ACTUARIAL SCIENCE AND INSURANCE

ECONOMIC VALUE OF REINSURANCE

By
BONGAI MWANYANGADZA MUHAU
N0124507P

LIBRARY		
NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY		
P.O. BOX 30157, GARDENS, NAIROBI		
TEL: 254 20 7723000		
FAX: 254 20 7723000		
WWW.NUST.KE		
DATE	ACCESSION	CLASS N
10/09/14	14/568	

SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN
RISK MANAGEMENT AND INSURANCE

ACADEMIC SUPERVISOR: DR STANLEY MUTENGA
FEBRUARY 2014



NUST Library

ABSTRACT

The research sought to examine whether reinsurance use brings any economic value to Zimbabwean insurance companies. While the role and purpose of reinsurance is well documented in literature, there has been modest focus on empirically validating reinsurance economic value. More specifically, there has not been such a study in Zimbabwe where most insurers are faced with biting liquidity and capital management constraints. The study uses a sample of 23 operational insurance companies with observations from 2010 to 2012. Economic value is measured using Return on Assets adjusted for industry effects as a proxy. The study then explores the correlative link between the Adjusted Return On Assets and the logarithm of Reinsurance Ratio as a measure of reinsurance usage. In order to control the effect of other variables to economic value, a set of explanatory variables are also employed in the analyses. The research found out that there is a statistically significant negative correlation between the amount of reinsurance purchase and economic value. Such relationship is however moderated by low profitability of the insurance risk portfolio and augmented when profitability is high.