

# National University of Science and Technology

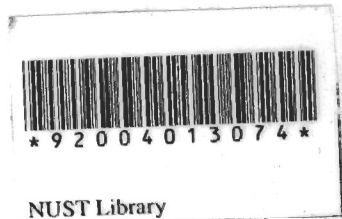
Think in Other Terms



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“What is the impact of employing a multi-currency system on the Zimbabwean economy on short term insurance sector and the engineering of a viable short term insurance business model?”



By

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Bcom (Hons) Risk Management and Insurance

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## EXECUTIVE SUMMARY

Chronic inflation and hyper-inflation spiraled unabated for the greater part of the last decade. The operating environment became extremely adverse with incessantly declining gross domestic product (GDP), severe capacity underutilization across all sectors of the economy, high interest rates, declining disposable incomes, hard currency shortages, exchange rate volatility and investment market incoherence all impacting negatively on all sectors performance.

On the 19<sup>th</sup> of March 2009 the **Minister of Finance Hon Tendai Biti**, presenting the Budget review statement, said ‘...no business is still operating in local currency’. To this end statutory **instrument no 5** (which allowed co-use of foreign currency alongside the ZW\$) was revoked giving way to exclusive use of foreign currency anchored on the South African Rand as the currency of reference.

Zimbabwe joined countries that have officially dollarised, which include Panama, Ecuador, Micronesia, East Timor, New Zealand, British Virgin Islands and the US Virgin Islands among others. Rafferly (2000) contended that official dollarisation is a monetary regime under which a government adopts foreign currency, the dollar, as the predominant or exclusive legal tender. The rationale for dollarisation lies mainly in availing of the monetary stability it provides. Many relatively small countries have used and continue to use foreign currency as legal tender, including such diverse countries as Panama, Liechtenstein, and East Timor.

Dollarisation of the economy results in containment of inflation, interest rates stabilisation, capital and foreign direct investments inflows, monetary stability,

budgetary discipline, securing property rights as money is the widely held form of property and it is a stabilizing factor in itself.

However, dollarisation result in loss of independent monetary policy, loss of lender of last resort for financial institutions, loss of national currency pride, difficulties for central bank to control money supply and interest rates. The central bank can become an ineffectual bystander in the financial matters of the nation.

A case study research methodology was adopted and the major findings of the study were that dollarisation result in improving the operational capacity of insurance companies, retain lost confidence in short-term insurance products, impose some burden on insurance companies in view of emergence from ten years of chronic inflation and hyper-inflation. Policyholder security and confidence in using money in the transaction of insurance are two facets as well that dollarisation retained. Business model modeling was outlined as an important aspect in insuring value creation in the new dispensation.

The researcher made recommendations to the effect that, rate undercutting does not result in increasing the market base; rather it is a zero-sum game in that the loss of one company is the gain of another. Offensive marketing, proper business model branch influence are credible ways of increasing market share.