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Assessing the impact of reinsurance on the financial strength of an insurer

Submitted in partial fulfillment of the requirements of the B. Comm. (Hons) Risk Management and Insurance degree of the National University

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ABSTRACT

This project gives an overview of a study carried out on the research topic of analysing the effect of reinsurance on the financial strength of an insurer. The study's main objective was to evaluate whether reinsurance has an effect on insurer's capital and profitability as well as give appropriate recommendations on how insurers can maintain financial strength. The other aim of the study was to analyse how financial strength can lead to competitive advantage of an insurer as well as analysing how financial strength of an insurer can increase the volume of business that comes from brokers. The research was not limited to insurers alone but the effect of financial strength on brokers and stakeholders like investors and clients was analysed because financial strength is also important to them. The research was a descriptive one so primary and secondary data sources were used. A sample population of 30 was utilised. Primary data sources included questionnaires distributed to insurers and brokers. Interviews were also utilised as part of primary data collection and the researcher had to book for an appointment from managers at insurance companies and brokers. Secondary data sources that were utilised included textbooks and journals on insurance and reinsurance as well as the internet helped to provide the researcher with adequate information. The findings from this research were analysed and presented by use of pie charts, tables and graphs. The conclusion from the findings was that reinsurance has a positive effect on insurers financial strength. This is also supported by events happening around the world such as the global financial crisis and global warming which provide evidence that reinsurance provides relief to insurers. Recommendations were given to insurers and brokers on the factors they should consider when placing business with reinsurers and insurers. Insurers and brokers have a reputation to protect so they should put the clients needs first that is why they should be on the lookout for any changes in financial soundness in the companies they cede business to. A number of limitations were encountered during the research process that could have affected the quality of the research and these include financial constraints and lack of cooperation by some of the respondents. Even though there were limitations the researcher tried by all means to make use of the available resources so that insurers and brokers and could see the importance of the issue of financial strength and why it is important to maintain it.