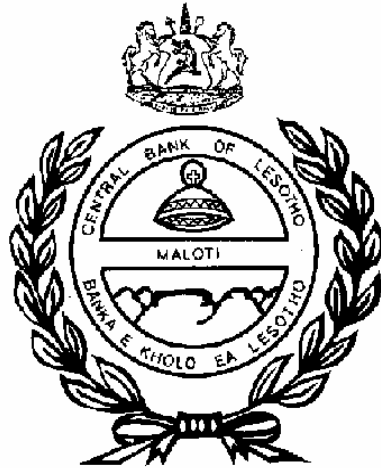


CENTRAL BANK OF LESOTHO



ANNUAL REPORT ON THE WORKINGS OF THE INSURANCE ACT 1976 AND GENERAL REVIEW OF THE INSURANCE BUSINESS IN 2007

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1. PREAMBLE

The Central Bank of Lesotho (CBL) as the Commissioner of Insurance is required by Section 56(1) of the Insurance Act 1976 to submit to the Minister of Finance and Development Planning a report on the working of the Insurance Act during the preceding calendar year and a general review of the insurance business in that year. Based on the foregoing, the purpose of this report is therefore to present the working of the Insurance Act 1976 and a general review of the insurance business for the year ending 31 December 2007.

2. OVERVIEW

The insurance industry realised a growth of 25.6 per cent in 2007 as opposed to 18.9 percent in 2006 in terms of the gross premiums written. The multi-peril insurance constituted the highest component of the premiums written at 37 per cent of the general insurance business. The total assets increased by 8.2 per cent while the total liabilities increased by 17.6 per cent. The total investments grew significantly by 19.1 per cent. The General insurance business (non-life) underwriting results increased significantly by 118 per cent in 2007 from an increase of 69.5 per cent in 2006. The gross premium of the general insurance business grew by 26.3 in 2007 while it grew by 32.2 per cent in 2006. The net earned income of the General Insurance Business showed a significant increase of 42.8 per cent in 2007 from an increase of 32 per cent in 2006. The life insurance business experienced a 41.3 per cent increase in gross premiums. The individual life accounted for 61 per cent of the gross premiums. The underwriting increased by 138.9 per cent.

The Insurance Bill was submitted to the parliamentary council in 2007 for further scrutiny.

During the period under review Alliance Insurance Company did not comply with section 45(1) of the Insurance Act 1976 which relates to the margin of solvency. This company has been issued with a directive to comply with this section.

CBL continued to be a member of the international and regional groupings of insurance supervisors. It also strengthened its relationship with the supervised entities through the regular quarterly meetings.

3. INSURANCE ACT 1976

The Insurance Act 1976 is not aligned to the International Association of Insurance Supervisors (IAIS) insurance core principles. This non-alignment made the Act to be rigid and sometimes impossible to enforce. The current Act and its implementing Regulations is Minister driven. The Insurance Act does not have a provision which gives the CBL the power

to conduct an on-site inspection of insurance brokers. The CBL relies solely on the returns submitted on annual basis without being able to verify their accuracy. It was therefore difficult for CBL to detect non-compliance with the Insurance Act and its implementing Regulations as well as malpractices in the insurance industry on time. The CBL can only be aware of non-compliance and malpractices when a complaint is lodged, after more harm has been done to the industry. It is therefore apparent that there is a need to fast track the passing of the insurance bill into an Act.

4. IMPACT OF INSURANCE BUSINESS ON THE ECONOMY DURING 2007

The performance of the insurance business depends on the performance of the economy as the purchasers of insurance policies more often than not, view it as a luxury product.

The insurance business as defined in Section 2 of the Insurance Act 1976 means the assumption of the obligation of an insurance business in any class of insurance business and includes reinsurance business. The insurance industry's performance is determined by a number of socio-economic factors which lead to the increase or decrease in the demand for insurance products. These include income and wealth, attitude to risk, risk awareness, insurance pricing, tax incentives and compulsory insurance.

During the period under review all the general and life insurance business gross premiums generated increased by 26 per cent in 2007 from M421.2 million in 2006 to M569.2 million in 2007. This exemplifies an increase in the insurance policies purchased in the current year.

The total value of GDP at purchasers prices using current prices were M11, 675 million in 2007, M10, 116 million in 2006, M8, 658 million in 2005 and M8, 233 million in 2004. The insurance sector contributed 3 per cent in 2004, 4.4 per cent in 2005, 4.2 per cent in 2006 and 4.9 per cent in 2007 in the economy as a whole. The ratios of premium to GDP for the whole sector is termed insurance penetration and is used as an indicator of the role of the insurance sector in the economy as a whole. In the event that the economy grows more generally, measured by GDP it can be expected that the need for and use of insurance would grow at a similar rate all other things being equal. In the case of Lesotho's insurance industry the insurance premiums grew by 35.1 per cent while GDP at purchasers' prices grew by 15.4 per cent. On the other hand the insurance penetration ratio grew by 0.7 percentage points from 4.9 per cent to 4.2 per cent in 2007.

In the event that an insurer is growing its written premium quickly this may indicate that the insurer is under-pricing its products or that the underwriting standards are being relaxed. Alternatively it may indicate that the insurer has simply increased its effectiveness in the market or

that it is successfully increasing premium rates. However on the case of Lesotho Insurance industry the growth in premiums was as a result of the following; the bancassurance motor scheme was increased due to bad claims experience in 2006. The scheme covers all vehicles which the bank have an interest in, hence it covers a broad spectrum therefore an increase in premium has an impact on the whole industry. The other factor was new specialized mining insurance cover was introduced due to the opening of three mines in a country. Lastly a Lesotho Defence Force premium was increased by around 1 million.

Table 1 below shows the trends of value added by the insurance sector to the gross domestic products over the years 2004 to 2007.

**Table 1: Insurance Gross Premiums to Gross Domestic Products
(In Million Maloti)**

Particulars	2007	2006	2005	2004	%Change 2007/2006
Insurance Premiums	569.2	421.2	382	248.7	35.1
GDP at Purchasers' Prices (At Current Prices)	11675	10116	8658	8233	15.4
Insurance Premiums as a % of GDP – Insurance Penetration	4.9	4.2	4.4	3.0	16.7

NB: Data obtained from Bureau of Statistics (BOS)

5. INSURANCE BUSINESS CONDUCTED IN 2007

The operators in the insurance industry continued to offer life and non-life products during the year under review. The life products in 2007 were offered by Metropolitan Lesotho Limited, Lesotho National Life Assurance Company and Alliance Insurance Company. On the other hand non-life products were offered by Lesotho National General Insurance Company and Alliance Insurance Company. Prosperity Insurance Company only offered funeral insurance in 2007.

14 insurance brokers and 165 insurance agents operated in the Lesotho insurance industry. The life insurance companies in 2007 continued to administer private pension funds.

5.1 Insurance Industry Performance Highlights

Table 2 and 3 below show the consolidated highlights of both the life insurance and general insurance business in terms of the gross premiums, assets, liabilities, net worth and investments as at 31 December 2007.

Table 2: General and Life Insurance Gross Premiums, Total Assets, Total Liabilities and Total Investments (In Thousand Maloti)

Particulars	2007	2006	2005	2004	% Change 2007/2006
Total Gross Premium Written	569,274	453,320	381,322	376,126	25.6
Total Assets	1,925,484	1,779,926	1,630,087	1,273,395	8.2
Total Liabilities	1,604,961	1,573,894	1,338,465	1,092,550	2.0
Total Net Worth	320,523	206,032	291,622	180,845	55.6
Total Investments	1,352,622	1,136,106	923,341	986,209	19.1

NB: The figures for the year ending 2007 had to be adjusted due to new IFRS presentation.

Table 3: General and Life Insurance Business Investment Breakdown (In Thousand Maloti)

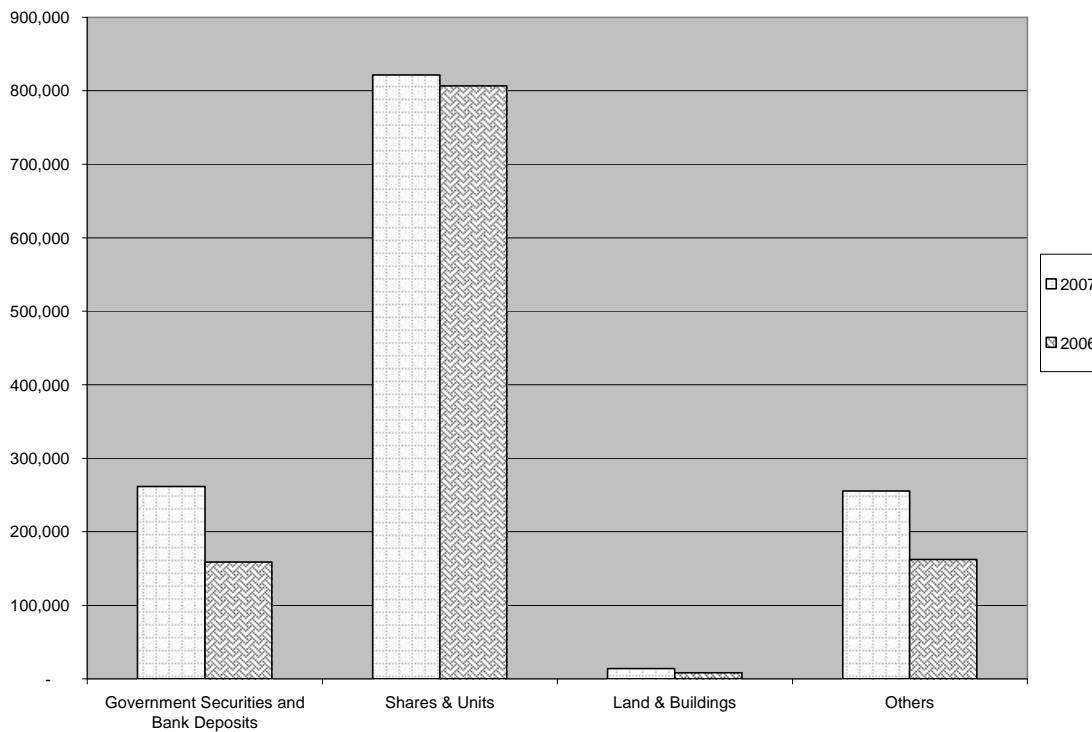
Particulars	2007	2006	2005	2004	% Change 2007/2006
Government Securities and Bank Deposits	261,656	159,091	196,388	433,801	64.5
Shares & Units	821,821	806,499	503,838	376,054	1.9
Land & Buildings	13,704	8,019	38,117	11,978	70.9
Others	255,441	162,497	184,998	164,497	57.2

The industry's total investment increased by 19.1 per cent from M1,1 billion to M1,4 billion. Government Securities and Bank deposit increased by 64.5 per cent signifying that the industry was courteous in investing in other investment securities due to bad performance in the financial markets. The investments in the equity market only increased by 1.9 per cent while in 2006 a 60.1 per cent increase was realized. Investments in land and building increased significantly by 70.9 per cent in 2007 while in 2006 there was a decline of 79 per cent. Other assets also increased significantly by 57.2 per cent in 2007 while in 2006 there was a decline of 12.2 per cent. The industry as a result increased their investment in low risk investment instrument when compared with 2006, whereon the industry experiences a decline of 19 per cent.

It can however be noted from table 3 above that all the components of the investment portfolio increased significantly except investment in shares and unit trusts. The industry has continued to invest less in land and buildings and this is considered prudent.

The industry's total net worth in 2007 increased by 55.6 per cent while in 2006 there was a decline of 29.3 per cent. The total assets in 2007 increased by 8.2 per cent while in 2006 there was an increase of 9.2 per cent.

Figure 1 : THE DISTRIBUTION OF GENERAL AND LIFE INSURANCE INVESTMENT BY TYPE AS AT 31 DECEMBER 2007 (IN THOUSAND MALOTI)



5.2 GENERAL INSURANCE BUSINESS PERFORMANCE OVERVIEW

General Insurance Business as per Section 2 of the Insurance Act 1976 means fire, motor, marine, accident, employer's liability insurance or any type of insurance but excludes life insurance business.

5.2.1 Underwriting Results

Underwriting profit or loss relates to the excess of an insurer's income over his underwriting expenditure.

Table 4: A Comparative Summary of Underwriting Results for the General Insurance Business in 2005, 2006 and 2007 (In Thousand Maloti)

Particulars	2007	2006	2005	% Change 2007/2006	% Change 2005/2006
Gross Premiums	217,604	172,328	130,280	26.3	32.2
Premium Ceded	108,107	95,971	71,310	12.6	34.6
Net Earned Income	109,497	76,357	58,970	43.4	29.5
DA Contributions	-	-	1,050	0.0	100
Commission Receivable	19,465	13,930	8,383	39.7	66.2
Net Earned Income	128,962	90,287	68,403	42.8	32.0
Expenditure					
Claims Paid and Outstanding	38,533	26,220	26,367	47.0	-0.6
Commission Expenses	25,573	23,033	19,890	11.0	15.8
Management Expenses	27,792	25,349	13,147	9.6	92.8
Excess of loss Cost	3,804	428	-	788.8	100
Total Expenditure	95,702	75,030	59,404	27.6	26.3
Underwriting Profit/Loss	33,260	15,257	8,999	118.0	69.5

Gross premium written increased by 26.3 per cent from 172.3million in December 2006 to 217.6million in December 2007 as shown in Table 4 above. This increase was attributable to the fact that more clients took policies that covered political riots in order to reduce the risk of business loss. This was triggered by the anticipation of post election riots of the 2007 parliamentary elections. An increase in ceded premiums from M95, 9million

in December 2006 to M108.1 million in December 2007 was also observed. The increase in premium ceded was because of the local general insurers' decision to transfer the risk written to reinsurers especially the risk of losses relating to political riots and to protect their capital from excessive losses.

Commission expenses and management expenses showed increases of 11.0 per cent and 9.6 per cent respectively. When comparing the above increases to those of the period ended 31 December 2006, an improvement in the control of these expenses was observed. In the period that ended 31 December 2006 an increase of 15.8 per cent was observed in the commission expenses whereas an increase of 92.8 per cent was observed in the management expenses.

Claims paid and outstanding increased by 47 per cent from M26.2 million in December 2006 to M38.5 million in December 2007. The increase was as a result of a fire claim in the third quarter which amounted to around M2.0 million. The general insurers were however able to share this cost as the insurers had shared the risk through co-insurance. Alliance Insurance Company paid 60 per cent of the claim whereas Lesotho National General Insurance Company paid the remaining 40 per cent.

A huge increase of 788.8 percent in the excess of loss costs was observed in period that ended 31 December 2007, the costs increased from M0.4 million in 2006 to M3.8 million in 2007. This was because the claims that were incurred exceeded the agreed loss sharing ratios.

The underwriting profit for the period ending 31 December 2007 was M33.3 million; this was a great improvement when compared to the previous years' that ended 31 December 2005 and 31 December 2006. In the period ending 31 December 2006 the general insurance profit was M15.3 million. The 118 per cent improvement in profitability is attributable to the increase in the written premiums and is also an indication that the general business's profitability continued to improve.

5.2.2 Ratio Analysis

Several specialised ratios were used in order to assess the financial soundness of the general insurers. **(Refer to table 5 below)**

**Table 5: Major Ratios for General Insurance Business:
(In Percentages)**

Particulars	2007 %	2006 %	2005 %	2007/2006 % Change	2006/2005 % Change
Premium Ceded to Gross Premium	49.7	55.7	55	-6.0	0.7
Net Premiums to Gross Premiums	50.3	44.3	45	6.0	-0.7
Net Claims Incurred to Net Premiums	35.2	34.3	43.9	0.9	-9.6
Underwriting Gains/Loss to Net Premiums	30.4	20.0	15.5	10.4	4.5
Commission Earned to Premium Ceded	18.0	14.5	11.7	3.5	2.8
Commission Expenses to Net Premiums	23.4	30.2	34.3	-6.8	-4.1
Management Expenses to Net Premiums	25.4	33.2	22.4	-7.8	10.8
Management Expenses to Total Income	18.2	26.7	17.3	-8.5	9.4
Combined Ratio to Net Premium	72.2	80.2	79.6	8.0	0.6

Premium Ceded to gross premium ratio declined by 6 percentage points from 55.7 per cent in December 2006 to 49.7 per cent in December 2007, whereas from December 2005 to December 2006 the ratio had increased by 0.7 percentage points. The decrease in premium ceded ratio in 2007 implied that the general insurance business improved its absorption capacity, and as a result net premiums to gross premiums ratio increased by 6 percentage points.

Net claims incurred to net premium ratio increased by 0.9 percentage points from 34.3 per cent in December 2006 to 35.2 in December 2007. The same ratio decreased by 9.6 percentage points from 43.9 in December 2005 to 34.3 per cent in December 2006. This implied that more claims were incurred as evidenced by the increase in claims outstanding provision which increased by 17.9 per cent. The increase was due to huge fire claims that the industry incurred in 2007 which led to a 47.0 per cent increase in claims as shown in Table 4.

Commission earned to premium ceded increased by 3.5 percentage points from 14.5 per cent in December 2006 to 18.0 per cent in December 2007. This ratio had also increased by 2.8 percentage points from 11.7 per cent in December 2005 to 14.5 per cent in December 2006. This implied that the industry performed well and as a result managed to receive value for money with regard to the risk transferred to the re-insurers.

Commission expenses to net premium ratio decreased by 6.8 percentage points from 30.2 per cent in December 2006 to 23.4 per cent in December 2007. In 2006 the ratio has declined by 4.1 percentage points from 34.3 per cent in December 2005 to 30.2 per cent in 2006. This implied that most of the business written during 2007 was through the direct clients and as a result, the industry incurred less commission expenses in relation to the written premiums.

Management expenses to net premium ratio declined by 7.8 percentage points from 33.2 per cent in December 2006 to 25.4 per cent in December 2007, while the ratio of management expenses to total income declined by 8.5 percentage points during the same period. This implied that the industry improved its controls on management expenses, this also contributed to the improved profitability as shown in Table 4.

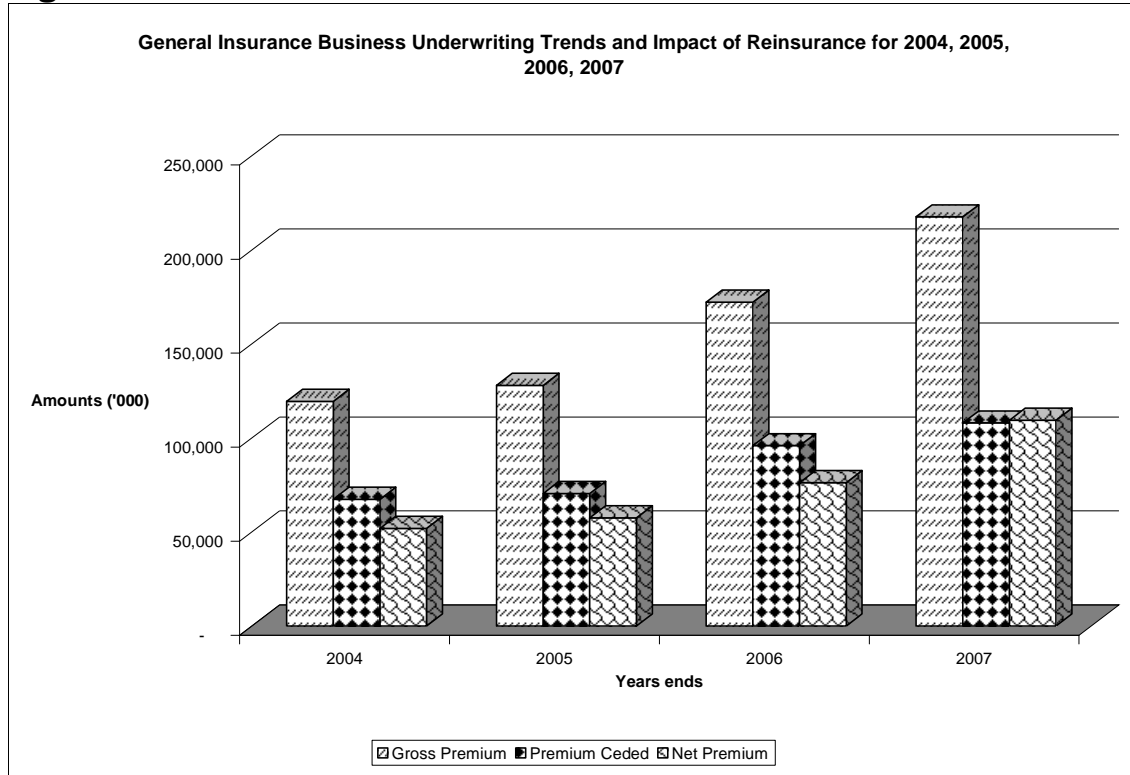
The combined ratio declined by 8 percentage points to. The main reason being the decline in expenses ratio by 11.7 percentage points indicating that the industry's profitability improved.

5.2.3 Underwriting Trends and Impact of Reinsurance

Figure 2 below depicts trends in general insurance gross premiums (GP), net premiums retained (NPR) and premiums ceded (PC) for the year ending 31 December 2005, 31 December 2006 and 31 December 2007.

The general insurance business showed an increasing trend from the year ended 31 December 2005 to the year ended 31 December 2007 with regard to gross premiums, net premiums retained and premium ceded. General Insurance Companies within the country continued to cede more premiums so as to limit their exposure to the level that would ensure that the capital is still protected even in cases of total loss and to ensure continued profitability.

Figure 2

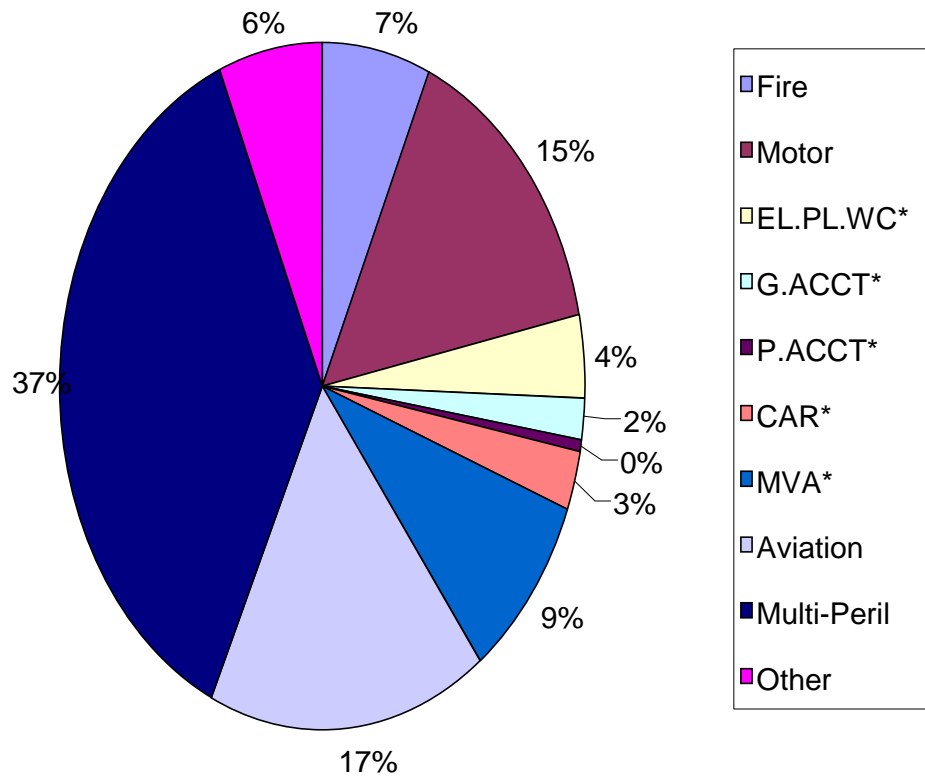


5.2.4 Product Portfolio Mix

During the period under review, the general insurance business product mix was made up of: 37 per cent Multi-Peril, 17 per cent Aviation, 15 per cent Motor, 9 per cent MVA, 7 per cent Fire, 6 per cent Other (Assets All Risk, Ad cover, House holders and Domestic), 4 per cent EL.PL.WC, 2 per cent G.ACCT, 3 per cent CAR and 0 per cent P. ACCT.

As depicted in Figure 3 below, Multi-Peril insurance constituted the highest component of the written gross premiums during 2007. It was followed by the Aviation Insurance and then Motor Insurance. Each of the other products only brought in less than 10 per cent of the industry's gross premium in 2007. On the overall an increase in the gross premium written per product was observed, it however remains important for the general insurers to continue having in place strategies that will ensure the continued growth of the industry with regard to gross premiums.

FIGURE 3: GENERAL INSURANCE BUSINESS PRODUCT PORTFOLIO FOR MIX 2007



**(EL.PL.WC.) Employers' Liability, Public Liability and Workmen's Compensation; (G.ACCT) General Accident; (P.ACCT) Personal Accident; (CAR) Construction All Risk; (MVA) Motor Vehicle Accident.*

5.2.5 Claims Experience

In 2007 the industry incurred more claims than those that were incurred in 2006. The industry's Net Loss Ratio (NLR) increased from 34.3 per cent in 2006 to 35.2 per cent in 2007. The gross claims to gross premium ratio also increased from 15.2 per cent to 17.7 per cent, the increase in the ratio is attributable to the 47.0 per cent increase in the claims incurred in 2007. The increase in the ratio could be attributed to the recent efforts made by the Commissioner to educate the public about the rights inherent in their policy contracts. The Commissioner's active involvement in handling the policyholders' complaints relating to claims that insurers may not be willing to settle even though the claims are legitimate, has also assisted in enhancing public awareness about the role of the Commissioner of ensuring that policyholders' interests in the insurance companies are protected.

5.2.6 General Insurance Market Share

**Table 6: General Insurance Market Share
(In Percentages)**

	Assets			Gross Premiums		
	2007	2006	2005	2007	2006	2005
	%	%	%	%	%	%
LNGIC	78	73.5	65	63	66.1	59.1
ALLIANCE	22	26.5	32	37	33.9	37.5
SENTINEL	-	-	3	-	-	3.4
TOTAL	100	100	100	100	100	100

The General Insurance industry in Lesotho is a duopoly as only two companies operate within the industry. Table 6 above indicates that LNGIC has been the lead general insurer since 2005 to 2007, in terms of both gross premiums and assets. In 2006 after the withdrawal of Sentinel Insurance Limited from the market, LNGIC's holding in terms gross premiums increased by 7 percentage points whereas that of Alliance decreased by 3.6 percentage points.

In terms of assets LNGIC's holding increased by 8.5 percentage points while that of Alliance decreased by 5.5 percentage points. In 2007, a decrease in LNGIC's holding in the market of 3.1 percentage points in terms of gross premiums was observed, while Alliance's holding with regard to gross premiums increased by 3.1 percentage points.

A continued decline in the holding of Alliance Insurance Company in terms of assets was observed, the company's market holding had declined by 2.5 percentage points in 2007. Notwithstanding a decline in the holding of LNGIC in terms of gross premiums in 2007, the company's holding in terms of assets continued to increase as it increased by 4.5 percentage points. In conclusion, LNGIC's market holding continued to increase; this could be due to the fact that LNGIC has been in the market longer than Alliance Insurance Company. LNGIC's strong market share translates to the increase in the company's recurring revenues in terms of gross premiums and increase in profitability. The other contributing factor to the growth of LNGIC was due to the fact that 13.3 per cent of the company's gross premiums was derived from the Lesotho Government in relation to the Motor Vehicle Accident Insurance which has been placed with the company. This also meant that the company benefited from the MVA's underwriting surplus which the company invested so as to continue to improve its financial stability.

Alliance would need to work hard in improving its market share by employing strategies that will help in the company's future growth in terms of both assets and gross premiums written.

5.3 LIFE INSURANCE BUSINESS PERFORMANCE OVERVIEW

In accordance with Section 2 of the Insurance Act 1976, the life insurance business includes industrial life insurance and ordinary life insurance business and the business of effecting contracts of insurance upon human lives including contracts whereby the payment of money is assured on death (except policies for death by accident only) or the happening of any contingency dependent on human life or which is subject to payment of premiums for a term dependent on human life and includes:

- i. the granting of disability and double or triple indemnity accident benefits if so provided in the contracts of insurance.
- ii. the granting of annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged or who have been engaged in any particular profession, trade or employment or the dependants of such persons.

5.3.1 Underwriting Results

Table 7: A comparative Summary of Underwriting Results and Income Statement Of Life Insurance Business for the Years 2006 and 2007. (Amounts in Thousand Maloti)

Particulars	2007	%	2006	%	2005	Change %
	M' 000	Comp	M'000	Comp	M'000	2006/2007
Income						
Gross premium	351,670	100%	248,922	100	251,772	41.3
Premium Ceded	11,863	3.4%	8,460	3.4	5,991	40.2
Net Premium	339,807	96.6%	240,462	96.6	245,781	41.3
Commission Earned	4,188	1.2%	1,898	0.8	2,183	120.7
Earned Income	343,995	97.8%	242,360	97.4	247,964	41.9
Outgo						
Claims incurred	201,202	57.2%	158,880	63.8	197,210	26.6
Commission Paid	24,138	6.9%	27,894	11.2	36,090	(13.5)
Management Expenses	57,278	16.3%	29,898	12	44,584	91.6
Total Outgo	282,618	80.4%	216,672	86.1	277,884	30.4
Underwriting profit / loss	61,377	17.5%	25,688	10.3	-29,920	138.9
Investment Income	191,564	54.5%	267,762	90.9	257,693	(28.5)
Other Income	5,180	1.5%	1,048	0.4	896	394.3
PBT and Other Expenses	258,121	73.4%	294,498	100	228,669	(12.9)

Gross Premium written increased by 41.3 per cent from M248.9 million in 2006 to M351.7 million in 2007. The gross premium figure was M251.8 million in 2005. The marginal growth of 41.3 per cent in cross premium written indicated the growth in underwriting business by the insurance companies in 2007.

Premium ceded increased by 40.2 per cent from M8.5 million in 2006 to M11.9 million in 2007, while the same increased by 63.9% per cent from M3.6 million in 2004 to M5.9 million in 2005. The absorption capacity of the long-term industry seemed to be stabilising as there was insignificant movement of 1 per cent in premium ceded ratio from 41.2 per cent in 2006 to 40.2 per cent in 2007.

Underwriting results improved by 138.9 per cent from M25.7 million in 2006 to M61.4 million in 2007, while the same saw an increase of 185.9 per cent from a loss of M 29.9 million in 2005 to M 25.7 million in 2006. The positive trend of the underwriting results indicated the growth prospects in underwriting business as compared to the loss that was realised in 2005. Management expenses increased by 91.6% per cent from M 29.9 million in 2006 to M 57.3 million in 2007.

There was a decline of 28.5 per cent by M 76.2 million in investment income from M 267.8 million in 2006 to M 191.6 million in 2007. This could be the implication that the industry was not providing adequate reinvestment opportunities for matured investments proceeds during the year 2007 or there was negative interest rates movement in the market for the year 2007. The adverse movement in investment income resulted in a decline of 12.4 per cent in profit before tax.

5.3.2 Ratio Analysis

**Table 8: Major Ratios for Life Insurance Business
(In percentages)**

Particulars	2004	2005	2006	2007
Premium Ceded to Gross Premiums	1.4	2.4	3.4	3.4
Net Premium to Gross Premiums	98.6	97.6	96.6	96.6
Net Claims to Net Premiums	59.0	80.2	66.1	59.2
Underwriting to Net Premiums	21.8	-12.2	10.7	18.1
Commission Earned to Premium Ceded	34.7	36.4	22.4	35.3
Commission Expenses to Gross Premiums	7.6	14.3	11.2	6.9
Management Expenses to Net Premiums	12.0	18.1	12.4	16.9
Management Expenses to Total Income	7.1	8.8	5.8	10.6

Table 7 above show that premium ceded to gross premium ratio maintained a constant trend of 3.4 per cent from year 2006 to year 2007 indicating that the absorption capacity of the long-term insurance industry was becoming stable. The net premium to gross premium was also constant at the ratio of 96.6 per cent for both years.

Net claims to net premiums experienced a downward movement from 2005, 2006 and 2007 implying that the industry incurred less claims and contributed to the improved underwriting results that have shown the upward movement of 139 per cent from M 25.7 million in 2006 to M 61.4 million in 2007 as shown in Table 2 below.

Management expenses increased by 91.6 per cent from M 29.9 million in 2006 to M 57.3 million in 2007. Commission expenses to gross premiums ratio showed a decreasing trend from 11.2 per cent in 2006 to 6.9 per cent in 2007, this implied a decline in a commission related business.

5.3.3 Underwriting Trends and Impact of Reinsurance

Table 9: Reinsurance Premiums Outflows and the Reinsurance Recoveries thereto for the years ended 31 December 2007 (Amounts in Thousand Maloti)

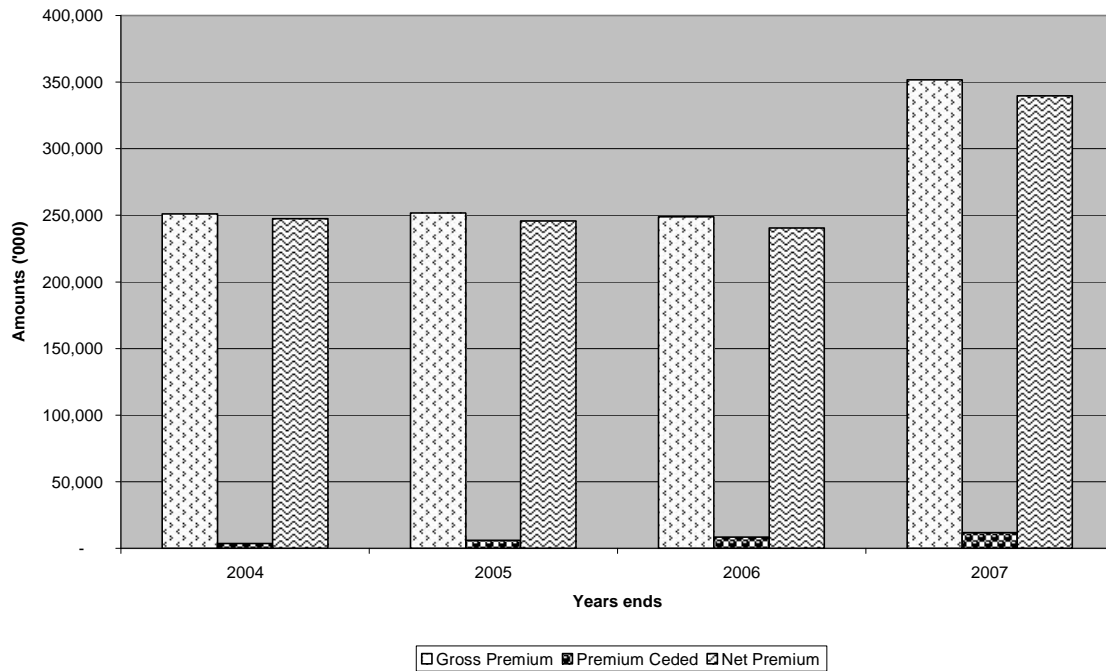
Particulars	Reinsurance Premiums '000	Reinsurance Recoveries '000
Alliance	40142	7953
LANLAC	2384	805
Metropolitan Lesotho	860	521
Totals	43386	9279
% of Reinsurance Premiums recovered		21.4%

As depict in table 7 above, the life industry does reinsurer most of its risk. The life industry had ceded 3.4 per cent of its total premiums in 2007 which amounts to M43, 386, 000.00. In the current year 21.4 per cent of the total premiums ceded was recovered from the reinsurer.

The products whose risks are reinsured include group life and individual life policies. In Lesotho we currently do not have a reinsurance company, and as such all the insurers reinsure some of their risks with companies outside Lesotho. The magnitude of the premium outflow to other

countries is quite immense when looked into in terms of the amounts of reinsurance premiums and the amount recovered in respect to such premiums. This is evident that such premiums outflow could be curbed through an establishment of a state owned reinsurance company which could later be privatised when it had stabilised.

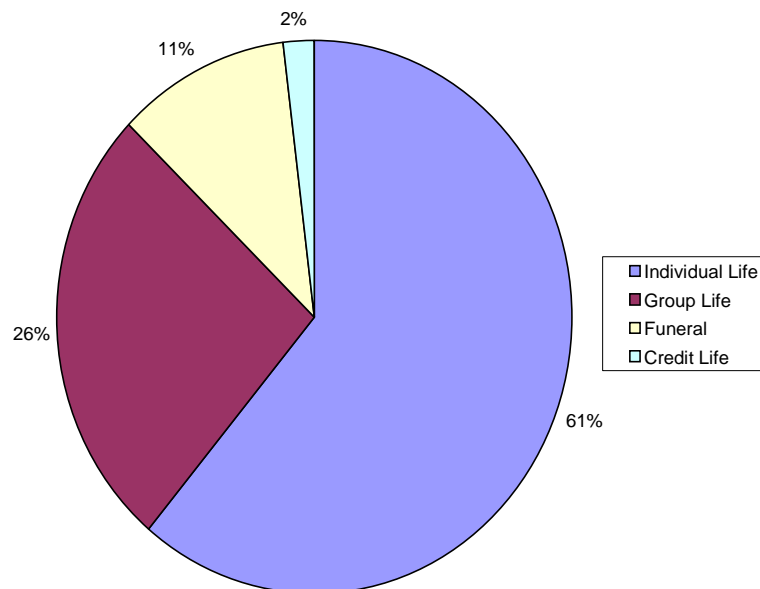
Figure 4: LIFE INSURANCE BUSINESS UNDERWRITING TRENDS AND IMPACT OF REINSURANCE (IN THOUSAND MALOTI)



5.3.4 Product Portfolio Mix

Figure 5 below shows the product mix between Individual Life policies, Group Life, Funeral and Credit Life. This shows the split of premiums received in the current year 2007 per product.

FIGURE 5: LIFE INSURANCE BUSINESS PRODUCT PORTFOLIO MIX FOR 2007



Individual life policies accounted for 57 per cent of the gross premiums in 2006 whereas in 2007 it accounted for 61 per cent. Group life accounted for 32% of the gross premiums written in 2006, and decreased to 26% in 2007. Funeral policies underwritten accounted for 10% in 2006, and increased to 11 per cent in 2007. Credit life policies accounted for 1% of the gross premium written in 2006 but increased to 2% in 2007.

The individual life policies comprised a largest share of the life industry gross premiums written, and this showed that individual life policies were common than all types of policies. Although various companies provided covers for their employees' retirement packages using group life policies in 2007, it seems that the bulk of such companies which had provided such covers had quite a large number of people withdrawing from the fund through death. This was evidenced by an increase in the claims incurred as compared to the previous year.

5.3.5 Claims Experience

The life industry experienced an increase in claims incurred. This could be the result of the increase in the funeral claims in 2007. The life industry Net Loss Ratio (NLR) appeared bleak; the ratio was 65 per cent in 2006 and in 2007 it had increased to 67 per cent implying on the overall the claims incurred were on a rise during the year under review.

5.3.6 Market Share for Long-Term Insurance Business

Table 10: Market Share for the Long-Term Insurance Business as 31 December 2005, 2006 and 2007

Particulars	Assets (%)			Gross Premiums (%)		
	2007	2006	2005	2007	2006	2005
Alliance	2.2	2.3	2.2	3.9	2.7	3.2
Metropolitan Lesotho	88.4	89	90.2	85.0	80.8	85
LNLAC	9.4	8.6	7.6	10.8	16.6	11.8
Prosperity	* 0.0	-	-	0.3	-	-

* The market share for Prosperity in 2007 is 0.02%

NB: as at 31 December 2007, the assets for Metropolitan Lesotho were not kept in the corporate name of the insurer.

As depicted in the above table, market share can be defined as a percentage or portion of total assets and gross premiums in the life industry that are controlled by a particular company. The market share is seen as an essential tool to the life industry that will help life insurers to determine competitive strength in a sector as compared to other companies in the same sector. It also allows each insurer to accurately gauge their performance from year to year.

As shown in the table above, Metropolitan Lesotho has been a leader of highest market share constituent in all the years, followed by LNLAC, Alliance Insurance Company and lastly Prosperity Insurance Company Limited-Lesotho. Metropolitan has been in an industry for quite some time and is well known by the public as it started operating in Lesotho since 1967. LNLAC started operating in Lesotho in 1973, while Alliance Insurance Company commenced its operation in 1993, and Prosperity Insurance Company Limited- Lesotho started operating in Lesotho in 2007.

Metropolitan has built its reputation and customer loyalty over the years in which it has been in operation. The order of the company's market share constituent is directly proportional to the number of years in which the companies have been in operation, as the one which came first into the market has the largest market share, and the one which came last into the market has the least market share.

It is essential that companies which have nominal market share; Alliance Insurance Companies and Prosperity Insurance Company Limited – Lesotho employ strategies that would help increase its market share in the life industry.

5.4 Insurance Brokers

For the period that ended 31 December 2007, the insurance industry had sixteen licensed Insurance Brokers. Although there were sixteen licensed brokers, the analysis of the brokerage industry is only based on five insurance brokers as only five out of sixteen brokers submitted their financial statements.

5.4.1 Ratio Analysis

There are also certain specialised ratios that have been established to assess the financial soundness of the brokers; **Refer to Table 11 below**

**Table 11: Insurance Brokers Performance Ratios
(In Percentages)**

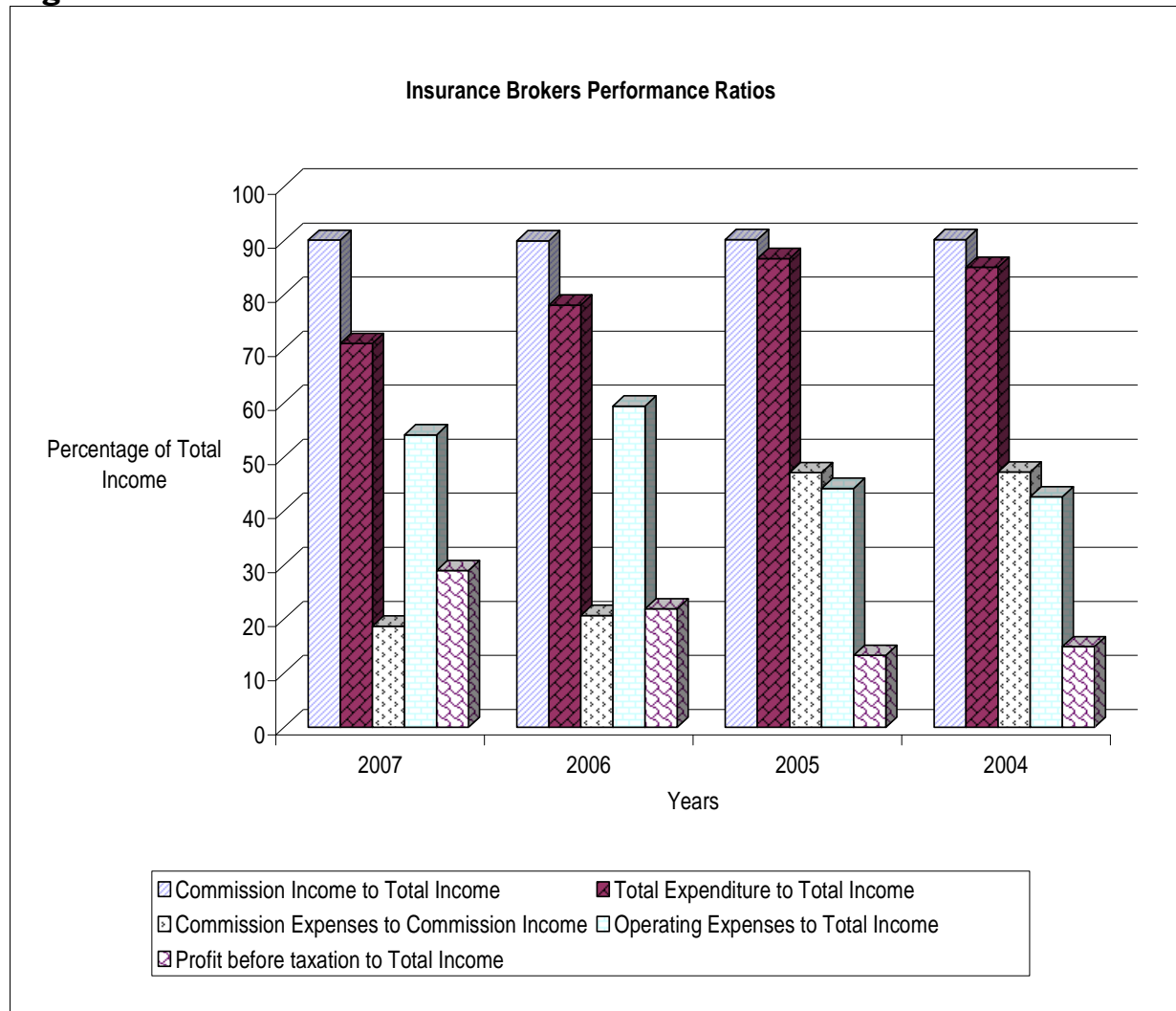
Particulars	2007	2006	2005	2004	Change	Change
					2006/2007	2005/2006
Commission Income to Total Income	90.1	90.0	90.2	90.2	0.1	0.0
Total Expenditure to Total Income	71.0	78.1	86.7	85.1	-7.1	-1.0
Commission Expenses to Commission Income	18.7	20.7	47.1	47.2	-2.0	-0.1
Operating Expenses to Total Income	54.1	59.4	44.2	42.6	-5.3	-1.6
Profit before taxation to Total Income	29.0	21.9	13.3	14.9	7.1	-1.6

Commission Income to total income ratio increased from 90.0 percentage points to 90.1 percentage points. The increase in the ratio is mainly attributable to the slight increases of commission income and total income of 17.0 per cent and 16.8 per cent respectively. Total expenditure to total income ratio declined by 7.1 percentage points from 78.1 per cent in 2006 to 71.0 per cent in 2007. The decline in this ratio was due to the 16.8 per cent increase in total income while the total expenditure had only increased by 6.3 per cent. Commission expenses to commission income ratio also declined from 20.7 percentage points in 2006 to 18.7 percentage points in 2007. The decline in the ratio is attributable to the 17.0 per cent increase in commission in commission income while the commission expenditure only increased by 5.4 per cent. This is an indication that the industry was able to contain its commission expenditure in 2007 while at the same achieving an increase in income.

Operating expenses to total income ratio also showed a decline of 5.3 percentage points from 59.4 in 2006 to 54.1 in 2007. The decline in this ratio is due to the increase 16.8 per cent increase in total income whereas the operating expenses only declined by 6.5 per cent.

Profit before tax to total income increased by 7.1 percentage points from 21.9 percent to in 2006 to 29.0 per cent in 2007. The increase in the ratio is because of the 54.3 per cent increase in the profit before tax whereas the total income only increased by 16.8 per cent.

Figure 6:



5.4.2 Profitability

An improvement of 54.3 per cent in profitability of the Insurance Brokers' industry was observed in the 2007. The improvement in profitability is attributable to the 17.0 per cent increase in the industry's commission income and the 15.3 per cent increase in other income. Although an increase in income was observed the industry's expenditure components which are the commission expenditure and other operating expenses showed increases of 5.4 per cent and 6.5 per cent respectively. Notwithstanding the increase in the industry's expenditure, improvement in the industry's profitability indicated that the industry had been able to contain its expenditure for 2007.

6. REGULATION OF INSURANCE ACTIVITIES

6.1 Supervision

Insurance Act 1976 vests the powers of the regulation and supervision of the insurance industry with the Central Bank of Lesotho and the minister of finance and development planning. Operationally CBL supervises and regulates the insurance industry. On pursuit of this CBL requires licensed insurance companies and insurance brokers to submit financial statements and other statutory returns required to monitor the institutions financial condition and to determine its compliance with the insurance Act 1976 and its implementing regulations 1985. The insurance companies and insurance brokers are required to submit the financial statements on a yearly basis. However through moral suasion the CBL and insurance companies in their quarterly meeting held in November 2007 agreed that the financial statements should also be submitted on a quarterly basis.

6.2 Consumer Complaints Handling

The CBL continued to handle complaints from the insurance industries; more complaints received during the period under review were with regard to non-honouring of claims by ABC Insurance Brokers. This insurance broker conducted itself like an insurance company in that it disputed some claims and paid some claims. Some claims were repudiated on the promise that ABC insurance brokers did not accept affidavit from chiefs and other legal structures such as police and immigration office yet insurance companies do accept such documents as legal documents. Through the consumer complaints handling section it was discovered that ABC insurance broker paid claims on behalf of Metropolitan Lesotho Limited. Both companies have since been directed to stop such business dealings with immediate effect by CBL as the regulator of the insurance industry in Lesotho. This was considered to

be unethical way of doing insurance business. However, CBL is to meet with the board of directors of Metropolitan Lesotho Limited in 2008 in this regard. CBL received 11 complaints of which 9 were resolved.

6.3 On Site Inspection of Insurance Companies

On site inspections of all insurance companies were conducted in 2006 through the Insurance Supervision Division of the CBL. The main objectives of the inspections were to determine the financial soundness of the insurance companies as well as the compliance with statutory and prudential requirements of the Insurance Act no. 18 of 1976 and its' implementing regulations of 1985. No inspections were carried out on insurance intermediaries as there were no provisions in the current Act which give powers to CBL to conduct inspections on intermediaries.

The accuracy and completeness of the statutory returns submitted periodically to the CBL was also verified. The inspections included an assessment of the companies' minimum capital requirement, margin of solvency, Local Asset Holding Requirements and the internal controls. The inspectors were also to ascertain whether the performance of the insurance companies in different aspects of insurance operations were in line with the required standards. The inspections revealed that the insurance companies were beginning to appreciate the purpose of the inspections. Most companies were directed to strengthen their corporate governance. It was however, observed that most companies were observed to be on the right track towards complying with the Directives issued pursuant to the on-site inspections.

Alliance insurance company continued to contravene section 45 of the insurance act 1976 which deals with the margin of solvency. This company made an undertaking to comply with this section by injecting additional capital in 2008. Metropolitan Lesotho Limited during the period under review continued to be heavily reliant on its parent company in Cape Town. This reliance delayed the on-site inspections in that officers of Metropolitan Lesotho Limited could not give explanations on the figures which appeared on their financial statements, and they would await explanation from Cape Town. Most assets were still in the name of Metropolitan Life. As such, CBL is to meet with the board of directors of Metropolitan Lesotho Limited in 2008. This heavy reliance on the parent company also weakened corporate governance. Lastly Lesotho National General Insurance Company and Lesotho National Life Assurance Company were directed to document their policies and procedures, in order to enhance corporate governance.

6.4 Relationship with International Organisation

The CBL continued to be a member of the International Association of Insurance Supervisors (IAIS) during the period under review. IAIS sets International standards and principles for the industry. The members IAIS meets annually in October of each year to approve new standards and principles as well as discussing latest developments in the world. The CBL also continued to be a member of the Committee of Insurance, Securities and Non Banking Financial Authorities (CISNA) a body whose objective is to facilitate the development and implementation of a regulatory framework that is in line with the international regulatory standards and best practice, set by IAIS. CISNA meets twice a year in April and October respectively.

6.5 Meetings with Insurance Companies and Insurance Brokers

The Commissioner holds regular quarterly meetings with the Insurance Brokers and Insurance Companies as a means of promoting good relations. It is during these meetings that the Insurers and the Insurance Brokers discuss issues of concern relating to industry. The Commissioner continued to encourage the brokers to form an association which will establish standards of good practice by the brokers and to police the industry against any malpractices.

APPENDIX I (a)**GENERAL INSURANCE BALANCE SHEET AS AT THE DATES INDICATED BELOW****(Amounts in Thousand Maloti)**

	2007	%	2006	%	2005	%	2004	%	2007/2006	2005/2004
	M'000	Comp	M'000	Comp	M'000	Comp	M'000	Comp	% Change	% Change
Assets										
Property Plant & Equipment	2,252	1.7	1,603	0.9	1,149	0.7	1,290	1.0	40.5	-10.9
Other Assets	7,562	5.6	14,912	8.3	12,906	8.1	3,883	2.9	-49.3	232.4
Total Other Assets	9,814	7.2	16,515	9.2	14,055	8.9	5,173	3.9	-40.6	171.7
Financial Instruments										
Equity Securities	10,356	22.9	15,389	8.5	8,411	5.3	9,737	7.3	-32.7	-13.6
Debt Security	55,625	40.9	107,909	59.9	95,060	59.9	80,077	59.9	-48.5	18.7
Loans and Receivables	29,969	22.1	29,837	16.6	35,115	22.1	18,954	14.2	0.4	85.3
Cash and Cash equivalents	30,141	22.2	10,463	5.8	5,929	3.7	19,662	14.7	188.1	-69.8
Total Financial Instruments	126,091	92.8	163,598	90.8	144,515	91.1	128,430	96.1	-22.9	12.5
TOTAL ASSETS	135,905	100.0	180,113	100.0	158,570	100.0	133,603	100.0	-24.5	18.7
EQUITY										
Share Capital	1,500	1.1	2,500	1.4	2,500	1.6	2,500	1.9	-40.0	0.0
Other Reserves	35,334	26.0	33,092	18.4	39,390	24.8	24,759	18.5	6.8	59.1
Retained Earnings	8,464	6.2	8,564	4.8	8,464	5.3	8,464	6.3	-1.2	0.0
Total Capital and Reserves	45,298	33.3	44,156	24.5	50,354	31.8	35,723	26.7	2.6	41.0
Technical Provisions										
Outstanding Claims Provision	30,691	22.6	26,040	14.5	21,441	13.5	19,492	14.6	17.9	10.0
Unearned Premium Provision	24,489	18.0	11,543	6.4	17,745	11.2	4,229	3.2	112.2	319.6
Total Technical Provisions	55,180	40.6	37,583	20.9	39,186	24.7	23,721	17.8	46.8	65.2

Policyholders Liabilities										
Investment Contracts	12,244	9.0	33,669	18.7	22,423	14.1	18,963	14.2	-63.6	18.2
Derivatives Financial Instruments	3,273	2.4	8,244	4.6	-	0.0	-	0.0	-60.3	0.0
Reinsurance Contracts	6,606	4.9	23,071	12.8	21,441	13.5	19,492	14.6	-71.4	10.0
Total Policyholders Liabilities	22,123	16.3	64,984	36.1	43,864	27.7	38,455	28.8	-66.0	14.1
Current Liabilities										
Employee Benefit Obligations	-	0.0	4,757	2.6	5,139	3.2	5,139	3.8	-100.0	0.0
Other Payables	13,304	9.8	28,633	15.9	20,027	12.6	30,565	22.9%	-53.5%	-34.5
Total Current Liabilities	13,304	9.8	33,390	18.5	25,166	15.9	35,704	26.7%	-60.2%	-29.5
Total Reserves & Liabilities	135,905	100.0	180,113	100.0	158,570	100.0	133,603	100.0%	-24.5%	18.7

APPENDIX I (b)

GENERAL INSURANCE BUSINESS INCOME AND REVENUE ACCOUNTS

For the Periods as Indicated

(Amounts in Thousands Maloti)

Particulars	2007	%	2006	%	2005	%	2004	%	2007/2006	2005/2004
	M'000	Comp	M'000	Comp	M'000	Comp	M'000	Comp	% Change	% Change
Income										
Gross Premium	217,604	100.0	172,328	100.0	128,092	100.0	119,562	100.0	26.3	7.1
Premium Ceded	108,107	49.7	95,971	55.7	70,484	55.0	67,541	56.5	12.6	4.4
Net Premium Income	109,497	50.3	76,357	44.3	57,608	45.0	52,021	43.5	43.4	10.7
DA Contributions	-	-	-	-	1,050	0.8	914	0.8	0.0	14.9
Commission Receivable	19,465	8.9	13,930	8.1	8,233	6.4	85	0.1	39.7	9585.9
Net Earned Income	128,962	59.3	90,287	52.4	66,891	52.2	53,020	44.3	42.8	26.2
Claims paid and outstanding	38,533	17.7	26,220	15.2	25,287	19.7	27,953	23.4	47.0	-9.5
Commissions Expenses	25,573	11.8	23,033	13.4	19,743	15.4	10,605	8.9	11.0	86.2
Management Expenses	27,792	12.8	25,349	14.7	12,919	10.1	10,912	9.1	9.6	18.4
Excess of Loss Costs	3,804	1.7	428	0.2	-	-	-	-	788.8	0.0
Total Expenses	95,702	44.0	75,030	43.5	57,949	45.2	49,470	41.4	27.6	17.1
Underwriting Results	33,260	15.3	15,257	8.9	8,942	7.0	3,550	3.0	118.0	151.9
Investment Income	15,643	7.2	3,790	2.2	5,208	4.1	6,609	5.5	312.7	-21.2
Other Income	7,974	3.7	956	0.6	2,551	2.0	1,192	1.0	734.1	114.0
	56,877	26.1	20,003	11.6	16,701	13.0	11,351	9.5	184.3	47.1
Other Expenses	3,186	1.5	2,734	1.6	5,560	4.3	2,941	2.5	16.5	89.1
Profit Before Taxation	53,691	24.7	17,269	10.0	11,141	8.7	8,410	7.0	210.9	32.5

APPENDIX II (a)

LIFE INSURANCE BALANCE SHEET AS AT THE DATES INDICATED
(Amounts in Thousand Maloti)

	2007	%	2006	%	2005	%	2007/ 2006
	M'000	Comp	M'000	Comp	M'000	Comp	% Change
Property, Plant & Equipment	10,046	0.6	8,870	0.6	7,786	0.6	13.3
Intangible Assets	28,800	1.6	33,961	2.1	38,400	2.8	(15.2)
Total Other Assets	38,846	19.8	42,831	2.6	46,186	3.4	(9.2)
Financial Instruments							
Equity Securities	1,068,244	59.7	782,349	47.9	693,787	51.3	36.5
Debt Securities	218,397	12.2	256,406	15.7	189,915	14.1	(13.8)
Loans and Receivables	248,881	4.4	253,320	15.5	151,130	11.2	(33.0)
Cash and Cash Equivalents	215,211	3.8	298,954	18.3	270,177	20.0	(58.3)
Total Financial Instruments	1,750,733	80.2	1,591,029	97.4	1,305,009	96.6	10.0
TOTAL ASSETS	1,789,579	100	1,633,860	100.0	1,351,195	100.0	9.5
EQUITY							
Share Capital	125,222	7.0	121,172	7.4	121,172	9.0	3.3
Other Reserves	299	0	3,955	0.2	3,837	0.3	(92.4)
Retained Earnings	149,704	8.4	53,746	3.3	108,877	8.1	178.5
Total Capital & Reserves	275,225	15.4	178,873	10.9	233,886	17.3	53.9
Outstanding Claims	0	0	33,678	2.1	59,230	4.4	(100)
Insurance Contracts Liabilities	1,043,151	61.2	958,012	58.6	741,356	54.9	8.9
Investment Contracts	386,785	21.6	393,209	24.1	275,458	20.4	(1.6)
Derivative Financial Instruments	0	0	-	0.0	309	0.0	0.0
Total Policyholders Liabilities	1,705,161	95.3	1,384,899	84.8	1,076,353	79.7	23.1

Reinsurance Contracts	0	0	1,424	0.1	1,320	0.1	(100)
Employee Benefit Obligations	85	0	40	0.0	33	0.0	112.5
Provision for unearned premium	29,389	1.6	63,057	3.9	37,308	2.8	(53.4)
Other Payables	54,944	3.1	5,567	0.3	2,295	0.2	887.0
Total Other Liabilities	84,418	4.7	70,088	4.3	40,956	3.0	20.4
Total Equity and Liabilities	1,789,579	100	1,633,860	100.0	1,351,195	100.0	9.5

APPENDIX II (b)

**LIFE INSURANCE UNDERWRITING RESULTS AND INCOME STATEMENT
FOR THE PERIOD ENDED AS AT THE DATES INDICATED BELOW**

(Amounts in Thousand Maloti)

	2007	%	2006	%	2005	Change %
	M' 000	Comp	M'000	Comp	M'000	2006/2007
Income						
Gross premium	351,670	100	248,922	100	251,772	0.4
Premium Ceded	11,863	3.4	8,460	3.4	5,991	0.4
Net Premium	339,807	96.6	240,462	96.6	245,781	0.4
Commission Earned	4,188	1.2	1,898	0.8	2,183	1.2
Earned Income	343,995	97.8	242,360	97.4	247,964	0.4
Outgo						
Claims incurred	201,202	57.2	158,880	63.8	197,210	0.3
Commission Paid	24,138	6.9	27,894	11.2	36,090	-0.1
Management Expenses	57,278	16.3	29,898	12	44,584	0.9
Total Outgo	282,618	80.4	216,672	86.1	277,884	0.3
Underwriting profit / loss	61,377	17.5	25,688	10.3	-29,920	1.4
Investment Income	191,564	54.5	267,762	90.9	257,693	-0.3
Other Income	5,180	1.5	1,048	0.4	896	3.9
PBT and Other Expenses	258,121	73.4	294,498	100	228,669	-0.1