



CENTRAL BANK OF LESOTHO

ANNUAL REPORT ON THE WORKINGS OF THE INSURANCE ACT 1976 AND THE GENERAL REVIEW OF THE INSURANCE BUSINESS IN 2006

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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 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 2006.

2. OVERVIEW

In 2006 the insurance industry experienced an increase of 18.9 per cent in terms of the gross premiums written. The multi-peril insurance constituted the highest component of the premiums written at 26 per cent of the general insurance business. The total assets increased by 9.2 per cent while the total liabilities increased by 17.6 per cent. The total investments grew significantly by 23 per cent. The General insurance business (non-life) showed a significant improvement of 69.5 per cent in relation to the underwriting results. The net earned income also showed an increase of 32.0 per cent. The life insurance business experienced a 7 per cent increase in gross premiums. The individual life accounted for 57 per cent of the gross premiums. The underwriting loss increased by 22.3 per cent, this was mainly due to 57.8 per cent increase in the transfer to technical provisions.

In an effort to sensitise the general public CBL continued to educate the public through the radio about the importance of insuring life and property. The Insurance Bill which was finalised in 2005 was approved by cabinet in 2006 and due for submission to law office for further scrutiny in 2007 with the hope of it being passed by parliament in 2008.

During the period under review one general 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. This made it difficult for the CBL to take punitive measures for non-compliance by the principal officers because of the need to seek Minister's approval for such an act. 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 made it 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 2006

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 18.9 per cent in 2006 from M381.3 million in 2005 to M453.3million in 2006. 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 M10, 120.2 million in 2006, M9, 065.3 million in 2005 and M8, 519.1 million in 2004. The insurance sector as a percentage of GDP constituted 4.5 per cent in 2006, 4.2 per cent in 2005 and 2.9 per cent in 2004 implying that the insurance industry performed better when compared to 2005 and 2004 respectively.

Table 1 below shows the trends of value added by the insurance sector to the gross domestic products over the years 2005 and 2006.

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

Particulars	2006	2005	2004	% Change 2005/2006
Insurance Premiums	453.3	381.3	248.7	18.9
GDP at Purchasers' Prices (At Current Prices)	10120.2	9065.3	8519.1	11.6
Insurance Premiums as a % of GDP	4.5	4.2	2.9	7.1

NB: Data obtained from Bureau of Statistic (BOS)

5. INSURANCE BUSINESS CONDUCTED IN 2006

According to section 6(1) of the Insurance Act of 1976, there are two classes of the insurance business namely; Life and General Insurance business. Currently there are three insurance companies licensed to carry out the life insurance business and they are as follows: Alliance Insurance Company, Lesotho National Life Assurance Company and Metropolitan Lesotho. The general insurance business is conducted by two insurance companies namely Lesotho National General Insurance Company and Alliance Insurance Company. In order to obtain business insurers engage insurance agents to solicit business on their behalf. Insurers also enter into agreements with insurance brokers so that they may transfer business to them. There were 196 insurance agents and 28 insurance brokers during 2006. However, there were no new companies licensed during the period under review. The life insurance companies continued to administer private pension funds.

5.1 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 2006.

**Table 2: General and Life Insurance Business Investment Breakdown
(In Thousand Maloti)**

Particulars	2006	2005	2004	% Change 2005/2006
Total Gross premiums Written	453,320	381,322	376,126	18.9
Total Assets	1,779,926	1,630,087	1,273,395	9.2
Total Liabilities	1, 573,894	1,338,465	1,092,550	17.6
Total Net Worth	206,032	291,622	180,845	-29.3
Total Investments	1,136,106	923,341	986, 209	23

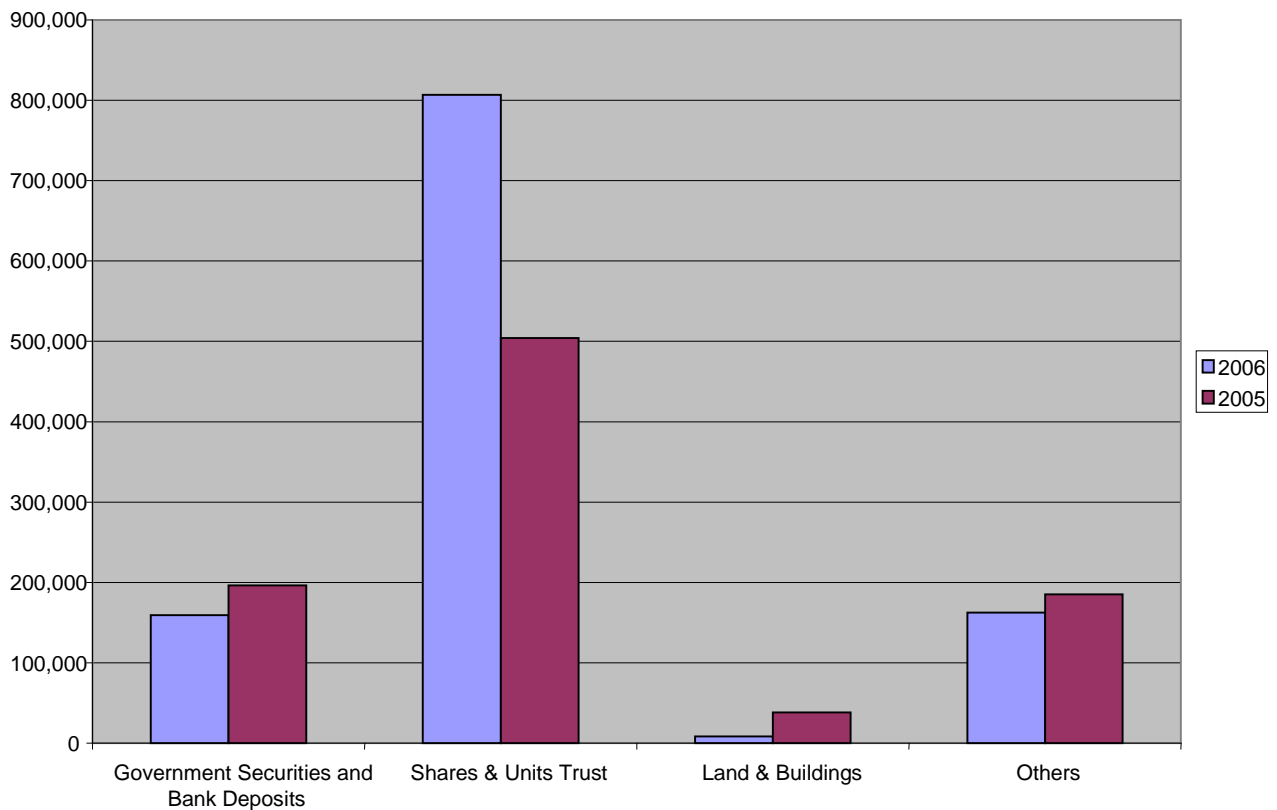
NB: The figures for the year 2005 have been revised.

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

Particulars	2006	2005	2004	% Change 2005/2006
Government Securities and Bank Deposits	159,091	196,388	433,801	19.0
Shares & Units	806,499	503,838	376,054	60.1
Land & Buildings	8,019	38,117	11,978	-79.0
Others	162,497	184,998	164,497	-12.2

The industry's total investment increased by 23.0 per cent from M923 million to M1 billion. Investments in property decreased significantly by 79.0 per cent from M38.1 million to M8.0 million. This was a result of correction that was made in the current year regarding the misallocation of the property belonging to a subsidiary of one company to investment. The unit trust and shares grew by 60.1 per cent from M504 million in 2005 to M806 million in 2006. Moreover, the investments in government securities decreased by 19.0 per cent from M196.3 million in 2005 to M159.1 million in 2006. It is quite clear that the insurance industry decreased its investments in land and buildings and invested a large proportion of its funds in shares and unit trusts which constitute the highest investment component of 60.1 per cent. The insurance industry least invested in land and buildings and other forms of investments.

FIGURE: 1 THE DISTRIBUTION OF GENERAL AND LIFE INSURANCE INVESTMENT BY TYPE AS AT 31 DECEMBER 2006 (IN THOUSAND MALOTI)



5.2 GENERAL INSURANCE BUSINESS

In accordance with Section 2 of the Insurance Act 1976, general insurance business means fire, motor, marine, accident, employers' liability insurance or any type of insurance but excludes life insurance business.

5.2.1 Underwriting Results

Underwriting profit or loss results from deducting claims incurred, management expenses and other underwriting expenses from the sum of net premium income and commission income and other underwriting income. The general insurance industry showed an improved performance in 2006 when compared to 2005 and 2004 (Refer to Table 4).

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

Particulars	2006	2005	2004	% Change
Gross Premiums	172,328	130,280	124,354	32.3
Premium Ceded	95,971	71,310	69,106	34.6
Net Premium Income	76,357	58,970	55,248	29.5
DA Contributions	-	1,050	-	-100
Commission Receivable	13,930	8,383	5,975	66.2
Net Earned Income	90,287	68,403	61,223	32
Expenditure				
Claims paid and Outstanding	26,220	26,367	29,345	-0.6
Commission Expenses	23,033	19,890	11,477	15.8
Management Expenses	25,349	13,147	10,883	92.8
Excess of Loss Costs	428	-	-	100
Total Expenditure	75,030	59,404	51,705	26.3
Underwriting Profit/Loss	15,257	8,999	9,518	69.5

Gross premium written increased by 32.3 per cent to M172.3 million from M130.3 million while premium ceded increased by 34.6 per cent to M95.9 million from M71.3 million during the period under review. The increase in gross premium written was mainly due to renewed and new policies as there was no increase in pricing during the period under review implying that the industry was continuing to gain customer loyalty.

The increase in premium ceded was mainly the result of huge clothing industry fire claims that occurred in 2005 forcing the industry to increase the re-insurance premiums in 2006, in order to maximize the risk absorption capacity and minimize the risk of not being able to meet future claims. However, the increase in re-insurance premiums was compensated by the increase in commission receivable from the re-insurers which increased by 66.2 per cent in 2006.

The DA Contributions measures the surplus made on the surplus treaties between individual primary insurers and their re-insurers during a particular period. DA contributions decreased by 100 per cent in 2006 from M1.1million in 2005. This was because there was no surplus made during 2006 as expenditure exceeded income as evidenced by the increase in the excess of loss costs which have also increased by 100 per cent during the period under review.

Commission expenses and management expenses increased by 15.8 per cent and 92.8 per cent respectively. The increase was the result of the increase in gross premium written. Claims paid and outstanding increased by 3.7 per cent to M26.2million in 2006 from M25.3million in 2005, this was because of fire claims which were settled in 2006.

In 2006, the industry incurred excess of loss costs amounting to M458thousand, because claims incurred exceeded the agreed loss-sharing ratio while in 2005 there were no excess of loss costs.

Notwithstanding the increase in underwriting expenses, underwriting profit increased by 69.5 per cent to M15.3 million in 2006 from M9.0 million in 2005, implying that the industry performed better in 2006 when compared to 2005 and 2004 respectively.

5.2.2 Ratio Analysis

Ratio analysis is of importance because it provides a suitable framework for the evaluation of an insurer's financial soundness. The ratio analysis for the general insurance business still showed an improvement like in the previous year. The improvement is substantiated by the 34.5 per cent increase in gross premiums and the 32.5 per cent increase in net premium **(Please refer to Table 5)**.

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

Particulars	2006	2005	2004	Deviation 2005/2006
Premium Ceded to Gross Premium	55.7	55.0	55.6	0.7
Net Premium to Gross Premium	44.3	45.0	44.4	-0.7
Net Claims to Net Premiums	34.3	43.9	53.1	-9.6
Underwriting Profits/Loss to Net Premiums	19.9	15.5	17.2	4.4
Commission Earned to Net Premium	18.2	14.3	10.8	3.9
Commission Expenses to Net Premiums	30.2	34.3	20.8	-4.1
Management Expenses to Net Premiums	33.2	22.4	19.7	10.8
Management Expenses to Total Income	28.1	19.3	17.8	8.8

The ratio of premium ceded to gross premiums measures the insurance premiums outflow from the primary insurers to the re-insurers. In Lesotho this ratio also measures the insurance premium outflow to other countries, including the Republic of South Africa, because there are no reinsurance companies in Lesotho. This ratio showed a marginal increase of 0.7 percentage points. The increase implied that the industry's absorption capacity was strengthened through reinsurance. This increase also implied that insurers minimized their exposure to excessive risk.

Net claims to net premium ratio measures the extent to which the premium income is used to pay the incurred claims. This ratio decreased by 9.6 percentage points to 34.3 per cent in 2006 from 43.9 per cent in 2005. The decline was due to the increase in net premiums in 2006, while claims incurred only showed a slight increase of 3.7 per cent. Despite the fact that 2005 fire claims were settled in 2006, the industry still showed an improved performance.

Underwriting profit/loss to net premiums ratio is used to determine how much is retained after claims and other underwriting expenses have been paid. This ratio improved by 4.4 percentage points to 19.9 per cent in 2006 from 15.5 per cent in 2005. The main reason for the increase being the 32.5 per cent increase in net premium income, and the 66.2 per cent increase in commission receivable in table 4. The increased underwriting profit could result in improved overall profitability if other expenses had declined or remained constant at the level they were in 2005 and 2004.

Commission earned to premium ceded ratio measures the income earned on the premium ceded to reinsurers. This ratio increased by 2.8percentage points to 18.2 per cent in 2006 from 14.3 per cent in 2005. The increase was attributable to the 36.2 per cent increase in premium ceded in 2006 hence the positive effect on the underwriting results.

Management expenses ratios help to assess the extent to which the industry was able to manage expenses, in order to maximize underwriting results and improve growth and return. On the average, these ratios showed an increase from year to year of 10.8percentage points and 9.4percentage points when measured as a percentage of net premiums and total income. The increase in management expenses was attributable to the disputed management expenses for prior years, which were settled in 2006. This increase had a negative impact on the underwriting results in 2006.

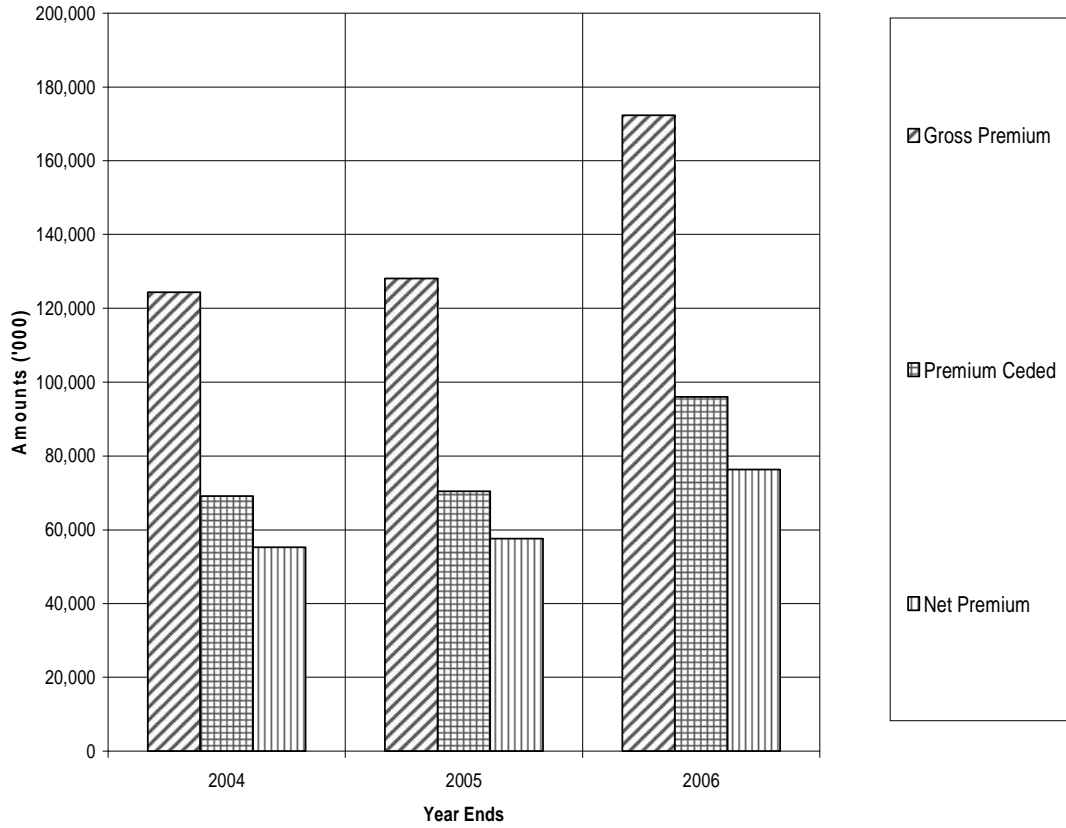
Commission expenses to net premiums ratio measures the extent to which the net premium income has been used to pay commission expenses to the insurance brokers and insurance agents. This ratio declined by 4.1percentage points to 30.2% in 2006 from 34.3% in 2005. The decline in commission expenses also contributed to an improvement in the industry's underwriting results.

5.2.3 Underwriting Trends and Impact of Reinsurance

Comprehensive regulation and supervision of the insurance industry commenced in 2004 when the Insurance Supervision Division was established and as a result the trend analysis starts from 2004 to 2006 as shown in Figure 2 below. This figure depicts trends in general insurance gross premiums (GP), net premiums retained (NPR) and premium ceded (PC) for the year ending 31 December 2004, 31 December 2005 and 31 December 2006.

The general insurance business showed an increasing trend from year to year in terms of gross premiums, net premiums retained and premium ceded. The growth was more attributable to renewed business than new business, implying that the industry continued to gain customer loyalty and maintain it.

**FIGURE 2: GENERAL INSURANCE UNDERWRITING TRENDS AND IMPACT ON REINSURANCE
(In Thousand Maloti)**

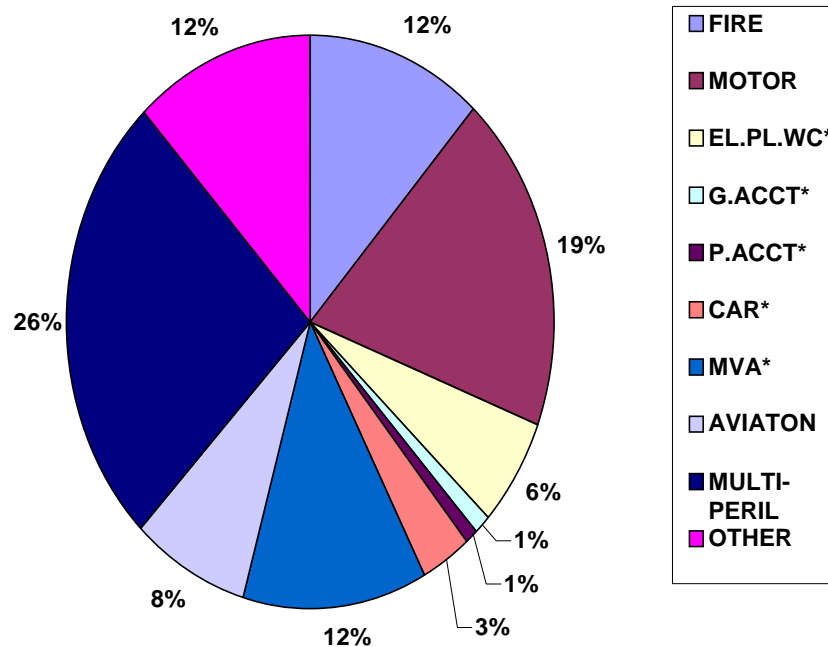


5.2.4 Product Portfolio Mix

The general insurance business product mix for the period ending December 2006 was made up of: 12 per cent Fire, 19 per cent Motor, 6 per cent Employer EL.PL.WC, 1 per cent G.ACCT, 1 per cent P.ACCT, 3 per cent CAR, 12 per cent MVA, 8 per cent Aviation, 26 per cent Multi-Peril and 12 per cent Other (Assets All Risk, Political riots Machinery Breakdown, Ad cover and Motor Manual).*

As depicted in figure 3 below, Multi-Peril insurance constituted the highest component of gross premium written during the period under review. It was followed by Motor while Fire, MVA and Other constituted the same level. This implied that the general insurance business might need to intensively market all products below 10 per cent in order to improve growth.

**FIGURE 3: GENERAL INSURANCE BUSINESS
PRODUCT PORTFOLIO MIX 2006**



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

5.2.5 Claims Experience

The general insurance Net Loss Ratio (NLR) improved to 34.3 per cent when compared with 45 per cent in the previous year. The ratio of gross claims to gross premiums improved from 20 per cent in the previous period to 15.2 per cent in the current year. The decline in claim payments by insurers is attributed to inter alia:

- a) Absence of the provision in the insurance act which requires underwriters to pay genuine claims within stipulated time period of the admission of liability; and
- b) Limited awareness amongst the insured public of their contractual rights of getting genuine claims settled by the insurers.

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 6: A Comparative Summary of Underwriting Results and Income Statement of Life Insurance Business for the Years 2005 and 2006 (Amounts in Thousand Maloti)

Particulars	2006	2005*	2004	% Change 2005/2006
Gross Premiums	280,992	262,718	251,042	7
Reinsurance Premium Paid	-4,264	-4,648	-3,568	-8.3
Net Earned Income	276,728	258,070	247,474	
Outgo				
Net Claims	178,607	206,094	172,392	-13.3
Commission Paid	29,899	38,359	18,966	-22.1
Provision	259,838	164,703	127,314	57.8
Management Expenses	41,938	39,955	29,811	5
Total Outgo	510,282	449,111	348,483	13.6
Underwriting Loss	-233,554	-191,041	-101,009	22.3
Investment Income	62,559	67,859	40,861	-7.8
Net Realised Gain on Investments	211,509	188,920	101,347	12
Other Income	3,636	3,323	2,152	9.4
Net Income before Tax	44,150	69,061	43,351	-36.1

**NB: The figures for the year 2005 have been revised.*

The life insurance business showed an increase of 7.0 per cent in Gross Premiums for the year, from M263 million in 2005 to M281 million in 2006. Moreover, the life

insurance business showed an overall underwriting loss of M234million in 2006. The loss was caused by the 57.8 per cent increase in funds transferred to the insurance fund whereas gross premiums written only increased by 7 per cent. The increase in the transfer was caused by the high rate of fraudulent business written by the industry in 2005/6. The high rate of lapses started showing in 2006, there was therefore a need to transfer more funds from the income of the insurers into the insurance fund as the liability could not be accurately measured.

Despite the fraudulent business, the life industry showed a decrease in claims. There was also a decrease in commission paid which was due to the revision in the terms of the payment of commission to the brokers and agents. Insurers no longer paid commission in advance instead it was paid out as policyholders continued to pay their premiums.

The life industry was also able to manage its management expenses, which declined by 5 per cent.

5.3.2 Ratio Analysis

**Table 7: Major Ratios for Life Insurance Business
(In Percentages)**

Particulars	2006	2005	2004	Deviation 2006/2005
Premium Ceded to Gross Premiums	1.5	1.8	1.4	-0.3
Net Premiums to Gross Premiums	98.5	98.2	98.6	0.3
Gross Claims to Gross Premiums	64	78.9	68.7	-14.9
Net Claims to Net Premiums	64.5	79.9	69.7	-15.4
Underwriting Gain/Loss to Net Premiums	84.4	74	11.1	10.4
Commission earned to Premium Ceded	-	-	-	-
Management Expenses to Net Claims	15.2	15.5	39.1	-0.3
Commission Paid to Gross Premiums	10.6	14.6	8.8	-4

The insurers ceded less risk in the current year as they only ceded 1.5 per cent of their gross premiums as compared to 1.8 per cent in 2005. The current year saw a decrease in both the ratios of gross claims to gross premiums and net claims to net premiums. The decrease was due to a decrease in claims incurred in the current year. The decrease in claims was higher than the increase in premiums in the current year hence the decrease in the ratio. The management expenses decreased by 0.3 percentage points. This was due to the decrease in overall management expenses by 5 per cent, it can therefore be concluded that the life insurance industry was able to manage its management expenses.

The Commission paid to Gross premium ratio decreased by 4.0 percentage points as result of 22.1 per cent decrease in the commission paid while the gross premium increased by 7.0 per cent. The decrease in commission paid was due to the fact that insurers were no longer paying commission in advance and were only paying the

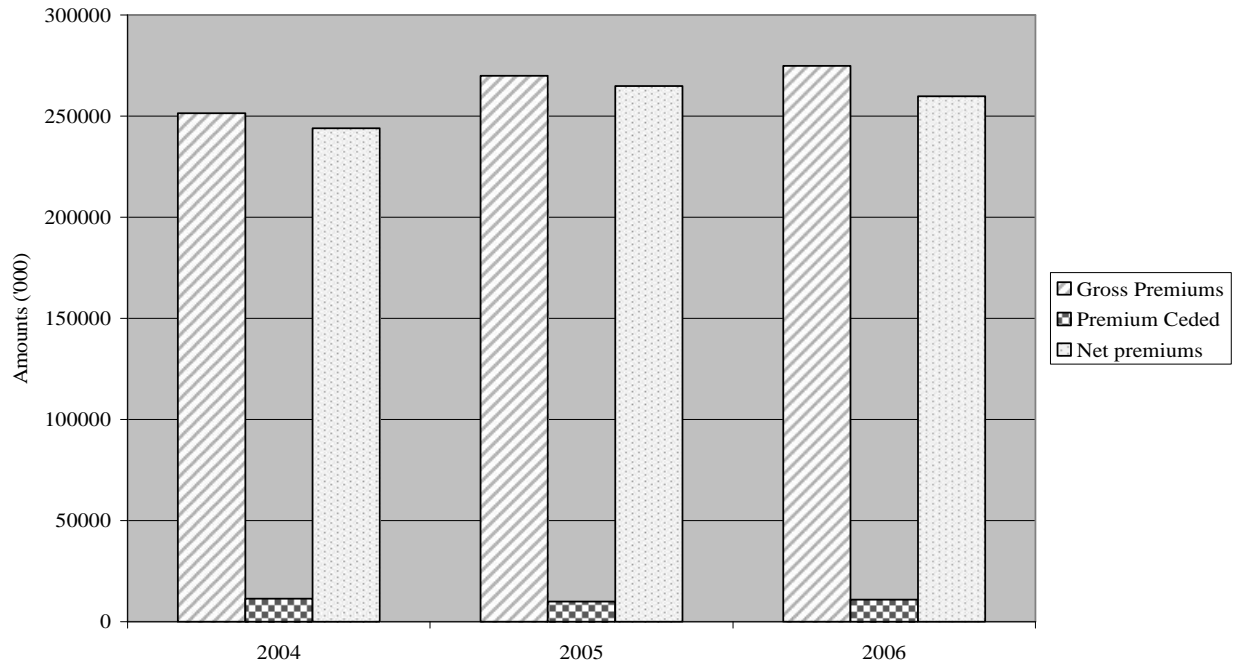
commission as policyholders continued to pay their premiums. This change in the method of payment was due to the fact that agents/brokers were writing fraudulent business that would lapse in a short time of two or three months. At that time they would have been paid commission for twelve months. The company would therefore had to go through the hassle of collecting the commission paid from the agents/brokers which proved difficult.

The ratio of underwriting results to net premium ratio measures profit/loss that remains after paying claims and underwriting expenses. Underwriting gains to net premiums ratio increased by 10.4 percentage points from 74.0 per cent in 2005 to 84.4 per cent in 2006. This was due to the 22.3 per cent increase in underwriting results and the 7.2 per cent increase in net premium.

5.3.3 Underwriting Trends and Impact of Reinsurance

The life industry had ceded 1.5 percent of its total premiums in 2006. In the current year the reinsurers had paid 1 per cent of the total claims lodged with the insurers. The life insurers do not reinsure most of their risk like the general insurers as some of its policies are investment policies which bear no risk. Moreover, the two biggest life companies that contribute over 90 per cent of the total life industry have built up their technical reserves over time. They therefore can cover most of the risk that they take and hence do not need reinsurance.

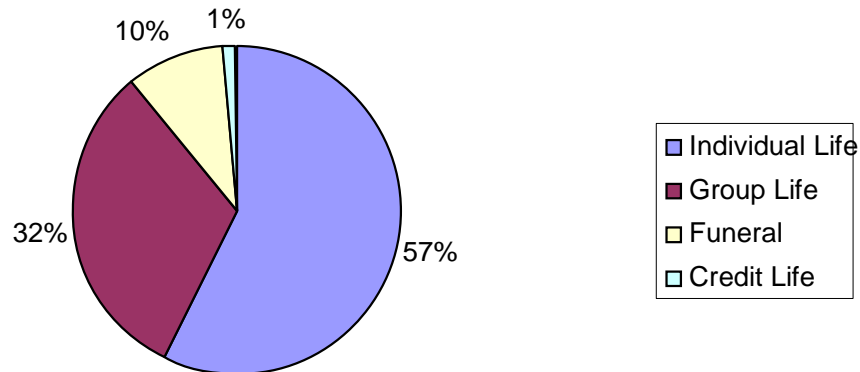
**FIGURE 4: LIFE INSURANCE UNDERWRITING TRENDS AND IMPACT OF REINSURANCE
(IN THOUSAND MALOTI)**



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 2006 per product.

Figure 5: Life Insurance Business Products Portfolio Mix for 2006



Credit life policies accounted for 2 per cent of the gross premiums in 2005 but decreased to 1 per cent in 2006. The individual life policies accounted for 77 per cent of the gross premiums in 2005 whereas in 2006 it accounted for 57 per cent of the gross premium. Group life accounted for 15 per cent of the gross premiums written in 2005, and increased to 32 per cent in 2006. This showed that the individual life policies were more common than all other types of policies. Though the credit life contribution to the total life business premiums decreased there was an increase in the total credit life policies. The decrease in the individual life contribution to total premiums may have been due to the fact that companies are moving towards providing covers for their employees' retirement benefits resulting in a decrease in the need for individuals to have their own individual policies. This was also proven by an increase in the group life premiums contribution to the total premiums of the life industry.

5.3.5 Claims Experience

The life industry experienced a decrease in claims incurred. This could be a result of the decline in surrenders on policies. Complaints on the non payment of claims were still on the increase but the insurers were aware of the problem and were embarking on training their agents and brokers on their products to avoid the dissemination of misleading or wrong information to clients. The impact of the training was not evident in 2006 but hopefully will be observed in the long run when the public has a much better understanding of the of the

insurance products available in the insurance industry. The Life Insurers Net Loss Ratio (NLR) showed an improvement; the ratio was 78 per cent in 2005 and in 2006 it had declined to 65 per cent, implying that there were fewer claims in the year under review.

6. REGULATION OF INSURANCE ACTIVITIES

6.1 Supervision

The Insurance Act no. 18 of 1976 gives CBL the power to ensure compliance with its provisions by the licensed insurance companies and insurance intermediaries. Insurance companies and insurance intermediaries are required to conduct insurance business on the basis of sound insurance principles. The supervisory surveillance requires a detailed scrutiny of the statutory returns and therefore every insurer is required to keep the records in Lesotho as are necessary to exhibit clearly and correctly the state of affairs and to explain the transactions and financial position of his business in Lesotho. Moreover, the insurance companies are required to maintain the proper investment of funds in, make adequate reinsurance arrangements, and maintain the required margin of solvency as well as employing fit and proper persons as employees in the insurance industry.

Section 20(1) of the Insurance Act 1976 requires every life insurer trading in Lesotho to prepare submit to the Commissioner at least every two years an actuarial valuation of the business transacted by him during that particular year. Section 20(2) on the other hand requires that any major changes in the financial condition be reported to the Commissioner within three months after the date of submission of the actuarial as per Section 20(1).

6.2 Consumer Complaints Handling

The Commissioner through the Insurance Supervision Division and Supervisory Policies and Regulations Divisions continued to handle customer complaints. The handling of the complaints was mainly done to protect the policyholders and to continue enlightening them about the various aspects of their policies. In most instances the policyholders seemed not to have a clear understanding of their cover. They knew risks which they were covered against only at the time of dispute resolutions resulting from the intervention by CBL. However, when it became clear that the insured did not have a clear understanding of the contents of their policies, insurers were always willing to refund the premiums that they have paid. Insurance companies had measures that they took against the agents or brokers which did not disclose all the relevant terms and conditions under which the insurance policies. However Insurers were still to apply more efforts on customer education.

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.

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. 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.

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.

