INVESTIGATING THE IMPORTANCE OF LOCAL REINSURANCE IN PREVENTING CAPITAL OUTFLOW WITHIN THE NAMIBIAN MARKET: A CASE STUDY OF NAMIBIA NATIONAL REINSURANCE CORPORATION

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Abstract

This paper will investigates the importance of the local reinsurance industry in preventing capital outflow within the Namibian market through the insurance industry. The purpose of the study is to investigate the capital outflow that leaves the Namibian economy through insurance.Despite several efforts by the Namibian government to curb capital outflow, more cash still remnants the country through the insurance companies. The study has made use of questionaiers and interviews. The target population was made up of the insurance companies, Namfisa and the Ministry of Finance. The data for all the variables in the study was extracted from the financial reports of the insurance companies and Namfisa, from 2011 till 2015 finanacial years. The study concluded that capital outflow has a negative impact on the financial performance of the country. Therefore the insurance companies should adopt strategies to curb the heavy capital outflow within the Namibian economy .

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Achieving success in academics, including research projects rides on tremendous contributions from both human and divine support. First is the loving care we are accorded by our heavenly father, The Almighty God. I worship and honour the Almighty, that He has granted me kindness that saw me through my course work and the research project. I acknowledge the various scholars and the academic family for providing information and an enabling environment in which I have managed to carry out my research project with the intent of enriching, what has been studied as well as giving a chance to other scholars to carry out further studies. To my supervisor Dr Henri Benedict, whose constant corrections immensely contributed to the shaping of this research project,your suggestions prompted me back to my books several times over to ensure the success of the project, thank you! To my immediate family members who gave me the crucial support I needed to concentrate on the research project, I thank you! My thanks also goes to my work colleagues, classmates and everyone else, thanks and may our loving Heavenly Father continue to guide you in all your future endeavours.

God bless you all.

DEDICATION

I would like to dedicate this study to my children Eunice, Nemu and Gabriel for their support and encouragement. I also dedicate this study to all scholars out there to keep on doing research on aspects that have an influence on our country's economic growth. Just remember and keep it in mind that with God everything is possible.

DECLARATION

I, Tuyeni Victoria Nampila declare that this study is a true reflection of my research and that this work or part thereof has not been submitted for a degree in any institution of higher education.

……………………   ………………

Signature   Date

ACRONYMS

GDP: Gross Domestic Product

FDI: Foreign Direct Investments

NAMFISA: Namibia Financial Institutions Supervisory Authority

NAMIBRE: Namibia National Reinsurance Company

CHAPTER 1

INTRODUCTION

1.1 Orientation of the proposed study

There exists no generally accepted definition of the term capital outflow. Most of the times this term is related to capital which is shifted out of developing countries. However, if capital shifts out of the developed country, it is usually referred to as capital outflow. Investors from developed countries are seen as responding to investment opportunities while investors from developing countries are said to be escaping the high risks they perceive at home (Ajayi, 1997). Thus, the motivation for imposing capital control on the insurance industry is to promote economic development within the Namibian economic sectors.

Capital outflow within the insurance industry is a proposed way of analysing uncertainty in the future development of the insurance industry. Capital outflows should be managed primarily by macroeconomic and financial sector policies, the temporary imposition of controls on capital outflows can be useful mainly in crisis or near crisis conditions but only as a complement to other policies in response to large capital outflows typically associated with disasters. (Kurt, 2015). The capital outflow has been attributed mainly to the limited availability of investment opportunities in Namibia. The insurance industry of Namibia comprises of both short-term and long-term insurance companies, which are

registered in and do operations within the Namibian industry. Capital outflow remains high, thus depriving the country of much needed resources and investment opportunities. The capital structure of the short-term insurance companies is comprised of statutory share capital of 18%, non-distributable reserve of 18% and distributable reserves of 65 % (Namfisa Annual Report, 2015).

Most of the registered insurance companies within Namibia are South African owned, which among them is Sanlam Insurance Company, Santam Insurance Company, Old Mutual, Metropolitan, Hollard Insurance Company and Outsurance Insurance Company. In total there are thirteen registered insurance companies (http://www.namfisa.com.na). Namibia has only one registered reinsurance company which is, Namibia National Reinsurance Corporation (NamibRe). NamibRe was created by the government of Namibia. The company was created by an Act of Parliament, with the government of Namibia being the sole shareholder. NamibRe has been mandated to curb the capital outflow from insurance companies, so that capital generated within the Namibian economy through insurance business, remains in Namibia.

This capital will then be used to contribute towards the country's gross domestic product and improve the country's balance of payments position. Furthermore, NamibRe is also created to become a vehicle for empowerment and to enhance participation of the Namibians in the financial services sector for economic and financial stability. NamibRe became operational in September 2001 (Namfisa Annual Report, 2015).

Bellerose (2003) defines reinsurance as insurance purchased by an insurance company, the ceding company from one or more other insurance companies whereby the ceding company and the reinsurer enter into a reinsurance agreement. Bellerose (2003), states that the reinsurer is paid a reinsurance premium by the ceding company, which then issues an insurance policy to its own policyholders, whereby the reinsurer, may decide which policies to underwrite. According to the Act No 22, 1998 of NamibRe, the Namibian government has established the national owed reinsurance company, NamibRe to work hand in hand with the various insurance companies to reduce the amount of capital outflow within the Namibian economy. Furthermore, by the Act No 22, 1998, NamibRe was created by the Namibian Government to carry out the reinsurance business and to conduct all the affairs relating thereto in accordance with sound insurance practices and methods. NamibRe has also been authorised to promote the development of, and the participation of the people of Namibia in the insurance and the reinsurance industry in Namibia. Additionally, the national reinsurer should create, develop and sustain local retention capacity in the insurance and reinsurance business and to minimize the placement of insurance and the reinsurance business outside Namibia.

According to the Act No 22, 1998 the Namibian government has introduced the compulsory cession of 20% whereby each and every registered insurance company within Namibia must reinsure with the national reinsurer and give NamibRe the first right of refusal, whereby NamibRe can either take up a share on the risk or not.

The main source of income for the insurance companies is gross premium, which is a levy paid by policyholders in payment of the insurance cover granted by the insurance companies. The total value of assets for the short-term insurance companies within Namibia was N$4.7 billion as at 31 December 2014, representing an increase of 34.3% from the N$3.5 billion reported from the previous year (Namfisa Annual Report, 2015). The industry profit margin, measured by underwriting profit as a percentage of gross premium income is attributed to an increase in investments and technical assets.

The investigations are presented for use in practical applications by actuaries advising the management of the general insurance companies, on how to invest within the Namibian economy (Namfisa Annual Report, 2015). The insurance companies are modelled alongside the market in a collective way so that the impact of changes in premium rates which are relative to the market can be assessed. There are models on the methods which are used to explore the consequences of uncertainty, particularly with regards to inflation and investment within the industry.

Managing the cash outflow of a company is a crucial factor that enhances a company's operations and performance. According to Edwards (2007), due to the relevance of cash outflows in the company's operations and performance, corporate organizations need to develop a suitable cashflow mix and apply it to maximize shareholders' values. Kurt (2015), states that, the insurance industry is affected by economic factors such as weak economic growth, low inflation rates, volatile financial markets and near-zero interest rates. If international capital flows react mainly to global factors, the recipient countries

are vulnerable to global shocks, even if domestic policymakers maintain prudent macro policies. The insurance industry cash flow can be generated through underwriting activities, investing activities and modelling cash flow activities which are essential for forecasting business growth. Reinsurance spend, refers to the proportion of gross premium that insurance companies spend to purchase reinsurance cover. This expense reduces the amount of premium that the insurance companies would eventually account and retain in their books of accounts.

By contrast, if capital outflows are predominantly driven by domestic factors, policymakers are better able to effect them. For instance, the downside risk of a company can be signalled by an abnormal decrease in operating cash flows. Moreover, the discrepancy of the magnitude and timing of the cash flows generated from underwriting insurance policies and those generated from investment activities create cash-flow uncertainty and risks to insurance firms (Heim 2008).

Ballotta and Haberman (2009), specifically directed the investment strategies of insurance companies and emphasized on minimizing the default risks of the insurers and the optimal investment strategies of insurance companies over economic downturns.Besides constraining policies in normal times, free capital mobility also severely constrains policy autonomy during the financial crisis, therefore intensifying problems of falling output, reduced domestic investment and unemployment. It is generally acknowledged that shortage of funds caused by the capital outflow in the insurance industry to finance economic development, is a major challenge confronting the Namibian economy.

Thus, encouraging continuous operation and the preventing of capital outflow of foreign capital by the way of foreign investment cannot be over emphasized in bridging the existing resource gap in the economy of the country.

1.2 Problem Statement

Comert (2008) state that capital outflow is the amount of money that leaves a country's economy and is then kept or invested in other countries during a period.Out flowing of capital can be caused by any number of economic, or political reasons but can also originate from instability in either sphere. Regardless of the cause,capital outflow is generally perceived as always undesirable and many countries create laws to restrict the movement of capital out of their borders, called capital controls. Tejvan (2012) state that, if huge amounts of capital leave a country, it will cause an imbalance of payments within the economy, which can cause the following problems,decline in competitiveness, recession and higher inflation and high unemployment rate.

Beja (2007) state that the tightening of capital outflow restrictions, in turn, could help reduce net outflows once inflow pressures reverse, providing time for more fundamental policy adjustment. Investments are necessary for economic growth development and to accumulate wealth, it is not possible to talk about reducing unemployment and other socio–economic miseries without sufficient investments strategies. Onwioduokit (2013) state that excessive capital outflows from a nation indicates that economic problems exist beyond the limitation of assets itself.

Some governments place restrictions on exiting capital, but the implications of tightening often sends up red flags regarding the state of the host economy. Capital outflow applies pressure on macroeconomic dimensions within a nation, which is discouraging for both foreign and domestic investment. There are many reasons, why capital leaves a country, reasons can be that the investors are not optimistic about a country's economy, which is expanding at the slowest pace in more than a quarter century (Caselli 2007).Growth might be slower still because policy makers are seeking to reduce leverage in bonds, cool property prices and push ahead with a slew of reforms including cutting excessive capacity and making state-owned enterprises more efficient. Foreign investors sell the capital as the economy slows, and domestic households buy other currencies, adding to pressure on the country's exchange rate, leading to more capital outflows. Reasons for capital outflow include economic unrest and low domestic interest rates which have a bad effect on the economies of the country(Aizenman 2007).

To the best of the researcher's knowledge, a few of the existing studies have addressed the issues of cash outflow within the Namibian economy. Presumably, cumulative capital outflow is measured retrospectively and cannot exceed the gross total of foreign assets held by domestic residents. Such a number is bound to be too large, because some of the claims on foreigners represents ordinary business activities, ranging from direct investment to normal levels of commercial export credit. Furthermore, some claims on foreigners are probably held as cover for liabilities to foreigners. Therefore, the study of NamibRe becomes relevant.

1.3 Objectives of the study

The objective of this study is to understand the capital flows within the insurance and reinsurance industry within the Namibian market, and how the formation of the national reinsurance corporation can be used to curb the purchase of reinsurance abroad, and thus to prevent capital outflow from the insurance industry. The following objectives will be looked at

- To understand the insurance and reinsurance capital flow within the Namibian market over the past five years (2011-2015)
- To extend policy recoomendations based on the findings of the study
- To examine the operations, of the short and long-term reinsurance corporations within the Namibian market
- To analyse the contribution of the reinsurance corporation towards the growth of the Namibian economy

1.4 Significance of the study

It is important to understand the dynamics of the insurance and reinsurance, and its usefulness as a tool to prevent capital outflow within the country.

Capital outflow is defined as the difference between total private capital outside the domestic economy and that part for which interest income is identified and reported. By the non-reporting of returns, it can be said that such capital outflow is lost to the country. Reinsurance contributions will enhance saving habits and growth of the economy of the country. When the net capital outflow is positive, domestic residents are buying more foreign assets than foreigners are purchasing domestic assets. When it's negative, foreigners are purchasing more domestic assets than residents are purchasing foreign assets For insurance firms, cash flows are generated from investments, underwriting, and risk management activities which are important indicators in the financial management and are also the key variables in capital budgeting decisions. These factors underlying the cash flow generating process may be tangled together and thus under the generating process can present additional risk to the cash outflow level.

In order to improve the situation, it is important to identify the impact of capital outflow towards the economic growth of Namibia and the impact of capital outflow on the real gross domestic product. Institutions such as pension funds and insurance companies invest their surplus funds through investment managers and in return earns interest. These investment managers have, however preferred to invest the surplus funds outside Namibia, mostly in South Africa (Namfisa Annual Report 2015).

According to Bellerose (2003) the development of an appropriate regulatory framework regarding the reinsurance business is becoming crucial for the stability of the insurance industry. Bellerose (2003) also stress that the reinsurance arrangements should be

appropriately regulated to protect the solvency of the primary insurers. Capital flows are an important aspect of the insurance system they provide significant benefits, both direct and indirect for a country's economic development. At the same time, they also carry risks, and a key challenge for countries is on how to harness the benefits while managing the risks. Capital outflow needs to be well planned, timed, and sequenced, especially to ensure that its benefits outweigh the costs, as it could have significant domestic and multilateral effects for a country's development. Moreover, the study will go a long way in providing information that will be of great relevance to researchers, government and policymakers in formulating effective macroeconomic policies on the developmental issues of capital outflow.

1.5 Limitations of the study

Although this research was carefully prepared, I am still aware of its limitations and shortcomings. The time frame of two months which was also a shortcoming as some of the staff members were not available due to other commitmits It would be better if it was done in a longer time.However, an important limitation of this study lies in the fact that it did not consider the benefits of capital controls in Namibia. This study will focus on the registered insurance companies within the Namibian borders, mainly Santam Namibia, Hollard Insurance Company, Old Mutual Insurance Company, Phoenix Namibia and the Ministrof Finance, Bank of Namibia and the reinsurance company NamibRe.

1.6. Delimitation of the study

This study will be carried out in Windhoek only, the reason being that most companies' head offices are based in Windhoek, as it cannot be done in all the other region due to the fact that the right people are not available in the other regions and that the head office of the insurance companies are in the Windhoek area also.

1.7. Conlusion

This chapter demonstrates the attribution of capital outflow, that it has an impact on the economic growth of Namibia, savings growth and developments toward capital projects and also investment opportunities . It has also outlined the functions of NamibRe, as to why it is created and the mandate to do reinsurance services within Namibia . The fact that NamibRe is the only reinsurer and fully state owed reinsurer, within Namibia and that is has been formed by the Act 22 of 1998, to carry out reinsurance business within Namibia. The main sources of income for insurance and the reinsurance industry, which are the premiums, is also discussed and how the insurance industry operates. It also highlighted the fact that capital outflow is still a problem which needs to be taken seriously. Large amounts of capital outflow if uncontrolled have a negative impact on a country and it causes an imbalance of payments within the economy, which imbalance can cause problems such as higher inflation and unemployment .

In this chapter it is also stressed that capital outflow has an effect on the investments within the country and on the government. Capital outflow from Namibia to South Africa will persist, due to the high savings of institutional investors mainly insurance companies and pension funds that seek to diversify. Diversification with regards to capital flows is explained in more detail that it is a technique that reduces risk by allocating investments among various financial instruments, industries and other categories.

The researcher will without harm conclude that the main reason for capital outflow is an attempt by the insurance industries is to diversify their portfolio risks and increase returns for savers. The reasons why capital outflow leave a country was also discussed and the researcher mentioned what impact it has on the economic development of a country. The objectives of the study were outlined in this chapter and it will be the main focus of the research .The study will draw some useful conclusions and recommendations that would be beneficial to policy makers in the quest to prevent or at least reduce capital outflow within the insurance industry of Namibia. The study will examine the role of reinsurance in the economy; it will also examine the dynamics of capital outflow considering the much-needed investments and economic growth in Namibia. As such, further work need to be done to establish whether there are any significant benefits attributable to the existing capital controls policies in Namibia which could be weighed against their costs, to determine the appropriate policy position that would insulate Namibia's economy against exogenous shocks and at the same time enhance Namibia's businesses global competitiveness and cost efficiency.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter present the literature review on the capital outflow between the insurance and reinsurance industry within the Namibian economy .It sumamarized the information from other researchers who have studied the field. The review covered both the theoretical and current studies of the existing literature. The theoretical review helps in understanding of the concepts and theories of the research,and the current studies helped in understanding what other related studies found and suggested . The revews were used to develop a conceptual frame work.

2.2 CONCEPTS AND THEORY

It is evident that capital outflows affect economic growth through various channels. In this paper, the researcher would like to focus on capital outflow which is channeled via the financial intermediaries, of the insurance industry. Since the amount of each capital outflow is usually large, most agents would flow their capital in and out via the financial intermediaries. Capital outflow is the movement of assets out of a country.

The capital outflow of assets occurs when foreign and domestic investors sell off their holdings in a country because of perceived weaknesses in the nation's economy and the sense that better opportunities exist abroad (Schneider, 2003).

Caselli and Feyrer (2007), argue that liberalization of capital flows can benefit both source and recipient countries by improving resource allocation, reducing financing costs, increasing competition and accelerating the development of domestic financial systems. The empirical evidence, is, however, mixed on the benefits, and it suggests that countries benefit most when they meet certain thresholds related to institutional and financial development. In extreme cases, sudden stops or reversals in capital inflows can trigger financial crises followed by prolonged periods of weak growth. Moore (2008) states that high inflows may signal future repayment problems for the government and if companies perceive that this burden could be passed on to them through tax, the companies may decide to convert their assets into foreign assets.

For insurance companies to keep their position on the market, the insurance companies should pay special attention by maintaining a stable positive cash flow and reducing the cash outflow. Insurance companies have liability compositions that are mostly long term, with liquidity needs, and constitute a natural complement for capital market development.

Rodrik (2006) states that insurance companies have large cash inflows and reserves which are linked to premium payments that are partly invested in less liquid instruments such as government and corporate bonds, and equities. A high rate of sustainable growth requires

high rates of investment significantly higher than the country has achieved recently. Without much prospect of an increase in the national saving rate, domestic investment can be boosted only by a reduction in net capital outflows, that is, a reduction in the current account surplus.

It also requires effective, efficient, and high-quality investment instruments, which in turn demands both effective domestic financial intermediation and skills with financial resources (Moore, 2008). Capital outflow can also influence the outflow of resident capital from a country in response to economic and political risk in the domestic economy.

The loss of capital through capital outflow has implications for the future growth, saving and investments prospects of a country. Capital is already seen as inadequate in many of the countries which are believed to experience capital outflow and, as a natural corollary, it is assumed that if the funds are held at home they can be utilised to reduce the level of external indebtedness and the inherent liquidity constraints in bridging the foreign-exchange gap (Lawanson, 2007).

The loss of capital through capital outflow also erodes the domestic tax base in developing countries and has adverse implications for the distribution of income. It is feared that the outflow of capital from developing countries may send a signal to foreign private investors about the risks involved and lead to a decline in, or even cessation of, private capital flows. Binici (2015) states the importance of capital outflow restrictions and found that these are more effective in advanced economies than in other countries, perhaps due in part, to

better institutional and regulatory quality, capital outflow restrictions will lead to the investments within the country, whereby he insists that in the case of speculative capital outflow, the financial intermediaries would invest less in the illiquid assets which would decrease growth of the economy of a country.

Binici (2015) also states that insurance companies can also control surplus capital outflow by issuing new shares, paying out dividends, or buying back shares. Insurance premium covers claim liabilities, expenses, and frictional costs which are much needed when controlling the capital flows of a company. These expenses are the normal business costs for marketing, underwriting, claim adjusting, and investment, all of which are roughly independent of the capital level. Furthermore, the supply of credit to the economy can be affected to a moderate or high degree, even in the context of significant liquidity injections by the central bank. In the end, some companies may not be able to pay to their external creditors. Capital flows play a crucial role in balance of payments crises in two ways, swings in international capital flows can create both a balance of payments problem and if the exchange rate is not defended it expedites devaluation under fixed exchange rates. While capital outflows can create balance of payments deficits, capital inflows can cause real appreciation of the exchange rate. The insurance market of Namibia is currently demonstrating the trend of a slower growth rate of insurance premiums and problems arising in certain sectors. The loss ratio of insurance operations is increasing along with reducing profitability of internal funds and assets, operational costs are growing (Bank of Namibia, 2014) .

Reinsurance is one of many options or tools to reduce the financial cost to insurance companies arising from the potential occurrence of specified insurance claims,thus, further enhancing innovation, competition, and efficiency in the marketplace (Summers, 2006).There is no doubt that maintaining financial stability of insurance companies in the Namibian insurance market under current conditions is extremely important . Since this sector maintains stability of economic subjects in the most difficult economic situations, and ensures the continuity of social reproduction and also acts as the main provider of long-term investments to the country's financial market and to keep their position on the market, stable positive cash flow and reducing the cash outflow (Bank of Namibia, 2014). The approach to cash flow management in the insurance companies proposed in the article, accounts for existing challenges and opportunities can maintain the financial equilibrium of the company and can improve the efficiency of performance as well as reduce the need for debt capital and the insolvency risk of the insurer. The purpose of studying capital outflow within the insurance industry is to identify the problems of financial stability. The study of capital outflow in the insurance industry needs to develop practical recommendations aimed at addressing these problems based on generalization of the theoretical aspects and analysis of financial indicators (Lawanson, 2007).

Uremadu(2008) argues that the insurance companies use reinsurance for capacity, business, asset management, catastrophe protection, spread of risk, and market environment reasons, which are all needed at different times in a company's and the country's development. Interest rates on capital outflow have been raised due to the global financial crisis. An important challenge arises when insurance companies have made explicit return guarantees or provided embedded options to their policyholders.

Such embedded options include guaranteed transactions in a unit linked contract and options for renewing contract at guaranteed interest rates, which may become more in-the-money as time progresses and interest rates stay low. Sherris (2006) states that cash flow from investment activities is another contributing factor to a business' cash flow performance. Over a period of time, a business likely needs to make certain long-term capital investments to maintain growth, but may put idle cash first into marketable securities as financial investments to maximize returns.

Insufficient cash flow planning with regards to investing activities can negatively impact the cash flow performance, with lowered cash inflow and increased cash outflow. Before the crisis, many countries experienced capital inflow that initially steered to appreciation pressures, which tied the hands of the monetary policy makers and finally, resulted in of the drying up of capital inflows. Such boom bust cycles have hit many emerging markets' economies over the years and often ended in protracted growth slowdowns. Poorly managed capital controls have forced affected countries to find ways to overcome capital outflow problems and because of this, there is a renewed interest among policymakers in

the use of capital outflow restrictions. A tightening of capital outflow, in turn could help reduce net outflows once inflow pressures reverse, providing time for more fundamental policy adjustments (Reinhart and Reinhart, 2008).

Heim (2008) states that, the crises in the 1990s showed how vulnerable countries were to capital flows. Since the developing countries in that region have substantially increased levels of capital outflow reserves to prevent similar episodes and argue that the increase in capital outflow reserve holdings in the developing countries is a consequence of a policy of currency devaluation.

Aizenman and Lee (2005) considered the importance of precautionary and mercantilist motives in accounting for the hoarding of capital outflow reserves by developing countries and concluded that the variables associated with mercantilism, although statistically significant, could only account for a small part of reserve accumulation. Accordingly, Aizenman and Lee (2005) state that the degree of capital account liberalization is a more conspicuous variable, and empirical evidence suggests that precautionary motives have played a more prominent role in the reserves accumulation process in developing countries. Capital outflow occurs when returns on domestic held investments are lower than those held abroad, while maintaining positive real interest rates would assist in curbing capital outflow. Cashflow is one of the most vital elements in the survival of a business. With regards to managing capital outflows, capital controls are restrictions on the level or composition of foreign capital into or out of a country.

Albert (2007) investigated the causes of capital outflow from Sub-Saharan Africa. They stated that it draws on the insights from portfolio theory, presents empirical evidence that links capital outflow to the domestic investment climate. There are four main reasons that drive countries to adopt capital controls and the reasons are mainly fear of appreciation, fear of hot money, fear of large capital outflows and fear of loss of monetary autonomy. Several other reasons have been advanced to justify capital controls. For example, the need to compensate for financial market imperfections resulting from asymmetric information problems and herding behaviour, to protect a fixed exchange rate regime. Capital controls can also be used for prudential reasons.

Moreover, it has the beneficial side effect of building reserve buffers which may be useful in the case of sudden reversal capital outflows. However, one drawback is that by increasing the outstanding stock of domestic debt, it ends up increasing domestic interest rates. A significant consideration regarding the impact of protracted low interest rates, relates to the contribution of investment income to overall profitability.

When the portfolio allocation to bonds is high and profitability is driven by interest income, lower interest income is likely to mean reduced profitability (Mojekwu 2011). Therefore, profitability would then depend to a larger extent on underwriting, premium income, claims experience, and lapse rates than before. In other words, insurance companies will have to place a sharper focus on their core business activities.

Consequently,open-market operations may induce further capital outflows, alter the composition of capital outflows by increasing the share of short-term and portfolio flows, and it may raise quasi-fiscal costs by widening the domestic and foreign interest rate spread (Heim, 2008).

Many economists determine that capital spread can be divided into capital outflow and capital flight. In their opinion, capital flight is an illegal way of capital export, while capital outflow is legal movement of assets out of a country. (Reinhart and Reinhart, 2008).

Bellerose,(2003) defines a reinsurance policy contract as a contract of indemnity, meaning that it becomes effective only when the insurance company has made a payment to the original policyholder. Reinsurance provides a way for the insurance company to protect itself from financial disaster and ruin by passing on the risk to other companies. Reinsurance redistributes or diversifies the risk or threat associated with the business of issuing policies, by allowing the reinsured to show more assets by reducing its reserve requirements. Nevertheless, even before the financial crisis, doubts existed regarding the sustainability of such massive foreign capital outflows (Cyril 2007).

Reinsurance is a secondary market and is the main feature of the non-life and the life insurance in the insurance business industry. Reinsurance has a global feature as manifested by economic interdependency, the mobility of capital and transactions across borders; sharing regulations, international competition and management, and like any product, it is subject to cycles and fluctuations driven by internal and external factors (Bellerose 2003). The role of insurance is not only complementary to the dynamic activities but also very significant for the financial sector development. Insurers enter the market with equity capital and issue insurance policies, which is a method of debt capital. The funds raised by issuing both types of capital are invested until needed to pay claims.

In this context, an effective insurance sector is not only relevant for dynamic and economic activity and for facilitating the sharing of risk, but also plays a crucial role in the investment of savings. Furthermore, the recent global financial crisis and its generated problem of massive movement of funds out of the country has undoubtedly contributed to the regeneration of the growth of capital flight as well as the present consolidation crisis which is threatening the development of the insurance industry.

Studies on capital outflow have found that the single most important component of capital outflow is external borrowing. Hence, the concepts of ‘debt fuelled’ and ‘flight fuelled’ have been widely used and every debt secured is flown back as capital outflow the same year (Churchill et al., 2003).

Varman-Schneider (1991) argues that the presumption that capital outflows would yield a higher rate of social return if invested domestically is a result of the premise that the capital lost could have enhanced domestic investible resources and therefore no leakage into domestic conspicuous consumption of foreign goods would have taken place. She further points out that linking resident capital outflows to some notion of national utility or welfare is problematic. 'Economic principles do provide a concept of welfare. In a free-market economy, utility-maximising consumer behaviour and profit-maximising producer behaviour together with efficiencies in distribution lead to maximum national welfare . Yet, utility maximisation of private capital exporters may lead to the creation of disutilities such as decline in investment and growth thereby resulting in a loss in welfare. This outcome is in contradiction of accepted economic principles. Another problem is that the subjectivity of the term means that any measure of the social rate of return is open to errors of judgement. Moreover, this approach fails to make the basic distinction between strategic diversification and capital flight. Trade mis-invoicing, unreported remittances, money laundering and exchange rate misalignment have also been regarded as components of capital outflow.

The causes of capital outflow have been: economic, financial constraints, fiscal deficit, tax and trade policies, exchange rate misalignment and poor investment (Boyce & Ndikumana, 2006). Capital outflow provides some sense of the size of these largely illicit flows in the economic context. In essence, reinsurance plays a vital role in the insurance industry and this includes: capacity provision, creating stability to the insurance

companies and to strengthening finances in the insurance companies. An insurance company needs a sufficient supply of capital to provide meaningful insurance protection for its clients. Without such capital behind it, the company issuing an insurance policy, is making a promise of coverage it may be unable to fulfil.

If losses are above expectation and if the company has inadequate funds to cover such adverse deviation, it may then have to default on its obligation to pay losses Any analysis of resident capital flows is based on an estimate of these flows and basically a residual method drawing on the sources and uses of finance, using the double entry system in the balance sheet of payments which provides a link between the portfolio and spending decisions of the economy(Sherris, 2006).The relationship between capital inflows and the capital outflows is of great interest to both international investors and domestic policy makers. One issue is whether the inflow of private capital into developing countries marks the return of capital outflow. Another is whether private capital inflows finance resident capital outflows or whether resident capital outflows finance some capital inflow in the form of either foreign direct investment (FDI) or portfolio flows (Churchill et al., 2003).

Compared with what would the case be when , the higher return country both invests and consumes more in the current period, and consumes more in the future while paying back the interest on international borrowing from greater income. On the other hand, the lower-return country produces more but invests less in the current period, and augments its consumption in the future from the interest income from international lending (Moore,2008).

Capital outflow means lost resources to the domestic economy and therefore lost opportunities. It is paradoxical that resources are flowing out of developing countries rather than to them, although it is in developing countries that resources are most needed to generate economic growth and development. Such lost resources do not contribute to the expansion of domestic activities or to the improvement of social welfare of domestic residents. On the contrary, they imply forgone goods and services essential to sustaining economic growth. (See, Beja, 2006).

The term capital outflow typically refers to short-term speculative capital outflows. It involves hot money that responds to political or financial crises, heavier taxes, a prospective tightening of capital controls or major devaluation of the domestic currency, or actual or developing hyperinflation. Short term capital outflow can be executed not only by shifts in domestic portfolios towards foreign liquid assets, but also by changes in trade credit. In the face of large international interest-rate differentials or imminent devaluation, for example, domestic firms will slash their trade-related borrowings denominated in foreign currency. At the same time, they may show increased willingness to engage in trade-related lending denominated in foreign currency. When this mechanism becomes excessive, it seems reasonable to label it as capital outflow. Other, more resourceful methods of exporting capital outflow abound, particularly in countries with regulations prohibiting the legal transfer of funds abroad (Schneider, 2003).

The qualities of each form of reinsurance is briefly explained. As Bellerose (2003), states non proportional reinsurance is the reinsurance of the individual risk by the insurance company, and the acceptance of such risk by the reinsurer and the risk being reinsured is thus separately considered, and the insurance company gives the reinsurer information about the risk to enable the latter to consider whether to accept the offer of reinsurance, and if it decides to accept, to determine the share of the risk to assume in reinsurance. It is thus at the discretion of the reinsurer to decide to decline or accept. Insurance reimburses an individual for some or all a financial loss that is linked to an unpredictable event or risk. This protection is accomplished through a pooling mechanism whereby many individuals who are vulnerable to the risk are joined together into a risk pool. Each person pays a small amount of money, known as a premium, into the pool, which is then used to compensate the unfortunate individuals who suffer a loss. Insurance reduces vulnerability by replacing the uncertain prospect of large losses with the certainty of making small, regular premium payments (Churchill et al., 2003). The draw backs to this form of reinsurance is that full details must be made available by the insurance and must be examined by the reinsurer for each risk at inception and subsequent renewal a huge administration cost is involved. Apart from these drawbacks, the main purpose of facultative reinsurance is that special risks are normally excluded in treaty and it seeks the reinsurer support on complex and special risks.

Treaty reinsurance is an agreement which provides for risks to be ceded to the treaty in terms of the treaty and conditions (Bellerose, 2003). The characteristics for proportional treaties are whereby the insurance company agrees to cede and the reinsurer agrees to accept a proportional share of all underlying insurance which falls within the terms of the treaty. There is thus an automatic protection by the reinsurer for the insurance company. This treaty arrangement thus allows the insurance company to accept risk as long as they fall within the treaty terms, and automatically cede a portion to the treaty, and the reinsurer is not advised of the risks ceded to the treaty at the time they are ceded.

Non-proportional treaties are also known as excess of loss treaties, they are agreements made between the insurance companies and reinsurers, whereby the latter agrees to pay for specified amounts of losses of the insurance company above a pre-determined level. This agreement does not depend on cession as in proportional treaties, but depends on the number of claims that occur. This category protects the insurance company's net retention against individual or accumulation of losses within the portfolio, (Bellerose, 2003).

The premiums on this arrangement are determined based on the total exposure of portfolio protected by this agreement, (Bellerose, 2003). Persistent large current account deficits and negative foreign asset positions in some countries appeared increasingly to be associated with domestic consumption and investment imbalances, which made these countries extremely vulnerable to foreign capital flow reversals.

Vu Le and Paul (2009) state that insurance companies use reinsurance for capacity, business asset management, catastrophe protection, spread of risk, and market environment reasons, which are all needed at different times in a company's development.

Neagu and Mihai (2013) state that the reinsured is the insurance company that issued the first policy and is applying for reinsurance, the original policyholder or original insured is the party who purchased the original policy. When the reinsurance contract is between just the two insurance companies, mainly the reinsured and the reinsurer, the original policy-holder usually has no rights against the reinsurer; policies are written to avoid problems later. Therefore, a reinsurance business involves two main players, namely the primary direct insurers that use reinsurance, mainly to cede risks and the professional reinsurers that indeed possess geographical and across insurance lines of very heterogeneous portfolios (Plantin, 2006).

According to Outreville (2002), insurance companies regardless of size, type, and location, use reinsurance as a mechanism to share the potential risks assumed with others to spread and minimize risks and catastrophe, and to leverage the business. An important consequence of the conservative accounting rules is that they keep money in the insurance company that might otherwise be given to investors. When premiums are paid to an insurance company, the investors of the company do not get their hands on the cash. Rather, most of the funds stay with the company as assets to offset liabilities posted for premiums, claims, and expenses.

Not only do they not get the cash, but also investors may find some of their invested capital gets absorbed in keeping the company adequately capitalized under a conservative accounting regimen. Neagu and Mihai (2013),) reveal that open economies, such as those from emerging markets, are sensitive to volume direction and yield of capital flows, and the policy makers from such countries should adjust their decisions to consider the mobility of the foreign capital flows. It also suggests that the impact of the liquidity stock on the solvency ratios is rather limited.

The use of capital outflow management policy can be constrained by the fact that outflow controls exist not only to manage capital flows but also to allow government to lower the cost of borrowing by keeping domestic savings at home. Sustained capital outflow controls often form part of a web of regulations on the domestic financial sector for example, interest rate ceilings, high reserve requirements, directed lending that constitute financial repression. These regulations seek to further reduce the cost of government borrowing and to allocate savings to preferred sectors(Plantin, 2006).

Capital outflow controls, help prevent capital flight in response to domestic regulations, and therefore are a key ingredient of financial repression. The revenues from financial repression can be substantial (Lawanson, 2007). Both primary insurers and reinsurers, may involve by the use of reciprocity in certain markets for their outwards and inward reinsurance portfolio.

The involvement of the professional reinsurers on outward flow is however, rare whilst the scale and methods of the involvement varies considerably as the types of primary companies themselves may operate as professional reinsurers through subsidiary companies (The Chartered Insurance Institute, 2004).

Restricting capital outflow will increase the capital stock since it signals to foreign investors that residents will use their political influence to protect their own capital and to resist capital tax. A good capital outflow model of a country demonstrates that foreign investment will flow into countries in which the domestic capitalists have strong political influence, but growing foreign investment will weaken political protection on capital (Plantin, 2006). It shows that capital outflow may be caused by factors that increase the relative riskiness of the governments' asset or by structural distortions such as financial sector inefficiency, which reduce the relative return of the domestic asset of the country.

2.3 CURRENT STUDIES

Brown, Dodd and Spence (2011) support the view that unstable global capital outflows to developing countries has been characteristic of the world economy in the wake of the global financial crisis. Such capital outflows have triggered asset bubbles and exchange rate appreciation in many emerging and developing country markets. Increasing capital outflows can support long term income growth through better allocation of saving, development capital projects and investments. However, capital outflow can make macroeconomic management more difficult, as currently being experienced by several

emerging economies, because of the faster transmission of stocks and the increased risks of overheating, credit and asset price boom and bust cycles and abrupt reversals in capital out flows. Reinsurance has a global feature as manifested by economic interdependency, mobility of capital and transactions across borders, sharing regulations, international competition and management; and like any product, it is subject to cycles and fluctuations driven by internal and external factors (Plantin, 2006). Thus, the primary insurer's assets consist of the reinsurer's capital as a capital structure mix, which may also be a cross border source. The professional reinsurers do indeed hold much diversified portfolios geographically and across insurance lines to increase their capital

In contrast, primary insurers rather use reinsurance mainly to cede risks, and rarely trade risk with each other. The reinsurance company Partner Re, states that for standard financing reinsurance structures, the cash outflow is dominated by upfront commission payments and the corresponding amortizing components and for new business strain financing, the reinsurance commission follows the commission payments of the written policies. Wang (2003), also stresses that the reinsurance arrangements should be appropriately regulated to protect the solvency of the primary insurers. Insurance, as a business, has emerged following the steady growth in commerce and labour specialization. The negative cash flow from investment activities, are greater than the positive flow, which leads to the situation of insufficient capital outflow.

Miniane and Rogers (2007), provide econometric analysis of the effectiveness of capital outflow controls and find capital controls to be ineffective in insulating countries from foreign monetary policy shocks. The interaction between capital inflows and capital outflows needs to be considered carefully. Since the insurance companies have a tendency to focus primarily on private inflows, important elements regarding the role of capital outflows in the availability of private capital to developing countries have not been considered.

The flow of higher capital inflows in the form of acquiring existing companies in emerging countries is a method of foreign direct investments which , may in themselves create higher capital outflows as beneficiaries of the sales place part of the proceeds abroad, reducing the actual capital inflow. Essentially, private global finance has largely taken over the business of the official international monetary support line. The insurance premium thereby extracted from developing countries for reclaiming part of the policy space lost through financial globalization is significant. Some justify that outcome by claiming that the welfare gains of self-insurance outweigh any welfare costs (Aizenman and Lee, 2007). Capital outflows have partially rebounded since spring 2009, but in a very heterogeneous way.They have mainly been driven by a bounce back in portfolio investments from advanced to emerging countries, which have proven quite resilient to the global crisis and have been seen as underweighted in international portfolios (Suttle et al., 2010).

Binici and others(2010) focuses on capital outflow and finds that capital outflow is somewhat effective, and more operative in advanced economies than in other countries, possibly due to advanced processes and better institutional regulatory quality. Structural policy settings are important for long term drivers of capital outflow, by having a relatively large impact on gross and net foreign capital positions. Growth enhancing structural policy reform could help to narrow global imbalances by reducing net capital outflows from countries with large positive net foreign assets positions while also supporting their long-term growth.

This is particularly the case in emerging countries where under-developed financial markets limit the ability of economies to absorb domestic and foreign capital, and in both emerging and advanced countries where domestic distortions lower risk-adjusted returns to capital. Domestic investment is made to increase the total capital stock in the domestic economy. This is done by acquiring capital-producing assets and assets that can generate income within the domestic economy rather than abroad. The role of savings in the investment process is positive (Mojekwu, 2011). Countries with higher propensity to save have greater savings at every level of income and interest, leading to a higher equilibrium level of savings and eventually a lower level of interest.

Among the impacts on the cash flows of the insurance organization, is aimed at improving its financial stability, the literature examines the increase in own funds, the increase in incoming cash flow amount, optimization of insurance payments, saving the costs of doing business, reducing accounts receivable and payable (Shevchenko & Rusak,2012). Savings

ordinarily are accumulated by income and abstention from current expenditure. One of the five ways of increasing savings domestically is the reduction in capital outflows from a country. The others are the control of demographic factors like population, reforming the tax sector, financial sector reforms and increasing investment opportunities. The control of capital outflows may not be easily achieved since it is out of domestic control and can be induced by external factors while the others can be controlled within the domestic environment.

Capital outflow in the insurance industry is then seen as an expense within the domestic market and consequence of a country's poor investment performance. Investment therefore is not constrained by aggregate savings but more by domestic interest rates as set by the central bank which has other objectives apart from maintenance of low inflation in conjunction with increase in savings within the domestic economy (Moore, 2006). Capital outflows into acquisition of assets held abroad can be financed by various sources. For the purposes in hand, they can be divided into two groups. First, domestic savings can leave the country by the means of export and sale of valuables. This channel can be controlled by foreign exchange control, but even if foreign exchange control is employed, there are still ways on how a capital can flee, in the form of, illegall financial transactions, through smuggling of goods or by under invoicing of exports or over invoicing of imports. Secondly capital that is invested abroad can be reinvested back into the country which can be used to finance capital projects of the government.

There is limited uncollateralized or long-term credit since such loans always have an insurance built in through the possibility of default. The risk premium then sky-rockets, economic agents hoard massive amounts of resources for self-insurance and real investment purposes (Ivashina and Scharfstein 2009).

Additionally, various types of countervailing capital inflows can also finance capital outflows. These countervailing inflows can take forms of government or other sector borrowing, loss of foreign exchange reserves, depreciation of currency and restrictive monetary policy. Now, foreign borrowing is considered to be the main source to finance capital outflows from developing countries (Neagu&Mihai,2013). Among other indicators that reflect the need for controlling capital outflow, are lower profitability of financial and operating performance and a smaller share of their own funds in the structure of financial resources which occurs to the changes of such financial resources as retained earnings and credit resources.

Obolensk (2004), says that capital outflow restrictions will become a first aid for a countriy’s economy. Large capital outflows from a country are not only a sign, but also a guide that the economy of the country has a deep and wide problem with the investments climate and attractiveness. Behind this lies a syndrome of historical afflictions that provide the backdrop for a countriy’s crisis and the results of low investment. Economists state that a crucial factor is the continued low level of confidence of savers and investors in the insurance industry (Obolensky, 2004).Namibia FinancialSector Strategy (2011-2021) states that, the non-bank financial institutions comprise of insurance, pension funds,

investment managers, unit trusts, micro finance institutions, a stock exchange and stock brokers. The total liabilities of the industry as at the 31st of December 2015 amounted to N$ 3.4 billion, up from N$ 2.4 billion reported the prior financial year.

This represents a marked increase of 41.7%. The growth is mainly ascribed to increases in technical liabilities. The gross written premium, represents the domestic underwriting business , excluding insurance placed outside Namibia through reinsurance as required by the act. The short-term insurance industry experienced an increase of 17.9% in gross premium income from N$2.8 billion reported as at 31 December 2015 to 3.3 billion as at 31 December 2014. This rate of growth is mainly attributable to new business undertakings and policy renewals with premium adjustments at endorsements or annual increases, (Namfisa Annual Report, 2015).

Arguably, Shimi and Kadhikwa (2009) opposed that as capital formation is an important factor in the economic growth, it is recorded that countries that could accumulate high levels of investment also achieve faster rates of economic growth and development. Investments can be finance through savings, generated locally and abroad.Foreign savings which is also known as borrowing, have adverse impacts on the balance of payments, and carry a foreign exchange risk. Schneider (2003) state that capital outflow reduces the investible capital available in the domestic economy.

Investments that lead to increase in capital formation for the economy and act as the foundation for infrastructure or framework for the development of the country cannot be undertaken since there is paucity or inadequacy of capital. Bank of Namibia (2014) emphasized the critical importance that domestic savings play in the achievement and maintenance of sustainable growth and development.

Therefore, the use of tighter monetary policy to align interest rates with the hope of curbing capital outflow will only result in higher cost of borrowing and increased possibility of debt defaulting in Namibia. Schneider (2003), also argues that this raises concern on issues of domestic investment and capital outflow. Domestic investment is only possible with aggregated domestic savings which itself is a function of the level of income. This, consequently, leaves domestic savings as the required funding necessary for economic growth. It is reported that the empirical evidence confirms the theory that a higher savings rate would lead to high rates of investments and growth. This theory is however different for developing countries, as savings generated from pension funds and insurance companies that result in domestic savings are often exported as capital outflow, leaving a poor economic growth, less investment opportunities and a indolent development within the country (Uanguta, 2000). Access to especially the short-term insurance services remains very low for the greater portion of the population. According to the 2007 Fin Scope survey, less than 10 percent of the population have access to these services.

This study will investigate capital cash outflows through the insurance industry by incorporating its interactions with cash flow management and investment management after identifying and capturing the dynamic relationships between one another. Therefore, cash-flow management is important in the field of risk management, particularly for the insurer firms who intend to reach effective asset or liability duration management.An economy with no financial insurance operates very differently from the standard modern economies which many are accustomed to in the developed world. Primary insurers have been able to become more competitive due to a reduction in the cost of treaty reinsurance because of increased levels of reinsurance capacity and a lack of natural catastrophes. Further reinsurance pricing has been in decline and as such, the cost to transfer risk for direct insurers has become increasingly favourable. This bottom line benefit is driving competition among insurers to underwrite more business and is attracting non-traditional investors to show interest in gaining insurance industry exposure.

Given the increase in the insurance industry's capacity, insurance companies may be forced to compete on prices more often to maintain their market share. This will further erode margins and consequently return on investment.David (2013) makes use of simultaneous equations to estimate the impact of capital outflow, real interest rate, terms of trade, FDI and growth rate of GDP on domestic investment in developing countries. He found that capital outflow relates negatively to domestic investment and concluded that capital outflow has a negative impact on the growth rate of a country`s economy.

Although these outcomes are less than critical in times with a few catastrophes or significant events, the outcomes may save more attention from management, regulators and investors during periods with considerable losses. There is a limited uncollateralized or long-term credit since such loans always have an insurance built in through the possibility of default, the risk premium sky-rockets, economic agents hoard massive amounts of resources for self-insurance and real investment purposes.

Ivashina and Scharfstein (2009), document that even healthy corporations began to draw down on their credit lines with otherwise solid banks, as they doubted their ability to do so later. They have mainly been driven by a bounce back in portfolio investment from advanced to emerging countries, which have proven quite resilient to the global crisis and have been underweighted in international portfolios, see especially (Suttle, 2010).

As a result, in 2010, although overall cross-border flows remained well below pre-crisis levels, several countries in the sub-Saharan region and some large emerging markets have faced large capital outflows. Much of the empirical work on the benefits of capital outflows has focused on the contribution of the capital account openness to economic growth.

Although capital inflows should at least in theory contribute to faster growth, especially in developing countries through more efficient resource allocation, enhancing domestic savings, and transferring technological or managerial know-how, evidence is inconclusive at best (Edison, 2002).

Schneider (2003), states that the association between financial crisis and the volume and composition of capital inflows, together with stronger evidence on the effectiveness of inflow controls rather than than on outflow controls, lends support to the assertion that: controls, if any, should primarily be on inflows rather than outflows. As such, some restraints on capital inflows via well targeted and temporary capital controls can help counter the destabilizing systemic impact of booms and busts in capital flows; thereby suggesting, implementation of measures that are price based, differentiated according to the contribution to systemic risk, and counter cyclical that is the intensity of controls is adjusted in response to changes in capital inflows and in public debt. Schneider (2003) defines it as that part of capital outflow that is motivated by economic and political uncertainty. This implies as denoted by country instability and all forms of minor and major changes in the political circumstance, that such political uncertainty will likely involve change of government or governmental policies for the country.

When insurance funds are increased or made more, capital is available and it can result in more companies neededing protection and other financial intermediation. An index of macroeconomic fundamentals is constructed and used to assess the effects of capital outflow controls in countries with strong fundamentals only. If the insurance funds are therefore, not available for investment at home, this may lead to a decline in aggregate investment, low economic growth,declining employment rates and an increase in dependency ratios.

For countries, control on capital outflow tightening by two standard deviations increases net inflows at the peak by one percent of GDP, and the net inflows remain elevated for more than a year. There is relative importance for good capital formation in any country for example, the stock exchange is an official organization for capital in the developed countries. It attracts investment and leads to increase in economic growth. However, in the developing countries with bad capital organization or bad investment policy, the capital "runs away" or flees" from such a country. The abnormal movement of capital outflow has a destructive result on a country (Mabel 2012). Furthermore, the tightening of capital outflow controls allows policymakers to reduce interest rates by about zero-point five percentage points without having to accept exchange rate depreciation. However, the full effect takes time to materialize. Net capital flows increase only after two periods following the tightening of controls (Magud, Reinhart, and Rogoff, 2011).

Moreover, capital outflow can affect the economic growth and the development of a country through corruption. Indeed, high capital outflow is symptomatic of an environment characterized by corruption (Ndikumana and Boyce, 2011). Substantial capital outflows can hurt the economic performance by reducing private investment through adversely affecting the quantity and quality of public infrastructure, by lowering tax revenues and by declining human capital accumulation. The long-term effects arising from lost resources due to capital outflow are countless: firstly, capital outflow exacerbates the capital scarcity problem, that is, it compounds the lack of financial resources and infrastructure.

Thus, the availability of resources for domestic investment is reduced,causing a decline in capital formation, which in turn means a reduction in the country`s current and future development prospects. The relationship between capital inflows and resident capital flows is of great interest to both international investors and domestic policy-makers. One issue is whether the inflow of private capital into developing countries marks the return of capital flight. Another is whether private capital inflows finance resident capital outflows or whether resident capital outflows finance some capital inflow in the form of either FDI or portfolio flows. Similarly, it restricts the capacity and ability of the affected country to mobilize its domestic assets and access foreign resources (Ndikumana, 2006).

2.4 Summary

This chapter examined in closer detail, the reinsurance structure of the Namibian market. It has shown that, Namibia's insurance industry is highly penetrated, compared to countries within the Southern African region. The size of insurance premiums generated by the Namibian market has increased quite significantly over the past few years. The growth in premium shows the positive correlation between the growth in reinsurance premiums and the growth in the gross domestic product , implying that the economic growth fuels increased insurance business in the economy. As financial intermediaries' states decline, the insurance industry is subject to various sources of risk, including interest rate risk, market risk, credit risk, and liquidity risk. In Namibia, there is a statutory requirement which requires all insurance companies to invest 35% of their assets in the domestic economy, a measure introduced by authorities to curb the outflow of capital

outside the Namibian borders. Various reasons were advanced for the continued outflow of capital, one of which is attractive investment yields abroad. The concept of capital outflow is defined broadly to include the totality of all domestic capital outflows from a country. As a result of capital outflows, the economy could suffer various consequences, including inflationary impact, financial and fiscal problems, destabilizing effect of the current account and constraints on economic growth and development. Without mechanisms for mutualisation, pooling and transferring risk which insurance companies provide, part of the economic activities would not take place and positive effects on the social welfare of the country would fail. By creating an environment of greater security, insurance promotes investment, innovation and economic growth within the country. The insurance also increases marginal productivity of capital in such a way that it makes no need for high liquid contingency funds of firms which results in more funds available to finance high return projects. The concept of reinsurance was introduced and this involves the protection offered by reinsurance companies to insurance companies. The primary goal of this research is to investigate and compare the impact of economic and non-economic factors on the capital outflows from Namibia. The three main roles played through reinsurance were outlined, which are: to provide capacity to insurance companies, secondly to create stability to the insurance portfolio and thirdly to strengthen the finance base of the insurance companies.

The types of reinsurance were introduced and explained and these include proportional and non-proportional treaties and facultative reinsurance. The point is that, with net capital outflows, free access to foreign finance does not provide any actual finance for development anyway.

The arriving private capital inflows are also discussed which may give foreigners, claims to domestic assets offering high yields owing to the country's catching up process, but what those foreigners provide to the developing country in terms of foreign finance is automatically parked in low-yielding international reserves, not actually providing any finance for development at all. Furthermore, this chapter also discussed that, since sustaining economic growth reduces capital outflow in the country, there is a need to address the decline in the investments from the insurance industry to help to boost the domestic investment as well as attract foreign investors. There is no doubt, that capital outflow has damaging consequences on the economy of the country. For instance, capital that is transferred abroad by the insurance companies from the country cannot contribute to domestic investment and other productive activities. However, predicting the outcome of a severe capital outflow remains a challenge, owing to the different trigger events - multiple transmission channels, within the insurance industry.

Capital outflows can develop very quickly if left uncontrolled and not properly regulated, so if there are huge amounts of capital outflow from the country there is a potential of reduction of economic growth and development of a country. The research work will provide tangible information that will not only be useful to the public, researchers and

policy makers but also the federal government could be adequately motivated for policy reversal or measures to reverse the trend. Thus, the study will also enable scholars to find a context for further research on the issue of capital flight.

CHAPTER 3

RESEARCH METHODS

3.1 Introduction

This chapter sets out various stages and phases that was followed in completing the study. It involves the research design used for the collection, measurement and analysis of data. The research identified the procedures and techniques that were used in the collection, processing and analysis of data. Specifically, the following subsections of research methodology were included: research design, target population, sample, data collection instruments and procedures and finally data analysis. Research methodology is essential in that it directs the researcher as to where critical decisions are made, and helps to organize and plan the whole research undertaking Leedy (1997) pinpoints two primary functions of research methodology:

• To control and dictate the acquisition of data, and

• To corral the data after acquisition and extraction of its meaningfulness.

3.2 Research Design

According to Kerlinger (2012) a research design is a framework or blueprint for conducting a research project.

It details the procedures necessary for obtaining the information needed to structure or solve research problems. In simple words, it is the general plan of how you will go about your research. The function of a research design is to ensure that requisite data in accordance with the problem at hand is collected accurately and economically. Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding highest information with minimal expenditure of effort, time and money. Research design has a significant impact on the reliability of the results obtained, it thus acts as a firm foundation for the entire research. Based on the objectives of this research, both quantitative and qualitative methods will be applied. The benefit of using both the qualitative and quantitative methods will broaden the magnitude as well as the scope of the research project. Both primary and secondary data will be used in this study. Interviews and questionaires will be carried out which will be primary data for the research and secondary data will be sourced from the financial statements of the companies, and google scholar search.

3.3 Population

A research population is generally a large collection of individuals or objects that is the focus of a scientific query. However, due to the large sizes of populations, researchers often cannot test every individual in the population because it is too expensive and time-consuming. This is the reason why researchers rely on sampling techniques. There are two types of population in research which is target population and accessible population.

Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions. The target population usually has varying characteristics and it is also known as the theoretical population. This population is a subset of the target population and is also known as the study population. In this research, the researcher will make use of target population. The target population for this study is the underwriting and businesses development staff members within the different insurance companies which are Sanlam,Santam, Metropolitan,Hollard Insurance,Outsurance Namibia , the Ministry of finance and the financial analyst of the insurance department within Namfisa.

3.4. Sample

Sampling is the process of selecting target units for the research, for example people, organizations from a population of interest, so that by studying the sample we may fairly generalize our results back to the population from which they were chosen. Sampling methods can be classified into two categories which are probability sampling and non-probability sampling. Non-probability sampling methods are based on human choice rather than random selection. In probability sampling it is possible to both determine which sampling units belong to which sample and the probability that each target respondent will be selected. This research made use of all the listed insurance companies within Namibia.In this study, the stratified random sampling technique is applied where the various insurance

companies are used as strata. For data collection purposes, out of the thirteen insurance companies , six staff member of each insurance company will be selected to be interviewed and two directors from the ministry of finance. The sample selected includes people who have knowledge on the insurance industry within Namibia. The sample for the study consists of 78 staff members of the various insurance companies. The study applied the convenience sampling technique to select the sample of 78 staff members out of the population of the 130 staff members. The sample is comprised of 30 underwriting managers, 24 financial analysts ,14 business brokers and 5 financial analysit from Namifisa and 5 staff memebers from the ministry of finance.

3.5 Research Instruments

Research instruments are measurement tools, for example, questionnaires or scales designed to obtain data on a topic of interest from research subjects. Research instrument records are researched and created to provide information about the research instrument, including information such as the purpose of the instrument, the population addressed, the variables measured and more. The researcher conducted interviews with the various executives of the of Namifisa and the Ministry of Finance . Questionaiars is given to the selected staff members of the insurance companies, who have been mandated to be answer the questionair. The validity and reliability of any research project depends to a large extent on the appropriateness of the instruments.

3.6 Procedure

Primary data will be obtained from the interviews and the questionairs which are done with the selected sample. The secondary data was collected from the annual financial statements of the insurance companies and that of the supervising authority. The advantage of using primary data, is that researchers are collecting information for the specific purposes of their study , target issues are address and data is interpreted easily . The questions the researchers ask are tailored to elicit the data that will help them with their study. The researchers collected the data herself, by using studies, interviews and questionairs. The researcher will write a letter to the various insurance and reinsurance companies, Namfisa and the Ministry of Finance to request for interviews with the relevant people and to hand out qestionaires . Once confirmation is granted the interviews will be done on the premises of Namfisa and the Ministry of Finance and which is recorded. The entire information gathering will be treated with confidentiality. A consent form was handed out to the participants in advance and to be completed at their free will. The researcher asked specific questions in collecting measureable data from the participants and analyse the data using regression analysis and graphs .

3.7 Data analysis

This study used the regression models ,to analyse the data received. The study beign descriptive in nature , the quanititative method of data analysis were used as analysis techniques.The data collected was studied very careful as to bring out the effect of capital outflows in the insurance companies .

3.8 Research Ethics

The researcher must ensure that the information provided by the respondent is kept confidential, for example, the names, working address and gender etc. The data will be kept under lock and key for five years and will be destroyed thereafter. Keeping the questionnaire confidential should also reduce the likelihood of any psychological harm, such as embarrassment. Participants will be requested to provide informed consent prior to completing the questionnaire, and will be made aware that they have the right to withdraw their information at any time during the survey or study.

The following ethics standards will be applied during the study:

3.8.1 Confidentiality

The confidentiality of the participants is of utmost importance, therefore the researcher will ensure that the data collected will not be shared or made available to outsiders. The soft copy information on the desktop will be protected by a password and will be

permanently deleted five years after the marking of the thesis. The used questionnaires and any other copy of information obtained during the research process will be kept in a lockable drawer at the office of the researcher, and will be destroyed by shredding after five years after marking of the thesis.

3.8.2 Right of privacy

The privacy of the participant will be respected, therefore the data is collected during working hours and during working days.

3.8.3 Anonymity

The participant's name is not required when responding to the questions, and a guarantee is given that the data collected will be presented in an anonymous manner, that is it will not be related to any names or other form of identification.

3.8.4 Plagiarism

All borrowed ideas will be acknowledged in the research by the researcher.

3.8.5 Informed consent

The researcher explained the content to the participants, the aim and objectives of the research is also explained, so the participant voluntarily takes part in the research.

Participants were given the opportunity to ask questions that the researcher responded to and they were free to decide if they were still willing to part take or withdraw at any point during the study .

3.8.6 Summary

In this chapter, the research methods used in this study were stated. Although responses were encouraging, there were constraints encountered related to the non-availability of some of the mangers and staff participants at the agreed time. This study will be carried out during office hours with prior consent of the participants.

CHAPTER 4

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the research from the data as obtained from the questionnaires and the interviews that were given to the participants. The study sought to analyse the dynamics of insurance and reinsurance to curb capital outflow within the Namibian economy. The findings presented are informed mainly from the research objectives. As an outline, the research objectives were:

- To understand the insurance and reinsurance capital flows within the Namibian market over the past five years(2011-2015)
- To extend policy recommendstion based on the findings of the study
- To examine the mechanisms, of short and long term reinsurance corporations within the Namibian market
- To analyse the contribution of the reinsurance corporation towards the growth of the Namibian economy.

4.2 Demographics and Profiles of the respondents

In this section, the profiles of the respondents was evaluted to show how significant they are to this research in relation to the research objectives. The sample of the study is made up of the registered insurance companies in Namibia and the financial institions that are directly involved in the insurance and reinsurance industry. The responents were all based in Windhoek and have significiant experience in the insurance industry. This information is important to the study as it helps the reader to understand the relevance of the chosen sample to the objectives of this study. Not only do the respondents constitute a significant level of the major players in the Namibian economy, but also, in their line of business.

4.3. Analysis and Discussion of:

- **understanding the meaning of capital outflow,**
- **the effects of capital outflow,**
- **rating of control on capital controls :**

4.3.1 Understanding the meaning of capital outflow

Most of the respondents answered that capital outflow is the movement of money for trade, business production or inventsments across all asset classes, and across corporations and to countries. Capital outflow can be in various forms such as foreign direct investment, insurance and reinsurance .

4.3.2 How the insurance industry is effected by capital outflow

This section concentrates on the effects of capital outflow in the insrance industry and summarises the following findings: Low potential growth within the insurance industry, financial domination and thus low yield for investors. High commodity prices, high domestic interest rates, and low domestic inflation are some of the findings that came out of the responses from the questionnaires. The use of controls to shield domestic financial markets, may prevent adaptation to the changing insurance industry circumstances and postpone necessary adjustments in policies in the context of financial globalization.

4.3.3 Rating of capital controls

Capital controls are expected to achieve multiple objectives. Knowing what the stated expectations from implementing capital controls is necessary to assess whether the implementation was effective or successful. The researcher found that the controls were effective, there was evidence that the tightening of capital

controls reduced the magnitudes of capital outflow in the economy of Namibia over a number of years since implementation. More reinsurance premiums were reinsured with the Namibre, and the insurance premiums were more controlled by the regulator, whereby the regulators have done quarterly audits on the insurance industry .

4.4. Regression Analysis of total premium income for the years (2011-2015)

Table 1 :Anova Results

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	9.657142857	9.657142857	84.5	0.002722613
Residual	3	0.342857143	0.114285714		
Total	4	10			

Source : Financial statements of the various insurance companies

The significance value is 0.003 which is less than 0.05 thus the model is statistically significant in predicting how capital outflow, the reinsurance and insurance premiums influences the growth of the Namibian GDP within the insurance industry.The F crital at 15% level of significance was 72,3 , and the calculated F value is at 84.5, which is greater than the F crital (72.3), this shows that the overall model is significant .

4.5. Parent Company - Subsidiary Relationships

This researcher also found that the parent subsidiary relationship plays a decisive role in Namibia's capital outflow. The risk appetite and the geographic spread of their investments end point are tensions linked with sudden withdrawal. Most of the insurance companies are subsidiaries of South African based parent companies and as such there is a great deal of influence by their controlling shareholders in South Africa when it comes to the investment policies.

4.6. Summary for premium of the insurance industry for the five year period (2011-2015)

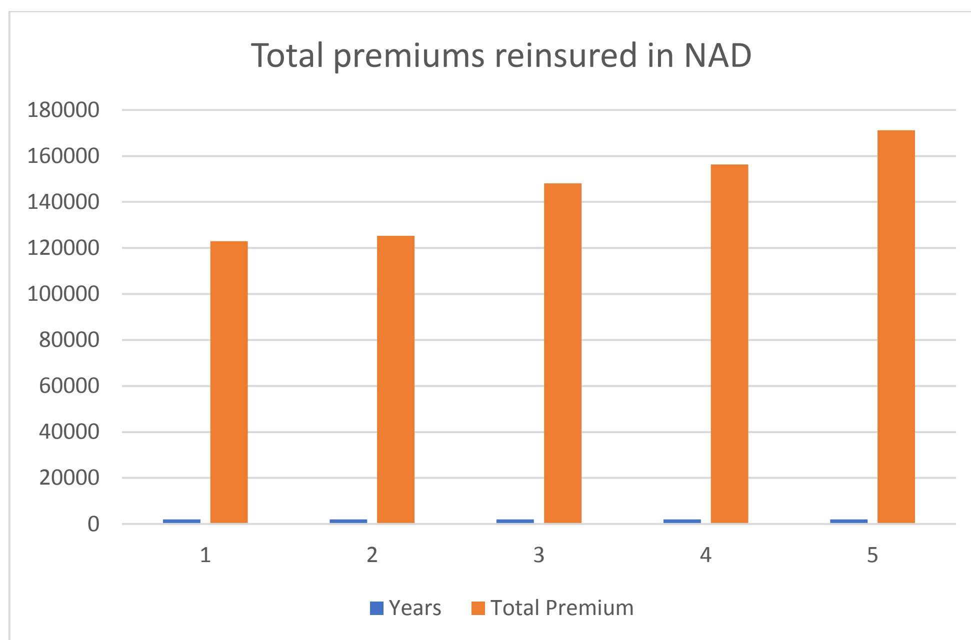
Table 2.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.097239876
R Square	0.094555934
Adjusted R Square	0.320725875
Standard Error	1.81708962
Observations	5

Source : Financial statements of the various insurance companies

The indepentdent variable which is the premium that was studied, explained that only 32% of the insurance is ceded with Namibre. More than 60% of the premiums still leave the country as capital outflow which is quite a lot of money, which could have been used to contribute to the economic growth of the country. Therefore, further research should be conducted to investigate the other (68%) premiums that leave the country as capital outflow within the insurance industry.

Figure 1: Total premiums reinsured by the various insurance companies(2011-2015)

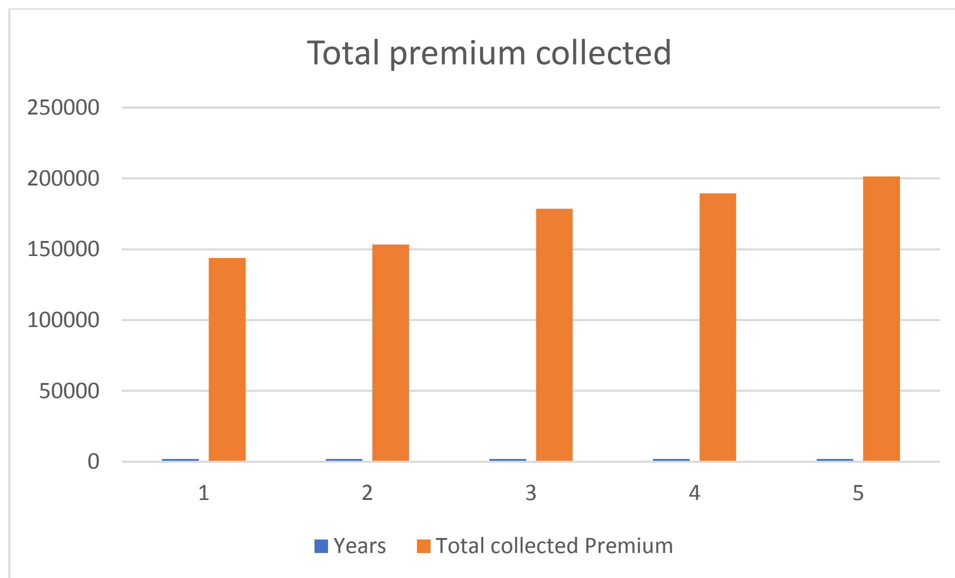


Source : Financial statements from the various insurance companies

4.7. Total premiums reinsured with NamibRe the reinsurer.

The graph above indicates the total premiums that were reinsured with NamibRe over the five years from 2011 till 2015. There has been an increase as the years go by, but in comparison with the total premium that have been collected, it still indicates a huge amount of premiums leave the country.

Figure 2: Total premiums collected by the various insurance companies



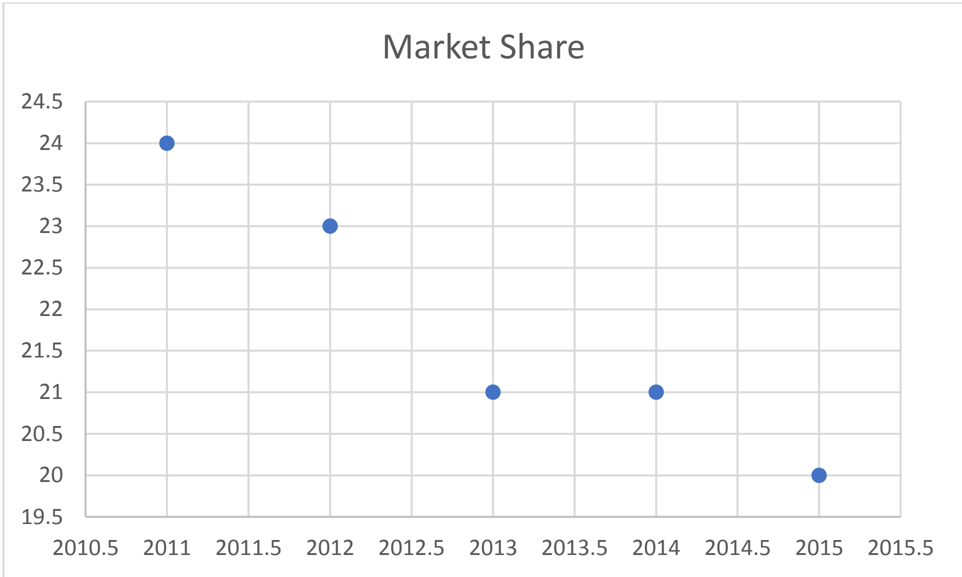
4.8.Total premiums collected from the insurance companies over a five year period (2011-2015)

Sufficient data is not available to determine the reason for the significant drop in reported reinsurance premiums in comparision to the total premiums collected by the various insurane companies.

With NamFisa, the financial regulator, regular audits are done to ensure that all the insurance companies place insurance business with the reinsurer. Quarterly audits are also done to monitor the volume of premiums that leave the country through the insurance industry and in return it gives an update of the overall performance of each insurance company.

4.9.Market Share of Namibre for the five year period (2011 – 2015)

Figure 3. Market share of Namibre



Source: Namifisa Financial statements

The research results show that each registered insurance company does reinsure with the national reinsurer NamibRe, which is an advantage to the growth of the economy. However there is a declince of the market share for Namibre in the insurance industry,

from the research results, as from 2011 the share percentage was 24% declining and as in 2015 it was at 20%. This is in spite of the fact that more capital still leaves the country through capital outflow by the insurance companies.

4.10. Expectation of capital controls for the insurance companies

This paper found that the insurance companies expect that the capital controls will impose costs on business operations and the insurance industry in Namibia, although their effects are mediated through various factors, which result in the costs being felt differently by the different economic units. Notably the following factors were found as the drivers of how the costs of capital controls impact business operations in Namibia. The researcher found that insurance companies that are heavily reliant on foreign markets for their products were more averse to exchange and capital controls, indicating that these restrictions inhibit their ability to manage exchange rate risks optimally and to diversify their portfolio holdings in a manner that yields the best possible outcomes.

4.11. Effects of low-slung capital outflow in Namibia

Massive amounts of capital outflow have a bad impact on the future economic growth of the country if uncontrolled. Much of the capital that flees the country is untaxed, which reduces the tax base by shifting wealth and resources beyond the government’s influence. Thus, capital outflow depresses budget revenue, which is needed to finance the provision of essential services such as health and education, also the investments needed to meet the time development goals and the country’s overall growth.

CHAPTER 5

SUMMARY OF FINDINGS , CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the findings of the research and it comes up with the conclusions drawn from this research, as well as coming up with the necessary recommendations. This study was aimed at understanding the importance of local reinsurance in preventing capital outflow within the Namibian market, a case study on Namibia national reinsurance.

5.2 Summary of Findings

On the theoretical level, this paper found that the effectiveness of the capital control policy measures depends on each country's economic characteristics, most notably, the strength of the economic fundamentals, and the soundness of the financial system, as well as the prudency of macro-economic management in general. Because of such variation in the effectiveness of capital controls, there is need to ensure that the capital control policy formulation is based on empirical data as no one single policy is universally effective. From the findings, it is revealed that there is still a large amount of capital that is leaving the Namibian economy through the premiums that are collected by the insurance

companies. The impact of capital outflow from the insurance industry in Namibia has an immense influence on the financial performance of the country.

The study revealed that less has been invested within the country by the insurance companies and that is also one of the main factors that causes capital outflow. From the study, the researcher discovered that capital outflow within the Namibian insurance industry is still a problem. The study also revealed that, capital outflow has a significant effect on investment, economic growth and development for the Namibian economy.

Though the relationship is negative between capital inflow and capital outflow within the insurance industry, a lot can still be done to reduce the current market disorder of the inflow and outflow of capital. Despite empirical evidence to the contrary, capital flows are generally considered to be beneficial to the process of economic development of a country and should be guided and regulated by the policy makers of the country. Policies to manage capital flows must then be implemented to minimize capital outflow costs and prevent their disruptive effects. Capital outflow policies can also help governments maximize the inflation tax by limiting the outflow controls associated with a higher ratio of government consumption to GDP, higher government revenues from spending and lower real interest rates. The study also found that the rate of funding for public expenditure has reduced considerably and this is caused by less money being invested in the country .

5.3. Recommendations

It is very critical for the ministry of finance, Namfisa and for the management of the insurance companies to understand the impact of capital outflow in their organizations, and the country as a whole; also what effect capital outflow has on the country's economy. To control capital outflow is of great significance and must be in place and strictly monitored on a regular basis to keep the domestic costs of borrowing for the government below the rate that would prevail in a fully integrated economy. There is a need to make the insurance industry increase their contribution on capital within the country .

The study also recommends that there is a need for the insurance companies to adopt strategies that would increase the contributions of capital for investment purposes within the Namibian economy. These findings suggest that capital outflow relief strategies will bring long-term benefits to the Namibian government, only if accompanied by measures to prevent an enormous capital outflow from the country. Based on the findings of the study, we recommend that the insurance companies must save more within the country to contribute towards the growth and development of the country, and to curb the outflow of capital from the insurance industry.

5.4 Conclusion

The Namibian financial sector has experienced capital outflow for an extensive period of time, which is very undesirable for the country's economy. The impact of capital outflow from the insurance industry was explored and it was determined that it has a bad effect on the financial performance of the country. The findings of this study have improved the researcher's understanding of the impact of capital outflow on economic growth and investment activities. Incorporating the findings of the study in addressing the problems of capital outflow, generally by implementing the recommendations of this study will enhance sustainable management of the use of resources for the development of Namibia's economy. Lastly, the significance of economic growth suggests the importance of the need for policies to regulate capital outflow within the insurance industry and the country as a whole. This would help stimulate economic growth within Namibia.

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