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FOURTH SESSION- EIGHTH PARLIAMENT

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REPORT

OF

THE PORTFOLIO COMMITTEE ON TRANSPORT AND INFRASTRUCTURAL DEVELOPMENT

ON

ENQUIRY INTO THE REMITTANCES TO THE TRAFFIC SAFETY COUNCIL FROM THIRD PARTY INSURANCE PAYMENTS

S.C 5, 2017

Presented to Parliament in October 2017

ORDERED IN TERMS OF STANDING ORDER No. 17 THAT:

1) At the commencement of every Session, there must be as many Committees to be designated according to government portfolios as the Committee on Standing Rules and Orders may deem fit.

2) Each Select Committee must be known by the portfolio determined for it by the Committee on Standing Rules and Orders.

TERMS OF REFERENCE OF PORTFOLIO COMMITTEES STANDING ORDER No. 20

Subject to these Standing Orders, Portfolio Committees must-

a) examine expenditure administration and policy of government departments and other matters falling within their jurisdiction as Parliament may, by resolution determine;

b) consider and deal with all Bills other than a Constitutional Bill and Statutory Instruments or other matters which are referred to them by or under a resolution of the House of by the Speaker;

c) consider or deal with an Appropriation or Money Bill or any aspect of an Appropriation or Money Bill referred to them by these Standing Orders or by resolution of this House;

d) monitor, investigate, enquire into and make recommendations relating to any aspect of the legislative programme, budget, policy, or any other matters it may consider relevant to the government department falling within the category of affairs assigned to them, and may for that purpose consult and liaise with such department; and,

e) consider or deal with all international treaties, conventions and agreements relevant to it, which are from time to time negotiated, entered into or agreed upon.

1.0 Introduction

1.1 In his address at the Zimbabwe Revenue Authority (ZIMRA) Taxpayer Appreciation Day held on the 22nd of September 2016, the Minister of Finance and Economic Development, Hon. Patrick Chinamasa, issued what appeared to be a disconcerting and worrisome statement at the time. As Hon. Members may recall, since his appointment, Hon. Minister Chinamasa has been making a valiant and spirited attempt to clear Zimbabwe's debt with multilateral financial institutions, in a bid to regain credibility on the international financial market and open up lines of credit for the country which has been facing crippling liquidity constraints primarily resulting from lack of external budgetary support. However, on the day in question, which should ironically have been a day of festivities and celebration as Zimbabwe was on a firm path towards clearing arrears owed to the International Monetary Fund (IMF), Hon. Chinamasa informed the nation that the country would have to stand on its own in terms of sourcing critical credit lines. In his own words, he said:

> *"What this means is that as individual countries, we can no longer rely on development assistance to support our budgets. In the case of Zimbabwe, we have not had any budgetary support from outside for a very long time. In truth, therefore, we are on our own. We now have to seriously look at domestic mobilisation as paramount to our economic development."(The Standard, September 25 2016)*

1.2 It was not lost on us as a Committee that our own leader, the Hon. Speaker himself, has been a strong advocate of domestic resource mobilization and has been at pains to encourage Committees to assist the Executive with SMART ideas of mobilizing resources locally. Look no further than the 2016 Pre-Budget Seminar.

1.3 Hon. Speaker, cognisant of the independence and sustainability that a model based on domestic resource mobilization fosters, your Committee took the initiative to explore ways in which the country could mobilise the critical domestic resources required to contribute to the fiscus and spur the accelerated economic growth envisaged in our economic blueprint ZIMASSET. The Committee resolved as a first port of call to focus on the remittances that were due to the fiscus from the 12.5% Motor Levy that ought to be collected by the Traffic Safety Council from every Third Party Insurance Policy payment of which 5% would accrue to Treasury. This enquiry was spurred by the exponential growth in the last few years, of outdoor motor vehicle insurance sales agents frequenting Post Offices or anywhere else where motor vehicle insurance was sold.

1.4 It was a matter of grave concern to your Committee, Hon. Speaker, whether or not these fly-by-night insurance agents were registered, whether or not they would subsequently remit the 12.5% Motor Levy due to the Traffic Safety Council and the 5% due to the fiscus, and the potential revenue leakage stemming from the rapid growth of this ‘sector’- for lack of a better word. The Committee was further cajoled into action by the rising reports of insurance fraud or fake insurance sold to unsuspecting members of the public by some of these bogus agents and the loss of revenue thereof. Tragically, 32 of our citizens had perished in a fatal road accident along the Harare- Bulawayo Road on Thursday 3 March 2016, and it was discovered that one of the vehicles had a fake insurance policy. So the innocent victims and the remaining families would, sadly, not receive any form of compensation owing to these unscrupulous agents.

2.0 Methodology

2.1 It is an incontrovertible fact that the transport and infrastructure development sector harbors latent potential to raise the much- needed revenue for the country which will galvanise the economic revival of Zimbabwe. To this end, Hon. Speaker, your Committee resolved to comb through the relevant legislation, in particular, the Act governing the operations of the Traffic Safety Council of Zimbabwe, to establish the legal basis for the collection of this revenue. The Committee then invited the Minister of Transport and Infrastructural Development, Hon. J. M. Gumbo, to issue a Ministerial Statement in the National Assembly covering the issue of the Motor Levy, before concluding its enquiry by inviting ZINARA to give oral evidence on the same. The Committee would like to put it on record that even prior to the Minister’s statement, your Committee, Hon. Speaker, had engaged ZINARA and given them a deadline of about a month to computerize the collection of the 12.5% statutory fee for third party insurance. Be that as it may, the Committee would like to express its sincere gratitude to Hon. Minister Gumbo for graciously accepting the Committee’s request and presenting a comprehensive and frank statement covering a wide range of critically important issues. Your Committee's findings and recommendations, Hon. Speaker, are outlined below.

3.0 <u>Legal Basis for the Collection of the Motor Levy</u>

3.1 Section 34(1) of the Traffic Safety Council Act (Chapter 13:17) provides that

34 Imposition of levies

(1) Subject to this Part, the Minister, with the approval of the Minister responsible for finance and after consultation with the Board, may by statutory instrument impose a levy on—

(a) persons who obtain or renew policies of insurance for the purposes of the Road Traffic Act [Chapter 13:11]; and

(b) driving schools.

Subsection 2 states that*:*

(2) In a statutory instrument published in terms of subsection (1), the Minister may prescribe—

(a) subject to subsection (3), the amount of the levy; and

(b) the persons responsible for the payment of the levy; and

(c) the persons responsible for the collection and remittal of the levy; and

(d) the manner and times at which the levy shall be paid, collected and remitted; and

(e) the imposition of interest and additionally, or alternatively, a surcharge if the levy is not paid within the time prescribed; and

Statutory Instrument 45 of 2005 was enacted to give effect to Section 34 of the Traffic Safety Council Act and effected 12.5% of the total value of every third party insurance bought as the remittance due to the Council while 5% goes to Treasury. However, the Committee noted that the law does not appear to bestow punitive powers on the Council for errant insurance companies who do not remit the legally stipulated fee.

4.0 Submissions by the Minister of Transport and Infrastructural Development

4.1 In his Ministerial Statement, the Minister of Transport and Infrastructural Development, Hon. Gumbo, acknowledged that the Traffic Safety Council of Zimbabwe as the lead road safety agency, was supposed to get 12.5% of every Third Party Insurance Policy issued in the country through a Motor Levy as stipulated in the afore-stated legislation while 5% would accrue to Treasury. At the current cost of USD 30 per term, the amount due to the Council from every policy was USD3.60. On a monthly basis, the Council was supposed to collect an average of USD 224 000 which translated to about USD 2.688 million annually. Holding everything else constant, Treasury on the other hand, would collect USD 93 340 every month and USD 1.120 million annually.

4.2 However, regrettably, the Council was facing challenges in collecting the said levy from insurance companies due to the proliferation of bogus insurance policies as well as the non-compliance with regulatory requirements by some insurance companies. To mitigate this systemic weakness, the Ministry had engaged insurance companies to introduce electronic insurance cover notes linked to the databases of ZINARA and CVR. Once this becomes operational, no vehicle would be issued with a motor vehicle licence without a valid insurance policy. The effect of this would be to curb revenue leakages resulting from the issuance of fake insurance policies. Electronic insurance cover notes would also enable the relevant authorities to keep track of policies that had been paid and thus follow up on those insurance companies that would not have remitted the statutory levies. The Minister appealed to your Committee, Hon. Speaker, to lend its support to the roll out of electronic insurance in order to curb revenue leakages and mobilize domestic resources. This was in line with the Committee's earlier recommendation to ZINARA to computerize collection of the 12.5% statutory levy for third party insurance.

5.0 Submissions by ZINARA

5.1 Armed with this important information relayed by the Minister, the Committee invited the Board Chairperson of ZINARA for the second time to give evidence on the roll out of the computerisation system as recommended by your Committee.

5.2 ZINARA acknowledged that they had, indeed, taken up the recommendation by the Committee to computerise the collection of the 12.5% Statutory Fee on third party insurance. Pursuant to this, the electronic insurance cover note had gone live on the 1st of May, 2016. This had resulted in an astronomical increase in revenue collection by the Traffic Safety Council from the USD 224 000 monthly mentioned by the Hon. Minister to on average USD 1 million per month and, by Treasury, from USD 93 340 per month to USD 416 666. To put it into perspective, computerization of revenue collection had removed inefficiencies in the system to the extent that where the Traffic Safety Council used to receive USD 2.688 million annually, it was now receiving at least 12 million per year whilst Treasury was now getting at least USD 5 million annually from USD 1.120 million.

5.3 ZINARA further projected that assuming 100% compliance by insurance companies, the revenue generated by both the Traffic Safety Council and Treasury would increase five-fold. Numerically, the implication of this was that revenue for the Traffic Safety Council would increase from USD 1 million to USD 5 million monthly and, by extension, USD 12 million to USD 60 million annually. Likewise, revenue for Treasury would increase from USD 416 000 to USD 2.080 million per month and USD 5 million to USD 25 million per year.

5.4 ZINARA admitted that they would not have expedited the computerisation of the insurance cover note were it not for the insistence and perseverance of your Committee, Hon. Speaker, and this had proven to be a game changer in terms of domestic resource mobilization. Linking the insurance cover note to the licencing system has literally obliterated the parallel market which was producing fake licences and created a clear audit trail in the collection of the levy. The receipt that is generated upon payment of insurance fees stipulates the type of insurance, the percentage due to the Traffic Safety Council and stamp duty, which is a ZIMRA tax. ZINARA subsequently distributes the money to the relevant authorities.

6.0 Committee's Findings

The Committee noted the following:

6.1 While the Traffic Safety Council Act as read with Statutory Instrument 45 of 2005 provides for the collection of insurance levy for third party insurance cover, there is no mechanism of censure for those insurance companies which default on remittance of the 12.5% levy;

6.2 There was a dearth of regular monitoring of the insurance industry to ensure that all the players in the industry are legitimate, registered insurance companies who are fulfilling their statutory obligations;

6.3 Computerization of the collection of the 12.5% motor levy has seen an phenomenal rise in revenue to the Traffic Safety Council and the fiscus and contributed significantly to domestic resource mobilization through tightening of systemic loopholes in revenue generation;

6.4 The insurance companies owe TSCZ millions of dollars in unfulfilled remittances as shown by their delinquent behavior before the computerization of the issuance of third party insurance by ZINARA. This gives credence to the notion that ZINARA and ICZ take over this task to enhance revenue collection and its subsequent use.

7.0 Recommendations

The Committee recommends the following:

7.1 While the revenue collection system has been computerized and inefficiencies eliminated, compliance is still to reach 100%. Therefore, Statutory Instrument 45 of 2005 should be amended at the earliest possible convenience to include punitive measures for those insurance companies which are not complying with the law;

7.2 There is need for regular monitoring of the insurance industry by (ICZ) to ensure that all players in the industry are registered and compliant with national laws. Quarterly monitoring exercises would foster a more vibrant insurance sector;

7.3 The entire transport management system needs to be computerized to ensure that Insurance Council of Zimbabwe, ZINARA, CVR, RMT, Police and the Ministry's processes speak to each other and curb any revenue loopholes in the system by end of November 2017.

7.4 On the evidence of the phenomenal upsurge in revenue collection and accountability for the same, ZINARA and the Insurance Council of Zimbabwe (ICZ) must be given the sole mandate of collection and distribution of the third party insurance for Public service Vehicles as well as the compensation of insured motorists in the event of an accident by November 2017.

7.5 In order to enhance domestic resource mobilization through efficient revenue collection, all other insurances- whether comprehensive, passenger insurance or otherwise- must be paid and remitted electronically through the same arrangement initiated by ZINARA. This will also enhance accountability and increase the chances of compensation for affected parties by November 2017.

7.6 The Committee further recommends that all insurance payments made at all ports of entry by foreign vehicles, must be administered by ZINARA with immediate effect.

7.7 Last but not least, of the 12.5% remittances to TSCZ, 4,5% must be immediately ceded to ZINARA for the establishment of accident victims stabilization centers at all toll gates, in order to save lives and stabilize road accident victims within the first hour after the accident happens. This hour is the critical hour that can determine whether 70% of all injured road traffic accident victims will live or die.

8.0 Conclusion

8.1 Hon. Speaker, there are two ways to be fooled. One is to believe what is not true and one is to refuse to believe what is true. The numbers speak for themselves and your Committee has chosen to believe in what is true. Automation of our processes is the way to go if we are to raise the revenue that our great nation needs through domestic resource mobilization. The urgency of automation cannot be overemphasized. In doing so, however, we must be wary of the warning sounded by none other than Bill Gates himself who said, "The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency." Apart from technological aspects, our systems should always have the human value.