

Type of Insurance companies operating in Ethiopia

The practice of insurance service in its modern sense is a recent phenomenon which is said only to have been started in the early 1920s.

Pursuant to Proclamation No. 83/1994 and Proclamation on the Licensing and Supervision of Banking and Insurance, nine insurance companies- Awash Insurance, Global Insurance, Lion Insurance, National Insurance, Nile Insurance, [Nyala Insurance](#) and [United Insurance Company](#) - were established and they are currently operating along with the three state owned banks and the insurance corporation.

Following the liberalization process, unlike the pre-reform practice, the pattern of financial intermediation has been largely geared towards the private sector as opposed to the public and cooperative sector. The people are getting more confident of private financial enterprises through time.

Private sector participation in the financial sector has facilitated the smooth implementation of the monetary and financial intermediation through the creation of competition there by contributing to the development of the sector.

The new economic policy has contributed to the rise of private sector market share in the banking and insurance business.

During the defunct regime, the state - owned [Ethiopian Insurance Corporation](#) has been in a position to control the insurance business by monopoly.

The new comers privately owned insurance companies have penetrated the financial market and reduced the market share of Ethiopian Insurance Corporation from 100 percent to 57 percent.

There are 10 insurance companies in Ethiopia (up from 9 in 2007), with about 200 branches across the country.¹

Table 1 List of Insurance companies operating in Ethiopia and their addresses.

¹ National Bank of Ethiopia, 2007/2008 Annual Report, Governor's Speech

No	Name of Institution	Year of Estab.	Location (H.O)	Tel. / Fax	P.O.Box	e-mail
			Region / City			
1.	Ethiopian Insurance Co.	1976	Addis Ababa	+251-1-512400 +251-1-519077 Fax +251-1-517499	2545 Addis Ababa, Ethiopia	eic.md@telecom.net.et
2.	Awash Insurance Co.	1995	Addis Ababa	+251-1-614420 +251-1-614470 Fax +251-1-614419	12637 Addis Ababa, Ethiopia	aic@telecom.net.et
3.	Africa Insurance Co.	1994	Addis Ababa	+251-1-624579	12941 Addis Ababa, Ethiopia	africainsmd@telecom.net.et
4.	National Insurance Co. of Ethiopia		Addis Ababa			
5.	United Insurance Co. S.C	1994	Addis Ababa			
6.	Global Insurance Co.	1997	Addis Ababa	+251-1-567400 Fax +251-1-566200	180112 Addis Ababa, Ethiopia	globalinsu@telecom.net.et
7.	Nile Insurance Co.		Addis Ababa	+251-1-514999 +251-1-514329 Fax +251-1-514592	12836 Addis Ababa, Ethiopia	nile@telecom.net.et
8.	Nyala Insurance Co.	1995	Addis Ababa	+251-1-626667 Fax +251-1-626706	12753 Addis Ababa, Ethiopia	nisco@telecom.net.et
9.	Nib Insurance Co.	2002	Addis Ababa	+251-1-535130 +251-1-528165 +251-1-535131 +251-1-528196 Fax +251-1-529193	285 Addis Ababa, Ethiopia	Nibinsgm@telecom.net.et
10.	Lion Insurance Co. S.C					
11.	*					

* Recently new insurance share companies are entered to the insurance business. Example, Birhan Insurance Co. S.c, Oromiya Insurance S.C, Ethio-Life Insurance S.C and like.

Their branch network and capital position as of 2007 are described in **Table 2**. The 10th company, Lion Insurance Company S.C., is not shown in the table but operates in the country.

Table 2: Branches and Capital of Insurance Companies in Ethiopia (Capital in Millions of Birr)

	Branches				Capital		
	2005/2006	2006/2007			2005/2006	2006/2007	YoY
	Total	Addis Ababa	Regions	Total	Total	Total	Change (%)
Ethiopian Ins. Cor.	34	11	25	36	204.5	211.7	3.5%
Awash Ins.Com.S.C.	15	11	7	18	43.9	46.3	5.5%
Africa Ins.Com.S.C.	9	2	7	9	40.3	48.6	20.6%
National Ins. Co. of Eth.	12	7	5	12	11	14.8	34.5%
United Ins.Com.S.C.	17	12	6	18	44.3	45.2	2.0%
Global Ins.Com.S.C.	5	3	3	6	17.8	18.9	6.2%
Nile Ins.Com.S.C.	18	9	9	18	56.7	60.2	6.2%
Nyala Ins.Com.S.C.	15	7	8	15	53.2	46.9	-11.8%
Nib Ins.Com.S.C.	13	9	5	14	32.7	29.4	-10.1%

Source: Reproduced from National Bank of Ethiopia Annual Report 2006/07

Major proclamations made pursuant to insurance business

It is believed that Ethiopians practiced banking for several hundred years. During the Axumite Ethiopian Kingdom (from 1st century to the 7th century), it seems unimaginable that such an advanced society existed at that time with out the concept of some kinds of banking facilities.

And no one knows when and how the insurance business begun in Ethiopia. According to "Markets of the World", published by the Swiss Reinsurance Company, it is stated: "Although a systematic study of Adulis has not been completed, it has already proved that the Greek merchants reached this thriving port south of Massawa in the 1st Century. During that time it is believed that some form of Marine Insurance was used probably "General Average" along Rhodian Lines.

Financial markets and institutions interact and combine in various ways to form a county's financial systems. At the centre of the system there are financial instruments in which financial institutions deal in the market. Financial systems evolve over time. They reflect a county's political and economic history. Financial systems in many African countries, for example,

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evolved from colonial times. Evolution of modern institutionalized financial system in Ethiopia started in **1905** following the establishment of the first bank by historically reminiscent name of Bank of Abyssinia (Belay P.69). This Bank introduced for the first time in Ethiopian financial systems history banking services and instruments such as deposit accounts and export financing.

In pre 1974 Ethiopia, the financial system operated in a free market economic environment. However, in 1980s, the financial system was restructured and reorganized to serve centrally planned economic system which was created following the change of government in 1974.

During this period/post 1974, the Government nationalized all financial institutions in the country and created three specialized banks (excluding the central bank) and one insurance company. Private ownership of financial institutions was prohibited. Following the principles of mono-banking, the three state owned banks and the insurance company were administered by the central bank –the National Bank of Ethiopia (NBE). Indeed, the NBE used to run those government owned financial institutions like its own cost centred functional units. Among the specialized banks, the then Agricultural and Industrial Development Bank (the current Development Bank) was responsible for financing agricultural and industrial projects with medium and long gestation period, while the then Housing and Savings Bank (the current Construction and Business Bank) used to lend for construction of residential and commercial buildings. The third bank, Commercial Bank of Ethiopia, was the only bank engaged in trade and other short term financing activities. **The only insurance firm, the Ethiopia Insurance Corporation, was responsible for provision of all types of insurance services.** Although there were efforts, to reach the poor through rural and urban cooperatives, particularly, by extending farm input loans, access to finance during the socialist oriented regime was virtually not possible for the rural poor. By the end of the socialist oriented regime, because of the failure of most cooperatives to repay their loans, banks totally pulled out of lending to rural farmers.

In 1990s, as a result of the shift from socialist to market economic system, Ethiopia reformed its financial services industry. The reform measures included comprehensive restructuring of government owned financial institutions and opening the sector for local private equity participation. The three government owned banks and one insurance company inherited from socialist regime were made autonomies in terms of managing their business and recapitalised. While there was no change in the role of Commercial Bank of Ethiopia (as short term financier), Development Bank of Ethiopia (as provider of medium and long term development finance) and Ethiopian Insurance Corporation (as provider of both general and life insurance services), Construction and Business Bank has been allowed to engage in short-term financing activities.

Opening of the financial services industry for local private equity participation resulted in establishment of nine banks, ten insurance companies and 28 microfinance institutions until

June 2008. The newly established banks and insurance companies are all owned 100% by local private shareholders. Ownership of the newly established MFIs, however, is mixed. Some are owned by regional governments and others by local NGOs or private shareholders.

Table 3. Number of Bank and Insurance in the three regimes.

Number of Bank and Insurance Branches

Institutions	1994/95 (# of)		June 2008 (# of)			
	Institutions	Branches	Institutions	Branches	Population*	Population per branch
Banks	3	215	12**	562	76,097	135,404
Insurers	1	20	10	197		
MFIs	0	0	28	439		
Total	4	235	49	1198		

The Requirements to Carry on Insurance Business

Art 656 of the Commercial Code provides that the law shall determine the conditions under which physical persons or business organizations may carry on insurance business.

Therefore, we have to refer to other parts of the [commercial code](#) and other laws to find out as to who may undertake insurance business and the conditions under which it may be undertaken. Accordingly, Art 513 of the code provides that banks and insurance companies cannot be established as private limited companies, i.e., a private limited company cannot engage in banking, insurance or any other business of similar nature. Similarly, Art 6(1) of the Licensing and Supervision of Insurance Business Pro No 86/1994 provides that no person may engage in insurance business of any type unless it applies to and acquires a license from the National Bank of Ethiopia for the particular class or classes of insurance. Furthermore, Art 4(1) and Art 2(3) of the same proclamation provide that such person has to be a share company as defined under Art 304 of the commercial code.

These requirements / conditions in effect prevent foreigners from engaging in insurance business and foreign banks from opening branches and operating in Ethiopia. The most probable reason for this position is the need to protect infant domestic insurance companies which do not have the desired financial strength, knowhow and human resources to be able to compete with foreign banks which have superior capacity in these areas.

The other condition that a person must fulfill to obtain a license relates to the minimum capital of the company, i.e., it must have a minimum capital of 3 million Birr if it is applying for license to undertake general insurance business i.e., insurances other than insurance of persons, and 4 million Birr if it is applying for a license to undertake long term insurance business, i.e., insurance of persons and 7 million where the application is to undertake both classes of insurance. Such capital has to be paid up in cash and deposited in a bank in the name of the company to be established as an insurance company.

Application Form to Undertake Insurance Business attached in the annex.

The Ethiopian insurance market essentially consists of non-life business. Although the share of life insurance in gross premia has grown steadily over the past ten years, it still remains at 5.4% (June 2006). Private insurers first introduced life insurance in 1999. The lower importance of life insurance business for the private insurance industry may be explained by the long-term nature of the business (which requires a higher degree of customer confidence in the supplier), and also by the fact that only some of the private insurance companies offer life insurance.

Challenge and opportunity insurance business in Ethiopia.

The insurance market has increased on average by more than 10% per year since 2001. The share of private insurers in operational business (measured by premia and claims) has been slightly higher than 50% throughout the period. Non-operational income, i.e., investment activities by insurance companies, accounted for approximately 20% of total income over the period 2002 to 2005 but sharply increased to 30% in 2006.

In sum, the development of the insurance sector since 1994 in many ways resembles that of the banking sector, with the establishment of several new private insurance companies in addition to the state-owned EIC which continues to be the largest player. The range of insurance products offered is limited indicating that the sector is still at an early stage of development. Reinsurance and auxiliary services (such as actuaries) are hardly available in Ethiopia. Besides, insurance companies have limited capacities – premium setting is based on outdated methods,

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and there is a considerable lack of risk assessment methodologies. Capacity limitations also affect regulation of the sector with insurance supervision being largely ineffective.

Contrary to the banking sector, however, competition is stiff in the insurance industry. Private insurance companies (or at least some of them), ambitious to increase their sales volume, have been granting unfair and unjustifiable discounts to attract clients and attain their sales forecast. This aggressive pricing policy has led to an unhealthy spiral of premium cutting.

Finally, insurance companies' investment activities are heavily constrained by the restrictions that the NBE's investment proclamation imposed. This forces insurance companies to invest the majority of their funds in government securities and bank deposits at negative real interest rates. The lack of infrastructure, especially a stock market, further constrains insurance companies' investment activities.

The insurance sector in Ethiopia focuses on the corporate market and general insurance. Ethiopia's insurance market premiums for life and general insurance contributed 0.2pc to the GDP in the 2006/07 fiscal year with 105 million dollars, according to research titled, "Opportunities and Challenges for Micro Insurance in Ethiopia," that was conducted by Anja Smith and Doubell Chamberlain in 2010.

"Life insurance contributed six per cent, constituting only six million dollars, while general insurance premiums, particularly motor vehicle insurance, contributed 99 million dollars, 94pc of the insurance premiums," the research found.

Conventional insurance offers the insured protection with many terms and conditions before compensating a materialised risk. It is expensive for individuals with little income who cannot afford to pay regular fixed premiums, insurers agreed.

The planned new policy differs from conventional insurance.

The micro finance institutions, MSEs, and NGOs will be the policyholders on behalf of the individuals who are members of the associations. The institutions will collect irregular premiums from the certificate holders who are individually insured through their associations.

This will decrease the cost of the insurance as the insurer would offer the same kind of protection to more than one individual at a time, according to Mesfin Eyasu, micro insurance officer at United Insurance.

However, the valuation of the coverage of the insurance policy, which is planned to be prepared in the local language of the associations, is yet to be determined.

The planned micro insurance coverage should have social protection schemes subsidised by the government for those who cannot afford to buy a policy, according to Wolday Amha (PhD), director of the Association of Ethiopian Microfinance Institutions (AEMFI).

The institutions are to purchase Credit Life Insurance on behalf of their members to service their debts if the debtor is unable to due to natural death or financial loss, according to Wolday.

The new policy should provide farmers with an insurance policy to insure their crop production, which is usually affected by drought, flood, and price fluctuations, as well as their health, the director argued.

Nyala Insurance has been offering farmers crop insurance for the past three years through Dede-bit Micro Finance as general insurance coverage because there is no policy to cover it as micro insurance.

Once the drafting of the micro insurance policy is completed, it will potentially insure individuals through the AEMFI, which extended over 6.2 billion Br in credit to 2.4 million active borrowers from eight regions, including Addis Abeba and Dire Dawa, during the fourth quarter of 2009/10.

In the same year, Amhara Credit & Saving Institution (ACSI) was the largest lender by disbursing loans amounting to 1.7 billion Br to its 677,331 members.

It was followed by Oromia Credit & Saving Institution (OCSI) with a little over a billion Birr to its 469,713 borrowers; Gambela Micro Finance Institution (GMFI) gave over a million Birr to its 880 members; Hawassa Omo Micro Finance Institution (HOMFI) gave over 17 million Br to the 424,258 members of the four associations under its administration; while Harar Micro Finance Institution (HMFI) gave out seven million Br in loans to its 2,501 members.

Dede-bit Micro Finance Institution extended two billion Birr in loans to its 414, 041 members, Benishangul-Gumuz Micro Finance Institution extended 51.8 million Br to its 28,874 members, while Addis Abeba Micro Finance Institution (AAMFI) gave out 648.9 million Br in loans to the 347,635 members in its 12 associations, according to data from the AEMFI.

All the associations have saved a combined total of a little over 2.7 billion Br in their respective institutions.

Harnet Asgedom, 45, a member of AAMFI, obtained 10,000 Br through Yesetoch Merdaja Mahber, her association for women, from the wereda to start a baltina shop selling things like spices and shiro around Megenagna. This mother of three monthly earns 600 Br from her two-year old business after paying 300 Br to repay her debt.

She does not intend to insure her business against risks or to buy life insurance as she does not understand that insurance is a protection policy that could prevent her business from being shut down if she failed to pay her debt. Life insurance could help her children if she is harmed as she is the family's breadwinner along with her husband who works as a guard.

NBE is working on creating awareness of the policy, which is not widely known even outside Ethiopia.

Appendix

Annex 1. Application Form to Undertake Insurance Business

Annex 2. PERSONAL ACCIDENT PROPOSAL FORM

ETHIOPIAN INSURANCE CORPORATION
PERSONAL ACCIDENT PROPOSAL FORM

Name.....

Address.....Age.....

Profession or Occupation.....Height.....
(If more than one occupation state all)
.....Weight.....

State whether:

- (a) Employer or Employee
- (b) Superintending or working manually
- (c) Machinery is used

1. Have you ever been declined, postponed or accepted on special terms for Life, Accident, or has any Insurer canceled, declined to renew or varied the benefits of any conditions of any such Insurance? If so, give name of Insurers, their reasons for doing and when.

.....

2. State name of Insurers with whom you are at present or have been in the past insured against Accidents?.....

.....

If so, for what capital amounts and monthly benefits?

Does your average monthly income exceed the monthly indemnity under all policies carried by you, including that now applied for?.....

.....

2. Have you ever met with an accident or made a claim against any branch in respect of accident?.....

4. Is your sight or hearing defective?.....

5. Do you engage in big and/or small game: Hunting, Polo, Motor Cycling (As Driver and/or Passenger), Mountaineering, Winter Sports or Riding in any kind of Race?.....

If so, State whether cover is required?.....

6. Do you intend to Travel Abroad?.....

If so, where and number of journeys during the course of a year?.....

Do you anticipate traveling by air? If so, please indicate probable number of journeys during the course of a year by? (a) Regular Airlines (b) Multi-Engine Charter Aircraft (a).....

(b)

Do you intend to fly as Pilot, Co-pilot or crewmember? If so, give full details.....

.....

Ethiopian Business Development Services Network (EBDSN), 2002 “Services of Insurance Companies” BDS Information Service Brochures No. 10-3, Addis Ababa

National Bank of Ethiopia, LICENSING AND SUPERVISION OF INSURANCE BUSINESS, Directive No. SIB/1/1994

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