INSURANCE SECTOR IN ETHIOPIA: EVOLUTION AND CURRENT STATE

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Abstract
In Ethiopia, the insurance sector is an integral part of the financial sector in particular and the economy as a whole. Its role in assisting the country to achieve its macroeconomic stability and growth objectives is undeniable. This research paper aims to provide insight into the origin and development of the insurance sector in Ethiopia, as well as its structure, regulatory framework, performance, and present state. The study is entirely based on the review of literature from various secondary sources. The paper concludes that even if the insurance sector significantly contributes to the country's economic growth and development, its achievement is far below many other Sub-Saharan African countries, the rest of the world, and international standards. However, the paper indicates that there is a huge growth potential for the insurance business in Ethiopia.

Keywords: Ethiopia, insurance sector, origin and development, performance, regulatory framework.

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1. Introduction

The insurance sector is a key segment of the financial sector in both developed and developing nations. It plays a crucial role in the economic growth of a country by promoting long-term savings, transfer of funds, risk management, and development of capital market support (Jadi, 2015; Shan, 2018). To be more precise, it is a well-established fact that the insurance sector forms an integral part of the financial sector in an economy and is vital to the well-being of other sectors, households, and a nation's overall economy through the transfer and pool of risks. The absence or failure of an insurance sector in an economy may cause real instability in the financial services sector and devastate the country's overall economy (Isayas, 2021; Wise, 2017). The insurance sector of every nation is thus subject to stringent regulations and standards set by its regulators to ensure its financial stability (Sibindi & Makina, 2018).

Looking at the Ethiopian situation, the Insurance Proclamation 746 of 2012 specified that the insurance sector in Ethiopia plays an important role in economic development by providing insurance coverage against risks, being an alternative means for savings, and through mobilization of financial resources from within and outside the country. Therefore, its safety, soundness, and stability are crucial. To this effect, this research paper aims to address the main aspects of the birth and development, structure and regulatory framework, and performance and current status of the insurance sector in Ethiopia.

2. Objectives of the Study

This study intends to address the following specific objectives:

- To shed light on the origin and development of the insurance sector in Ethiopia through the different phases.
- To provide insight into the structure and regulatory framework of the insurance sector in Ethiopia.
- To analyze the performance and present state of Ethiopia's insurance sector in comparison to some selected insurance sectors in Africa and global standards.

3. Research Methodology

This research paper is basically a review-based study and thus employed solely secondary data. The required secondary data was primarily gathered from relevant laws (i.e., proclamations, regulations, and standards), as well as the annual reports of NBE and insurance companies operating in the country (various issues). Moreover, relevant journal research papers, magazines, manuals, and websites were consulted for the data collection.

4. The Origin and Development of Modern Insurance in Ethiopia

Historical evidence indicates that the insurance business in its modern sense has been practiced in Ethiopia for more than a century. Undoubtedly, foreign insurers made an undeniable contribution to the emergence and early development of the insurance business in Ethiopia (Zeleke, 2007). Based on the political and economic systems that the country adopted for more than a century, the emergence of the modern form of insurance business in Ethiopia and its further development can broadly be categorized into three distinct phases. The first phase (1905-1974) is the emergence and early development of the insurance business in Ethiopia. The second phase (1974-1991) is the nationalization of private insurers and the monopoly of the insurance sector by the government. The adoption of a market-oriented economic system and economic liberalization (1991 to date) constitutes the third phase in the historical development of modern insurance business in Ethiopia. These realities are explained briefly here.

4.1Pre-Nationalization Phase (1905-1974)

According to a handful of sources (Belai Giday, 1987; Haile Michael Kumsa, 1992), modern insurance in Ethiopia was started in the 20th century when the Bank of Abyssinia (a foreign bank established in Ethiopia in 1905) acted as an agent for a foreign insurer to transact fire and marine insurance policies in Ethiopia. Nevertheless, there is no proof of the precise date the Bank of Abyssinia became the agent of a foreign insurer, the name of the foreign insurer and its country of origin, and the nature of fire and marine insurance transactions handled by the Bank (Zeleke, 2007).

Later on, the Italian insurer called Instituto Nazionale per L'Assicurazione control gli infortuni sul lavoro and La Baloise Fire Insurance Company from Switzerland set up their representative branch offices in Ethiopia in 1922 and 1923, respectively. Until 1930, four other Italian insurance companies also started insurance business in Ethiopia on an agency basis. These insurers were Assicurazioni General di Trieste Venezia (1924), Le Assicurazioni D'Italia (1925), Instituto Nazionale delle Assicurazioni (1925), and Riunione Adriatica di Sicurta (1930) (Berhe & Kaur, 2017; Zeleke, 2007).

During the Fascist Italian occupation of Ethiopia which ran from 1936-1941, only Italian insurance companies were permitted to operate in the country. However, they all ceased to exist after liberation (Economic Progress of Ethiopia, 1955 cited in Zeleke, 2007). After the exit of Fascist Italia in 1941, several British and other overseas insurance companies came to Ethiopia to conduct insurance business through agents. By 1950, 11 foreign insurance companies were undertaking insurance business in Ethiopia through agents but there was no locally incorporated insurance company.

In Ethiopia, the first indigenous insurer named Imperial Insurance Company of Ethiopia Ltd was founded in 1951 as per Ethiopian law. The company was founded with a paid-up share capital of Eth.$ 1,000,000 and the shares were Ethiopian ordinary shares that had a par value of Eth.$ 100 each. The State Bank of Ethiopia (20%), Emperor Haile Selassie (10%), some enlightened Ethiopian nationals (10%), foreign individuals (30%), and British group companies (30%) all contributed to the first share capital (Alemayehu & Teklemedhn, 2009; Zeleke, 2007).

The period from 1920 to 1950 witnessed the era of agents of foreign insurance companies operating in the country. According to the Economic Progress of Ethiopia (1955), a survey conducted in 1954 to assess the existing situation of the insurance sector in the country found that 18 insurance companies were operating in the Ethiopian insurance market at that time, of which Imperial was the only local insurance company. The second insurance survey conducted in 1960, as reported in the Ethiopian Economic Review (1960), documented that the number of insurance companies operating in the country increased considerably and reached 34 in total, of which 33 were agents of foreign insurers.

The 1960s witnessed the rise of local insurance companies in the country's insurance sector. According to the first annual report by the Controller Office (1971), the total number of domestic insurance companies operating in the country reached 15 in 1970, of which 14 (93.3%) were established in the 1960s. In contrast, a study conducted by the Addis Ababa Chamber of Commerce in 1967 revealed that the total number of foreign insurers doing insurance business in the country through agents was reduced to 30. These domestic insurance companies alongside overseas ones were transacting life, marine, fire, general accident, motor vehicle, burglary, aviation, and industrial accident insurance business in the country.

Despite the above facts, Ethiopia's insurance sector was largely uncontrolled. Till 1960, there had been neither any regulatory body nor any insurance law that regulate the insurance business activities in the country. However, two bodies of law were enacted in 1960. One of them was the Commercial Code of Ethiopia, which contained relevant provisions applicable to insurance against damages (property insurance and liability insurance), insurance of persons, and all forms of insurance (articles 654-712). The other law was the Maritime Code of Ethiopia. In articles 288-356 of this law, various aspects of marine insurance such as the nature of the insurance contract, the rights and obligations of the assured and the underwriter, and the settlement of damage had been properly articulated. Thus, the major insurance laws that had been governing the insurance sector of Ethiopia before 1970 were the insurance business provisions of the Commercial Code and the Marine Code of Ethiopia issued in 1960.

The year 1970 witnessed a landmark in the history of modern insurance in Ethiopia. Aside from a large number of foreign insurers operating in the country, the rapid increase of local insurance companies, the expansion of the insurance business, and the existence of malpractices and abuses in the country's insurance sector in the 1960s put pressure on the government to devise a more systematic legal framework that regulates the insurance sector in the country. On top of that, an insurance survey conducted by the Addis Ababa Chamber of Commerce in 1967 suggested the need for a detailed insurance law to properly regulate and control the country's insurance sector. Following that, the imperial government promulgated the first insurance proclamation (Proclamation 281/1970) in 1970 followed by the first insurance regulation (Legal Notice 393/1971) in 1971 to regulate and monitor the insurance business in Ethiopia through a comprehensive insurance law.

The new comprehensive insurance law was peculiar in many aspects. Among others, the law created the first regulatory and supervisory bodies for the country's insurance sector to ensure the soundness of the sector. The bodies were the Insurance Council and the Office of the Controller of Insurance. The Council was authorized to formulate general insurance policies that regulate and promote the insurance business in the country. On the other hand, the Controller's Office was responsible for ensuring the implementation of the insurance legislation, undertaking supervisory functions over the insurance sector, and issuing licenses required to undertake insurance business in the country.

The 1970 insurance law limited the operations of insurance businesses to Ethiopian citizens and Ethiopian national companies. It prohibited foreign insurers to operate in the country either directly or through agents. Consequently, the majority of foreign insurers that were in operation in Ethiopia ceased doing insurance business in the country, while a small number were converted to domestic insurers fulfilling the requirement of the new insurance law.

The other peculiar feature of the 1970 insurance law was that it set forth the minimum requirements to establish an insurance company and undertake an insurance business in the country. Among the requirements, undertaking an insurance business in the country without a license was prohibited. Accordingly, the Controller Office relicensed 15 local insurance companies anew in 1971 that met the licensing requirements specified in the proclamation. Two of the licensed insurers were closed in 1972, and the remaining 13 continued until they were nationalized in 1975 (Zeleke, 2007).

4.2 Nationalization and Monopolization Phase (1974-1991)

Ethiopia had been under the rule of the imperial government for many decades. The imperial government was overthrown by the 1974 Peoples' Revolution and the military government took over government power in the country in 1974. The new military government adopted the rule of a centrally planned command economy with a socialist ideology. To lay the foundation for the command economic system, one of the first actions taken by the communist military government was to nationalize the private companies operating in the country at that time.

Accordingly, the socialist-oriented military government nationalized all private insurance companies on January 1, 1975, and took over their whole ownership and control through the promulgation of Proclamation 26/1975. Then, by Proclamation 68/1975, the nationalized insurance companies were consolidated into a single state-owned insurance company called Ethiopian Insurance Corporation (Geda, 2006).

The Ethiopian Insurance Corporation (EIC) came into existence as an autonomous public enterprise on January 1st, 1976, by taking over the assets, liabilities, and capital of all the nationalized private insurers. The nationalized insurers became the main branches of EIC. EIC's paid-up capital at the time of establishment was ETB 11 million (about USD 1.29 million). EIC was authorized by Proclamation 68 of 1975 to manage, administer, supervise, and direct all insurance business transactions; to negotiate, arrange, underwrite, and contract reinsurance treaties and policies with foreign re-insurers; and to issue a license to any person making an application to act as insurance auxiliary or actuary.

Following the nationalization of private insurers and the formation of a government-owned monopoly insurer (EIC), the imperial-era insurance laws (i.e., Proclamation 281/1970 and Regulation 393/1971) were replaced with Proclamation 68/1975. In addition, the Insurance Council and the Insurance Controller Office, which were earlier empowered to regulate and supervise the insurance sector in the country, were liquidated in 1976. In the same year but by Proclamation 99/1976, the Socialist government designated the NBE to regulate, supervise and control the operations of the insurance sector.

The EIC had been a monopoly insurer in the Ethiopian insurance sector during the entire period of the Socialist Marxist era (i.e., 1974 to 1991). Hence, the history of the Ethiopian insurance sector during the command economic system was entirely the history of EIC. Generally, the competition in the sector was non-existent and the development of the Ethiopian insurance sector as well as its contribution to the country's economic growth were negligible.

4.3 Liberalization Phase (1991 to date)

Following the change in the political environment in Ethiopia in 1991, the new government officially introduced a market-oriented or liberal economic system in 1992 to guide the country's economic development. Consequently, the financial institutions were reformed to work on a market-oriented policy framework (Addison & Geda, 2001). Concerning the insurance sector, the reform resulted in the re-establishment of EIC, the decree of new market-oriented insurance law, and the re-emergence of private sector insurers.

Due to the change of the country's economic policy to a market-led economy, the sole state-owned monopoly insurer had to be restructured to shape its role within the framework of the new market-oriented economic system. To this effect, EIC was re-structured as a state-owned enterprise in 1994 to engage in the business of rendering insurance services and any other associated activities helpful to the attainment of its purpose. According to Zeleke (2007), the paid-up capital of EIC at the time of restructuring was approximately ETB 61 million.

The adoption of the market-based economic policy demanded the active participation of all economic sectors (public and private sectors) in the country. To achieve this, a comprehensive insurance law that would permit the involvement of all insurance sectors within the framework of the market economy was required. To that end, the Licensing and Supervision of Insurance Business Proclamation 86/1994 was promulgated in 1994. This law ended the 19 years of insurance business monopoly and allowed domestic private sector insurers to engage in the country's insurance sector but prohibited foreign insurers from doing so.

Shortly after the new market-oriented insurance law was passed in 1994, domestic private-owned insurance companies came into existence in the country's insurance sector again. The first to be established in August 1994 was Universal Insurance Company, which was later closed down because of supervisory measures (Zeleke, 2007). After Universal, five additional private insurance companies were founded within a year, and two more within two years. The most recent insurer received its license in 2020. The latest NBE annual report (2021/22) unveils that the total number of insurance companies operating in Ethiopia reached 18 in 2022, 17 of which are private sector insurers as can be shown in Table 1.

Table 1: Insurance Companies Operating in Ethiopia at the End of June 2022

S. No.	Name of Insurer	Year of Establishment	Establishment Capital in ETB
1	Ethiopian Insurance Corporation	September 1976	11 million
2	National Insurance Co. of Ethiopia S.C.	September 1994	9 million
3	Awash Insurance Company S.C.	October 1994	25 million
4	Africa Insurance Company S.C.	December 1994	30 million
5	Nyala Insurance Company S.C.	January 1995	35 million
6	Nile Insurance Company S.C.	April 1995	12 million
7	United Insurance Company S.C.	April 1997	8 million
8	Global Insurance Company S.C.	November 1997	7 million
9	Nib Insurance Company S.C.	May 2002	30 million
10	Lion Insurance Company S.C.	July 2007	16 million
11	Ethio-Life and General Insurance S.C.	October 2008	6.5 million
12	Oromia Insurance Company S.C.	January 2009	26 million
13	Abay Insurance S.C.	July 2010	7.5 million
14	Berhan Insurance S.C.	May 2011	9.7 million
15	Tsehay Insurance S.C.	March 2012	11 million
16	Lucy Insurance S.C.	October 2012	8 million
17	Bunna Insurance S.C.	May 2013	6.7 million
18	Zemen Insurance S.C.	January 2020	79.9 million

Source: Compiled from NBE Annual Report, 2022; Official Websites of Insurers

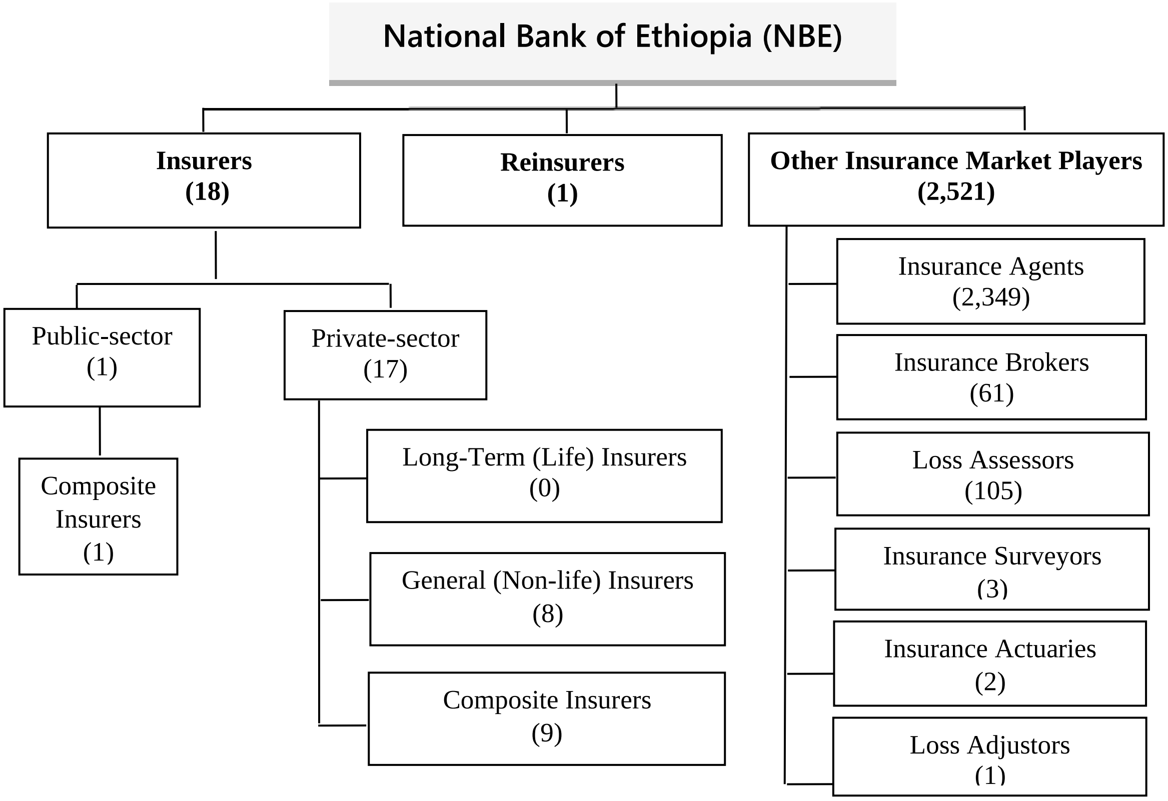
5. Structure of the Ethiopian Insurance Sector

Even if Ethiopia's gradual liberalization strategy has locked the financial sector to foreign insurers, the country's insurance system has been changed from absolute ownership by the government to a system that permits private sector insurers to operate in the country. Hence, Ethiopia's insurance industry is presently made up of both public-and private-sector insurers. The public sector insurers are those that are wholly owned by the Government of Ethiopia, whereas the private sector insurers are those whose share capital is exclusively owned by private individuals and corporates. Despite this, Ethiopia's insurance market is relatively tiny compared to the majority of East African, Sub-Saharan African, and global insurance markets.

By the end of June 2022, 18 insurance companies were operating in Ethiopia under the supervision of the NBE. Out of which, one (5.6%) is a public sector insurer, and the other 17 (94.4%) are private sector indigenous insurers. Ten (55.6%) of the 18 insurers are composite insurance companies (i.e., they operate both life and non-life insurance businesses), while the remaining eight (44.4%) are purely general (non-life) insurers. Currently, there is no life insurance-only insurer operating in Ethiopia (NBE, 2022; Atlas Magazine, 2021).

Aside from the primary insurers, other players in the Ethiopian insurance market include reinsurance companies, insurance auxiliaries, loss adjustors, and insurance actuaries. In 2022, one re-insurance company (i.e., Ethiopian Reinsurance Company), 2 insurance actuaries, 1 loss adjustor, and over 2,349 insurance agents, 61 insurance brokers, 105 loss assessors, and 3 insurance surveyors acting as insurance auxiliaries were operating in the Ethiopian insurance sector under the supervision of the NBE. Figure 1 provides a graphical representation of the structure of the insurance sector in Ethiopia in 2022.

Figure 1: Structure of the Ethiopian Insurance Sector, June 2022



Source: Compiled from NBE's and Insurers' Annual Reports, 2022; Official Website of NBE

5. Regulatory Framework of the Insurance Sector in Ethiopia

Insurance Business Proclamation 86 of 1994, which governed the insurance sector of Ethiopia for nearly two decades, was peculiar in the history of the country's insurance sector in that it unlocked the insurance sector for the participation of private sector insurers to compete with the state-owned insurer. There were no state-owned insurers during the imperial government period and no private insurers during the Socialist government period.

Since the entry of private sector insurers in 1994, the insurance sector plays a great role in Ethiopia's economy. Moreover, the insurance sector was significantly affected by the fast economic growth that existed in the country in the 2000s. These called for a new comprehensive insurance legal framework that ensures the soundness and stability of the country's insurance sector. As a result, the Insurance Business Proclamation 746/2012 was promulgated in 2012, revoking the earlier one. Later, two more proclamations were passed to update it.

Currently, the Insurance Proclamation 746 of 2012, Vehicle Insurance Proclamation 799 of 2013, Insurance (Amended) Proclamation 1163 of 2019, and NBE Establishment Proclamation 591 of 2008 are the principal legislation that constitutes the insurance regulatory framework of Ethiopia. Indeed, these proclamations are supplemented by a suite of directives (standards) issued by the country's financial sector regulator. Hence, the directives are the subordinate legislation that forms the insurance regulatory framework. Those proclamations and directives regulate all insurance and reinsurance business activities and providers of auxiliary services in Ethiopia. The most important provisions covered in the insurance law are addressed briefly below.

5.1 Insurance Regulatory Body

NBE was given the first-ever authority to regulate and supervise the insurance sector in Ethiopia by Proclamation 99 of 1976. NBE continued to regulate and supervise Ethiopia's insurance market by Proclamation 83 of 1994, adoring the market-oriented economic policy that the country adopted in 1992. Proclamation 591 of 2008 designates NBE once again as the policymaker, regulator, and supervisor of the insurance sector in Ethiopia, broadening the NBE's core functions in the financial sector.

Under the 2008 Proclamation, the core regulatory mandate of NBE concerning the insurance sector is to ensure the reliability (soundness) and stability of the sector by effectively applying the country's insurance law and international standards. To that end, the NBE formulates and enforces policies and standards for the conduct and expansion (development) of insurance and reinsurance businesses in the country. It also grants licenses to all persons engaged in or linked with the insurance and reinsurance business in the country, including insurers, reinsurers, insurance intermediaries, reinsurance intermediaries, loss assessors, insurance surveyors, and loss adjusters. NBE is still responsible for monitoring compliance by insurers, reinsurers, and other insurance market players with the insurance law.

NBE has an Insurance Supervision Department (ISD), which is responsible for all insurance policy, regulation, and supervision activities in the country. The core functions of the ISD include among others, monitoring the implementation of all relevant insurance legislations, ensuring the financial soundness of the insurers and the stability of the insurance market, and protecting the rights of the insurance markets' investors and participants. In short, the ISD is the insurance sector regulator in Ethiopia and is not a juridical person.

The aforementioned implies that, unlike in many other countries, the insurance regulatory body of Ethiopia is not an independent body as required by the International Association of Insurance Supervisors (IAIS). Sourced to the IAIS (2019), the insurance regulatory body of a country must be operationally independent and have adequate powers, legal protection, and financial resources to perform its functions and exercise its powers. Because of this, NBE has not been eligible for membership in the IAIS.

5.2 Legal Definitions of Insurance and Reinsurance

For the purposes of regulation, the insurance law provides legal definitions to distinguish between an insurance and a reinsurance business, which are similar to the general definitions of the terms. According to the law, insurance is an agreement formed through the sale of an insurance policy in which an insurer agrees to pay an indemnity or benefit to an insured when the condition specified in the policy is met or risk materialized, whereas reinsurance is an agreement whereby a reinsurer provides insurance for a risk associated with the insurance obligation of an insurer through the sale of a reinsurance contract.

The aforementioned implies that an insurance contract in Ethiopia has two parties: an insurer or insurance company (a juridical person that issues an insurance policy and undertakes the obligations of an insurance policy) and an insured or insurance policyholder (a natural or juridical person who is beneficiary when the conditions specified in the policy are fulfilled). Similarly, a reinsurer and an insurer are the two parties to a reinsurance contract. The aforementioned also implies that only an insurer and reinsurer are permitted to issue an insurance policy and reinsurance contract, respectively.

5.3 Licensing Requirement

The extant insurance law prohibits conducting insurance or reinsurance business in Ethiopia without obtaining a valid license issued by the regulator (NBE). The same law also forbids any person (an individual, a firm, or a company) from acting as an insurance auxiliary (i.e., insurance agent, broker, surveyor, or loss assessor), reinsurance auxiliary, actuary, or loss adjustor unless he first secures a license from the regulator authorizing him to act as such.

The regulator also has the authority to revoke the license granted to any insurer wholly or for a specific class of insurance business if the insurer fails to comply with the requirements of the insurance legislation. For instance, a licensed insurer or reinsurer must launch its operation within 12 months of receiving the license. If not, its license will be canceled.

The licensing requirement prevents free entry into the country's insurance market and ensures that all insurers, reinsurers, intermediaries, and other insurance market players are regulated. This will boost public confidence in the insurance system of the country. The license cancellation requirement on the other hand alerts all insurance market players to continuously comply with the legislative obligations and conditions while pursuing their business.

5.4 Corporate Form of Organization

An insurer or reinsurer in Ethiopia must be a state-owned juridical entity or a private-owned entity formed as a share company having its headquarters in Ethiopia. Any private insurer or reinsurer in Ethiopia must be a locally incorporated public company. A share company is defined in the Commercial Code of Ethiopia (1960) as a company whose capital is fixed in advance and divided into shares and whose liabilities are met only by the assets of the company. The law also required that the shares be a class of ordinary shares with the same par value.

5.5 Restriction on Foreign Ownership

The law that regulates Ethiopia's insurance sector stipulates restrictions on the ownership of an insurer or reinsurer about the nationality of its shareholders. According to the law, only Ethiopian citizens, foreign nationals of Ethiopian origin, and organizations owned fully by Ethiopian citizens, foreign nationals of Ethiopian origin, or jointly by them can own an insurance or reinsurance company in Ethiopia or acquire shares of an Ethiopian insurer or reinsurer.

By the same law, foreign nationals of non-Ethiopian origin and institutions fully or partially owned by foreign nationals of non-Ethiopian origin are completely prohibited to own an insurance or reinsurance company, engage in insurance or reinsurance business, operate a branch office or subsidiary of a foreign insurer or reinsurer in Ethiopia, or acquire shares of an Ethiopian insurer or reinsurer. In short, Ethiopia blocks international insurers and shareholders from entering its insurance sector.

The implication of the aforementioned is that the insurance sector in Ethiopia has not yet undergone full liberalization insisting on the gradual liberalization strategy. According to the Ethiopian government, the country currently lacks a strong capacity to regulate and supervise multinational insurers, and domestic insurers are still in the early stage of development to compete with overseas more advanced insurers (Gashayie & Singh, 2016).

5.6 Investment Limits Biased Towards Treasury Bills and Bank Deposits

Insurers are permitted to invest their general and long-term insurance business funds in the investment instruments prescribed in the NBE directive. Regarding investment of general insurance business funds, an insurer can invest at least 60 percent of its total assets in treasury bills and bank deposits, but deposits in any one bank not exceeding 15 percent of total assets, and up to 20 and 10 percent of the total assets in any company's shares and real estate, respectively. The investment of long-term insurance business funds follows a similar scheme, except for treasury bills/bonds and bank deposits (50%), real estate (15%), and real estate (25%).

The prudential insurance regulation is criticized for the disproportionately high amount of funds required to be invested in treasury bills and bank deposits, given the relatively low returns of these investment instruments. In addition, as the availability of investment opportunities in company shares is limited primarily due to the absence of a regulated secondary market in the country, treasury bills and bank deposits may be the widely available option for the investment of insurance business funds.

5.7 Types of Insurance Business

The insurance regulatory framework classifies insurance business in Ethiopia into two main classes, namely long-term (life) insurance business and general (non-life) insurance business. A mix of long-term and general insurance businesses forms a composite insurance business. An insurer can undertake only one class of insurance business or both. However, a reinsurer must only run as a composite (life and non-life) insurer.

The long-term (life) insurance business in Ethiopia encompasses insurance relating to the insured's death, permanent disability, accident, medical treatment, and similar others. Life, health or sickness, personal accident, annuity, and pension insurance are the sub-classes of the long-term insurance business. There are more than 15 types of insurance products in the long-term insurance business class in Ethiopia.

On the other hand, the general (non-life) insurance business in Ethiopia includes all classes of insurance business other than the long-term insurance business. It includes portfolios of property insurance, engineering insurance, liability insurance, and pecuniary insurance. There are more than 45 types of insurance products in the portfolios of the non-life insurance business.

5.8 Minimum Establishment Capital Requirements

The insurance law (Directive SIB/57/2022 and Directive SRB/1/2014) specified the following four levels of minimum fully paid-up capital requirements to obtain a license for an insurance or reinsurance business in Ethiopia:

- ETB 100 million (around USD 2 million at ETB50/US$) in cash for the long-term (life) insurance business license;
- ETB 400 million (around USD 8 million) in cash for the general (non-life) insurance business license;
- ETB 500 million (around USD 10 million) in cash for the composite (both general & long-term insurance business) insurance business license; and
- ETB 500 million (around USD 10 million) in cash for the reinsurance business license.

The minimum compulsory capital base for opening an insurance or reinsurance business in Ethiopia appears to be onerous compared to East African countries. For instance, Kenyan and Ugandan life and non-life insurers are required to have a minimum share capital of USD 3.3 and 1.1 million and USD 5.0 and 1.6 million, respectively.

5.9Financial Soundness

The financial soundness and stability of both the insurers and the insurance sector is the main concern of the extant Ethiopian insurance law. In this regard, the regulator, among other things, has a close eye on the existence of an adequate level of the insurers' liquid assets, capital resources, and technical provisions to withstand business risks and meet the insured's liabilities.

Accordingly, any insurer or reinsurer is obligated to deposit 15 percent of its paid-up capital in the form of cash or government securities with the regulator (NBE) for each class of insurance business it carries on. This statutory (security) deposit serves as a trust fund for protecting policyholders' interests and it will be used to discharge the liabilities of the insurer or reinsurer to policyholders in the event the insurer or reinsurer faces a cash shortage to pay indemnities.

Any insurer (or reinsurer) is also required to accumulate at the end of each fiscal period at least 10 percent of its annual net profit in the form of legal reserve until the legal reserve balance equals its paid-up capital. This legal reserve requirement restricts insurers not to pay out their entire net profits as dividends to their shareholders. By retaining a part of their net profits as legal reserves, their capital base is supposed to be increased and their risk acceptance and retention capacity are supposed to be enhanced over time.

Similarly, an insurer (or reinsurer) must maintain at all times an adequate level of margin of solvency for each class of insurance business separately. This solvency margin enables an insurance company to better tackle the risks it faces and to meet its policyholders' obligations that may fluctuate under unforeseen conditions. The SIB 45/2016 provides further clarifications in computing the margin of solvency for insurance companies.

Finally, each insurer (or reinsurer) operating in Ethiopia is required to maintain in respect of each class of insurance business an adequate level of technical provisions (provisions for insurance policy liabilities and actuaries) relating to unearned premiums or unexpired risks (premiums collected but not yet earned), outstanding claims (unpaid claims), accrued claims payable (incurred claims but not yet reported), and other contingencies at the end of each financial year.

The NBE monitors the compliance of every insurer and reinsurer with each of the regulations. If any irregularities are detected, the NBE is armed with the power to take the necessary measures, including the imposition of administrative fines and license revocation.

6. Performance and Current State of the Insurance Sector in Ethiopia

With the liberalization of the financial sector in 1994, the Ethiopian insurance sector has witnessed a sea change during the past three decades. It brought in the insurance sector, among others, a new regulatory framework, new private insurers, price differentiation, competition, a variety of new insurance products, protection of policyholders, improvement in insurance premiums volume, and enhancement in GDP contribution. Nevertheless, its achievement is far from many other sub-Saharan African countries and the rest of the world. To provide an insight into the performance and status quo of Ethiopia's insurance sector during the liberalized economy, a brief analysis using key performance indicators is presented below.

6.1Insurance Service Access (Branch Network Coverage)

Ethiopia's insurance sector has shown a considerable expansion in branches since the sector was reopened to private-sector insurers. This is confirmed by the fact that the total number of branches in the insurance sector before the advent of the first private insurer in 1994 was only 19 (Zeleke, 2007). This number has significantly increased and reached 632 in total in 2021, showing a 119.5% average growth per year. Of the total branches, about 85.8% belong to private insurers and 54.6% were in Addis Ababa. The EIC, the only state-owned insurer, held 14.2% of all branches, followed by Awash and Nile insurers with 8.2% and 8.1% shares (NBE, 2021). The aforementioned statistics have witnessed that the private sector insurers have outperformed the public sector in terms of branch network expansion, despite EIC's leading position in branch size. Besides, the capital city, which is the country's main commercial and business center, has better access to insurance services compared to other regions of Ethiopia.

6.2Capitalization

After allowing private insurers into the insurance market, Ethiopia's insurance industry has so far witnessed significant capital expansion in the last three decades. This is evident from the fact that the book value of the industry's total capital grows from ETB 61 million in 1994 to ETB 11.1 billion (about USD 222 million at ETB 50/US$) in 2021, showing a 181.1% growth over the last three decades. Private sector insurers registered about 73.6 percent of the sector's total capital. EIC takes the leading capital position and disproportionate share in the Ethiopian insurance industry with a total capital of ETB 2.9 billion (about USD 58 million). Among private insurers, Awash is at the top with ETB 1.3 billion capital, followed by Nyala with ETB 1.0 billion (NBE, 2021; Zeleke, 2007).

6.3Insurance Premium Volume

The insurance premium volume of Ethiopia's insurance sector shows tremendous improvement after a shift to a market-oriented economy. To see this fact, the total gross premium volume was around ETB 200 million in 1994 (Zeleke, 2007). In 2021, the 18 insurers generated a total of ETB 13.9 billion (about USD 278 million at ETB 50/US$) in gross written premiums, of which 92.8% were reported by private insurers (Insurers' Annual Reports, 2021). Ethiopia's insurance premium volume of USD 278 million is extremely minuscule when compared to the global average of USD 20.7 trillion, the United States (the world's largest insurance market) of USD 2.71 trillion, South Africa (the largest insurance market in Africa) of USD 51.2 billion, and Kenya (East Africa's insurance market leader) of USD 2.4 billion in 2021 (Atlas Magazine, 2021; Swiss Re, Sigma's report, No.4/2022). Ethiopia ranks among the lowest in the world in insurance premium volume.

6.4Market Share

Market share in an insurance sector refers to the percentage share captured by an insurer, insurance business type, or sub-sector in terms of insurance premium volume (Kumari & Rajasekar, 2014). An insurer or sub-sector with a higher premium volume rate reflects a strong market position against competitors, and vice-versa.

Regarding individual insurers, EIC, the sole state-owned insurer, has the largest market share in the Ethiopian insurance industry in terms of premium generation. Awash Insurance Company is at the forefront among private insurers, followed by United and Nyala. In 2021, EIC's gross premium volume was 41.7% of the sector's total, while Awash's, Oromia's, and United's were 8.2, 6.1, and 5.7 percent, respectively (Insurers' Annual Reports, 2021). These four insurers control nearly 61.7% of the country's insurance market.

When it comes to the sub-sector, the private sector insurers have outpaced the public sector in terms of premium generation, implying that the private sector insurers have a larger market share and make a larger contribution to the country's economy. In 2021, private insurers took 58.3% of the total market share, while public insurers constituted 41.7%.

When we look into the breakdown of the insurance business type, the non-life (general) insurance business has supremacy over the life insurance premiums in the Ethiopian insurance market. For instance, the insurance sector collected around ETB 13.9 billion in insurance premiums (both life and non-life insurance) in 2021. Of this amount, non-life (general) premiums contributed 93.1%, while life insurance premiums took 6.9%.

6.5Development Level and Growth Potential of Ethiopia's Insurance Sector

The development level and potential of the insurance sector in any country can be universally assessed in terms of two standard parameters: insurance penetration and insurance density. Insurance penetration (the ratio of insurance premiums to GDP) reflects how much a country's insurance sector contributes to the national economy or how deep a country's insurance market is, whereas insurance density (the ratio of insurance premiums to total population) indicates insurance sales volume per inhabitant or the demand for insurance services in a specific country (Vimala & Alamelu, 2018).

In Ethiopia, the insurance sector's aggregate contribution to the national GDP (i.e., penetration) was about 0.32 percent, while the gross premium per capita (i.e., density) was around USD 2.70 in 2019 (https://www.atlas-mag.net). The status was improved slightly in 2021 with a penetration rate of 0.34% and a density rate of USD 2.90 (NIC Annual Report, 2021).

Ethiopia's insurance penetration and insurance density rates are by far below the global averages of 6.9% and USD 874 in 2021 (Swiss Re, Sigma's report, 4/2022). The rates are also considerably low compared to the biggest nine African insurance markets, including South Africa, Morocco, Egypt, Kenya, Nigeria, Algeria, Tunisia, Cote D'ivoire, and Ghana in 2020-21 as shown in Table 2 below (Atlas Magazine, 2021).

Table 2: Comparison of Insurance Penetration and Density among African Countries

Country	Penetration	Density	Country	Penetration	Density
South Africa	16.0%	853.0 USD	Ghana	1.05%	24.0 USD
Morocco	4.45%	136.2 USD	Egypt	0.82%	29.5 USD
Tunisia	2.40%	80.3 USD	Algeria	0.71%	23.7 USD
Kenya	2.20%	44.0 USD	Nigeria	0.46%	6.0 USD
Cote D'ivoire	1.12%	26.0 USD	Ethiopia	0.34%	2.9 USD

Source: https://www.atlas-mag.net; https://www.globaldata.com; https://statisticstimes.com

The status, therefore, depicts that Ethiopia's insurance sector is still in its infancy stage of development and is severely underserved. The status also depicts that there is a huge insurance market potential in Ethiopia.

7. Concluding Remarks

Based on the above review-based approach, this paper analyzed the origin and development of the Ethiopian insurance sector as well as its structure, regulatory framework, performance, and current state. With respect to the origin and development, the review study revealed that Ethiopia's insurance sector has passed several structural changes that can be divided into three different phases. The first phase began in the early 1900s with the emergence of the agents of foreign insurers. The first indigenous insurer was founded in 1951, and the first insurance law was passed in 1970. The second phase, which lasted from 1974 to 1991, saw the nationalization of all private insurers to fit the socialist ideology and the state monopoly of the sector. The third phase began in 1991 when the new government reformed the insurance sector to suit the free-market economic system. The reform permitted indigenous private insurers to operate in the country, resulting in the opening of 17 new insurers. Nonetheless, the reform is gradual, and foreign insurers are not yet permitted to participate in Ethiopia's insurance market.

In terms of the structure, the study found that even if Ethiopia's gradual liberalization strategy has locked the financial sector to foreign insurers, the country's insurance system has been changed from absolute ownership by the government to a system that permits private sector insurers to operate in the country. Hence, Ethiopia's insurance industry is presently made up of both public- and private-sector insurers. By the end of June 2022, 18 insurance companies were operating in Ethiopia under the supervision of NBE. Out of which, 17 (94.4%) are private sector indigenous insurers. Ten (55.6%) of the 18 insurers are composite insurance companies (i.e., they operate both life and non-life insurance businesses), while the remaining eight (44.4%) are purely general (non-life) insurers. There is no life insurance-only insurer operating in Ethiopia.

As far as the regulatory framework is concerned, the paper pointed out that Ethiopia's insurance business has been governed by comprehensive insurance law and is under the stringent control and supervision of the NBE. The insurance proclamation 746 of 2012, vehicle insurance proclamation 799 of 2013, amended insurance proclamation 1163 of 2019, and the NBE establishment proclamation 591 of 2008 are the principal legislation that constitutes the insurance regulatory framework of Ethiopia. Indeed, these proclamations are supplemented by a suite of directives (standards) issued by the country's financial sector regulator. The supervision is centered on a compliance-oriented approach where the regulatory body is authorized to punish insurers if they fail to comply with the regulatory instruments.

With respect to performance and current state, the study indicated that despite its undeniable growth and contribution to the national economy, Ethiopia's insurance sector is generally characterized by, in comparison to other insurance sectors on the continent, its underdeveloped and underinsured stage (i.e., lowest insurance penetration and density rates), under the stringent regulatory framework, non-independent insurance regulatory body as required by IAIS, closed entry to foreign competitors, uncompetitive, and the smallest global insurance market shares. Despite the above facts, Ethiopia has a massive insurance market potential.

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