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SCHOOL OF GRADUATE STUDIES

CHALLENGES AND OPPORTUNITIES OF INSURANCE BUSINESS IN ETHIOPIA

BY

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ADDIS ABEBA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

I, the undersigned, declared this is my original work, prepared under the guidance of my advisor ***Elias Berhanu***. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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ENDORESEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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ABSTRACT

The insurance industry is playing an important role in Ethiopia's economic development by promoting financial stability, reduce anxiety, substituting for government security programmes and mobilizing national savings and enabling risks to be managed. But this insurance industry has many opportunities and challenges simultaneously.

The aim of this paper is to extend the line of knowledge about the current challenges and opportunities of insurance business in Ethiopia. To do so the researcher conducted an extensive review literature in the field of insurance business to identify critical challenges of the Ethiopian insurance companies to be alleviated and the current opportunities of the insurance industry to be exploited. The paper assessed the current challenges and opportunities of the insurance industry in selected three insurance companies, Ethiopian Insurance Corporation, United Insurance S.C and Lucy Insurance S.C. The primary data were collected using semi-closed ended questionnaires from directors, branch managers, and clerks of those companies. The sample size was 61 with 100% response rate. The secondary data were collected from companies' annual reports and publications, from publications of National Bank of Ethiopia and from other related books. The findings of the paper indicate that lack of qualified insurance professionals, retaining existing customers, existing of price war among companies and increasing number of motor vehicles accidents are the current challenges of the insurance industry in Ethiopia. On the other hand the existing economic growth in the country, large number of private and government projects, high foreign direct investment and the current construction boom in the country are the opportunities for the insurance industry. Finally, the paper gives recommendations to overcome the challenges and exploit the existing opportunities of the insurance industry in Ethiopia.

Key words; Risk, Insurance, Opportunity, Challenge, Non-Life insurance, Life insurance, Claim

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The history of modern insurance industry in Ethiopia dates back to the 1950s. The first domestic insurance company in Ethiopia was called Imperial Insurance Company which was established in 1951.Starting from 1974 to late 1991 only one insurance company that was Ethiopian Insurance Corporation was allowed to operate in the country. After 1991 there have been 16 domestic private insurance companies which are locally owned share companies because this sector is not opened to be owned by foreign investors.

The emergence of insurance business in Ethiopia was closely linked to expatriates and foreign insurance companies. Those foreign insurance companies were operating in the country through their agents. In addition, expatriates and foreign companies operating in Ethiopia participated actively in the establishment of the first domestic insurance company (Hailu Zeleke, 2007).

Insurance industry is playing important role in a country economic development and their effective functioning would contribute for the growth and development of the country. Some of the contributions are promoting financial stability and reduce anxiety, substituting for government security progrmammes, facilitating trade and commerce, mobilizing national savings, enabling risks to be managed more efficiently having economic incentives to help insured persons to reduce loses and fostering a more efficient allocation of country's capital.

The 1974 revolution overthrow the imperial regime and established the provisional military administration council and followed the path of command economy with a socialist ideology. After taking power the military regime nationalized all banks and insurance companies which were operating in the country.

The provisional military administration council (PMAC) issued proclamation no. 26/1975 in march 1975, which was cited as the " government ownership and control of the means of production''. Under this proclamation, banking and insurance sectors were categorized as business to be undertaken exclusively by the government.

Article 5 of this proclamation states that the nationalization of banks and insurance companies by the government on January 1, 1975 “shall be deemed to have made under this proclamation” (Haile Michael Kumsa, 1992).

Ethiopian insurance corporation (EIC) was established by proclamation 68/1975 as an autonomous public enterprise effective from January 1,1976 with a paid capital 11 million birr to engage in all class of business in Ethiopia and ensure that the insurance service reach the broad mass of the people.

EIC was operating the business for about nineteen years under protected monopolistic system as state owned-sole insurer. After the demise of the Marxist regime in mid 1991 a fundamental change has take place and there was a shift in political, economic, and social orientation from totalitarianism to liberalism. Therefore, EIC was re-established as public enterprise under proclamation number 201/94 with 61 million birr paid up capital.

Up on re-establishment of the corporation in 1994 as state owned enterprise, the law covers the following new objectives to the corporation; to engage in the business of rendering insurance services and to engage in any other related activities conducive to the attainment of its purposes.

After 1991 the insurance business that was monopolized by EIC was opened to private companies to operate the insurance business. This government liberalization of the economy creates new rival insurance companies to the previously monopolistic company. Those new comer insurance companies are trying to strength their capacity and to get more market share by introducing attractive premium and by implementing better customer service (Medin, 2010).

This competitiveness creates a challenge for all new insurance companies with the previously monopolistic and financially strongest government company to cope up with the changing environment.

The other challenge of insurance business in Ethiopia is the lack of public awareness about benefits of insurance due to many reasons. This is due to the fact that marketing strategies are not aiming at changing the attitude of the public awareness towards insurance.

The financial market has not yet developed in Ethiopia. Financial instruments available in the market are limited to government papers like Treasury bill and bond. Moreover there is no secondary market for these financial securities. Therefore, long term savings generated from insurance doesn't have sufficient access to investments in financial markets.

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1.2 Statement of the problem

Insurance business is a risk transfer mechanism and by its nature highly related to risks. Insurance companies always accept the risks of their clients to indemnify them when risk is happened or materialized. Therefore, it needs a careful underwriting process and selection of subjects to be insured. The profitability of an insurance company depends on its performance in underwriting and claim settlement process.

Insurance Companies in Ethiopia are enjoying many business opportunities and face various challenges at the same time. Insurance companies are enjoying developing and raising of revenue from one of the fastest growing country's economic development. The national economic growth contributes for the growth of insurance companies. As the business transactions are increasing, the properties and liabilities to be insured will increase and create business for insurance companies.

Government regulations are playing their role in motivating the business of domestic insurance companies. Domestic insurance companies are protected from international competition by government's economic policy. This helps infant insurance companies to grow and protected from the stiff international competition. The other important opportunity created by government proclamation is the compulsory vehicles insurance against third party proclamation. This proclamation makes every vehicle owner has to buy insurance policy for his/her vehicle. This creates an opportunity for insurance companies to get a share from this mandatory insurance proclamation.

The existing high flow of foreign direct investment in Ethiopia in recent years creates a huge market for insurance companies. Those foreign companies are coming in the country with huge amount of capital. As long as this huge amount of investment needs insurance cover, all insurance companies are beneficiary from it.

But the problem of insurance companies in exploiting those potential opportunities is lack of sound marketing practices that could satisfy the needs of their customers. Insurance companies in Ethiopia don't have all insurance products needed by their customers. The customer service of these insurance companies is lagging behind customers' expectation (National Bank of Ethiopia, 2013).

Simultaneously, insurance companies in Ethiopia have many challenges. One of the biggest challenges of insurance business in Ethiopia is lack of public awareness about insurance. This is due to lack of appropriate marketing in creating public awareness about insurance.

The other challenge, especially for new entrant insurance companies is the national Bank of Ethiopia's new directive that required minimum paid up capital of Birr 75 million which is much higher than the previous minimum requirement of 7 million birr paid up capital.

The existence of unhealthy competition among insurance companies with premium rather than service quality is another challenge for the insurance industry. It will create a problem on all insurance companies by reducing their revenue.

1.3 Research questions

The research paper focuses on market opportunities and challenges of insurance business in Ethiopia and the study strives to answer the following questions.

1- What are the opportunities of insurance business in Ethiopia?
2- What are the challenges of insurance business Ethiopia?
3- What are the weaknesses of insurance companies in exploiting their market opportunities?

1.4 Objectives of the Study

The research study has general and specific objectives. The general objective of the research study is to identify opportunities and challenges of insurance business in Ethiopia.

The specific objectives of the study are;

- Identifying factors which hinder insurance companies from exploiting their market opportunities.
- Assessing the challenges of insurance market in Ethiopia.
- Recommending different constructive suggestions for insurance companies to utilize their market opportunities and to minimize their challenges.

1.5 Significance of the study

Despite the fact that insurance is one of the fastest growing businesses in Ethiopia, research studies about the insurance industry are not yet done as much as needed by all stake holders. The study makes an attempt to identify opportunities of doing insurance business in Ethiopia and it will suggest what is expected from insurance companies to utilize these opportunities efficiently. The research study also identifies the challenges of insurance industry in Ethiopia.

Therefore, the study plays its significance in;

- Contributing to the understanding of the overall performance of insurance industry in Ethiopia.
- Identifying the gap of utilized market and unutilized potential market.

In general the study discovers the existing opportunities and challenges of the insurance market and provides stepping stone to insurance companies to identify their competitive advantage in utilizing the opportunities of insurance market and at the same time drawing their solutions to minimize their challenges.

1.6 limitations of the Study

The research study is conducted on insurance business in Ethiopia at industry level. But due to time and financial constraints, it focuses on the sample insurance companies, and sample branches.

1.7 Organization of the paper

This research paper has five chapters. The first chapter deals with the introduction part of the paper. The second chapter consists of review of related literatures. The third chapter is methods of data analysis. The fourth chapter deals with the findings of the research and the discussions about the findings. The last chapter is the conclusion and recommendation part of the research paper.

CHAPTER 2

LITRATURE REVIEW

2.1 The Concept of insurance

Insurance is a social device in which a group of individuals called insureds transfer risk to another party called insurers in order to combine loss experiences, which permits statistical prediction of losses and provides for payment of losses from fund contributed (premium) by all members who transfer risk (Pritchett,1996).

Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss.

According to study texts of The Chartered Insurance Institute, there are the following categories of risk:

1. Financial risks which means that the risk must have financial measurement.
2. Pure risks which means that the risk must be real and not related to gambling
3. Particular risks which mean that these risks are not widespread in their effect, for example such as earthquake risk for the region prone to it.

It is commonly accepted that only financial, pure and particular risks are insurable.

An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount of money to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

An insurance policy is a contract whereby a person called the insurer undertakes against payment of one or premiums to pay to a person, called the beneficiary, sum of money where a specified risk materializes (Commercial code of Ethiopia, 1960:140). Insurance system operates on the principles of pooling /sharing of risks and the law of large numbers. Pooling/sharing refers to the combination of similar insurable pure risks of individuals and organizations in a pool, predicting the probable loss to pool, and then distributing the predicted loss of the group to all those in the pool on some equitable basis (Hailu Zeleke, 2007).

2.1.1 History of insurance

Methods for transferring or distributing risk were practiced by Chinese and Babylonian traders as long ago as the 3rd and 2nd millennia BC, respectively. Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing.

The Babylonians developed a system which was recorded in the famous Code of Hammurabi, in 1750 BC, and practiced by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

At some point in the 1st millennium BC, the inhabitants of Rhodes created the 'general average'. This allowed groups of merchants to pay to insure their goods being shipped together. The collected premiums would be used to reimburse any merchant whose goods were jettisoned during transport, whether to storm or sink.

Separate insurance contracts (i.e., insurance policies not bundled with loans or other kinds of contracts) were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. The first known insurance contract dates from Genoa in 1347, and in the next century maritime insurance developed widely and premiums were intuitively varied with risks. These new insurance contracts allowed insurance to be separated from investment, a separation of roles that first proved useful in marine insurance.

Insurance became far more sophisticated in Enlightenment era Europe, and specialized varieties developed. Property insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance from a matter of convenience into one of urgency, a change of opinion reflected in Sir Christopher Wren's inclusion of a site for 'the Insurance Office' in his new plan for London in 1667. A number of attempted fire insurance schemes came to nothing, but in 1681, economist Nicholas Barbon and eleven associates established the first fire insurance company, the "Insurance Office for Houses", at the back of the Royal Exchange to insure brick and frame homes. Initially, 5,000 homes were insured by his Insurance Office.

At the same time, the first insurance schemes for the underwriting of business ventures became available. By the end of the seventeenth century, London's growing importance as a centre for trade was increasing demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house, which became the meeting place for parties in the shipping industry wishing to insure cargoes and ships, and those willing to underwrite such ventures. These informal beginnings led to the establishment of the insurance market Lloyd's of London and several related shipping and insurance businesses.

The first life insurance policies were taken out in the early 18th century. The first company to offer life insurance was the Amicable Society for a Perpetual Assurance Office, founded in London in 1706 by William Talbot and Sir Thomas Allen. Edward Rowe Mores established the Society for Equitable Assurances on Lives and Survivorship in 1762.

It was the world's first mutual insurer and it pioneered age based premiums based on mortality rate laying “the framework for scientific insurance practice and development” and “the basis of modern life assurance upon which all life assurance schemes were subsequently based”.

In the late 19th century, "accident insurance" began to become available. This operated much like modern disability insurance. The first company to offer accident insurance was the Railway Passengers Assurance Company, formed in 1848 in England to insure against the rising number of fatalities on the nascent railway system.

By the late 19th century, governments began to initiate national insurance programs against sickness and old age. Germany built on a tradition of welfare programs in Prussia and Saxony that began as early as in the 1840s. In the 1880s Chancellor Otto von Bismarck introduced old age pensions, accident insurance and medical care that formed the basis for Germany's welfare state. In Britain more extensive legislation was introduced by the Liberal government in the 1911 National Insurance Act. This gave the British working classes the first contributory system of insurance against illness and unemployment. This system was greatly expanded after the Second World War under the influence of the Beveridge Report, to form the first modern welfare state.

2.1.2 Types of insurance

Any risk that can be quantified can potentially be insured. Specific kinds of risk that may give rise to claims are known as perils. An insurance policy will set out in detail which perils are covered by the policy and which is not. Below are non-exhaustive lists of the many different types of insurance that exist. A single policy may cover risks in one or more of the categories set out below. For example, vehicle insurance would typically cover both the property risk (theft or damage to the vehicle) and the liability risk (legal claims arising from an accident). A home insurance policy in the United States typically includes coverage for damage to the home and the owner's belongings, certain legal claims against the owner, and even a small amount of coverage for medical expenses of guests who are injured on the owner's property (Chartered insurance institute, 2013).

Business insurance can take a number of different forms, such as the various kinds of professional liability insurance, also called professional indemnity (PI), which are discussed below under that name; and the business owner's policy(BOP), which packages into one policy many of the kinds of coverage that a business owner needs, in a way analogous to how homeowners' insurance packages the overages that a homeowner needs.

Auto insurance (Motor insurance)

Auto insurance protects the policyholder against financial loss in the event of an incident involving a vehicle they own, such as in a traffic collision.

Coverage typically includes:

- Property coverage, for damage to or theft of the car
- Liability coverage, for the legal responsibility to others for bodily injury or property damage
- Medical coverage, for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses

Gap insurance

Gap insurance covers the excess amount on your auto loan in an instance where your insurance company does not cover the entire loan. Depending on the companies specific policies it might or might not cover the deductible as well. This coverage is marketed for those who put low down payments, have high interest rates on their loans, and those with 60 month or longer terms. Gap insurance is typically offered by your finance company when you first purchase your vehicle. Most auto insurance companies offer this coverage to consumers as well. If you are unsure if GAP coverage had been purchased, you should check your vehicle lease or purchase documentation.

Health insurance

Health insurance policies cover the cost of medical treatments. Dental insurance, like medical insurance, protects policyholders for dental costs. In most developed countries, all citizens receive some health coverage from their governments, paid for by taxation. In most countries, health insurance is often part of an employer's benefits.

Accident, sickness, and unemployment insurance, disability insurance policies provide financial support in the event of the policyholder becoming unable to work because of disabling illness or injury. It provides monthly support to help pay such obligations as mortgage loans and credit cards. Short-term and long-term disability policies are available to individuals, but considering the expense, long-term policies are generally obtained only by those with at least six-figure incomes, such as doctors, lawyers, etc. Short-term disability insurance covers a person for a period typically up to six months, paying a stipend each month to cover medical bills and other necessities.

- Long-term disability insurance covers an individual's expenses for the long term, up until such time as they are considered permanently disabled and thereafter. Insurance companies will often try to encourage the person back into employment in preference to and before declaring those unable to work at all and therefore totally disabled.
- Disability overhead insurance allows business owners to cover the overhead expenses of their business while they are unable to work.

- Total permanent disability insurance provides benefits when a person is permanently disabled and can no longer work in their profession, often taken as an adjunct to life insurance.
- Workers' compensation insurance replaces all or part of a worker's wages lost and accompanying medical expenses incurred because of a job-related injury.

Casualty insurance

Casualty insurance insures against accidents, not necessarily tied to any specific property. It is a broad spectrum of insurance that a number of other types of insurance could be classified, such as auto, workers compensation, and some liability insurances.

- **Crime insurance** is a form of casualty insurance that covers the policyholder against losses arising from the criminal acts of third parties. For example, a company can obtain crime insurance to cover losses arising from theft or embezzlement.
- **Political risk insurance** is a form of casualty insurance that can be taken out by businesses with operations in countries in which there is a risk that revolution or other political conditions could result in a loss.

Life insurance

Life insurance provides a monetary benefit to a decedent's family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity. In most states, a person cannot purchase a policy on another person without their knowledge.

Annuities provide a stream of payments and are generally classified as insurance because they are issued by insurance companies, are regulated as insurance, and require the same kinds of actuarial and investment management expertise that life insurance requires. Annuities and pensions that pay a benefit for life are sometimes regarded as insurance against the possibility that a retiree will outlive his or her financial resources. In that sense, they are the complement of life insurance and, from an underwriting perspective, are the mirror image of life insurance.

Certain life insurance contracts accumulate cash values, which may be taken by the insured if the policy is surrendered or which may be borrowed against. Some policies, such as annuities and endowment policies, are financial instruments to accumulate or liquidate wealth when it is needed.

In many countries, such as the United States and the UK, the tax law provides that the interest on this cash value is not taxable under certain circumstances. This leads to widespread use of life insurance as a tax-efficient method of saving as well as protection in the event of early death.

Burial insurance

Burial insurance is a very old type of life insurance which is paid out upon death to cover final expenses, such as the cost of a funeral. The Greeks and Romans introduced burial insurance c. 600 BC when they organized guilds called "benevolent societies" which cared for the surviving families and paid funeral expenses of members upon death. Guilds in the middle Ages served a similar purpose, as did friendly societies during Victorian times.

Property insurance

Property insurance provides protection against risks to property, such as fire, theft or weather damage. This may include specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance or boiler insurance. The term property insurance may, like casualty insurance, be used as a broad category of various subtypes of insurance, some of which are listed below:

Aviation insurance protects aircraft hulls and spares, and associated liability risks, such as passenger and third-party liability. Airports may also appear under this subcategory, including air traffic control and refueling operations for international airports through to smaller domestic exposures.

- **Boiler insurance** (also known as boiler and machinery insurance, or equipment breakdown insurance); insures against accidental physical damage to boilers, equipment or machinery.

- **Builder's risk insurance**; insures against the risk of physical loss or damage to property during construction. Builder's risk insurance is typically written on an "all risk" basis covering damage arising from any cause (including the negligence of the insured) not otherwise expressly excluded. Builder's risk insurance is coverage that protects a person's or organization's insurable interest in materials, fixtures and/or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from an insured peril.
- **Crop insurance**; may be purchased by farmers to reduce or manage various risks associated with growing crops. Such risks include crop loss or damage caused by weather, hail, drought, frost damage, insects, or disease.
- **Earthquake insurance**; is a form of property insurance that pays the policyholder in the event of an earthquake that causes damage to the property. Most ordinary home insurance policies do not cover earthquake damage. Earthquake insurance policies generally feature a high deductible. Rates depend on location and hence the likelihood of an earthquake, as well as the construction of the home.
- **Fidelity guarantee;** is a form of casualty insurance that covers policyholders for losses incurred as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees.
- **Flood insurance** ; protects against property loss due to flooding. Many U.S. insurers do not provide flood insurance in some parts of the country. In response to this, the federal government created the National Flood Insurance Program which serves as the insurer of last resort.

- **Home insurance**, also commonly called hazard insurance or homeowners insurance (often abbreviated in the real estate industry as HOI), and provides coverage for damage or destruction of the policyholder's home. In some geographical areas, the policy may exclude certain types of risks, such as flood or earthquake that require additional coverage. Maintenance-related issues are typically the homeowner's responsibility. The policy may include inventory, or this can be bought as a separate policy, especially for people who rent housing. In some countries, insurers offer a package which may include liability and legal responsibility for injuries and property damage caused by members of the household, including pets.

- **Landlord insurance**; covers residential and commercial properties which are rented to others. Most homeowners' insurance covers only owner-occupied homes.
- **Marine insurance and marine cargo;** insurance cover the loss or damage of vessels at sea or on inland waterways, and of cargo in transit, regardless of the method of transit. When the owner of the cargo and the carrier are separate corporations, marine cargo insurance typically compensates the owner of cargo for losses sustained from fire, shipwreck, etc., but excludes losses that can be recovered from the carrier or the carrier's insurance. Many marine insurance underwriters will include "time element" coverage in such policies, which extends the indemnity to cover loss of profit and other business expenses attributable to the delay caused by a covered loss.
- **Supplemental natural disaster insurance;** covers specified expenses after a natural disaster renders the policyholder's home uninhabitable. Periodic payments are made directly to the insured until the home is rebuilt or a specified time period has elapsed.
- **Surety bond insurance**; is three-party insurance guaranteeing the performance of the principal.
- **Terrorism insurance**; provides protection against any loss or damage caused by terrorist activities. In the United States in the wake of 9/11, the Terrorism Risk Insurance Act 2002 (TRIA) set up a federal program providing a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism. The program was extended until the end of 2014 by the Terrorism Risk Insurance Program Reauthorization Act 2007 (TRIPRA).

- **Volcano insurance**; is a specialized insurance protecting against damage arising specifically from volcanic eruptions.
- Windstorm insurance is an insurance covering the damage that can be caused by wind events such as hurricanes.
- **Liability insurance**; Liability insurance is a very broad superset that covers legal claims against the insured. Many types of insurance include an aspect of liability coverage. For example, a homeowner's insurance policy will normally include liability coverage which protects the insured in the event of a claim brought by someone who slips and falls on the property; automobile insurance also includes an aspect of liability insurance that indemnifies against the harm that a crashing car can cause to others' lives, health, or

property. The protection offered by a liability insurance policy is twofold: a legal defense in the event of a lawsuit commenced against the policyholder and indemnification (payment on behalf of the insured) with respect to a settlement or court verdict. Liability policies typically cover only the negligence of the insured, and will not apply to results of willful or intentional acts by the insured.

- **Public liability insurance**; covers a business or organization against claims should its operations injure a member of the public or damage their property in some way.
- **Directors and officers liability insurance (D&O)**; protects an organization (usually a corporation) from costs associated with litigation resulting from errors made by directors and officers for which they are liable.
- **Environmental liability insurance;** protects the insured from bodily injury, property damage and cleanup costs as a result of the dispersal, release or escape of pollutants.
- **Errors and omissions insurance (E&O)**; is business liability insurance for professionals such as insurance agents, real estate agents and brokers, architects, third-party administrators (TPAs) and other business professionals.
- **Prize indemnity insurance;** protects the insured from giving away a large prize at a specific event. Examples would include offering prizes to contestants who can make a half-court shot at a basketball game, or a hole-in-one at a golf tournament.
- **Professional liability insurance, also called professional indemnity insurance (PI);** protects insured professionals such as architectural corporations and medical practitioners against potential negligence claims made by their patients/clients. Professional liability insurance may take on different names depending on the profession. For example, professional liability insurance in reference to the medical profession may be called malpractice insurance.

Credit insurance

- **Mortgage insurance;** insures the lender against default by the borrower. Mortgage insurance is a form of credit insurance, although the name "credit insurance" more often is used to refer to policies that cover other kinds of debt.

- **Payment protection insurance;** Credit insurance repays some or all of a loan when certain circumstances arise to the borrower such as unemployment, disability, or death. Many credit cards offer payment protection plans which are a form of credit insurance.
- **Trade credit insurance;** is business insurance over the accounts receivable of the insured. The policy pays the policy holder for covered accounts receivable if the debtor defaults on payment.

Other types of insurance

- **All-risk insurance;** is an insurance that covers a wide range of incidents and perils, except those noted in the policy. All-risk insurance is different from peril-specific insurance that cover losses from only those perils listed in the policy. In car insurance, all-risk policy includes also the damages caused by the own driver.
- **Bloodstock insurance;** covers individual horses or a number of horses under common ownership. Coverage is typically for mortality as a result of accident, illness or disease but may extend to include infertility, in-transit loss, veterinary fees, and prospective foal.
- **Business interruption insurance**; covers the loss of income, and the expenses incurred, after a covered peril interrupts normal business operations.
- **Collateral protection insurance (CPI) insures**; property (primarily vehicles) held as collateral for loans made by lending institutions.
- **Defense Base Act (DBA) insurance**; provides coverage for civilian workers hired by the government to perform contracts outside the United States and Canada. DBA is required for all U.S. citizens, U.S. residents, U.S. Green Card holders, and all employees or subcontractors hired on overseas government contracts. Depending on the country, foreign nationals must also be covered under DBA. This coverage typically includes expenses related to medical treatment and loss of wages, as well as disability and death benefits.
- **Expatriate insurance provides;** individuals and organizations operating outside of their home country with protection for automobiles, property, health, liability and business pursuits.

- **Kidnap and ransom insurance;** is designed to protect individuals and corporations operating in high-risk areas around the world against the perils of kidnap, extortion, wrongful detention and hijacking.
- **Legal expenses insurance**; covers policyholders for the potential costs of legal action against an institution or an individual. When something happens which triggers the need for legal action, it is known as "the event". There are two main types of legal expenses insurance: before the event insurance and after the event insurance.
- **Livestock insurance**; is a specialist policy provided to, for example, commercial or hobby farms, aquariums, fish farms or any other animal holding. Cover is available for mortality or economic slaughter as a result of accident, illness or disease but can extend to include destruction by government order.
- **Media liability insurance**; is designed to cover professionals that engage in film and television production and print, against risks such as defamation.
- **Nuclear incident insurance**; covers damages resulting from an incident involving radioactive materials and is generally arranged at the national level. (See the nuclear exclusion clause and for the US the Price-Anderson Nuclear Industries Indemnity Act.)
- **Pet insurance**; insures pets against accidents and illnesses; some companies cover routine/wellness care and burial, as well.
- **Pollution insurance;** usually takes the form of first-party coverage for contamination of insured property either by external or on-site sources. Coverage is also afforded for liability to third parties arising from contamination of air, water, or land due to the sudden and accidental release of hazardous materials from the insured site. The policy usually covers the costs of cleanup and may include coverage for releases from underground storage tanks. Intentional acts are specifically excluded.
- **Purchase insurance;** is aimed at providing protection on the products people purchase. Purchase insurance can cover individual purchase protection, warranties, guarantees, care plans and even mobile phone insurance. Such insurance is normally very limited in the scope of problems that are covered by the policy.
- **Title insurance**; provides a guarantee that title to real property is vested in the purchaser and/or mortgagee, free and clear of liens or encumbrances. It is usually issued in

conjunction with a search of the public records performed at the time of a real estate transaction.

- **Travel insurance**; is an insurance cover taken by those who travel abroad, which covers certain losses such as medical expenses, loss of personal belongings, travel delay, and personal liabilities.
- **Tuition insurance**; insures students against involuntary withdrawal from cost-intensive educational institutions
- **Interest rate insurance;** protects the holder from adverse changes in interest rates, for instance for those with a variable rate loan or mortgage
- **Divorce insurance**; is a form of contractual liability insurance that pays the insured a cash benefit if their marriage ends in divorce.

2.2 Company profile of sample insurance companies

A- Ethiopian Insurance Corporation

Ethiopian Insurance Corporation was established in 1976 by proclamation No.68/1975. The corporation came into existence by taking over all assets and liabilities of thirteen nationalized private insurance companies, with birr 11 million Birr paid up capital with the following objectives.

1- Engage in all classes of insurance business in Ethiopia;

2- Ensure the insurance services reach the broad mass of the people;

3- Subject to the provision of Article 18 of the Housing and Saving Bank establishment proclamation No. 60/1975, promote efficient utilization of both material and financial resources.

EIC was operating the business for about 19 years under protected monopolistic system as state owned –sole insurer. After the demise of the Marxist regime in mid 1991 a fundamental change has taken place and there was a shift in political, economic and social orientation from totalitarianism to that of liberalism. Therefore, EIC was re-established as public enterprise under proclamation number 201/1994 with 61 million Birr paid up capital.

Up on re-establishment of the corporation in 1994 as state owned enterprise, the law covers the following new objectives to the corporation; engage in the business of rendering insurance services and engage in any other related activities conducive to the attainment of its purposes.

As of June 2013, EIC has 1,227 employees with different educational background. The corporation has 6 district A's, 8 district B's and 46 branches.

B- The United Insurance Company S.C

The united insurance company S.C was established by 87 Ethiopians (individuals and enterprises) in November 1994 with an authorized capital of Birr 25 Million and an initial paid up capital of birr 8.073 million. The company is currently owned by more than 318 share holders. As a result, the company's authorized capital rose to 250 million Birr. The subscribed capital is now Birr 100 million.

C- Lucy Insurance Company S.C

Lucy Insurance Company S.C was established in November, 2012 relied on 13 business individuals who were long time customers of insurance companies and wanted to get involved in the sector. In October 2013, its share holders became 63. It was become operational after collecting 8.03 Million Birr in paid up capital from 39 shareholders. As per the company's annual report of 2013, in its first year operation, it had attained gross written premium of 20.07 million birr.

In 2013 Lucy Insurance Company S.C paid 2.89 million birr for claims settlement and 1.17 million birr for commissions.

Lucy however, had only one branch in 2013 fiscal year, relying on insurance brokers and agents to create accessibility and bring in customers. In its second year the company opened branches in Adama, Hawasa and Gondar.

2.3 The emergence of insurance in Ethiopia

The emergence of modern insurance in Ethiopia is traced to the Bank of Abyssinia which was established in 1905 as the first Ethiopian bank. The bank which was established under fifty year concession granted to the National Bank of Egypt in March 1905. After awhile the bank became an agent to a foreign insurance company.

The first insurance company in Ethiopia, namely Imperial Insurance Company of Ethiopia Ltd was established in 1951. Thereafter until 1960 one domestic and numerous foreign insurance companies represented by agents were operating insurance business in Ethiopia.

The negotiation to establish an insurance company in Ethiopia commenced in 1950 with leading insurance house in London and based on the talks and subsequent discussions in London and Addis Ababa, the state bank of Ethiopia, some Ethiopians and a British group formed the Imperial Insurance Company Ltd was commenced operation in 1951 with a share capital Eth $ 1000,000.00.

The 1974 revolution overthrow the imperial regime and the Provisional Military Administration council (PMAC), which followed the path of Command economy with a socialist credo, took over power in Ethiopia. So, it didn’t take long for the PMAC to nationalize banks and insurance companies and put restriction on the active involvement of the private sector in the economy.

The PMAC passed a decision on January, 1975 to transfer the ownership of banks and insurance companies to the government. In essence, the decision was an act of nationalization of insurance companies that were under private ownership. Consequently thirteen private insurance companies that were operating by the time were all nationalized. The boards of all nationalized insurance companies were dissolved and managers appointed by the ex-owners were removed. To fill the gap the government formed a provisional insurance board and appointed new managers to run the nationalized companies. The companies were left to operate independently until preparations to consolidate them under one umbrella were finalized in December 1975. In December 1975, the PMAC issued proclamation No. 68/1975 to establish the Ethiopian Insurance Corporation. As per the provision of proclamation 68/1975, the assets, liabilities and capital of all the nationalized insurance companies were transferred to the Ethiopian Insurance Corporation (Hailu Zeleke, 2007).

Consequently, Ethiopian Insurance Corporation was established as an autonomous public enterprise effective from January, 1976 with a paid up capital of 11 million Ethiopian Birr (USD 5.3 million at the then exchange rate of 1USD= 2.07 Birr).

The nationalized insurance companies were brought under a centralized management at the head office, which comprised of four divisions, namely administrative division, business division, Finance division and operation division. The eleven non-life insurance companies were reorganized to form six regional main non-life branches, namely Northern main branch, North eastern main branch, Western main branch, Eastern main branch, North western main branch and Southern main branch.

The office of Northern main branch was located in Asmara. The insurance companies which had been operating in Asmara before nationalization were reorganized to form this main branch which was intended to give insurance service to Eritrea and Tigray administrative regions.

The North Eastern main branch was created by merging Blue Nile insurance, Pan-African insurance company and National Ethiopian insurance companies. This branch was supposed to give insurance service to Wollo administrative and Assab.

African Solidarity insurance company, International insurance company and Rasai Ethiopia insurance companies were combined to form Western main branch. It was supposed to provide insurance service to Illubabor, Keffa, and Wellega administrative regions. The Imperial insurance company and its agents constituted the Eastern main branch. It was giving insurance services parts of Shoa and Hareghe administrative regions. General insurance company, Union insurance company and Afro-Continental insurance companies with their agents constituted North-Western main branch. This main branch was to serve Gojjam and Gondar administrative regions.

Lion insurance company was made to represent the Southern main branch. It was supposed to provide insurance services to Bale and Gambella administrative regions. The Ethiopian Life insurance and Ethio-American Life insurance companies were reorganized to form the Life main branch in Addis Ababa.

The Ethiopian Insurance Corporation (EIC) had been a monopoly in the Ethiopian insurance industry for 19 years from 1976 to 1994 until the issuance of proclamation no. 86/1994 which permitted the establishment of private insurance companies in the country.

The transitional government of Ethiopia (TGE) issued in 1994 insurance proclamation, proclamation 86/1994. As per the proclamation investment in insurance business is restricted to domestic investors only and National Bank of Ethiopia remained to be the supervisory authority of insurance companies.

The licensing and supervision of insurance business proclamation No. 86/1994 together with the monetary and banking proclamation No. 83/1994, designate the National Bank of Ethiopia as policy maker, regulator and supervisor of insurance and banking industry in Ethiopia (Smith and Chamberlin, 2009).

Since 1992 Ethiopia has been gradually liberalizing its financial sector. The hall mark of the strategy is gradualism. The approach is not without problems. However, international institutions which sponsor and financially support liberalization scheme, especially the International Monetary /fund (IMF) and World Bank are not satisfied with the pace of which liberalization is being carried (Alemayehu Geda, 2000).

2.4 The concept of insurance companies and their financial performance

Chen et.al (2004) stated in their investigation that "higher profits provide both the availability of finance from retained profits or from the capital market) and the incentive (a high rate of return) from new investment". Therefore, we can understand from the above explanation the insurance companies have double responsibility; in one way they are required to be profitable so as to have high rate of return for new investment. On the other hand, insurance companies need to be profitable in order to be solvent enough so as to make other industries in the economy as they were before even after risk occurred.

Profitability is the most important objective of financial management because one goal of financial management is to maximize the owners' wealth and profitability which in turn indicates better financial performance. According to Malik (2011) insurance plays a crucial role in fostering commercial and infrastructural businesses. From the latter perspective, it promotes financial and social stability; mobilizes and channels savings; support trade, commerce and the overall wellbeing in a country. Koller (2011) in his investigation identified that insurance companies are playing the role of transferring risk channeling funds from one unit to the other (financial intermediation) such as general insurance companies and life insurance companies respectively. This implies that insurance companies are helping the economy one way by transferring and sharing of risk which can create confidence over occurrences of uncertain event and in another way insurance companies like other financial institutions plays the role of financial intermediation so as to channel financial resources from one to the other.

Therefore, we can divide insurance companies in to two broad categories bases on their role to the economy, the general insurance companies and life insurance companies. For instance, Chen et.al (2004) summarized firm specific factors affecting property/ liability which is general insurers and life/health insurance profitability separately that again provide valuable guidelines for insurers financial health. This is because life/ health insurance companies are different from property /liability insurers in terms of operation, investment activities, vulnerability and duration of liabilities. Life insurers are said to function as financial intermediaries while general function as risk takers.

Profitability in insurance companies could be affected by a number of determining factors. These factors, as explained above could be further classified as internal industry and macro economic factors. However, in most literatures profitability with insurance companies are divided in two, such as determinants of profitability in property/ liability or general insurance companies and in life insurance companies. According to Yuqi Li (2007) financial institutions' non financial statements variables are classifies as management quality, efficiency and productivity, age and number of branches.

In many literatures, it has been suggested that the company size is positively related to financial performance. The main reason behind this can be summarized as follows.

First, large insurance companies normally have greater capacity for dealing with adverse market fluctuations than small companies. Second, large insurance companies usually can relatively easily recruit able employees with professional knowledge compared with small insurance companies. Third, large insurance companies have economies of scale in terms of the labor cost, which is the most significant production factor for delivering insurance service. For instance, Brown et.al (2001) has shown empirically that the company size is positively related to the financial performance of US life insurance companies. However, company size is not found to be an important of operational performance in Bermuda insurance market during the period 1993-1197 (Adams and Buckle, 2000).

Insurance companies could prosper by taking reasonable leverage risk or could become insolvent if the risk is out of control. Adams and Bruckle (2000) provide evidence that insurance companies with high leverage have better operational performance than insurance companies with low leverage. Nevertheless empirical evidence supports the view that leverage risk reduces company performance. Carson and Hoyt (1995) find the leverage is significantly positively related to the probability of insolvency. Moreover, a negative relationship between leverage and performance has also found in Brown wet.al (2001). Companies with more liquid assets are less likely to fail because they can realize cash even in very difficult situations. It is therefore expected that insurance companies with more liquid asset will outperform those with low less liquid assets.

More empirical findings have confirmed that there is a positive relationship between liquidity and financial performance on insurers (Ambrose and Carroll, 1994 and Carson and Hoyt, 1995). However, according to theory of agency costs, high liquidity of assets could increase agency costs for owners because managers might take advantage of the benefits of liquid assets (Adams and Bruckle, 2000).

In addition liquid assets imply high reinvestment risk since the proceeds from liquid assets would have to be reinvested after a relatively short period of time. Undoubtedly, reinvestment risk would put a strain on performance of a company. In this case, it is therefore, likely that insurance companies with less liquid assets outperform those with more liquid assets.

Organizations that engage in risky activities are likely to have more volatile cash flows than entities whose management is more averse to risk taking (Femma and Jensen, 1983). As consequence, insurers that underwrite risky business will need to ensure that good standard of management and are applied to mitigate their exposure to underwriting losses ex-ante and maximize returns on invested assets ex-post. This could improve annual operational performance by encouraging managers to increase cash flows through risk taking. On the other hand, excessive risk taking could adversely affect the annual performance of insurers and reinsurance companies.

Furthermore, higher annual insurance losses will tend to increase the level of corporate management expenses ex-post (e.g. claims investigation and loss adjustment costs) that could further exacerbate a decline in reported operational performance. In contrast, insurers and re-insurance companies with lower than expected annual losses are likely to have better operational performance because, for example, they don't incur such high monitoring and claim handling costs.

Premium growth measures the rate of market penetration. Empirical results showed that the rapid growth of premium volume is one of the casual factors of insurers' insolvency (Kim et.al, 1995). Being too obsessed with growth can lead to self-destruction as other important objectives may be neglected.

2.5 **The performance of insurance companies in Ethiopia**

According to National Bank of Ethiopia there are 16 insurance companies in Ethiopia. There is one government insurance company, Ethiopian Insurance Corporation, and 15 private insurance companies (National Bank of Ethiopia, 2013). According to Fortune (2013), the insurance sector in Ethiopia has an aggregate capital of 1.8 billion birr- an increase of 600 million birr from the previous year. In paid-up capital too, there has been a welcome change in the sector. Although previously a paid-up capital of only seven million birr (four million for general insurance and three million birr for life insurance) was required, this has been raised to 75 million birr (60 million birr for general insurance and 15 million for life insurance).

In the fiscal year of 2012/2013 the insurance companies in Ethiopia collected combined gross premium of 4.5 billion birr from general insurance. In that year the state owned Ethiopian insurance Corporation and other 15 private insurance companies collected net premium of 2.9 billion birr; 1.9 billion birr of which went on to claim payments (Fortune, November, 2013).

Table 1- Name of insurance companies in Ethiopia and their ownership

No	Name of insurance company	Ownership
1	Ethiopian Insurance Corporation	Government
2	Awash Insurance S.C	Private
3	United Insurance S.C	Private
4	National Insurance Company of Ethiopia	Private
5	Africa Insurance S.C	Private
6	Nile Insurance S.C	Private
7	Nyala Insurance S.C	Private
8	Global Insurance S.C	Private
9	Nib Insurance S.C	Private
10	Lion Insurance S.C	Private
11	Ethio – life and General Insurance S.C	Private
12	Oromia Insurance S.C	Private
13	Abay Insurance S.C	Private
14	Berhan Insurance S.C	Private
15	Tsehay Insurance S.C	Private
16	Lucy insurance S.C	Private
17	Buna insurance S.C	Private

Source; National Bank of Ethiopia, December, 2013

Insurance market in Ethiopia is a small market with very small life insurance. Insurance premiums (including both life and non-life insurance) totaled USD 105 million in 2006/2007 equating 0.2% of the GDP. The majority of insurance business in Ethiopia is targeted at the corporate market and focused on general insurance business. At less than 5% total premium, the life insurance industry is still very small and a recent addition to their core business of general insurance for most private insurers.

The insurance market in Ethiopia is a young industry at early stage of development with limited skills, capacity and incentive to push market extension. With less than estimated 0.3million individual formal insurance clients, the insurance sector is a small and underdeveloped with many small insurers displaying high level of inefficiency (Smith and Chamberline, 2009).

According to Smith and Chamberline, the sector is characterized by low and potentially overstated solvency levels due to limited risk assessment and management capacity, limited and illiquid investment options and pervasive practice of selling insurance on credits.

In 1998, there were 580 companies in the industry in Africa, including 157 in Nigeria, 120 in South Africa and 41 in Kenya. In 2004, the number of Nigerian companies fell to 110, bringing the number of companies in the continent to about 550.

Table 2 The number of insurance companies in some African countries (2004)

No	**Country**	**No of insurance companies**
1	Nigeria	110
2	South Africa	120
3	Kenya	41
4	Ethiopia	9

Source; National Bank of Ethiopia (2013)

2.6 Risks and challenges in insurance sector

Forecasting the future is risky, but businesses that fail to look forward will almost certainly be left behind in an increasing competitive and globalized world (Ernest and Young, 2013).

Based on a survey of executives at over 65 insurance companies across the globe, representing both rapid growth and developed markets Ernest and Young (2013) identifies top 10 risks and opportunities of insurance sector. Its research reveals that macroeconomic trends and a slower rate of growth are viewed as the leading risks for insurance companies. Closely linked to the current economic environment is the Euro zone debt crisis, which is a high risk and remains a trigger for further uncertainty.

The other new additional new risks in 2013 were the twin challenge of cyber-risk and data security, which has moved beyond the aim of simply keeping data secure to encompass new issues such as systems security and data collection. The other is acquisition and retention of talent. This is closely linked to the challenges of greater regulation, the increasing use of sophisticated modeling to calculate risk and capital requirements, and a new emphasis on customer reach.

2.6.1 The insurance industry and rent-seeking

Certain insurance products and practices have been described as rent-seeking by critics. That is, some insurance products or practices are useful primarily because of legal benefits, such as reducing taxes, as opposed to providing protection against risks of adverse events. Under United States tax law, for example, most owners of variable annuities and variable life insurance can invest their premium payments in the stock market and defer or eliminate paying any taxes on their investments until withdrawals are made. Sometimes this tax deferral is the only reason people use these products. Another example is the legal infrastructure which allows life insurance to be held in an irrevocable trust which is used to pay an estate tax while the proceeds themselves are immune from the estate tax.

2.6.2 Religious concerns

Muslim scholars have varying opinions about life insurance. Life insurance policies that earn interest (or guaranteed bonus/NAV) are generally considered to be a form of riba (usury) and some consider even policies that do not earn interest to be a form of gharar (speculation). Some argue that gharar is not present due to the actuarial science behind the underwriting (Islam question and answer, 2010).

Jewish rabbinical scholars also have expressed reservations regarding insurance as an avoidance of God's will but most find it acceptable in moderation (Jewish Association for business ethics, 2008).

Some Christians believe insurance represents a lack of faith [and there is a long history of resistance to commercial insurance in Anabaptist communities but many participate in community based self-insurance programmes that spread risk within their communities.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presents the methodology that has been used for the research. It describes the research purpose, research strategy, sample selection and data collection. It also discusses data analysis and criteria for identifying current challenges and opportunities of insurance business in Ethiopia.

This chapter provides the methodological framework to collect data from various sources, sampling data collection instruments and approaches to data analysis for achieving objectives of the research. Finally, ethical considerations maintained during data collection stages are provided.

This research paper included both qualitative and quantitative work and the work performed such as research document analysis, critical review of literature, questionnaire and interview are used to know the current challenges faced by insurance companies in Ethiopia and their opportunities at the same time.

3.2 Population and sampling

The study population is over 1227 which consists of District Directors, Branch Managers, and Operational clerks from Ethiopian Insurance Corporation, United Insurance S.C., and Lucy Insurance S.C. In order to make the study manageable, a sample of 4 District Managers, 3 Branch Managers and 30 operational clerks from Ethiopian Insurance Corporation, 2 Branch Managers, and 15 operational clerks from United Insurance and 1 Branch Manager and 6 operational clerks from Lucy Insurance were drawn by using stratified random sampling technique. All the respondents were contacted personally and/or through phone by the researcher in the respective offices.

Table 3.1 Population and Sample Size

COMPANY	POPULATION			SAMPLE SIZE		
	District Director	**Branch Manager**	**Operational Clerks**	**District Director**	**Branch Manager**	**Operational Clerks**
ETHIOPIAN INSURANCE CORPORATION	14	44	1027	4	3	30
UNITED INSURANCE S.C.	-	22	225	-	2	15
LUCY INSURANCE S.C.	-	3	21	-	1	6

Therefore, the study used survey approach to collect primary data from the respondents by using structured questionnaire and secondary data had been extracted from annual publications of National Bank of Ethiopia, annual reports of Ethiopian Insurance /corporation, United Insurance and Lucy Insurance.

3.3 Research design and data collection

The research had been designed to focus on the three insurance companies; Ethiopian Insurance Corporation (the oldest insurance company), United Insurance S.C (among the first private insurance companies after the economic privatization by the present government) and Lucy Insurance S.C (the latest insurance company in Ethiopia).

For this study, the data sources are primary and secondary data. The primary data had been gathered based on questionnaires and interview which were distributed to the respondents during the data collection process stage. The secondary data were books, journals, literatures, annual reports of National Bank of Ethiopia, Insurance companies' annual reports and others.

In the case of primary data collection using questionnaire it was designed and distributed according to the different levels such as District Directors, Branch Managers and operational clerks. This helps to classify the understanding and responses of different types of respondents during data analysis.

Responses of the questionnaire classified and measured based on Linkert type scale of measurement based on five points scale such as 1-very important (very challenging), 2-important (challenging), 3-moderate (moderate challenging), 4-not important(not challenging), and 5-Extremely unimportant (extremely not challenging).

3.4 Methods of data analysis

The qualitative and quantitative data were analyzed by using different statistical tools. Charts, tables, and percentages had been used in data analysis parts of the research report.

3.5 Ethical consideration

Respondents were granted privilege of not writing their names and other identities to hide them from unwanted approach to be maintained by other groups later on. Furthermore, they were assured on the part of treatment their responses in strict confidentially. No respondent was forced to fill the questionnaire unwillingly and without the actual purpose of the research being clear to him/her.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter examines the findings gathered from the field. Data were collected through questionnaire from primary sources and secondary sources were collected from the insurance companies and from the National Bank of Ethiopia. Findings from these primary and secondary sources are shown with tables and percentages.

4.2 Findings of the study

1. Educational background of respondents

This section gives the educational attainment of the respondents within the studied population. From table 1 below out of 61 respondents 4 respondents representing 6 % have post graduate degree (Master's degree), most of the respondents, representing 71 % have graduate degree and 14 of the respondents representing 23% have college diploma. No respondent was employed with senior high school level. The following table shows that all the respondents are at least a graduate.

Table 1. Educational background of respondents

Education level	Number of respondents	Percentage
Senior high school	-	-
College diploma	14	23%
Graduate degree	43	71%
Post graduate	4	6%
Others	-	-
Total	**61**	**100%**

2. Years of service within their respective insurance companies

As it is shown in table 2 below 38% of the respondents which are 23 in number have over 5 years of experience in their respective insurance companies. 18 respondents which represent 29% have 3 to 5 years working experience and 22 % of the respondents, 13 in number, have 1 to 3 years of working experience in their respective insurance companies. The least 11 % of the respondents which are 7 in number have less than one year working experience. It is obvious from the table that most of the respondents (67%) have worked within insurance industry for 3 years and above, enough to be conversant with the challenges and opportunities of insurance business in Ethiopia. This implies that their responses were based on experiences rather than based on theories.

Table 2, Respondents' years of service within their respective insurance companies

No	**Years of working experience**	**Frequency**	**Percentage**
1	Less than 1 year	7	11%
2	1-3 years	13	22%
3	3-5 years	18	29%
4	Over 5 years	23	38%
Total		**61**	**100%**

3. Ownership and years of operation in business

Ownership type of their company and the number of respondents were taken as subject of the study. The results in table 3 show 2 insurance companies had been in operation for more than 10 years and the remaining one has only 2 years of experience in insurance business operation.

Table 3 Ownership and years of Operation in business

No	Name	Ownership type	Years of operation	Number of respondents
1	Ethiopian Insurance Corporation	Government owned	38 years	37
2	United Insurance S.C	Private owned	20 years	17
3	Lucy Insurance S.C	Private owned	2 years	7

4. The effort of the companies to cope up with the change in technology

Regarding the efforts that the insurance companies made to cope up with the change in technology, 23% of respondents, which are 14 in number, of the respondents replied that the installation of updated application system software is available in their companies. 19 respondents which represent 32% of the sample respondent agreed educating the existing employees of companies was done to the change in technology. 26% of the respondents from the insurance officials replied training and development programmes are done within their respective insurance companies. Others, which are 19% of the respondents, replied that their companies use the combination of the above methods to cope with the change in technology.

Responses	No. of respondents from EIC who agreed	No. of respondents from United who agreed	No. of respondents from Lucy who agreed	Percentage
a-Installation of application system to date	8	5	1	23%
b-Educating existing employees to manage the change	12	5	2	32%
c-Availability of training and development	10	4	2	26%
Others(the company use the combination of the above)	7	3	2	19%
Total	**37**	**17**	**7**	**100%**

Table 4 Officials' response on the effort of the companies to cope with change in technology

5. Services of insurance companies

As per the responses obtained from those insurance officials, when there is a claim in any one of the class of insurance for service facilities that the companies offer to clients; all of the insurance officials agree that there isn't any precondition for the replacement of vehicle during motor claim like other insurance companies' experience in abroad.

Whereas 43% officials agreed on ensuring quick service quality service facility is still the problem of insurance companies. Others 29% agreed taking over the overall burden of the claim process is existed up on the clients. The other 35% of insurance officials responded there is a lengthy claim process and claim settlements are often took a long period of time. This will create hardship on clients by not compensating them timely and by not replacing them on the same financial position like their position before the happenings of accident. This lengthy and bureaucratic claim process is the main source of dissatisfaction of clients.

6. Risk Selection methods

Regarding to the mechanisms used by the company to select risk assessment and selection, questions were forwarded to officials of insurance companies. Accordingly 16% of the officials replied that the company selects those who can pay more premiums. 22% of the officials replied that the company selects those who can pay cash only. 29% of officials replied that their company selects those whose claim record is low. Others 13% of the respondents replied that the company selects risks by looking at the experience of that class of particular risk. The rest 20% of insurance officials agreed the mechanism used by their company to select risk by using other methods (like effort of the company to make a certain class of business to remain profitable by looking the loss ratio of each class of business).

Table 5 Methods of Risk selection by insurance companies

Responses	Number of respondents from EIC who agreed	Number of respondents from United who agreed	Number of respondents from Lucy who agreed	Percentage
Company selects those who pay more	6	3	1	16%
Company selects those who only pay cash	7	4	2	22%
Company selects those whose claim record is low	13	5	0	29%
By looking at experience of the particular risk	4	2	2	13%
Others (by looking loss ratio of each class of business)	7	3	2	20%
Total	**37**	**17**	**7**	**100%**

7. Awareness creation about insurance services

Officials were asked about the awareness creation in the mind of clients of their respective insurance companies and about the types of insurance services available with them. Responses obtained from the officials in the sampled insurance companies disclosed that 15% of the respondents agreed that clients get awareness about insurance services available with the insurance companies through mass media. 43% of the respondents replied that awareness creation was made by using sales agents of insurance companies and through brokers.

The other 21% of respondents agreed that in order to create awareness in the minds of their clients, insurance companies use offering best claim service, through claimant clients. Another 21% of respondents replied mix of the above methods of awareness creation techniques used by their respective insurance companies, that is, promotion through mass media, promotion through sales agents and brokers, and through claimant clients by offering best claim services.

The response obtained from insurance officials show that sales agents of the respective insurance companies and brokers have significant contribution in creating awareness in the minds of insurance clients. In contrast to this, advertisement through mass media took a lowest share in insurance companies to be a means of promotion tool.

Table 6 Awareness creation about insurance services

Responses	Number of respondents from EIC who agreed	Number of respondents from United who agreed	Number of respondents from Lucy who agreed	Percentage
Awareness creation through mass media	6	2	1	15%
Awareness creation through sales agents//brokers	16	7	3	43%
Promoting by offering best claim services	8	4	1	21%
Promoting by using the mix of the above	7	4	2	21%

8. Insurance companies service performance measurement

Regarding to the performance measurement of insurance company's performance 13% of the respondents from insurance officials agreed the measurement of insurance company's performance is by the number of clients in the company. 7% of respondents agreed insurance companies performance measurement is by the number of lapsed policies (those insurance policies which are not renewed after their expiry date). Another 33% of the insurance officials replied that the insurance companies' service performance measurement should be by the amount of premium collection. They agreed the amount premium collection by those companies is better than other to measure the performance of insurance companies. Other 5% of the respondents agreed that insurance companies' service performance measurement can be known by collecting information from those stake holders. On the other hand 19% of respondents from those sample insurance officials agreed that by comparing service level within the industry insurance companies' services performance can be measured. The other 23% of insurance officials agreed insurance companies' service performance measurement should be measured by giving emphasis on underwriting and claims management performance of each insurance company.

Table 7 Insurance companies service performance measurement

Responses	Number of respondents from EIC who agreed	Number of respondents from United who agreed	Number of respondents from Lucy who agreed	Percentage
By number of clients in the company	5	2	1	13%
By number of lapsed policies	3	1	0	7%
By premium collection	12	5	3	33%
By collecting information from stakeholders	2	1	0	5%
By comparing service level within industry	7	4	1	19%
By giving emphasis on underwriting and claims management	8	4	2	23%

The current challenges of the insurance industry in Ethiopia

National Bank of Ethiopia's view about the current challenges within the insurance industry;

National Bank of Ethiopia, the governing body of insurance industry, stated five threats for the development of insurance industry in Ethiopia.

- **A- Inflation**; insurance premium are generally set at the beginning of the contract; there may be clauses for adjustment, but such clauses are still relatively rare. High inflation which is frequent in emerging countries like Ethiopia, makes it essential to take this problem into account, since the expression of guarantees in nominal amounts constitute a major risk for insurance holders and insurance companies.

B- **Consumers lack of familiarity with insurance products**; the range of insurance products marketed in emerging economies like Ethiopia are not well known by the public. This is rarely due to the fact that marketing strategies are not aiming at changing the attitude of the public towards insurance.

C- **Lack of experience and insurance technique**; in most emerging economies, the people start out insurance transaction with little understanding. There is little or no specialized training in the subject. As the result, insurance companies often lack experience and qualified staff which makes their operation continues.

D- **Lack of Actuarial Data**; insurance companies in Ethiopia suffer from lack of reliable data base, on which to base their actuarial risk calculations and tariffs. In Ethiopia domestic actuarial service providers are not available. As result, the value that could be gained or added from such service is lacking and this created a big gap in the insurance industry.

E- **Underdeveloped domestic financial market**; In order to do business confidently and effectively, insurance companies need to be able to invest their assets in market that are sufficiently well developed and efficient. The financial market has not yet developed in Ethiopia. Financial instruments available are limited to government papers (treasury bills and bonds) and few corporate bonds. Moreover there is no secondary market for these financial securities. Therefore. Long term savings generated from life insurance does not have sufficient access to investment in financial markets.

Regarding to the challenges of the insurance industry, the researcher raised various questions in his questionnaire, to insurance officials to know their attitude about those challenges. By identifying some challenges the researcher tried to identify the major challenges of current insurance companies by asking those sample insurance officials.

1- The existence of price war and unhealthy competition among insurance companies

Regarding to the current challenges of insurance industry in Ethiopia insurance officials were asked whether they agreed with the existence of price war and unhealthy competition among insurance companies is their current challenge or not. Among them 65% of the respondents strongly agreed that the existence of price war and unhealthy competition among them is the current challenge of the insurance industry. 27% of the respondents replied that they agree with the existence of price war and unhealthy competition among insurance companies and it is the current challenge of the insurance industry in Ethiopia. On the other hand 8% of the respondents are neutral about whether the existence of price war and unhealthy competition among insurance companies is the current challenge for the insurance industry or not. None of the respondents replied they disagree or strongly disagree about the challenge of price war and unhealthy competition among insurance companies in the Ethiopian insurance industry.

Table 8 Officials' response about the challenge of price war and unhealthy competition among insurance companies

Responses	**Frequency**	**Percentage**
Strongly agree	40	65%
Agree	16	27%
Neutral	5	8%
Disagree	0	0%
Strongly disagree	0	0%
Total	**61**	**100%**

From the above table we see 92% of the respondents from insurance officials agreed about the existence of price war and unhealthy competition among insurance companies is one of the current challenges of the insurance industry in Ethiopia.

2- Lack of qualified insurance professionals

Regarding to lack of qualified insurance professionals is a challenge for the insurance industry in Ethiopia, 13% of the respondents replied that the strongly agreed that lack of qualified insurance professionals is a current challenge for the insurance industry of Ethiopia. Other 41% of the respondents replied that they agreed the lack of qualified insurance professionals is a challenge for those insurance firms operating in Ethiopia. 12% of the respondents from the sample insurance officials replied that they are neutral with the idea of lack of insurance professionals is the current challenge of insurance companies. On the other hand 27% of the respondents replied that they disagreed lack of qualified insurance professionals is the challenge for the insurance industry and 7% of respondents strongly disagreed the lack of qualified insurance professionals is the challenge for insurance companies. From the following table we understand that over half of respondents, 54% of the respondents, the lack of qualified insurance professionals is one of the current challenges of insurance companies in Ethiopia. The researcher tried to collect information about whether there is an institute providing specialized insurance courses for those insurance employees or for undergraduate students. But there is no institute in Ethiopia providing specialized insurance courses. The only institute is the Ethiopian Financial Studies which is giving short term trainings for insurance companies and banks employees.

Table 9 the challenge of lack of qualified insurance professionals

Responses	**Frequency**	**Percentage**
Strongly agree	8	13%
Agree	25	41%
Neutral	7	12%
Disagree	17	27%
Strongly disagree	4	7%
Total	**61**	**100%**

3- Retention of existing customers

Regarding to retention of existing customers, the sample insurance officials are asked whether they agreed retention of the existing insurance customers is the challenge for the insurance industry or not. Among the respondents 7% of them replied that they strongly agreed retention of existing customers is the challenge for insurance companies. 52% of the respondents agreed that the retention of existing customers is the challenge for the insurance industry. On the other hand 8% of the respondents replied they are neutral about the challenge of retaining existing customers. The other group of respondents which accounts 25% disagreed with the idea of retention of existing customers is the challenge for insurance companies. The last group consisted of 5 respondents representing 8%, of respondents replied that they strongly disagree with challenge of retaining existing customers in the insurance industry.

Table 10 the challenge of retention of existing customers

Responses	**Frequency**	**Percentage**
Strongly agree	4	7%
Agree	32	52%
Neutral	5	8%
Disagree	15	25%
Strongly disagree	5	8%
Total	**61**	**100%**

4- The increasing rate of motor vehicle accidents

The researcher forwarded a question about the increasing rate of motor accidents to the respondents. From the sample insurance officials 34% of them strongly agreed that the increasing rate of motor vehicle accidents create a challenge on insurance companies. 45% of the respondents replied that they agree with challenge of the increasing rate of motor vehicles accidents on the insurance industry. 13% of the respondents replied neutral on the challenge of increasing rate of motor vehicles accidents on the insurance industry. On the other hand 8% of the respondents replied they disagreed the increasing rate of motor accidents is a challenge for insurance companies. And none of the respondents replied strongly disagreed. From the table below we can understand the large number of respondents, which is 78% of respondents, was believed that the increasing rate of motor accidents is the one of the major challenges of the insurance industry in Ethiopia.

Table 11 the challenge of the increasing rate of motor vehicles on the insurance industry

Responses	**Frequency**	**Percentage**
Strongly agree	21	34%
Agree	27	45%
Neutral	8	13%
Disagree	5	8%
Strongly disagree	0	0%
Total	**61**	**100%**

Opportunities of the insurance industry in Ethiopia

Despite the fact that, there are challenges in the insurance industry, insurance companies have many opportunities to get more revenue from the market. The researcher forwarded questions to those sample insurance officials to identify the major opportunities of the insurance market in Ethiopia. By illustrating the results of the questionnaire using tables the researcher tried to find out the major opportunities of insurance industry.

1- Country's fast economic growth

Regarding to opportunities of the Ethiopian insurance market the researcher asked whether respondents agreed with the fast economic growth is the opportunity to the insurance industry or not. From the respondents 22% of them replied that they strongly agreed the existence of fast economic growth is the opportunity for the insurance companies. 47% of the respondents replied they agreed country's fast economic growth is the opportunity to insurance companies. On other hand 13% of the respondents were neutral. The other 18% of the respondents replied they disagreed the existence of economic growth in the country is the opportunity for the insurance companies in Ethiopia. None of the respondents replied strongly disagree as it is shown in the following table.

Table 12 Officials' response about the fast economic growth in the country is the opportunity to the insurance industry

Responses	**Frequency**	**Percentage**
Strongly agree	13	22%
Agree	29	47%
Neutral	8	13%
Disagree	11	18%
Strongly disagree	0	0%
Total	**61**	**100%**

From the above table we can conclude that over half of the respondents (69%) considered the fast economic growth in the country is the opportunity to the insurance industry in Ethiopia.

2- Existence of large number of private and government projects

Regarding to the existence of large number of private and government projects, 54% of the respondents replied that they strongly agreed that the existence of large number of private and government projects is an opportunity to the insurance market by increasing the revenue of the insurance companies. On the other hand 42 % of the respondents replied they agreed that the existence of large number of private and government projects are opportunities of the insurance companies as long as each of the projects required insurance covers from insurance companies. But 4% of the respondents are not sure whether the existence of those large number of projects executing by private and government bodies are opportunities to the insurance sector or not, they replied that they are neutral. None of the respondents from the sample insurance officials replied neither disagree nor strongly disagree. From the all respondents 96% of them consider the existence of large number of private and government projects are opened a big opportunity to the insurance sector.

Although they agreed that the projects are opportunities for the insurance market in Ethiopia, respondents mainly from private insurance companies mentioned government projects are mainly given to Ethiopian Insurance Corporation. They said the government owned insurance company is the sole insurer of government mega projects, like the Ethiopian renaissance dam, Rail way projects, Addis Abeba city light rail way project, various dam projects which are executing by Ethiopian electric power corporation and other mega projects.

According to the 2013 annual report of Ethiopian Insurance Corporation, the corporation collects more than 800 million birr from mega projects especially, from the project of Ethiopian renaissance dam. The corporation collects a premium of more than a million birr from the Renaissance dam by giving an insurance cover for more than 53 billion birr. These figures show how those projects are big opportunities to the insurance market.

Table, 13 Officials' response about the existence of large number of projects

Responses	Frequency	Percentage
Strongly agree	33	54%
Agree	25	41%
Neutral	3	5%
Disagree	0	0%
Strongly disagree	0	0%
Total	**61**	**100%**

3- Existence of increasing foreign direct investment

The researcher includes the existence of foreign direct investment in Ethiopia as an opportunity to the insurance market in the questionnaire. Among the respondents 13 which represent 21% of respondents replied they strongly agree with the contribution of foreign direct investment in the country is an opportunity to the insurance market. As it is shown in table 18, among the respondents 51% of them, which are 31 in number, agreed that the existence of increasing foreign direct investment is an opportunity to the Ethiopian insurance market to increase the revenue of insurance companies. On the other hand 9 respondents which represent 15% of the respondents replied they are neutral. Other 8 respondents, which are 13% of the respondents, replied that they disagreed with the contribution of the existence of foreign direct investment as an opportunity to insurance industry. None of the respondents replied strongly disagree.

Table 18 Officials response about the existence of foreign direct investment is opportunity to the insurance industry in Ethiopia

Responses	Frequency	Percentage
Strongly agree	13	21%
Agree	31	51%
Neutral	9	15%
Disagree	8	13%
Strongly disagree	0	0%
Total	**61**	**100%**

4- Existence of increasing amount of import/export trade in the country

Respondents were asked whether the current increasing amount of country's import and export trade is an opportunity for insurance companies or not. As it is shown on the following table among the respondents 24% of them replied they strongly agreed with the existence of increasing amount of import and export trade is an opportunity for the insurance market in Ethiopia. The other 48% of the respondents agreed the positive effect of the increasing amount of import and export trade in Ethiopia is an opportunity to the insurance market. There reason for their response is as import and export trade in the country is increasing the amount of goods and services require insurance cover will also increase at the same time. This will create additional market and demand for those insurance companies. There for, the existence of increasing amount of import and export trade will create an opportunity for the insurance industry.

On the other hand 12% of the respondents replied that they are neutral about the existence of increasing amount of import and export trade in the country is an opportunity for insurance companies. 16% of the respondents replied they disagree with increasing amount of import and export trade in Ethiopia is an opportunity for insurance companies.

From the above figures we understand that 72% of respondents which are selected sample insurance officials agreed that the existence of increasing amount of import and export trade in the country is an opportunity for insurance countries. This is because importers and exporters often require marine insurance to get a letter of credit from banks and to insure the items they are importing and exporting.

Table 19 Officials' response about the existence of increasing import and export trade in the country is an opportunity for insurance market in Ethiopia

Responses	**Frequency**	**Percentage**
Strongly agree	15	24%
Agree	29	48%
Neutral	7	12%
Disagree	10	16%
Strongly disagree	0	0%
Total	**61**	**100%**

As it is shown on the above table none of the respondents replied that they strongly disagree about the existence of increasing amount of import and export trade in the country is an opportunity for the insurance companies.

4.3 Discussions

Based on the findings the researcher evaluated and interpreted the implications of the findings. Thus by examining, interpreting and qualifying the results drawn from the findings the discussions are done qualitatively and quantitatively.

Regarding to the current challenges facing insurance industry in Ethiopia the majority respondents agreed there is a stiff price competition among insurance companies, and this stiff price competition is one of the major challenges of the insurance industry. 92% of the respondents agreed that the existence of price war and unfair competition in the industry is becoming a big challenge. This price competition leads to a decrease in the amount of premium payments which eventually creates decrease in revenue of the firms. This will create a total negative impact on the insurance industry by reducing the share of the industry in the national market.

The other challenge discussed by the respondents was the challenge of lack of qualified insurance professionals in the country. Among the respondents 54% of them believed lack of qualified insurance professionals is a challenge for the insurance market of Ethiopia. This lack of qualified professionals in the field makes insurance companies unable to compete in the market efficiently and give satisfactory insurance services to their clients. This is because insurance industry by its nature requires effective risk determination and risk identification by qualified professionals to collect equivalent premium for those risks. But in Ethiopia there is no institute giving specialized insurance courses. The only institute giving short term trainings is the Institute of Ethiopian financial studies.

But some of the respondents which represent 34% of the respondents, disagreed with the lack of qualified insurance professionals is a current challenge of the insurance industries. They responded the present number of insurance professionals is enough for the companies to deliver their services.

The other challenge for the insurance industries is the challenge of retaining existing customers by insurance companies. 59% of the respondents replied that retention of existing insurance clients is a challenge for insurance companies. They said as long as insurance companies deliver similar products and switching costs of those customers is low insurance clients go out of the one to the other and some times out of the industry totally. Somme of the respondents mentioned the price competition among insurance firms is the major reason for the existence of high customer turnover.

Although the majority of the respondents (59% of the respondents) agreed with the challenge of retaining existing customers on insurance companies, some of the respondents (32% of the respondents) replied that they disagree with it. The reason for their disagreement is as long as insurance companies give prompt and reliable services for their clients retention of their existing clients will not be a challenge for them.

The other challenge forwarded by the researcher to the respondents was the challenge of the increasing number of motor vehicle accidents on insurance companies. Regarding to this point 79% of the respondents accepted the existence of increasing number of car accident in Ethiopia is a current challenge for insurance companies. Only 8% of the respondents disagreed with the challenge of increase in number of car accidents on the insurance industry. This result shows the current high number of traffic accident in Ethiopia is a major challenge for insurance industries. This is because as the frequency and severity of accidents increase, it will increase the claim costs of insurance companies and eventually lead to reduction of profit in the insurance industry.

Other challenges of the insurance industry were also mentioned by the respondents. The first one which was mentioned by the respondents was the new regulation of the National Bank of Ethiopia, which obliged insurance companies to increase their paid up capital to 75 million birr (60 million birr for general insurance and 15 million birr for Life insurance). This will be a major challenge especially for the new insurance companies.

According to the Lucy insurance S.C annual report (year 2013), the company's paid up capital was 8.03 million birr which was higher than what was required by the National Bank of Ethiopia previously, only 7 million birr paid up capital was enough to establish an insurance company. There for, Lucy Insurance S.C is expected to increase its paid up capital to 75 million, which requires additional paid up capital of birr 66.97 million much higher than the previous one.

Inflation was mentioned by sample respondent insurance officials as a challenge for the insurance industry. Some 15% of the respondents, which are 9 in number, mentioned the prevalence of inflation mainly on spare parts of motor vehicles is a challenge for the insurance industry in Ethiopia.

18% of the respondents also mentioned the existence of unfair competition, mainly between the government owned insurance company and privately owned insurance companies is another challenge for privately owned insurance companies. The respondents mentioned government projects and governments offices are insured by the Ethiopian Insurance Corporation, which is owned by the government, without any competition. This existence of unfair competition in the market creates a big challenge for private insurance companies to be more competitive and to get more market share.

Although there are many challenges in the insurance market of Ethiopia, there are also many opportunities still untapped by the market. Regarding to the current opportunities of the insurance market in Ethiopia, economic growth of the country was mentioned as an opportunity. 69% of the respondents, which are 42 respondents in number, support the opportunity of the current economic growth in Ethiopia to the insurance industry. The National Bank o Ethiopia, the regulatory body, also indicated that for the past 6 years Ethiopian economy has an average growth rate of 11.5% and the insurance market registered average growth of 26%. Therefore, economic growth is one of the prerequisites for the development of insurance market.

The current prevalence of large number of private and government projects are another opportunities for the insurance industry. As it's shown, from the all respondents 96% of them consider the existence of large number of private and government projects are opened a big opportunity to the insurance sector. The existence of large number of projects creates additional market for the insurance companies and it opens an opportunity to increase their premium incomes and tier financial capacity at the same time.

The existing large amount of foreign direct investment in Ethiopia is another opportunity to the industry. Many factories are opened in Ethiopia by foreign investors. These factories of foreign investors will add some additional market for the insurance companies in the country. 72% of the sample insurance officials also agreed that the existing large number of foreign direct investment inflow to our country is another opportunity to our insurance companies. This is because each manufacturing industry built by those investors requires insurance covers for the machineries, for industry plants, and for employees of the industries.

Ethiopia's import and export trade is increasing through time. This increase in international trade creates additional market for the insurance industry. The researcher understood 44 respondents from the total sample of 61 insurance respondents agreed or disagreed with the opportunity of the increasing import and export trade in Ethiopia.

Respondents also identified others as an opportunity for the insurance market in Ethiopia with addition to the above points. The financial sector in Ethiopia is protected from international competitors. Respondents replied that the current regulated financial market which is not exposed to foreign competitor firms is an opportunity for Ethiopian insurance companies to strengthen their financial capacity. Unless they are protected from international competitors they couldn't be internationally competent with their current financial position and human resource. There for, the national policy of Ethiopia on financial sector is an opportunity for insurance companies especially for those new comers.

Some of insurance official respondents identified the Compulsory motor third party insurance proclamation which was declared in 2008 and implemented beginning from 2012 is an opportunity for the insurance market. According to the proclamation every vehicle owner is obliged to have an insurance cover for his/her car to drive on roads. There for, each insurance company got additional insurance clients because of this new proclamation. This will increase insurance companies' revenue at the same time.

The construction boom in the country was also mentioned as one opportunity to the insurance market by respondents. The respondents said the construction boom in Ethiopia is creating additional insurance demand for the sector. This is because contractors require performance bond insurance, contractors all risk insurance and workmen's compensation insurance covers for the guarantee of their work performance, for their machineries and for their employees respectively.

The existing large number of population and untapped insurance market is also an opportunity to the insurance companies to expand their branches throughout the country.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

By analyzing the results and findings of the research from the previous chapter, the researcher draws conclusions about the characteristics, challenges and opportunities of insurance market in Ethiopia. Finally the chapter provides some recommendations to be taken by the insurance industry of Ethiopia to overcome the current challenges and to exploit the existing opportunities of the market.

5.1 Conclusions

The insurance business in Ethiopia is not a recent phenomenon, it accounts over a century started from the establishment of the first insurance company in the country in 1905. But the growth of the sector is still underdeveloped. Ethiopian insurance market is under developed. This can be explained by low level of penetration and density in the market and its low level contribution to the GDP. It contributes only 0.2% of the GDP which much lower than the performance of the insurance industry in other African countries.

The Ethiopian insurance market is characterized by having a very small life insurance and higher percentage of general insurance unlike developed countries. The majority of insurance business in Ethiopia is targeted at corporate market and focused on general insurance business. The contribution of life insurance for the total amount of premium generated by the industry is less than 5% (Smith & Chamberline, 2009).

According to Fortune (2013), the insurance sector in Ethiopia has an aggregate capital of 1.8 billion birr- an increase of 600 million birr from the previous year. In paid-up capital too, there has been a welcome change in the sector. Although previously a paid-up capital of only seven million birr (four million for general insurance and three million birr for life insurance) was required, this has been raised to 75 million birr (60 million birr for general insurance and 15 million for life insurance).

In the fiscal year of 2012/2013 the insurance companies in Ethiopia collected combined gross premium of 4.5 billion birr from general insurance. In that year the state owned Ethiopian insurance Corporation and other 15 private insurance companies collected net premium of 2.9 billion birr; 1.9 billion birr of which went on to claim payments (Fortune, November, 2013

Although the insurance market in Ethiopia is a young industry at its early stages of development with limited skill, capacity and management, there are a lot of opportunities to develop the sector. Having sixteen insurance companies with low amount of branch penetration around cities and towns in the country of having over 80 million population mainly agrarian dweller shows the insurance opportunities of the country are still untapped.

As it is discussed in the previous chapter the Ethiopian insurance market has many challenges currently. The first challenge of the industry is the existence of price war and unhealthy competition among the insurance companies. Rather than competing with qualified and efficient service and competing with new products, the current insurance companies mostly compete with premium. Competition with price leads companies to reduce premium payments collected from insurance clients. This is unhealthy competition because it will reduce the revenue of the insurance industries. In turn, insurance companies focus on reduction of premiums to attract customers rather than focusing on quality service. It also back fires on insurance companies by putting pressure while settling claims payments to those claimants.

Lack of adequate qualifies insurance professionals is also the current challenge of the insurance industry. Insurance companies in Ethiopia start out insurance transaction with little understanding of it. This is because there is little specialized training in the subject of insurance. As result, insurance companies lack experienced and qualified staff. This makes insurance companies inefficient while determining risks and giving professional insurance services to their customers.

Retaining existing insurance for a longer period of time is another challenge of the insurance companies in Ethiopia. The existence of price war among firms and the similarity on insurance packages throughout the industry makes customers switching from the one and moving to the other frequently.

The other major challenge of the Ethiopian insurance market is the current increasing rate of car accidents. This is a major challenge for the companies because the majority of their business depends on the motor insurance. The frequent happening of accidents creates pressure by increasing the workforce settling those claims and by increasing the claim costs of the insurance companies. This increasing rate of car accidents in the country also adversely affects the companies by decreasing their profits. Therefore, the current increasing rate of motor accidents is a major challenge for the insurance industry.

The new proclamation of the National Bank of Ethiopia about insurance companies also creates a problem especially on new insurance companies. It obliged the new insurance companies to raise their paid up capital about seven folds (from 7 million birr to 75 million birr).

Even though the insurance market in Ethiopia has many challenges as stated above, there are many opportunities to be exploited in the insurance industry. The existing low number of insurance companies with low level of competitiveness makes the insurance industry attractive investment. Because of the attractiveness many insurance companies like Abay insurance, Tsehay insurance, Lucy insurance and Buna insurance company are joining the insurance market.

The current existence of fast economy growth in the country creates an opportunity to the insurance companies to expand their business throughout the country by creating additional insurance customers and additional revenue. The existing economic growth in the country is creating a number of business transactions and projects which require insurance covers. This makes insurance companies to expand their business coverage in the country and able to have higher income generated from the economy.

The other major opportunity for the current insurance market is the existence of large number of government and private projects. The government is operating various mega projects all around the country. The private sector is also building large number of projects in different sectors. This boom of construction sector creates additional market for the insurance industry. This additional market will increase the revenue of the insurance industry. Therefore, the current large number of private and government projects is the major opportunities of the insurance market.

The other opportunity identified in the research is the current increasing amount of import and export trade in Ethiopia. The existence of increasing international trade in the country is an opportunity to the domestic insurance market by increasing its market volume and by creating additional market. This will eventually helped the insurance market to boost its financial capacity.

The current protection given to the financial sector by the government from international competition is also an opportunity for the existing insurance companies. This is because it enables them to strengthen their capacity without the challenges of international competition.

5.2 Recommendations

The researcher recommends the following points to be taken by the insurance companies to overcome the current challenges and to exploit the existing opportunities of the insurance market in Ethiopia.

- The insurance companies should avoid the existing price war and unfair completion among them. As long as the existing competition with premium causes decline in their revenues and puts pressure on them while there are many claims, they should avoid competing with price. It will also has a total negative impact on the insurance industry by reducing the share of the industry in the national market
- The existing insurance companies should take appropriate actions to make their current staff more professional and qualified in the field of insurance business. The insurance companies should create relations with higher education institutes to get specialized insurance courses from those higher education institutes.
- Insurance companies should provide better customer services to avoid the current problems of customer turnover. The insurance companies should revise their services according to their customers needs and they should be customer focused.
- Insurance companies in Ethiopia should make more on creating public awareness about the current high number of traffic accidents around the country. In addition to giving efficient claim services the insurance companies should focus on preventive mechanisms to minimize the current level of car accidents by working on creating public awareness about the problem.
- Insurance companies should increase their effort on modernizing their insurance services according to international standards to be internationally competitive.
- Insurance companies should change their current operations which are done manually to automated systems to minimize their operating costs and to deliver efficient and satisfactory services to their customers.
- Insurance companies in Ethiopia should change their target from corporate business insurance to micro insurance services as long as the country’s population is more of agrarian society.

- Insurance companies also should expand their branch coverage around the country to make themselves accessible to the majority of the population.
- The insurance companies should increase their financial and professional capacity to be able to provide dependable insurance covers the currents mega projects of the country.
- The insurance companies should also give attention to product developments to exploit the current customers' demands.

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Annexes

ST. MARY UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Back ground of information

The objective of this questionnaire is to secure the necessary and relevant first hand information that will be useful to conduct a research regarding ***"CHALLENGES AND OPPORTUNITIES OF INSURANCE BUSINESS IN ETHIOPIA"*** which will be used to prepare a thesis required for my MBA degree. Therefore, your response in this regard helps a lot to undertake the study. Please be assured that this is purely for academic purposes and your responses will be handled with utmost confidentiality. The researcher appreciates in advance your coordination and your valuable time filling this questionnaire.

1. Questions for insurance operational staffs

Section A: please fill the space provided. Mark √ where applicable and specify where necessary.

1 Sex A. Male ☐ B. Female ☐

2 Age A. 20-30 years ☐

B. 31-40 years ☐

C. 41-50 years ☐

D. over 50 years ☐

3. What is your current level of education? Please select the appropriate one.

A. Senior high school

B. College Diploma

C. Graduate Degree

D. Post Graduate Degree

E. Other (please specify if any) --------------------------

4. How long you have been in your employer insurance company?
    A. Less than one year
    B. 1 to 3 years
    C. 3 to 5 years
    D. Over 5 years
5. Which of the following is implemented by your company to cope with the change in technology
    A. Installation of application system to date
    B. Educating existing employees to manage the change
    C. Availability of training and development
    D. Others(the company use the combination of the above or other)____
6. Which of the following problems existed in your insurance services?
    A. replacement of vehicle during motor claim
    B. ensuring quick service quality service
    C. burden of the clients up on the claim process
    D. lengthy claim process and claim settlements
7. Which of the following client and risk selection methods are implemented by insurance company?
    A. Company selects those who pay more
    B. Company selects those who only pay cash
    C. Company selects those whose claim record is low
    D. By looking at experience of the particular risk
    E. Others (by looking loss ratio of each class of business)

    if any other please specify

    ____.

8. Which one of the following methods is implementing by your company to promote its services and to create awareness on the public?
   A. By using mass media
   B. Through agents and brokers
   C. By offering better claim services
   D. By using the mix of the above methods
   E. Others, if any please specify ____
9. How your insurance company measures its service performance?
   A. By of its clients
   B. By number of lapsed policies
   C. By its premium collection amount
   D. By collecting information from stakeholders
   E. By comparing its service within the industry
   F. By giving emphasis for underwriting and claims management
   G. Any other (please specify)

   ____

   ____
10. Do you agree with the existence of price war and unhealthy competition among insurance companies is a challenge for insurance companies?
   A. Strongly agree
   B. Agree
   C. Neutral
   D. Disagree
   E. Strongly disagree
11. The lack of qualified professionals is a challenge for the insurance industry in Ethiopia. Do you agree with this statement?
   A. Strongly agree
   B. Agree
   C. Neutral
   D. Disagree
   E. Strongly disagree

12. Do you agree with retaining existing customers is the challenge for insurance companies?
    A. Strongly agree
    B. Agree
    C. Neutral
    D. Disagree
    E. Strongly disagree

    Why it is a challenge?

    ____

    ____

    ____.

13. What is your stand with the challenge of increasing motor accidents on insurance companies?
    A. Strongly agree
    B. Agree
    C. Neutral
    D. Disagree
    E. Strongly disagree

    Why?

    ____

    ____

    ____

14. Would you list down other challenges your company is facing currently in addition to the above mentioned challenges?

    ____

    ____

    ____

    ____

    ____

    ____

    ____

    ____.

15. Do you believe the existence of fast economic growth in Ethiopia is an opportunity for the insurance industry?
    A. Strongly agree
    B. Agree
    C. Neutral
    D. Disagree
    E. Strongly disagree

    ____
    ____
    ____.

16. Currently there are large number of projects executing by the private sector and the government. Do you agree this large number of projects crate an opportunity for insurance companies?
    A. Strongly agree
    B. Agree
    C. Neutral
    D. Disagree
    E. Strongly disagree

    What is your reason?

    ____
    ____
    ____.

17. Do you agree the current increasing amount of foreign direct investment in Ethiopia is an opportunity to the insurance market in the country?
    A. Strongly agree
    B. Agree
    C. Neutral
    D. Disagree
    E. Strongly disagree

Why?

____

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____.

18. Do you believe the existence of increasing import and export trade in Ethiopia is another opportunity for the insurance industry?
    A. strongly agree
    B. agree
    C. Neutral
    D. Disagree
    E. Strongly disagree

    Why?

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    _____________________________________.

19. Would you please mention other opportunities existed in Ethiopia for the insurance market in addition to the above points?

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THANK YOU FOR YOUR PETIENCE AND TIME!