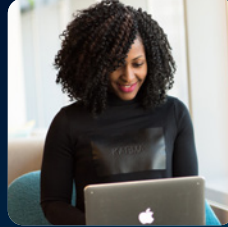




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NILE INSURANCE COMPANY sc.

'How insurance companies in Ethiopia are establishing a vibrant market'

By **Getachew Beshahwred** BA (Dist.), MBA, BFP, FCA, PMP, Cert CII, MCSI

Managing Director

GB & Co Chartered Accountants and Management Consultants, London

'Celebrating professionalism in Africa' is a pioneering series of case studies, published by the Chartered Insurance Institute, to showcase professional practice and innovation in insurance

HOW INSURANCE COMPANIES IN ETHIOPIA ARE ESTABLISHING A VIBRANT MARKET



By **Getachew Beshahwred** BA (Dist.), MBA, BFP, FCA, PMP, Cert CII, MCSI
Managing Director
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The Imperial Insurance Company was Ethiopia's first insurer, established in 1951. Before that time, the only providers of insurance were branches or agents of foreign insurance companies. During the following years, others entered the market, and at one point in the 1960s, there were 32 foreign and two domestic insurers operating.¹

In 1975, the Provisional Military Administration Council (DERG) nationalised all private banks and insurance companies, creating a single government-owned company, the Ethiopian Insurance Corporation (EIC). However, from 1992 there has been steady liberalisation of the insurance sector – today, EIC remains the largest operator, with a circa 40% market share, with 16 private insurers responsible for the remaining 60%. However, Ethiopia still only accounts for 1% of total insurance premium written in the top 15 African economies – even when South Africa is excluded.²

Looking ahead, there is significant potential for rapid development, and this is reinforced by the fact that insurance activity today is generally restricted to Ethiopia's major cities and towns.

Firstly let us consider some of the positive indicators. The population is substantial – more than 110 million. By some measure, the Ethiopian economy has been the fastest growing in Africa since the turn of the century, and was expected (pre-pandemic) to accelerate to 10.8% during 2019-2020.³ In the words of the National Bank: "The proper implementation of the recently launched Home Grown Economic Reform Program is expected to contribute towards developing a modern, vibrant, competitive and sound financial system."⁴

The Ethiopian government has announced plans to privatise a number of the largest state-owned enterprises, building on the successful sale of more than 300 small and medium-sized state-owned businesses in the past 20 years. For example, the sale was announced earlier this year of the government's 49% stake in Ethio Telecom, the only



Nile Insurance board members with their CII tutor, 2019

telephone operator in the country with nearly 50 million subscribers. It also intends to issue two new operating licences with the aim of spurring investment in technology and human capital.

The government has also embarked upon a gradual liberalisation of the financial sector, short of allowing foreign insurance companies to operate in Ethiopia. Allowing foreign insurance companies to operate in the country would bring valuable competition for the local insurance companies, which lack the capital and skilled manpower to invest in innovation. The law has been amended to allow foreign nationals of Ethiopian origin to invest in the banking and insurance sector. If as expected the government allows foreign banks and insurance companies to operate in Ethiopia, local banks and insurance companies will inevitably adapt, change, restructure and modernise in preparation for competition. The government is also finalising legislation to enable the formation of a stock exchange – this has the potential to revolutionise the financial sector.

In addition to the supply-side reforms, there are many other trends that point towards rapid growth in insurance demand:

- Demographic changes – the median age in Ethiopia is estimated at 19.5 years, so there are large numbers of people about to enter their most economically productive years
- Emerging middle class
- Rapid urbanisation
- Rising educational standards
- Technology adoption
- Economic growth
- Supportive activity by government.

Given this background, the insurance sector will need to adapt to the changing environment and to

The members of the Board of Directors of Nile Insurance attended a one-week executive development course at the CII, London. The course was well structured, and highly relevant to the emerging market context. The method of delivery was very interactive and highly engaging. We found the tutor very knowledgeable and intelligent with long, varied and relevant hands-on experience, which he gladly shared with us. Overall, our stay in London and our visit to the CII was excellent. It was worth it, and we highly recommend the course for governing boards such as ours, and insurance executives who would like to move their company forward. We learned a lot.



Mekdes Aklilu BA, MSc. Post Grad. Diploma (education), London
 Chairman, Board of Directors
 Nile Insurance
 Addis Ababa, Ethiopia

build trust with its customers. It should be creative in its product development — standard insurance products are unsuitable to the needs of many categories of customer. During the coming years, areas for focus among insurers will include:

- **Mobile insurance:** The use of mobile phones in Ethiopia has been growing exponentially, allowing insurers to reach millions of prospective customers without the burden of costly physical offices.
- **Seasonal/on-demand/packaged/short-term insurance:** Agriculture suffers from seasonal variations and occasional catastrophes, however most farmers are risk averse and reluctant to try new products. The insurance sector’s penetration into agricultural and microinsurance remains in its infancy, but products that suit the need and income of farmers could be the breakthrough.
- **Islamic insurance:** About 35% of the population follows the Muslim faith.

All these priorities will only become reality if there is a forum for promoting great strategic thinking, technology innovation, and - most importantly — the development of human capital with talented, knowledgeable, competent, assessed professionals.

Currently, there is no specialist company or institute in Ethiopia offering banking, insurance or financial training, and the universities do not have strong technical programmes. The Chartered Insurance Institute has been a valuable resource in this regard — in the past year, GB & CO, in association with the CII, organised a one-week executive development program at the Chartered Insurance Institute, London, for board members of Nile Insurance, one of Ethiopia’s most ambitious private companies.

I would be delighted if the Chartered Insurance Institute can participate in work to shape a vibrant insurance sector and a trusted insurance profession, in the wonderful country of Ethiopia. GB & Co in association with local partners has an objective to create an insurance institute in the country which,

with the CII’s support, will train and develop professionals of the highest calibre – people who can lead, shape, run and manage the insurance sector during the next 20 years. ■

Notes

1. Central Statistical Agency of Ethiopia
2. African Insurance Barometer, 2016
3. National Bank of Ethiopia
4. National Bank of Ethiopia Report 2019

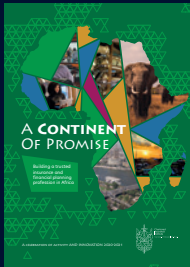
Market liberalisation: a 28-year perspective

Sector	Ownership	1992	Current	Under formation
Insurance	State	1	1	
Insurance	Private	0	16	
Banks (commercial, development, construction)	State	3	3	
Commercial bank	Private	0	15	
Total		4	35	16

List of authorised insurers

Abay Insurance Company | Africa Insurance Company | Awash Insurance Company | Berhan Insurance | Bunna Insurance | Ethio-Life and General Insurance | Ethiopian Insurance Corporation | Global Insurance Company | Lion Insurance Company | Lucy Insurance Company | National Insurance Company of Ethiopia | NIB Insurance Company | Nile Insurance Company | Nyala Insurance Company | Oromia Insurance Company | Tsehay Insurance United Insurance | Zemen Insurance

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