



**College of Business and Economics**  
**Department of Management**

**Assessment of Opportunities and Challenges of Micro-Insurance Products in  
the Ethiopian Insurance Industry**

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Administration

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## STATEMENT OF CERTIFICATION

*This is to certify that this research report entitled “**Assessment of Opportunities and Challenges of Micro-insurance Products in the Ethiopian Insurance Industry**”, is submitted to Addis Ababa University College of Business and Economics Department of Management, Executive Business Administration Program is carried out by Zufan Abebe under my guidance and supervision.*

*Therefore I hereby approved for the defense of the research report.*

*Advisor Name*

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
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## Statement of Certification

This is to certify that the project paper prepared by Zufan Abebe Alemu entitled: **Assessment of Opportunities and Challenges of Micro-Insurance Products in the Ethiopian Insurance Industry** submitted in partial fulfillments of the requirements for the Degree of Masters in Executive Masters of Business Administration (EMBA), with the rules and regulations of the university and meets the expected standards with respect of originality and quality. Signed by the Examining Committee:

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## **Abstract**

*The main objective of the study is to assess the challenges and opportunities of micro-insurance products in Ethiopia. The study is based on qualitative and descriptive studies to collect the data from the main actors that are being involved in the delivery of the micro-insurance products in Ethiopia. Thus data were collected using open ended interviews with experts in the area of insurance industry. The main findings showed that there is still a business opportunity for microinsurance business in Ethiopia (as indicated by about 96 percent of the sampled respondents). Nevertheless, only 33 percent (9 out of 27) of the respondents indicated that their company is currently engaged in microinsurance business. The type of micro-insurance products that firms currently provide to their clients include: Index based livestock insurance, index-based crop insurance, credit life insurance, individual loan, consumption loan, micro-business loan. The index-based livestock and crop-index based crop insurances are the ones frequently stated by the firms. The most significant factors indicated by the respondents as influencing the opportunities for micro-insurance products are: i) Presence of a large population with low income in the country which can serve as a good customer base for microinsurance products, ii) Existence of many cooperatives and informal associations in rural areas can be a good distribution channels (marketing) for micro-insurance, and iii) Presence of conducive legal frameworks and directives that encourage the micro-insurance product marketing in Ethiopia. On the other hand, the three most important factors serving as challenges to the microinsurance product marketing in Ethiopia are: i) Low level of public awareness on insurance products in general and micro-insurance in particular, ii) Inadequacy of guidelines or directives to operate the micro-insurance marketing, and iii) Lack of skilled manpower in the areas of micro-insurance. The issue of the low level of public awareness to the micro-insurance seems so pervasive in the Ethiopian context. The study recommends that there must be an enhanced awareness creation among the government and public institutions on the importance of micro-insurance. Enhanced public private partnership (PPPs) also needs to be a priority for micro-insurance dissemination. At the same time commitment of the government is essential to grow and sustain the business of micro-insurance. Improving the existing regulatory directives and framework for microinsurance is also another recommendation based on this study.*

**Keywords:** Insurance, micro-insurance, premium, *Index based livestock insurance*, Ethiopia

## **List of Acronyms and Abbreviations**

<b>CENFRI</b>	Center for Finance Regulation & Inclusion
<b>EIC</b>	Ethiopian Insurance Corporation
<b>FDI</b>	Foreign Direct Investment
<b>FDRE</b>	Federal Democratic Republic of Ethiopia
<b>GWP</b>	Gross Written Premium
<b>IBLI</b>	Index-Based Livestock Insurance
<b>ILO</b>	International Labor Organization
<b>MFI</b>	Microfinance Institutions
<b>MI</b>	Microinsurance
<b>MOA</b>	Ministry of Agriculture
<b>NBE</b>	National Bank of Ethiopia
<b>PPP</b>	Public Private Partnership
<b>SACCO</b>	Savings and Credit Cooperative Organization
<b>SDG</b>	Sustainable Development Goal
<b>GDP</b>	Gross Domestic Product

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# Chapter One

## **1. Introduction**

### **1.1 Background**

Insurance and banking sectors are key components in the global financial ecosystem. Insurance is a famous word only commonly said but its recognition by society and governments is limited to the extent of the role it plays and the huge potential it has in impacting the wellbeing of society and in accelerating the world economy from end to end with borderless transactions. The insurance sector contributes to economic growth, efficient resource allocation, reduction of transaction costs, creation of liquidity, facilitation of economics of scale in investment, and spread of financial losses (Kaiss and Sumegi, 2008 as cited in Tekalign, 2018). To many, insurance just represents dollars out of pocket with no benefit. This is an unfortunate attitude. Insurance plays a broad role in the worldwide economy, helping to assure that millions of transactions and other activities, economic and non-economic, can proceed (Zevnik, 2004).

The role insurance playing is not limited to business facilitation but its vital role embraces individual and family matters. Insurance combines business and social responsibilities together. Individuals, groups and the whole society have never been free from challenges, problems and risks either natural or manmade. The uncertainty is called a Risk and the mechanism sought to overcome (reduce if not avoid) the challenges and the uncertainties is called a Risk Management. It is agreeable that insurance is one of the Risk Management tools of businesses and a mechanism for social protection for low- income segment of the world population.

Although there are various definitions, the following well explains insurance especially from insured's point of view; insurance is defined as Risk-transfer mechanism that ensures full or partial financial compensation for the loss or damage caused by event(s) beyond the control of the insured party. Under an insurance contract, a party (the insurer) indemnifies the other party (the insured) against a specified amount of loss, occurring from specified eventualities within a specified period, provided a fee called premium is paid.

Insurers make profitable business by giving protection against the happening of uncertainties on the life and properties tangible losses. They collect money in advance in the form of premiums from many policyholders' aka insureds and pay claims for losses happened to few sometime in the

future. Insurers do not pay out all the money they collect right away, thus use the fund for investment and by doing so increase their return and ensure profitability. There are big insurance companies which dominate the world economy. According to Investopedia, December 5, 2024 world's top ten insurance companies reported to have generated Trailing 12 months (TTM) revenue of USD 508 billion as of February 18, 2024. Of which the top three, United Health, Berkshire Hathaway and CVS accounted a total of USD 277 billion, nearly 55%. The total net income of the top ten companies in the same period was USD 31.9 billion.

In addition to earning huge amount of revenues and profits by selling traditional insurance products for life, health, properties and businesses, insurance companies also play an important role of social protection by providing MICROINSURANCE to low-income or marginalized segment of the society. Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved (Churchill, 2006). Low-income people and/or people engaging in informal employment are easily exposed to various financial shocks natural or manmade. These segments of the society do not have formal risk management strategies and they indeed are not in a position to protect oneself from uncertainties happened as their earnings does not exceed family consumption of basic things and hence cannot afford to allocate extra money either to self-insure or transfer risk through buying insurance. As an option to the challenges “Microinsurance may support poverty alleviation by protecting the assets, income and productivity of low-income households (Smith, 2010). Microinsurance (MI) is another growth opportunity for insurers. There is a great potential given a huge low-income segment of population specially in sub-Saharan Africa (Smith, 2010).

As most of the insurers in the rest of the globe, the Ethiopian insurance industry is widely engaged in the traditional commercial business insuring the life and properties of those involved in the formal economy. The industry is criticized as undeveloped, lack of innovation and use of technology, very stiff competition on commonly known risks like general accident insurance more specifically in motor vehicle insurance and highly dependent on selling of compulsory insurance products. But insurance products in the rest of the world are many kinds covering multiple of personal and commercial risks. Apart from the traditional insurance products, increasing number of many small to giant insurance companies are involved in providing microinsurance which is a specialized section for low income and marginalized population. In Ethiopia microinsurance is more of promoted by NGOs than insurers. Out of the 17 insurance companies operating currently

in the country, only two or three insurance companies are providing crop and livestock insurance for farmers at a very low scale (under pilot projects) with the help of developmental organizations.

As per Microinsurance (MI) Network 2021 study publication on the Landscape of Microinsurance, between 179 and 377 million people were recorded as covered by a micro-insurance product in the 30 countries covered by the Landscape of Micro-insurance 2021. This is estimated to represent between 6% and 14% of the target population of the countries studied. These figures represent a considerable increase on the previous year's study, in which between 162 and 253 million people were reached across 28 countries, representing between 6% and 10% of the target population.

## **1.2 Problem Statement**

Following the issuance of Insurance Business Proclamation No. 86/1994 by the Ethiopian government, the insurance market playing field has been opened for national private insurers which at the time it was monopolized by the Ethiopian Insurance Corporation (EIC) the only government owned insurance company still operating in the country. As per the information obtained from National Bank of Ethiopia, quarterly bulletin, second quarter 2023/24 V. 40, currently 1 state owned and 17 private companies are operating in the country. Twelve of the insurance companies provide long term insurance in addition to general insurance. Insurers in the country are competing on the traditional and conventional products such as health, property and liability protections. The industry is still infant and its system and products are traditional, and well known by fierce competition on similar insurance products. Ethiopia being a big country with a population size of over 120 million, the second most populous country in Africa, the insurance penetration rate and insurance density are very minimal not more than 0.32 percent and 2.7 USD, respectively as at June 30, 2019 (<https://www.atlas-mag.net>), which is even much below neighboring countries like Kenya. Using the two universal standard parameters to assess the growth and development level of insurance sector in a given economy; Insurance Penetration (the ratio of insurance premiums to GDP) and Insurance Density (the ratio of insurance premiums to total population), the impact of the Ethiopian insurance industry in the economy as well as on the society is negligible.

Microinsurance which is believed to give vast opportunity to insurers by creating new market opportunity, product innovation and at the same time a means of social protection to the poor. As per the most recent data, 68.7 percent of the population in Ethiopia is multi-dimensionally poor while an additional 18.4 percent is classified as vulnerable to multidimensional poverty

<http://hdr.undp.org.MPI>. As per the Ethiopian Statistical Service, projected population size 2024, out of the total population of Ethiopia, around 77 percent are living in rural area which are agricultural and pastoral society. Despite the enormous potential however, it is evident that the Ethiopian insurance industry has negligible engagement in the provision of microinsurance. NGOs and developmental institutes are seen more concerned in advocating micro-insurance than insurers in Ethiopia. Microinsurance is a vehicle for economic development by alleviating Poverty and Vulnerability (Kirti et al, 2015). Though it is believed microinsurance as a tool for economic development and considered as a means for poverty alleviation, the government action to promote microinsurance is not as such visible in the Ethiopian industry. And there has not been yet a systematic analysis on the challenges and opportunities for micro-insurance marketing Ethiopia. The study conducted by Smith and Chamberlain, (2010) has described market dynamics as well as assessed the macroeconomic opportunities and challenges for micro-insurance in Ethiopia but not focusing on in-depth from insurers perspectives. The regulation modernization process to create supportive regulatory framework, existence of large unserved market, high demand for insurance in the low-income market, existence of potential market for microinsurance, cross-selling of those banked, were some of the opportunities identified. On the challenges, Smith and Chamberlain (2010) indicated weak financial system with low level of penetration and young insurance industry at early stage of development with limited skills, capacity and incentive to push market extension and low level of financial service usage.

Thus, identifying the challenges and opportunities at the meso and micro level is vital to design appropriate strategies to expanding diversified insurance products within the context of microinsurance. This research paper is therefore intended to assess and identify problems why the Ethiopian insurance industry is unable to develop and diversify microinsurance but they are still largely stuck in the traditional stream while the potential is there.

### **1.3 Basic Research Questions**

- What are the main challenges of insurance companies to market microinsurance products in Ethiopia?
- What are the opportunities for insurance companies in relation to serving low-income segment of the population in Ethiopia through microinsurance?
- Does the existing policy, regulatory framework and government actions promote micro insurance product in Ethiopia among the low-income segments of the population?

## **1.4 Objective of the Study**

This study intends to address the following key objectives.

### **1.4.1 General Objective**

The main objective of the study is to assess the challenges and opportunities of microinsurance product market in Ethiopia. The research study has the following sub-objectives to answer the research problem.

### **1.4.2 Specific Objective**

- To assess challenges of the industry in design and marketing of microinsurance products.
- To assess the opportunities and prospects of microinsurance market in Ethiopia.
- To examine the extent to which the regulatory framework and government action is conducive in promoting microinsurance in the country.

## **1.5 Scope and limitations of the Study**

Microinsurance is one streamline of the services provided by insurance industry. The broad role and contribution of the insurance industry to the nation could not be addressed in this research due to time constraint and the study is limited in assessing the challenges and prospects of micro insurance provision in the Ethiopian industry. The study is not intended to do in depth analysis of the potential beneficiaries in the low-income people as it requires huge resources and the focus of the study will be from the perspective of the insurance industry. The research will be based on feedbacks collected in the form of questionnaires and interview with the main players in the industry. Secondary data will also be used as additional inputs for the research.

## **1.6 Significance of the Study**

Microinsurance products are designed and targeted to serve low-income and marginalized people. By serving that segment of the population insurers acts as the mechanism to alleviate poverty and at the same time it is an area of new market for them. The research paper therefore attempts to examine the challenges and potentials of this new market for insurers in the industry. The result of the study and the recommendation thereon is expected to provide important input to insurance companies Board of Directors and Chief Executive Officers to examine their respective insurance company's business strategies for better results and meet the ultimate goal of ongoing concern. The study also gives important inputs to the insurance regulatory, development organizations and other policy makers for the necessary intervention in developing the sector and creating meaningful financial inclusion in the economy.

## **1.7 Organization of the Study**

This study is divided into five chapters. First chapter contains the background including research problem, questions, objectives, scope and limitations and significance of the study. Second chapter is literature review on the significance of insurance in general and microinsurance in particular from the insurer perspective and government concern in relation to its contribution for economic development by analyzing and evaluating previous studies. The third chapter is about the research methodology applied. Fourth one deals on analysis and discussion on the findings of the questionnaires and industry players' interview results. The fifth and last chapter is conclusion and recommendation by the researcher.

# **Chapter Two**

## **2. Literature Review**

### **2.1 Concept of Risk and Insurance**

Risk is an inevitable accompany of human being day-to-day life. Aafiza et al. (2014) ascertained that every individual and business is exposed to the possibility of various risks and disasters such as death, injury, losses and damages through accident, fire etc. and everyone must find ways to minimize such financial losses. Risk is defined as the chance of a loss or a loss itself (Churchill, 2006). Hailu (2007) describes in his book a number of definitions of the term risk by different scholars. Generally, risk is defined as an unfortunate incident that leads to undesirable outcomes. The actual outcomes could deviate from what is expected by an individual or an entity. Unexpected or emerging risks could divert people from their own assumption and expectation of outcome in day-to-day life and/or their business activities. It can therefore, be inferred from the common definition that if the deviation from the expectation is adverse, it will give rise to a loss. Risk is a probability or threat of damage, loss, or any other negative occurrence that is caused by external or internal vulnerabilities and that may be avoided through pre-emptive action (e.g., Tessema et al., 2018).

Risk or uncertainty (although there are arguments that the two are different as cause and effect), whether existing or emerging risks, need to be managed if not avoided (Free risk management book- Guide to effective risk management/3.0, January 2017). Risk management is thus, a crucial mechanism for individual and businesses and plays a pivotal role in fostering economic development of a nation and in safe guarding the wellbeing of society.

The standard process of risk management is identifying, assessing and prioritizing potential risks or uncertainties that could affect individuals, organizations and a nation and taking proactive treatment to mitigate, monitor and control those risks. These proactive actions could be avoidance, reduction, retention or transfer of risks. Managing risk becomes not easy and is a great challenge of our time with the advancement of technology, change in life style, nature continuous change, increasing occurrences of new challenges and emerging risks; human-made and natural calamities such as the case of COVID-19 pandemic. Individuals' definition of risk vary in their understanding level, which could affect their decisions and actions. Beliefs, culture, financial position, exposure, awareness level determines individuals risk understanding and their risk management style. One

possible way to overcome risk exposure is to buy an insurance cover. The main view point of insurance is to minimize risk. By transferring risk to insurance companies, individuals and organizations benefit from adverse and unfortunate financial crisis. Insurance can play a significant role in helping countries achieve the UN Sustainable Development Goals (SDGs) in terms of economic growth, social inclusion and environmental protection. This can be achieved through the risk transfer mechanisms of households, businesses and the public sector (Susan et al., 2021).

Insurance is an agreement for mutual co-operation between two parties to protect one of them from unexpected future asset or financial loss (Hussain and Pasha, 2011). According to Denis et al., (2016) in a simple word, insurance is a mechanism to connecting the misfortunes of the few to the fortunes of the many. That means distribution of risk by pooling, aggregating and pricing from one corner to the other. Insurance is “a device for the reduction of risk of one party, called the insured, through the transfer of particular risks to another party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured” (Pfeffer, 1956 as cited in Hailu, 2007). In a broader sense, insurance is the most lending force contributing towards economic, social and technological progress of mankind. Without insurance cover all industrial, economic and social activity of the world will come to a grinding halt (Zeeshan, 2014). Insurance companies are business organizations and operates on the principle of pooling/sharing of risks and the law of large number to ensure their profitability (Hailu, 2007).

Hailu (2007) clearly summarizes how insurance functions and benefits of insurance in the following manner;

- *Policyholder transfers risk and the potential economic loss to insurer by purchasing insurance cover in exchange of a payment called, premium.*
- *Insurer by collecting the premium from the policyholder enters into a legal contract/future liability to assume the financial loss of the policyholder or insured*
- *Indemnity/compensation is provided to the policyholder only if the risk transferred is materializes and resulted into financial loss in accordance with the terms and conditions of the insurance policy purchased.*
- *Insurance indemnity or compensation takes the form of either cash payment, reinstatement of the damaged property, or replacement, which is at the discretion of the insurer.*

- *Insurance also, gives policyholders relief from anxiety or fear of the occurrence of uncertainty and the impact of misfortune. And provides a peace of mind to make decisions in a more stable and rational way.*
- *Insurance companies are business organizations and hence they strive to remain profitable. Insurance operates with the principle of the “law of large numbers” to ensure profitability of insurers. Which means that for the insurance system to be commercially viable, they should write/give cover to a pool of a large number of similar/homogenous risks bought by a large number of policyholders.*

It is worth mentioning here that in the insurance ecosystem there is the operation of reinsurance wherein large and catastrophic risks can be transferred and spread from one corner to the other. Insurers transfer/share part of the risks accepted from insured/policyholders to reinsurers, by the same principle of premium payment (known as reinsurance premium/fee), if the risk is too large to be assumed by any one entity. A single insurance company might be unable to cover catastrophe risks such as epidemic, war, earthquake etc. damages which could affect a large number of insured parties/policyholders in one event. Thus, buying reinsurance cover by insurance company reduces the likelihood of large payout for a claim of catastrophic nature (<https://www.researchgate.net/publication>) (<https://www.investopedia.com>) accessed on January 4 2025.

### **2.1.1 Microinsurance (MI)**

Insurance business is traditionally classified into two broad categories as General (Non-Life) insurance business and Life (long-term) insurance businesses. General insurance business is the underwriting of property, casualty and liability risks for short periods, mostly on a yearly basis whereas the Long-term insurance business gives cover related to life, health, illnesses, mostly for long terms. The Proclamation to Provide for Insurance Business of FDRE, number, 746/2012 defines long term insurance business as Life, Annuity, pension, Health and related personal accident whereas all other types of insurance products fall under the general insurance business category. Micro-insurance is a sub-set of each of the major categories but with unique model. Micro-insurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. It is managed in accordance with generally accepted insurance practices (conventional insurance), except for the clearly prescribed target market, the low-income segment of the society (Churchill,

2006; Malima, et al. 2017). The term microinsurance refers to insurance services that are adapted to clients with low-income and no access to mainstream insurance services (Microinsurance Network, 2013). The NBE Insurance Directive, Licensing and Supervision of Micro-insurance Business, number SMIB/3/2020 defines Micro-insurance as any form of protection against risks that is defined for and accessed by low-income people, provided by provided by different categories of carriers but operating on business principles of insurance and funded by premium. According to Biener and Eling (2012), traditional insurance distribution systems are not designed to serve low-income markets: as its incentive is too small for insurance intermediaries (agents and brokers) who then focus on large number policies or sales instead of servicing. Thus, the main difference in the objectives of micro insurance from the conventional insurance is mainly with regard to the target group (Micro-insurance Network, 2013). Micro-insurance scheme is thus designed to address the untouched areas through the provision of insurance product (Tessemaet al., 2018). It is a mechanism to protect poor people against risk (e.g. accident, illness, death in the family, and natural disasters such as flood or droughts) in exchange for payments tailored to their needs, income, and level of risk. The Insurance Information Institute (August 3, 2020) publication distinguishes microinsurance products to be much less costly than traditional/conventional products and thus extend protection to a much wider market. The micro-insurance products vary in type and structure but are generally differentiated by high volumes, low cost and efficient administration. Microinsurance products can also be offered bundled with small loans by charging premiums that are small percentage of the loan amount. Table 2.1. shows a description summary of major differences between the conventional insurance (traditional) and microinsurance schemes;

**Table 2.1. Differences between the conventional insurance (traditional) and microinsurance schemes**

No.	Element	Microinsurance	Traditional/General Insurance
1	Target Market	<ul style="list-style-type: none"> <li>• Individuals with no insurance awareness</li> <li>• Individuals under high levels of risk</li> </ul>	<ul style="list-style-type: none"> <li>• Individuals with insurance awareness</li> <li>• Individuals under low levels of risk</li> </ul>
2	Product Design	<ul style="list-style-type: none"> <li>• Simple &amp; easy to understand</li> <li>• Involves less exceptions</li> <li>• Generally insured in groups</li> </ul>	<ul style="list-style-type: none"> <li>• Complex structure</li> <li>• Involves more exceptions</li> <li>• Majority is individual policies</li> </ul>
3	Premium Designation	<ul style="list-style-type: none"> <li>• Statistical data is insufficient</li> <li>• Pricing is made based on the group</li> <li>• Highly price sensitive</li> </ul>	<ul style="list-style-type: none"> <li>• Statistical data is used</li> <li>• Pricing is made based on individual</li> <li>• Not highly price sensitive</li> </ul>
4	Premium Collection	<ul style="list-style-type: none"> <li>• Mostly weekly payment</li> <li>• Payments can be irregular</li> <li>• Mostly customers are visited for the premium collection</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly or annual payments</li> <li>• Payments are regularly made</li> <li>• Mostly customers visit insurers</li> </ul>
5	Distribution Channel	<ul style="list-style-type: none"> <li>• Microfinance &amp; microinsurance companies</li> </ul>	<ul style="list-style-type: none"> <li>• Intermediaries such as registered insurance agents, brokers &amp; insurance companies</li> </ul>
6	Controls for Insurance Risks such as fraud	<ul style="list-style-type: none"> <li>• Controls are limited</li> <li>• Transactions are made with minimum number of documents</li> </ul>	<ul style="list-style-type: none"> <li>• Medical exams, scans for health insurance</li> <li>• Many documents are required</li> </ul>
7	Claims Process	<ul style="list-style-type: none"> <li>• Simple &amp; fast methods are used for damage assessment</li> <li>• Process is completed in a rapid manner</li> </ul>	<ul style="list-style-type: none"> <li>• Several documents are required for damage assessment</li> <li>• It may take an extended period of time for the process to be completed.</li> </ul>

<http://www.researchgate.net>, Uploaded by Ismail Yildirim, (source, Lloyd's, 2009; Sigma, 2010)

The ILO, *Protecting the Poor: A Microinsurance Compendium* published in 2008 simply distinguishes insurance for the poor/MI from the conventional insurance and mainstream social-protection programs with the following key characteristics;

- *Relevant to the risks of low-income households*
- *Need to be inclusive, as much as possible avoid excluding, such as high-risk persons*
- *Premiums are affordable to the poor by having small benefit packages*
- *Group insurance than individual coverage*
- *Clearly defined and simple rules and restrictions*
- *Easily accessible claims documentation requirements*
- *Effective strategies to overcome the apprehension of low-income households as regards insurance.*

It is agreeable that microinsurance products should have to be as accessible as possible, affordable, delivered in groups for efficiency, clearly defined, simple rules & restrictions in time of claim, less documentation requirement. The big challenge is thus, the making of the existing mindset of traditional insurers in promoting micro-insurance business model in a way needed by the poor society. According to ILO book on *Protecting the Poor* (2008), one of the distinctiveness of the micro-insurance scheme from the conventional one is it has double faces; serving as social protection to the poor in the absence of appropriate government schemes. In its other face it is a unique business model that enables the poor to be a profitable and sustainable market segment for commercial insurers.

### **2.1.2 The Development and Impact of Insurance/Microinsurance in economy**

Despite its enormous role, insurance is often a neglected and invisible financial service especial in underdeveloped societies and economies, particularly, when compared with other financial services like banks, MFIs. As well described in ILO paper on *Insurance and Economy*, insurance is everywhere in developed economies and societies, “a vast number of actions and interactions are covered by an insurance contract: people’s health, their movements, purchases, homes and even their lives”. According to a publication of Insurance Information Institute by Dr. Steven Weisbart, CLU, “if people asked what insurance does, a vast majority will tell you that insurance provides protection against financial aspects of a premature death, injury, loss to property, loss of earning power, legal liability or other unexpected expenses and also they may tell the insurance industry has given job opportunity for many employees and are a good source of government tax

collection”. He further explains “these are byproducts of the contribution of an industry that is at the heart of the growth and progress of every modern economy”. In his analysis, the contributions of the insurance industry categorized into three major areas as summarized below;

1. *Safety and Security: financial compensation to policyholders/beneficiaries*
2. *Economic/financial stability: compensate losses, ensures smooth flow of supply chains among businesses and reduces the need for asiding funds for “rainy day”.*
3. *Development: the industry boost infrastructure construction projects, foster innovation, facilitates borrowing processes by providing guarantee for lenders, support government*
4. *Through buying and holding bonds, also insurers are largest investors.*

Yaya (2019) also affirmed that the increase in insurance activities is crucial for advancing the industry, preventing disruptions in economic activities, providing employment, and enabling consumers to lead secure lives.

The role of insurance for economic development comprehensively identified in four important functions (as posted by the Slayton search partners (Chicago);

- *Protecting against financial loss: as a form of financial protection, insurance safeguards businesses from variety of risks such as data breaches, natural disasters, injuries, supply chain disruptions, that might cause loss of millions of dollars. In the personal line also, insurance protects from unexpected expenses of medical care, liability and property damage in so doing consumers can maintain their buying power and stimulate the economy.*
- *Promoting economic growth: insurance derisk the trial-and-error process behind research and development and give courage to leaders, investors to innovate.*
- *Providing capital: insurers themselves are good investors and promote long-term economic growth.*
- *Stabilizing the economy in crisis: during economic crisis, the protective characteristics of insurance becomes highly valuable. Insurers provide a safety net, mitigating losses in economic downturns and inflationary periods. When consumers loss buying power, insurance prevents widespread social inequality by preventing further losses in asset.*

Younsi et al., (2024) as published on Future Business journal, also are in agreement with the contribution of insurance as a financial mechanism the development of which would strengthen economic growth of any country in the following ways:

- ✓ *Activating markets to encourage innovations and competition;*
- ✓ *Enhancing financial intermediation to create liquidity and enable savings;*
- ✓ *Providing social security to relieve fiscal expenditures;*
- ✓ *Protecting firms from unpredicted losses to strengthen financial robustness; and*
- ✓ *Offering firms and householders risk management information to maintain sustainable development.*

Another viewpoint of the use of insurance is for socioeconomic purpose. In many countries, governments enact laws that require motorists to purchase auto liability insurance to compensate road accident victims (Weisbart et al., 2018). There are also different types of mandatory liability insurance acts by different states. Such as, employers' liability, contractor's liability, etc. for the purpose of social protection by governments to promote a sound economy.

As clearly depicted in the ILO, Impact Insurance Paper published in 2016, for an economy to advance, it requires taking large risks and robust financial system, greater financial inclusion. Insurance facilitates the efficiency of financial system through risk transfer and distribution among economic players and is cause for innovation and free movement of wealth within a society. Quantitatively, the positive impact of insurance as a driver of economic growth can be seen by the extent of huge compensations made to claimants/beneficiaries and big businesses who suffer financial losses. Allianz Commercial report has identified the top losses from more than 530,000 insurance industry claims in over 200 countries for the period 2017-2021, a claim value of euro 88.7 billion, which means that insurance companies have paid out on average over euro 48 million every day for five years to cover losses.

The significance of insurance for economic development and growth could also be seen from the perspective of the UN Sustainable Development Goals (SDGs) of 2030. The UN sustainable development goals take a holistic approach linking economic development, social inclusion, and environmental protection with insurance also having multiple purposes in these dimensions as well. Based on an in-depth examination of the goals, (Susan et al., 2021) identified the impact which the insurance mechanism can have on the SDGs by categorizing in terms of extent of

insurance impact as significant, strong and moderate. Table 2.2 illustrates the relevance of insurance towards the success of SDGs by category.

**Table 2.2. Relevance of insurance towards the success of SDGs by category.**

<b>The Possible Impact of Insurance</b>	<b>SDGs in subject</b>
Significant	<ul style="list-style-type: none"> <li>➤ <b>SDG 3.</b> Ensure healthy lives and promote well-being for all at all ages</li> <li>➤ <b>SDG 10.</b> Reduce inequality within and among countries</li> <li>➤ <b>SDG 11.</b> Make cities and human settlements inclusive, safe, resilient and sustainable</li> <li>➤ <b>SDG 13.</b> Take action to combat climate change and its impact</li> </ul>
Strong	<ul style="list-style-type: none"> <li>➤ <b>SDG 1.</b> End poverty in all its forms everywhere</li> <li>➤ <b>SDG 2.</b> End hunger, achieve food security and improved nutrition and promote sustainable agriculture</li> <li>➤ <b>SDG 6.</b> Ensure access to water and sanitation for all</li> <li>➤ <b>SDG 15.</b> Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss</li> <li>➤ <b>SDG 8.</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</li> </ul>
Moderate	<ul style="list-style-type: none"> <li>➤ <b>SDG 4.</b> Ensure inclusive and quality education for all and promote lifelong learning</li> <li>➤ <b>SDG 5.</b> Achieve gender equality and empower all women and girls</li> <li>➤ <b>SDG 6.</b> Ensure access to water and sanitation for all</li> <li>➤ <b>SDG 7.</b> Affordable and clean energy</li> <li>➤ <b>SDG 9.</b> Build resilient infrastructure, promote sustainable industrialization and foster innovation</li> <li>➤ <b>SDG 12.</b> Ensure sustainable consumption and production patterns</li> <li>➤ <b>SDG 14.</b> Conserve and sustainably use the oceans, seas and marine resources</li> <li>➤ <b>SDG 15.</b> Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss</li> <li>➤ <b>SDG 16.</b> Peace, justice and strong institutions</li> <li>➤ <b>SDG 17.</b> Revitalize the global partnership for sustainable development</li> </ul>

The ILO, *Protecting the Poor, a Micro-insurance Compendium*, 2008 book draws certain MDGs that would be more achievable if insurance were widely available among low-income households in meeting the targets and helping to gain the attention of policymakers, donors and development practitioners, such as;

- *Halve the proportion of people whose income is less than one dollar per day.*
- *Halve the proportion of people who suffer from hunger.*
- *Ensure that children everywhere, boys and girls alike will be able to complete a full course of primary schooling.*

- *Eliminate gender disparity in primary and secondary education.*
- *Reduce by two-thirds the under-five mortality rate.*
- *Reduce by three-quarters the maternal mortality ratio.*
- *Halt and begin to reverse the spread of HIV/AIDS.*
- *Halt and begin to reverse the incidence of malaria and other major diseases.*

The benefits of micro-insurance can be seen from three different levels. At the household level, micro-insurance is believed to break the cycle of poverty. Secondly, for the providers, such as cooperatives, unions, NGO's, it helps to achieve their social obligation and for insurers, micro-insurance provides access to the bottom of the pyramid to serve the next generation of today's policyholders. The third benefit is for the community and country as a whole by promoting risk reduction measures, benefits efficiently creditors and borrowers. In a more broad way within the economy, the provision of insurance by commercial insurers contributes for mobilization of long-term savings among others (ILO, Protecting the Poor: A Micro-insurance Compendium, V. II).

Another instrument to show the relevance of the operation of insurance in an economy is the mode of its measurement. The growth and economic contribution of insurance operation in an economy is measured by two parameters; Insurance penetration ratio and insurance density ratio. Insurance Penetration measures the contribution of insurance premium to the Gross Domestic Product (GDP) of a country in percentage terms. Insurance Density is the ratio of insurance premium to the total population. It gives an indication of how much each of the people in a country spends on insurance in terms of premium (per capita premium for the country) (Optimize IAS, posted April 19, 2021 assessed on January 4, 2025). The higher the insurance penetration and insurance density ratio indicates the higher the development level of the insurance industry in a particular economy. According to the Swiss Re Sigma report number 3, 2016 as cited in Younsi et al., (2024), the insurance penetration in 2015 amounted to 6.23% of global GDP. Insurance spending in developed countries ranges from 8% to 11% while it ranges from 2% to 4% in developing countries. In a latest report of IFC googled on January 10, 2025 from World Bank, <https://documents1.worldbank.org>, disclosed that overall penetration, measured by premiums to GDP, in emerging markets is just 2.9%, and in some cases below 1%, compared to over 7% in US and more than 9% in UK. It is also noted that despite the low penetration of insurance in developing countries, the positive sign is that the growth of the insurance premium continues to outstrip the rate of growth of GDP and as GDP per capita continues to grow, insurance spending is rising.

The insight from Swiss Re Sigma “World Insurance Study for 2020” unveiled limited growth prospects in the insurance markets of developed countries, insurers see emerging economies as presenting significant potential for growth and profitability. The study identifies emerging markets as countries in South & East Asia, Latin America & the Caribbean, Central & Eastern Europe, Africa, the Middle East, (excluding Israel), Central Asia & Turkey. The latest data shows that emerging markets account for around one-fifth of the total global premium spend, despite representing 80 percent of the world’s population which shows there is enormous potential for growth (Micro-insurance Network annual report, 2017).

According to Lloyds 360° Risk Insight [www.lloyds.com/360](http://www.lloyds.com/360) accessed on January 11, 2025 the potential market for insurance in developing economies is estimated to be between 1.5 and 3 billion insurance policies/contracts. There is significant demand for a range of insurance products from health & life, agricultural, property, to catastrophic cover. The basis of growth potential for insurance in developing economies is the higher the proportion of low-income population in these countries. Insurers in the developed economies tend to explore market potential in developing countries through micro-insurance projects. Micro-insurance is at the center of development agenda for governments and a business strategy for insurance companies. The Lloyds report also affirmed that less than 5% of people on low-incomes have access to insurance and the products they need the most. Thus, leaving the playing field for microinsurance providers with huge prospect. The guideline of Microinsurance Network & the Center for Finance Regulation & Inclusion (CENFRI) estimates that over the next 10 years the micro-insurance market could grow to one billion policyholders, which is one third of the potential market of 3 billion and seven times more than the current estimated market size. Micro-insurance already covers around 135 million people or 5% of the potential market worldwide and in many countries, annual growth rates are 10% or higher. Among the different financial services, the fast spread of the microfinance over the last so many years covering a wide portion of medium to low- income population in developing countries brought along with it the increase demand for insurance especially microinsurance products. “If microcredit is helping people to acquire new wealth, microinsurance will help them to keep it” (a quote from Lloyds 360° risk insight).

The unprecedented COVID-19 pandemic health challenge has dramatically added to the risks confronting the poor and vulnerable countries where health and social care is already stretched, and future welfare provision is far from certain. In addition, the fast climate and health disasters becoming the new normal, there brought a huge opportunity for insurers to think out of the box and help businesses and households through innovative products manage the risks they face and alleviate the burden on economies (Microinsurance Network annual report 2019, published July 8, 2020). For the development of insurance and particularly microinsurance, the emergence and fast

spread of innovative technology has an important role to play. Mobile network operators are providing various types of microinsurance products to 40 million people in Asia through their mobile, where nine out of ten people have first time experience with insurance (Insurance Information Institute, 2020). It is the believe of the researcher of this study that a lot has been learnt from the whole analysis and empirical statistics made by different writers that there is a strong future business prospects for insurance and microinsurance in particular and its enormous impact on economic development.

## **2.2Microinsurance in Africa**

The continent of Africa, with a population size of 1.4 billion and the second largest in the globe, remains to be astonishing and highly prospective market for economic growth. Insurance penetration is less than 3 percent with 650 million mobile users (Elijah, 2023) and around 34 percent of the population living in poverty (spending USD1.9/day, UNCIAD, 2021). According to Matul et al. (2010) estimate, about 70 percent of the population living in Africa are the potential clients for microinsurance.

Within the continent of Africa, the development level of insurance varies from country to country, South Africa taking the lead especially in the life insurance market accounting for more than 85% in 2017 (Sigma 3/2018).

As explicitly described in Lloyd's 360°, Risk Insight: a study on Insurance in Developing Countries review ([www.lloyds.com/360](http://www.lloyds.com/360) accessed on December25 2024), low-income people in developing countries are exposed to a variety of significant risks to their wealth and health/life. To manage these risks, they resort to a number of strategies such as;

- *Informal risk sharing arrangements*
- *Conservatism (i.e. avoiding risky activities)*
- *Self-insurance through savings, reduced expenditure (including withdrawing children from school) and acquiring additional work*
- *Emergency credit from family or money lenders*
- *Liquidation of assets*
- *In some countries, selling children into bonded labour.*

Several of these common risk management strategies bring with them severe secondary costs to the families, significantly increasing the cost of the loss. When funds are borrowed from money lenders, interest rates are often excessive. In emergency situations, assets such as livestock or land- both critical for continued income generation- are usually sold at a fraction of their full value and then families are left without a source of income (ILO 360).

Insurance in developing countries is not regarded as a main driver for economic growth as compared to other sectors such as infrastructure development and technology. However, insurance contributes to the national economies of many countries in a lot of ways such as employment creation, tax payment, investment, savings, and risk stabilization amongst others. (Malambo, M. 2023. Insurance penetration in Africa – A systematic literature review, journal of financial risk management, 12, 87-94. Millions of dollars are spent by governments, donors, etc. to eradicate poverty, support vulnerable households. There are also a number of initiatives by international organizations, governments, non-governmental organizations regulators, etc.(Impact of Insu. MI for economic dev.). Insurance helps to alleviate government efforts in the provision of some amenities such as pension, improving lives of people, economic diversification, mitigating risks and attracting direct foreign investment (FDI).

Initially, microinsurance in Africa was introduced as a form of charity through global financial aid programs from international organizations. However, overtime, other market players have also begun to offer affordable insurance policies to specific segments of the population including private insurers, mutual insurance companies, MFIs, etc. (Microinsurance Network, 2021) Although the contribution of insurance in economy is immense, the perception of its benefits is still limited in Africa and the growth is slow in most developing countries with the penetration rate of not more than 3 percent as compared to the average penetration rate of 7 percent in developing countries. But the encouraging thing is the growth rate in developing countries is becoming much higher than the developed ones. In the same journal, the researcher further described the importance of insurance to alleviate government efforts in the provision of some amenities such as pension, improving lives of people, economic diversification, mitigating against risks and attracting direct foreign investment (FDI) through risk stabilization.

The key to profitability in MI lies in the business model in order to be profitable, a “low-margin/high volume” philosophy must be adopted. That is micro-insurance product providers must

carefully price their products with low margins and then sell in large volumes. By doing so, they can achieve profitability through scalability. The demand, not just the need, for MI is high – by low-income market. Responding with flexible and appropriate products and services is an enormous challenge (Cohen et al., 2003).

On the growth trajectory, the Microinsurance Network 2021 reports that, in the studied African countries (13 of 54 countries: Egypt, Ivory Coast, Kenya, Ghana, Nigeria, Morocco, Senegal, Rwanda, Tanzania, South Africa, Zambia, Uganda, and Zimbabwe), many customers were reached through a total of 18.7 million policies in 2020. It is estimated that between 17 million and 37 million individuals were covered by microinsurance in those countries<sup>12</sup>. This translates into an estimated proportion of 4% to 9% of the targeted population being covered by a micro-insurance product, which is a significant increase compared to the numbers reached in 2019, where between 9.1 and 29.6 million people were reached, representing between 2% and 7% of the low- and middle-income population in the countries studied. The most successful and widely utilized micro-insurance products in Africa from trend analysis from 2014 to 2020 were credit life, funeral, and health. Other product lines, such as personal accident, have not seen the same level of success. The lower scale reached in Africa can be attributed to the region's economic and geographical challenges, as well as the fragmented nature of the insurance market. Delivery of microinsurance to clients is one of the biggest challenges that micro insurers face (MI in Africa; the S/African Insurance survey 2017, KPMG).

The insurance market in Africa is also highly competitive, with numerous insurers competing for customers. This trend shows a consistent growth in microinsurance coverage over the years. Though Africa has a low insurance penetration rate; there has been a significant improvement in coverage rate year over year, particularly in low-income populations.

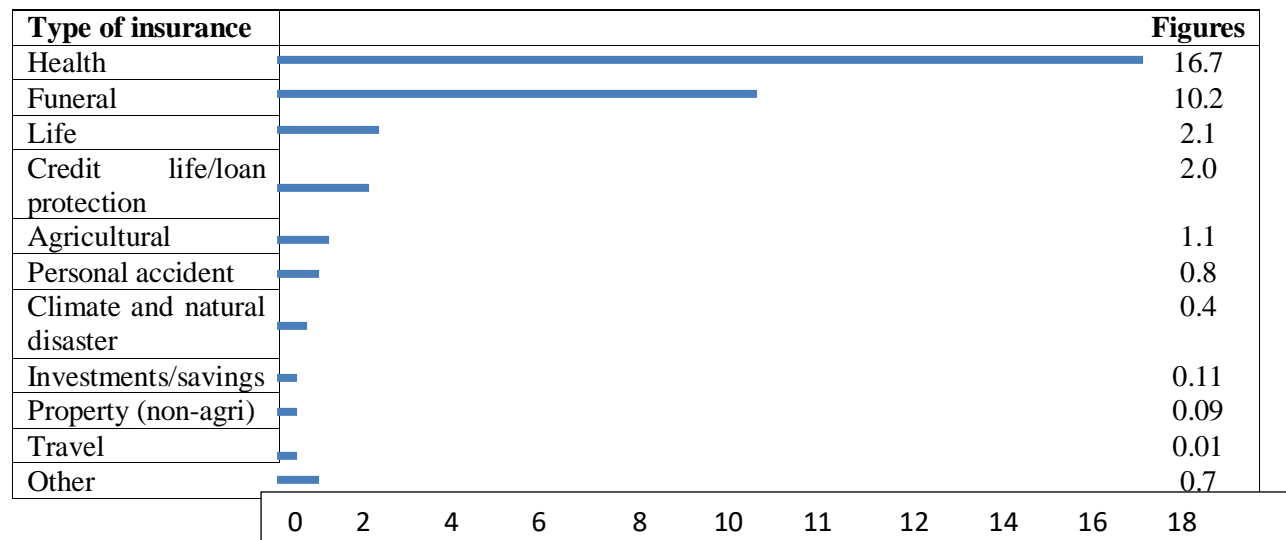
A variety of factors contribute to low insurance coverage and penetration in Africa. This includes low purchasing power because of low levels of income in developing and emerging economies (low GDP per capita), a lack of awareness, distrust due to generally (very) slow payment of claims and an inadequate understanding of how insurance works. Product suitability and inappropriate distribution models are two other critical issues that further impede insurance capacity (microinsurance in a nutshell: only for Africa, 2023).

According to an article by Imara, insurance companies in Africa traditionally target only the richest 5% of the adult population, with most poor people having no insurance. Even in South Africa, which has a well-developed insurance market, less than 30% of low-income adults have insurance.

This presents an opportunity for micro-insurers to sell low-cost products to the poor. In the past few years, the advent of mobile money has also brought a new dimension to Africa's insurance industry. As most Africans have a mobile phone, buying insurance on a mobile phone is an exciting growth area as it offers a more affordable way for Africans, especially in remote regions, to gain access to insurance products. It only needs the cooperation of telecommunications companies, banks, and insurance companies (KPMG Insurance in Africa, 2015). Issac et al., (2023) simply illustrates the progress of mobile money services in financial inclusion as seen in the table below in West African Economic and Monetary Union (WAEMU).

However, the current reach of microinsurance in Africa falls far below its potential. Figure 2.1 shows a significant variation in total across countries. In 2005, microinsurance was offered in 20 countries, growing to 32 in 2008 and 39 in 2011. On average, less than 0.5 percent of the African population was covered by micro-insurance in 2005, growing to more than 3.5 percent in 2011. Still microinsurance is not offered in some countries in Africa. According to the 2021 data from the report Landscape of Microinsurance 2021 (Landscape of Micro-insurance 2021), from 17 to 37 million people, i.e. from 4% to 9% were covered by microinsurance in 13 African countries. These countries include: Ivory Coast, Egypt, Ghana, Kenya, Morocco, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe. The population of which was covered by a total of 18.7 million policies (Rustam and Aziza, 2023). For comparison, in 2019, these figures amounted to 29.6 million people and from 2% to 7%, respectively (Rustam and Aziza, 2023). The average insurance premium per insured person in Africa in 2019 and 2020 was USD 14.0 and USD 11.60, respectively (Rustam and Aziza, 2023). This might show the decrease in per person premium as more competitors might have entered to the market to provide microinsurance products to their clients.

**Figure 2.1. Variations in total insurance coverage across African countries**



*Figure 2.1. People covered by microinsurance product lines in Africa (USD millions)(Source: Merry, 2021)*

As shown in Figure 2.1 the most increasingly common microinsurance product among most of the population in Africa that is widely marketed in Africa is medical micro-insurance products, followed by funeral insurance, life insurance, and credit life insurances.

## Chapter Three

### **3. Methodology**

#### **3.1 Research Design**

Qualitative and descriptive research methods were employed in this study, which aimed to investigate the challenges and opportunities of microinsurance in Ethiopia. The research objectives of this report were fulfilled through in-depth, unstructured interviews with a select group of experts and microinsurance users.

#### **3.2 Population**

Population for the study involved in the actors in the insurance sector in general and that of the microinsurance in particular. All the actors that are involved in the microinsurance product delivery and its framework designing (e.g., National Bank) are considered as part of the population for this study.

#### **3.3 Sampling Approach**

Purposive (non-probability) sampling was applied in this study as it aimed to obtain sufficient information from expertise in the area of microinsurance practices (challenges and opportunities) in Ethiopian context. Purposively respondents were selected from the following organizations: i) Insurance, ii) Insurance brokers, iii) Microfinance institutions, iv) National Bank, and v) Others (e.g.; re-insurers).

#### **3.4 Method of Data Collection**

This study used a questionnaire with open ended questions (See Appendix I) to collect the opinions of respondents with regard to the challenges and opportunities of doing microinsurance products in Ethiopia. The questionnaire was designed based on the open interview discussions with four (4) experts in the area of microinsurance. Their in-depth responses helped to categorize items that pertain to the issues of microinsurance business in Ethiopia. The questionnaire served as a means to capture issues under the research objectives of: i) To assess challenges of the industry in design and marketing of microinsurance products, ii) To assess the opportunities and prospects of microinsurance market in Ethiopia, iii) To examine the extent to which the regulatory framework and government action is conducive in promoting microinsurance in the country.

### **3.5 Ethical Consideration**

The data collection of this study was based on the informed consent of the participants. Data were collected from respondents of their own free will and their response was fully informed. Besides, the confidentiality of data and anonymity of the respondents are secured.

## Chapter Four

### 4. Research Findings

#### 4.1 Sample of Respondents

The types of organizations that were included in this case study are shown in Table 4.1. below. As Table 4.1.shows, about 67 percent (18 out of 27) of the participants in this case study are conventional insurance companies. Few conventional insurance firms also provide microinsurance services at a very low scale. For example, Nyala Insurance Company (NISCO)and Oromia Insurance Company (OIC) are providing microinsurance to very few farmers and pastoralists in the form of Index Based Livestock (Crop) Insurance with the help of developmental organizations. About 18 percent (5 out of 27) of the participants in this case study are microfinance institutions. Insurance broker and National Bank of Ethiopia are represented each by one respondent. Re-insurance firms are represented by 2 respondents.

**Table 4.1.Types of Organizations included in the Case Study**

No	Type of organization	Frequency	Percent	Valid Percent	Cumulative Percent
1	Insurance	18	66.7	66.7	66.7
2	Insurance Broker	1	3.7	3.7	70.4
3	Microfinance institutions	5	18.5	18.5	88.9
4	National Bank	1	3.7	3.7	92.6
5	Others (re-insurance)	2	7.4	7.4	100.0
<b>Total</b>		<b>27</b>	<b>100.0</b>	<b>100.0</b>	

**Table 4.2. Gender and Educational Level of Sampled Respondents**

No	Gender	Frequency	Percent
1	Male	24	88.9
2	Female	3	11.1
<b>Total</b>		<b>27</b>	<b>100</b>
<b>Education level</b>			
4	Bachelors Degree	8	29.6
5	Masters Degree	19	70.4
<b>Total</b>		<b>27</b>	<b>100.0</b>

**Table 4.3.Firm size in terms of employees number**

<b>Number of employees</b>	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Less than 50	6	22.2	22.2	22.2
50 to 200	5	18.5	19.2	40.7
201 to 400	12	44.4	46.2	85.2
401 to 600	3	11.1	11.5	96.2
Above 600	1	3.7	3.8	100.0
Total	27	96.3	100.0	

Currently involved in microinsurance product provision (9 out of 27). This means that only about 33 percent of the firms related to microinsurance are actually providing the business to the clients. Among the 33 percent of the respondents who are currently engaged in the microinsurance products marketing, the following are the types of products that they offer to their clients. a) Average yield index insurance, insurance tech, credit life insurance, crop, weather index, index based livestock insurance (IBLI), individual loan, consumption loan, micro-business loan, and VICI<sup>1</sup>/VICI. Out of 18 respondents who are not currently involved in selling the microinsurance products, 14 of them indicated that they have plans to engage in selling microinsurance products in the future.

## **4.2 Opportunities for Microinsurance in Ethiopia**

Regarding whether microinsurance business has opportunities in Ethiopia, 96 percent (26 out of 27) of the respondents indicated that there is an opportunity for the business. Only 4 percent (1 out of 27) indicated as there is no business opportunity for the microinsurance scheme in Ethiopia. This means that in the views of the sampled respondents, there is still a business opportunity for microinsurance business in the country. Nevertheless only 33 percent (9 out of 27) of the

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<sup>1</sup> VICI is a vegetation index-based insurance that is linked to farmers credit, is affordable, and does not depend on subsidies

respondents indicated that their company is currently engaged in microinsurance business. Among the nine sampled respondents who are currently operating microinsurance business, the type of microinsurance products that they provide to their clients include: Index based livestock insurance (5), index-based crop insurance (7), credit life insurance (3), individual loan (1), consumption loan (1), micro-business loan (1). The index- based livestock and crop- index based crop insurances are the ones frequently stated by the firms.

About 67 percent (18 out of 27) of respondents indicated that their company is not currently involved in the microinsurance business. Based on further probing question 14 of the 18 respondents (who indicated that they are not currently running the microinsurance business) indicated that they have a plan to start the business in the future. Only three of the 18 still indicated they do not have a plan to start in the future. This might indicate that in the future even those who are not currently operating might start the business of microinsurance.

Regarding the possible opportunities that potentially exist in the market for microinsurance products in Ethiopia, respondents were requested to list the factors that they consider are important in creating opportunities. After listing, the respondents have ranked among the factors in order of their importance. See Table 4.4

**Table 4.4. Opportunities for Micro-insurance Business in Ethiopia as Indicated by Respondents**

No	Opportunity	Total tally	Ranked as first	Ranked as second	Ranking as third	Ranked as fourth	Ranked as fifth	Total
1	Large population with low income in Ethiopia which can serve as a good customer base for micro-insurance products	27	22	5	0	0	0	27
2	Existence of many cooperatives and informal associations in rural areas can be a good distribution channels (marketing) for micro-insurance	26	0	17	7	2	0	26
3	Presence of conducive legal frameworks and	23	4	0	14	4	1	23

	directives that encourage the micro-insurance product marketing in Ethiopia							
4	High profit opportunity	14	1	2	2	8	1	14

In terms of opportunities, the existence of high number of people with low income in Ethiopia which can serve as a good customer base for microinsurance product marketing is ranked as the first opportunity by 22 out of 27 respondents. This means that the respondents have emphasized on the huge market base for microinsurance in the country. Existence of many cooperatives and informal associations in rural areas is also ranked as the second opportunity (17 out of 26 who indicated this). This factor is reasoned by respondents because the cooperatives and informal associations (e.g.; Edir) can be good distribution channels (marketing) for microinsurance. Presence of conducive legal frameworks and directives that encourage the microinsurance product marketing in Ethiopia is also ranked as the third opportunity factor to expand microinsurance products. What is still surprising is that the respondents do not expect high profit from micro-insurance (at least in the medium term) as the ranking for this factor is only fourth (stated by 8 respondents out of 14). There are also cases where respondents stated the increased interest from donors and other organization in scaling microinsurance (indicated by 6 respondents) as another opportunity for microinsurance.

### 4.3 Challenges for Microinsurance in Ethiopia

Respondents were also asked to list the possible challenges that they consider are important for microinsurance in Ethiopia. After listing, they were also requested to rank them in order of their importance. The low level of public awareness on insurance and microinsurance products (23 out of 25), and absence or inadequacy of guidelines or directives to operate the microinsurance marketing (23 out of 25) are indicated as the major factors that challenge in operating the microinsurance by respondents. However, in terms of ranking the low level of public awareness on insurance and microinsurance is ranked as the first by 11 respondents (about 48 percent (11/23) of those who indicated the factor). Whereas **only 2 respondents** rated as the first factor for the absence of inadequacy of guidelines or directives to operate the microinsurance marketing (about 9 percent of those 25) rather this factor is rated as the second (6 out of 23) and third (4 out of 23). Surprisingly the guidelines and directives have been also stated as possible opportunities for microinsurance. The follow-up questions with the respondents have indicated that the presence of

the directives and guidelines can serve as opportunities (because working based on legality is important to attract the insurers as well as those willing to get coverage as it enhances trust in the system. However, since a lot is to be modified and revisited in the future as things unravel, it is also serving as a challenging factor (e.g., limiting foreign investment in the microinsurance scheme). See the list of the challenging factors and their rankings in Table 4.5.

**Table 4.5. Challenges for Microinsurance Business in Ethiopia as Indicated by Respondents**

No	Challenges	Ranked as first	Ranked as second	Ranking as third	Ranked as fourth	Ranked as fifth	Other	Total tally
1	Low level of public awareness on insurance products in general and microinsurance in particular	11	6	3	2	2	1	25 (1 <sup>st</sup> )
2	Absence or inadequacy of guidelines or directives to operate the microinsurance marketing	2	7	4	4	2	6	25(1 <sup>st</sup> )
3	Lack of skilled manpower in the areas of micro insurance	3	0	2	5	2	11	23 (3 <sup>rd</sup> )
4	Lack of technology	2	3	3	4	4	6	22 (4 <sup>th</sup> )
5	Traditional and informal practices (e.g. Edir) that discourage people from buying microinsurance products	0	2	2	0	4	13	21 (5 <sup>th</sup> )
6	Low affordability of microinsurance products by consumers	1	3	2	2	3	9	20 (6 <sup>th</sup> )
7	Financial constraints for a study, design & marketing of micro insurance products	0	0	5	3	2	10	20 (6 <sup>th</sup> )
8	No immediate return or profitability	4	2	0	3	4	5	18 (8 <sup>th</sup> )
9	Immediate profit orientation of sellers	1	1	3	2	2	7	16 (9 <sup>th</sup> )
10	Requires huge investment for the study, design & marketing	1	1	2	0	0	10	14 (10 <sup>th</sup> )

#### **4.4 Barriers to enter into microinsurance market in Ethiopia**

Respondents have indicated different factors that became barriers for firms to enter to the business of microinsurance in Ethiopia. Among the major factors indicated by the respondents as barriers include the following:

- 1) Lack of awareness by the public on microinsurance products (and low trust because of this).
- 2) Non-conducive laws, regulations, and legal requirements for microinsurance;
- 3) Low profitability from the microinsurance business because of the low affordability of the poor;
- 4) Lack of skilled manpower and appropriate technology in the sectors
- 5) Lack of updated data from meteorology, and agricultural centers for example for index based insurance.
- 6) Lack of (limited and weak) distribution channel for microinsurance products,
- 7) Weak and poor claim services of the insurers of in the conventional products/microinsurance;

Regarding the lack of awareness by the public on microinsurance products, respondents have indicated that doing business of microinsurance has high marketing and promotion costs just to convince the clients to buy the services. In addition, respondents also indicated that there is currently low level of appetite for microinsurance products due to low level of awareness and trust in the product. As stated by the respondents, different laws, regulations, and legal requirements are not generally conducive for microinsurance business in the country. In this regard absence of regulatory framework mainly because of the revocation of the first insurance directive has created a legal void until it is reinstated as some initiatives are forced to withdraw. The respondents pointed out that there is a lack of supportive directives by regulators of microinsurance in the country.

#### **4.5 Incentives to invest in the microinsurance market in Ethiopia**

Respondents were asked whether there are incentives to invest in microinsurance products in Ethiopian market. The following are the elements indicated by the respondents as good incentives to invest in microinsurance in Ethiopian market.

- 1) Presence of financial inclusion strategy by the government of Ethiopia;
- 2) Existence of many NGOs willing to support low-income segment through microinsurance scheme;
- 3) Government policy direction that provides a platform stating insurance for insurers;
- 4) Presence of large market opportunity because of the sheer size of the potential market. This is because Ethiopia has more than 70% of the population with a low-income;
- 5) Majority of the country's citizens are low-income and addressing this serves as an incentive for corporate social responsibility. Respondents stated that corporate social responsibility of stakeholders and their satisfaction when the poor are assisted to improve their livelihoods;
- 6) There is a government support in establishing distribution channels;

Respondents stated that there is in general high interest from NGOs to subsidize and incentivize microinsurance products (e.g.; index-based livestock insurance). Most of the respondents have indicated that so far there are no clearly stated incentives by the government to microinsurance scheme. Some of the respondents, however, stated the existence of subsidy scheme by donors and government. This is largely because in some areas the NGO support is channeled via formal Woreda structure where the respondents considered it as being delivered by the government and NGOs. Subsidy scheme by some NGOs is stated to be in terms of premium payments and other technical assistance to farmers.

#### **4.6 Key success factors to make microinsurance viable in Ethiopia**

Respondents have enumerated different elements which they consider are important ones to make the microinsurance a viable alternative to insure and support the lower income segment of the society. In this regard the following are enumerated as key success factors to make microinsurance viable in Ethiopia by the respondents;

- Creating awareness to government and public institutions;
- Relaxing the existing incentives and proclamation;
- Designing appropriate distribution channels for microinsurance products;
- Establishing and enhancing stakeholder collaboration and partnership;

- Innovation in product design such as developing customized products for the market and delivery system;
- Aligning microinsurance products scheme with poverty reduction strategy of the country for sustainable development;
- Clear policy designing for microinsurance products (e.g., clarity in wordings and language);
- Support by different stakeholders (e.g.; government and NGOs) and creating a donor support incentive mechanism for microinsurance products;
- Creating attractive incentive for microinsurance intermediaries and agricultural cooperatives;
- Use of insurance technology such as mobile money transfers to collect premium and working on technology based financial inclusion;
- Lowering premium rate to be charged to clients to make the product affordable to many people;

#### **4.7 Long term vision**

Regarding the perspective for a long-term vision to microinsurance, respondents stated that having a long-term benefit rather than short-term profit would create future microinsurance markets in Ethiopia. In this regard, respondents stated that insurers need to avoid short-term profit focus while engaging in the microinsurance markets. While in the process with a long-term vision on the benefits of microinsurance, awareness creation to the society on the very importance of the microinsurance, and establishing a good and workable legal framework need to be worked out. In this regard, respondents have pointed out the following as important elements on the long-term vision for the growth and benefits of the microinsurance products in Ethiopia.

- 1) Creating future market in the technology and financial literacy will bring huge demand for the market;
- 2) Financial inclusion policy of the government.
- 3) Getting onboard the involvement of all stakeholders; and
- 4) Having a clear strategy for microinsurance products at national level.

Respondents stated that for a viable and vibrant market for microinsurance products, there need be necessary investments in the expectation of all the benefits particularly for the poor. In relation to this issue, one of the respondents have noted as follows. *“Micro-insurance business requires a different business mindset and personal inspiration on the part of the initiators and entrepreneurs. As it is a kind of volume business, it will take longer time to scale up the uptake and get the returns. It is a challenging but it is financially and psychologically, morally rewarding.”*

#### **4.8 New Insights from microinsurance**

In the process of providing the microinsurance products to the low-income segment of the population, respondents have noted the presence of new insights from microinsurance that might not be the case in conventional insurance. The identified new insights can be better understood by the policy makers, insurers and clients for the betterment of the scheme in the future. The following new insights can be gained from microinsurance market compared to conventional insurance market in Ethiopia;

- Microinsurance can address large population with low-income. Thus, there is high market of microinsurance for the large part of population in the country;
- Understanding the low-income customers to create enabling society for microinsurance through service excellence;
- Microinsurance is for those who don't have the resources to cover losses from their own pocket. Thus, public needs to understand the purpose of microinsurance as it serves and supports the low-income but proportionally large population;
- Societal approach (e.g.; that targets broader poor community members) in microinsurance product designs and delivery is important. For this partnership of all stakeholders with local grass root community organizations is essential. In addition, use of technologies (innovation) needs to be exercised in the microinsurance provisions.

#### **4.9 Combining microinsurance with social welfare**

Respondents stated that there must be public private partnership in developing the role of microinsurance as part of the welfare scheme. Thus, participation of government, NGOs and other groups for necessary subsidies is necessary to combine a social welfare function through the microinsurance scheme. This to happen it is essential that the government directives and

regulation need be designed with a clear vision and goals to serve the poor at large scale. Government main stream media coverage can also be linked to microinsurance to provide an enhanced awareness to the product so that it can be sold at Woreda level in rural areas. In this regard, provision of legal social protection (for social welfare benefits) to a large number of the population can bring economies of scale helping to set affordable premium to achieve a win-win profitable situation. Further the respondents stated that informal associations such as *idir* should be organized by law as a mutual fund institution backed by microinsurance to make the later profitable and sustainable. According to the respondents, presence of microinsurance saves the low income groups of the population from sudden and unforeseen catastrophic events. It thus can serve to protect population from catastrophic risks, especially farmers from unforeseen risks such as droughts and others. In relation to this, one of the respondents has stated as follows:

*“Insurers can work with government and NGOs in providing microinsurance as one of the social welfare or poverty reduction schemes. However, the business can be sustained in the long run if it is undertaken on commercial basis.”*

There are however still respondents who doubt the sustainability of considering microinsurance as a means for welfare scheme. They stated that even though it is possible to combine the microinsurance with the welfare scheme, it would need to focus on the business model. There should be a focus on profitability only.

The following are issues that the respondents indicated as necessary for microinsurance scheme to be combined with the welfare scheme to support the livelihood of the poor.

- Align conventional insurance with microinsurance in training commitment
- Enhanced participation of government, NGOs and other stakeholder groups to subsidize the microinsurance sector.
- Provision of legal social protection to a large number of the population. This can bring economies of scale helping to set affordable premium to achieve a win-win profitable situation.
- Government mainstream media coverage to enhance awareness creation for microinsurance so that the product can be sold at Woreda level in rural areas.

- Clarity in government directives and regulations as well as having clear vision and goals by all stakeholders to serve the poor at large scale through microinsurance.
- Informal associations such as *idir* should be organized by law as a mutual fund institution backed by micro-insurance to become profitable.
- Insurers can work with government and non-government agencies in providing micro-insurance as one of the social welfare or poverty reduction tools. However, the business can be sustained in the long run if it is undertaken on commercial basis.
- Presence of microinsurance saves the low-income groups of the population from sudden and unforeseen events. It thus can serve to protect population from catastrophic risks, especially farmers from droughts.
- Research study on social challenges and gaps can create new products for the micro-insurance.

#### **4.10 The Role of Existing Regulatory Framework for Microinsurance**

Respondents have also indicated their opinion regarding whether the existing regulatory frameworks that government exercises in promoting micro-insurance in the country are attractive to enhance micro-insurance products marketing or not. In this regard about 67 percent (14 out of 21) of the respondents indicated as “no” whereas about 33 percent (7 out of 21) stated as “yes”. This might indicate that the existing regulatory framework for micro-insurance products is not conducive to promote it in a broader scale. When the respondents were asked as to the existing regulatory frameworks that government exercises in promoting micro-insurance in the country, NBE’s directives for microinsurance products and activities (directive niSMB3/2020) is largely mentioned. In addition, respondents have indicated the following as parts of the regulatory framework that were issued by NBE to facilitate the wider distribution of the microinsurance products in the country. However, respondents stated that the directives issued by the National Bank of Ethiopia are still broadly defined for microinsurance as insurance providers and services. The respondents also stated that under the existing directives, mainstream insurance companies are not required to have a separate license for microinsurance products. Regarding elements to be improved on regulatory framework and related issues (See Table 4.6).

**Table 4.6. Elements to be improved on regulatory framework and related issues**

No	Regulation type	Frequency
1	NBE directives for micro-insurance products and activities (directive niSMB3/2020)	10
2	NBE licensing and supervision of micro-insurance businesses,	2
3	Capital requirements of 10 million (7 million for life and 3 mill for general micro-insurance)	2
4	Framework for the provision of micro-insurance products	2
5	Permitting micro-insurance as a separate product	2
6	Renewal and product approval for micro-insurance	2
7	NBE collateral property registry directive	1
8	Method of premium calculation	1
9	Method of claim payment	1
10	Registry for mobile property collateral at NBE	1

Respondents indicated that there are elements to be improved in the existing regulatory framework for microinsurance products in the country. These include the following.

- A comprehensive and detailed directives and regulatory framework as to how to improve micro-insurance business. This can help the insurer, intermediary and customer.
- Appropriate prudential directive that allow registry of fixed asset and expansion of national ID registration.
- Regulatory flexibility that also includes micro-insurance market to foreign investors.
- Government should also work on capacity building on regulatory institutions for micro-insurance in addition to creating institutional framework.
- Designing policies regarding consumer protection to give confidence from the client to use the microinsurance products.
- Consumer protection regulation, data synthesis, and reporting.
- Microinsurance should be within its own domain but not with microfinance institutions.

Respondents have also indicated the following elements that need to be improved through the updating of regulatory directives and framework for micro-insurance. The recommendations are in the areas of: a) Marketing channels for microinsurance, b) Incentives for microinsurance, and c) Compulsory premium writing and Capital requirements for microinsurance.

a) *Marketing channels for micro-insurance:* The following are recommended by respondents in relation to marketing channels for micro-insurance.

- Allowing non-licensed agent (e.g., Edir) to sell the micro-insurance product.
- Allowing different distribution channels to operate legally.
- Issuance of directives for distribution channels of micro-insurance.
- Directives and incentive for ICT as a distribution channel.
- Working on agent development mechanism and incentives for intermediaries to motivate them.

b) *Incentives for micro-insurance:* The following are recommended by respondents in relation to incentives for micro-insurance.

- Provision of different incentives for the development of micro-insurance. Incentives like tax reduction and investment opportunities for insurers to write more micro-insurance.
- National Bank of Ethiopia should be involved through budget support for awareness creation on micro-insurance products.
- Encourage innovative products on micro-insurance through different incentives.
- Government needs to subsidy micro-insurance for its broader reach.

c) *Compulsory premium writing and Capital requirements for microinsurance.*

- To set a minimum threshold share of gross written premium (GWP) for each insurance company (to make it compulsory).
- Initial capital requirement has to be improved.

#### **4.11 Initiatives required by the Government to Develop and Strengthen Microinsurance**

Respondents indicated the current initiative from the federal government side for micro-insurance products is still low. Rather regional governments are showing more interest in initiating for agricultural insurance to purchase on behalf of farmers. Respondents stated that NBE should develop a strategy with Ministry of Agriculture (MOA) and others to develop microinsurance products. In addition to the need for strong collaboration with government agencies and NGOs to

promote the microinsurance; there should be strong partnerships with international re-insurers for microinsurance products as well. The provision of directives by the government (through NBE) with complete list of requirements with clear legal frame work could serve as a good initiative to develop and strengthen microinsurance products. In this regard, respondents indicated that the issuance of clear directives and regulatory frameworks for micro-insurance products is still essential. Clear directives and regulation can also make movable collateral to be used as loan collateral and the fixed asset registry at all levels. By improving access to mobile networks including the rural areas, access to micro-insurance product should be provide for all citizens for insurance coverage by their phone.

In addition to enhanced awareness creation programs on micro-insurance products, capacity building programs (e.g., training regulators of micro-insurance) should be provided to enhance the insurance industry. Different microinsurance product designing and development and subsequent approvals are required for a number of pilot programs even in the absence of regulations to enhance the significance of micro-insurance in the economy. To approach the business of micro-insurance in a systematic way, conducting various studies on micro-insurance need be conducted. In particular, survey across the whole population need be taken to identify the actual needs of the people with low income with respect to micro-insurance products.

#### **4.12 Propose to policy makers as a strategy to grow micro insurance in Ethiopia**

As microinsurance requires huge investment especially for awareness creation, the involvement of government is crucial. Commitment of the government is essential to grow and sustain the business of microinsurance. Government should put aside resources for the initial phases such as design feasible and practicable policy. In this regard, government needs to provide different incentives for insurance firms to involve in the microinsurance business. Also those policy makers must be aware of the concept and benefits of microinsurance that helps to eliminate poverty other than aid at times of drought or disaster. Thus, policy makers have to exert maximum extra miles to support the development of microinsurance by identifying the gaps that negatively influence the acceptance and growth of microinsurance among the society. Development of the microinsurance scheme at the national level helps for the growth of a nation as it serves to cover particularly poor citizens and the farming community from natural hazards such as droughts and other catastrophes

that otherwise demand the resources from the government in the form of emergence intervention. To consider this area as one important tool to improve the life of the underserved or marginalized population by providing an alternative risk mitigating tool that will actually relieve the state from spending huge fund at times of catastrophe and re-current natural disaster. Respondents proposed the following to policy makers as elements of strategy to grow microinsurance in Ethiopia.

- To develop microinsurance enhanced awareness creation of the public is essential.
- There must be a mandatory policy to implement microinsurance at the national level.
- Government needs to work hand in hand with all NGOs and other stakeholders including Ministry of Agriculture, Labour union, SACCOs, health services providers and others in supporting and developing microinsurance.
- Work on financial literacy and support those who start producing microinsurance with funds to sustain the business.
- Provision of special incentives for microinsurance providers like tax holidays and other incentives.

## Chapter Five

### 5. Discussions and Recommendations

#### 5.15.1. Discussions

According to the respondents of this study, there is still a business opportunity for micro-insurance business in Ethiopia (as indicated by about 96 percent of the sampled respondents). Nevertheless only 33 percent (9 out of 27) of the respondents indicated that their company is currently engaged in microinsurance business. Among the nine sampled respondents who are currently operating microinsurance business, the type of microinsurance products that they provide to their clients include: Index based livestock insurance (5), index- based crop insurance (7), credit life insurance (3), individual loan (1), consumption loan (1), micro-business loan (1). The index based livestock and crop-index based crop insurances are the ones frequently stated by the firms. This also goes with the previous study of Mokaddem (2009) who indicated that there are large opportunities for microinsurance products in most countries with a large lower income population. In Ethiopian context, respondents have indicated factors that they consider are important in creating opportunities for microinsurance. The most significant factors indicated by the respondents are: i) Presence of a large population with low income in the country which can serve as a good customer base for micro-insurance products, ii) Existence of many cooperatives and informal associations in rural areas can be a good distribution channels (marketing) for microinsurance, and iii) Presence of conducive legal frameworks and directives that encourage the micro-insurance product marketing in Ethiopia. The existence of high number of people with low income in Ethiopia can serve as a good customer base for microinsurance product marketing. However, there is also a downside of this factor as the larger segment of the population with lower income might also lack the ability to pay the microinsurance premium. In this regard a study conducted in Kenya by Onduso (2013) has indicated that the price of the microinsurance premium discouraged the required involvement of the low-income population in the microinsurance services.

From the challenging issues for the broader marketing of the microinsurance products, respondents have indicated several factors. The three most important factors serving as challenges to the microinsurance product marketing in Ethiopia are: i) Low level of public awareness on insurance products in general and microinsurance in particular, ii) Inadequacy of guidelines or directives to operate the microinsurance marketing, and iii) Lack of skilled manpower in the areas of microinsurance. The issue of the low level of public awareness to the microinsurance seems so

pervasive in the Ethiopian context. In similar vein, multi-country study on microinsurance by Morsink (2012) indicated that people's confidence in insurance as a product is key to inducing them to take out a policy. According to Morsink (2012) enhancing awareness creation for trust building is important element to make the microinsurance to actually help reduce poverty.

Public private partnership (PPPs) is indicated to be important element in developing the role of micro-insurance as part of the welfare scheme. Thus, participation of government, NGOs and other groups for necessary subsidies is necessary to combine a social welfare function through the micro-insurance scheme. This to happen it is essential that the government directives and regulation need be designed with a clear vision and goals to serve the poor at large scale. Government main stream media coverage can also be linked to microinsurance to provide an enhanced awareness to the product so that it can be sold at Woreda level in rural areas. Further informal associations such as Edir should be organized by law as a mutual fund institution backed by micro-insurance to make the later profitable and sustainable. Presence of micro-insurance saves the low income groups of the population from sudden and unforeseen catastrophic events. It thus can serve to protect population from catastrophic risks, especially farmers from unforeseen risks such as droughts and others. The study by Miguel (2015) has also emphasized the need for PPPs in insurance. According to Miguel (2015) PPPS require a careful design as both the government and the private sector learn from the experiences. An approach that is based on PPPs can give certainty to all parties involved in the distribution of the microinsurance products to the low- income population.

## **5.2 Recommendations**

Based on the findings of this study, in order to overcome the industry's challenges and seize the huge potential for the development of microinsurance, the following recommendations are forwarded;

*First*, there must be an enhanced awareness creation among the government and public institutions on the importance of microinsurance. The factors indicated to be the key for the success of a microinsurance in Ethiopia needs to be the buy-ins by the different stakeholders in the areas of microinsurance for its broader appeal. Enhanced awareness creation builds trust among the clients

and providers of the microinsurance products. Skill development strategy such as, by the regulator, for the insurance sector is crucial.

*Second*, enhanced public private partnership (PPPs) needs to be a priority for microinsurance dissemination. PPPs can bring different stakeholders for a concerted effort to strengthen the microinsurance product to the reaches of the low-income segment of the population. Thus, participation of government, NGOs and other groups can also create a platform for possible subsidy or other incentives to the microinsurance provider to their efforts to reach even the remote areas of the country. Successful PPPs can also create a possibility to combine a social welfare function through the microinsurance scheme.

*Third*, commitment of the government is essential to grow and sustain the business of microinsurance. Government should put resources for the initial phases such as design feasible and practicable policy. In this regard, government needs to provide different incentives for insurance firms to involve in the microinsurance business. Enhanced commitment and involvement of the government in support of the microinsurance scheme can also serve as one important tool to improve the life of the low-income population by providing an alternative risk mitigating tool that will actually relieve the state from spending huge fund at times of catastrophe and re-current natural and man-made disasters.

*Fourth*, improving the existing regulatory directives and framework for microinsurance. The improved directives need to focus in the areas of: a) Marketing channels for microinsurance, b) Incentives for microinsurance, and c) Capital requirements for microinsurance. The regulatory directives need to allow non-licensed agent (e.g., Edir) to sell the microinsurance product in the communities which might be difficult to access through the conventional marketing approaches. Incentives like tax reduction and investment opportunities for insurers to write more microinsurance products can be also provided as an incentive for the development of microinsurance. Setting compulsory minimum quota of gross written premium (GWP) on traditional insurance providers is also important to boost MI products in Ethiopia.

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## 6. Appendix I: Data Collection Questionnaire On Micro-Insurance

**Dear respondent!** This questionnaire is meant only for research purpose. The objective of the survey is to conduct research on challenges and opportunities in developing micro-insurance products by firms in Ethiopia. For this purpose your genuine responses to each of the survey questions are highly useful. Your responses will be confidentially used for this research purpose.

We highly appreciate for your willingness to participate as a respondent in this survey.

**Section I. Background information:** The following questions relate to your background as a respondent.

**1. Organization/Company/firm business sector:**

- a. Insurance
- b. Micro-insurance
- c. Insurance agents
- d. Insurance brokering firms
- e. Micro finance institution
- f. National Bank
- g. Insurance Association
- h. Other (please specify) \_\_\_\_\_

**2. Age of the business company (since it started its operation) in years \_\_\_\_\_**

**3. Your Gender:**

- a. Male
- b. Female

**4. Your educational level:**

- a. Diploma
- b. Degree
- c. Masters
- d. Other (please specify) \_\_\_\_\_

**5. Size of the firm in number of employees \_\_\_\_\_**

**6. Is your company currently involved in micro-insurance products selling?    a. Yes    b. No**

**7. If your response is “Yes” to question # 6, please indicate at least three main Micro insurance products, 1.-----, 2.-----, 3.-----**

**8. If your response is “No” to question # 6, do you have any plan to involve in selling micro-insurance products in the future?**

- a. Yes
- b. No

**9. Do you think that micro-insurance business has opportunities in Ethiopia?**

- a. Yes   b. No.

If your response is “No” please indicate your reason: \_\_\_\_\_

\_\_\_\_\_

**10. The following list contains the possible opportunities of micro-insurance products in Ethiopia.**

**Opportunities:** a) Please indicate those that you consider as important opportunities for micro-insurance products in Ethiopia among the following list;

- b) From the list that you consider as good opportunities please rank as first to the last in terms of their importance.

	<b>Opportunity</b>	<b>a) Indicate by tick (√ ) mark</b>	<b>b) Ranking</b>
a	Large low income population in Ethiopia which can serve as a good customer base for micro-insurance product marketing		
b	Presence of conducive legal frameworks and directives that encourage the micro-insurance product marketing in Ethiopia		
c	Existence of many cooperatives and informal associations in rural areas can be a good distribution channels (marketing) for micro-insurance		
d	High profit opportunity		
	<b>Please also indicate if you think of other additional opportunities</b>		
e			
f			
g			
h			

**Challenges:** a) Please indicate those that you consider as important challenges for micro-insurance products in Ethiopia among the following list.

b) From the list that you consider as real challenges please rank as first to the last in terms of their importance.

	<b>Challenges</b>	<b>a) Indicate by tick (√) mark</b>	<b>b) Ranking</b>
a	Immediate profit orientation of sellers		
b	Low level of public awareness on insurance products in general and micro-insurance in particular		
c	Low affordability of micro insurance products by consumers		
d	Absence or inadequacy of guidelines or directives to operate the micro-insurance marketing		
e	Lack of technology		
f	Traditional and informal practices (e.g. Edir) that discourage people from buying micro-insurance products		
g	Financial constraints for a study, design & marketing of micro insurance products		
h	Lack of skilled manpower in the areas of micro insurance		
i	No immediate return or profitability		
j	Requires huge investment for the study, design & marketing		
	<b>Please also indicate if you think other additional challenges</b>		
k			
l			
m			
n			

**11.** What are the barriers to enter into micro-insurance markets in Ethiopia?

a) \_\_\_\_\_

b) \_\_\_\_\_

c) \_\_\_\_\_

d) \_\_\_\_\_

**12.** What are the incentives to invest in the micro-insurance market in Ethiopia?

a) \_\_\_\_\_

b) \_\_\_\_\_

c) \_\_\_\_\_

d) \_\_\_\_\_

**13.** How can a long-term vision help to create future micro-insurance markets in Ethiopia?

\_\_\_\_\_

**14.** What are the key success factors to make micro-insurance viable in Ethiopia?

a) \_\_\_\_\_

b) \_\_\_\_\_

c) \_\_\_\_\_

d) \_\_\_\_\_

**15.** What new insights can be gained from micro-insurance market compared to conventional insurance market in Ethiopia?

\_\_\_\_\_

**16.** How can creating a social welfare function be combined with creating a profitable micro-insurance business in Ethiopia?

\_\_\_\_\_

**17.** Are the existing regulatory frameworks that government exercises in promoting micro-insurance in the country attractive to enhance micro-insurance products marketing? A. Yes

b. No

**18.** What are the existing regulatory frameworks that government exercises in promoting micro-insurance in the country?

a) \_\_\_\_\_

b) \_\_\_\_\_

c) \_\_\_\_\_

d) \_\_\_\_\_

e) \_\_\_\_\_

f) \_\_\_\_\_

**19.** What elements should be improved from the regulatory frameworks to facilitate the micro-insurance marketing products?

a) \_\_\_\_\_

b) \_\_\_\_\_

c) \_\_\_\_\_

d) \_\_\_\_\_

**20.** Please indicate any of the initiatives by the government to develop and strengthen micro insurance in Ethiopia?

\_\_\_\_\_

**21.** What do you propose to policy makers as a strategy to grow micro insurance in Ethiopia?

\_\_\_\_\_

*Thank you for your time!*