

CHAPTER EIGHT

INSURANCE BUSINESS IN ETHIOPIA

At the end of /after studying this chapter, students should be able to:

- ✚ Discuss the historical development of insurance industry in Ethiopia
- ✚ Explain the general theoretical supervision and regulation of insurances companies.
- ✚ Identify and explain the Licensing and Supervision of Insurance Business and Functions of the National Bank of Ethiopia in the country.

Introduction

In our earlier studies of the preceding chapters, we have learnt about the nature and characteristics of insurance, its principles and limitations and the major types of insurance. In this chapter, you will primarily deal with insurance policies in Ethiopia. A short discussion on the historical development of insurance business is made in the first section. And the second section focuses on the theoretical aspects of regulation and supervision in general. A much greater emphasis has been placed on section three to the licensing and supervision of insurance business in Ethiopia.

8.1 Historical Development of Insurance

Traditional protection of risks in Ethiopia can be found in the form of Edir and Equib were people get in some financial contribution to save themselves and losses of properties from unexpected troubles in the future.

According to some researches year 1951, marked the beginning of a new chapter in the history of Insurance industry in Ethiopia in that it witnessed the launching for the first time entirely owned by Ethiopians called “Imperial Insurance Company” formed by the initiatives taken by some enlighten Ethiopians and the expatriates, which brought significant development in financial sector of the economy lead to the coming in to existence some eighteen company in 1954 operating in different parts of Ethiopia engage in offering coverage for life, marine, motor and fire or property Insurance services.

Proclamation No. 281/70 which was the first Governmental act on the supervision of Insurance business in the country brought about a significant change, in that the government put the

governmental control in place for it feel the promotion and protection of the public Interest was timely as the scope of Insurance business in the country expanded and Insurance registration license was setup under the Minster of trade and Industry tourism.

Insurance business in its modern sense in Ethiopia started in 1905 when the then Bank of Abyssinia got underwriting authority in the form of Agency for Fire and Marine Insurance business. The first local insurance company was formed in 1951. Later on the number of insurance companies reached 15 of which two withdrew from business in 1972.

As a result of nationalization of these companies in 1975, Proclamation No. 68/1975 was declared to form the Ethiopian Insurance Corporation with a capital of Birr 11 million. Since nationalization, its premium production on the average has continuously grown at the rate of 26.5% in 1976 to Birr 300 million in 1994/95. While its claims increased from 20 million in 1976 to Birr 160 million in 1991/92.

With the declaration of Proclamation No. 86/94, which allowed the licensing and supervision of insurance companies, there emerged seven more than private insurance companies with a total capital of nearly Birr 205 million. The total market that was Birr 50 million in 1976 reached Birr 345 million in two decades' time. These insurance companies have reinsurance arrangements with reputable international re-insurers mainly from Munich Re., Swiss Re., etc.

Though there is a growing performance in the industry over the last few years, the industry is facing some problems. The major problems of the existing insurance companies in Ethiopia today are listed below in the order of importance:

- I. Lack of adequate public awareness
- II. Shortage of skilled manpower
- III. Price cutting
- IV. Lack of professional ethics
- V. Unfavorable policies
- VI. Lack of proper data to conduct business analysis

8.2 Licensing and Supervision of Insurance Business in Ethiopia

The government of Ethiopia has adopted a new economic policy to guide the country's economic development direction. Under the new economic policy, the involvement and active participation of all economic sectors in the economy is called for. To this end, there arisen a need for a new and comprehensive law that governs the licensing and supervision of insurance business to enable the full participation of all sectors in the economy. It is to this effect that the licensing and supervision provision was stipulated. Dear student, in the forthcoming sections, we will discuss about some of the points related with the licensing and supervision proclamation, viz., Proclamation No. 86/94.

8.2.1 Functions of the National Bank of Ethiopia

The licensing and supervision proclamation attempts to figure out some of the functions expected to be played by the National Bank of Ethiopia in connection with insurance businesses to be licensed to operate in Ethiopia.

The principal function of the National Bank of Ethiopia with regards to insurance business is to formulate policy.

I. Conditions for insurers

The proclamation also discusses some more points in connection with the conditions that need to be fulfilled to operate in the insurance industry of the country. Accordingly, in order to carry on insurance business in Ethiopia, any person is expected to meet the following conditions.

- a. It has to be a company. Insurance businesses need to have their separate legal personality as a separate entity, distinct from its owners. As such they will have an artificial (judiciary) personality created by law and carrying limited liability.
- b. As stipulated in the commercial code of Ethiopia, the minimum capital required for a share company is Ethiopian Birr 50,000. However, proclamation no. 86/94 demands a much bigger figure for minimum share capital. The capital requirement also varies with the types of insurance being carried on. Thus, the insurance share capital should not be less than
 - I. Birr 3,000,000 if the business is a general insurance business
 - II. Birr 4,000,000 if the business is a long-term insurance business

- III. Birr 7,000,000 if the business is a both general and long-term insurance business.
- c. The insurer is required to deposit cash in its own name to the amount of the capital stated above. Deposit requirements, as will be discussed in the subsequent pages, will also be extended to statutory reserves, as a percentage of paid up capital and legal reserves, a percentage of annual profits of insurer.
 - d. The insurance company, after fulfilling the requirements set by Proclamation No. 86/94 and the National Bank of Ethiopia, need to obtain a license for operation.
 - e. It needs to have principal officers that meet the standard set by the National Bank.

II. Shares

The Proclamation also discusses about the features of the shares to be issued by the insurance companies. In this regard, it dictated insurance companies to issue only one class and registered ordinary shares of the sum per value. In addition, the proclamation prevents owning of more than twenty percent (20%) of the company's share by any one person or with persons related with him to first degree.

III. Licensing of Insurers

Persons should get the license for the particular class or classes of insurance business they would like to operate. In addition, the proclamation stipulates that every application for the grant of a license should be accompanied by memorandum and articles of association, insurance policy forma and such other particulars as may be prescribed by directive to be issued by the National Bank. A license granted by the National Bank shall constitute final authorization to carry on insurance business in Ethiopia.

IV. Cancellation of licenses

The National Bank may cancel the license of an insurer either wholly or in so far as it relates to a particular class of insurance business: -

- a. If the provisions stated in the proclamation are not being complied with by the insurer.
- b. If the margin of solvency of the insurer fails below the line provided.
- c. If the insurer, at any time during the period of validity of the license injects his funds, moneys or assets or any part thereof in investments prohibited by law.
- d. If the business or a class of business of the insurer has been transferred to or amalgamated with any other insurer.

- e. If the insurer carries on business other than insurance business without the authorization of the National Bank or any class of insurance other than the one for which he is licensed.
- f. If the insurer has not conducted any insurance business for twelve months after the grant of license.
- g. If the insurer has failed to comply with the requirements of the NBE.

V. Statutory Deposits

The proclamation stipulated articles with regard to the amount of deposits to be made by the insurance companies as well. According to it, every insurer shall, in respect of each main class of insurance business he carries in Ethiopia, deposit and keep with the National Bank an amount equal to fifteen percent (15%) of his paid up capital, in government securities

The deposit specified above shall be held to the credit of the insurer provided that the aforesaid deposit or any part thereof shall not be withdrawn except with a written permission of the NBE, nor shall such deposit be used as a pledge or security against any loan or overdraft.

VI. Legal reserve

According to this same proclamation, every insurer shall credit for ten percent (10%) of his annual profit into its legal reserve account. As soon as the amount deposited in the legal reserve equals the capital of the insurer, it shall maintain other reserves as may be determined by the National Bank.

VII. Reserve Accounts (provisions)

In addition to the aforementioned reserves, every insurer is required to maintain provisions for

- A. Premium that have already been collected but the risks have not yet materialized
- B. Claims that are outstanding.
- C. Insured claims but not yet reported, and
- D. Other similar matters to be determined by the Bank

Preparation of Accounts

Every insurer shall, in respect of all insurance business transacted by him prepares statements showing its financial position at the expiration of each financial year with reference to that year.

These financial statements include:

- A. A balance sheet in the prescribed form, showing the financial position of the company at a specific date for each financial year.
- B. A profit and loss account in the prescribed form. Moreover, the insurer is required to prepare revenue account in the prescribed form in respect of each class of insurance business for which the insurer is required to keep separate account of income and expenditure.
- C. The statements referred to above should be signed by the chairman of the board of directors and the principal officer of the insurer and shall be deposited with the Bank within three months from the end of the financial year to which the statement relates

Licensed insurance auxiliaries only to act as such

The proclamation disallows any party from acting as an auxiliary or an actuary unless he obtains a license authorizing him to act as such by the NBE. A license to act as an insurance agent, insurance broker, assessor, insurance surveyor or actuary will be granted by the national bank of Ethiopia upon the receipt of a fee set and an application.

In addition, the proclamation stipulates that it would be unlawful for any insurer to:

- A. Appoint an actuary or
- B. Appoint an insurance agent or
- C. Entrust any work of assessing insurance claims to an insurance assessor and pay brokerage to any person whether an individual, a firm or a company which is not licensed or whose licensed has expired and not been renewed or has been cancelled.

VIII. Investigation

The National Bank, as stated earlier, is given the authority to license, supervise and regulate the insurance business. To this effect, the bank may, at any time investigate the affairs of any insurer. The bank may, whenever necessary employ trust worthy and qualified persons or firms for the purpose of assisting its investigation. On receipt of any report the Bank after giving the insurer such an opportunity to be heard as it thinks, in connection with the report by order in writing, may:

- A. Require the inspected or examined insurer to call a meeting of its board of directors for the purpose of considering any matter arising out of or relating to the affairs of such insurer or require an officer of such insurer to discuss any such matter with an officer of the Bank.
- B. Depute one or more of its officers to watch the proceeding at any meeting of the board of directors of the inspected or examined insurer or of any committee or of any other body constituted by it, require the inspected or examined insurer to give an opportunity to the officers so deputed to be heard at such meetings.
- C. Require the insurer to take such action in respect of any matter arising out of the report as the Bank may think.
- D. Prohibit the inspected or examined insurer from under writing new insurance policies and publish a notice of such prohibition in newspapers of general distribution and otherwise.
- E. Order the removal of one or more of the directors and officials of the inspected or examined insurer.
- F. Direct the inspected or examined insurer to temporarily suspend business in whole or in part.
- G. Revoke the license of the inspected or examined insurer
- H. Initiate a liquidation procedure

X. Appointment of Administrator

Any insurer should do its business in a manner that keeps the interests of its policyholders. However, in cases where the Bank has evidence that the insurer carrying on long term insurance business is acting in a manner likely to be prejudicial to the interests of holders of long term insurance policies, it may, after giving such an opportunity to the insurer to be heard as it thinks fit, appointing administrator to manage the affairs of the insurer under its direction.

The insurer, however, may apply to the high court for such act of the bank. The high court may on the application of the insurer, revoke, for good cause, the appointment of the administrator or if the appointment of an administrator is in the court's opinion justifies, either confirm the appointment made by the Bank or appoint a new administrator

A. Power and Duties of Administrator

The administrator appointed by the Bank or the federal high court will conduct the management of business of the insurer and shall, as soon as practicable, file with the Bank a report stating the course which in his opinion shall be most advantageous to the general interests of the holders of insurance policies. The Bank shall, after examining the report filed with it take measures it thinks appropriate, including, where necessary, legal action to promote the interest of holders of insurance policies in general

A. Restrictions on Loans, Advances etc by an Insurer

No insurer shall grant any loan, advance, financial guarantee or other credit facility against the security of its own shares. This restriction doesn't apply to loans on life policies issued by him within their surrender value to any shareholder or the insurer or to any director, manager, actuary, auditor or offices

D. Power of Bank regarding returns

It has already been discussed that the insurer is required to submit financial statements at the end each financial year. However, where it appears to the NBE the returns are inaccurate or defective in any respect it may require from the insurer such further information certified where it so directs by an auditor or actuary as the cases may be to correct or supplement such returns or can upon the insurer to submit for its examination only books of account, register or other document or any other statement which it may specify in a notice served on the insurer for the purpose.

E. Power of the Bank to order Revaluation

In addition to regulating, further information on returns, if it appears to the NBE that the returns by reason of wrong method of valuation, doesn't properly indicate the condition of the affairs

of the insurer, it may after giving to the insurer a notice and an opportunity to be heard may order re investigation or re-evaluation to be made by the actuary.

The insurer should place at the disposal of an actuary all the information records and materials for the purpose for re-investigation.

F. Certification of Soundness of Terms of Insurance Business

The NBE will conduct activities to the effects of insuring that the terms of insurance policies safeguard the rights of policy – holders, under the laws of Ethiopia. Where at the time of considering an application for a license or at any other time, the insurance businesses are in any respect not workable or sound, the insurer may require the bank certify that the said rates, advantages terms and conditions are workable and sound.

G. Power of issue directives to be issued by the bank

The bank also regulates the manner, in which reinsurance business may be transacted, fees for insurers and insurance auxiliaries' license, winding up of insurer. In addition, the bank is empowered to apply to the court for the dissolution of an insurer whose license has been cancelled. The court may dissolve an insurer on the petition of the bank.

H. Amalgamation/mix

No insurer can amalgamate with or takes over the insurance business of another insurer except with the prior approval of the Bank. Schemes of amalgamation approved by the bank will be affected in accordance with the procedure laid down in the commercial code. The manual of issuing shares by insurers and the transfer or assignment by shareholders of shares. The minimum academic qualification and practical experience to be possessed by actuaries and insurance auxiliaries are:

- Investment government securities within specified limits.
- Investments in which insurers may not invest their money, assets of funds. Limits for reinsurance business, which insurers may place with non-domestic insurers. Procedure for investigation to be made by the Bank into the affairs of insurers and any other matter, which is necessary for supervision of insurance business, will be issued by the bank.