

**Addis Ababa University  
College of Business and Economics  
MBA in Financial Services**



**Challenges and Prospects of Life Insurance in Ethiopia**

**By Kiddist Admassu**

**Research Project submitted to the School of Graduate Studies of Addis Ababa University in  
Partial Fulfillment of the requirements for the Degree of Master of Financial Services**

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**Addis Ababa**

**Addis Ababa University**  
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**Signature**

## ***Dedication***

*This work is dedicated for my beloved husband Gezahegn Feyssa and our sweet kids Ruth Gezahegn and Ananya Gezahegn who are always making me happy and courageous.*

## DECLARATION

I hereby declare that this research project entitled ”**Challenges and Prospects of Life Insurance In Ethiopia**” is my original work and to the best of my knowledge has not been presented for an award of degree at this or any other University, and that all references materials contained therein have been duly acknowledged.

Kiddist Admassu

Signature \_\_\_\_\_ Date \_\_\_\_\_

### **Statement of certification**

This is to certify that Kiddist Admassu Wubishet has completed her research project entitled “**Challenges and Prospects of Life insurance in Ethiopia**” successfully. The project, done under my supervision, is the original effort of the candidate and all materials used have been duly acknowledged and it is sufficient for submission for the partial fulfillment for the award of degree of MBA in Financial Services at Addis Ababa University.

**Mehari Mekonnen (PhD)** \_\_\_\_\_

*Name*

*Signature*

*Date*

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## Abstract

*This study is intended in search for the challenges and prospects of life insurance in Ethiopia. Descriptive research design is used to identify the challenges and prospects of life insurance in Ethiopia. Quantitative and qualitative research approach and Survey method is used. Semi structured 5 lickert scale questionnaire and self administered interview were used as a data collection instrument. All insurance companies operating life business as of Dec 2017 and 87 professionals working for the selected companies were included in the survey. Descriptive statistics is used to analyze the data. Income, inflation and interest rate are found to be the economic challenges; awareness, education, urbanization, religion are demographic challenges. Weak strategic focus, weak awareness creation strategy , lack of professional in the field , inability to develop unique product ,and absence of local actuary are institutional challenges , whereas absence of independent regulatory organ, government restrictions on investment , restriction on foreign insurers entry ,weak contribution of academic institutions in cultivating insurance professionals , unfair competition in the industry, absence of integrated information or database are external challenges that are contributing for the weak performance of life insurance. Regarding the opportunities, emerging information technology, enforcement of insurance companies to customize their process using information technology, initiatives of the government in human development in the stream of insurance, the effort of Ethiopia to be a member of WTO, the increasing trend of middle income group, the increase in population and the untapped market of life insurance are the opportunities for the development of life insurance. There is a need of collaborative effort to increase the awareness of the public about life insurance, insurance companies should device clear strategy towards doing life insurance business, they have to develop suitable affordable and Variety of products for the public, the insurance regulator need to be organized independently and equipped with insurance professionals, The government , the insurance association and academic institutions should work together to establish Insurance academy to address the scarcity of insurance professionals. Information technology should be used to cater the cost of distributing insurance. Regulations affecting life insurance like investment restrictions, pension and social health insurance scheme, tax imposition on life insurance should be revisited by the government.*

*Key words: Life Insurance, Life Insurance Penetration, Life Insurance Density, challenge, opportunity*

## CHAPTER ONE

### INTRODUCTION

#### 1.1. Background of the study

Life insurance is vital for individuals and the economy hence it protects policy owners from financial loss during the premature death and illness of the bread winner. It creates insured's peace of mind. In addition life insurance with cash value has a saving element which makes it profitable investment on top of security. But life insurance consumption in Ethiopia is limited, the majority of the society is not even aware of the advantage of life insurance. The distribution of life insurance is also limited by some of the insurance companies currently operating with limited branch offices. The economy and the society are not getting effectively the advantage of life insurance.

According to Hailu (2007), Life insurance has significant contribution for the economy in some African countries like Nigeria, Tanzania and Egypt. In 2014 life insurance contribution for the gross written premium of Egypt, Nigeria and Tanzania were 33 %, 18.6 % and 8.7 % respectively. However according to Smith & Chamberlain (2010) cited in Lukman, Stephen & Yeshihareg (2015) the contribution of the insurance sector in Ethiopia to GDP in the fiscal year 2006/07 was 0.2% and the share of life insurance from the collected premium was only 6% which is insignificant.

The contribution of life insurance for an economy can be explained by penetration, density, premium share, and so on. Ethiopia's insurance industry is relatively underdeveloped which is explained by low penetration level of which 0.81% due to faster GDP growth and low insurance density which is ETB 62.4. Presence of similar products, lack of public awareness, price based competition, urban focused market, shortage of skilled man power are the main reasons for this poor performance (Ethiopian Insurance Corporation Report, 2014/2015).

As indicated in Table 1-1 below analysis, the Ethiopian life insurance penetration in % of GDP is insignificant compared to the other Sub-Saharan countries. It has contributed only 0.04% where the Kenya's contributed 1.07%, Cote d'Ivoire contributed 0.87% and Ghana's contributed 0.51% of their GDP.

**Table 1 -1: Key Economic Indicators of Sub Saharan Africa, 2015**

Country	GDP per Capital USD	GDP Growth (2016-2020F)	Population million	Non life penetration in % of GDP	Life Penetration in % of GDP	Total Penetration in % of GDP
Angola	5038	3.9%	25.0	0.98%	0.02%	1.00%
Cote d;ivoire	1308	6.7%	22.7	0.87%	0.75%	1.62%
Ethiopia	583	6.5%	99.4	0.57%	0.04%	0.62%
Ghana	1412	6.0%	27.4	0.57%	0.51%	1.07%
Kenya	1381	6.2%	46.1	1.91%	1.07%	2.98%
Mozambique	794	6.7%	28.0	1.05%	0.18%	1.23%
Nigeria	2753	5.0%	182.2	0.21%	0.08%	0.29%

Source: (Head of Economic Research & Consulting, 2016)

While Ethiopia is a populous country and with fast economic growth, the insignificant contribution of life insurance in the economy is showing the presence of challenges which should be given critical focus and opportunities that should be exploited. To change the picture of life insurance in Ethiopia the challenges and prospects of life insurance should be identified and appropriate solution should be given by the stakeholders of the insurance business. The first milestone of problem solving is identifying the problem using scientific procedures. There is a limitation to find published researches regarding the challenges and opportunities of life insurance in Ethiopia. Only a few authors like Dawit (2011), Demis (2016) and Lukman,et.al (2015) have done research to find the factors affecting life insurance business and identified the challenges and opportunities of life insurance in Ethiopia. Although efforts have been done to identify the challenges and opportunities of the life business in Ethiopia, the trend has shown no progress. The continued least penetration, density and the declining trend of life insurance in Ethiopia and the limitation to find literature on this aspect draw the attention of the researcher to find the prevailing challenges and opportunities. These findings will give insight to policy makers, insurance companies and all stakeholders on measures to be taken to improve the contribution of life business for the economy.

## 1.2. Background of Life insurance in Ethiopia

### I. Definition and importance of Insurance

Insurance can be defined from individual and economic point of view. From individual point of view insurance is economic device where by the individuals substitute small certain cost (the premium) for a large uncertain financial loss (the contingency insured against) that would exist if it were not for the insurance. From the society point of view, insurance is an economic device for reducing and eliminating risk through the process of combining a sufficient number of homogenous exposures in to a group to make the losses predictable for the group as a whole. (Emmett & Vuauohan, 2008)

The insurance firms as a financial intermediaries play a significant role within a nation's financial system by mobilizing funds from the surplus economic unit and channelling it to the deficit investment unit of the economy.

The economic importance of insurance in general is pronounced by Harold & Skipper (1997) in seven different ways. The first and most is its contribution for financial stability and insured's peace of mind, it makes individuals and business less volatile by bearing their risk. Secondly, Substitution of government securities by insurance allows efficient allocation of resources and reduces tax payers strain. Thirdly, innovative insurance products support the sustainable operation of trade and commerce. Fourthly, saving mobilized and channelled to investment by insurance contribute for the fast economic growth. The fifth importance is the attainment of national economic efficiency which can be brought by insurance with their role of risk pricing , transformation and pooling which in turn helps better informed decision of insured's . The sixth importance is the economic incentive provided by insurance and reinsurance though knowledge transfers on the risk mitigation techniques. Last but not least insurance contributes for efficient capital allocation of a country.

## II. Definition & Types of Life Insurance

According to Emmett & Vuauohan (2008) Life insurance is an economic device whereby the risk of premature death of individual is pooled to the group. Life insurance is unique in that the insured against is an eventual certain, no one lives forever; It is not the possibility of death insured rather the untimely death. The other unique feature is life insurance is not a contract of indemnity; we cannot place a value for one's life.

Emmett & Vuauohan (2008) broadly categorized life insurance in to two; Pure life insurance protection (Term life insurance), and Cash Value Insurance (those with saving or investment element). The Cash Value insurances are whole life, endowment, universal life insurance variable life insurance and variable whole life insurance.

Similarly, Beck & Webb (2003) categorized Life insurance policies according to their service; income replacement for premature death and long-term savings instrument. Based on this the two major categories of policies are mortality coverage and combined coverage of mortality and saving. The first coverage in most countries is called term policy and those in the second category are known as whole life, universal life, variable life, endowment and so on. Interest is earned with the second category of policy. In addition to these policies life insurance companies sell annuity policies, contractual agreements where by insurers promise to make periodic payment to the insured often until his or her death in return of lump sum or periodic payments.

According to Emerat (June 2010) , social protection, including safety nets, health insurance and pensions is a major element in reducing risk for the working poor. As stated in (Gebru, 2009) , pension is “money that is paid regularly by a government or company to somebody who has stopped working because of old age or who cannot work because they are ill”. And fund can be defined as “sum of money that is collected for a particular purpose.” So, we can define pension fund as sum of money collected by the government or a company for the purpose of repaying to those who has stopped working because of old age or who cannot work because they are ill. As can be understood from the above definition, the pension funds can be collected and managed by the government (publicly managed pension funds) or by a private company (privately managed funds). Sometimes hybrid pensions are also exist.

### III. Benefits of life insurance

Life insurance protect policy owners and beneficiaries during the premature death, deadly illness and critical illness of the bread -winner, on top of this it is major contributor for a countries socio economic development which is attained through saving mobilization, employment opportunity and attractive socio economic development which improve the supply of long-term financial products. This has a series effect in the development and structure of the financial markets (Demis, 2016). In addition to the indemnification of the insured or the beneficiary during a claim event life assurance has great value in creating peace of mind to the policy holders (Dawit, 2011).

Life insurance reduces the percentage of households experiencing severe financial deterioration, following the death of the bread winner. It benefits the economy by channelling household saving from a large portion of the population into productive investment and carefully matches asset and liability as required by prudent business practices and insurance regulation. Life insurance also benefits the government by alleviating pressure on social spending by keeping households from poverty during the death of the bread winner. In general life insurance play an important role for a country economies through coverage provided, benefits paid out, and investments made and jobs provided (David, 2016).

The importance of life insurance in modern economies has been recognized much earlier. It is the essential means by which a disaster to an individual or a community is shared by many. Great catastrophes are thereby lessened, and, it may be, repaired. Apart from the benefit it bestows to the policy owner and beneficiaries upon the occurrence of certain events, such as untimely death, terminal illness, critical illness of a bread winner or maturity depending on the type of contract, life insurance plays a vital role in a country's socio-economic development. This can be achieved through saving mobilization it embraces the national economic development via development of the financial market, creation of employment opportunity and overall enhancing the socio-economic development of the country. This in turn will enhance the supply of long-term financial products, thereby triggering a series of effects on the development and structure of the financial market (Fikru, 2014).

According to Lukman et.al (2015), as a resource mobilization, life insurance entails long-term contractual savings by households, which is channelled in to stable, long term investment by insurance providers. It can mobilize funds of up to 15% of GDP in developing countries. On top

of the direct effect on domestic resource mobilization life insurance contributes to – and benefits from – broader financial sector development by encouraging the deepening of banking, capital market and regulation.

As a source of capital life insurance funds could potentially provide capital for long term investment .The tendency of life insurance to invest in local currency ensures investment asset and liabilities are matched in relation to foreign currency (Lukman , et.al , 2015).

Life insurance is important for individual financial security, support social welfare spending of the government and for economic development. It guarantees to pay a stated sum to a family on the death of the income earner, protects the beneficiary from adverse financial consequences due to the premature death of the family and gives individuals greater sense of economic security, reduce worry and distress and thereby increase initiative. It also enables individuals to save who otherwise spend, provide more favourable credit term and minimize financial disruption to business caused by the death of key personnel (Dawit, 2011).

Dawit (2011) ascertained the benefit of life insurance financial intermediation for economic development since it stimulate private sector saving and the subsequent investment in the capital market within a given economy. In addition it's long term feature enables it to avail fund either in the form of equity or debt to manufacturing, agriculture, energy, trading, etc. And this supports the successful implementation of the Ethiopian government accelerated and sustained economic growth policy by mobilizing long term fund and availing it for long term investment like infrastructure which in turn support the growth of domestic private sector and encourages foreign direct investment.

#### IV. History

The first modern insurance service in Ethiopia was underwritten by Bank of Abyssinia around 1905 .This bank was transacting fire and marine insurance. According to Economic Progress of Ethiopia (1955) as cited in Hailu (2007) the first survey done by Ministry of commerce in 1954 revealed as there were 17 overseas insurance companies operating in the country .Consequently the second survey which was done in 1960, revealed as there were 33 overseas agents .The only



local insurance company at that time was Imperial Insurance. The history of life insurance in Ethiopian dates back to 1954 where the service was given by the two foreign companies Central Assurance Company Limited and Groupement Francis de Assurances located in Addis Ababa and Dire Dawa.

During this time the insurance service was regulated with the provisions of the Commercial code (1960) and there was no specific proclamation to the insurance industry. The issuance of proclamation number 281/1970 which was aimed to regulate the insurance business in Ethiopia brought remarkable change on the structure of the industry. The first responsible, independent body to regulate the insurance industry, the insurance council and insurance controller office, was created due to this proclamation. In respect to this proclamation the Ministry of Commerce, Trade and Tourism issued Regulation (Legal Notice No. 393/ 1971) aiming to implement the proclamation and create conducive insurance market. The regulation resulted in the licensing of fifteen domestic insurance companies, thirty six agents, seven brokers, three actuaries and eleven assessors. In 1972 the number of insurance companies goes down to thirteen. Among these companies, Ethiopian life insurance and American life insurance companies were offering life insurance whereas Lion insurance was offering both life and general insurance.

In 1974, just before the Ethiopian revolution, there were seventeen insurance companies, four were giving life assurance, thirteen were giving marine insurance, eleven were giving General Accident Insurance and all of them were giving Fire insurance. The revolution brought a command economy with a socialist credo which resulted in the nationalization of the private insurance companies. The then existed Government decided on January 1, 1975 to transfer the ownership of insurance companies to the Government, as a result those insurance companies were all nationalized. In December 1975 the government issued proclamation No 68/1975 to establish Ethiopian Insurance Corporation; made an autonomous public enterprise effective from January 1, 1976. The insurance council and office of insurance controller also dissolved. The 1976 proclamation (proclamation 99/1976) empowered national bank to supervise and regulate banks and other financial institutions including insurance. EIC monopolized the insurance market till 1994 (Hailu, 2007) .

The collapse of the Marxist regime in 1991 resulted in a market economy. The new proclamation (Proclamation Number 86/1994) issued and allowed the re-emergence of private insurance companies and prohibited foreign insurers to operate in Ethiopia. And also mandated the National bank of Ethiopia as the supervisory authority. In addition to restricting the insurance business to domestic investors, it brought structural change to the industry by classifying the business in two, namely the general insurance business and long term insurance business. The long term insurance include life insurance, Health insurance, pension and disability insurance where as the general insurance business is property and causality insurance. The proclamation enforced to have a separate account for each class of business (Hailu, 2007).

#### V. Regulations affecting life insurance in Ethiopia

Unlike developed countries where there are private pension fund administrators, pension scheme is completely administered by a government owned agency. The agency is mandated to administer the pension scheme of all federal and regional public servants including pension of the defence forces and the police. The Ethiopian life Insurance companies would have obtained a great profit if they have been given the opportunity to administer this fund and, hence, this is considered as one challenge of life insurance business in Ethiopia.

The government of Ethiopia issued a proclamation (Proclamation No 690/2010) regarding social health insurance service. The objective of the proclamation is to have a quality, sustainable, universal and equitably accessible health care coverage through pooling of risk and reducing financial barrier at the point of service delivery. The source of finance for the scheme are the members contribution, employer and investment income (Federal Negarit Gazeta, 2010). If this service is going to be practical it will share the portfolio of private life insurance business.

Insurance companies invest large portion of their financial resource they gained by the collection of premium to increase their profitability. While they are investing they minimize their risk by diversifying their investment. Otherwise they will endanger the solvency of the company. Though the directives issued with this regard by the NBE are aimed to assists insurance companies to practice prudent investment by considering diversification, liquidity and safety of investment of insurance funds they are too restrictive with the condition where there is no enough investment opportunity like the capital market. According to National Bank of Ethiopia (2004) Directive No SIB 25/2004 insurance companies operating life insurance line of business

can invest only up to 50 % of their fund and in addition they are restricted to invest much of their money on government bonds, treasury bills and bank deposits.

## VI. The Performance of Life Insurance in Ethiopia

Insurance controller's annual report in 1972 showed that the performance of life insurance remained stagnant in the year 1967-1972 as compared to that of the general insurance business. The premium share declined from 15.1% in 1967 to 7.9% in 1972. In addition on average 23.37% of the gross premium was being ceded to reinsurers during this period (Hailu, 2007).

The financial performance of the insurance sector during the monopoly period (1976 -1994) was entirely the performance of the Ethiopian Insurance Corporation. The corporation main premium is collected from fire, marine and motor policies accounted for 71.4%. The share of life insurance during this period fluctuated from 2.8% to 7.6% and its average contribution was 4.5% (Hailu, 2007).

Some of the African countries Insurance gross written premium is contributed by Long term insurance business. For Example in 2003/04 33% of the Egyptian Insurance gross written premium is from long term insurance .With the same year 18.6% gross written premium of the Nigerian Insurance industry is from life insurance. However this is not the case for Ethiopia. During the period 2000/01-2004/05 the share of long term insurance in gross written premium was fluctuating between 4% and 5% which is insignificant compared to other African countries (Hailu, 2007).

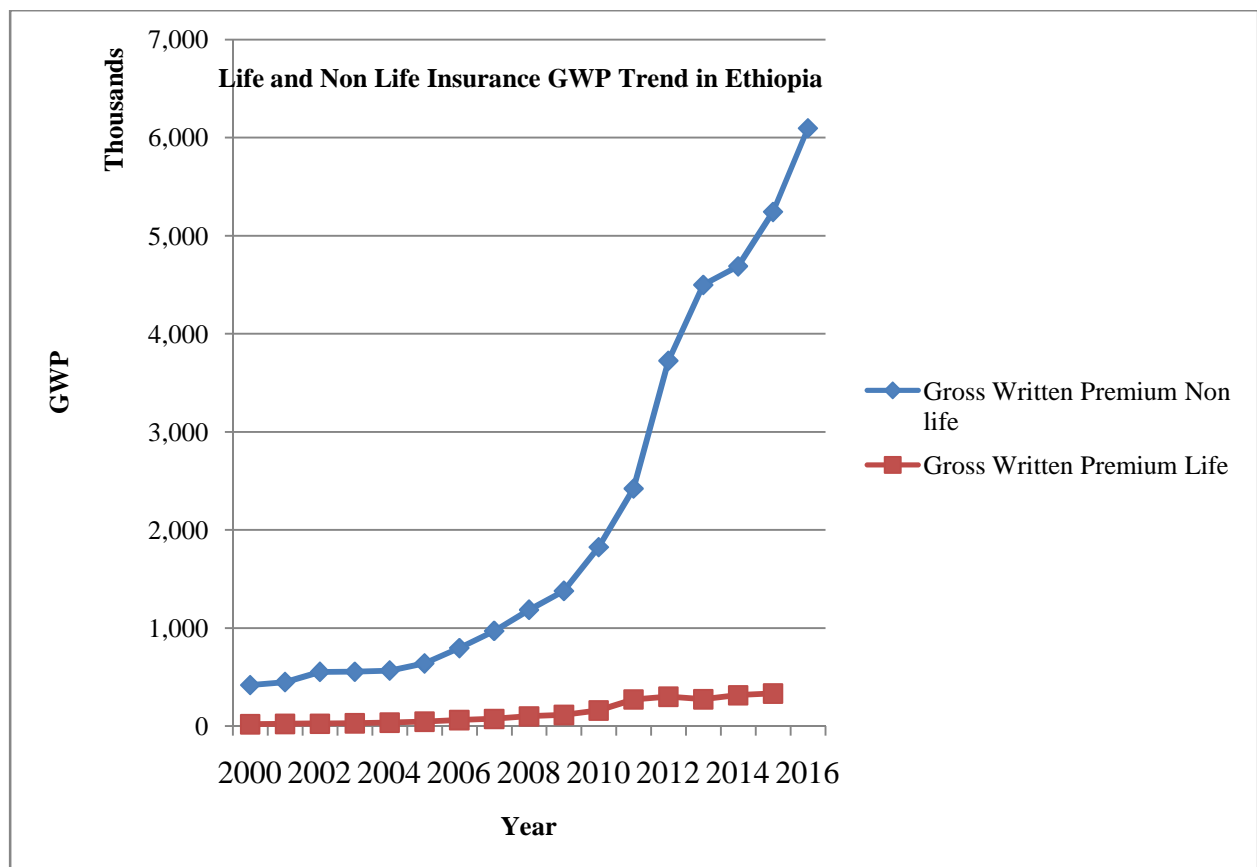
As can be seen from the history of modern insurance, Ethiopia life assurance coverage was very limited compared to the General Insurance. The number of life Insurance companies existed was less than -that of the General Insurance companies. According to NBE, as of Dec 2017, there are 17 insurance companies operating in Ethiopia from which only nine of them operate both life and non life insurance. The rest are general insurance companies. There is no insurance company which operate only long term insurance at all.

**Table 1-2: Composite Insurance Companies in Ethiopia (Dec, 2017)**

No	Company Name	Established at
1	Ethiopian Insurance Corporation	1975
2	Awash insurance company	1994
3	Nyala insurance company	1995
4	Nile insurance company	1995
5	The united insurance company	1997
6	NIB insurance company	2002
7	Ethio-life and General insurance	2008
8	Oromia insurance company	2009
9	Abay Insurance	2010

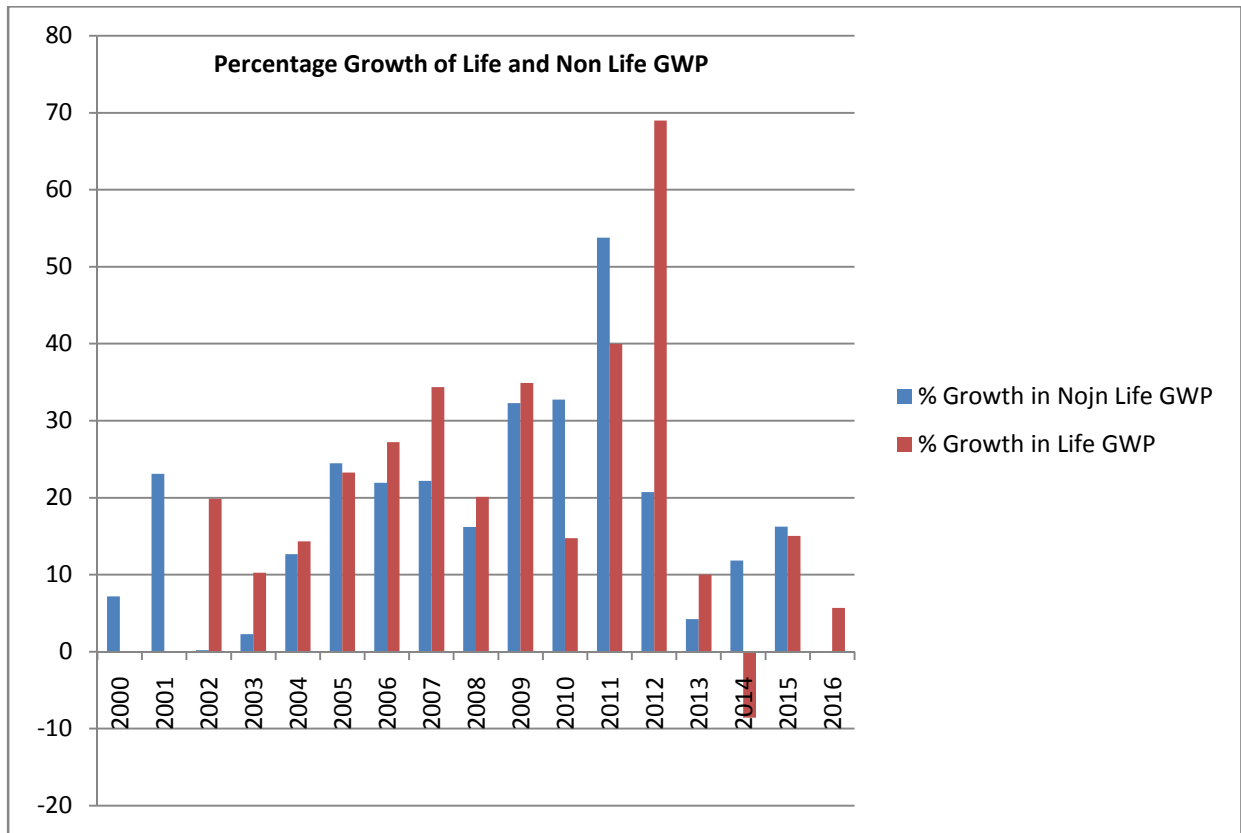
Source: National Bank of Ethiopia (2017)

**Figure 1: LIFE AND NON LIFE GROSS WRITTEN PREMIUM TREND**



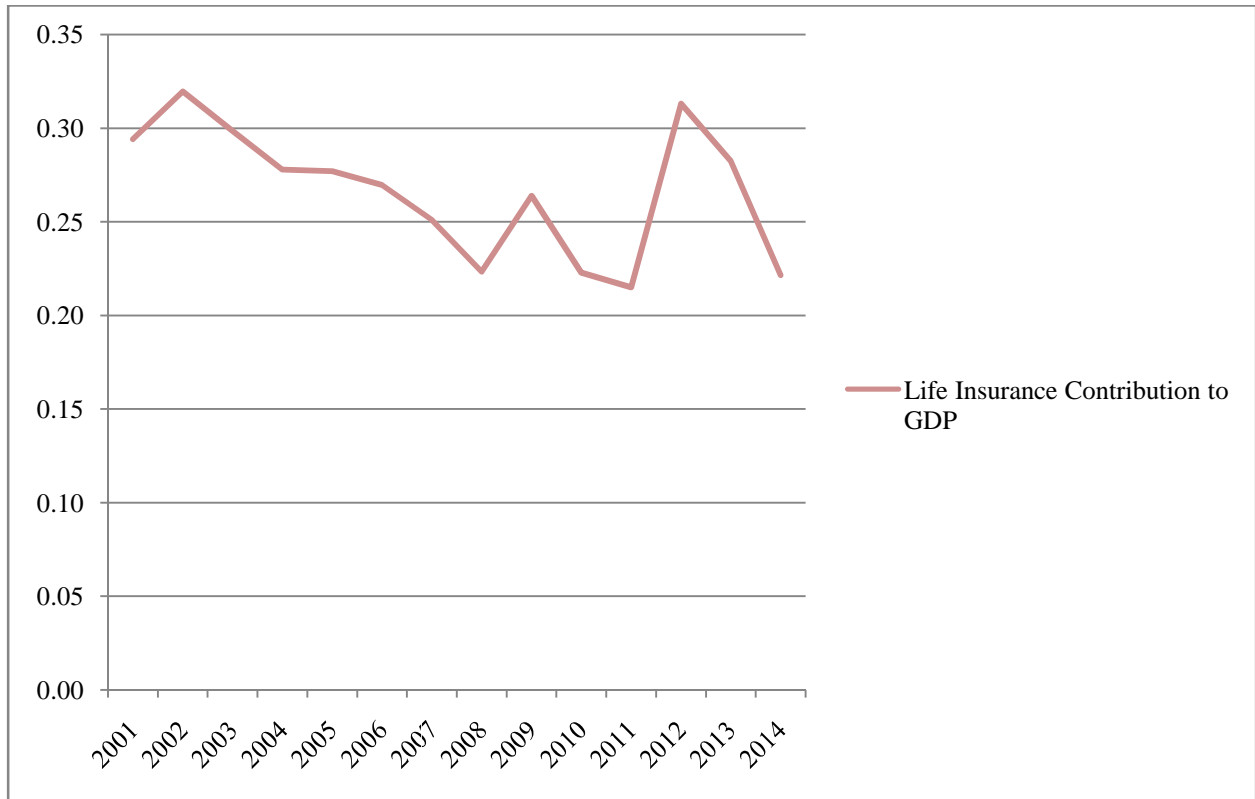
Source: National Bank of Ethiopia, Unpublished, 2017

**Figure 2: PERCENTAGE GROWTH OF LIFE AND NON LIFE GROSS WRITTEN PREMIUM (2000-2016)**



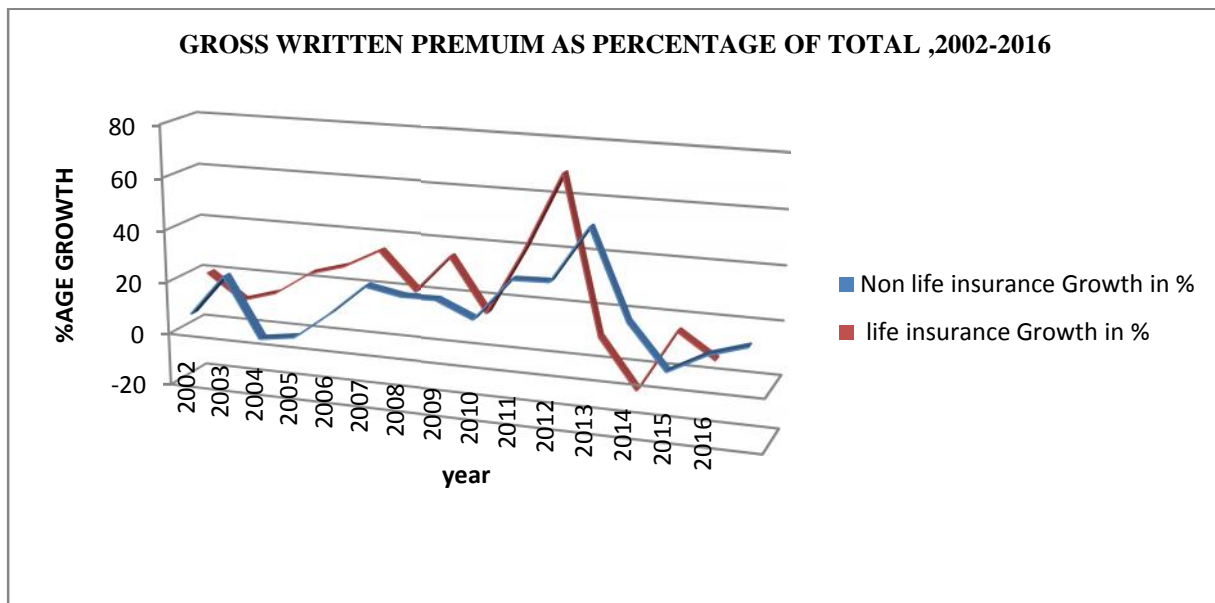
Source: National Bank of Ethiopia, Unpublished, 2017

**Figure 3: Life Insurance contribution to GDP**



Source: National Bank of Ethiopia, Unpublished, 2017

**Figure 4: Comparison of Life and Non life Insurance Premium Growth**



Source: National Bank of Ethiopia, Unpublished, 2017

### 1.3. Statement of the problem

According to Absul Latif & Nicholas (2015) financial intermediation is better done by life insurance through income replacement during the death of bread winner and saving instrument for consumer .And the long term nature of life insurance makes it more suitable to avail fund for financial intermediation. The fund mobilized by life insurance can be an alternative for African countries including Ethiopia which have a history of foreign grant and loan.

Like any other business Life insurance in Ethiopia is affected by different forces .The macro and micro environmental. The micro environment are institutional where us the macro are the external environment. Both the micro and macro environments are full of challenges and opportunities. Micro environmental strengths should be aligned to beat macro environmental challenges and opportunities should be used to penetrate the market more. In doing so insurance companies can attain the financial intermediation, economy stabilization and social security goals. The significant contribution of life insurance in modern and emerging economies is an indication as modern economies have not only recognized their challenges and opportunities before hand, but also proactively adjust their situation or strategy to go in line with the current and emerging situation .

The magnificent challenges, unexploited opportunities and little recognition given to life insurance in Ethiopia is explained by the least penetration and density prevailing, According to Demis (2016) life insurance market is not recognized well even for those who are engaged in the business. Dawit (2016) also agreed on the little awareness of the public about the existing life insurance products, he added the competition between the industry players is unhealthy it is just with price without product and service differentiation , the cost of the products is not affordable for the majority poor. The industry is restricted to private local investors which contributed for the poor insurance practices (not technology driven), The products are not accessible for the high number of young dependents. Most people prefer to rely on their religion than insurance for the uncertainty to happen in the future. On top of this Demis (2016) found in his study the demographic factors like poor saving habit of people, low level of urban to total population ratio and the economic factors like low level of income , inflation , banking sector development , and decrement in annual interest rate affect life business in Ethiopia.

Collaborative effort of the stakeholders of the industry is required to beat the hindering factors and exploit opportunities and improve the life insurance business. The strategic plans that should be devised to beat the challenges and exploit opportunities should be supported with scientific studies which can identify those challenges and opportunities. Only limited published resources are found in this regard. The previous researches identified some of the institutional and external challenges hindering life business.

The factors like social health insurance scheme, the pension scheme, lack of strategic focus, unavailability of specialized insurance institution, investment restriction, unavailability of unique products, weak technology adaptation, weak motivation of professionals and other are additional challenges affecting life insurance but not addressed by the previous researchers. Therefore this research will fill the gap on the existing body of knowledge by making a survey on life insurance professionals to check the assumed factors are the challenges of life insurance business.

#### **1.4. Objective of the study**

##### **I. General objective**

The main objective of this study is to identify the challenges encountered and the opportunities available for the life insurance companies in Ethiopia.

##### **II. Specific Objective**

1. To examine the impact of the economic factors (income, inflation and interest rate) on life insurance business.
2. To analyze the impact of demographic factors (religion, education, urbanization) on life insurance business in Ethiopia.
3. To examine the impact of internal factors (Strategic focus, awareness creation, professionalism, technology adaptation, product development) on life insurance business in Ethiopia.
4. To analyze the impact of external factors ( The structure of supervisory organ, investment restriction on life insurance, restriction of foreign insurers to operate in Ethiopia, Absence of Academic institutions, existing pension and social health insurance scheme )



5. To analyze the impact of technology adaptation, increase of middle income, human development initiatives as an opportunity.

### **1.5. Research questions**

In order to achieve the general objective of the study the researcher will ask the following questions

1. What is the impact of income, interest rate and inflation on life insurance business Ethiopia?
2. What is the impact of education, religion, urbanization on life insurance business in Ethiopia?
3. Is an un-experienced professional, lack of strategy for innovation of new product and promotion, weak technology adaptation, institutional challenge?
4. Is lack of awareness, lack of specialized institution, the structure of the supervisory, restriction of investment, absence of foreign insurers, weak technology adaptation of insurance companies, unfair competition, pension, social health and tax scheme are external challenges?
5. Is the emerging digitalization, increasing middle income, government initiative in human development opportunities?

### **1.6. Scope and limitation of the study**

The study focuses on the analysis of challenges and opportunities of life insurance companies in Ethiopia. It specifically focuses to identify what challenges are contributing for the least penetration and density of life insurance in Ethiopian and what opportunities exist in the Ethiopian market that can enhance life insurance performance and the stakeholders' interventions required to improve life insurance in Ethiopia.

The study is confined to life insurance offices of the currently operating insurance companies in Ethiopia. In addition only the insurance professionals who are working with in the office are participants of the survey. Though agents and brokers who work for the companies at their own

premises could give relevant information the study could not include them due to their inaccessibility.

### **1.7. Significance of the Study**

Life insurance is not contributing significant amount to the Ethiopia's Gross Domestic Product. And the society is not getting enough protection through life insurance as a result the insurance industry is not stabilizing the economy as it is expected. The contribution of life insurance for our economy and the society is not exploited well; policy makers and the insurance industry should get better insight on the focus areas of challenges and opportunities to change the demand and supply of life insurance market in Ethiopia. Therefore this study will give insight on the strategic focus that should be given by the government and insurance companies to foster life insurance business in Ethiopia by using the opportunities and beating the challenges. Furthermore, it will serve as a start-up for further research in the area by researchers.

### **1.8. Organization of the Paper**

The paper is organized in six chapters. The first chapter is the introduction including the statement of the problem, objective of the study, the methodology followed, the significance and the scope of the study. The second chapter reviews on the concepts of life insurance and the performance of life insurance in Ethiopia. The third chapter provides related literature review. Chapter four deals with the methodology of the study .Chapter five presents data analysis and interpretation. And finally chapter six is conclusion and recommendation of the study.

### **1.9. Definition of Key terms**

**Life Insurance:** a form of insurance in which a person makes a regular payments to an insurance company , in return for a sum of money to be paid to them after a period of time , or to their family if they die.

**Life Insurance Penetration:** The ratio of premium volume to GDP, it measures insurance activity relative to the size of the economy

**Life Insurance Density:** The premium per capital, which measures how much inhabitant of a country spend on insurance in average.

**Challenge:** anything as demanding task that calls for special effort or dedication

**Opportunity:** a favorable, appropriate, or advantageous combination of circumstances

## **CHAPTER TWO**

### **LITERATURE REVIEW**

This chapter reviews related theoretical and empirical literatures on factors affecting life insurance, and the challenges and prospects of life insurance globally and in Ethiopia.

#### **2.1. Theoretical Review**

Contrary to the modern economies the significance of life insurance is not recognized well in Ethiopia (Demis, 2016). Insurance in general life insurance in particular should get sufficient focus by the government, the insurance industry, society and should be linked to the Ethiopia's development plan in-order to attain the middle income goal.

According to Antonie (1998) "Golden age" is over for insurers, to survive insurers will have to meet the prevailing challenges and rapidly adapt to the new rule of the game. The winning strategies for the existing challenges are know-how, cost containment, and capital. Global know-how is important for insurers in the introduction of advance knowledge on client segmentation, designing better product and improve customer relationship.

Antonie (1998) indicated that one factor which influences trends in the world insurance demand is the crisis of welfare state. Industrialized countries are critically affected by the burden of their social security system. The fast growing population and strong economic expansion is requiring public money finance. Now tax is too high and will lead to protest if it is increased more. The only way to tackle this problem will be reduction of welfare benefits which in turn will open a place for private insurance to play a role. In the western countries demographic trends and aging population are the main reasons for financial imbalance of social security system. According to IMF as cited in Antonie (1998), the dependence ratio of elderly population will double in the next 30 years. In Europe by 2025 more than 100 million (30%) of the entire population will be within the age of 15-64. This will make policy makers to redefine between state and private pension.

As cited by (Beck & Webb, 2003), Yarri (1965), Fisher (1973) and others derived the theoretical models for life insurance; in their model life insurance is viewed as a reduction mechanism for the uncertainty in the income of households during premature death of the bread winner.

According to the model the demand for life insurance is derived by the person's desire to bequest funds to dependents and provides income for retirement. The framework posits that the demand for life insurance varies with wealth, expected income over a person's life time, interest rate, the cost of insurance and the assumed discount rate. The model is extended by Lewis (1989) by incorporating the preference of dependents and beneficiaries.

## **2.2. Empirical Review**

Life insurance as a financial service provider and investment fund in capital market has a great role in developed economies unlike the many developing economies where life insurance consumption is insignificant (Beck & Webb, 2003). The same author claimed the penetration of life insurance varies not only across economies but also within economies. As an example the penetration in South Africa was 12.7% in 1996-2000, but it was less than 0.01% in Syrian Arab Republic .While Syrians spent less than US\$ 1 a year on life insurance services in 1996-2000, Japan spent more that US\$ 3200. Whereas Ecuadorians invested less that 1 % of their total saving in life policies in 1991-95 and British citizens invested more than 40% in 1986-90.life insurance was less that 0.1 % of GDP for Greece in 1976-80, but it reached nearly 400% of GDP for Japan in 1991-95. This clearly depicts the variation of life insurance within and across economies.

Based on Study done on Central and Eastern European countries life insurance grows from 1.1 to 2.2% for each percentage growth of GDP. For the year 2005 to 2010 for 11.5 % average growth of economy the general and life insurance showed average growth of 26% and 23% respectively, (Dawit, 2011).

According to Head of Economic Research & consulting (2017) research on global life insurance premium income declined by 5% in US \$ in 2013 due to adverse currency development. In matured markets real premium income growth is estimated to have slowed to 2% in 2015 from 4.2% in 2014. In emerging markets, premium income rose by an estimated 11% in 2015 after 7.4% gain in 2014.

According to Ethiopian Insurance Corporation Report (2014/2015) industry analysis global life insurance premium growth forecasted to improve to 3.0% in 2016 and 3.8% in 2017. In advanced markets premium income was forecasted to rise by about 2.5% in 2016 and 2017. In

emerging market life premium was forecasted to grow by 10.7% in 2016 and 2017. Emerging Asia will also have the most robust growth of about 13%.

Only 0.2% of the global premium comes from Sub Saharan African countries (SSA). The least insurance performance is mainly related to the least economic growth of the region. The slowest economic growth in the SSA countries is recorded in 2014 which is 1.4%. In fact there was large variation among the 47 countries. The slowdown is more exhibited in oil exploring countries than in non resource intensive countries like the east African countries where economic growth remained solid since 2014. The total premium collected for SSA in 2016 is 10.3bn. The economic activities are expected to recover by the same token the insurance demand will rise. Opportunities exist in Agricultural, medical and life insurance / Sub Sahara

In general, SSA, including Ethiopia, are considered as frontier markets (“smaller emerging economies with promising outlook”) where lack of advanced insurance regulation which can be entry barrier, low income level, small economies without the participation of foreign insurers result in less established insurance market with promising growth outlook (Head of Economic Research & Consulting, 2016).

Swiss Re Management Ltd. (2017) summarized recent global outlook of insurance as follows:

*“Global Life premiums are estimated to have grown by about 3% in 2017 ( up from 2% in 2016) supported by robust performance of savings products in emerging markets, particularly in Asia, premium are forecast to increase by close to 4% annually over the next two years. Profitability remains challenging given their global low interest rate environment, which is putting pressure on investment returns and existing long-duration books of business”*

(Head of Economic Research & Consulting, 2016) Analysis shows the emerging markets life premium growth almost doubled near to 12%. This is explained by life premium growth of North America, Japan, Korea and Latin America. Despite it’s average growth rate in 2014 and 2015 life insurance premium sluggish since the financial crisis of 2008. The same study predicted the slight acceleration of life premium growth in advanced economies in 2016. However, deceleration is expected in emerging market.

*“Emerging markets continue to provide growth opportunities for insurers. Once again, emerging Asia has been the main driver of overall emerging market premium growth. However, prospects in Latin America and Africa have improved along with stronger oil commodity price. Non life*

*premiums are estimated to have risen by around 6% in 2017, but are forecast to improve slightly to 7% through 2019. Life premium growth in 2017 is estimated to be at 17% (19% in 2016), and 12% and 11% gains are forecast for 2018 and 2019, respectively.”*

(Marijana, Ivan, & Sandra, 2013) Studied the social and demographic factors affecting life insurance demand in Croatia by using survey method on 95 respondents and found to be age employment and education.

(Srkodi & Yuau, 2015) Studied the determinants of life insurance demand for the case of Ayeduase-Lumasi Community , Ghana using logistic regression modelling technique and found the positive relation of income , higher education and perception on the demand of life insurance , whereas negative relation with age.

A research on 31 African countries including Ethiopia covering the period 1996 to 2010 was done by Absul Latif & Nicholas (2015) on the determinants of life insurance consumption in Africa. Some of the findings of the results are conflicting from studies done for developed and emerging economies. The researchers hypothesized to get positive relation of income, financial development, education, health expenditure and life insurance consumption where as negative relationship of inflation, urbanization, dependency ratio, life expectancy and life insurance consumption. However, they found that life insurance consumption has negative relation with income, inflation, urbanization, level of education, dependency ratio and life expectancy. On the other hand they found positive relation with financial development, health expenditure and strength of institutions.

Absul Latif & Nicholas (2015) explained the reason for negative relation between income and life insurance, and it is considered as inferior product which can be complemented by other financial products. Unlike the developed economies the reason of urbanization is not industrialization rather it is migration due to poverty; and, hence, those migrated poor people could not bring positive impact on life insurance consumption. Even though the increase in the level of education is expected to increase life insurance consumption, it does not bring adequate financial literacy and, hence, is not contributing for life insurance consumption.

Similarly, Lukman et.al, (2015) found statistically significant and negative relationship between inflation and the demand and supply of life insurance. In addition, he identified the statistically significant negative relation between young dependency ratio and life insurance demand and

statistically significant positive relation between old dependency ratio and life insurance supply for the case of Ethiopia. Based on those findings, the author recommended insurance companies to revise their price during high inflation, educate young dependents and produce suitable product when young dependency ratio is high; and encourage the old groups through the provision of insurance services like annuities and longevity policies.

The research done by Demis (2016) concluded that: lack of awareness of people towards life insurance, religious attitude, habit of saving of people, low level of urban to total population ratio, higher rate of young dependence to working population and literacy to be the demographic challenges, Whereas low level of income and inflation rate are economic challenges for life insurance business. On the other hand banking sector development and decrement in annual interest rate are opportunities for life insurance business in Ethiopia.

Unlike Absul Latif & Nicholas (2015), Demis (2016) does not explicitly identify which level of education is the lagging factor for life insurance development. In addition the impact of urbanization identified by the two researchers is conflicting. The finding of Demis (2016) regarding income also does not consider the income disparity and inequity in Ethiopia which is affecting not only the life insurance business but also every aspect of life.

Therefore this research aims to fill the gap in the above literatures by including additional variables which are affecting life insurance from the researchers experience and check the inconsistent findings regarding the impact of income and urbanization for the case of the Ethiopian insurance companies.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This study plans to investigate the challenges that are contributing for the least performance of life insurance business in the Ethiopian. And assess the opportunities that exist to be exploited to improve the performance of life insurance

This chapter presents the methodology followed by the research objective of study. First the research approach is discussed; then data source and sampling techniques are described; and finally, data collection and analysis techniques and procedures are presented.

#### **3.2. Research Method**

##### **3.2.1. Research Approach**

Descriptive research design is selected in-order to identify and discuss the factors affecting life insurance business in Ethiopia .The general approach for this study is survey research that uses a combination of quantitative and qualitative observation and analysis. According to Anol (2012) survey research is a method involving the use of standardized questionnaire or interviews to collect data about people and their preference, thoughts and behaviours in a systematic manner. It is suited for studies that have individual people as a unit of analysis; in addition it is economical in terms of research time, effort and cost. According to Naredh & David (2007) survey research is easy to administer, help to get consistent data and the use of fixed response questionnaire reduces the variability in the result .Therefore the researcher preferred this method to identify the prevailing challenges and opportunities of life insurance in Ethiopia.

##### **3.2.2. Data source**

The study uses both primary and secondary data. The primary data is collected from senior insurance professionals working in companies operating life business in Ethiopia as of Oct 2017. Whereas the secondary data is obtained from books, periodicals, published journals, regulatory reports (published and unpublished) and selected companies published reports and the internet .

### 3.2.3. Sampling

The population of interest of this study is life insurance companies operating in Ethiopia as of 2017 and senior professionals in those selected companies. The sample frame is the 9 insurance companies' currently operating life and non life insurance business. And hence, the researcher selected all the 9 composite insurance companies for the study. All senior professionals (with more than one year experience) of the insurance companies are included in the survey and, hence, the study is based on census. From the 9 insurance companies a total of 87 professionals participated in the survey.

More experienced professionals in the life business operation are selected for the interview. Life office managers of selected companies with more than 10 years experience are purposively selected, from the selected 9 companies 5 managers were willing to be interviewed.

The survey captures data about demographic challenges, economic challenges institutional challenges, external challenges of operating life business in Ethiopia .It also includes the opportunities available for life business. The Table 3-1 summarizes the sample frame and sample.

**Table 3-1: Sampling**

Company	Total Number of senior professionals /those >1 year experience	Survey participants	Interviewee participants	Remark
Ethiopian Insurance corporation	52	42	1	8 Non respondent, 10 employee are trainee officers with less than one year experience
Awash insurance company	11	11	1	
Nyala insurance company	3	3	-	Not convenient for interview

Nile insurance company	6	6	-	Not convenient for interview
The united insurance company	5	5	1	2 questionnaires not responded
NIB insurance company	6	6	1	
Ethio-life and General insurance	6	6	1	
Oromia insurance company	3	3	-	
Abay Insurance	5	5	-	

Source: Own survey, 2017

### 3.2.4. Data collection technique and procedure

#### Data collection Technique

The techniques used for data collection were questionnaire and interview, and it is further described below.

#### ➤ Questionnaire

The questionnaire is developed from the synthesis of related literature developed by Demis (2016) and customizing questionnaires to fit the objective of the study.

#### ➤ Pilot test

Pilot test was done by making it to be filled by academicians and experienced life insurance professionals to assure the items of the questionnaire are clear consistence and accurate. It is filled by 2 academicians and 8 experienced life insurance professionals.

### ➤ Interview

According to Anol (2012), interview captures more personalized data than questionnaire and it gives opportunity to clarify any issue raised by the respondent or ask probing or follow up questions. The researcher preferred face to face interview. This helps the researcher to validate and cross check the information obtained through questionnaire.

### ➤ Reliability and Validity

According to Naredh & David (2007) measurement means assigning numbers or other symbols to characteristics of objects based on certain prescribed rule. And scaling is an extension of measurement which involves creating a continuum up on which measured objects are located. The preferred scale is five level likert interval scale which is very popular rating scale for measuring ordinal data. It allows more fine tuned responses than binary items. And, hence, it becomes the choice of the researcher.

Reliability is the extent to which a scale produces consistent result if repeated measurements are made on the characteristics. In-order to improve the reliability of the scale the researcher takes great care to make the language and logic of the questions to be meaningful for the respondents. The researcher made effort to avoid ambiguous items by using simple language. Care is also taken not to include double-barred questions. Internal consistency reliability is a measure of consistency between different items of the same construct, Cronbach's coefficient alpha was used as a reliability criterion. Appropriate data source and data collection mechanism contribute for the reliability of the research. The participation of all experienced life insurance professionals makes the result reliable.

Validity is whether one can draw meaningful and useful inference from the scores on the instrument. To assure the validity of the constructs the one academicians and two insurance professionals were requested to comment on the questionnaire prepared and based on their comment amendments were done. The different approaches (qualitative and quantitative) enable the researcher to triangulate the result and hence contributed for the validity of the research result.

### ➤ Data collection procedure

Before proceeding to data collection activity the researcher assessed the convenient means of data collection by approaching and notifying the selected respondents. Accordingly, the

researcher prepared the questionnaire in hard copy and distributed in person clarifying the objective of the study for respondents found in Addis Ababa and by fax for respondents outside of Addis Ababa. And interview protocol also prepared to guide the interview. Fortunately, due to the criticality of the topic under the study the insurance professionals are interested in giving information freely.

### **3.2.5. Data Analysis Techniques and Procedures**

According to Kothari (2004) in-order to make data amenable to analysis editing, coding, classification and tabulation is required. During editing, the researcher examined the raw data to detect errors and omission. For some of the questionnaire imputation is done to fill uncompleted response.

The cleaned data is encoded to SPSS v12 and descriptive analysis is done. Findings are described using frequency and percentage. The interview result and the open ended questionnaires are summarized in Microsoft Excel. Then analysis is done to find the frequency and percentage of response.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION**

#### **4.1. Introduction**

This chapter is dedicated for data analysis and presentation. As it is proposed earlier, descriptive statistics (describing, aggregating and presenting the constructs of interest) will be used to analyze and present the findings of the research. The finding from the analysis of the structured questionnaire will be supported by the analysis of open ended questionnaire and interview.

From the 87 questionnaire distributed, 10 were not returned 77 were filled and returned. Five of them found to be incomplete and discarded. Thus a total of 72 questionnaires were used for further analysis. The response rate is 86.2%. After the data is collected using the survey instrument, it is encoded and cleaned for further analysis.

Cronbach Alpha is calculated to rate the scale reliability. The result of the scale reliability analysis shows a value of 80.2% , which is within the required range. The following section deal about the findings of the survey.

#### **4.2. Demographic Characteristics of Respondents**

As shown in the Table 4-1, 25 of the respondents were female which represents 35% of the respondents whereas 47 of the respondents were male which represents 65% of the respondents. About the age group of the respondents, 45.8% of the respondents are below the age of 30 and 54.2% of the respondents are above the age of 30.

Regarding work experience 44% of the respondents have below 5 years experience in their present organization and the rest which is 56% of the respondents have above 5 years experience which shows more of the respondents have plenty of experience in their organization and have enough knowledge and information to understand the challenges and opportunities of their organization.

Regarding the experience of the respondents in the area of life insurance, 71% of the respondents have less than 5 years experience and 29% of the respondents have more than five years of experience. This shows that life insurance is being operated by employee of less experience.

The descriptive statistics show that more mature and well experienced respondents are included in the survey.

**Table 4-1: Demographic Data of Respondents**

<b>Demographic Data of Respondents</b>			
		<b>Frequency</b>	<b>Percent</b>
Gender	Female	25	34.7
	Male	47	65.3
Age	<30	33	45.8
	30-39	17	23.6
	40-49	13	18.1
	50-59	8	11.1
	>=60	1	1.4
Experience in present organization	<5	32	44.4
	5-9	17	23.6
	10-15	8	11.1
	16-20	4	5.6
	>20	11	15.3
Experience in present Position	<5	51	70.80
	5-9	15	20.8
	10-15	4	5.6
	>20	2	2.8

Source: Own survey, 2017

### **4.3. Challenges of Life Insurance**

#### **I. Economic Challenges**

To know whether income, inflation and interest rate have impact on life insurance purchasing behaviour, respondents were asked different questions and the result is presented Table 4-2 and interpreted below.

### ➤ Income

Based on the findings 47% of the respondents agree and 14% strongly agree on the positive relation between the demand of life insurance and income. As per the analysis of the open-ended questionnaire low income of population is the second most important challenge for the development of life insurance in Ethiopia.

In support of this, one of the interviewee explained the relation of income with life insurance as follows:

According to Maslow need hierarchy /theory, insurance is at the 2<sup>nd</sup> level of the hierarchy, that is an individual can think of about insurance if the basic necessities are fulfilled first. As personal income increases and basic needs are fulfilled someone will start to think of his security, want to cater future uncertainties, here comes the need of life insurance. For the case of Ethiopia the least penetration of life insurance can be assumed due to high number of population who is still striving for basic needs. Even those who fulfilled their basic necessities and are at the higher hierarchies they will prefer life insurance if they think it is profitable, rather they will prefer to be self insured.

### ➤ Inflation

For the case of inflation, 21% of the respondents strongly agree and 54% of the respondents agree on the impact of inflation on the development of life insurance. It is clear that as inflation increases the money required for basic consumption will increase, and hence, individuals will not have extra money to spend for life insurance.

### ➤ Interest Rate

Regarding interest rate, 46% of the respondents agree and 11% strongly agree on the positive impact of interest rate on life insurance sales. The findings regarding income, inflation and interest rate supports the findings of Demis (2016).



**Table 4 -2: Economic challenges**

1. Economic Challenges													
Item No	Item	SDA		DA		N		A		SA		Mean	SD
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%		
1	The higher the income of an individual, the higher the demand for life insurance	9	12.5	11	15.3	8	11.1	34	47.2	10	13.9	3.35	1.268
2	Inflation affect the development of life insurance	4	5.6	5	6.9	9	12.5	39	54.2	15	20.8	3.78	1.038
3	Interest rate positively affects life insurance development	2	2.8	10	13.9	19	26.4	33	45.8	8	11.1	3.49	0.964

Source: Own survey, 2017

SDA=Strongly Disagree, DA=Disagree; N=Neutral, A= Agree, SA=Strongly Agree, SD=Standard Deviation, Fr=Frequency

## II. Demographic Challenge of Life Insurance

Question were forwarded to respondents know if awareness, religion, education and the level of urban to total population is a challenge to life insurance demand. The result is presented in Table 4-3 and illustrated below.

### ➤ Awareness

For the question forwarded regarding impact of awareness, 26% of the respondents agree and 68% strongly agree lack of awareness about life insurance affects its demand. Product awareness is created in promotional activities .The absence of awareness within the public about life insurance is an indication that insurance companies are not effectively making promotion of life insurance products.

### ➤ Religion

Further, 63% of the respondents agree and 10% strongly agree as religious attitude affects life insurance purchasing behaviour. Religious people tend to make their burden on God rather than thinking about life insurance.

➤ Education

Regarding the impact of education, 51% of the respondents agree and 38% strongly agree the positive impact of education on life insurance purchasing behaviour. The more individuals educated the more they will be risk averse and, hence, will tend to have life insurance policy.

➤ Urbanization

On the other hand 40% of the respondents disagree and 8% strongly disagree on the insignificant impact of urban to total population for life insurance. Interview respondents reflected on this since insurance companies are working concentrated in urban area the increase in urban population will have positive impact on life insurance market. Since people can easily access insurance companies and their awareness program and would have a better demand.

The findings regarding lack of awareness, religious attitude and literacy supports the findings of Demis (2016). On the other hand, the finding on urbanization is contrary to the study done by Absul & Nicholas (2015). From the analysis of the open ended questionnaire, most respondents also agree that awareness is the most important challenge for life insurance demand.

**Table 4-3: Demographic Challenges**

	SDA		DA		N		A		SA		Mean	SD
	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%		
Lack of awareness of people about life insurance advantage affects demand of life insurance	3.0	4.2	1.0	1.4	1.0	1.4	19.0	26.4	48.0	66.7	4.5	0.934
Life insurance purchasing behavior affected by peoples religious attitude	4.0	5.6	7.0	9.7	9	12.5	45	62.5	7.0	9.7	3.61	0.987
The level of urban to total population does not have significant effect on life insurance purchasing tendency as far as insurers can avail affordable and accessible products	12	16.7	16	22.2	9	12.5	29	40.3	6	8.3	3.01	1.284
Education have positive impact on purchasing behavior of life insurance buyers	1	1.4	1	1.4	6	8.3	37	51.4	27	37.5	4.22	0.0773
The higher old dependent to working population ratio the higher life insurance demand.	3	4.2	16	22.2	26	36.1	21	29.2	6	8.3	3.15	1.002
The higher the young dependent to working population ratio the lower life insurance demand, since people will	1	1.4	9	12.5	11	15.3	42	58.3	9	12.5	3.68	0.901

Source: Own survey, 2017

SDA=Strongly Disagree, DA=Disagree; N=Neutral,, A= Agree, SA=Strongly Agree ,SD=Standard Deviation, Fr=Frequency

### III. Institutional Challenges of life insurance

To find the institutional factors that are contributing for the declining performance of life insurance, respondents were asked questions addressing the human capital development, product development, price, awareness creation, promotion, companies' strategic focus, etc, as indicated in Table 4-4 of Annex I. Accordingly the result is analyzed as follows.

#### ➤ Human Capital

For the question forwarded absence specialized institutions to train insurance professionals is a challenge, 54% of the respondents agree and 18% strongly agree on the issue. In addition, 60% of the respondents agree and 22% of the respondents strongly agree on the scarcity of life

insurance professionals in the market. It is apparent that though insurance companies more than a decade in the country there is no one institution specialized to give insurance training in the country. The lack of professionals in the industry and poor practice of insurance is magnificent due to this fact.

➤ Unique product and different distribution option

Regarding product differentiation and limitation of product distribution, 47% agree and 38% strongly agree that it is difficult to get unique life insurance product in the industry. In addition, 63% of the respondents agree and 16% of the respondents strongly agree that life insurance companies have limitation in supporting their sales with information technology. It is rare to find different or unique product in the different insurance companies. Customers are urged to choose the products base on price not based on their quality or differentiation. In addition unlike Banks which are now adopting technology to sell their products through different options like mobile banking insurance companies do not start yet to do so.

➤ In-efficient awareness and unclear products

Questions were forwarded to the effectiveness of promotion or awareness creation done by insurance companies and whether the insurance products and policy wordings are clear to customers. Accordingly, 35% of the respondents agree and 24% of the respondents strongly agree on the little impact of the promotion done by insurance companies. Further, 60% of the respondents agree on the little understandably of life insurance products by the public. On the other hand 61% of the respondents agree on vagueness of policy wordings of life insurance products. This is in support of the lack of awareness of life insurance products within the public. If insurance companies promotional activities had sufficient impact we would have a better awareness within the public. Therefore we can conclude that the awareness programs done by insurance companies did not have the expected impact on the customers mind. One of the interviewers put the contribution of the government for awareness creation as follows:

*“The public including the educated one’s are not aware of life insurance products , this should not be left only to insurance companies . The government should also support the awareness creation by dedicating Television Air time for this purpose. “*

➤ Lack of Strategic Concern

Questions were raised if sufficient strategic focus is being given for life insurance business and if equal attention is given by the management and professionals. Accordingly, 18% of the respondents strongly agree and 60% of the respondents agree with the absence clear strategy to sell life insurance. On the other hand 42% of the respondents agree and 21% strongly agree their preference to dedicate their time to general insurance than life insurance. Clear strategy is the main tool for good performance of any business. As it is supported with the respondents the unsuccessful promotional activities, the uncompetitive products, the weak adaptation of technology are all the results of weak strategy.

➤ Absence of Local Actuary

Regarding the impact of availability of local actuary, 47% of the respondents agree and 40% strongly agree absence of local actuary negatively affects life insurance business. The interview respondents explained the impact of absence of local actuary as follows:

*“insurers are selling products developed during the inception of insurance in Ethiopia , revision of price could not be done due to absence of actuary , the price of life insurance which is set when there is no health centre , medical infrastructure is still the same should have been decreased due to the infrastructure improvement done .”*

It can be concluded that human capital development , product differentiation , limited /traditional distribution channel ,weak awareness creation about life insurance to the public ,lack of strategic focus and absence of local actuary are the prevailing institutional challenges affecting life insurance business, this findings is similar to that of Dawit (2011).

IV. External Challenges of life insurance

➤ Independent Regulatory organ

As indicated in Table 4-5 of Annex II, with regard to the need for independent insurance regulatory organ, 42% of the respondents agree and 36% of the respondents strongly agree on the need for independent, proactive, professionally equipped regulatory organ for the development of life insurance. The prevailing condition of regulation in Ethiopia is insurance supervision division is under the National Bank of Ethiopia. The fact that the insurance supervision is under the same umbrella with bank supervision makes it not to get sufficient focus .Hence, the

respondents support the establishment of independent , proactive , professionally equipped regulatory organ.

➤ Government restrictions

Responses on the impact of investment restriction by the government, In this regard 69% of the respondents agree on the negative impact of investment restriction of life insurance. And 72% agree that foreign companies' entry would make the life insurance industry better than the existing. The premium collected from life insurance policy holders should have been invested in profitable investment option and make the policy holders more profitable. But for the case of Ethiopia, there is a restriction on the type and amount of investment to participate. In addition, there is no capital market in Ethiopia where life insurance can choose better investment opportunities. In addition to these restrictions unlike other developed and developing countries life insurance is not exempted from tax. If tax were exempted those who are at the esteemed level of Maslow hierarchy would acquire life insurance policy to get the benefit from the tax exception.

For the questions forwarded to know the impact of restriction of social health insurance and pension administration by the government; 50% the respondents agree the portfolio of life insurance will be negatively affected by the newly established social health insurance service by the government, 42% of the respondents agree and 32% strongly agree the protected pension scheme would have contributed for life insurance portfolio.

One of the interviewee also supported this by saying:

*“Some of the government action taken to control inflation affected the performance of life insurance such actions are the transfer of pension and provident fund administration to government, the administration of social health insurance by the government rather than insurance companies.”*

➤ Academic Institution Weak Contribution

Though the history of insurance in Ethiopia gets back three decades, academic institutions did not consider insurance in their program. This is supported by the respondents of the survey in

that; 86% respondents agree the weak contribution of academic institutions in developing human capital for insurance.

➤ Product Limitation and Price Competition

Insurance companies are selling life insurance products with less attractive profitability to the consumers; In addition they are competing with price rather than differentiation and quality. Accordingly, 72% of respondents agree the presence of challenge for life insurance companies to provide product with stable profit. And 46% of the respondents agree and 42% of the respondents strongly agree as price is the main competition factor of insurance companies. Insurance companies are not innovating new products and adopt technology to make the products easily accessible and less costly and, hence, they are competing with price rather than differentiation.

➤ Absence of local actuary and common database

The presence of common database would make insurance transaction easy by making insurance client information or history easily accessible. This in-turn will help insurance companies to easily identify client with moral hazard and take appropriate action. In addition it will enable them to transact insurance easily. But 73% of respondents agree the absence of local actuary and integrated / common database in the industry.

➤ Tax Exception

*The need of tax exemption on life insurance expense is also proposed by respondents to motivate individuals to purchase life insurance. Life insurance expense is exempted from tax in other countries.*

### **4.3.Opportunities for the Development of Life Insurance**

➤ Digitalization

Questions were forwarded if the emerging digitalization and the motive of the government can be opportunity for the development of life insurance. As indicated in Table 4-6 of Annex III, 60% of the respondent agrees and 29% strongly agree the emerging information technology is an opportunity to improve life insurance business. And 77% of the respondents agree the

requirement set by the supervisory organ to customize the process with software is an opportunity for the improvement of life insurance business. Further, 56% of the respondents agree and 28% strongly agree going towards digitalization is an opportunity to improve life insurance risk evaluation and tariff estimation.

In support of the above survey result interview response for the question “Do you think digitalization can bring change in life insurance demand? How?” is found:

*“Yes, if we can use information technology to sell life insurance products for low income population it will be cost effective and be profitable, In addition we can improve our service quality and efficiency by using insurance software”.*

Similarly, for the question “why the insurance industry could not avail product which is suitable for the rural population? Was there any experience regarding this?” the response was:

*“Low income rural population needs life insurance which is affordable and easily accessible, to avail a product with low premium the cost of transaction must be small and distribution should be supported alternative mechanism other than branch operation. And this needs support of technology. Currently no insurance company made effort to avail such type of product.*

#### ➤ Human capital

The enforcement of financial institutions to allocate budget for training and development is considered as an opportunity for insurance companies to invest in human capital development, and this is supported by 53% of the respondents. Regarding the country’s population pyramid 36% of respondents agree and 11% strongly agree the increase in young dependent ratio will assist awareness creation at an early stage. A problem will get a solution if it is recognized first. The recognition of the awareness problem by the regulators and the government is one step forward for the solution. Apparently we will have more professionals in the industry due to this initiative.

#### ➤ Market

Regarding market opportunity, 62% of the respondents agree and 23% strongly agree that increase in middle income is an opportunity for life insurance business. Middle income population is those with income above the required to fulfil the basic need. Since the demand for



life insurance increase when individual are able to afford after they fulfil their basic need the increase in the middle income population will increase the demand for the purchase of life insurance.

➤ Access to WTO

Regarding the relevance of WTO (World Trade Organization) membership was also regarded as positive to the development of life insurance requested and 66% of the respondents agree on the positive impact of WTO membership.

To triangulate the survey result interview questions were prepared and forwarded to respondents who filled the questionnaire , one of the question was ” How do you think going towards membership of WTO be relevant for life business?” the respondents is summarize as follows :

*“ When Ethiopia become member of WTO Competition in the industry players will increase, and the local insurance companies will improve their service to beat the competition , in the mean while consumers will be able to get better product and service with affordable price , technology transfer and experience sharing will also enhance the services of the existing local insurance companies .”*

Questions were forwarded to respondents to list down the three most important challenges, the three most important opportunities and the three most important government interventions required .Accordingly, it is found that the three most important challenges are lack of awareness, low income and lack of professionals. Whereas the three most important opportunities are increasing middle income, increasing population and the emerging digitalization .On the other hand the most important government interventions required are compulsory life and health insurance, tax exemption of life insurance expenses and awareness creation and establishment of academic institution.

To summarize, income, inflation and interest rate are the economic challenges that affect the development of life insurance. As disposable income of an individual increases the demand for life insurance also will increase, interest rate is also positively affects life insurance. On the other hand inflation has negative effect on demand of life insurance. As inflation increases the income of individual that will be allocated for basic consumption will increase and consequently the demand for life insurance will decrease. On the other hand, lack of awareness, religious attitude, urban to total population ratio and education are the demographic factors that affect life

insurance. First and for most individuals will spend their money on life insurance if and only if they are aware of the advantage of life insurance .The more people educated the more they will know risk management mechanisms . People tend to rely on God than insurance for their future uncertainty and hence religion affects life insurance. Urban population have more access to life insurance companies in Ethiopia which are concentrated in urban and the products available are suitable for urban population rather than rural population.

Little effort in human capital development, inability to develop unique life insurance products, weak strategic alliance for life insurance, and little focus given by professionals to life business, weak awareness creation effort and absence of local actuary are institutional challenges that are hindering life insurance development.

Absence of independent regulatory organ, government restrictions on investment, social and health insurance scheme and pension scheme are challenges for the development of life insurance. On the other hand weak participation of academic institutions, unfair competition of insurance companies and absence of local actuary are external challenges of life insurance business.

The emergence of information technology , the enforcement of insurance companies to implement software , the increase of middle income , the increase of population , the untapped market , the effort of Ethiopia to be a WTO member are the opportunities for life insurance business.

*Some of the new findings of this research are the relevance of independent, strong, professionally equipped insurance regulatory organ, the need to restructure the social health scheme and pension administration, the weak contribution of academic institutions for the insurance sector.*

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATION

#### 5.1. Summary

Income, inflation and interest rates are economic challenges. While lack of awareness, education, urbanization and religion are demographic challenges that affect life insurance. Poor awareness creation, loose strategic focus, weak human capital development, inability to develop unique product are institutional challenges that inhibits the growth of life insurance. Absence of local actuary, government restrictions in investment, poor focus of academic institutions, inability to develop unique product and unfair competition are external challenges. Whereas information technology, increasing middle income, increasing population, the untapped market, the enforcement of insurance companies to implement software, the effort of Ethiopia to be member of WTO are the opportunities for life insurance business

#### 5.2. Conclusion

Using survey method on life insurance companies in Ethiopian and professionals working in the companies, the study identified the challenges of life insurance in to demographic, economic, institutional and external factors. Accordingly, Lack of awareness, religion, urbanization, education, old dependent and young dependent rations are demographic challenges of life insurance in Ethiopia. Income, interest rate and inflation are found to be economic challenges of life insurance business in Ethiopia.

One of the institutional challenges is scarcity of insurance professionals in the market; this is due to the law development of human capital in the insurance industry. The absence of focus of academic institution on the field of life insurance makes difficult development of human capital.

The second institutional challenge is product development and distribution. Insurance companies rarely supply unique products, almost all the products available are similar, and they are competing with price rather than product differentiation.

The third institutional challenge is lack of public awareness. Another institutional challenge found in the study is the weak strategic focus of insurance companies and insurance professionals.

Absence of independent insurance regulatory organ, government restrictions in investment, absence of local actuary, absence of integrated/common database, little attention given by academic institutions for the insurance industry are the external challenges identified in the study.

The emerging information technology, the increasing middle income population, the effort of Ethiopia to be member of WTO, the initiative of the supervisory organ towards human capital development are the opportunities of life insurance business in the future Ethiopia.

### **5.3. Recommendations**

Based on literature review and research finding, the following points are recommended

- 1) Insurance awareness and lack of professionalism are the most important challenge of life insurance business in Ethiopia. To cater this problem an intervention is required by establishing an Insurance academy which can raise insurance professionals. The major players for this initiative should be the insurance companies and the insurers' association. The government also should support such initiatives. Academic institutions should also involve in the curriculum development so that well skilled professionals can be raised.
- 2) Regarding product development and distribution, insurance companies should make effort to develop new and unique products which differentiate their company. And they should compete with product differentiation and service quality rather than price. Insurance companies are working concentrated in urban area. And, hence, they should give focus to the untapped market in the rural area by developing suitable and affordable product.
- 3) It is found that lack of awareness is a very critical challenge for the development of life insurance in Ethiopia. Insurance companies should work aggressively to raise the awareness of the public to get the advantage of life insurance. The government also should assist the initiative by dedicating television air time for insurance awareness

creation programs. The insurers association should also play the leading role in the insurance awareness creation initiatives

- 4) Focus should be given for life insurance both at company and industry level. Therefore insurance companies should have a clear strategic direction towards developing life insurance business. Without clear marketing strategy, insurance companies can't exploit existing and emerging opportunities of life insurance business.
- 5) The other important challenge is the structure of insurance supervision. Currently the insurance supervision is organized under the national bank of Ethiopia as a department. It is believed that the insurance supervision will have power and can do better if it is organized independently managed with experienced insurance professionals.
- 6) The insurers associations should make effort to develop a common database which can help the operation of the individual companies.
- 7) The government should revise the policies governing the pension scheme and social health insurance scheme. Insurance companies should be given the opportunity to participate in the pension administration. The social health insurance is advised to be under the umbrella of insurance companies. The government should also revise the restrictions imposed on life insurance investment options.

#### **5.4. Future Study**

The researcher recommends further research to be done on the demand of life insurance taking in to consideration the customers as population of interest.

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## Annex I

Table 4- 4: Institutional challenges

No	Item	SDA		DA		N		A		SA		Mean	SD
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%		
1	Lack of local Actuary in the industry makes product development costly and inefficient			4	5.6	5	6.9	34	47.2	29	40.3	4.22	.809
2	It is rare to find unique products in life insurance companies in Ethiopia			5	6.9	6	8.3	34	47.2	27	37.8	4.15	.850
3	Lack of actuarial data makes difficult actuarial risk calculation and tariff			5	6.9	10	13.9	44	61.1	13	18.1	3.90	.772
4	Life insurance policies are not affordable for low income population	10	13.9	21	29.2	3	4.2	28	38.9	10	13.9	3.10	1.344
5	The predominant reasons mentioned by individual customers not to accept offer of insurance quotation is the exaggerated price offer	4	5.6	17	23.6	14	19.4	28	38.9	9	12.5	3.29	1.131
6	Price revision is easily done based on the prevailing condition of inflation	10	3.9	26	36.1	20	27.8	14	19.4	2	2.8	2.61	1.042
7	Developing human capital in insurance companies is costly due to the limitation of local institutions specialized in Insurance Trainings.			7	9.7	13	18.1	39	54.2	13	18.1	3.81	.850
8	It is a challenge to get qualified and well experienced Life Insurance personnel in the market as well as keeping in the company	1	1.4	8	11.1	4	5.6	43	59.7	16	22.2	3.90	.922
9	Awareness program done by insurance companies has little impact to increase the knowledge of the people	12	16.7	15	20.8	3	4.2	25	34.7	17	23.6	3.28	1.456
10	Life insurance products are not easily understandable by the public	2	2.8	19	26.4	8	11.1	32	44.4	11	15.3	3.43	1.124
11	Policy wordings of life insurance are little understandable and reason for dispute with clients	1	1.4	20	27.8	7	9.7	34	47.2	10	13.9	3.44	1.086
12	Limitations in reaching life insurance policy holders with different options supported with technology have been difficult for the Ethiopian Insurance market	2	2.8	7	9.7	6	8.3	45	62.5	12	16.7	3.81	0.929
13	Equal attention is given by your organization to develop strategy for life insurance as General insurance	22	30.6	21	29.2	8	11.1	12	16.7	9	12.5	2.51	1.404
14	It is preferable to dedicate more time to sell general insurance products than life insurance products due to the least demand of the existing products	4	5.6	9	12.5	14	19.4	30	41.7	15	20.8	3.60	1.122



15	The declining trend of life insurance is a great concern in your company strategic meetings	2	2.8	17	23.6	17	23.6	29	40.3	7	9.7	3.31	1.030
16	Life insurance companies are not able to supply product the middle income society which is becoming paperless / technology dependent	3	4.2	16	22.2	14	19.4	37	51.4	2	2.8	3.26	0.979
17	Not having clear strategy to sell suitable and affordable life insurance products to the general public is one challenge	2	2.8	6	8.3	8	11.1	43	59.7	13	18.1	3.82	.924
18	Agents and sales forces needs special motivation scheme to contribute for a better awareness and sales of life insurance	1	1.4	5	6.9	3	4.2	30	41.7	33	45.8	4.24	0.927

Source: Own survey, 2017

SDA=Strongly Disagree, DA=Disagree; N=Neutral ,A= Agree, SA=Strongly Agree, SD=Standard Deviation, Fr=Frequency

## Annex II

Table 4- 5: External Challenges

Item No	Item	SDA		DA		N		A		SA		Mean	SD
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%		
1	You have clear knowledge on the role of the insurers association in the industry	5	6.9	19	26.4	18	25.0	27	37.5	3	4.2	3.06	1.047
2	The insurance supervision division of the National Bank will contribute much if it is organized independently	1	1.4	6	8.3	19	26.4	27	37.5	19	26.4	3.79	0.978
3	The insurance regulatory body has a lower effort for new life insurance product and product approval	2	2.8	7	9.7	17	23.6	34	47.2	12	16.7	3.65	0.966
4	Life insurance would have been in a better position if independent, proactive and professionally equipped regulatory organ had been established in Ethiopia	2	2.8	3	4.2	11	15.3	30	41.7	26	36.1	4.04	0.971
5	Life Insurers in Ethiopia are competing with price rather than product and service	2	2.8	3	4.2	4	5.6	33	45.8	30	41.7	4.19	0.929
6	Academic institutions were not equipped to cultivate life insurance professionals for the last decades	1	1.4	2	2.8	7	9.7	31	43.1	31	43.1	4.24	0.847
7	Insured's may go to least price company without considering the limitation in the product due to their lack of knowledge on the policy detail	2	2.8	1	1.4	9	12.5	40	55.6	20	27.8	4.04	0.846
8	The minimum Paid-up Capital restriction to start life insurance business is one barrier entry for new life insurance business	5	6.9	13	18.1	16	22.2	25	34.7	13	18.1	3.39	1.181
9	Investment restriction posed by the regulatory organ is one of the challenge to the profitability of life insurance	2	2.8	3	4.2	17	23.6	34	47.2	16	22.2	3.82	0.924
10	Saving from life assurance does not have sufficient access to investment in the financial market	7	9.7	15	20.8	9	12.5	28	38.9	13	18.1	3.35	1.269
11	The restriction of the domestic financial market to foreign insurers contributed to the poor insurance technique that our insurance companies exhibiting	2	2.8	3	4.2	15	20.8	36	50	16	22.2	3.85	0.914
12	Life insurance sales increasingly challenged to offer products that meet the present and future needs by providing stable profits and Interest to customers	1	1.4	6	8.3	13	18.1	42	58.3	10	13.9	3.75	0.852

13	Lack of a common database / integrated information system within the insurance industry is contributing for the poor performance of life insurance	3	4.2	5	6.9	11	15.3	39	54.2	14	19.4	3.78	.982
14	The current political turmoil in the country is an additional burden on life insurance profitability	1	1.4	10	13.9	22	30.6	30	41.7	9	12.5	3.5	0.934
15	The currently established social security agency will share the portfolio of life insurance and aggravate the problem	2	2.8	7	9.7	27	37.5	29	40.3	7	9.7	3.44	0.902
16	Life insurance should have been in a better position if pension administration was open for private insurance companies	1	1.4	2	2.8	16	22.2	30	41.7	23	31.9	4.00	0.888

Source: Own survey, 2017

SDA=Strongly Disagree , DA=Disagree; N=Neutral ,A= Agree, SA=Strongly Agree, SD=Standard Deviation, Fr=Frequency

## Annex III

Table 4- 6: Opportunities

No	Item	SDA		DA		N		A		SA		Mean	SD
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%		
1	The emerging information Technology is one opportunity to introduce innovative life insurance product	2	2.8	1	1.4	6	8.3	43	59.7	20	27.8	4.08	.818
2	The establishment of local reinsurance company assists life insurance in decreasing it's reinsurance transaction cost & enhances investment by saving foreign currency which is ceded to reinsurance abroad	1	1.4	7	9.7	19	26.4	27	37.5	18	25	3.75	.989
3	The interest rate change set by the National Bank of Ethiopia is an opportunity for life insurance development	5	6.9	8	11.1	23	31.9	32	44.4	4	5.6	3.31	.988
4	The current program (Masters of Business Administration in Financial Services) developed by the collaboration of Public Financial Institutions Agency and Addis Ababa University is an opportunity to nurture the human capital requirement of the insurance			5	6.9	11	15.3	46	63.9	10	13.9	3.85	.744
5	The higher young dependent ratio is an opportunity to increase the level of awareness of life insurance at an early stage	4	5.6	3	4.2	11	15.3	46	63.9	8	11.1	3.71	.926
6	The effort being excreted by the Ethiopian Government to be member of World Trade Organization is both an opportunity and challenge for poor performing local life insurance companies	2	2.8	2	2.8	21	29.2	35	48.6	12	16.7	3.74	.872
7	The Ethiopian Financial Institution regulatory body is urging Insurance companies to support their service with appropriate insurance software. This is an opportunity to give a better product and service with affordable price	1	1.4	3	4.2	13	18.1	45	62.5	10	13.9	3.83	.769
8	The allocated 2% budget from profit of insurance companies for training and development is an opportunity for insurance companies to develop their human capital			2	2.8	6	8.3	38	52.8	26	36.1	4.22	.716
9	The increasing middle income society of Ethiopia is an opportunity for insurance companies to exploit			3	4.6	7	10.8	40	61.5	15	23.1	4.08	.727
10	Going towards digitalization is an opportunity to have a better risk evaluation and tariff estimation	1	1.4			11	15.3	40	55.6	20	27.8	4.08	.746

Source: Own survey, 2017

SDA=Strongly Disagree , DA=Disagree; N=Neutral ,A= Agree, SA=Strongly Agree, SD=Standard Deviation, Fr=Frequency

**Annex IV: Recommendation Letter from College of Business and Economics**

Ref.No. CBE/MBA/2017/18/001

Date: \_\_\_\_\_

To \_\_\_\_\_

Student \_\_\_\_\_, is undertaking project entitled, "\_\_\_\_\_".

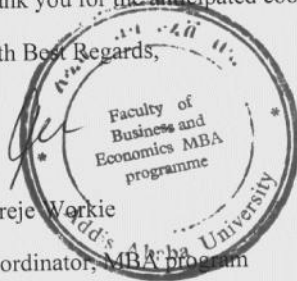
She /He is taking this opportunity of project study in partial fulfillment of MBA masters in finance/ management.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used for academic purposes only. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,



Dereje Workie

Coordinator, MBA program

College of Business and Economics

Addis Ababa University

## **Annex V: Cover Letter for Questionnaire /Pilot Test**

**Dear Sir / Madam**

I am a postgraduate student at Addis Ababa University College of Business and Economics working towards for an MBA Degree in Financial Services. I am doing research on the title “*Challenges and Prospects of life insurance in Ethiopia*”. As part of this research, I am planning to collect data through questionnaire survey. The purpose of the survey is to identify the challenges and prospects of Life Insurance in Ethiopian. This research is believed to identify the internal and external challenges encountered by life insurance companies and the potential opportunities of life insurance business in the country.

As part of the survey prior to distributing the questionnaire for pilot test, the validity of the content has to be assessed by expertise on the area both academician and practitioner. It would kindly request you to give me your valuable feedbacks on the content of the survey. Is there a question which is irrelevant? What question would you recommend to add? Is the arrangement of the questions appropriate?

Thank you in advance for giving me your valuable time and look forward your feedback.

Best Regards,

Kiddist Admassu  
AAU College of Business and Economics  
Mobil phone: 0911502238  
Email : kidanruth@gmail.com

## **Annex VI: Cover Letter for Questionnaire**

**Dear Sir / Madam**

I am a postgraduate student at Addis Ababa University College of Business and Economics working towards for an MBA Degree in Financial Services. I am doing research on the title “*Challenges and Prospects of life insurance in Ethiopia*”. As part of this research, I am planning to collect data through questionnaire survey. The purpose of the survey is to identify the challenges and prospects of Life Insurance in Ethiopian. This research is believed to identify the internal and external challenges encountered by life insurance companies and the potential opportunities of life insurance business in the country.

There is no information which requests the respondent identity, if any will be considered as sensitive and treated with utmost confidentiality and anonymity. There is no risk associated in responding this survey; no cost will be incurred and no compensation will be given to the respondent. Your participation in this survey is completely voluntary as well.

And, hence, you are kindly requested to answer the questions about challenges and prospects of life insurance based on your experience. The questions will take approximately 15 -20 minutes. The filled questionnaire will be sealed and returned directly to the researcher or his delegated personnel to be introduced during briefing. In case you are interested to contact my advisor, Mehari Mekonnen (Ph.D.), he is available at [drmehari@gmail.com](mailto:drmehari@gmail.com) .

Thank you in advance for giving me your valuable time

Best Regards,

Kiddist Admassu  
AAU College of Business and Economics  
Mobil phone: 0911502238  
Email : kidanruth@gmail.com

**Annex VII: Questionnaire Used**

**Part I: Demographic data (DD)**

**Instruction I: Kindly mark the option of your preference/write the item**

1. Please indicate the line of insurance business your organization is involved  
life and non-                      life only              General only  
life

2. What is your Job title in your Organization? -----

3. Indicate is your Gender  
Female      Male

4. Which of the following categories include your Age?  
under 30      30-39      40-49      50-59              above 60

5. How many years have you worked in your present Organization?  
below 5      5-9              10-15                      16-20              above  
20

6. How many years have you worked in your present position?  
below 5      5-9              10-15                      16-20              above  
20

7. What is the total number of employees in your Organization?  
below 500      501-1000      1001-1500      above  
1500



**Instruction II: Please rate your opinion on the agreement of the concepts in each part by making a tick mark on the space provided. The numbers represent the following options.**

1. Strongly disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly Agree

**Part II: Demographic Challenges of Life Insurance in Ethiopia**

No	Items	1	2	3	4	5
1	Lack of awareness of people about life insurance advantage affects demand of life insurance					
2	Life insurance purchasing behaviour affected by peoples religious attitude					
3	The level of urban to total population does not have significant effect on life insurance purchasing tendency as far as insurers can avail affordable and accessible products					
4	Education have positive impact on purchasing behaviour of life insurance buyers					
5	The higher old dependent to working population ratio the higher life insurance demand.					
6	The higher the young dependent to working population ratio the lower life insurance demand, since people will expend more for present consumption					

**Part III: Economic Challenges of Life Insurance in Ethiopia**

No	Item	1	2	3	4	5
1	The higher the income of an individual, the higher the demand for life insurance					
2	Inflation affect the development of life insurance					
3	Interest rate positively affects life insurance development					

## Part IV: Institutional Challenges

No	Items	1	2	3	4	5
1	Lack of local Actuary in the industry makes product development costly and inefficient					
2	It is rare to find unique products in life insurance companies in Ethiopia					
3	Lack of actuarial data makes difficult actuarial risk calculation and tariff					
4	Life insurance policies are not affordable for low income population					
5	The predominant reasons mentioned by individual customers not to accept offer of insurance quotation is the exaggerated price offer					
6	Price revision is easily done based on the prevailing condition of inflation					
7	Developing human capital in insurance companies is costly due to the limitation of local institutions specialized in Insurance Trainings.					
8	It is a challenge to get qualified and well experienced Life Insurance personnel in the market as well as keeping in the company					
9	Awareness program done by insurance companies has little impact to increase the knowledge of the people					
10	Life insurance products are not easily understandable by the public					
11	Policy wordings of life insurance are little understandable and reason for dispute with clients					
12	Limitations in reaching life insurance policy holders with different options supported with technology have been difficult for the Ethiopian Insurance market					
13	Equal attention is given by your organization to develop strategy for life insurance as General insurance					
14	It is preferable to dedicate more time to sell general insurance products than life insurance products due to the least demand of the existing products					
15	The declining trend of life insurance is a great concern in your company strategic meetings					
16	Life insurance companies are not able to supply product the middle income society which is becoming paperless / technology dependent					
17	Not having clear strategy to sell suitable and affordable life insurance products to the general public is one challenge					
18	Agents and sales forces needs special motivation scheme to contribute for a better awareness and sales of life insurance					

## Part V: External challenges

No	Items	1	2	3	4	5
1	You have clear knowledge on the role of the insurers association in the industry					
2	The insurance supervision division of the National Bank will contribute much if it is organized independently					
3	The insurance regulatory body has a lower effort for new life insurance product and product approval					
4	Life insurance would have been in a better position if independent, proactive and professionally equipped regulatory organ had been established in Ethiopia					
5	Life Insurers in Ethiopia are competing with price rather than product and service					
6	Academic institutions were not equipped to cultivate life insurance professionals for the last decades					
7	Insured's may go to least price company without considering the limitation in the product due to their lack of knowledge on the policy detail					
8	The minimum Paid-up Capital restriction to start life insurance business is one barrier entry for new life insurance business					
9	Investment restriction posed by the regulatory organ is one of the challenge to the profitability of life insurance					
10	Saving from life assurance does not have sufficient access to investment in the financial market					
11	The restriction of the domestic financial market to foreign insurers contributed to the poor insurance technique that our insurance companies exhibiting					
12	Life insurance sales increasingly challenged to offer products that meet the present and future needs by providing stable profits and Interest to customers					
13	Lack of a common database / integrated information system within the insurance industry is contributing for the poor performance of life insurance					
14	The current political turmoil in the country is an additional burden on life insurance profitability					
15	The currently established social security agency will share the portfolio of life insurance and aggravate the problem					
16	Life insurance should have been in a better position if pension administration was open for private insurance companies					

## Part VI: Opportunities

No	Items	1	2	3	4	5
1	The emerging information Technology is one opportunity to introduce innovative life insurance product					
2	The establishment of local reinsurance company assists life insurance in decreasing it's reinsurance transaction cost & enhances investment by saving foreign currency which is ceded to reinsurance abroad					
3	The interest rate change set by the National Bank of Ethiopia is an opportunity for life insurance development					
4	The current program (Masters of Business Administration in Financial Services) developed by the collaboration of Public Financial Institutions Agency and Addis Ababa University is an opportunity to nurture the human capital requirement of the insurance industry					
5	The higher young dependent ratio is an opportunity to increase the level of awareness of life insurance at an early stage					
6	The effort being excreted by the Ethiopian Government to be member of World Trade Organization is both an opportunity and challenge for poor performing local life insurance companies					
7	The Ethiopian Financial Institution regulatory body is urging Insurance companies to support their service with appropriate insurance software. This is an opportunity to give a better product and service with affordable price					
8	The allocated 2% budget from profit of insurance companies for training and development is an opportunity for insurance companies to develop their human capital					
9	The increasing middle income society of Ethiopia is an opportunity for insurance companies to exploit					
12	Going towards digitalization is an opportunity to have a better risk evaluation and tariff estimation					

## Part VII: Any other opinion

**Instruction III: Write on the space provided any of your opinions that you think relevant for the subject of the study.**

- List 3 most important prevailing challenges of life insurance
  1. .
  2. .
  3. .
  
- List 3 most important issues that you think government intervention is required to improve the life insurance market
  1. .
  2. .

3. .

➤ List 3 most important emerging opportunities in the Ethiopia life insurance market

1. .

2. .

3. .

THANK YOU FOR YOUR COOPERATION

## **Annex VIII: Interview Protocol and questions**

**Introduction:** I am working this research project to identify the challenges existing in the Ethiopian Insurance Industry (both institutional and external challenges) and the opportunities existing that can be exploited and make life insurance real developmental partner of our economy,

I will be asking you questions related with challenges and opportunities of life insurance

1. Do you think that urbanization, the increase of urban population have positive impact for our life insurance business.
2. Why the insurance industry could not avail product which is suitable for the rural population? Was there any experience regarding this?
3. Do you think that academic institutions have played their role in the field of insurance? Why do you think it is ignored and who should play the main role with this regard?
4. Different Statistics shows as Ethiopia is in a fast economic growth track, did this have any implication on life Insurance development if so is it positive, negative?
5. How do you explain the absence of local actuary on the impact of life insurance products and services?
6. Can we conclude that the predominant reason of low demand of insurance to be affordability?
7. How agents and brokers be better motivated to sell life insurance?
8. Insurance supervisor is proactively contributing for the development of new products ? if not what do you think the reason is
9. Is there any change you think important in the regulator structure of insurance or supervision of insurance which can bring improvement in the Insurance industry?