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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

LICENSING AND SUPERVISION OF MICROINSURANCE BUSINESS

**Licensing, License Renewal and Product Approval
For Microinsurance Providers
Directive No. SMIB/3/2020**

Whereas, microinsurance is increasingly seen as an important strategy to provide risk protection for vulnerable and low income people;

Whereas, the microinsurance market has grown considerably over the recent period and thus in order to further promote its development in sound and prudent manner, specific regulations are required to creating enabling conditions for licensing, license renewal and product approval;

Whereas, microinsurance operation should be adequately capitalized and run by fit and proper persons;

Now, therefore, the National Bank of Ethiopia has issued this Directive pursuant to the authority vested in it by Articles 4(1), 4(4) and 15(4a) of Insurance Business Proclamation No. 746/2012 and Article 3(10) of Insurance Business Proclamation No.746/2012 as amended by Insurance Business (Amendment) Proclamation No. 1163/2019.

1. Short Title

This Directive may be cited as “**Licensing, License Renewal and Product Approval for Microinsurance Providers Directive No. SMIB/3/2020**”.

2. Definitions

In this Directive, unless the context requires otherwise:

- 2.1. “chief executive officer”** means a person, by whatever title that person may be referred to, who is primarily responsible for the day-to-day management of the affairs of microinsurance providers;



2.2. “classes of microinsurance products”

2.2.1. under life microinsurance include:

- a) term insurance for insured policyholder or member of the family,
- b) accidental death and/or disability of insured policyholder or family member,
- c) credit life,
- d) medical expense, and
- e) other categories of microinsurance as may be authorized by the National Bank;

2.2.2. under general microinsurance include:

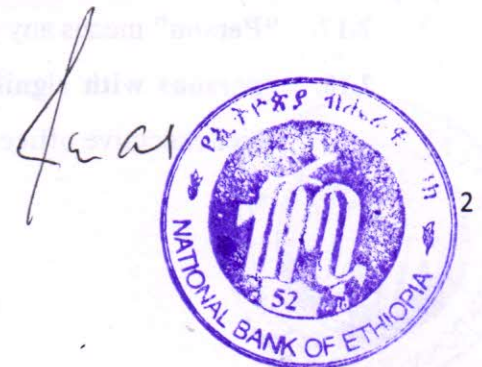
- a) loss of or damage to property, including crops and livestock, on an indemnity basis only,
- b) credit linked coverage,
- c) weather index insurance, and
- d) other categories of microinsurance as may be authorized by the National Bank;

2.3. “company” means a share company as defined under the Commercial Code, the capital of which is owned fully by Ethiopian nationals or foreign nationals of Ethiopian origin, or jointly owned by Ethiopian nationals and foreign nationals of Ethiopian origin, or organizations owned fully by Ethiopian nationals or foreign nationals of Ethiopian origin, or jointly owned by Ethiopian nationals and foreign national of Ethiopian origin and registered under the laws of, and having its head office in, Ethiopia;

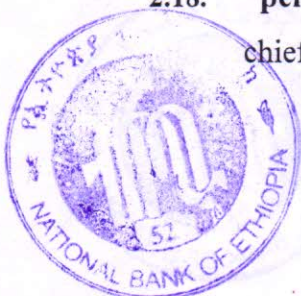
2.4. “director” means any member of the board of directors of the microinsurance provider, by whatever title he/she may be referred to;

2.5. “influential shareholder” means a person who holds directly or indirectly two percent or more of the total subscribed capital of a microinsurance company;

2.6. “insurance company” means a company licensed by the National Bank to undertake insurance business or an insurance company owned by the Government;



- 2.7. **“microfinance institution”** means a company licensed by the National Bank to undertake microfinance business under Proclamation No. 626/2009 as amended by Proclamation No.1164/2019;
- 2.8. **“microinsurance”** means any form of protection against risks that is designed for and accessed by low income people, provided by different categories of carriers but operating on business principles of insurance and funded by premium and that fulfills requirements set under sub-articles 6.2 and 6.3 of this Directive;
- 2.9. **“microinsurance business”** means an insurance business whereby the products and services meet the definition of “microinsurance” as well as specific restrictions and limitations as outlined in this Directive;
- 2.10. **“microinsurance business manager”** means a person by whatever title that person may be referred to, who is primarily responsible for the day-to-day management of the Micro insurance Business Unit of a microfinance institution;
- 2.11. **“microinsurance business unit”** means a separate business unit established for managing the operations of the microinsurance business;
- 2.12. **“microinsurance company”** means a company licensed by the National Bank which is dedicated to deal in microinsurance business as stated under sub-article 2(44) of Proclamation No.746/2012 as amended Proclamation No. 1163/2019;
- 2.13. **“microinsurance provider”** means an insurance company, a microinsurance company and a microfinance institution;
- 2.14. **“National Bank”** means the National Bank of Ethiopia;
- 2.15. **“organizers”** means persons who have initiated plans or facilitated the formation of a microinsurance company and who shall jointly and severally be liable to third parties in respect of commitments entered into during the formation process;
- 2.16. **“other credit-linked coverage”** means insurance coverage for assets that are linked directly to an outstanding loan, for example, property or agricultural inputs purchased as a result of obtaining a loan, where the benefit payable as a result of an insured loss is related to the amount of the outstanding loan. This category may include agricultural assets such as livestock if they are linked directly to the loan;
- 2.17. **“Person”** means any natural or juridical person;
- 2.18. **“persons with significant influence”** means influential shareholders, directors, chief executive officer and senior executive officers;



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- 2.19. **“product approval”** means an authorization by the National Bank to allow the proposed product may be sold and marketed as microinsurance;
- 2.20. **“project manager”** means a person who shall be in charge of the whole process of obtaining business license of a microinsurance company; and
- 2.21. **“senior executive officer”** means any officer of a microinsurance company , by whatever title he may be referred to, who is deputy to the chief executive officer or who is directly accountable to the board of directors.

3. Scope of Application

This Directive shall apply to all micorinsurance providers.

4. General Requirement

Not to confuse the public and to distinguish the microinsurance products from that of the main stream insurance products,

- 4.1. all microinsurance providers shall put the word **“MICROINSURANCE”** at the top and all pages of the microinsurance policy they offer.

5. Requirements to Conduct Microinsurance Business

5.1. Insurance Companies

- 5.1.1. Mainstream insurance companies shall not be required to have a separate license to deal in microinsurance products;
- 5.1.2. Without prejudice to sub-article 5.1.1 of this Directive, in order to deal in microinsurance products, licensed insurance companies shall
- have renewed insurance business license;
 - achieve composite risk assessment rating of at least 3 (CRA-3) in the recent on-site examination;
 - seek microinsurance products approval from the National Bank in accordance with sub-article 6.4 of this Directive prior to the commencement of operation; and
 - establish a separate unit that exclusively runs and manages the microinsurance operations.

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5.2. Microinsurance Company

A microinsurance company shall fulfill the following conditions:

5.2.1. General

- a) Persons with significant influence shall meet all requirements and considerations set in this Directive.
- b) Appointment of directors, chief executive officer and senior executive officer shall be subject to approval by the National Bank.
- c) In appointing a chief executive officer and a senior executive officer, the board of directors shall ensure that such person fulfills the requirements stipulated in this Directive.
- d) Any shareholding that makes a person influential shareholder shall be approved by the National Bank.

5.2.2. Capital

An applicant for microinsurance insurance company license that exclusively plans to deal in microinsurance products shall have paid up capital of Birr 7million and Birr 3million for general microinsurance products and life microinsurance products respectively and Birr 10million to run both products.

5.2.3. Organizers and Project Manager

- a) Organizers shall appoint a project manager.
- b) The microinsurance company project manager shall have:
 - i. first degree from recognized higher learning institution, and
 - ii. business experience preferably in designing insurance and/or microinsurance project.
- c) The project manager and the organizers shall be honest, reputable and diligent. In determining integrity of the organizers and project manager, all relevant factors shall be considered, including but not limited to:



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- i. whether the person has a record or evidence of previous conduct and activities where he/she has been convicted for a criminal offence under any law designed to protect members of the public from dishonesty or fraud whether in Ethiopia or elsewhere;
- ii. whether the person has a record of withholding information from public authorities, submission of incorrect financial or other statements, prior refusal of regulatory/supervisory approval and failure to comply with requirements of regulatory/supervisory body, other corrective actions or interventions by public authorities; and
- iii. whether the person has a record of disciplinary measures or any dispute with previous employers, or compliance with a code of conduct which has led to the imposition of a penalty under employment law or any other disciplinary measures imposed by trade or professional associations.

5.2.4. Pre-application Phase

- a) Evidence of registration of trade name from Ministry of Trade and/or Regional Trade Bureau;
- b) Signed minutes of first meeting of organizers along with attendance sheet;
- c) Submission of prospectus, which is a printed statement that describes and forecasts the course or nature of the company along with expected risks, to be distributed to prospective investors;
- d) Written application requesting to open blocked subscription account indicating the name of the bank(s)/branch(es);
- e) Duly completed application form and propriety test questionnaire, as specified under Attachments I, II and III of this Directive, for organizers and project manager; and
- f) Evidence of payment of investigation fee.



5.2.5. Application Phase

- a) Duly completed application form, as specified under Attachment IV of this Directive, shall be submitted, together with all enclosures as stated herein, to the Insurance Supervision Directorate of the National Bank;
- b) Evidence of paid-up capital which includes certificate of deposits in a blocked account and evidence for valuation of contribution in kind (if any);
- c) Signed minutes of subscribers meeting with attendance sheet;
- d) List of names, nationality, address, number and value of subscribed and paid up shares of founders to be published in newspaper;
- e) Articles and memorandum of associations written in Amharic;
- f) Authenticated ownership certificate and/or lease agreement for building, land, equipment, fixtures and professional services;
- g) Evidence for insurance coverage for premises acquired or leased;
- h) Description of actual purchases made or proposed purchase of goods and services or lease of real estate by the microinsurance provider from related parties, organizers and project manager;
- i) Duly completed general information and propriety test questionnaires for influential shareholders, directors, chief executive officer and senior executive officer as per ANNEXES I and II of this Directive;
- j) Disclosure of names, nationality, address, numbers and values of subscribed capital of influential shareholders who have acquired 2% (two percent) or more;
- k) Business plan which at least includes: executive summary, introduction, macroeconomic analysis, financial sector analysis, insurance sector analysis, business environments, organization charts of the institution with brief description of the functions of the main organizational units, strategic and operational plans, source of capital and finances, products and services, which shall at least

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fulfill the specification stipulated under Article 6 of this Directive, technological competency, accounting policies, assumptions for financial projections, financial projections for the first three years including revenue account, balance sheet, income statement, cash flow projections and sensitivity analysis, and conclusion/recommendations;

- l) Specimen insurance policy together with endorsement and proposal forms for each class of insurance business to be undertaken by the microinsurance providers;
- m) Schedule of premium and commission rates for each class of insurance business that the applicant proposes to undertake;
- n) Reinsurance policy and program;
- o) Confirmation for reinsurance arrangement; and
- p) Evidence for payment of licensing fee.

5.2.6. Fit and Proper Criteria

a) Knowledge and Experience

With respect to knowledge and experience, a director, a chief executive officer and a senior executive officer shall fulfill at a minimum, the following:

i. Board of Directors

1. At least fifty percent of microinsurance company board members shall hold a minimum of first degree or equivalent from recognized higher learning institutions; and the remaining board members, at a minimum, shall complete general secondary or preparatory school or its equivalent.
2. Members of the board of directors shall have adequate experience in business management, preferably in insurance or reinsurance business, and/or should at a minimum take adequate training in insurance, reinsurance



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and insurance risk management after holding a seat on the board.

ii. Chief Executive Officer

A chief executive officer shall:

1. at a minimum hold first degree from recognized higher learning institution and preferably have diploma or advanced diploma in insurance from the Chartered Insurance Institute(CII) and/or Life Office Management Association(LOMA); and
2. have a minimum of 5 years' experience in insurance of which 2 years shall be as a Senior Executive Officer at least in one of the areas of underwriting, claims, or reinsurance .

iii. Senior Executive Officer

A Senior Executive Officer shall:

1. at a minimum hold first degree from recognized higher learning institution and preferably have diploma or advanced diploma in insurance from the Chartered Insurance Institute(CII) and/or Life Office Management Association(LOMA); and
2. have a minimum of 4 years' experience in insurance of which 2 years shall be in a managerial position in one or more of areas of underwriting, claims or reinsurance.

b) Integrity

Persons with significant influence shall be honest, reputable and diligent. In determining integrity of persons with significant influence, all relevant factors shall be considered, including but not limited to:

- i. whether the person has a record or evidence of previous conduct and activities where he/she/it has been convicted for a



- criminal offense under any law promulgated to protect members of the public from dishonesty or fraud whether in Ethiopia or elsewhere;
- ii. whether the person has a record of withholding information from public authorities, submission of incorrect financial or other statements, prior refusal of regulatory/supervisory approval and failure to comply with requirements of regulatory/supervisory body, other corrective actions or interventions by public authority; and
 - iii. in case of chief executive officer and senior executive officers, whether the person has a record of disciplinary measures or any dispute with previous employers or compliance with a code of conduct which has led to the imposition of a penalty under employment law or any other disciplinary measures imposed by trade or professional associations.

c) Financial Soundness

Persons with significant influence shall be financially sound. In determining financial soundness of persons with significant influence, all relevant factors shall be considered, including but not limited to:

- i. a) whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner has instituted bankruptcy proceedings or declared bankrupt, whether in Ethiopia or elsewhere, or his/her or the company's assets have been sequestered because of bankruptcy or been foreclosed by a bank because of failure to repay a loan;
- ii. whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner has been convicted of default on repayments of bank or other credits or tax payment;



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- iii. whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner carries non-performing loans, as defined by Directives of the National Bank, from any financial institution;
- iv. whether the person's purchase of shares in a financial institution has been funded or to be funded by another person who is actually bankrupted or technically insolvent because of irresponsible or reckless management, fraud or illegal business practice;
- v. whether the person's minimum net worth at the time of acquisition of shares is at least greater than shares acquired or to be acquired from a financial institution; and
- vi. whether a person's account has been closed and not reinstated by any bank, in line with relevant Directives of the National Bank, because of drawing checks without sufficient funds.

5.2.7. Ongoing Fitness and Propriety Test, and Action by the National Bank

The National Bank may conduct fitness and propriety test on persons with significant influence on a microinsurance company on ongoing basis. Where such a test indicates that a person with significant influence has failed to fulfill the fitness and propriety test as set out in this Directive, the National Bank may:

- a) suspend voting rights of influential shareholder; and
- b) suspend and/or remove a director, chief executive officer and senior executive officer.

5.2.8. Subsequent Notification Requirements

- a) Persons with significant influence are required to immediately notify the National Bank any events that might change their assessment as fit and proper.

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- b) If board of directors, chief executive officer, senior executive officer or external auditors of a microinsurance company, during the course of performing their duties, have reasonable doubt that a person with significant influence has failed to fulfill the criteria in this Directive, they shall immediately report the matter to the National Bank.

5.2.9. Documents to be Submitted on Application

Written request shall be submitted to the National Bank along with the following documents in order to conduct fitness and propriety test.

- a) For directors and chief executive officer and senior executive officer:

- i. an updated and signed curriculum vitae (including name, nationality, birth date, education, recent photograph, employment history, experience in business and financial affairs, involvement in civic, social and charitable activities including any leadership position held) accompanied with original and copies of documents signifying educational qualification and work experience; and
- ii. copies of identification card and /or passport.

- b) For all persons with significant influence:

- i. completed and signed fitness and propriety test questionnaire which is part hereof;
- ii. copy of tax identification number card; and
any other document that the National Bank deems necessary.

- c) In case a director is representing a corporate body who is an influential shareholder, the following documents shall be submitted:

- i. copy of the Company's memorandum and articles of association;



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- ii. copies of audited statements of the legal entity concerned, for three consecutive years (immediately preceding its application) or for each year it has been in operation, if less than three years; and
- iii. any other documents the National Bank deems necessary.

5.2.10. Conditions for Commencement of Operation

To commence operation, a licensed microinsurance company shall:

- a) put in place at a minimum comprehensive policies, procedure manuals, programs and guidelines for human resource management, investment, liquidity management, internal audit/control, management information system/MIS, planning and budgeting, finance, risk management, fixed assets, corporate governance, detection and prevention of criminal activities, outsourcing, marketing, underwriting, claims, fraud monitoring, reinsurance, and procurement;
- b) hire, train and place adequate and appropriate staff;
- c) ensure that operating areas include: proper ventilation and circulation of fresh air, suitable and clean sanitary service, sufficient and suitable lightning, displays of working hours, and fire extinguishers at appropriate places; and
- d) have insurance policy for the following at a minimum: fire and other perils, burglary and theft, fidelity and cash and valuables in premise and in transit.

5.2.11 Display of License

A licensed microinsurance company shall at all times display in a conspicuous place its valid original business license in its head office and copy of the business license in its branches.

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5.2.12 Period of Limitation for Acting Officers

A person shall not assume a chief executive officer, senior executive officer position on acting basis for more than six months.

5.3 Microfinance Institutions

5.3.1 A microfinance institution may carry on credit life insurance to its loan clients without obtaining authorization from the National Bank to conduct this business;

5.3.2 In order to engage in microinsurance business other than credit life, a microfinance institution shall:

- a) establish a microinsurance business unit, for the management and running of the microinsurance operations;
- b) appoint a microinsurance business unit manager who shall:
 - i) at a minimum holds a first degree from a recognized higher learning institution and preferably a diploma or advanced diploma in insurance from the Chartered Insurance Institute(CII) and/or Life Office Management Association(LOMA);
 - ii) have a minimum of 5 years' experience in insurance in a managerial position at a minimum in two of the areas of underwriting, claims or reinsurance;
- c) seek product approval from the National Bank in accordance with Article 6.4 of this Directive;
- d) have a renewed microfinance business license;
- e) achieve a capital adequacy, asset quality, management, earning and liquidity(CAMEL) rating of at least 3 in the recent on-site examination; and
- f) submit the microinsurance product(s) currently provided to clients, if any.



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5.3.3 Capital

If a microfinance institution plans to provide:

- a) credit life microinsurance products to its own loan clients, it shall not be required to hold additional capital;
- b) life microinsurance products, it shall hold additional paid up capital or set aside non-distributable reserves of Birr 3 million over and above the minimum paid up capital required for a microfinance institution;
- c) general microinsurance products, it shall hold additional paid up capital or set aside non-distributable reserve of Birr 7million over and above the minimum paid up capital required for a microfinance institution; and
- d) both life and general microinsurance products, it shall hold additional paid up capital or set aside non-distributable reserves of Birr 10million over and above the minimum paid up capital required for a microfinance institution.

5.3.4 Maintenance of a Financially Sound Condition

The microinsurance business unit of a microfinance institution must at all times maintain a financially sound position by holding assets in the separate microinsurance business unit fund to meet the minimum capital requirements set out in sub-article 5.3.3 or the minimum solvency requirements prescribed in the relevant Directive for microinsurance business whichever is the greater.

5.3.5 Separation of Accounts for Microinsurance Business

- a) The microinsurance business unit shall keep separate accounts of all income and expenditure, assets and liabilities in respect of microinsurance business.
- a) Assets allocated to microinsurance business, including assets supporting technical provisions, the minimum required capital or

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admitted capital, and other liabilities relating to microinsurance business shall be maintained in a separate microinsurance business unit account and may not be used by the microfinance institution to cover any other liabilities of the microfinance institution.

- b) No funds may be transferred out of the separate microinsurance business unit account if it fails to comply with, or is likely to fail to comply with, the financial soundness requirements under sub-article 5.7.
- c) The microfinance institution shall notify the National Bank in the event of a change in the manager of the microinsurance business unit and furnish the National Bank with the necessary documents.

6. Microinsurance Product Features

6.1 Permitted Microinsurance Products

Microinsurance providers may offer all microinsurance products including weather index insurance. However, the latter shall always be subject to prior reinsurance treaty arrangement.

6.2 Sum Insured

- 6.2.1 The maximum sum insured per risk for microinsurance products (life and general) shall not exceed 1% (one percent) of the paid up capital of the life or general microinsurance business;
- 6.2.2 The maximum sum insured, for a group under a single policy for a risk shall not exceed 1% (percent) of the paid up capital of the life or general microinsurance business as the case may be, per person multiplied by the number of insureds in the group; and
- 6.2.3 Without prejudice to sub-article 6.2.1 of this article, the sum insured for credit life microinsurance products shall run up to the outstanding loan amount.



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6.3 Policy Duration

- 5.3.4 Policy duration for all microinsurance products shall not exceed 12 months; and
- 5.3.5 Without prejudice to sub-article 6.3.1 of this Directive, policy duration for credit life microinsurance products and other credit linked products may extend up to the terms of loan repayment.

5.4 Documents Required for Product Approval

- 5.4.1 Endorsement from the Company's Board to issue the proposed product;
- 5.4.2 Background note on the product;
- 5.4.3 Duly completed application form;
- 5.4.4 Proposal/application form and policy specimen;
- 5.4.5 Documentation describing the calculation of the premium rate (premium rate chart) and an explanation as to how the expected claims ratio used for premium calculation provides appropriate client value for a microinsurance product;
- 5.4.6 An outline of the planned distribution approach, including the use of microinsurance agents, as well as insurance agents and brokers and/or other channels to specified in a Directive; and
- 5.4.7 A summary of the commissions and fees to be paid to each category of intermediaries for each microinsurance product.

5.5 Registration of Microinsurance Pilots

Any pilot program on microinsurance product(s) shall be

- 5.5.1 carried out by an authorized microinsurance provider; and
- 5.5.2 registered and approved by the National Bank.

7. Transition Requirements

- 7.1 A microfinance institution providing microinsurance services other than credit life on the effective date of this Directive shall apply for and receive the appropriate product approval within 12 months of the effective date of this Directive;



7.2 If a microfinance institution fails to comply with the provision of sub-article 7.1 of this Directive,

7.2.1 it shall stop selling the microinsurance product automatically, and

7.2.2 it shall formally transfer its insurance portfolio to an authorized microinsurance provider within 3 months after the failure is reported. The deed of transfer shall be approved by the National Bank and disclosed to the public, by the transferor, in a widely circulating newspaper once in a week and at least three times.

8. License Renewal

8.1 A microinsurance company established in line with sub-article 5.2 of this Directive shall renew its license before 30 (thirty) calendar days of the expiry date of the license.

9. Fees

A microinsurance company shall pay:

9.1 investigation fee of Birr 1,000.- (Birr one thousand),

9.2 licensing fee of Birr 1,000.- (Birr one thousand), and

9.3 renewal fee of Birr 1,000.- (Birr one thousand).

10. Penalty

Failure to comply with the provisions of this Directive and other Directives on microinsurance shall render penalty fee of Birr 5,000 (Birr five thousand).

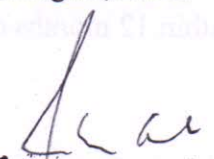
11. Compliance with Other Regulatory and Supervisory Requirements

In carrying out microinsurance business, a microinsurance provider shall comply mutatis mutandis with the provisions of all relevant directives and the Insurance Business Proclamation No.746/2012 and Insurance Business (Amendment) Proclamation No.1163/2019.

12. Effective Date

This Directive shall enter into force as of the 17th day of August, 2020.




Yinager Dessie (PhD)
Governor