

Microinsurance in Ethiopia – Regulatory Objectives and Market Realities

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Regulatory Objectives and Market Realities

1. Out line

- Regulatory objectives
- Market realities-Ethiopia

2. Country Background-Ethiopia

- **Location** Eastern Africa
- **Size** 1.2 million sq. Km.
- **Population:**
 - 82million-Estimated
 - 85% dependent on agriculture for lively hood
 - 60% is above USD2/day
 - » Potential for MI
 - » Currently below 3%
- **Bank** 17 (3 Government owned)
- **Insurance** 13 (1 government owned)
- **MFIs** 31(4 are very strong)
- **SACCOs** over 5000

3. Regulatory Objectives

3.1 Background

- **MI is Insurance**
- It follows the **all the principles** and **good practices** applicable to the mother insurance

- The whole purpose of insurance is to **support the economy**. To support the economy first it need to **survive**. To survive they need to be prudently **regulated** and **be**:
 - » Efficient
 - » Effective and,
 - » Enabler as well.

- Insurance is **highly regulated** with the main focus of **protecting the interests** of the policy holders.
- If **trust and confidence** on insurance is broken, the whole philosophy of insurance will come to an end. **Sustainability** will be in question.
- Therefore, **the need for regulation**.

3.2 Objective

- Access to financial services to uninsured population (**Lead result**)
- Poverty reduction (**lag result**)

4. Strategies

4.1 Perspective:

- **Product development-**
 - » **KISS**
- **Distribution channels**
 - » **Accessible and not costly**
- **Sustainability**
 - » **To maintain the trust of the PH on going basis**

4.2 Focus areas

- **Clear regulatory and supervisory framework: (Pillars)**
 - » **Regulation** (prudential and administrative)
 - Where are we now
 - Where are we heading on or where do we really want to take MI 5, 10 etc year from today
 - » **Licensing**
 - Supervision starts from licensing
 - » **Supervision**
 - clear frame work for both on side and off-site surveillance
 - » **Intervention**
 - Clearly defined levels

- **Definite and clear objectives**
 - » Keep and focus on the **living strategies and objectives**
- **Clear mission**
 - why MI is there
- **Claims payment and complaint handling**
 - Keep the trust going

- **Documentation**
 - **Periodic returns we need to be efficient and cost conscious on it**
 - **To much analysis means paralysis**
- **Governance**
 - **At least risk management and internal control system**
- **Financial literacy**

6. MI realities in Ethiopia

– Product

- Credit life (By MFIS)
- Weather index (by main stream insurers and under pilot testing)

– Premium

- 1% -1.5% on the credit taken out from the MFIs

– Loss ratio

- Around 20%

– **Market potential (Rough Estimate)**

- **MFIs customers 3million**
- **Main stream insurers clients 50,000**
- **SACCO other cooperatives 5.2million**
- **Funeral skims (informal insurers) 7million**

Total around 16 million

– Current development

- We are working on the “**Framework for MI Development in Ethiopia**”
 - » In collaboration with ILO

7. Final Remark

- We have the potential market for MI**
- How can we get closer to these potential?**
 - We need to have clear regulatory and supervisory framework that fits in to the environment around us.**

Thank you!