

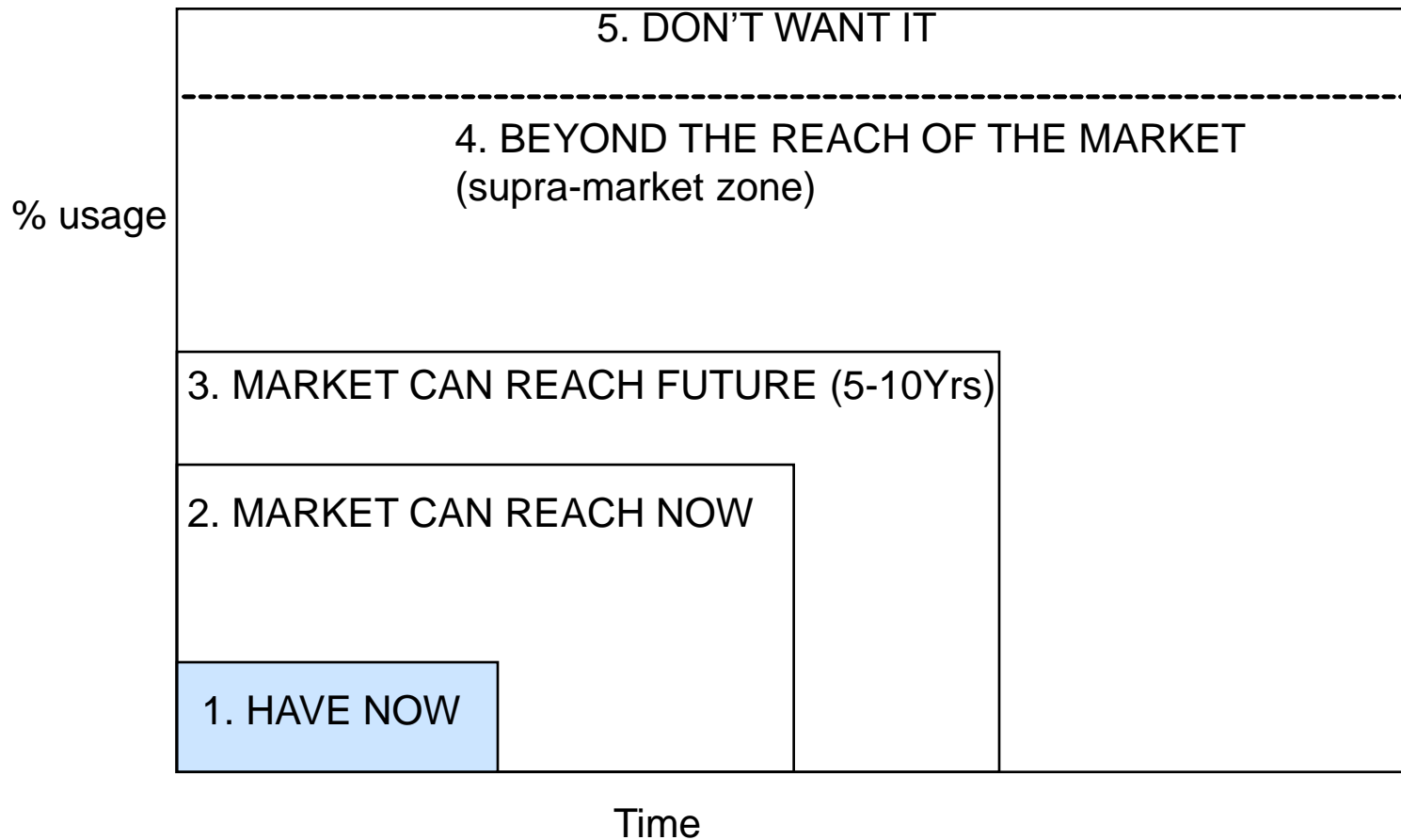
Opportunities and challenges for microinsurance in Ethiopia

Presentation at Stakeholder Workshop

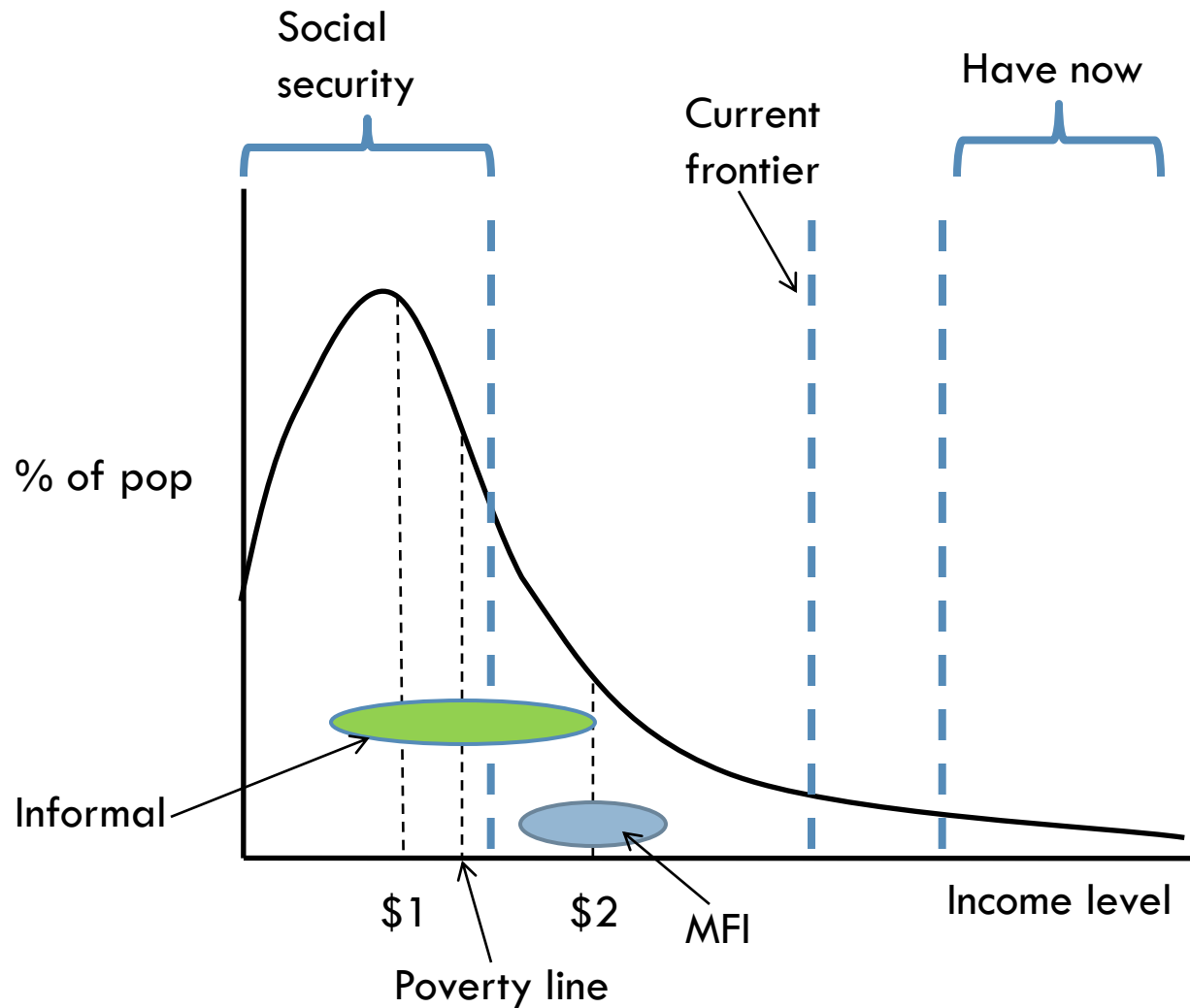


Building an inclusive insurance market in Ethiopia
21 October 2008

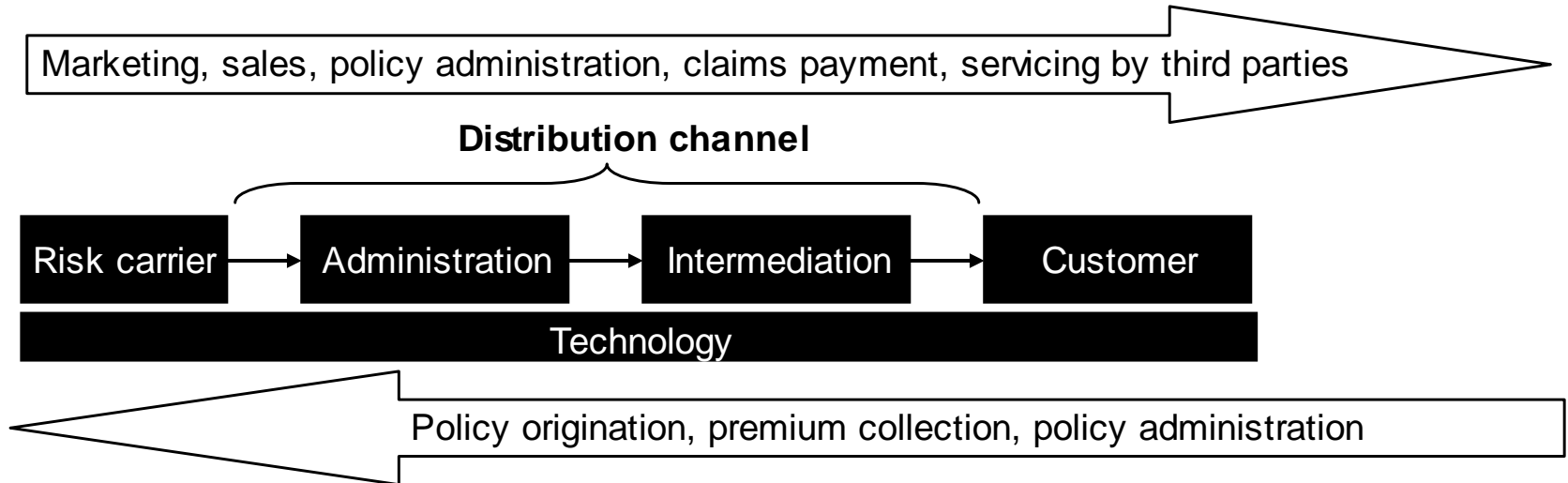
i. Access frontier



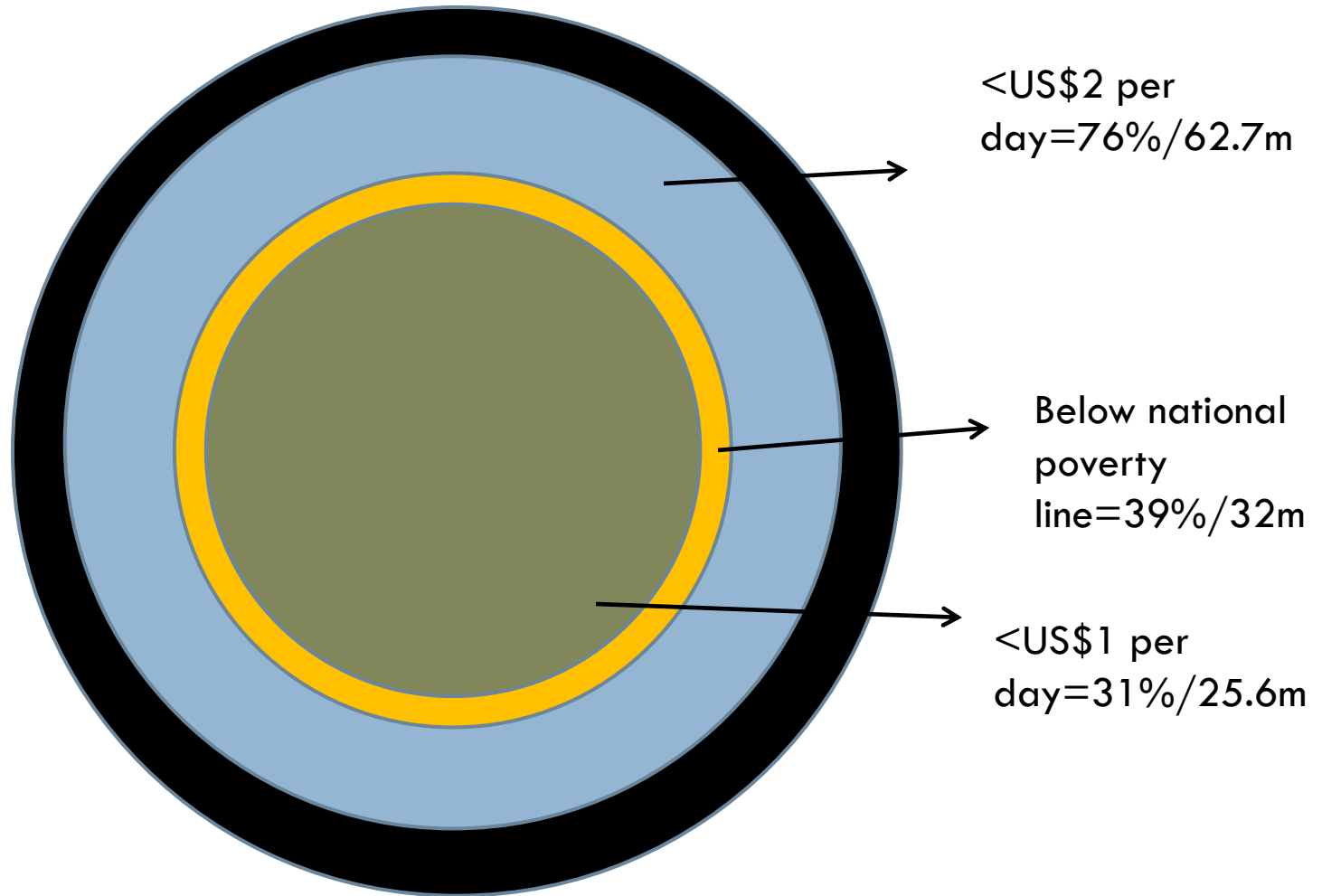
ii. MI target market



iii. Value chain

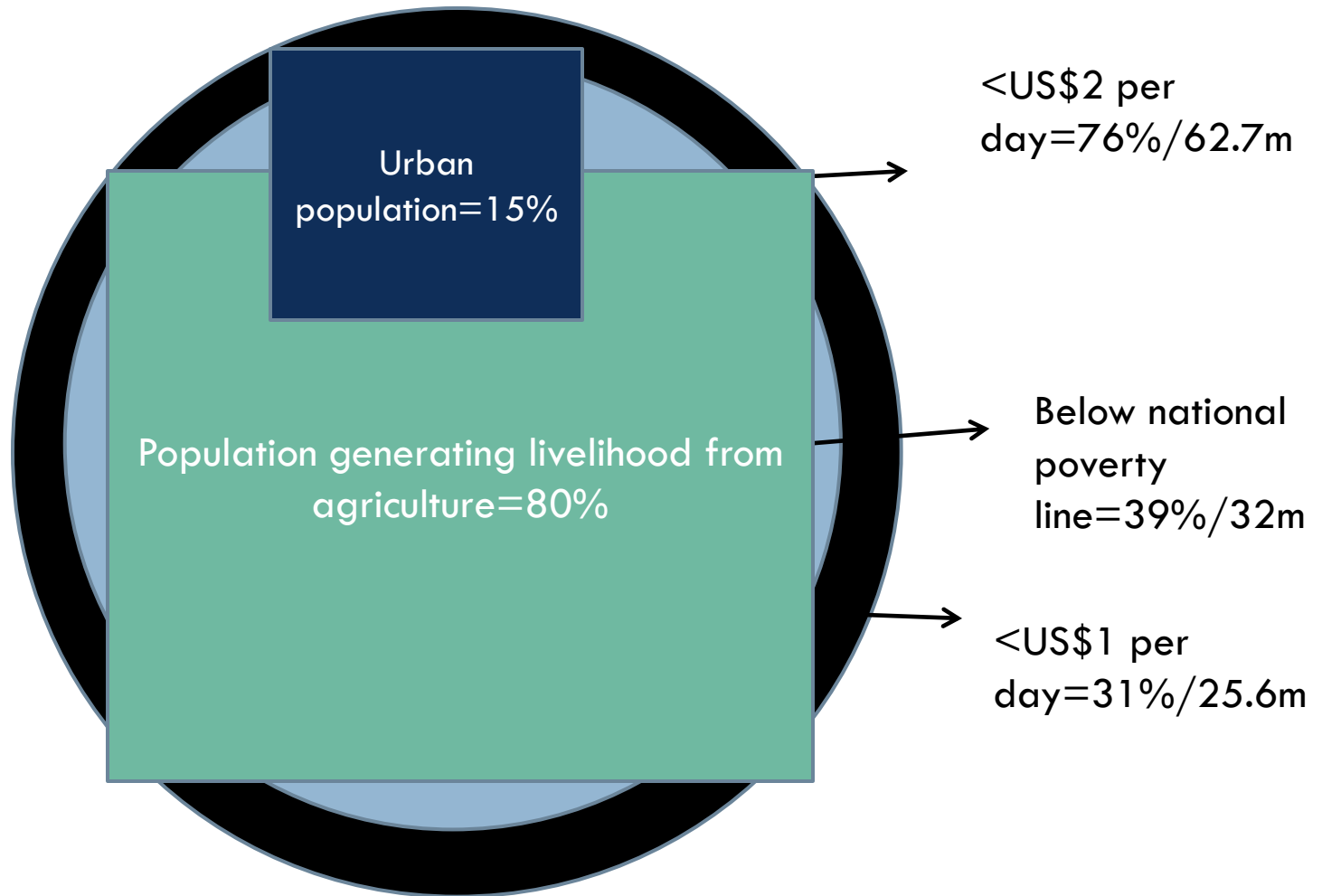


1.1 General Ethiopian context: Population



Total population=82m

1.1 General Ethiopian context: Population



Total population=82m

1.2 General Ethiopian context: Structure of agriculture

Number of holdings by size of cattle, Central Statistical Agency 2007/08

	number of holdings	% of total holdings
Total	13,120,767	100
Holdings with no cattle	2,590,914	19.75
1-2 heads	3,478,057	26.51
3-4 head	3,356,546	25.58
5-9 head	2,906,563	22.15
10-19 head	661,112	5.04
20-40 head	117,380	0.89
50-99 head	7,586	0.06
100-199 head	2,123	0.02
>=200 head	486	0

95%

1.2 General Ethiopian context: Structure of agriculture

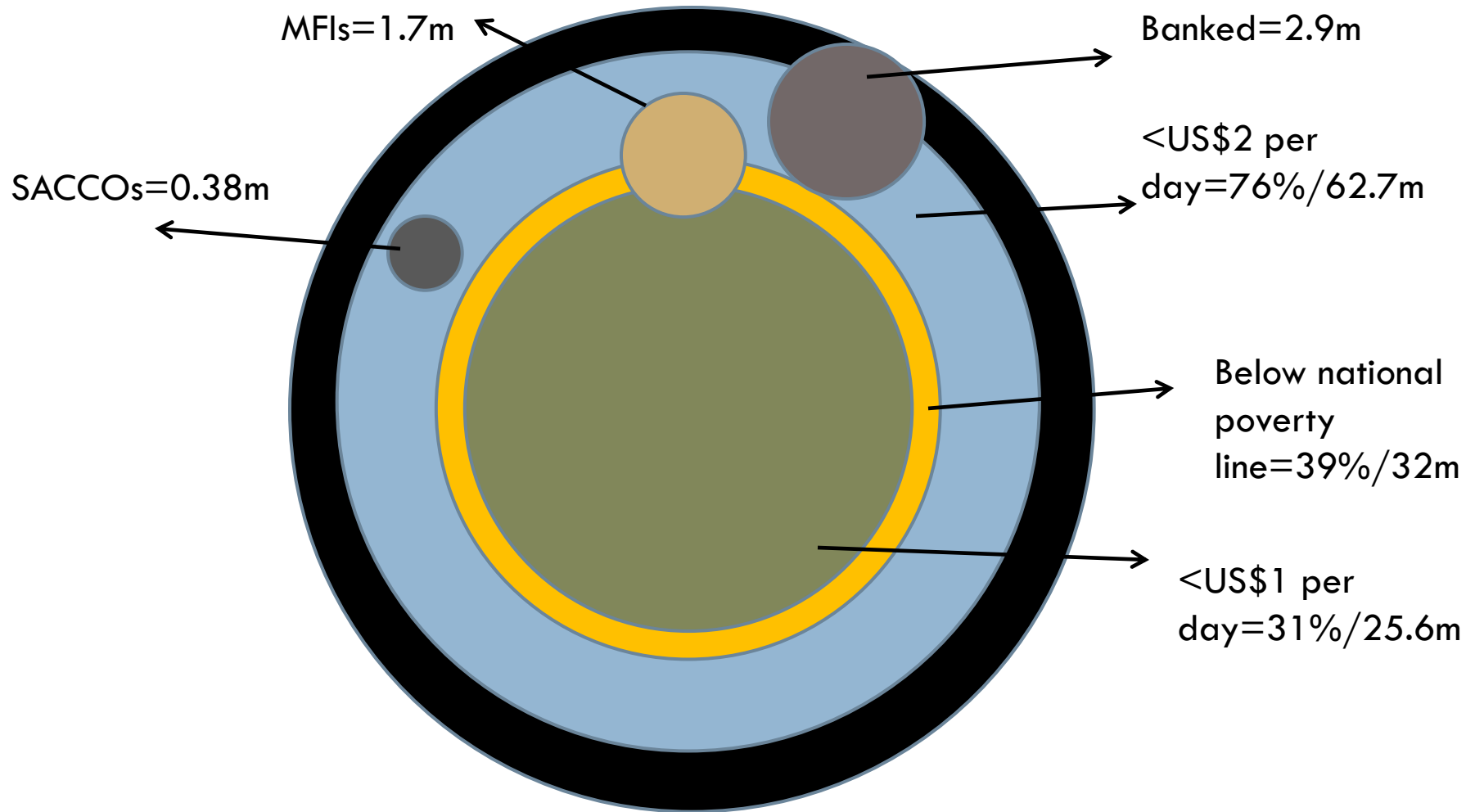
Distribution of households by size of land, Central Statistical Agency, 2007/08

Size of land	Total households	% of total households	cumulative %
All	13,279,659	100.0	100.0
Under 0.10	876,928	6.6	6.6
0.10-0.50	3,323,170	25.0	31.6
0.51-1.00	3,284,912	24.7	56.4
1.01-2.00	3,513,544	26.5	82.8
2.01-5.00	2,096,126	15.8	98.6
5.01-10.00	174,396	1.3	99.9
Over 10	10,583	0.1	100.0

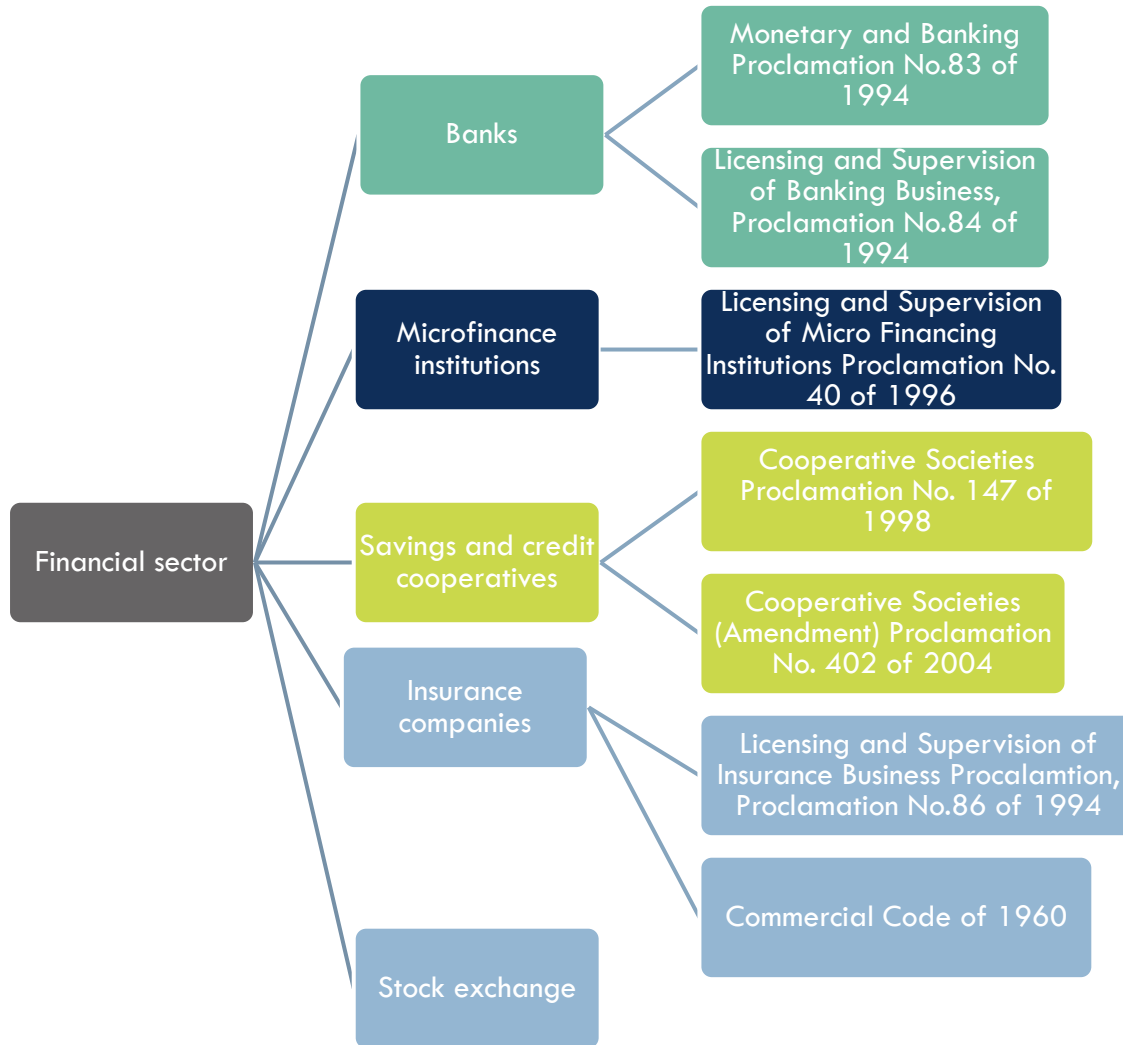
2. General financial sector context

	Banks	MFIs	SACCOs
Number of institutions	11	29	5427
Number of clients	2.9m accounts, 62,000 loans	1.73m active clients (June 2007)	0.38m (end 2006)
Size of sector	Total capital of almost Birr 10 billion (US\$1 billion)	3% of total financial sector	Total savings of Birr 1 billion, not clear how much credit extended
Nature of clients	High-income, urban. Credit mainly extended to businesses, infrastructure projects and richer clients.	More rural than urban, focused on active or working poor	More urban than rural, uses payroll lending for formally employed

3. Summary: Formally served



4. Insurance regulatory context



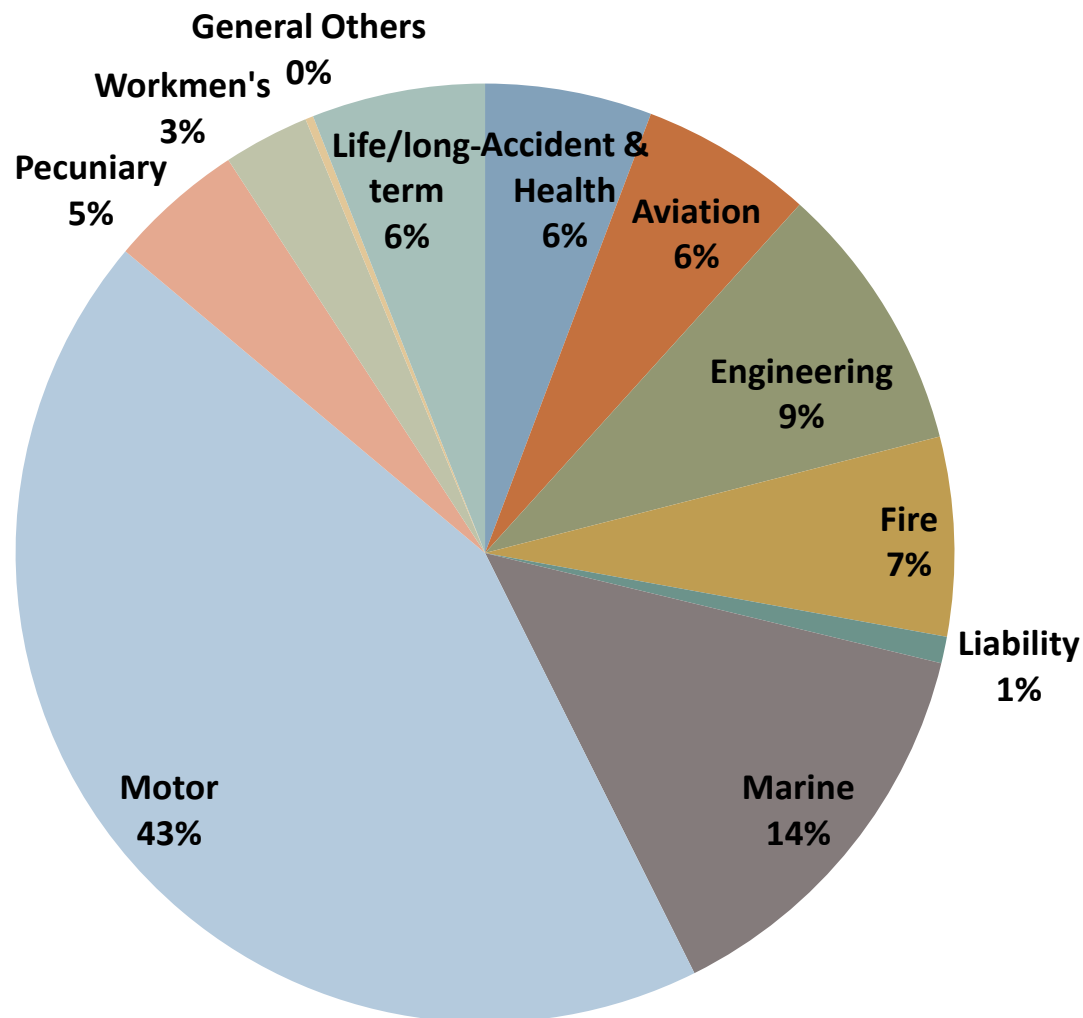
- Addresses institutional form, prudential and market conduct regulation
- Mandate of Bank to “formulate policy to promote the business of insurance in Ethiopia” (Chapter Two, Section 3(a))
- Only share company can write insurance, by definition no foreign ownership for company
- Capital requirement of Birr 3m for general insurance, Birr 4m for long-term, Birr 7m for both
- Two categories of business: general and long-term, medical written under long-term
- Licensing of agents and brokers required, minimum education requirements, brokers’ code of conduct
- Commission not formally capped
- No compulsory reinsurance requirements
- Payment terms in Commercial Code

5. Insurance sector context

- Insurance industry small (in absolute and relative terms):
 - ▣ Premiums: Birr 1 billion/US\$105m (0.2% of GDP (2006/07))
 - ▣ Client base of <0.3m
- General insurance dominates
 - ▣ Mainly corporate
 - ▣ Long-term/life only 5% of total premium
- Paper-based systems and cash collection
- Sales based on brokers and agents
 - ▣ Challenge of selling insurance to individuals
- Growth in private sector, but EIC still dominant
 - ▣ 10 insurance companies of which 6 write general and life, 4 general insurance only

5. Insurance sector context (continued...)

Relative sizes of premiums of total insurance, 2007



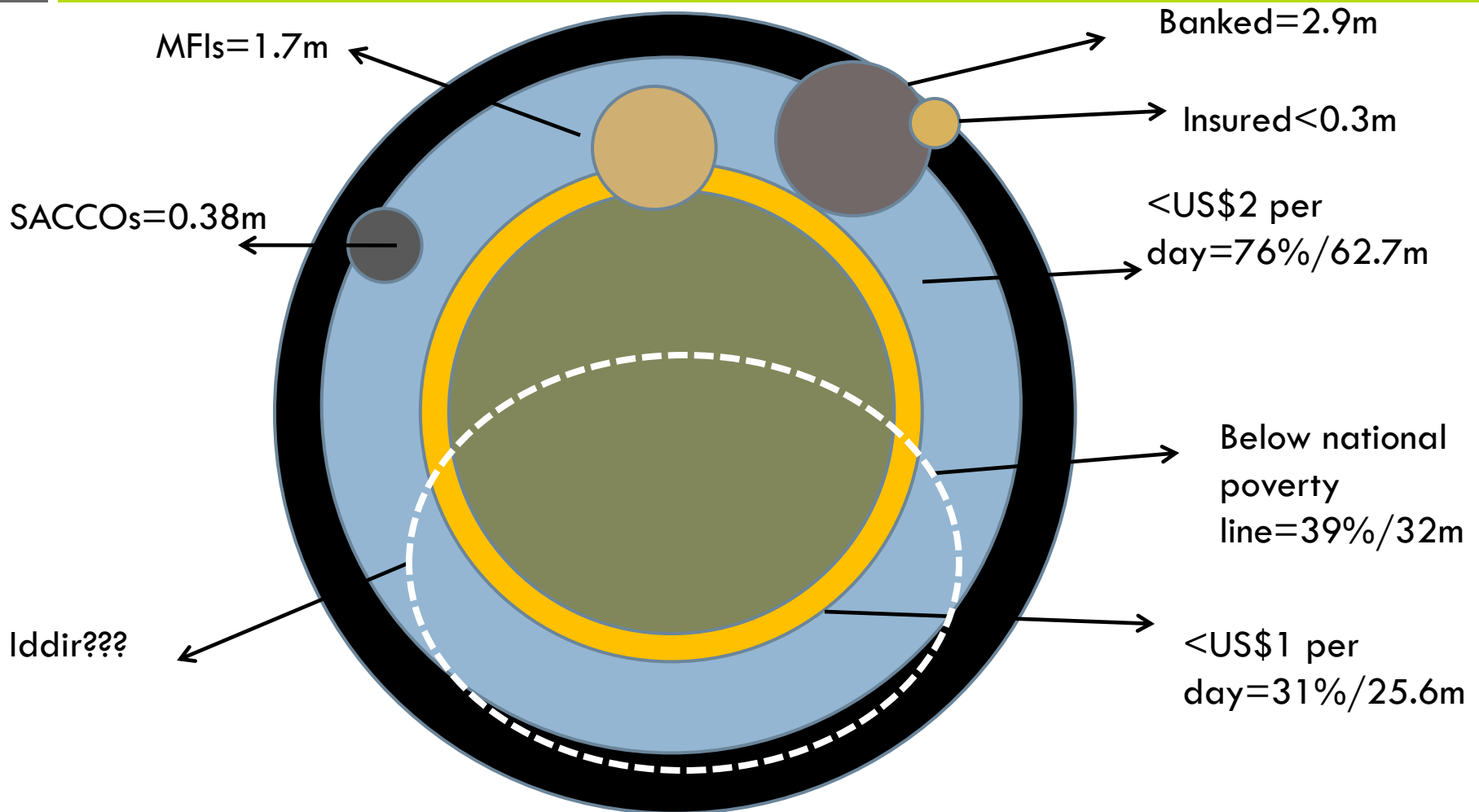
5. Insurance sector context (continued...)

- Limited reinvestment of dividends
 - ▣ Competing for capital with banks
- Dependence on banking sector
 - ▣ Referral business
 - ▣ Returns from investments in banks
- Competition for existing market
 - ▣ Declining insurance premiums
 - ▣ Vehicle insurance a loss leader
 - ▣ Practice of selling insurance products on credit to retain clients
- Market extension not yet a strong priority
 - ▣ Large proportion of bank clients (even high-income) that remain unserved
 - ▣ Limited retail life business
 - ▣ Limited product offering
 - ▣ Untapped distribution networks: MFIs, cooperatives

5. Insurance sector context (continued...)

- Limited technical capacity
 - ▣ e.g. actuaries
- Informal sector potentially serve more people
 - ▣ Informal credit life insurance prevalent amongst MFIs and cooperatives
 - ▣ Some examples of health insurance
 - ▣ Iddir an expression of need for insurance, form of pre-insurance
- Experimentation with macro-aid insurance
- Experimentation by insurers and donors on weather index-based insurance

6. Summary: Insured estimate



7. Summary of themes

- Low-income market with distribution challenges
- Credit-led development
- Limited formal financial sector
- Challenges in agricultural market, with some opportunity to be explored
- No immediate regulatory obstacles to MI
- Limited existing insurer base with little retail sales experience
- Coop/MFI distribution opportunity in credit life

8. Issues to consider

- Capacity building
 - ▣ Implementation of new insurance regulatory framework
 - ▣ Consider partnering with reinsurers on product development
- Improve available data on financial and insurance sector
- Low-hanging fruit
 - ▣ Credit life
 - ▣ Life insurance
- Opportunities of regulatory reform:
 - ▣ Create space for new models and variety of institutional forms
- Disaster risk approach by government and donors to agricultural insurance
 - ▣ E.g. World Food Program insurance for Ethiopia
 - ▣ But allow (facilitate?) development of credit risk products