Opportunities and challenges for microinsurance in Ethiopia

Presentation at Stakeholder Workshop
i. Access frontier

1. HAVE NOW

2. MARKET CAN REACH NOW

3. MARKET CAN REACH FUTURE (5-10 Yrs)

4. BEYOND THE REACH OF THE MARKET (supra-market zone)

5. DON’T WANT IT
ii. MI target market
iii. Value chain

Marketing, sales, policy administration, claims payment, servicing by third parties

Distribution channel

Risk carrier → Administration → Intermediation → Customer

Technology

Policy origination, premium collection, policy administration
1.1 General Ethiopian context:
Population

Total population = 82m

- <US$2 per day = 76% / 62.7m
- Below national poverty line = 39% / 32m
- <US$1 per day = 31% / 25.6m
1.1 General Ethiopian context: Population

- Total population = 82m
- Population generating livelihood from agriculture = 80%
- Urban population = 15%
- Below national poverty line = 39% / 32m
- <US$2 per day = 76% / 62.7m
- <US$1 per day = 31% / 25.6m

Total population = 82m
### General Ethiopian Context: Structure of Agriculture

#### Number of Holdings by Size of Cattle, Central Statistical Agency 2007/08

<table>
<thead>
<tr>
<th>Holdings Size</th>
<th>Number of Holdings</th>
<th>% of Total Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>13,120,767</td>
<td>100</td>
</tr>
<tr>
<td>Holdings with no cattle</td>
<td>2,590,914</td>
<td>19.75</td>
</tr>
<tr>
<td>1-2 heads</td>
<td>3,478,057</td>
<td>26.51</td>
</tr>
<tr>
<td>3-4 head</td>
<td>3,356,546</td>
<td>25.58</td>
</tr>
<tr>
<td>5-9 head</td>
<td>2,906,563</td>
<td>22.15</td>
</tr>
<tr>
<td>10-19 head</td>
<td>661,112</td>
<td>5.04</td>
</tr>
<tr>
<td>20-40 head</td>
<td>117,380</td>
<td>0.89</td>
</tr>
<tr>
<td>50-99 head</td>
<td>7,586</td>
<td>0.06</td>
</tr>
<tr>
<td>100-199 head</td>
<td>2,123</td>
<td>0.02</td>
</tr>
<tr>
<td>&gt;=200 head</td>
<td>486</td>
<td>0</td>
</tr>
</tbody>
</table>

95% of the total holdings are accounted for by holdings with 0-99 heads of cattle.
### General Ethiopian context: Structure of agriculture

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

<table>
<thead>
<tr>
<th>Size of land</th>
<th>Total households</th>
<th>% of total households</th>
<th>cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>13,279,659</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Under 0.10</td>
<td>876,928</td>
<td>6.6</td>
<td>6.6</td>
</tr>
<tr>
<td>0.10-0.50</td>
<td>3,323,170</td>
<td>25.0</td>
<td>31.6</td>
</tr>
<tr>
<td>0.51-1.00</td>
<td>3,284,912</td>
<td>24.7</td>
<td>56.4</td>
</tr>
<tr>
<td>1.01-2.00</td>
<td>3,513,544</td>
<td>26.5</td>
<td>82.8</td>
</tr>
<tr>
<td>2.01-5.00</td>
<td>2,096,126</td>
<td>15.8</td>
<td>98.6</td>
</tr>
<tr>
<td>5.01-10.00</td>
<td>174,396</td>
<td>1.3</td>
<td>99.9</td>
</tr>
<tr>
<td>Over 10</td>
<td>10,583</td>
<td>0.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>
2. General financial sector context

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

- Banked: 2.9m
- MFIs: 1.7m
- SACCOs: 0.38m

- Below national poverty line: 39%/32m
- <US$2 per day: 76%/62.7m
- <US$1 per day: 31%/25.6m
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

- Motor: 43%
- Marine: 14%
- Life/long-term: 6%
- Accident & Health: 6%
- Aviation: 6%
- Engineering: 9%
- Fire: 7%
- Liability: 1%
- Workmen's: 0%
- Pecuniary: 5%
- General Others: 0%
- Motor: 43%
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

Banked = 2.9m

MFIs = 1.7m

SACCOs = 0.38m

Insured < 0.3m

< US$2 per day = 76% / 62.7m

Below national poverty line = 39% / 32m

< US$1 per day = 31% / 25.6m
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