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## “Learning Lessons from Emerging Markets by Ethiopian Motor Insurance”-An Empirical Study

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### **Abstract:**

*General Insurance plays a predominant role in every economy, particularly booming economy like Ethiopia in African continent. As we know that emerging markets are having various kinds of general insurance products, specifically motor insurance, are available, which are suitable to their respective economy. These emerging markets/economies like Brazil, Russia, China, India and South Africa (BRICS) are using innovative motor insurance products to protect their properties in the form of general insurance. The researchers' wants to observe and reveal what are the insurance products are available in emerging markets, and how they can be applied from our Ethiopian Motor Insurance context point of view. In what way, these are beneficial and feasible to our economy. Based on empirical study suitable suggestions and recommendations are given to Ethiopian society.*

**Keywords:** General, Insurance, Motor, emerging markets, enterprises.

*Paper type: Empirical Study*

### **1. Introduction**

General Insurance plays a vital role in any economy, particularly booming economy like Ethiopia in African continent. As we know that emerging markets are having various kinds of general insurance products, specifically motor insurance, are available, which are suitable to their respective economy. In recent times, these emerging markets/economies like Brazil, Russia, China, India and South Africa (BRICS) are using innovative motor insurance products to protect their properties in the form of general insurance.

Motor vehicle insurance, also called 'Automotive Insurance', a contract by which the insurer assumes the risk of any loss the owner or operator of any motor vehicle may incur through damage to property or persons as the result of an accident or a peril. There are many specific forms of motor vehicle insurance varying not only in the kinds of risk that they cover but also in the legal principles underlying them.

In General, the following are the types of risk covering in emerging markets under Motor Insurance:

- A). Comprehensive insurance: It pays for damage to the insured car resulting from fire or theft or many other causes. This covers the cost of repairs or replacement to your own vehicle and property whether you are at fault or not. It can also cover the cost of emergency repairs, transportation costs and damages caused by other drivers.
- B). Collision insurance: It pays for damage to the insured car if it collides with another vehicle or object;
- C). Liability insurance It pays for damage to someone else's property or for injury to other persons resulting from an accident for which the insured is judged legally liable. It covers damage that you have caused to another person's vehicle or property. It does not cover the cost of damage to your own car. It usually includes legal costs, limited damage by uninsured drivers, cover for a substitute vehicle and claims service.
- D). Medical-payment insurance: It covers medical treatment for the policyholder and his passengers.
- E). Additional coverage option: Besides the standard cover provided some Insurers will have additional features and benefits available, they may include New car replacement, protected No Claim Bonus choice of repairer.

### **2. Evolution of Insurance in Ethiopia**

The insurance business in Ethiopia, in its modern application is a recent phenomenon. A branch of a foreign insurance company known as "Baloise Fire Insurance Company" was opened by Austrian (Weinsinger) in Addis Ababa in 1923. Later on, during the Italian occupation of Ethiopia in 1936-1941, Italian insurance companies operated and non-Italian companies were closed down.

However, after getting freedom from Italian government, number of surveys conducted by Ethiopian government during 1954 and 1961 to know the number of Insurance companies operating insurance business in Ethiopia directly or indirectly. Further, Addis Ababa Chamber of Commerce also conducted a survey in 1967. They revealed that there were 30 foreign companies operating either

through branches or agents and 10 domestic companies were in the insurance business. In its report recommended that a detailed legislation to control the practice of insurance business be enacted. Based on that, Proclamation No. 281/1970 brought in 1974 by the military government came to power and nationalised all 13 insurance companies that were operating in this country.

The Ethiopian Insurance Corporation (EIC) was established in 1976, under proclamation No.68/1975 with a paid-up capital of 11 million etho dollars. The assets, liabilities, rights and obligations of the nationalised private insurance companies were transferred to the EIC. This EIC operated as a sole insurance organisation until 1994.

Following the change of government during 1991, a new economic policy that increased the role of the private sector in the economy was formulated and allowed Ethiopian nationals to establish insurance business with a minimum share capital of 3 million birr for general insurance, 4 million birr for life/long term insurance and 7 million birr for both kind of business under proclamation No. 86/1994. Moreover, the Corporation selectively accepts inward reinsurance business from a variety of foreign insurance companies operating in other countries throughout Africa and Asia. It also participates in Regional Market Pooling arrangements. This activity generated additional income amounting to Birr 33.6million Gross Written Premium (GWP) during the year 2012/2013. Under the present legal framework, at present 1 public enterprise and 16 private insurance companies are operating insurance business in Ethiopia.

Even though, Ethiopia is one of the emerging economies in African continent, basing on population, industry, geographical conditions, and insurance sector development in Ethiopia is very less developed compared with emerging markets. Hence, there is a need to develop various insurance products for accelerating growth in insurance sector of Ethiopia. In this connection, there is need to find out, in what way insurance business is going on emerging markets and how far is it applicable to Ethiopian insurance sector in general, particularly for motor insurance.

### *2.1. Objectives of the Study*

- To study the availability of general insurance products in emerging economies, particularly in motor insurance.
- To find the applicability of these motor insurance products of emerging markets in our Ethiopian insurance industry.
- To study the benefits, feasibility and applicability of these innovative motor insurance products/policies into our Ethiopian insurance sector.
- Finally, to give proper suggestions and recommendations based on empirical findings.

### *2.2. Scope of the Study*

The present study “Learning lessons from Emerging markets by Ethiopian Motor Insurance”-An Empirical Study, covers what kind of insurance products are available in the current conditions from BRICS nations and how far these are useful or applicable to Ethiopian motor insurance industry, in terms of motor insurance policies, premiums, age, life of assets and clients, coverage of liabilities and so on.

### *2.3. Limitations of the Study*

In fact, it is a broad subject/concept to study, due to time limitation, researchers are confined to observe and analyzed most of the data derived from secondary sources of emerging markets. The researchers are confined to collect the data specifically motor insurance only from Ethiopian and emerging markets Insurance sector only.

## **3. Review of Literature**

According to the Insurance Information Institute (III), in the United States in the early 21st century, about two-thirds of the money spent on premiums for private passenger auto insurance went to claims. More than half of this amount covered car damage. The rest covered personal injuries. The remaining third of the money spent on premiums covered insurance companies’ expenses—such as commissions, dividends to policyholders, and company operations—and contributed to their profits.

Insurance demand is driven by many factors, but for the emerging economies, one of the most significant historical drivers of growth has been income per capita. Based on a simple forecasting approach, we project that insurance penetration in the BRICS economies could increase at a rate of between 1.6 and 4.2% per year over the coming decade, depending on the country, due to rising per capita income. When other factors are included, this broadens to between 0.1 and 4.3% per year. This equates to a rate of increase in gross premium volumes of between 5.4 and 12.3% per year. The largest growth in insurance penetration and premium volumes is expected in China, closely followed by India and Russia (Ernst & Young, 2009).

In the words of Li Cong (2013), with the rule changes, some foreign insurers are expected to start making strategic investments in this area, possibly through acquisitions because auto insurance is too big market not to ignore for a non-life player. However, smaller Chinese players could feel the heat of competition from foreign players, but top local players such as PICC and Ping A will continue to dominate the market.

Auto insurance is a major portion of China's non-life insurance, consisting of mandatory third-party liability (TPL) insurance and commercial insurance. The mandatory insurance policies were introduced five years ago, in line with similar practices used in other countries such as the United States and Japan also.

### 3.1. Insurance Products in BRICS Markets

Over the past ten years, the emerging economies, in particular the BRICS economies (Brazil, Russia, India, China and South Africa), have seen rapid rates of growth in insurance premium volumes. Today, emerging markets account for 15.5% of the total world non-life premium volume, up from 11.5% in 2005 (Table 1). The five BRICS economies alone have an 8.5% share of the world non-life market. In each of these countries, premium volumes have increased significantly since 2005; compound annual growth rates (CAGR) in real non-life premium volumes between 2005 and 2010 were: South Africa 2.9%; Russia 6.9%; India 9.1%; Brazil 12.5%; and China 25.1%. Conversely, over the same period, annual growth in the industrialized countries (accounting for 84.5% of the world market in 2010), was on average below 3%, and in some markets, had stagnated. Yet, the share of the non-life market, based on Swiss Re (2006, 2011) and of the BRICS economies is small compared with their share of global GDP (26%) and population (42%), suggesting a significant catch-up potential.

	Total Premium Volumes in 2010 (\$ US millions)	Share of World Market in 2010	Total Premium Volumes in 2005 (\$ US millions)	Share of World Market in 2005	Premiums Per capita in 2010(\$US)
World	1,818,893	100%	1,452,011	100%	263.0
Emerging Economies	286,383	15.5%	170,694	11.5%	48.5
Africa	19,475	1.0%	12,230	1.0%	18.9
Of which: South Africa	10,111	0.5%	7,256	0.5%	
South and East Asia	98,007	5.5%	74,086	5.0%	27.4
Of which: China	71,628	4.0%	20,539	1.5%	
India	10,562	0.5%	4,848	0.5%	
Latin America and Caribbean	73,320	4.0%	35,336	2.5%	125.6
Of which: Brazil	30,847	1.5%	13,399	1.0%	
Central and Eastern Europe	68,187	4.0%	36,322	2.5%	211.6
Of which, Russia	40,742	2.0%	16,618	1.0%	

Table 1: Non-life insurance premium volume (\$ unadjusted).  
Source: Swiss Re 2006, 2011. \*values rounded to the nearest 0.5%

The rapid growth of insurance demand in the emerging economies is expected to continue over the next several years (Hussels *et al.* 2005; Swiss Re 2011), not only in terms of increasing premium volumes but also increasing *insurance penetration*. Insurance penetration measures the total volume of premiums as a ratio of the gross domestic product (GDP). In the emerging economies over the past decade, real premium growth has generally outstripped growth in real GDP, indicating a long-term trend toward increasing insurance penetration. Conversely, in some industrialised countries, premium volumes have grown more slowly than GDP over the past few years, indicating a slight fall in penetration level.

Previous authors have analyzed the drivers of growth in the emerging economies at an aggregate level and have shown a strong relationship between per-capita income and non-life insurance demand (e.g. Feyen *et al.* 2011; Enz, 2000; Zheng *et al.* 2008, 2009).

## 4. Motor Insurance in BRICS Nations in Current Conditions

### 4.1. In case of Brazil

Insurance companies started in Brazil during 1808 when two insurance companies were founded in the province of Bahia: *Companhia de Seguros Boa Fé* and *Companhia de Seguros Conceito Público*. At current condition insurance market, could find hundreds of insurance companies in a very long-term perspective. The insurance business in Brazil may be seen as marked by a strong shift towards more state intervention combined with regulation designed to crowd foreign firms out of the Brazilian market. Research studies found that there are extraordinary changes has been taken place in Brazil after finding of oil resources in this country.

The recent economic reforms brought by the Brazilian government, mainly the economic stabilization plan, as well as the deregulation process, the opening of the market to foreign insurers and the privatization program had a profound impact on the insurance market. So, that, number of companies came into picture of insurance with variety of insurance products, which in the last years evolved from

a mere participation of 0.8% in the GDP in 1994 to 2.55% in 2006. Considering capitalization and open private pension schemes, this percentage reached 3.24. In one recent survey for every 4 individuals 1 person is having motor vehicle in Brazil.

The Brazilian Institute of Reinsurance (IRB Brazil Re) is organized as an equally owned partnership between the federal government and the insurance companies. Its creation was primarily aimed at increasing the domestic insurance companies' capacity for retaining business, as a way of lowering the country's outflows of foreign currency.

In Brazil, the National Private Insurance Council ("CNSP") and the Brazilian Private Insurance Superintendence ("SUSEP") are authoritative bodies, under Law 126, the regulation of co-insurance, reinsurance and retrocession transactions and their intermediation will be the task for the insurance regulator. These Acts contemplates three different types of reinsurance companies being authorized to operate in Brazil: (i) The Local Reinsurer; (ii) The Admitted Reinsurer; and (iii) The Eventual Reinsurer: In this context, the IRB will continue operating in the market only as a local reinsurer. Due to increased reinsurance capacity, more specialization in the reinsurance market, new products and potential price decreases due to the market's newfound competitiveness leads to a clear picture for availability of innovative insurance products in Brazil. Because, Reinsurance market in Brazil is around US\$ 1.3 billion.

In 2011, Brazilian insurance activities invoiced BRL 218,6 billion, a 17,1% increase in comparison with the previous year. For 2012, the revenue was an increment of 12.8%, totalling BRL 246.8 billion.

#### 4.2. In case of Russia

In case Russian motor insurance industry, in order to drive any vehicle in Russia, a driver must have the minimum compulsory third-party liability insurance (OSAGO) law came into force in 2003, OSAGO (*OCAFO*; *Obyazatelnoe strahovanye avtograzhdanskoy otvetstvenost*). This policy is of quite limited coverage, so it is advisable to purchase additional insurance.

For foreign drivers in Russia, it is recommended to take out the full 'autokasko' insurance, offered by all major insurance companies, which may also include road assistance. If importing a vehicle, insurance can be arranged at the border when entering Russia, by seeing this anyone can understand that, in what way insurance coverage is going on in Russian motor insurance market. The following are the important insurance policies are issuing in Russia's motor field:

1. OSAGO Insurance: The OSAGO policy must be carried at all times while driving. Together with the insurance contract and the policy paper, the insured driver receives a form called Notice About Accidents (*Izveshcheniya o dorozhno-transportnom proisheshstviy / Извещения о дорожно-транспортном происшествии* – also known as the *Izveshcheniy o DTP / Извещение о ДТП*). In the event of an accident, it must be updated by the insured at the scene and submitted to the insurance company.
2. Other Types of Insurance
  - Comprehensive and Collision Insurance: (*CASCO, Strakhovaniye avtomobilya po CASCO / KACKO, Страхование автомобиля по KACKO*) commonly referred to as *autokasko* (*автокаска*) or 'fully comprehensive' insurance.
  - Voluntary Civil Liability Insurance: (*Strakhovaniye grazhdanskoy otvetstvenosti / Страхование гражданской ответственности*) which increases the liability limit from the compulsory insurance contract.
  - Additional Equipment Insurance: (*Strakhovaniye dopolnitelnogo oborudvaniya / Страхование дополнительного оборудования*) which covers any equipment installed in the car.
  - Driver and Passengers Insurance against Accidents: (*Strakhovaniye voditelya I pasazhirov ot neschastnogo sluchaya / Страхование водителя и пассажиров от несчастного случая*).

The costs, duration and conditions of policies and agreements differ between insurance companies and for individual customers, cars and requirements in a policy. Most companies have a calculator on their website to work out approximate prices of cover and to compare services offered.

There are efforts to implement a bonus/malus system in OSAGO insurance, but it is not yet fully functional due to the lack of a unified accident reporting system among insurance companies. There is now a move towards this with a progressive policy in place to implement the system and the Union of Auto-Insurers is starting to collect information in a common database.

**Reinsurance in Russia:** According to official data, Russian Federal Service for Insurance Supervision (FSIS), in 2010 the Russian reinsurance market's capacity was put at USD 1.5 billion. Total estimated reinsurance premium income in the markets of the republics of the former USSR is calculated at USD 2-3 billion, of which Russia accounts for around 80%, Ukraine about 12% and Kazakhstan about 4.6%. In 2010 there were some 156 companies in Russia transacting reinsurance, 22 of them being professional reinsurers. Russian reinsurers generally offer the service for the Russian insurance market and those of the CIS countries.

Experts at Standard and Poor's(S&P) consider the Russian direct insurance market to have considerable growth potential, to be well diversified geographically and not to have much exposure to catastrophe risks.

Over the last 25 years or so the Russian Federation (hereafter Russia) has emerged as an important insurance market on the world stage. During this time, Russia's insurance market, has grown rapidly and performing well against other BRIC economies with the current insurance premium density of US\$183 per capita, (US\$308 per capita in Brazil, US\$178 per capita in China, and US\$49 per capita in India) and an insurance premium penetration rate of 1.30% of gross domestic product (GDP) (2.75% of GDP in Brazil, 2.98% of GDP in China, and 3.11% of GDP in India). On the one hand, this rapid expansion offers international insurance and reinsurance companies tremendous opportunities for new business growth, but on the other hand, major infrastructural challenges. Other Western experts like Ernst & Young also continue to rate positively the possibilities for growth and the investment potential of the Russian insurance market.

#### 4.3. In case of India

In India insurance sector was started centuries ago, with the support of British, who ruled this country more than 250 years. Auto Insurance in India deals with the insurance covers for the loss or damage caused to the automobile or its parts due to natural and man-made calamities. It provides *accident cover for individual owners* of the vehicle while driving and also for *passengers and third party legal liability*. There are certain general insurance companies who are offering online insurance service for the vehicle.

The Indian insurance industry had witnessed a decade back, following its liberalization in 2000 when it opened gate to foreign players for the first time (with a cap of 26%). Prudential, Allianz, Standard Life, New York, AIG and Sun Life were some of the earliest entrants, followed by New York Life, MetLife, Aviva, AXA, etc., and at present more than 28 general insurance companies in India. Insurance Regulatory and Development Authority (IRDA) plays as a regulator role in India.

The private insurance players along with government's General Insurance Corporation (GIC) gained more attraction since 2000. With rapid growth in market share, penetration and density in both life and non-life segments, demand was fuelled by the growing economic base, disposable income/purchasing power and increasing awareness has brought a tremendous growth witnessed as fastest among in the insurance industry globally.

The Industry's premium size was Rs. 3.4 trillion in 2012, a CAGR of 20% between 2001 and 2012. Market share of the private players picked up rapidly to 31% by 2012. Auto Insurance in India is a compulsory requirement for all new vehicles used whether for commercial or personal use. The insurance companies have tie-ups with leading automobile manufacturers. They offer their customers instant auto quotes. Auto premium is determined by a number of factors and the amount of premium increases with the rise in the price of the vehicle. The claims of the Auto Insurance in India can be accidental, theft claims or third party claims are more. Out of general insurance the following are the motor insurance companies are familiar in India.

- The following are the Top success companies out of 28 plus (including State owned) recently:

##### 4.3.1. ICICI Lombard General Insurance Co. Ltd.

Among the private players, ICICI Lombard GIC Ltd. is the largest general insurance company in India. As per a survey performed by J.D. Power Asia Pacific, ICICI Lombard Auto Insurance leads all the auto insurance players in terms of customer satisfaction. The brand has also been recognized as the most Customer Responsive insurance company. It also boasts of a reputed award for customer and brand loyalty.

##### 4.3.2. Tata AIG General Insurance Co. Ltd.

Tata AIG General Insurance was incepted in 2011. Even being a comparatively younger company, TATA AIG managed to win over a major fraction of motor insurance market owing to its robust channels of distribution and hassle-free claims. Last year, the brand bagged reputed awards for being the best employer and deployment of mobile application in insurance.

##### 4.3.3. The Oriental Insurance Co. Ltd.

Owned by the Central Government, Oriental Insurance Company is one of the best companies to get a motor insurance. The brand boasts of winning the most reputed awards in the industry. The latest one's worth mentioning here are - 'best public general insurance award' and 'best bank and financial institution award'. Oriental is one of the few insurance companies in India to get the iAAA rating by ICRA, indicating its strong financial framework.

##### 4.3.4. The New India Assurance Co. Ltd.

New India is wholly owned by the government of India. Backed up by a strong capital, infrastructure and human resource, New India is the leading auto insurance company in India. The brand has embarked an international presence and is well known for being a pioneer in introducing innovative insurance products. It has been rated A- (Excellent) by A.M. Best Co., becoming the only Indian insurance company to be rated by an international rating agency.

##### 4.3.5. HDFC ERGO General Insurance Co. Ltd.

Bolstered by a robust channel of distribution and customer oriented approach, HDFC is the top-notch brand for getting a motor insurance. HDFC boasts of having one of the highest claim settlement ratios among private motor insurers. HDFC-ERGO is ISO 9001:2008 certified for its operations and claim processes and has been rated iAAA by ICRA. It was recognized as the best general insurance company in India by IAIR in 2013.

In recent times, some companies are tie-up with vehicle manufacturers to provide driver cum owner facility by paying limited down payment and the balance be paid in Equated monthly instalments(EMIs). While taking the vehicle by these people, these companies are providing finance, insurance, warranties and guarantees, incentives on vehicles' as a comprehensive package.

#### 4.4. In case of China

There are currently more than 45 total insurance players, out of which 21 foreign insurers operating in China, including Tokio Marine & Nichido Fire Insurance Co, Chubb Corp and RSA Insurance Group, but they own just 1 percent of China's 477.9 billion yuan (\$75.73 billion) non-life insurance market, by seeing the data, we can understand that, how it is big the China's insurance market.

Undeterred by the economic slowdown and weak global market conditions, the Chinese non-life segment recorded a review-period CAGR of 22.8%, with gross written premiums reaching CNY521.1 billion (US\$ 82.6 billion) in 2012. As of 2012, 59 non-life insurers were active in China. Of those, 38 were domestic and 21 were foreign. The five leading firms accounted for around 74% of the total

gross written premium. Motor insurance was the largest category in the segment in 2012, accounting for 76.7% of the total gross written premium.

Chinese insurers, such as PICC Property and Casualty Co and Ping an Insurance, have dominated the insurance business in China by leveraging. Every car-owner must sign up for third-party liability insurance and most often choose to join commercial insurance policies as well to cover any damages to their own vehicles or other needs. China has given foreign insurers full access to its \$32 billion auto insurance market, allowing them from this period into a segment of the business that was earlier reserved for domestic players in the world's biggest automobile market. China's state cabinet, published the revised auto insurance rules, which took effect on May 1<sup>st</sup> 2013 had effectively opened up China's third-party liability automobile insurance market to foreign players. The following are major reasons for success of Motor Insurance in China:

- a). Rapid premium amount growth in recent years, but growth rate is slowing down.
- b). Low insurance penetration, huge market potential remains.
- c). Significant market concentration with very limited foreign insurer penetration.
- d). With improving industry profitability, market competition has recently intensified.
- e). More diversified distribution channels are being developed.
- F). Solvency remains a key issue for many insurers.
- G). Application of sophisticated technology.

#### 4.5. In case of South Africa

In South Africa, many famous insurance companies like Etana, Hollard, Old Mutual, OUT surance, Santam, Oakhurst etc., are serving there from long back. They are providing good insurance services to the citizens of this country. This country is far better to provide insurance facilities more out of Africa Union (A.U.), with the support of the Financial Services Board (FSB), which is a competent regulatory authority in South Africa.

Out of so many insurers, Oakhurst Insurance is good one among them. This company offers an unburdened insurance experience to the policyholders. By partnering with leading South African insurers, and managing every aspect of every household insurance experience, Oakhurst Insurance Company Limited is uniquely positioned to offer cheap car insurance and the very best premiums and service. Gold Club is an exclusive membership package also offering by this company to its customers. This personalised service and range of benefits providing by this company to its clients. Further, so many insurance companies in South Africa, are providing vehicle insurance quote online also.

### 5. Findings and Recommendations

After detailed observation and analysis of the above emerging markets' various motor insurance products or policies, researchers are disclosed that, development and application of Insurance ideas for Ethiopian Motor Insurance Sector:

- **Channel development and transformation:** It has become imperative to gain a better understanding of customer behavior and develop a distribution model to match their ever-changing needs by leveraging new technology, and by integrating internal data and external "big data". Expanding the potential customer base, increasing new customer conversion rate and reducing acquisition cost all require coordinated sales channels including internet, telephone, banks and consumer-facing businesses. Insurers can also improve customer retention and obtain higher customer lifetime value through enhanced service models and precision cross-selling.
- **Product innovation:** Product innovation refers to developing new products and service models targeting selected consumer segments with unique features, by focusing on customer needs and innovation, and to help build your brand. An insurer should pursue higher margin niche markets and should develop innovative insurance products by giving full play to its own advantages and taking the support of government policy.
- **Data analysis and risk segmentation:** Data analysis and risk segmentation can be achieved by improving data collection and analysis through continued investment in technology, analytical database development, and personnel with solid analytical skills. This will allow better risks to be targeted and poor risks to be avoided. Even in the current regime pricing variation based on risk profile can be applied to aid risk selection. These can be done in tandem with the application of data mining and predictive modeling by making use of internal and external data in pricing, underwriting, claim management, and customer service.
- **Customer-centric transformation:** We strongly believe that organisations that put customers first and at the centre of everything they do will be the mid and long term winners in competitive markets like insurance. Winners are already proven, Apple, Amazon and Progressive Insurance to name just a few. The three above areas are all aspects of serving the customer better, all through technology. These should be combined and lead a transformation to customer-centricity.
- **Claims modeling and leakage management:** There is an increasing need to drive down claims costs, not just to improve results but to allow lower premium levels to the customers. Insurers need to make a goal of significantly improving claims supply chain efficiency and squeezing 'leakage' out of the claims system. More sophisticated use and control of repair networks and partners is called for, and the larger insurers may have the scale to invest in their own repair networks.
- **Risk and capital management:** The development of C-ROSS represents higher demand from regulators for insurers' risk management. A risk-based regulatory capital system also encourages the insurance industry to embrace economic capital tool to achieve better capital allocation and performance assessment scheme based on a risk adjusted rate of return approach.

- **Reserve management:** When industry earnings go down, reinforced management of reserve to ensure its adequacy is key to maintain insurers' financial strength. In addition, a full understanding of profitability of each subsidiary and product line as well as the future development trend of reserves, obtained through more rigorous reserve analysis will help insurers better formulate development strategies (such as expense budget) and achieve sustainable development.
- **Expense control and budget management:** With a rising loss ratio, reduction of the expense ratio is becoming increasingly important in achieving the target underwriting profit. Sophisticated insurance companies are using shared service centre as a key part of their centralized and efficient operating model that offers both lower cost and better customer service. Advanced comprehensive budget management incorporating tools such as internal service pricing schemes and competition are also gaining popularity.

- **Others:**

i). Ethiopia's insurance industry is relatively undeveloped which is exemplified by the sectors low penetration levels. There are an estimated of 0.3 million formal insurance clients in Ethiopia. By the end of December 2015, the Ethiopian insurance industry was composed of 17 insurance companies (16 private and 1 public), more than 43 insurance brokers, 915 sales agents, 1 insurance association. Eight of the existing private insurers were established during the first three years of liberalization (September 1994-January 1997). In the last ten years, only five private insurers joined the industry with a total of branch networks of 47. In April, 2015-16 this number of insurance companies increased to 16 in private sector and 1 in public sector/state owned. It means that there is no drastic change has been occurred in our insurance sector during 2011-16. Hence, there is a need to allow new insurance companies to establish and open number of branches to get more insurance business.

ii). The total capital of the industry (both life and non-life) reached Birr two billion by the end of June 30, 2015. The general (non-life) insurance business constituted more than 95% of total industry's capital on average during the last ten years. The share of long term (life insurance) has taken only the marginal share of 5% of the industry's capital in the last 10 years. The dominance of the general insurance business is an indication that an insurance product of the companies is not diversified. Hence, still the rural economy has low insurance coverage, most of the branches are found in the urban centres'. By June 30, 2015, 50% of the total branches were located in Addis Ababa.

iii). In developed economies, insurance companies play a pivotal role in their economic growth. However, in developing countries like Ethiopia, insurance companies give only marginal of transferring risks from unfortunate individuals or business towards policy holders because there are no *well-developed capital markets* that the insurance firms invest their portfolios. Hence, there is a need to establish well and strong Secondary Market operations in our country with the support of the government. However, there is need to establish a good secondary market (Stock Market) and need to establish n' number of companies by the government as well as in private sector. Then only Ethiopian insurance market will flourish one side and on another side, it can reduce risk thorough transferring of its investments into industrial investments.

iv). Figures indicate that Ethiopia's insurance sector is skewed towards corporate clients only who insure their assets (motor vehicle, fire), business (aviation, engineering) and staff member (accident, health, workmen's compensation). General insurance dominates the sector, with motor vehicle insurance forming the largest category of general insurance – constituting 43% of total insurance premiums than life insurance.

v). Ethiopia is the second most populous country and has one of the fast-growing economies in Africa Union and gateway of Africa. However, the insurance industry is one of the least developed measured by insurance density and penetration. So, there is need to establish more insurance companies and government also should give more priority for its development.

vi). There is a need to maintain Motor Insurance Data (MID) in Ethiopia in a proper way. Why because, if they implement MID properly, insurers can able to speed-up the claims process, thereby, minimizing both claims costs and the duration of the claim. More importantly they will be able to assist their policyholders at the incident scene and ensure that both the driver and passengers are provided with the help and assistance what they require.

vii). Introduction of New Motor Insurance products (while deciding insurance Premium) based on Experienced and New Drivers, by keep in mind of chances of accident rate.

viii). Issue of Insurance policies based on Online Services: or Tele Marketing to the all kinds of clients for spreading the insurance market. Further, Issuance of New Motor Insurance policies based on using of Motor on rush roads is good.

ix). Issuance of New Motor Insurance policies based on within particular radius or limits within the city or Region.

x). Better to take bankers support for marketing of Motor Insurance products more in the name of Bancassurance. For example, Bancassurance is also becoming an effective distribution channel for non-life insurance despite contributing less than 5% of total GWP across Asia.

xi). According to African Insurance Organization's 2009 annual review, Ethiopia and Uganda are the only countries in sub Saharan Africa without re insurer companies. As a result, huge amount of foreign exchange has been flowing out to reinsurance companies. So, that, there is an urgent need to establish re insurer in our Ethiopia. Of course, at present Ethiopian insurance industry is preparing to have reinsurance tied-up global partners.

xii). The financial statements of Ethiopian insurance companies disclosed that a very limited amount of the sectors' returns is reinvested in the industry. In an environment where capital is scarce, there is little incentive for shareholders to reinvest dividends in the insurance sector and are instead channelled into the banking sector or other high yielding investments. This makes it difficult for insurance companies to invest in the modernization of its infrastructure, develop innovative products or explore new market opportunities.

xiii). At the end of June 30, 2015, the total capital of the industry (both life and non-life) crossed Birr two billion. The dominance of the general insurance business is an indication that an insurance product of the companies is not diversified. Since the rural economy has low insurance coverage, most of the branches are found in the urban centers not in rural. By June 30, 2015, 50% of the total branches were located in Addis Ababa. Hence, there is need to penetrate branches every corner of the Ethiopian society.

xiv). an exhaustive list of parameters should be taken into account, which includes written premium, incurred loss, loss ratio, commissions and expenses, combined ratio, frauds and crimes, total assets, total investment income and retentions should concentrate by the general insurance for its rapid growth in Ethiopia.

xv). There is need to appoint ombudspersons to resolve grievances, generally of policyholders against insurers.

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