

# Trade Competition among Insurers in Ethiopia: A Critical Analysis

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## Abstract

This study sought to underscore problems surrounding trade competition scenario among insurers in Ethiopia. The insurance sector has its own distinct features that make it unique from other businesses due to its contribution to the development of the country's economy as it provides sense of security; a means of sharing risk; a tool to manage risks efficiently; facilitating trade and investment. Due to this distinctiveness, it is a risky business whose failure may result in systematic risk and failure of the whole economy and hence strict regulation of the sector becomes inevitable. It is necessary to build competent domestic insurers to cope up with the trade competition challenges of huge foreign insurers during Ethiopia's accession to the World Trade Organization (WTO). The paper addresses whether there is meaningful trade competition and the need for investigating and taking measures against anti-competitive trade practices to shape trade competition in the insurance market of the country. It is still tried to investigate the coordination between the National Bank of Ethiopia (NBE) and the Trade Competition and Consumer Protection Authority with regard to regulating trade competition in the insurance sector. It has been concluded that, currently, there is no meaningful trade competition among insurers in Ethiopia and there is need for investigating and taking measures by competent organs in order to promote and regulate trade competition in the insurance market. Moreover, this paper suggests that there must be meaningful trade competition and there is a need to take measures against anti-competitive trade practices after due investigation to promote trade competition in the insurance sector of the country.

## Keywords

Financial Institutions, Insurers, National Bank of Ethiopia, Trade Competition, Anti-Competitive Trade Practices

## 1. Introduction

Financial systems underpin virtually all economic transactions in the world (Good Hart C.A.E., 2009). Financial institutions are vital engines playing a great role in the financial systems in particular and the whole economy of a country in general (Deribie, 2012). Strong and competent financial institutions help to ensure economic growth and development of a nation (Financial Markets and Institutions, 2009). They act as an intermediary between savings and investments (Financial Markets and Institutions, 2009). So, they serve as a main source of funds for risk sharing and investments for individuals, businessmen and governments (Financial Markets and Institutions, 2009). A sound financial system, among other things, requires competent financial institutions both in domestic and international markets. Financial sector may be defined, in general terms, as the set of institutions, instruments, and markets which facilitate borrowing-lending between individuals or groups of individuals constituted as companies, cooperatives, governments, etc. (Lema, 1999).

The major financial institutions operating in Ethiopia constitute the Banks, Insurers, and Microfinance Institutions (Good Hart C.A.E., 2009). Like any other countries, the financial institutions in Ethiopia play a pronounced role in the development of the country's economy. To achieve such objectives, building strong and competent, both in the domestic and international markets, financial institutions in general and insurers in particular is very crucial.

The research tried to examine trade competition among insurers in Ethiopia. Competition of insurers would be discussed taking into account some factors that directly determine competition in the insurance sector such as types of insurance products provided, amount of premium price, capital strength and quality of customer services provided. The number of competing insurers and their branches, pattern of distribution of insurers and their impacts would be also part of the discussion. The study also devoted to addressing the need for investigating anti-competitive trade practices to shape trade competition in the insurance market of the country.

The methodology employed when conducting this study was a qualitative approach. The sources of data used were both primary and secondary sources of data. The proclamations of insurance business, trade practice and consumer protection are consulted as a primary data. Some data was obtained from interview of concerned officials in the NBE and Trade Competition and Consumers' Protection Authority. The secondary sources of data used were books, journals, reports, unpublished materials, and newspapers. The experiences of some other countries, Kenya and India, were also included for the purpose of comparative analysis.

The ultimate of the organization is to be successful (Charles, 2013). Success can be described as survival, achievement of goals or average returns or profitability (Charles, 2013). There are critical success factors and are those product features that are particularly valuable by a group of customers and therefore,

where the organization must excel to outperform competition (Charles, 2013). Charles (2013) defined key success factors as product attributes, competencies, competitive capabilities, and achievements with the greatest impact on future competitive success in the market place. There are also generic success factors such as controlling prices and quality, handling militant unions, maintaining brand image, expanding the lower end of the product line and meeting competitive pressure from the competition (Charles, 2013).

Trade competition in the market cannot be an issue for discussion where the market is under the ownership and monopoly of the government. Although Ethiopia has adopted various policies and laws at different times for the purpose of enhancing trade competition particularly recently, there are still problems concerning regulation of trade competition in the insurance sector. So, assessment of trade competition is very crucial issue to be discussed from the various perspectives specifically in order to create competitive insurance market and to build strong insurers which highly contribute to the development of the country's economy. However, there is an observable gap in the regulation of anti-competitive trade practices. In addition to these, practical coordination between the NBE as a regulatory and supervisory organ of financial institutions on the one hand and the Trade Competition Authority which is entrusted with the power to enforce trade competition law on the other hand is still another issue for discussion.

## 2. Literature Review

### 2.1. Brief Overview of Insurance Business

There are various definitions given for the term “*insurance*” by different writers and legal systems. It is hardly possible to find universally agreed uniform definition for the term insurance. According to J.B. Maclean, “insurance is a method of spreading over a large number of persons a possible financial loss too serious to be conveniently borne by an individual” (Rajkumar & Adukia, 2014). Here, the term insurance regarded as a mechanism used to share financial loss of a person that is difficult for him to cover in his individual capacity. The Black's Law Dictionary defined the term insurance as a contract by which one party (the insurer) undertakes to indemnify another party (the insured) against risk of loss, damage, or liability arising from the occurrence of some specified contingency, regardless of whether the insured is ultimately found liable (Garner, 2009).

The term insurance is also defined from the insured's and insurer's points of view (Fasil & Merhatbeb, 2009). From an individual point of view, it may be defined as a risk transfer mechanism or an economic device whereby a person, called the insured (assured) transfers a risk of a possible financial loss resulting from unforeseeable events affecting property, life or body to a person called the insurer for consideration (Fasil & Merhatbeb, 2009). It is a means used to transfer risk that may cause economic loss of an insured person. From the insurer point of view, on the other hand, insurance may be defined as a mechanism

through which a risk is distributed among the group of persons who are exposed to the same type of risk (i.e., persons who bear the risk of suffering a financial loss as a result of events affecting property, life, or body) (Fasil & Merhatbeb, 2009).

There are various definitions given for the term insurance in different legal systems. Insurance business is the business of undertaking liability as an insurer or a reinsurer under insurance contract (Insurance Bill, 2014). The Commercial code of Ethiopia defined the term insurance policy but there is no definition provided for the term insurance in the code. However, the recent insurance business proclamation No. 746/2012 of Ethiopia defined the term “insurance” as an undertaking by an insurer to indemnify another person, in exchange for consideration called premium, against damage, destruction, loss or liability in respect of a certain risk or peril to which the object of the insurance may be exposed or to pay a sum of money or other things of value depending upon the happening of a certain event. In general terms, the definition under the above proclamation exhibits that insurance is an agreement of indemnity between an insurer and an insured person.

## 2.2. Trade Competition in General

Trade competition is generally understood to mean a process of rivalry to attract more customers or enhance profit (Dutt, 2012). In the corporate world, competition is taken as a process whereby firms strive against each other to secure customers for their products (Haroye, 2008). Moreover, competition refers to a situation where sellers strive for buyers’ patronage with a view to achieving certain business objectives like profits (Haroye, 2008). So, the rivalry may be expressed in terms of price, quality, service or combination of these and other factors that are valued by customers (Dutt, 2012). Competition is the presence in a market of a large number of independent buyers and sellers competing with one another and the freedom of buyers and sellers to enter and leave the market (Dutt, 2012). The existence of a large number of actors in the market and free entry to and exit from the market are the requirements for competition to exist (Haroye, 2008). Therefore, trade competition is the rivalry among business persons, in terms of price, quality, service and etc., to attain certain business objectives like attracting more customers and profits. It also presupposes the large number of independent competitors and free entry to and exit from the relevant market.

The process of competition may either be fair or unfair (Haroye, 2008). Fair trade competition leads to innovation in terms of new and better production and management processes as well as new improved products which eventually translate to improved value for consumer (Haroye, 2008). It is also important for efficiency in the production and allocation of goods and services and can stimulate innovation, lower prices, increase the quality of products and services produced, which in turn enhances choice and welfare. Thus, the process of competition forces firms to become efficient, offer greater choice of products and services at lower cost and etc. (Khemani, 2002).

Unfair competition, on the other hand, occurs when business persons act to avoid competition or to win the competitor in ways that kill or weaken the competition. It is exercised through using restrictive business practices such as predatory pricing, exclusive dealing, cartels and the like rather than focusing on innovation, choice, quality and services (Haroye, 2008). Predatory pricing occurs when firms sell their product at unreasonably low prices to drive competitors out of the market to prevent new entry and successfully monopolize the market and hence results in reduced products and high price in the future (Haroye, 2008). Such unfair competition can also cause failure of the sector in particular and the whole economy in general.

In order to prevent a market from such failure, governments intervene through competition policies (Haroye, 2008). Competition policy refers to mean “governmental measures directly affect the behavior of enterprises and the structure of industry... (and) ... covers a whole raft of executive policies and even approaches” (Haroye, 2008). It also concerned about the way and suitability of enforcing competition law, the process of liberalization and deregulation through privatization (Adera, 2011). In these sense competition policies includes two components; economic policies that enhance in local and national markets; and laws designed to regulate anti-competitive business practices by firms and unnecessary government intervention in the market (Merso et al., 2009). So, competition law deals with market failure on account of restrictive business practices in the market (Haroye, 2008).

Those measures that affect competition include privatization, liberalization, economic deregulation and relaxing foreign investment and ownership requirements (Haroye, 2008). Deregulation and privatization are reform measures by easing regulatory requirements and opening up previous monopolies for private sector in order to broaden the scope of competition (Merso et al., 2009). Market competition is also affected by sector-specific policies.

### **3. Regulating Trade Competition: The Ethiopian Experience**

#### **3.1. The Stage of Development and Legal Framework**

The Ethiopian government has duty to formulate socio-economic policies which ensure that all Ethiopians can benefit from the country’s intellectual and material resources (FDRE Constitution, 1995). The country’s economic policy objectives elaborated that it focused on private sector as an engine of economic growth and mandated the government’s role would be to correct and develop free market economy (Ahmed, 2013). It is elaborated on a number of economic and social policy including reducing the role of the government in business, encouraging private sector development, promoting competition, economic efficiency and growth, correcting market failures, providing goods and services which the market may not provide, avoiding price and quality abuses, protecting consumers and integrating Ethiopian economy with the global economy (Ahmed, 2013).

The insurance industry is still less competitive and at the lowest stage in terms of its contribution to Gross Domestic Product (GDP), which is not exceeding 0.5%. Now, there are 17 insurers are operating and their branches reached 532 in the country by the year 2017/2018 (Tewelde, 2018). The insurance penetration (total premium as percentage of GDP) is 0.4 and premium per capital (insurance density) is 2.9 USD. Lack of dynamism, absence of strategic alliance among industry players, tightened regulation and lack of skilled man power are among the critical challenges faced by the industry (Tewelde, 2018).

Currently, the country has enacted the proclamation to regulate the conduct of commercial activities in accordance with the appropriate practice based on the free market economy policy (Trade Competition and Consumers' Protection Proclamation, 2013). Unless there is express exemption provided, as a principle, the proclamation is applicable to all sectors of economic activity as it is a general law (Fasil & Merhatbeb, 2009). The Council of Ministers has entrusted with the power to issue the regulation that exempts applicability of part two of the proclamation which deals about prohibition of anti-competitive trade practices and regulation of merger against those trade activities which seems vital to facilitate economic development of the country (Trade Practice and Consumers' Protection Proclamation, 2010). However, there is no regulation issued by the Council of Ministers to this effect. So, we cannot assume exemption of insurance business from the ambit of part two of the proclamation this situation.

The proclamation also does not define or give any guideline on how the phrase "*vital to facilitate economic development*" is to be interpreted (Merso et al., 2009). If, in the absence of any guidelines, it is to be applied to priority areas identified by the government, these may include agricultural and all exporting enterprises specifically leather, textile, coffee, floriculture, meat processing and other sectors identified as priority areas by the industrial development strategy (Merso et al., 2009). Besides, exempting the range of sectors and activities from the application of the law significantly curtail its application (Merso et al., 2009). Therefore, the general competition law does not exempt financial institutions in general and insurance business in particular from its scope of application (Abay, 2011).

The proclamation prohibits anti-competitive trade practices and regulates merger of business persons. Those prohibited anti-competitive trade practices are unfair trade practices; anti-competitive agreements/concerted practices and decisions; and abuse of market dominance. They are discussed in the following manner.

### **Anti-Competitive Trade Practices**

**1) Unfair Trade Practices:** The terms unfair competition and unfair trade practices are often used interchangeably under Ethiopian legal system while some legal systems make distinctions between the two. Unfair competition refers to those actions that are meant to confuse consumers as to the sources of the product. It is limited to misleading advertisement and false representation. Un-

fair trade practices, on the other hand, comprise all other forms of unfair competition. The above proclamation prohibits unfair trade competition which is dishonest, misleading or deceptive, and harms or is likely to harm the business interest of a competitor. Acts, among other things, that causes or likely to cause confusion with respect to another businessperson or its activities and other similar acts specified by the regulation to be issued for implementation of the proclamation.

The proclamation tried to list some acts of unfair competition but the listing is not exhaustive and similar acts may be specified in the regulation to be issued for implementation of the proclamation. However, there is no regulation issued yet. So, acts of unfair competition are only limited to the listed activities. Unlike other countries (i.e. Kenya, Canada, USA and Australia), it does not prohibit restrictive trade practices such as predatory pricing. Predatory pricing (also called undercutting) is a pricing strategy where a product or service is set at a very low price, intending to drive competitors out of the market, or create barriers to entry for potential new competitors.

**2) Anti-competitive Agreements/Concerted Practices and Decisions:** Businesspersons may agree to avoid or limit trade competition in the market. The relationships and transactions between/among businesspersons, explicit or implicit agreements, may have a tendency to reduce or eliminate competition (Merso et al., 2009). Concerted practices, for example, refers to a form of coordination between enterprises that has not yet reached the point where there is a contract in the true sense of the word but which, in practice, consciously substitutes a practical cooperation for the risks of competition (Geraint & Stephen, 2006).

a) The agreement, concerted practices and decisions in horizontal relationship are prohibited if it has the effect of preventing or significantly lessening competition. These are directly or indirectly fixing price; collusive tendering; allocating customers, or marketing territories or production or sale by quota (Trade Competition and Consumer Protection Proclamation, 2013).

b) Agreement between businesspersons in vertical relationship that have the effect of setting minimum resale price (Trade Competition and Consumer Protection Proclamation, 2013).

**3) Abuse of Market Dominance:** It is prohibited to abuse, openly or dubiously, dominance by a dominant businessperson either himself or acting together with others pursuant to article 5 of the proclamation. A businessperson is considered as dominant when he has the actual capacity to control prices or other conditions of commercial negotiations or eliminate or utterly restrain competition in the relevant market (Trade Competition and Consumer Protection Proclamation, 2013). Its dominance is assessed taking in to account the share of a businessperson, capacity to set the entry barrier against others, and so on (Trade Competition and Consumer Protection Proclamation, 2013). Those acts that constitute abuse of market dominance, among others, include limiting production, hoarding or diverting, preventing or withholding goods from being

sold in the regular channels of trade; selling below cost of production, causing the escalation of the costs of a competitor or preempting inputs or distribution channels directly or indirectly aimed at a competitor; directly or indirectly imposing unfair selling price or unfair purchase price; and etc. (*Trade Competition and Consumer Protection Proclamation, 2013*).

**4) Merger:** Ordinarily, it is created when one company acquires the assets and liabilities of another company, and causing that other company to cease to exist as an independent entity (*Trade Competition and Consumer Protection Proclamation, 2013*). Merger, however, used in a wider sense in competition law and includes amalgamation, pooling of resources in joint venture, acquisition of another enterprise's shares, voting rights, assets, or control over that enterprises (*Trade Competition and Consumer Protection Proclamation, 2013*). In a typical merger transaction, an existing corporation disappears and its assets and liabilities are taken by another corporation which continuous the business activity of the disappearing corporation (*Birhane G/Mariam, 2011*). Merger occurs when two or more business organizations previously having independent existence amalgamate or when such business organizations pool the whole or part of their resources for the purpose of carrying on a certain commercial activity (*Trade Competition and Consumer Protection Proclamation, 2013*). It also occurs when a person or group of persons directly or indirectly acquires shares, securities or assets of a business organization or taking control of the management of the business of another person through purchase or any other means (*Trade Competition and Consumer Protection Proclamation, 2013*). An agreement or arrangement of merger that causes or is likely to cause a significant adverse effect on trade competition is prohibited (*Trade Competition and Consumer Protection Proclamation, 2013*).

### 3.2. The Institutional Framework

#### 1) The National Bank of Ethiopia (NBE)

The financial markets and institutions in Ethiopia are regulated by the central government. The banks and insurers were subject to direct government decision and concession before 1963. The NBE was established by the NBE Establishment Order No. 30/1963 when it was found necessary to separate commercial banking and central banking functions in the same year. The bank exercises supervisory authority on financial institutions in order to ensure their financial and operational soundness through enforcing regulatory and supervisory directives which are issued by it from time to time (*Tekle-Birhan, 2015*). It was established with the authority and responsibility vested in it by the government to design and print country's legal tender; supervise all banking service banks in the country; serve as the main national bank of the country in administering and guiding international supply and circulation and monetary reserve (*Abebe et al., 2006*). The government enacted Monetary and Banking Proclamation No. 99/1975 in March 1975 which replaced the former banking and monetary system (*Abebe et al., 2006*). It was also re-established by the NBE Establishment (as amended)



**Proclamation No. 591/2008** for the purpose of maintaining stable rate of price and exchange, fostering a healthy financial system and similar activities.

To summarize, the NBE is authorized to license and regulate financial institutions in general and insurers in particular (**National Bank of Ethiopia Establishment (as amended) Proclamation, 2008**). It is mandated to regulate manner of conducting insurance business by the insurers including trade competition. In doing so, it is under duty to make an investigation regarding anti-competitive trade practices in the insurance market and take measures accordingly.

## **2) The Federal Trade Competition and Consumer Protection Authority**

This authority was established as an autonomous federal government body by the proclamation (**Trade Competition and Consumer Protection Proclamation, 2013**). There are about nine different directorates, adjudicative benches and appellate tribunal organized under the authority. The investigation and prosecution directorate is one of those directorates that has entrusted with the power to conduct investigation and institute actions before the adjudicative bench of the authority (**Interviews with Mr. Million Gizaw, 2019**). The authority has entrusted with the power to enforce the trade competition law of the country. The insurance transaction is not excluded from the ambit of the general trade competition proclamation.

So, we can conclude that the authority must endeavor for the effective implementation of the trade competition law. It is also obliged to implement the law even against financial institutions as there is no express exclusion. The claims of insurers as to existence of anti-competitive trade practices in the insurance market must be investigated and measure taken accordingly, if any. Actually the insurance sector requires professional personnel; there is a need to coordinate with the NBE.

## **4. The International Experience**

### **1) India**

The Indian government was adopted the Insurance Regulatory and Development Act on December 2, 1999 with the aim, among other things, to protect the interests of policyholders, to regulate, promote and ensure orderly growth of the insurance industry (**Nagree-Mahtani, 2002**). It seeks to regulate and control every insurance advertisement issued by the insurers (**Nagree-Mahtani, 2002**). So, every insurer is required to establish and maintain a system of control over the content, form and method of dissemination of all advertisements concerning its policies (**Nagree-Mahtani, 2002**). It prohibits an advertisement issued by an insurer that fall in the category of an unfair or misleading advertisement. The unfair or misleading advertisement includes, among other things, gives information in a misleading way.

The insurance industry in India fundamentally shifted, among other things, due to raising awareness, accessibility, affordability, regulatory reforms and economic growth. The use of digital technology has the potential to break the traditional barriers of the insurance sector like product awareness level, limited

customer touch points, access to knowledge, service availability and payments, the business environment is bound to become more dynamic and competitive. The insurers promote competition by providing products beyond the traditional insurance products (Confederation of Indian Insurance Industry, 2019).

The Insurance Regulation and Development Authority has entrusted with the responsibility of regulating insurance sector in the country. The Authority and the combined impact of sustained wide ranging publicity by insurers the awareness about insurance has substantially improved. Such an improved public awareness highly contributed for the development of the insurance sector in the country.

## 2) Kenya

An amendments to the Kenyan Insurance Act made under valuation of technical provisions for life insurance business and capital adequacy guidelines. The current competition law of Kenya, on the other hand, aims to protect the process of competition (Njehu, 2009). It regulates restrictive trade practices, control of monopolies and concentration of economic power, control and display of prices and establishment of restrictive trade practices tribunal. Restrictive trade practices include, among other things, predatory trade practices, discrimination in supply, collusive tendering and collusive tendering at an auction (Njehu: 2009). However, acts like predatory trade practices are not clearly prohibited under Ethiopian laws. Regarding the number of insurers there are fifty three insurers and five re-insurers operating in the 2018 financial year. These insurers employed digital innovations by digitalization of distribution channels using mobile phone. Accordingly, insurtechs continue to disrupt competition in the industry (www.cytonn.com, 2019).

The insurance penetration (total premium as percentage of GDP) is 2.6 USD and premium per capital (insurance density) is 40 USD in Kenya (Tewelde, 2018). General insurance business remained the largest contributor to insurance industry contributing 62.3% of the total premium in the country. Motor and medical insurance classes of business account for 66.8% of the gross premium income under the general insurance business (www.cytonn.com, 2019). Insurers have seen a decline in group life business as well as ordinary business as a result of price wars that have been prevalent among insurers (www.cytonn.com, 2019). Price wars have negatively impacted performance in the insurance sector. The price wars are as a result of low penetration rate which led to players in the market undercutting product pricing in order to gain market share. The undercutting continues to be a major challenge in the industry as well as increasing the risk that comes with product mispricing. There has been a continuous growth in the life insurance market relative to GDP and life insurance premiums have been increasing (www.cytonn.com, 2019). Life insurance business was generally less affected by the economic downturn of the past few years. The sector is booming with mergers and acquisitions mainly with companies trying to protect their market share in a competitive environment and also to meet the solvency requirements by June 2020 (www.cytonn.com, 2019).

## 5. The Major Problems of Trade Competition in the Insurance Market of Ethiopia

### 5.1. Premium Rate

The amount of premium is measured by the estimate of the risk formed by the insurers upon an average of their previous experience or similar risks, together with the allowance for office expenses and other charges and profits (Gulshan & Kapoor, 2003). The premium price varies depending on the amount and type of loss covered, the number of people in the fund, and the risk involved (Sigismond, 2003). In the insurance market of Ethiopia, lowering insurance premium is a primary strategy to attract and retain customers (Zelege, 2007). This is due to, among other things, the fact that insurers are providing similar products to the public. Price is not sustainable competition variable because the other competing insurers can easily copy their price accordingly (Zelege, 2007). In other words, if an insurer accepts the risk with lower premium price than others, other insurers can easily employ the same. They have been, with ambition to increase their sales volume, granting unfair and unjustifiable discounts to attract clients and attain their sales forecast (Ageba & Beinen, 2008). This stiff price competition and aggressive pricing policy has led to unhealthy spiral of premium cutting (Ageba & Beinen, 2008).

The NBE leaves determination of premium setting to discretion of the insurers in practice and both the consumers and the NBE hardly know about the grounds of rates of the insurers (Ageba & Beinen, 2008). The insurance auxiliaries are not playing their role in the determination of premium rates (Abay, 2011). So, the insurers compete destructively in the determination of their premium setting (Tadese, 2015). Recently, there is intense price competition among insurers. Mr. Wondimeneh expressed the situation as “*price war*” but trade competition among insurers with regard to other competition variables is not significant. Thus, it is great challenge in the current insurance market of the country as insurance is a risky business (Interview with Mr. Wondimeneh Keleme, 2019). Such very low price discloses that insurers are accepting excessive risks at very low premium amount.

Competition highly dependent on price is dangerous particularly where there is a general price rise in the economy as the costs and expenses increases while the income may not cover them (Zelege, 2007). This situation may put the companies in declining position and lead to failure (Interview with Mr. Wondimeneh Keleme, 2019). There was always the danger that severe price competition would threaten solvency of insurers (Armentano, 1989). The insurers themselves reported the situation to the NBE in their annual reports. Berhan Insurance Share Company tried to express it as “insurance sector is characterized by competition predominantly based on reduction in premiums and providing highly uneconomic rates to attract customers” (Berhan Insurance Share Company, 2012). This report discloses the existence of trade competition highly dependent on setting uneconomical premium. It also recommended that the NBE must set

minimum economic premiums for those loss making classes of business, especially motor commercial vehicle.

The United Insurance Share Company, under its report, also stated that the price-driven competition strategy, mainly uneconomical premium, hindered the company from bringing much change (*Annual Performance Report of United Insurance, 2011*). The report states “For our part, after having been repeatedly victimized by the ‘*anti-fair competition*’ practices of some members, we took the decision to cease membership of the Association of Ethiopian Insurers unless and until all members agree to adhere to and abide by one of the major principles contained in its bye laws—that of *fair competition*” (*Annual Performance Report of United Insurance, 2011*). The newly established insurers are also expressed their fear of threat of the price-driven competition in the insurance market of the country (*Tadese, 2015*). This shows the sign of unfair competition in the insurance market as the premium is alleged uneconomical but no effort made to prove it and to take measure accordingly.

## 5.2. Underdeveloped Insurance Industry

Ethiopia’s financial sector remained closed and is much less developed than its neighbors (*Kiyota et al., 2007*). The insurance industry of the country, particularly, is not well developed yet. The country has low level of insurance penetration rate. The contribution of the sector to the country’s GDP is below one percent which is very low both in absolute and relative terms when compared with some African countries.

### 5.2.1. Insurance Products Provided

The most important issues in the improvement of financial institutions are private ownership, competition and innovation (*Zelege, 2007*). Trade competition among insurers plays a vital role to build strong insurers in a country. Almost all insurers (whether general or long term) in Ethiopia provide homogenous insurance products (*Zelege, 2007*). Though competitions among insurers are important on the basis innovation of new insurance products, it is not practiced in significant level rather they provide traditional insurance products (*Interview with Mr. Wondimeneh Keleme, 2019*). There is only limited range of insurance products offered by insurers indicating that the sector is still at the early stage of development. Innovation of new insurance product is limited as it is only introduced few products like floriculture, travel, and condominium insurance (*Zelege, 2007*). Insurers do not diversify the type of services, the sectors and the regions they serve (*Zelege, 2007*).

According to experts in the insurance industry, the insurance business in Ethiopia is still weak as compared with the other East African countries (*Tadese, 2015*). They recommended that, among other things, insurers need to expand the market through product diversification which will increase the interest of the population to be insured (*Tadese, 2015*). Since market penetration rate is low and client’s price is sensitive, innovation of new insurance products is necessary.

The majority of the Ethiopian population depends on small scale agriculture with low level economy (Tadese, 2015). However, the existing insurers failed to provide micro-insurance products which are affordable for them. It is the effect of lack of meaning competition among insurers in the country.

Out of the seventeen insurers, eight of them carry on general insurance business only and the remaining nine insurers carry on both general and long-term insurance businesses (African Insurance Organizations, 2014). For example, NICE, Abay, Lucy, Bunna and Global insurance companies are engaged in general insurance business. On the other hand, the EIC, Africa, Awash, Global, Nib, Nile, Nyala and Oromia Insurance Companies carry on both general and long-term insurance businesses (Zelege, 2007). Currently, there is no insurer that undertakes only life insurance business in the country. The sector is dominated by general insurance business in the country and hence most of the gross premiums were derived from the general insurance for a long period of time. Accordingly, the general insurance business which accounts 93% of the total gross written premiums in 2013 dominated the sector. The remaining 7% of the gross written premium of the country were derived from long-term (life) insurance business in the same year. According to a study conducted by Mr. Dawit Mohammed, there were about 300,000 clients in the sector of which 95% were accounted for general insurance and the long-term insurance accounted for the remaining 5% of the clients (Tadese, 2015). The majority of insurers are providing general insurance and the motor insurance is the leading type among general insurance businesses. Life insurance contributed 6%, while general insurance premiums, particularly motor vehicle insurance contributed 94% of the insurance premiums (Smith, 2010). In Kenya, the general insurance business contributed 62.3% of the total premium in the 2018 financial year ([www.cytonn.com](http://www.cytonn.com), 2019).

Most insurers, if not all, still rely on paper based administrative system (Directive of NBE, 2013). Such system has the effect of boasting cost of administration and makes extraction of client or future client for sales purpose difficult (Zelege, 2007). They are not employed online application for insurance, claim notification, customer advising and follow up, and information exchange with other insurers using information communication technology. These help to reduce costs, improve operational efficiency and profitability, to enhance customer satisfaction and service to constituents. They have also limited capacities and premium setting is based on outdated methods and there is considerable lack of risk assessment methodologies (Ageba & Beinen, 2008). Moreover, it is very difficult to observe audited annual balance sheets and profits and loss account of insurers as the insurance business proclamation requires. It is observed that there are also problems in insurance companies in relation with the payment of compensation either regarding coverage of such specific insurance policy or amount of payment (Interview with Mr. Wondimeneh Keleme, 2019).

Generally speaking, insurers in Ethiopia have been weak in their data recording, documentation, communication, information processing, planning, decision

making, auditing, governance and risk management (Abay, 2011). Their risk management is not adequately developed due to lack of experience and little appreciation of the problem (Abay, 2011). It is also challenging, particularly for new entry, to find experienced insurance professionals (Websites of insurers). Competition based on price, trade credit, traditional insurance products, weak financial base, etc. will not lead to firm level competitiveness or national level competitiveness (Websites of insurers). For instance, a client with large unpaid premiums in one insurance company goes to second and third insurers and buys policy on credit on the same way (Zelege, 2007). The NBE may issue directive dealing with the establishment, operation and cost apportionment of information-sharing scheme among insurers (Insurance Business Proclamation, 2012). However, there is no directive issued yet.

### 5.2.2. Financial Strength

The financial strength of insurers has great impact on the competition. Those persons who want to enter into insurance contract prefer insurers with stronger financial base in order to create sense of security. It also helps to attract qualified professionals to the company; and to make effort on the innovation of new insurance products. The capital bases of insurers of Ethiopia are low both in absolute and relative term. The total capital of insurers of the country was only Birr 5.5 billion in the 2017/2018 financial year whereas the total capital of banks in the country reached Birr 85.8 billion in the same financial year (Annual Report of the NBE, 2017/2018).

The NBE issued a directive that increases a minimum paid up capital for insurers. According to this directive, minimum paid up capital required for general insurance should be birr sixty million whereas birr fifteen million required for long-term insurance and totally birr seventy five million required for both types of insurance business (Directive of NBE, 2013). This is more than tenfold when compared with the previous minimum capital requirement of seven million for both classes of insurance business. Those existing insurers whose capital is below the requirements should raise their capital to the stated level by the end of December 31, 2015 and they should submit an action plan how to fulfill the required capital (Directive of NBE, 2013). However, some of the insurers are failed to fulfill this requirement. So, these insurers are required to adjust their minimum paid up capital according to the requirements of the directive. If an insurer fails to fulfill the required capital, the NBE may prohibit such insurer from accepting new business until the deficiency is corrected; require such insurer to merge with another insurer; close such insurer; or take other appropriate measures (Directive of NBE, 2013).

The NBE issued a directive to govern the establishment of re-insurance company (NBE reinsurance company establishment directive no. SRB/1/2014). Moreover, the manner and criteria of transacting reinsurance business directive was issued by the NBE (NBE manner and criteria of transacting reinsurance directive no. SIB/44/2016). Paradoxically, there is no re-insurance company estab-

lished in the country and hence the domestic insurers are exposed to huge cost in order to enter into re-insurance contract with foreign re-insurers.

### **5.2.3. Limited Number of Insurers and Their Concentration at the Center**

The number of insurers remained stagnant for a long period of time after the industry was liberalized to the private sector. There were only nine insurers for almost eight consecutive years from 1999/2000-2006/2007. Currently, there are one government owned and sixteen private insurers and 532 branches are operating in the country in the 2017/2018 financial year (Annual Report of the NBE, 2017/2018). However, the numbers of insurers operating in Kenya, for example, were 53 which provide both life and general insurance business in the same financial year (Sector Report, 2018).

The insurance business is allowed only for Ethiopian nationals (*Investment Incentives and Investment Areas Reserved for Domestic Investors Council of Ministers Regulation, 2012*). The sector is completely closed for non-national investors (i.e. foreign investors and domestic investors which are not Ethiopian nationals). Domestic investor is defined as an Ethiopian national or a foreign national treated as a domestic investor as per the relevant law, and includes the government, public enterprises as well as cooperative societies established as per the relevant law (*Investment Proclamation, 2012*). Foreign investor, on the other hand, is a foreigner or an enterprise wholly owned by foreign nationals, having invested foreign capital in Ethiopia or a foreigner or an Ethiopian incorporated enterprise owned by foreign nationals jointly investing with a domestic investor, and includes an Ethiopian permanently residing abroad and preferring treatment as a foreign investor (*Investment Proclamation, 2012*). Therefore, based on these definitions, foreign national treated as a domestic investor; an Ethiopian investor permanently residing abroad and preferring treatment as a foreign investor; and foreign investors are not allowed to invest in the insurance sector of the country.

According to the insurance business proclamation, foreign nationals or organizations fully or partially owned by foreign nationals may not be allowed to own insurance company or carry on insurance business or operate branch offices or subsidiaries of foreign insurers in Ethiopia or acquire the shares of Ethiopian insurers (*Insurance Business Proclamation, 2012*). Consequently, local insurers have no opportunity to compete with foreign insurers in the market. Globalization or WTO accession has its own impact on competition and competitiveness in the insurance sector in the future (*Zelege, 2007*). Ethiopia started the process of negotiation to join the WTO in the year 2003 (*Zelege, 2007*). This process continued until today. Due to this accession process and liberalization of financial sector for foreign investors the existing insurers are likely to face intense competition (*Zelege, 2007*). Domestic insurers, however, have no competition experience to cope up with foreign insurers and there is no strong competition trend even with in the country.

The insurance sector of the country has experienced with concentration of

insurers in the capital city of the country. Accordingly, more than fifty percent of branches and almost all head offices of insurers are found in the capital city of the country (i.e. Addis Ababa). So, majority of insurers are concentrated in the capital. There are 53.6% of branches of insurers situated in Addis Ababa in the 2017/2018 financial year ([www.nbe.gov.et](http://www.nbe.gov.et), 2017/18).

#### **5.2.4. Public Insurer Domination**

The government owned insurer dominated the sector for long period of time in terms market share, number of branches, capital strength and types of insurance products it provides. The state owned insurer, Ethiopian Insurance Corporation (EIC), alone accounts for 27.9% of the total capital of insurance sector in the 2017/2018 financial year ([www.nbe.gov.et](http://www.nbe.gov.et), 2017/18). The company has investments in African Re-insurance Corporation, African Import and Export Bank, Motor Engineering Company of Ethiopia (MOENCO), and United Investors Share Company ([www.eic.com.et](http://www.eic.com.et), 2019). The general trade competition legislation does not prohibit market dominance in a business rather it prohibits only abuse of dominance in the relevant market (*Trade Competition and Consumers' Protection Proclamation*, 2013).

#### **5.3. Low Public Awareness**

The level of awareness of the people about the benefits of insurance is low. Those who buy car know that they need insurance protection for the car but very few people insure their house or their furnishing and other belongings which they keep in the house (Smith, 2010). According to some experts, such low level of awareness is discouraging those who want to invest in the insurance sector (*African Insurance*, 2015). The underdevelopment of the insurance industry of the country is also attributable to the low level of public awareness about insurance.

#### **5.4. Trade Name Confusion**

Currently, the trade names of some insurers are most likely similar and seem confusing. For example, "NICE" insurance company has similar trade name with "NILE" and "NYALA" insurance companies and in effect may confuse customers. This issue is not yet investigated by the competent organs. There is a gap between the NBE and the Trade Competition and Consumer Protection Authority with regard to regulating anti-competitive trade practices. These concerned organs have no coordination trend regarding investigation and taking measures.

### **6. Conclusion**

There is no meaningful trade competition among insurers in Ethiopia as it is predominantly dependent on the premium price rather than using other competition variables like innovation of new insurance services. Such aggressive price based competition is dangerous because it is allegedly uneconomical and does not enable them to cover even their costs and expenses and discourages those



who are willing to enter into the insurance market and also forces the existing insurers to go out of the market. Even though there were continuous reports as to the existence of uneconomical premium pricing and unfair trade competition, no investigation conducted and measure taken by the concerned organ. The insurance sector of the country is also characterized by underdevelopment, providing traditional insurance products, domination of general type of insurance business, low quality customer services, weak financial strength, absence of credit sales, market concentration in the capital city, a limited number of insurers, state owned insurer domination, affiliation with banks, low public awareness, use of confusing trade names and absence of domestic re-insurer.

There is a clear gap concerning coordination between the NBE and the Trade Competition and Consumer Protection Authority regarding the regulation of trade competition in the financial sector in general and insurance market in particular. There is no regulation issued by the Council of Ministers which specifies acts of unfair competition acts similarly with those listed under article 8(2) (g) of the proclamation no. 813/2013. Consequently, acts other than those listed under the trade competition proclamation like predatory pricing have not been included in the trade competition law of the country. Besides these, there is no directive that regulates the manner of conduct of insurance business issued by the NBE as provided in article 44 proclamation no.746/2012.

There is a need to have meaningful trade competition in the insurance market of Ethiopia. The existing insurers should reduce stiff price competition among insurers. Accordingly, premium price should be economical and at least it should not be lower than the risk insured. The NBE should investigate whether insurers accept premium price which is lower than the risk insured which cannot even cover the expenses and costs with respect to various insurance products by qualified professionals. The insurers also need to diversify trade competition by using various competition variables such as innovation of new insurance products as the sector will be opened for international market due to Ethiopia's accession to the WTO.

The insurers need to raise their capital strength even by making merger, improve quality of customer services by using information communication technology, and geographically diversify their branches. The government, on the other hand, should promote new entry as there is potential in the sector and reduce the dominance of state owned insurer. Since the share of long-term insurance business in the country is very low compared to general insurance, those insurers which are willing to engage in long-term insurance business, in particular, should be encouraged by providing incentives such as tax exemption. The concerned organs such as insurers and the NBE should strive to create public awareness about importance of insurance.

Since the insurance industry has low performance and minimal contribution for national economy; insurers should prepare themselves to work and compete with international companies. The door is going to be opened for international

insurers as the country is in the process to accede the WTO. The regulation which governs acts of unfair competition like predatory pricing must be issued by the Council of Ministers. The NBE also needs to issue a directive that regulates the manner of conduct of business by insurers. Since there is no re-insurer established, there is also a need to establish domestic re-insurer to reduce costs of insurers and hence to improve financial capacity of insurers. Furthermore, the NBE should cooperate with the Trade Competition and Consumer Protection Authority in order to regulate trade competition in the insurance market of the country.

### Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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