



**Research Report 22**

**The Ethiopian Insurance Industry and the  
Reinsurance Business' Legal  
Environment**

**By**

**Mezgebe Mihretu**

***Ethiopian Development Research Institute***

**Addis Ababa, Ethiopia  
May 2015**

***This research report has been presented on the 8th annual International Microfinance Conference organized by the Association of Ethiopian Microfinance Institutions (AEMFI) and Sidama & Omo Microfinance Institutions***

# THE ETHIOPIAN DEVELOPMENT RESEARCH INSTITUTE RESEARCH REPORTS

## About EDRI

Founded in August 1999 as a semi-autonomous government development research institute, EDRI's primary mission is to conduct quality research on the development of the Ethiopian economy and disseminate the results to key stakeholders within and outside of Ethiopia. EDRI is sponsored by the Ethiopian government, ACBF, UNDP, IDRC-TTI and IFPRI/ESSP. For more information, as well as other publications by EDRI staff and its affiliates, go to <http://www.edri.org.et>

### Ethiopian Development Research Institute (EDRI)

P.O.Box 2479

Tel: 251115506068

Fax: 251115505588

Email: [info@edri.org.et](mailto:info@edri.org.et)

Website: <http://www.edri.org.et>

## ABOUT THESE RESEARCH REPORTS

The Ethiopian Development Research Institute (EDRI) Research Reports contain research materials from EDRI and/or its partners. They are circulated in order to stimulate discussion and critical comment. The opinions are those of the authors and do not necessarily reflect that of EDRI's, their home institutions' or supporting organizations'. Comments may be forwarded directly to the author(s) respective addresses.

### Report citation:

Mezgebe Mihretu. The Ethiopian Insurance Industry and the Reinsurance Business' Legal Environment. 2015. EDRI Research Report 22. Addis Ababa: Ethiopian Development Research Institute.

---

### About the Author

Mezgebe Mihretu, Researcher, EDRI, [arisema2001@yahoo.com](mailto:arisema2001@yahoo.com)

# **The Ethiopian Insurance Industry and the Reinsurance Business' Legal Environment**

**Mezgebe Mihretu**

**Ethiopian Development Research Institute  
(EDRI)**

## Contents

<b>Abstract</b> .....	6
1. Introduction.....	7
2. Reinsurance Business and Regulatory Requirement.....	7
3. Research Design and Methods.....	10
4. Findings and Discussions .....	13
5. Conclusion and Recommendations.....	17
<b>Reference</b> .....	20

## Abstract

The finance sector investment including insurance in general is characterized by high public interest. Companies are owned by a number of shareholders regardless of the size of the share by each holder. Citizens decide to relay their businesses with confidence that government can protect their interest. Having in place the legal and regulatory frameworks is crucial for the stability of the insurance industry and reinsurance market. The Ethiopian industry has existed long without it. Quantitative and qualitative data research and analysis reveal that awareness gap regarding reinsurance business circumstances persist on all management levels.

**Key words:** Insurance Industry, cross-border reinsurance business, insurance transactions, Legal and Regulatory, developing countries, financial sector, Ethiopia

## 1. Introduction

United States Supreme Court a century ago labelled the insurance business as “a business affected with a public interest”...thus subjecting it too much closer government regulation than most businesses that every citizen should share that concern”(Williams, *etal.*1985:5). The finance sector investment in general is characterized by high interest of the public. Companies are owned by a number of shareholders regardless of the size of the share by each holder. Citizens decide to relay their businesses on these companies with confidence that government can protect their interest. Wang (2003) stress having in place the legal and regulatory frameworks regarding reinsurance is crucial for the stability and the solvency of the insurance industry and reinsurance market.

In the context of the Ethiopian insurance industry, the Licensing and Supervision of Insurance Proclamation No. 86/1994 (article No.37) that has been operational for almost two decades and the substitute Proclamation No.746/2012 (article No. 54) postponed the manner in which reinsurance business may be transacted. Despite the absence of the directive or guideline related to “the manner in which reinsurance business may be transacted, many argue that the industry has been actively transacting in the business trading tens millions of dollars every year with easy access to remittance” (Zafu, 2006 and Alamirew, 2006). This, triggers why the industry has been long without reinsurance regulations. Therefore, this paper aims at examining whether there is an understanding gap in the insurance industry management about legal and regulatory circumstances of the reinsurance business.

## 2. Reinsurance Business and Regulatory Requirement

According to UNCTAD (2007), financial services are probably the most heavily regulated sectors in most economies. UNCTAD (2007) also stresses that prudential rules, regulation and supervision are absolute necessities in a normal domestic life, let alone cross border (international) trade. According to Wang (2003), developing countries’ national interests are concerned with the protection of local insurance and reinsurance from foreign competition and avoid unnecessary loss of foreign exchange through the purchase of reinsurance from cross border. In addition, Wang (2003) and UNCTAD (2007) underline that dependence on cross border reinsurance may affect a country’s balance-of-payments and foreign- currency holdings.

Zelege (2007) in his study 'Insurance in Ethiopia', the rationale for regulation and supervision of the insurance industry is basically to ensure the growth and stability of the sector and to protect the interests of policyholders (Zelege, 2007). Zelege, underscores that governments of countries across the globe intervene to regulate and supervise the insurance industry to protect the interests of policy holders and to ensure a stable financial sector. According to Zelege, supervision of insurance company refers to the continuous monitoring of insurance companies to ensure that they are operating in accordance with the insurance proclamations and regulations.

Besides, UNCTAD underscores that lack of clear and comprehensive guidance has lagged behind the reform to foster emerging market economies and aggravated the problem of the insurance industry. Establishing principles and guidance helps emerging market economies to promote the market and have impact. A legal environment and high quality insurance regulations assure market participants to come up with sound practices being applied and increase market transparency and confidence. According to Wang (2003) and Irukwu (1987) the primary purposes for the reinsurance rules and regulations and the motive of governments are

- To ensure protection of the interests of the insured, claimants, ceding insurers and the public and to protect them against predators and unethical practitioners,
- To ensure the maintenance of efficient insurance services and appropriate capital structure and to develop domestic capacity in a country,
- To maintain financial solvency of both primary insurers and reinsurers,
- To protect the local insurance and reinsurance market environment,
- To ensure that the insurance industry contributes to the economic development and well-being of a nation at large,
- To ensure reinsurance and that reinsurer arrangements of primary insurers are well managed, and
- To regulate the security of reinsurance and insurance businesses.

According to Wang (2003), the development of appropriate regulatory frameworks regarding reinsurance business is becoming crucial for the stability of both the insurance and reinsurance market. The author also stresses that the reinsurers and reinsurance arrangements should be appropriately regulated to protect the solvency of the primary insurers. In line with this, Wang (2003) underlined that the general framework and basic provisions of the insurance control rules and regulations include:



- The requirements for reinsurance transactions or reinsurance arrangements,
- Issues of directions regarding reinsurance treaties, and volume and limit of ceded for approval and selection of reinsurance mate, and
- Establishment of reinsurance Company and citizenship of insurance managers.

With respect to the legal and regulatory issue, according to Zeleke (2007), in Ethiopia, there were no insurance laws and a supervisory body put in place until the issuance of the commercial code in 1960 and the first insurance proclamation, Proclamation No.281/1970 followed by regulations, Legal Notice No.393/197. They were issued in 1970 and 1971 respectively, while insurance companies had been in business prior to 1960. The issuance of the proclamation and the regulations led to the formation of the insurance Council and an Office of Insurance Controller which were then responsible for regulating and supervising the insurance business in the country. Some of the insurance matters covered in the insurance regulation were: submission of application for license, issuance and renewal of licenses, qualification requirements of insurance auxiliaries and actuaries, submission of annual financial statements to the controller, issuance of shares, and assignment or transfer of shares.

In 1976, the Provisional Military Administration Council (PMAC) issued a new monetary and banking proclamation, Proclamation No. 99/1976 replacing the previous ones. In this proclamation the supervision and regulation of the insurance industry along with other financial institutions was given to the National Bank of Ethiopia (NBE), the country's central bank. Following the downfall of the military regime in 1991, the Transitional Government of Ethiopia (TGE) issued Monetary and Banking proclamation, (Proclamation No.83/1994) in 1994, revoking the earlier proclamation. Consequently, the powers and duties of the NBE include:

- Licensing, supervising and regulating banks, insurance and other financial institutions,
- Promoting and encouraging the dissemination of banking and insurance services throughout the country,
- Preparing periodic economic studies, together with forecasts of the balance of payments, money supply, prices and other relevant statistical indicators of the Ethiopian economy useful for analysis and formulation and determination by the Bank's monetary, saving and exchange policies, and
- Making short and long-term refinancing facilities available to banks and other financial institutions.

Following this proclamation, TGE issued Licensing and Supervision of Insurance Business proclamation, Proclamation No. 86/1994. The proclamation, similar to the previous ones (281/1970 and 68/1975), contains provisions pertaining to: conditions to be fulfilled to establish an insurance company, type and issuance of shares, licensing of insurers and cancellation of licenses, statutory deposit and legal reserve requirements, reserve accounts (provisions), actuarial investigation and report, margin of solvency, insurance auxiliaries; restriction on loans and advances, the manner in which reinsurance business may be transacted, and separation of accounts/funds-general and long-term insurance.

With regard to the reinsurance business of the Ethiopian insurance industry, despite the legal and economic significance of provisions to the reinsurance business, the insurance proclamation, (Proclamation No. 86/1994), had postponed the manner in which insurers can transact reinsurance business. More specifically, under Article 37 of the proclamation, it was stipulated that “the manner in which reinsurance business may be transacted shall be determined by directives to be issued by the Bank” (Ethiopia House of Representative, 1994). Regarding this, Wubetu (2006) claims that, the regulatory requirement for the postponed reinsurance business that may transact between the insurer and reinsurer, should have been included otherwise. Zeleke (2007) emphasizes that postponement of the manner in which reinsurance business may transact makes the challenge more difficult for the industry’s competitiveness. On the other hand, Zafu (2006) stresses that Ethiopia already being in the reinsurance business, buying millions of it every year, the appropriate question should be whether the country is optimizing the retention and the purchase of reinsurance. Yet, UNCTAD (2007) discloses that the Ethiopian insurance industry is among the lowest in the world and African countries in terms of the three measures: Insurance market share, market penetration rate and insurance density (per capita insurance premium).

### **3. Research Design and Methods**

The study used quantitative and qualitative methods. It used a phenomenological qualitative approach to capture the degree of perceptions and understandings among the management groups of the industry, regarding the legal and regulatory issues of the reinsurance business. The researcher collected the data using survey questionnaires from a sample drawn from the two management groups of the insurance industry (Top and middle management) including the supervising authority. The questionnaires were developed after preliminary discussions with

some experienced professionals in the industry and pre-tests were made for further refinement. Stratified random sampling technique has been employed. During the preliminary survey study, the average number of top and middle level managers is estimated to be six on average for each of the companies under study. Accordingly, 50% of the management staff is included in the sample. As a result, three top and three middle level managers from each of the 12 companies were randomly selected for interview. This makes the sample to be representative of the management groups. On top of this, the sample included four staff from the supervising authority to capture any possible perception variation between insurance industries and their supervising authorities. Thus, the sample size is 76, which is approximately 50% of the population size.

The top management is defined to include: general manager, deputy general manager, department heads, director of insurance supervision directorate, and principal insurance examiner, whereas, that of middle management comprises division heads, section heads, senior officers, and senior supervisors, and senior insurance examiners. Selecting respondents from the two hierarchies has mainly taken into consideration the nature of the business, the exposure of the domains to the business and the degree of exposure to the legal and regulatory issues of the industry. The reinsurance business in its very nature is professional, skill intensive and managerial rank sensitive. The other rationale for taking the sample was time and cost constraints.

In addition to the primary and secondary data described above, additional relevant information (data) is analyzed in the area of the reinsurance legal and regulatory issues. Such information is collected from various published and unpublished papers and different websites (experience of other countries) in relation to the reinsurance business arrangement (transaction) vis-à-vis the legal and regulatory requirements. In other words, the study used the insurance laws of other developing countries as a benchmark for analysis, particularly to analyze the legal and regulatory requirements, in relation to reinsurance business transactions

To analyze whether there is an understanding gap in the Ethiopian Insurance Industry managements about regulations on the reinsurance business arrangements, the study considered the management groups as category variables and their opinion on the legal and regulatory frameworks as outcome variables. The nature of responsibilities at the two ranks (middle and top) of management is different. Whereas top managers devise strategies, policies, legal frameworks, and direct the overall operations of the insurance businesses, middle

managers are highly involved in day-to-day operations. The top management is supposed to have better knowledge about reinsurance regulations and international business features than the middle level management. This could be a source of difference in awareness and hence opinion about the legal framework between the two groups. Hence three interrelated questions were posed. The hypotheses under the three research questions in general are stated as:

- i. whether there are regulations concerning reinsurance arrangements*
- ii. Whether the Insurance Proclamation No. "86/1994" provides provisions for reinsurance business*
- iii. Whether the absence of legal and regulatory requirements is a barrier for reinsurance transaction.*

The hypothesis is exploratory and the variable is non-parametric dichotomous (2x2) nominal. Thus, the hypotheses can be tested using the Fisher's exact test (Chi-squared test of independence). In fact, for the test to be legitimate, one has to ensure that no more than 20% of the cells in the table have expected values of less than 5 and none of the expected values is less than one. In line with this, a 5% level of significance is set to test the hypotheses.

If there is a difference, it implies that the top management has the understanding about reinsurance regulations and yet (i) the reinsurance industry is operating on an ad hoc basis without a common understanding and consensus in response to arising circumstances. No common forums exist where all stakeholders can discuss common issues and petition agendas to the regulation issuing body. This is quite a basic problem which requires special attention, including government intervention with regard to policies and strategic directions. (ii) Top management does not have initiation and lack national vision leaving it up to the government. If there is no difference of perception, it means that: (i) the top management has not thought at all about the need for regulatory framework. The top management or corporate management lacks knowledge about the reinsurance business regulations and the impact thereof. Their management in the reinsurance industry is limited in scope and their decision is driven by precedents and past experience. This means the top management has knowledge gap and the same is true with operational managers (middle management). This is a sign of inefficiency. As a result, decision making (top management) needs consultation and can take quite a while.

#### 4. Findings and Discussions

Despite, all the literature and empirical evidences that financial services including insurance are the most heavily regulated in most economies, the Ethiopian insurance industry has been operating and continuing to operate in the international cross border business without the proper legal and regulatory frameworks. The Insurance proclamation No. 86/1994 (article No.37) that had been operational for almost two decades and the substitute proclamation no. 746/2012 (Article No. 54) postponed the manner in which reinsurance business may be transacted.” The recent “Reinsurance Company Establishment Directive No. SRB/1/2014) has also postponed the circumstances that the domestic insurance companies can look for foreign reinsurers. The manner and the circumstances in which insurance companies can transact with the domestic reinsurer are not also stipulated.

There are two contrasting views regarding the legal and regulatory frameworks of the reinsurance business in Ethiopia. Zeleke (2007) underlines that many in the industry have been awaiting for reinsurance business regulations; Whereas on the other hand, Zafu (2006) underlines that the country has been transacting in millions of Dollars in reinsurance business every year without problems. These different views indicate that the Ethiopian insurance has been in the reinsurance business for a number of years, not only without the regulations but also with perception differences about it. Hence, perception analyses between the two groups about the legal framework may reveal the perception gap and its extent in the industry.

To test whether there is significant difference in opinion between the two management groups, the following three null hypotheses were considered.

Ho: There is no significant opinion difference between the two management groups whether there are regulations to effect decisions on reinsurance business arrangements.

Ho: There is no significant opinion difference between the two management groups whether the Insurance Proclamation No. “86/1994 gives detail information about the manner in which reinsurance business should be transacted.

Ho: There is no significant opinion difference between the management groups whether the absence of reinsurance business regulations has hampered the reinsurance business.

The p-value associated with the Fisher’s exact test (two sided) for the first hypothesis stated above related to reinsurance arrangement, namely: terms and conditions, amount of cession, dispute resolution, reinsurance commission, reinsurance methods, and premium due settlement, is in the range from 0.337 to 1.000, which is greater than 0.05 shown on Table 1

below. This implies that not enough evidence exists to reject the null hypothesis. Hence, the result is, there is no significant opinion difference between the two management groups. This implies that the two management groups have similar understanding about whether there are regulations to execute reinsurance business arrangements, despite its absence.

**Table 1 Summary statistics of Chi-Square test “whether there are Regulations in relation to reinsurance business arrangement?”**

Test for regulation regarding...	Type of test	Value	D f	Asymp. Sig. (2- sided)	Exact Sig. (2- sided)	Exact Sig. (1- sided)
<b>Terms and conditions</b>	Pearson Chi-Square	.379	1	.538		
	Fisher's Exact Test				.584	.369
<b>Reinsurance method</b>	Pearson Chi-Square	1.192	1	.275		
	Fisher's Exact Test				.337	.224
<b>Amount of cession</b>	Pearson Chi-Square	.050	1	.823		
	Fisher's Exact Test				1.000	.540
<b>Reinsurance commission</b>	Pearson Chi-Square	.254	1	.614		
	Fisher's Exact Test				.732	.441
<b>Dispute Resolution</b>	Pearson Chi-Square	.084	1	.772		
	Fisher's Exact Test				1.000	.511
<b>Premium due settlement</b>	Pearson Chi-Square	.050	1	.823		
	Fisher's Exact Test				1.000	.540

The p-value associated with the Fisher’s exact test (two sided) for the second null-hypothesis is 0.405, greater than the null hypothesis at 0.05 significance level shown on Table 2 below. This implies that not enough evidence exists to reject the null hypothesis. Hence, the result suggests that the management groups have similar opinions on the Insurance Proclamation, No.86/1994.

**Table 2 Chi-Square tests for the Insurance Proclamation No. "86/1994" Whether it provides provisions with regard to reinsurance business arrangements?**

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
<b>Pearson Chi-Square</b>	.870	1	.351		
<b>Continuity Correction</b>	.422	1	.516		
<b>Likelihood Ratio</b>	.872	1	.350		
<b>Fisher's Exact Test</b>				.405	.258
<b>Linear-by-Linear Association</b>	.853	1	.356		
<b>N of Valid Cases</b>	51				
<b>Computed only for a 2x2 table, 0 cells (.0%) have expected count less than 5. The minimum expected count is 10.35.</b>					

The p-value associated with the Fisher's exact test (two sided) for the third hypothesis stated above is 0.606 greater than the null hypothesis at 0.05 significance level shown on Table 3 below can't be rejected, inferred that both middle and top managers seem to have more or less similar opinion regarding the effect of absence of explicit law related to reinsurance business. This is contrary to the expectation that top managers (being architect of their company policy) have better understanding of the legal environment and its impact than middle managers.

**Table 3. Chi-Square Tests for the absence of legal and regulatory requirement**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
<b>Pearson Chi-Square</b>	.385 <sup>a</sup>	1	.535		
<b>Continuity Correction<sup>b</sup></b>	.129	1	.719		
<b>Likelihood Ratio</b>	.386	1	.535		
<b>Fisher's Exact Test</b>				.606	.360
<b>Linear-by-Linear Association</b>	.379	1	.538		
<b>N of Valid Cases</b>	59				
<b>Computed only for a 2x2 table, 0 cells (.0%) have expected count less than 5. The minimum expected count is 10.35.</b>					

The p-value associated with the Fisher's exact test (two sided) for all the above hypotheses is greater than the null hypothesis at 0.05 significance level as shown on Table 1, 2 and 3 above. Hence, in general all the inferential results of the analyses show no significant difference between the management groups on the Ethiopian insurance regulatory frameworks. These imply that the top management which is responsible for devising policies, strategies and regulations has no significant awareness difference from the middle management that is responsible for day to day operation of the business. The qualitative analyses results reveal also not only that the industry is without clear-cut procedures and directives that are consistent and transparent to all the stakeholders, but also that a good number of respondents from both the management groups are not aware of the merits and demerits of the reinsurance business regulations and the impact thereof. In sum, the perception problem persists in both levels of management. This implies the firms in the industry are intuitively operating the way they perceive issues. As a result, the Ethiopian insurance industry is unable to benefit from the regulation despite all the potential benefits that the industry in particular and the country in general can gain from it.

This in return reveals that the Ethiopian insurance industry is engaged in the international industry with no or little regulatory frameworks related to the reinsurance business. This means the Ethiopian insurance industry is competing in international business without adequate legal frameworks. From this it can be concluded that the problems of the industry in relation to the cross border reinsurance performance emanates basically from lack of awareness of the circumstances of cross border reinsurance business and the implications thereof by the industry. Wang (2003) and UNCTAD (2007) in this regard emphasize the importance of appropriate regulatory frameworks regarding the reinsurance business. These authors stress, unless reinsurance business arrangements are appropriately regulated, it would inevitably lead to insolvency and disorderly fate of primary insurers and the economy of developing countries at large.



## 5. Conclusion and Recommendations

All the inferential results show dearth of awareness differences between the management groups of the insurance industry regarding reinsurance business regulations. The qualitative analyses results reveal not only that the industry is without clear-cut procedures and directives that are consistent and transparent to all the stakeholders, but also that a good number of respondents from both the management groups are not aware of the merits and demerits of the reinsurance business regulations and the impact thereof. This in turn implies that perception problem persists in both management levels which makes the issue worse. The fact that the industry has been operating long in the international business of reinsurance without any regulation makes most policy makers and operators in the industry inattentive and oblivious about its immense implications.

In line with the regulatory framework however, many developed and developing countries including African countries such as Ghana, Tanzania, Nigeria, Kenya, Egypt, etc. do have regulations and legal frameworks for reinsurance business and for minimum capital requirements for the three types of insurance businesses: Life Insurance, Non-life Insurance and Reinsurance. The new Ethiopian Insurance Business Proclamation No. 746/2012 issued August 2012 has also postponed the manner reinsurance business may be transacted like its predecessor and the capital requirement, directives promised to be issued by the Bank. Besides, the recent Reinsurance Company Establishment Directive No. SRB/1/2014 has also postponed the circumstances that domestic companies can look for foreign reinsurers. On the other hand, the manner and the circumstances in which insurance companies can also transact with the domestic reinsurer are not stipulated.

Moreover, it is learned that the industry uses IT, database and other enabling resources to manage and analyze its risks. Besides, the industry is undercapitalized to uphold higher risks leaving over larger portion of premiums from big investment projects to be shared by cross-border reinsurers. The oldest and biggest public owned Ethiopian Insurance Corporation (EIC) constitutes capital around Birr 61million or USD 3million with all the properties and the potentials it had to expand. The absence of reinsurance business regulations combined with vague awareness about these regulations and thin capital has negative impacts on the industry, the reinsurance business and in turn on the financial sector and the economy. As a result, performance of the Ethiopian insurance industry is far behind in terms of the performance measurements. Moreover, there are indications from other literature sources, that there is little

attention from the government's side especially with issues related to policies, strategies that have seldom addressed the industry. . It is learned that the industry lacks a clear cut strategy that the three Ethiopian strategies (SDPRP, PASDEP and GTP) have paid little attention to it. All these lead to the conclusion that the industry is currently operating viciously without direction and with little dynamism. Thus, to enable the industry to play a leading role in the economic development and in supporting the economy, strategic directions and appropriate regulatory frameworks, specifically in relation to the reinsurance business have to be in place.

It is welcoming that recently NBE issued a directive for the establishment of a reinsurer company in Ethiopia. Establishing a National Reinsurance Company (NRC) is a positive venture to the country that has been waiting long. However, for the well positioning of the company it would be wise to mention a few of the enabling situations in the industry and in the country.

- (1) There should be a world standard regulation that can govern the industry including the cross border reinsurance arrangements or environment of circumstances and companies' capital base requirements.
- (2) The recent directive on the minimum capital requirement for insurance companies is still minimal to uphold the upcoming economic growth and business risk classes. Strong capital base can in turn help companies to absorb a higher risk and also transact inward from neighboring countries.
- (3) The industry and the government combined must put strategies in place that can consider the country's expansionary policy, regional integration, economic ties, and climate change and green economic growth strategies.
- (4) The NRC should be designed not only as a business but also as a center of research and development where rigorous training and human resources development can be conducted to mitigate shortage of professionals in the industry
- (5) Besides, the Industry must be strengthened with database and information management systems (ICT) where reinsurance arrangements must be based on serious data analysis.
- (6) The industry should take an initiative to collaborate stakeholders in the finance sector for the formation of the NRC. Collaborative mentality is essential where companies can work as one to absorb most and large volume of risks and minimize ceding and also work towards making insurance and saving culture of the society and contributing to strategic investments.
- (7) Special attention must be given to the life insurance or (Long term) as it can be used as a source for long term investments. Many literatures pronounce the contribution of life

insurance to countries' economic growth. Hence, the NRC should develop its strategy centered mainly on general or non-life insurance.

(8) Establishing strong insurance firms, associations and forums can also help the industry to discuss common problems and take them up to the regulatory and government bodies.

(9) Last but not least, this study proposes the following future studies that can contribute to the competitiveness of the industry.

- In most cases, it is common in Ethiopia that when a new bank is formed, establishment of an insurance firm as a sister company follows immediately. Thus, studying the rationale for and the impact on the insurance industry is important.
- Most reinsurance businesses are mediated by insurance brokers. Hence, studying the rationale and fairness of distribution of the gross premium among the three stakeholders namely: Insurer, broker and reinsurer would be vital.
- Moreover, the rationale of the methods of reinsurance and the bargaining power of the insurance industry of developing countries should also be studied.

## Reference

- Alamirew, M. 2006. 'Modality for forming National Reinsurance Company', *Journal of the Society of Insurance Professionals*, 3(1): 13-17.
- Ethiopian House of Representatives. 1994. Proclamation No.86/1994: Licensing and Supervision of Insurance Business. Addis Ababa: Berhanena Selam Printing Press 53(46) 275-291.
- Ethiopian House of Representatives. 2012. Proclamation No.746/2012: Licensing and Supervision of Insurance Business. Addis Ababa: Berhanena Selam Printing Press 18(57) 6462-6496
- National Bank of Ethiopia (NBE). 2014. Licensing and Supervision of REINSURANCE BUSINESS, Reinsurance Company Establishment Directive No. SRB/1/2014. Addis Ababa: National Bank of Ethiopia.
- Imperial Ethiopian Government. 1960. Commercial Code of the Empire of Ethiopia. Addis Ababa: Berhanena Selam Printing Press.
- Imperial Ethiopian Government. 1970. NEGARIT GAZETA, Proclamation, No. 281/1970, Insurance Proclamation, 30th year, No.2. Addis Ababa: Berhanena Selam Printing Press.
- Imperial Ethiopian Government. 1971. NEGARIT GAZETA, Legal Notice, No. 393/1971, Insurance Regulations, 30th year, No.14. Addis Ababa: Berhanena Selam Printing Press.
- Irukwu, J.O. 1987. Insurance Law in Africa: Cases, Statutes and Principles. London: Witherby & Co.Ltd.
- UNCTAD. 2007. Trade and development aspects of insurance services and regulatory frameworks. New York and Geneva: UNCTAD. (UNCTAD/DITC/TNCD/2007/4).
- Wang, W.H-C. 2003. Reinsurance Regulation: A Contemporary and Comparative Study. International Banking, Finance and Economic Law Series. The Hague: Kluwer Law International.
- Woubetu, W. 2006. 'Need for National Reinsurance Company for Ethiopia', *Journal of the Society of Insurance Professionals*, 3(1): 7-11.
- Williams, C. Arthur, Richard, Jr. and Heins, M. 1985. Risk Management and Insurance. 5th edition. MacGraw-Hill.
- Zafu, Z. 2006. 'Strategic Issues in Considering A National Reinsurer for Ethiopia', *Journal of the Society of Insurance Professionals*, 3(1): 19-24.
- Zeleke, H. 2007. Insurance in Ethiopia: Historical Development, Present Status and Future Challenges. Addis Ababa, Ethiopia. Master Printing Press P.L.C.