Insurance innovation portrait

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A2ii	Access to Insurance Initiative
AEI	Association of Ethiopian Insurers
CPCD	Change Management, Planning and Communications Directorate
EATS	Ethiopian Automated Transfer System
EIC	Ethiopian Insurance Corporation
FIS	Financial Inclusion Secretariat
FSD	financial sector deepening
GDP	gross domestic product
GEQIP II	General Education Quality Improvement Programme II
GII	Global Innovation Index
GSMA	Global System for Mobile Communications Association
GWP	gross written premiums
IAA	International Actuarial Association
IAIS	International Association of Insurance Supervisors
IBLI	index-based livestock insurance
ICASA	Independent Communications Authority of South Africa
ICT	information and communications technology
ILRI	International Livestock Research Institute
ISD	Insurance Supervisory Department
IT	information technology
IWUA	Irrigation Water Use Association
LNO	letters of no objection
MNO	mobile network operator
NBE	National Bank of Ethiopia
NFIS	National Financial Inclusion Strategy
NICE	National Insurance Company of Ethiopia

R&D	research and development
R3Lab	Risk, Resilience and Regulatory Lab
RuSACCO	rural savings and credit cooperative
MSME	micro, small and medium enterprise
SSA	sub-Saharan Africa
STEM	science, technology, engineering and mathematics
UNDRR	United Nations Office for Disaster Risk Reduction
USD	United States dollar

Executive summary

This report sketches an insurance innovation portrait for Ethiopia. It forms part of an eight-country study to determine what regulators can do to unlock innovation at scale and meet key insurance needs in sub-Saharan Africa.

Sector expansion and development defined by 1990s liberalisation. The insurance sector in Ethiopia has been shaped by the financial sector liberalisation and market reforms that took place in the early 1990s. These reforms dismantled the state-driven monopoly, opened the market for privately owned insurance companies to enter, and encouraged assistance from international development donors to support the growth of the insurance sector. As of 2021, the insurance market comprises 18 insurance providers, including a reinsurance company, and caters for an estimated 1.2 million insurance policyholders (Stakeholder consultations, 2022)[1].

Insurance sector remaining underdeveloped with limited retail reach. While market liberalisation prompted enhanced competition, this has yet to translate into broader and deeper access to insurance. Ethiopia continues to have one of the smallest insurance markets in SSA in terms of penetration rates, with premiums largely concentrated in general insurance and primarily driven by compulsory lines such as third-party motor vehicle insurance. While life business in Ethiopia holds about 5% of the market share, this figure is relatively miniscule compared to non-life business, thus signalling an underdeveloped voluntary retail market. With historically underserved segments such as farmers and MSMEs still without insurance, a clear need continues to exist for significant and accelerated market development to take place in Ethiopia.

Limited innovation observed beyond donor-led pilots. The low uptake of formal insurance, yet popular use of informal risk-pooling mechanisms such as edirs, suggests latent consumer demand that could be tapped through value-driven market innovation. However, while a few product innovations have been developed, these have not been successful at better serving the excluded. For example: international donors have entered into partnerships with incumbent insurers to pilot agriculture index-based insurance to cover farmer risks, but capacity constraints have undermined long-term sustainability. Furthermore, while insurance players are working to digitalise their service offerings and to partner with alternative distribution partners like MNOs, limited success has been observed to date due to the high level of risk aversion and weak capacity of Ethiopian insurers.

An increasingly enabling environment but with constraints remaining. The big innovation gaps left in the market suggest room for incumbents, new entrants and insurtechs to better serve Ethiopian individuals and businesses to increase insurance uptake. Yet, an assessment of the innovation-enabling ecosystem shows that, while

1 This figure does not include community health insurance policyholders.

some factors bode well for innovation, key elements continue to constrain market development:

- Expanding and increasingly competitive payment and ICT sectors, respectively, provide scope for more efficient and alternative distribution channels, such as via mobile money; but poor electricity access and reliability exacerbate weak digital connectedness, thereby hampering the scope for viable insurance distribution through digital channels.
- Severe skills shortages prevail in terms of both insurance-specific skills (e.g. actuarial skills) and basic STEM qualifications, despite numerous state initiatives. While the local start-up ecosystem is expanding, a focus on insurtech development remains to be seen.
- Insurtechs struggle to outcompete paytechs for seed capital, while incumbent players lack financial resources to invest in product development due to conservative boards, weak access to capital and the unavailability of requisite skills.
- There is a strong demand for informal risk mitigation tools, but low trust, limited awareness and low incomes limit uptake of formal insurance.
- Alternative distribution channels, such as MNOs, are yet to be explored, while others remain inaccessible due to regulatory barriers such as constraints on bancassurance.
- The regulatory framework does not yet provide clear guidance regarding digitalised insurance, microinsurance and leveraging alternative distribution channels. More broadly, the remaining restrictions on foreign participation limit the scope for innovation.
- While the Insurance Supervisory Directorate (ISD) supports market development, its lack of independence from the National Bank of Ethiopia hinders its ability to prioritise innovation, adjust supervisory frameworks for greater flexibility and engage more proactively with market players.

Seven action plan recommendations to support and prioritise market development. Although its lack of independence constrains its capacity and power to prioritise market development, it is imperative that the ISD takes advantage of opportunities to tailor its regulatory framework and to empower market players to innovate for greater inclusion and insurance penetration. To inform where and how the ISD should focus its attention, seven action plan recommendations are put forth for implementation in collaboration with FSD Africa:

1. Tailor regulatory landscape to boost inclusion

- Amend microinsurance guidelines to create a more enabling microinsurance environment.
- Introduce bancassurance regulation as a long-term objective to expand distribution channels for insurance.

2. Enable digitalised insurance through clear regulation and guidance

Clarify the provision of digital insurance through directives: develop directives for e-signatures, remote onboarding and alternative distribution partnerships.

3. Proactively communicate with the market

Better leverage workshops, seminars and other existing channels to promote knowledge exchange and sharing for positive feedback loops.

4. Identify and align key strategic priorities

- Identify and align strategic priorities between the ISD and other relevant NBE departments.
- Develop an insurance innovation workplan for Governor approval.
- Position the workplan with the NBE and wider ecosystem.
- Over the medium to long term, take steps towards creating an independent insurance regulatory authority, with industry and international donor support.

5. Encourage exit strategies for donor-led innovation programmes

Proactively encourage the development of realistic exit strategies between donors and insurance companies as prerequisites for product piloting application and approval.

6. Upskill the ISD and industry

- Promote technical assistance to address actuarial and underwriting skills gaps.
- Participate in peer exchanges to inform supervision approach.

7. Digitalise ISD supervisory processes

Digitalise supervisory processes, such as product approval and licensing, to allow for a more streamlined and enabling insurance environment.

1. Introduction and problem statement

Innovation is key to increasing insurance penetration in Africa. Despite recent improvements, insurance penetration across sub-Saharan African (SSA) markets remains low, at 2.78%, compared with the global average of 7.3% (Signe, 2021). Innovation is needed to change this picture: to enhance the value proposition of insurance, a new take is required on systems, product design, distribution and claims. Yet, while there is no lack of innovation on the continent[2], achieving the required scale of innovation is inhibited by foundational challenges relating to, among others, infrastructure, partnerships, skills, payment streams, seed funding and behavioural barriers to adoption (Cenfri, 2021). In short, for insurance innovations to flourish, a conducive innovation ecosystem or enabling environment is needed. While not all aspects of the enabling environment are within the regulator's control, more and more regulatory authorities, globally, have an implicit or explicit market development mandate (A2ii, 2020). Acting on this mandate means taking stock of the challenges to innovation and wielding the full suite of tools at the regulator's disposal to support innovation.

Need to balance risks with the rewards of innovation. With innovation also comes risks. For example: data protection risk can arise where client data could be accessed by unauthorised parties, and new selling practices can create market conduct risk if not carefully managed. The reality of these risks implies that, for a market to benefit from the rewards of innovation, insurance regulators need to strike a balance between fostering an enabling environment for innovations to thrive and reach consumers, and protecting the market against any undue risks that may be associated with market development. Indeed, proactive and proportionate management of the risks arising from innovation (such as data breaches or cybercrime) is core to maintaining the integrity and sustainability of innovation. Striking this balance aligns with the principle of proportionality in the face of digital innovation as put forth by the IAIS[3]. To maintain a conducive but safe environment for innovations to thrive, supervisory responses need to evolve and adapt to the ever-changing realities of innovative industries.

Several potential tools. Not all supervisory responses require changes to regulation. There are four categories of tools at regulators' disposal to strike the balancing act, namely engagement tools, regulatory tools, supervisory tools and monitoring tools (see Box 1).

2 For example, as shown by Cenfri's insurtech tracker database.

3 The use of digital technology in inclusive insurance, IAIS (2018).

Box 1: Regulating for innovation framework

Insurance regulatory authorities tasked with the balancing act of regulating for responsible innovation can use four sets of tools, as outlined in the diagram and discussion below:

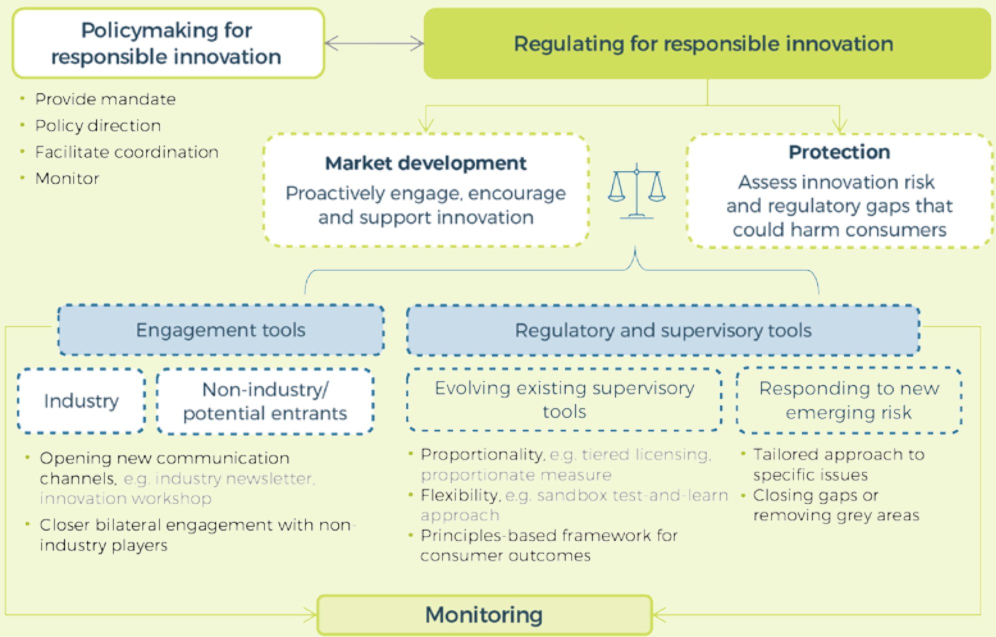

Figure 1: Regulating for innovation framework

Source: Cenfri, FSD Africa and FSD Uganda, 2021 – Regulating for Innovation Toolkit

- **Regulatory tools** entail adjustments to regulatory instruments, such as issuing guidance or updating licence categories. This set of tools can also include tiered, proportionate licensing requirements, adopting a principles-based framework for consumer outcomes or using letters of no objection (LNOs) as a test-and-learn mechanism.
- **Supervisory tools** refer to any evolution of existing supervisory processes, for example by updating the licensing or product approval process, incorporating a risk-based market supervision framework or implementing new supervisory mechanisms such as setting up a sandbox.
- **Engagement tools** include proactive engagement with and signalling to industry, for example via the hosting of innovation workshops, an industry newsletter, engaging with innovation hubs or accelerators, or explicitly following an open-door policy. Importantly, such engagement would extend not only to incumbent market players but also to potential new entrants.
- Finally, **monitoring** key innovation indicators will inform whether the other tools are fit for purpose and whether they need to be adjusted to ensure a regulatory environment that is conducive to innovation.

1.1. Project overview

Innovation and regulatory portraits to inform the balancing act. To support insurance regulatory authorities in sub-Saharan Africa in striking the balance between innovation and risk, FSD Africa has set up the R3Lab – a risk, resilience and regulatory lab – as a platform for capacity building and peer exchange among regulators. To inform the work of the R3Lab, FSD Africa has commissioned a study to review and assess the state of innovation in eight countries in SSA, take stock of the challenges or barriers to further innovation, and conclude on a tailored innovation action plan for each country.

Project approach. A two-pronged approach is used to complete the innovation and regulatory portrait for each country:

- Firstly, desktop research and key informant interviews[4] are used to produce an innovation gap assessment of the insurance market across six key innovation-enabling environment factors: (i) underlying infrastructure, (ii) access to finance, (iii) access to talent, (iv) supply-side and demand-side market enablers, (v) the regulatory environment and (vi) supervisory support. Further discussions with the regulatory authority are then used to inform a regulatory review and institutional assessment aimed at mapping the regulator's supervisory processes and capacity to enable the required level of industry support.
- Secondly, insights from the gap assessment and regulatory and institutional review are synthesised into action plan recommendations, aimed at identifying the most appropriate interventions and accompanying tools to respond to the identified innovation gaps. These action plan recommendations form the basis for the journey that FSD Africa will walk with each regulator under the R3Lab.

Portrait structure. This report sketches the insurance innovation and regulation portrait for Ethiopia as one of the eight focus countries. It is divided into two overarching sections corresponding to the two main elements as outlined above. The first is the innovation gap assessment (Section 2), which is broken down into three main sub-sections:

- **The current state of insurance innovation:** This section considers Ethiopia's insurance landscape with a specific focus on innovation in the market. It highlights the state of innovation in the established/traditional insurance sector, as well as trends in the insurtech sector.
- **Enabling environment assessment:** This section assesses the insurance innovation ecosystem in Ethiopia against each of the six elements noted above, and it outlines the scope for innovation going forward.
- **Key gaps and barriers:** From the above, we conclude on the key gaps and barriers, as well as opportunities for insurance innovation in Ethiopia.

Section 3 then develops innovation action plan recommendations for Ethiopia. Section 4 concludes.

4 With regulatory authorities, established insurance market players, associations, accelerators and insurtechs. A full list of stakeholders consulted for the Ethiopia portrait can be viewed in the Appendix.

2. Innovation gap assessment

2.1. Current state of insurance innovation

2.1.1. Snapshot of the insurance market

Early 1990s marked transformation in Ethiopia's financial sector. From the mid-1970s to the early 1990s, the financial sector in Ethiopia was marked by nationalisation that established state-owned monopolies and limited market development incentives (Kotiso, 2019). Liberalisation was introduced in 1994 through the promulgation of the Monetary and Banking Proclamation (No. 83 of 1994) and the Licensing and Supervision of Insurance Business Proclamation (No. 86 of 1994), which paved the way for the Ethiopian financial sector to transition into a market economy (Addison & Geda, 2002). Key developments during this period of deregulation included the liberalisation of interest rate controls, market-based foreign exchange determination, and the entry of privately owned financial service providers (Addison & Geda, 2002).

Financial sector liberalisation created a pathway for insurance sector reforms and development. Following the financial liberalisation process of the 1990s, the insurance sector similarly underwent notable reforms. One of the most significant reforms during this time involved the opening up of the market and the end of the state-owned Ethiopian Insurance Corporation's (EIC) 14-year tenure as a monopoly (Kotiso, 2019). By 2004, there were nine players in the market, including seven composite insurers and two general insurers (NBE, 2005). In 2016, Ethiopian Reinsurance entered the market as the first reinsurance company (NBE, 2005). Today, there are 18 insurance companies and one reinsurer. The EIC continues to play a prominent role, accounting for 44% of market share, and the top five market players represent more than half of the market share, as seen in Table 1 (EIC, 2015; AEI, 2020; Offsite NBE report, 2022).

Rank	Insurers	Market share (GWP)
1	Ethiopian Insurance Corporation	44%
2	Awash Insurance	8%
3	United Insurance	5%
4	Nyala Insurance	5%
5	Africa Insurance	5%

Table 1: Top 5 Ethiopian insurers by gross written premiums (GWP)

Source: (EIC, 2015; AEI, 2020; Offsite NBE report, 2022)

Insurance sector remains underdeveloped, with limited rural reach. While financial sector liberalisation triggered much-needed competition in the insurance market, its impact on broadening and deepening insurance penetration[5] has been limited. Although penetration consistently rose between 1994 and 1997 – from 0.42% to 0.8% – notable fluctuations and even declines have been observed since then (St Louis Federal Reserve Bank, 2022; NBE, 2005; NBE, 2021), as shown in Figure 2. For instance, between 2003 and 2017, insurance penetration in Ethiopia dropped from 0.67% to 0.41%, a rate historically lower than even post-market reform levels. Ethiopia's current penetration is also markedly low compared to leading SSA markets such as Kenya (2%) and South Africa (13%). In terms of uptake, low penetration has translated into less than 10% of people owning any form of insurance, with individuals who reside in rural areas even less likely to access and use insurance (World Bank, 2015a). To date, approximately 55% of insurance branches in Ethiopia are concentrated in Addis Ababa, catering only for around 3% of the Ethiopian population (NBE, 2021; World Population Review, 2022).

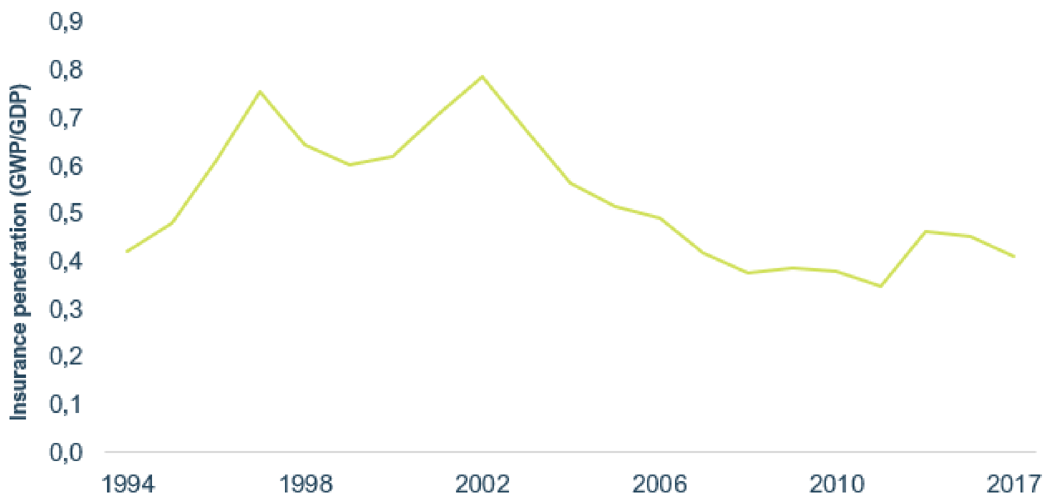

Figure 2: Ethiopia's insurance penetration (gross written premiums as a proportion of gross domestic product)

Source: (St Louis Federal Reserve Bank, 2022; NBE, 2021; NBE, 2005)

Non-life insurance dominates, with retail life virtually non-existent. General insurance accounts for approximately 95% of premiums in Ethiopia, with life insurance contributing only about 5% of premiums by comparison (Stakeholder consultations, 2022). As shown in Figure 3, compulsory insurance dominates general insurance business, with four insurance classes (motor insurance, fire, engineering and liability) accounting for nearly 64% of GWP (Stakeholder consultations, 2022). In 2020, motor insurance accounted for the lion's share of non-life insurance at 46.5%, followed by others (2.3%) and fire insurance (7.3%) (Stakeholder consultations, 2022). This market composition suggests that, while the market has expanded, it remains largely limited to corporate clients, with only nascent penetration into the retail and life industry.

5 Measured in terms of gross written premiums as a proportion of GDP

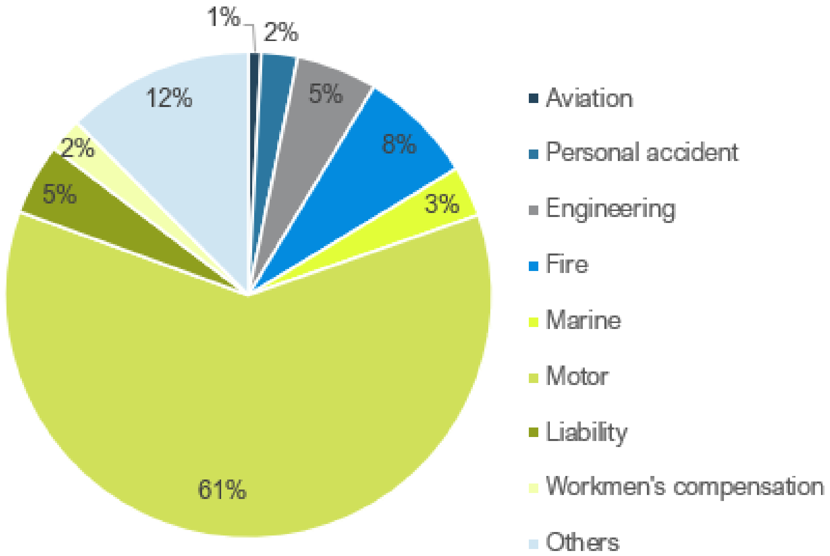

Figure 3: GWP by insurance product type in 2020

Source: (AEI, 2020)

In summary, as outlined in Box 1, these indicators suggest that, despite its history of market reform and development, the Ethiopian insurance sector remains relatively underdeveloped, with its potential yet to be fully tapped.

Box 2: Stages of market development in SSA

Research conducted by Cenfri across SSA has shown that the insurance market can be classified into four stages of market development, with each stage roughly correlated with economic development, as depicted in the graph below. Therefore, countries at lower levels of GDP per capita are typically ranked in an earlier stage of development.

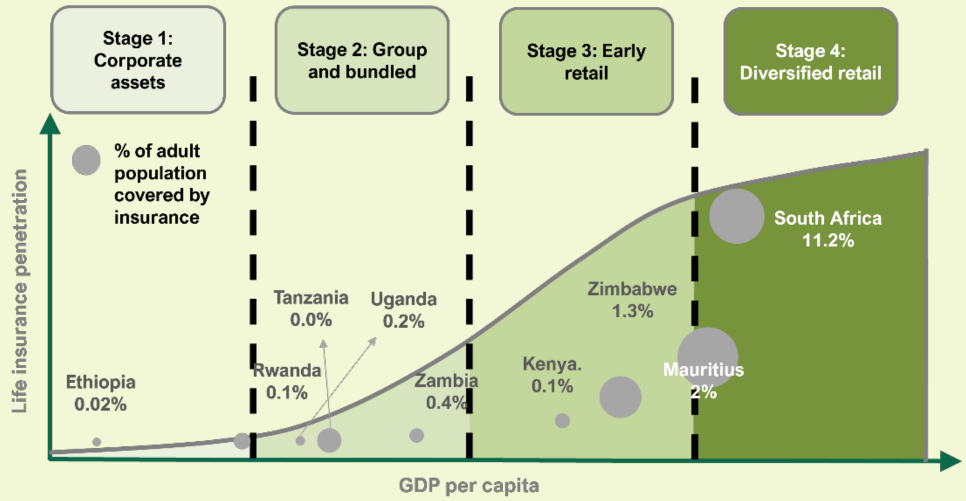

Figure 4: Insurance market development heuristic for select SSA countries (2020)

Source: (Chamberlain, et al., 2017; SIGMA, 2020)

Stage 1: Establishment and corporate assets. Corporate asset insurance dominates and is usually provided by foreign insurers, such as in large extractive industries. Insurance contracts in the market cover mostly short-term liabilities, which are annually renewable. Investment portfolios of insurers typically consist of real estate and bank deposits. The enabling environment for insurance market development is being established, and local skills and capacity are limited.

Stage 2: Early growth and compulsory insurance. Compulsory retail, credit insurance and some group-based retail products emerge. As economic welfare increases, the increase in number of cars on the road often sees the introduction of compulsory motor third-party liability insurance. The development of the formal credit market drives the need for credit insurance, and group-based employee benefit products start to gain traction. Risk cover is still mostly short term. There is limited diversification in investment portfolios of insurers, which still mainly consist of real estate and bank deposits, with some allocations to shorter-term government securities. In Stage 2, mobile insurance emerges. While insurance take-up increases in Stage 2, it remains relatively non-voluntary.

Stage 3: Retail expansion. Generally, limited individual retail sales still exist in the market, but voluntary sales and life insurance are starting to take off as consumers become more aware of the value of insurance offers. Furthermore, as the middle class grows, income levels can support insurance purchases. The uptake of longer-term insurance contracts emerges as the popularity of life insurance and contractual savings increases. The investment portfolios of insurers become more diversified, with greater allocations to government securities. Substantial allocations to real estate and bank deposits remain. Transformation is also witnessed in regulation, with economies pushing for compliance with international standards.

Stage 4: Diversified retail. Stage 4 sees the development of a diversified retail insurance market across income segments, distributed through group and individual sales, with an increasing contribution by voluntary sales. The market share of domestic insurers improves, and niche insurance products emerge. Investment portfolios become more diverse. Competitive allocations across equity, corporate bonds and government bonds result in efficient and diversified investment portfolios.

While Ethiopia's introduction of third-party motor insurance in 2013, coupled with the insurance sector expansion, is representative of a market already in Stage 2 of development, the low GDP per capita (USD936) *(World Bank, 2020)* and nascent life market is indicative of early-stage market development.

Source: (Chamberlain, et al., 2017; SIGMA, 2020)

Most distribution is branch based. While brokers and agents are mandated to distribute insurance, most insurance premiums (85%) are accrued through direct selling via branch and head offices (World Bank, 2019). Approximately 15% of premiums are generated between agents and brokers (World Bank, 2019). This suggests that alternative distribution channels, such as mobile phones or retailers, have yet to be explored or leveraged by market players.

Prevalence of informal insurance signalling latent demand. Despite low penetration of formal insurance, there are indications of latent demand for risk mitigation in Ethiopia. According to a World Bank study, about 79% of surveyed households ascribed to a form of informal insurance institution called an edir. Edirs are traditional community groups whose members make monthly contributions and receive benefits during adverse events (mainly deaths of family members). Benefits from edirs are either monetary or in-kind benefits (World Bank, 2018). The prevalence of informal insurance indicates that low insurance penetration does not necessarily mean that there is no potential demand for insurance; instead, it underscores a lack of reach and product diversity, as well as limited perceived value for formal market product offerings.

In summary: Ethiopia's market largely untapped. Ethiopia's financial liberalisation in the early 1990s has not yet translated into significant growth and development in the insurance market. Rather, the insurance sector is characterised by very low insurance penetration, a lack of diversified distribution channels and a non-existent retail insurance market, meaning that a high share of Ethiopians remain unreachable for formal insurers and opt for informal risk mitigation mechanisms instead. To transform the insurance landscape, new ideas and approaches are needed to disrupt the business-as-usual nature of insurance in Ethiopia.

The following sub-section outlines the current state of innovation in the insurance sector to understand the gaps and opportunities for innovation.

2.1.2. State of innovation in the insurance sector

2.1.2.1. State of innovation in the traditional insurance sector

Insurance innovations largely agriculture focused and donor driven. To date, product innovation and market development in the insurance sector have been characterised largely by externally driven donor-led pilots in the agricultural sector. Aimed at mitigating the harmful effects of climate change on livelihoods, a number of these pilots have involved index-based[6] microinsurance products launched in partnership with incumbent insurers. For example, in 2012, the International Livestock Research Institute (ILRI) introduced the Index-Based Livestock Insurance (IBLI) product to provide coverage to pastoralists in the event of animal food scarcity (Lung, 2021). In 2006, the World Bank facilitated a pilot project on weather-based index insurance for rainfall risks associated with maize production in partnership with the EIC (Smith & Chamberlain, 2010). In the same period, a partnership between the World Food Programme, Axa Re and the Ethiopian Government was introduced to offer coverage to farmers against extreme droughts. The policy was constructed around calibrated rainfall data from 26 weather stations in Ethiopia, and pay-outs were to be triggered by a significant drop in rainfall below historic rainfall averages in the period March to October 2006 (Smith & Chamberlain, 2010). Despite the potential of these pilots, few have managed to achieve sustainability, due to implementation constraints relating to both the capacity of local incumbent partners and high distribution and operational costs.

Industry-led innovation slow to emerge. Beyond donor-led pilots, broader product innovation by incumbents aimed at reaching untapped consumer markets remains nascent and largely focused on slowly entering the life insurance market. Nib Insurance is a key example of an insurer that prioritises life insurance as part of their innovation strategy (Stakeholder consultations, 2022). Beyond life, examples of notable product innovations are much rarer. For instance, in 2021, Nyala Insurance and Ethio Telecom partnered to launch the first mobile insurance in Ethiopia, Le Mobile. This product provides smartphone owners with cover in the event of damage or theft and enables premium payment via Ethio Telecom airtime (Teshome, 2021). According to stakeholder consultations, Nib Insurance also plans to partner with local technical service providers to digitalise the member records of edirs to inform the design, and distribution of, group-level micro health insurance members (Stakeholder consultations, 2022). While these innovations are positive steps to develop the market, historically underserved markets, such as MSMEs and women, remain weakly targeted by insurers.

6 Index-based is an approach to insurance provision where pay-outs are based on an easy-to-measure index of factors that are closely correlated with agricultural production losses, such as rainfall or temperature. This approach is attractive in developing countries where the fixed costs of verifying claims for many small farms makes conventional insurance too costly (Conradt, et al., 2015).

Microinsurance considered prime innovation but wide provision yet to be seen. Many stakeholders consider the formal introduction of microinsurance in 2021 as one of the most prominent examples of market development to date (Stakeholder consultations, 2022). Yet, as of 2022, based on desktop research, only five insurers[7] are offering microinsurance (Nyala Insurance, 2022; Oromia Insurance, 2022). In an earlier study, it was estimated that only 2% of the adult population (1.83 million) owned any form of microinsurance (Bulti, 2018).

Digitalisation of processes and systems limited. Insurance providers are starting to digitalise insurance services, albeit slowly, given that most players do not yet have integrated digital systems. While a number of players have developed websites to advertise their product offerings, such as Bunna Insurance and Berhan Insurance, few insurers have enabled their sites to support basic services such as remote sales and digital claim management. The 2021 partnership between General Insurance and Ethio Life and Beyontec, an insurance technology service provider, is one key example of an insurer that has endeavoured to digitalise their service offerings by selling products online as well as streamlining their customer engagements (Business Wire, 2021).

2.1.2.2. State of the insurtech sector

Lack of homegrown insurtechs. As of 2019, only four insurtechs were actively operating in the Ethiopian insurance industry (Cenfri, 2019). The majority of these insurtechs reported that they cater for farmers in the agriculture sector, offering digitalised claims processing (3), premium collection (2), sales (3) and product development services (2) (Cenfri, 2019). The paucity of tech-driven new entrants in the insurance sector reflects a lack of homegrown entrepreneurship in this space. Kifiya, an Ethiopian insurtech established in 2010, remains the only local insurtech currently operating in the market, with no recent entrants identified through desktop research.

Box 3: Overview of Kifiya

Established in 2010, Kifiya is a digital finance and payment services provider that leverages innovative technology to build and enable distribution channels that make financial and non-financial services affordable and accessible. Specifically, Kifiya utilises innovative technology to enable and provide electronic, branchless banking and mobile money services. Its service offerings are in payments, savings and microinsurance. It offers crop insurance as well as index-based livestock, hospital cash and funeral services. Kifiya has partnered with Oromia Insurance to provide crop insurance. Since its inception in 2016, 12,000 smallholder farmers have taken up the crop insurance and 5,300 farmers have received pay-outs. Kifiya has also created a microinsurance cloud platform that allows insurance companies to underwrite, sell and manage policies, and pay out claims digitally. This functionality has yet to be fully rolled out.

Source: (Devex, 2022; UNDRR, 2022)

7 The five insurers offering microinsurance are Nyala Insurance, Oromia Insurance, EIC, Abay Insurance and Africa Insurance Company.

2.1.3. Remaining gaps

A need for greater innovation to broaden insurance uptake. This section has shown that, despite its history of financial sector liberalisation and reform, the insurance industry in Ethiopia remains relatively underdeveloped, with a virtually non-existent voluntary retail market. While efforts have been made to innovate, the impetus to do so has largely stemmed from international donors who struggle to ensure the sustainability of pilots among complacent insurers or have been targeted at serving employed and corporate clients. In light of Ethiopia's significantly low penetration rate, a new approach to insurance and market development is needed to catalyse greater uptake by consumers and to enable the formal market to tap into latent demand currently being served by informal edirs. A shift away from the business-as-usual approach requires:

- better, more streamlined systems and processes
- products tailored to the needs of un(der)served market segments, like MSMEs
- more effective ways of reaching both easy and hard-to-reach client segments
- more proactive client outreach through channels that consumers know and trust.

To promote this shift towards customer-driven innovation, it is necessary to first understand the level of enablement offered by the current innovation ecosystem. Such an understanding then allows interventions to be designed to target the specific gaps and challenges identified.

2.2. Enabling environment assessment

For innovation to thrive, an enabling innovation ecosystem is needed. The insurance innovation ecosystem comprises six factors, as illustrated and explained in the diagram below: (i) underlying infrastructure, (ii) a strong talent pipeline, (iii) demand-side and supply-side market engagement enablers, (iv) access to finance, (v) an enabling regulatory framework, and (vi) supervisory support systems for innovation.

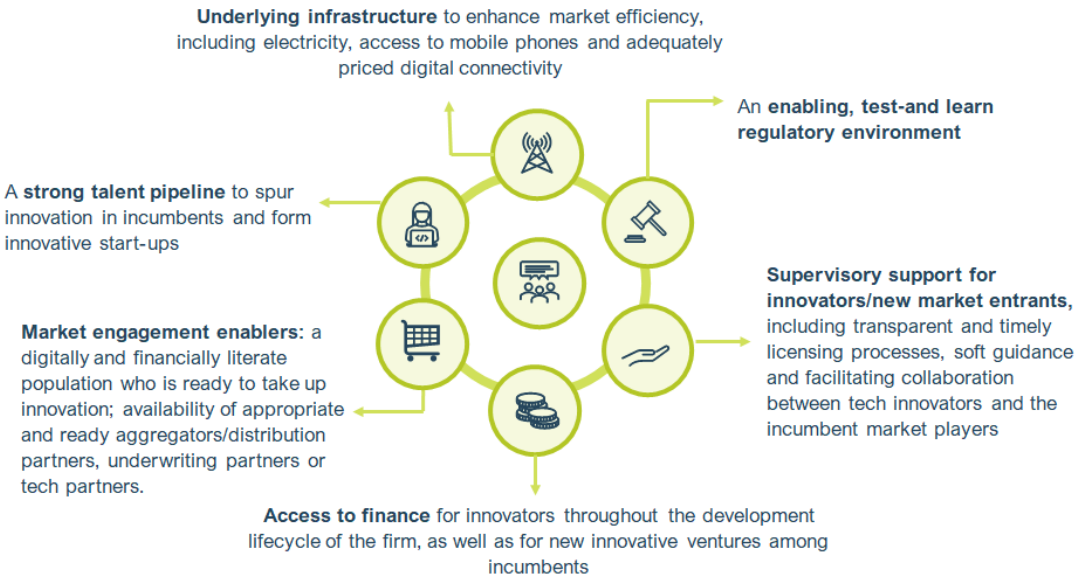

Figure 5:5 Innovation ecosystem enablers

Source: Authors' own, drawing on ***EY (2019)***

The following sub-sections explore how the six indicators shape the current – and future – innovation picture in Ethiopia.

2.2.1. Underlying infrastructure

Electricity supply and coverage still low in Ethiopia. Despite growing access to electricity over time (rising from 25% in 2010 to 51% in 2020), almost half of the population remain uncovered (World Bank, 2020). Coverage also remains biased towards urban areas, with only 27% of households in rural areas reporting access to the national electricity grid in 2020 (Getie, 2020; Energypedia, 2022). In addition to weak access, the quality of electricity is reported to be unreliable, even in urban areas. According to a World Bank survey in 2015, power outages for firms were found to occur up to eight times per month, each with an average duration of about six hours (World Bank, 2015b). Although recent studies suggest improvements in the reliability of electricity, the continued frequency of outages as well as unequal access suggest notable constraints for individuals to access and use digital financial services such as insurance (World Bank, 2015b).

Mobile phone penetration remains relatively low. Although mobile phone ownership in Ethiopia has grown substantially over the past decade, fewer than 25 million adults in 2021 report owning a phone (Data Reportal, 2021). Smartphone ownership, at 44% in 2021, also remains below the SSA average (50%), with comparable counterparts, such as Kenya, reporting a penetration rate of 53% (Sunday, 2021; ICASA, 2020; GSMA, 2020). Although ownership is expected to reach near 60% in 2025, this degree of connectivity still falls short of Ethiopia's peers (GSMA, 2020; GSMA, 2021).

Internet usage low despite affordability and extensive coverage. Despite the slow rise of smartphone ownership, only a quarter of the population made use of the internet in 2021 (Data Reportal, 2021) and only 20% of Ethiopians report accessing the internet through their mobile device. This is despite the relatively large network coverage of mobile internet providers in Ethiopia and 3G covering at least 75% of the population. Mobile data is also relatively affordable in Ethiopia (GSMA, 2021). For example, one gigabyte of mobile data in 2021 cost USD1.71 on average, compared to USD2.25 and USD2.67 in Kenya and South Africa respectively (Cable UK, 2021). This suggests that, while Ethiopians may have the means to be digitally connected, the need to be so is not sufficiently strong yet.

Greater MNO competition poised to enhance digital access. Until recently, state-owned telecom company Ethio Telecom dominated the ICT sector as the only telecommunications service provider in the market (Pai, 2021). In May 2021, Kenyan-based telecom provider, Safaricom, became the second licensed mobile network operator (MNO) to legally operate in Ethiopia. According to its website, Safaricom plans to spend USD8.5 billion over 10 years on network infrastructure and services (Safaricom, 2022). According to stakeholder consultations, the entry of Safaricom signals a marked shift for innovators to leverage its network to better reach potential customers, and an opportunity to incentivise greater digital adoption through more value-driven services (GSMA, 2021).

National payment infrastructure and services evolving to support DFS.
The Ethiopian national payment system has undergone notable modernisation efforts in recent years. In 2011, the National Bank of Ethiopia (NBE) launched the Ethiopian Automated Transfer System (EATS) as the country's first digital clearing and settlement system. In the same year, the interbank electronic retail payments clearing house EthSwitch was launched to reduce clearing frictions between different payment schemes. Although Ethiopia's payment systems remain constrained by challenges such as a high frequency of failed transactions, service outages and lack of instant real-time clearing, recent entrants by innovators such as Nigerian paytech PAGA suggests notable efforts to address these challenges (Esser, et al., 2022; Benson, 2022).

2.2.2. Access to talent

Insurers facing skills shortage. According to stakeholder consultations, Ethiopia faces a severe shortage of actuarial skills (Stakeholder consultations, 2022). In the absence of any local actuaries, insurers are forced to outsource the evaluation and pricing of new products to actuaries abroad or to other African markets such as Kenya, thus adding costs. Furthermore, although agents and brokers are required to undergo compulsory insurance sales agency training, stakeholders note that this training may not be sufficient to equip these actors with the skills needed to develop consumer-centric products (Stakeholder consultations, 2022).

STEM skill shortage undermines innovation. According to the Global Innovation Index (GII), Ethiopia ranks among the five lowest countries in SSA in terms of ICT skills and higher education enrolment (World Intellectual Property Organization, 2021). Furthermore, according to the GII, Ethiopia ranks 126th out of 132 global economies in terms of human capital and research, with tertiary enrolment and STEM graduate rates being key drivers of this low ranking (World Intellectual Property Organization, 2021).

State programmes developed to address STEM shortages. In recognition of the paucity of STEM talent, the Ethiopian Government has been proactive in introducing policies and initiatives to promote STEM skills in collaboration with private sector players such as Microsoft and Visa. These initiatives cover all levels, i.e. primary, secondary and tertiary. Their focus ranges from the promotion of utilising tools such as the internet to grow digital skills, to the preparation and grooming of students for employability in the STEM sector, including those pursuing business in digital SMEs (STEM Synergy, 2022; All Africa, 2021; Ministry of Innovation and Technology, 2020; Digiwatch, 2021). These initiatives have been pivotal in growing the STEM talent pool through its support to Ethiopia's 10 core existing science and technology universities. Further details on the initiatives launched are outlined in Box 4:

Box 4: STEM initiatives in Ethiopia

Government-led

- **Launch of Digital Ethiopia 2025** by the Ministry of Innovation and Technology – a national digital transformation plan that encourages the use of cutting-edge technology.
- **Digital Literacy Plan** of the Ministry of Science and Higher Education, which seeks to prepare students at higher education institutions by enhancing their employability for the digital work sphere over the coming 10 years.
- **Two ICT projects implemented:** (i) **the School Net initiative**, which aims to make internet and online education accessible, and (ii) **the General Education Quality Improvement Programme II (GEQIP II)**, an ICT intervention aimed at improving the learning environment in schools.

Private sector-led/collaborations

- **Education Transformation Agreement** by the government and Microsoft – a long-term project that aims to transform the way in which ICT skills are taught and learnt present within the Ethiopian education system.
- **Establishment of STEM centres**, by **STEM Synergy**, which seeks to promote technological innovation in the short/long term (43 of these centres had been established in almost all public universities by 2021.)
- **STEMpower** – a programme that provides hands-on labs-based STEM education and that supports students pursuing innovation and technology-based SMEs.

Source: (STEM Synergy, 2022; All Africa, 2021; Ministry of Innovation and Technology, 2020; Digiwatch, 2021)

Innovation-building ecosystem growing but not tailored for insurance innovation. Addis Ababa, Ethiopia's capital city, was ranked 692nd in the top 1,000 cities in 2021 by the StartupBlink Global Ecosystem Ranking Report (StartUpBlink, 2021a). This ranking is driven by Ethiopia's growing number of ecosystem facilitator actors, including 30 general institutions providing incubation, acceleration, mentorship and advisory support (Fintech News, 2021). Some of the key players involved in the development of start-ups or entrepreneurs include Growth Africa, Ice Addis, Xhub and Startup Factory. While these incubators and accelerators provide services such as co-working spaces, consultancy, training and networking platforms, few of them have a dedicated focus on fintechs or insurtechs. This suggests that while the innovation ecosystem is evolving in Ethiopia, insurtechs still lack the necessary guidance and assistance to grow and scale, and insurers are not yet able to attract tech skills into the insurance market.

2.2.3. Access to finance

Traditional insurers facing finance constraints to innovate. According to stakeholder consultations, insurers do not have sufficient financing to develop innovative products (Stakeholder consultations, 2022). This lack of financing stems from both weak access to capital due to weak insurance penetration, and the conservatism of boards in the face of allocating monetary resources to potentially risky innovations.

Observed surge in start-up funding, but not for insurtechs. Despite starting from a low base, start-up funding to Ethiopia has experienced notable growth in recent years, rising by 63.1% between 2020 and 2021 from USD2.315 million to USD3.775 million in 2021 (Disrupt Africa, 2021). While this funding is increasingly being directed towards fintechs, insurtechs remain outcompeted by innovators in the payments and credit space (Findexable, 2021). This challenge for insurtechs to access start-up and seed capital has been attributed to a low demand for, as well as difficulties brokering partnerships with, foreign investors due to localisation requirements (Stakeholder consultations, 2022).

2.2.4. Market engagement enablers

Demand-side enablers

A potentially sizeable market for insurers to tap into. Despite being one of the smallest economies in SSA, the growth and population size of the Ethiopian market suggests that there is large scope for insurance market growth. Between 2019 and 2020, real GDP grew by 6.06%, with improvement in GDP per capita suggesting a growing middle class. (World Bank, 2020; Chamberlain & Coetzee, 2017). Furthermore, Ethiopia has one of the largest and most youthful populations in sub-Saharan Africa, at 115 million. Coupled with an urbanisation rate of 5.4%, this means that Ethiopia offers notable business case opportunities for insurers if effectively tapped into (World Bank, 2016).

Latent demand for risk mitigation mechanisms in Ethiopia. As discussed in Section 2.1.1, the prevalence of edirs suggests the existence of latent demand for a risk mitigation mechanism such as insurance in Ethiopia. According to a 2018 World Bank demand-side survey, the primary financial shocks that Ethiopians face relate to health, crop, livestock and transport finances (World Bank, 2018). The majority of sampled Ethiopians expressed a willingness to buy[8] insurance to help them manage the impact from such risks, and many indicated that they are willing to pay between 3% and 4% of the sum assured in premiums (World Bank, 2018). However, the findings suggest that the value of formal insurance relative to other available coping mechanisms, such as edirs, is not yet clear enough (World Bank, 2018).

Low awareness and literacy undermining perceived value of insurance. Weak perceived value for formal insurance in Ethiopia is largely driven by a poor understanding of insurance and its benefits for consumers. For example, in a World Bank study of insurance demand in Ethiopia, 49% of the 2,992 surveyed households stated that the primary reason for not adopting insurance was "never having heard of it". This lack of understanding is underpinned and exacerbated by low literacy and financial capability. In 2017, only 48.9% and 46% of the Ethiopian adult population were estimated to be literate and financially literate, respectively (Kumaran, 2019; Trading Economics, 2017). Nevertheless, the growing rate of social media usage from 1.56 million users in 2015 to just under 7 million users in 2021 suggests an emerging population capable of engaging with digital content if they consider it worthwhile (Data Reportal, 2021).

Insurance failing to reach and serve Ethiopia's rural and informal population. Despite the rising urbanisation rate, about 79% of adults still reside in rural or remote areas (Worldo Meter, 2020). Over 85% of Ethiopians are employed in the agriculture sector. This high proportion of adults residing and working in rural areas suggests that a significant proportion of the population is not only less likely to be able to afford insurance but is more likely to suffer from sporadic and seasonal income cycles (United States Department of Agriculture, 2022). Rural populations are also difficult to reach through traditional distribution channels such as branch networks and agents. The same holds for the rest of the informally employed population: in total, approximately 90% of Ethiopia's employable population, or 46.8 million individuals, earn their livelihood outside of formal employment. This means that they cannot be reached through corporate distribution, and that they also lack a steady or reliable income source to pay regular insurance premiums (Quiros-Romero, et al., 2021).

Supply-side enablers

The unique constraints of the Ethiopian population, including the prevalence of informality and rural livelihoods, suggest that insurers need to rethink distribution to tap into these underserved markets. Distribution through agents and brokers will not be enough and there are regulatory barriers to leveraging banks through bancassurance. This means that alternative distribution channels, through partnerships with aggregators that have an existing client base to tap into, will need to be developed. These partnerships could be with, for example, retailers, associations, value chain players or mobile network operators (MNOs) who have an existing network of clients that the insurer can tap into.

8 For instance, 49% of rural Ethiopians have experienced some form of agriculture risk, and 97% of them indicated that they would buy agriculture/crop insurance if it were available to them (World Bank, 2018).

Agriculture associations play a part in distributing insurance. The severity of agricultural risks in Ethiopia makes agriculture associations a powerful potential channel to leverage for insurance distribution to underserved farmers. Beyond donor-driven pilots, however, this channel has yet to be capitalised upon. One notable example of such a pilot took place in 2019 between the MicroInsurance Centre, a local insurance company and a reinsurer that aimed to deliver crop index insurance to smallholder farmers participating in IFAD-financed Irrigation Water Users' Associations (Tatin-Jaleran & McCord, 2020). These associations, together with rural savings and credit cooperatives (RuSACCOs), were used as distribution channels to sell insurance products, specifically covering drought risks, at a premium ranging between USD5.30 and USD26.60 (Gebre, et al., 2020).

M-insurance constrained. Insurers in Ethiopia have been slow to adopt and leverage mobile networks for insurance distribution. Stakeholder consultations reveal that it has been challenging to partner with MNOs, and as a result, many insurers have not pursued this form of insurance distribution (Stakeholder consultations, 2022). However, some insurance firms have partnered with MNOs. For example, as discussed in Section 2.1.2, Nyala Insurance partnered with Ethio to launch a mobile insurance product called Le Mobile. While this example shows the ability for insurers to partner with MNOs, there has been limited further adoption using this distribution platform. The introduction by Ethio Telecom of Telebirr – a mobile money and m-wallet provider – in 2021 may lead to more innovation in this space.

Digital platforms not yet being leveraged at scale. The use of digital platforms such as social media and e-commerce sites remains limited. To date the only documented example, as discussed in Section 2.1.2, is the plan by Nib Insurance to partner with a technical service provider to distribute insurance to edirs.

2.2.5. Regulatory environment

The National Financial Inclusion Strategy forms the backdrop for insurance development. Broadening and deepening insurance penetration is identified as a key financial sector objective in the National Financial Inclusion Strategy (NFIS) 2020 (NBE, 2017; UNCDF, 2022). Priority targets for the Ethiopian insurance sector under this strategy include:

- Digitalise financial services and increase mobile and other electronic access points.
- Ensure the supply of an adequate range of suitable products, services and access points for consumers, which includes an adequate supply of insurance distribution networks such as branches and agents.

Though the implementation period of this strategy has lapsed, its prioritisation of the insurance market serves as a positive signal and nudge to industry players to innovate. It also serves as a roadmap and guidepost against which the Ethiopian insurance regulator can benchmark the progress required.

The NBE's Insurance Supervisory Department empowered to supervise the insurance market. The Insurance Supervisory Directorate (ISD), housed within the National Bank of Ethiopia (NBE), is the regulatory authority of the insurance market in

Ethiopia (National Bank of Ethiopia, 2022; Stakeholder consultations, 2022). According to the NBE Establishment (as amended) Proclamation No. 591/2008, the ISD is empowered with the mandate to "create favourable conditions for the expansion of … insurance and other financial services," and to "licence and regulate insurance companies …in accordance with the relevant laws of Ethiopia" (NBE, 2008). Though market development is not explicitly stated as an objective of the ISD, it does recognise this goal as critical to supporting its mandate to enable a thriving insurance market (Stakeholder consultations, 2022).

Regulatory changes have been made to promote innovation. The ISD has taken steps to promote innovation in the market in line with consumer needs (Stakeholder consultations, 2022). These are evident through the ISD's development of tiered capital licensing, the introduction of takaful and microinsurance regulations, as well as digital insurance regulation, each of which is discussed below:

1. **Tiered capital licensing and recapitalisation**

   Tiered capital requirements. In 2013, the ISD introduced a tiered capital requirements framework for insurance companies operating in Ethiopia. This framework allows different types of insurers to comply with proportional capital requirements (National Bank of Ethiopia, 2013), with the objective of creating an enabling environment for insurance development. In 2014 and 2020, proportional capital requirements were further applied to reinsurance and microinsurance business as per directives SMIB/3/2020 and SRB/1/2014, respectively. These requirements are highlighted in Table 2.

Insurance business	Capital requirements
General insurance business	Birr 60 million (~USD1.1 million)
Long-term insurance business	Birr 15 million (~USD293,000)
Composite insurance	Birr 75 million (~USD1,46 million)
Microinsurance life business	Birr 3 million (~USD57,000)
Microinsurance general business	Birr 7 million (~USD130,000)
Composite microinsurance	Birr 10 million (~USD190,000)
Reinsurance	Birr 500 million (~USD9.7 million)

Table 2: Capital requirements for insurance business in Ethiopia

Source: (National Bank of Ethiopia, 2022)

2. Takaful insurance guidelines

Takaful insurance created to better serve a growing market. Approximately 39.1 million (or 34%) of the Ethiopian population are self-proclaimed Muslims, which represents a potentially significant demand for takaful-based insurance (Pew Research Center, 2015). To accommodate for this potential demand, the NBE issued a directive[9] in 2020 to allow insurers to offer takaful insurance (National Bank of Ethiopia, 2022).

Takaful insurance uptake still nascent. Despite the high potential demand for takaful insurance, uptake of this type of insurance in Ethiopia is still relatively nascent, with only a few insurers offering takaful insurance (National Bank of Ethiopia, 2022; Stakeholder consultations, 2022). According to stakeholder consultations, insurers have not been proactive in adopting this form of insurance (Stakeholder consultations, 2022).

3. Microinsurance guidelines

Microinsurance guidelines introduced to better serve customer needs. In 2015, the ISD introduced its first directive for microinsurance business, with the explicit aim of providing risk protection for vulnerable and low-income individuals (Stakeholder consultations, 2022; National Bank of Ethiopia, 2022). This directive was subsequently replaced in 2020 by an updated directive, the SMIB/3/2020, which provided similar protection for low-income individuals through microinsurance. According to this licence renewal directive[10], licensed insurance companies are not required to obtain a separate licence to provide microinsurance services. However, they require a positive composite risk assessment rating and approval of the microinsurance products from the ISD, and must establish a separate unit that exclusively manages microinsurance operations (NBE, 2022). An independent licence may be obtained by complying with requirements similar to those necessary for a traditional insurance licence, but with lower capital requirements.

Limited microinsurance provision to date. As highlighted in Section 2.2.1, very few Ethiopians currently hold any form of microinsurance. According to stakeholders, this poor uptake stems largely from the limited distinction between requirements for traditional insurers and microinsurers, thus disincentivising new entrants to apply for this licence or for established players to launch a microinsurance unit (Stakeholder consultations, 2022).

4. Digitalisation efforts

Insurance digitalisation allowed for. In 2019, the 2012 Insurance Proclamation was amended to include Article 56 relating to digital insurance services (National Bank of Ethiopia, 2022). While this proclamation does not specify what the provision of digital insurance services entails, it confirms the lawfulness of digital

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9 A Directive to Licence a Takaful Operator or Authorize a Takaful Window Operator No. STB/1/2020.

10 Licensing and Supervision of Microinsurance Business Licensing, License Renewal and Product Approval for Microinsurance Providers Directives No. SMIB/3/2020.

insurance services in Ethiopia as long as "minimum conditions to be determined by [the] National Bank" are met. This article is a positive step towards actively promoting digitalised insurance in Ethiopia, albeit with more practical guidance still required to support market implementation.

Broader frameworks on cybersecurity and data protection. While Ethiopia lacks a comprehensive legal instrument to regulate data protection and privacy, there are rules in various pieces of legislation that directly or indirectly deal with data privacy and data protection. These include (Data Guidance, 2021):

- Constitution of the Federal Democratic Republic of Ethiopia (1995)
- The Computer Crime Proclamation (2016)
- Freedom of the Mass Media and Access to Information Proclamation (2008).

Remaining barriers and needs

No directive issued for digital insurance services. Despite the general allowance for digital insurance services, no specific provision is made for e-signatures to be used in the insurance industry (National Bank of Ethiopia, 2022; Stakeholder consultations, 2022). Leveraging these forms of digital insurance services to allow customers to be signed up virtually can promote alternative distribution networks.

Localisation legislation prohibits foreign investment into the financial sector. Legislation prohibits foreign investors from entering into the Ethiopian financial market (banking and insurance) (DLA Piper, 2019). In particular, the Investment Proclamation (2020) states that banking, insurance and microfinance business, excluding capital goods finance business, is exclusively reserved for domestic investors (Ethiopian Law, n.d). This proclamation impedes market expansion.

Capital controls and lags in foreign transactions potentially delaying insurance processing times. Despite recent liberalisation, the Ethiopian market remains relatively closed with strict capital controls in place. Capital outflows such as reinsurance premiums can be subject to a waiting period six months or more (Stakeholder consultations, 2022). Moreover, due to a paucity of foreign exchange, it is often difficult to move money outside of Ethiopia (Cooper & Esser, 2018; Stakeholder consultations, 2022). This hinders the ability of insurers to pay reinsurers and, in turn, hinders the ability of policyholders to receive timely claim pay-outs. While this challenge does not stem from insurance regulation, it does present a notable hurdle to the efficiency of insurers and their ability to provide fast and convenient service for their clients.

Bancassurance prohibited as a distribution channel. According to the Insurance Business Proclamation of 2019, insurance sales are not included as the business of the bank. This implies that for commercial banks to offer insurance, they need to establish a separate insurance company (Stakeholder consultations, 2022). Alternatively, banks can get permission to undertake insurance business as agents

(Stakeholder consultations, 2022). This is highlighted in the Banking Business Proclamation[11], which states:

Transactions, including the provision of loans and advances, the acceptance of deposits and the provision of banking and insurance services, between banks and insurance companies shall be undertaken on the same terms and conditions as provided to any other person.

2.2.6. Supervisory support and processes

Lack of independence constraining supervision capacity. While insurance market development is considered important, the fact that the ISD is not a stand-alone regulator limits its ability to actively prioritise this objective above its prudential mandate. The ISD also faces resource constraints: the department is currently staffed with fewer than 20 individuals to supervise 18 regulated insurers as well as the broker and agent market (Stakeholder consultations, 2022). This means that the capacity of department staff is severely constrained: they need to juggle multiple demands on their time while trying to keep pace with the evolving needs of the market (Stakeholder consultations, 2022). These resource constraints hinder the department's ability to effectively promote innovation in the market (Stakeholder consultations, 2022).

Supervisory system still largely prudential-focused. As it is housed within the NBE, the ISD needs to mirror the focus on prudential compliance of the NBE at large. This means that the department has limited ability to re-evaluate its approach to better support market development.

Slow progress to digitalise supervisory systems. Current processes led by the ISD, such as licensing and product approval, remain undigitised and suffer from delays. This is an access barrier for innovators outside of the capital. Moreover, systems within the NBE and ISD are not fully digital, besides email communication (Stakeholder consultations, 2022). This limits the ability of the ISD to modernise and reach prospective new market players.

Lack of intra-regulatory coordination limiting financial sector collaboration. Intra-regulatory coordination is essential in ensuring that the approaches pursued in one department or sector do not undermine the approaches in another. Stakeholder consultations revealed that there is limited engagement and coordination between the ISD and other departments within the NBE (Stakeholder consultations, 2022). An example of this is in the case of bancassurance, where coordination between the relevant departments could be mutually beneficial to establish and enable industry to create products and services that add greater value to consumers; both in the banking and insurance sectors. Furthermore, it was noted that the ISD is largely isolated from the Financial Inclusion Secretariat (FIS) and the Change Management, Planning and Communications Directorate (CPCD). This siloed approach has limited the extent to which the ISD has been able to champion, coordinate and communicate on insurance market development throughout the NBE and the market (Stakeholder consultations, 2022).

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[11] Proclamation No. 592/2008.

Limited formal engagement with the market post-pandemic. Currently, the ISD makes use of informal and ad hoc engagement mechanisms with industry, where meetings are organised on a needs basis. The Association of Ethiopian Insurers (AEI) also plays a prominent role in communicating industry pain points to the NBE (Stakeholder consultations, 2022). Prior to the pandemic, ISD engagement with the AEI took place on a biannual basis, but it has yet to resume at this frequency (Stakeholder consultations, 2022).

2.3. Key strengths and barriers

Ethiopia's insurance environment showing promise but stumbling blocks to greater development remain. In summary: Ethiopia's sizeable population and growing start-up scene, coupled with a growing middle class, greater access to smartphone and internet coverage, and a sound insurance regulatory framework, show promise for insurance innovation and penetration. However, several market engagement challenges, along with supervisory constraints and limited access to suitable insurance talent, still limit the development of the insurance market. Table 3 summarises the key strengths and barriers across the innovation ecosystem in Ethiopia as the basis for the formulation of action plan recommendations in Section 3.

Assessment area	Key strengths	Key barriers
1. Underlying infrastructure	• Affordable data costs • Good mobile network coverage • Innovative payment ecosystem and introduction of mobile money as lever for DFS	• Limited supply and coverage of electricity • Low mobile phone penetration • Mobile internet usage low even among those residing in areas with coverage • Weak reliability of existing payment infrastructure (failed transactions, service outages) and lack of instant real-time clearing
2. Strong talent pipeline	• Ecosystem of players to support the development of start-ups • Numerous initiatives to grow STEM skills and talent	• Lack of talent pool for insurance skills, including no actuaries in the country • Innovation ecosystem facilitators not focused on insurance
3. Access to finance	• Growth in access to start-up capital in recent years	• Insurtechs struggling to compete with other fintechs for funding • Funding mostly driven domestically, limiting both its availability and size • Insurers facing constraints to allocate scarce resources to R&D/innovation
4. Market engagement enablers	• The large and young population represents an opportunity to tap into a growing working class • Demand for risk mitigation mechanisms such as informal risk pooling (edir)	• High informal employment limits the scope for employer-based insurance uptake • Poor literacy rates, large rural population and weak perceived value of insurance limit retail insurance growth • Alternative and digital distribution channels not widely used beyond donor-driven pilots
5. Regulatory environment	• Development of tiered capital requirements framework • Takaful and microinsurance regulations developed • Digital insurance emphasised through the amended Insurance Business Proclamation	• Restrictive localisation and capital controls regulation • Lack of guidance surrounding digital insurance • Bancassurance prohibited • Microinsurance licences not significantly different to traditional licences, inhibiting uptake of microinsurance by insurers
6. Supervisory support for innovators	• Commitment of the insurance department to support the development of the insurance sector • Support of insurance college	• The ISD is under-resourced and under-capacitated relative to the size and potential of Ethiopia's insurance market • Market development mandate is constrained by being housed inside the NBE • Supervisory system still largely prudential-focused • Weakly digitalized supervisory system, e.g. licensing approvals • Limited engagement with industry and other financial regulatory bodies

Table 3: Key strengths and barriers across the six assessment areas

3. Innovation action plan

Based on the innovation and regulatory portrait sketched in Section 2, this section develops action plan recommendations to build on the strengths in the innovation ecosystem in Ethiopia and to address the remaining challenges to innovation. The action plan recommendations are categorised according to the four types of regulating for innovation tools introduced in Section 1, namely regulatory tools, supervisory tools, engagement tools and monitoring tools.

Action 1: Tailor regulatory landscape to boost inclusion

Action 1a: Adjust microinsurance regulations to incentivise licence applications. The ISD has taken steps to promote market development through the introduction of microinsurance regulations. Yet, to date, very few providers have taken advantage of this new licence. This is in part due to a lack of notable differences in requirements between microinsurance and traditional insurance, thus providing weak incentives for new players to enter the market with this licence. To encourage licence uptake, the ISD should revisit current microinsurance regulation to see how it can be made more attractive while still being proportionate to risk. This could include reconsidering board and executive qualifications. Adjusting the regulation in this way may encourage leaner and more agile players, such as insurtechs, to deliver insurance to low-income populations through more inclusive channels.

Action 1b: Develop bancassurance guidelines to address distribution channels. In the medium to long term, there is an opportunity for the ISD to formally introduce a bancassurance regulation into the market. Since banking sectors are typically more mature than insurance industries and have a larger footprint, they have greater potential to aggregate customers and to provide useful distribution channels to serve a larger group of consumers. By adding on additional services, this can create value for banking clients and have the potential to raise the perceived value of insurance and financial services overall. Bancassurance can pave the way for creating an efficient and profitable relationship between insurance companies and banks, as well as creating customer-centric and tailor-made products for Ethiopian consumers. The ISD can explore the development of such regulation through learning exchange programmes via the R3Lab to understand best practice and legal considerations in this regard.

Action 2: Enable digitalised insurance through clear regulation and guidance

Developing specific and clear guidance on how to digitalise insurance. The ISD has signalled its encouragement of digitalised insurance by its mention of digital insurance services under Article 56 of its 2012 insurance proclamation. Yet, despite this positive development, this market is not yet clear on what exactly is permissible.

Specifically, no mention is made of e-signatures, remote onboarding or alternative partnerships with technical service providers. To achieve a more digitally enabled insurance environment, the ISD needs to develop more explicit, even if non-legally binding, guidance for industry to consult, so that it feels sufficiently empowered to digitalise services for the benefit of new and potential customers.

Action 3: Proactively communicate with the market

NBE to leverage workshops and seminars to disseminate information to industry. The NBE met with industry on a biannual basis before the COVID-19 pandemic. Post-COVID-19, formal lines of engagement with industry (such as forums, workshops and seminars) have been minimal. To promote a more inclusive insurance environment, the NBE should build on existing facilitators, such as the AEI, to better communicate with the market and understand their needs. Stakeholder consultations revealed that the Association already plays a prominent role in forwarding communication from industry to the ISD, and this established communication channel can be built out to establish regular communications between the regulator and the market. Such engagements should not only be on specific issues raised by the market, but also on innovation topics, to prompt the market to innovate. It would be important to incorporate prospective market players and innovators such as insurtechs, as well as potential distribution partners, in such communication efforts, to foster the development of ideas and partnerships.

Action 4: Identify and align key strategic priorities

There is a clear need for a stronger focus on insurance innovation and closer intra-institutional cooperation within the NBE. This requires the close collaboration of different departments, particularly between the ISD, the Financial Inclusion Secretariat (FIS) and the Change Management, Planning and Communications Directorate (CPCD). Aligning the strategic priorities between these departments and setting up a joint workplan on innovation matters will be fundamental for further entrenching the promotion of insurance innovation within the NBE and for driving forward the action areas outlined in the remainder of this section.

Action 4a: Identify and align strategic priorities. A first step for improving intra-institutional cooperation and developing a joint workplan is to align the key strategic priorities between the ISD, FIS and CPCD. To this end, it is recommended that the ISD, together with the FIS and CPCD, organise a series of meetings to determine their priorities in the short term, medium term and long term. The meetings would be focused on determining the key gaps for the development and innovation of the insurance market. These meetings could be facilitated by an independent third party that facilitates the discussion and supports the ISD, FIS and CPCD in pulling out the key joint strategic objectives.

Action 4b: Develop an insurance innovation workplan. Once the joint strategic priorities are defined, it is recommended that a workplan be developed that outlines clear activities that will enable the different NBE departments to action the strategic priorities. Such a workplan will define the departments involved and establish specific responsibilities. The workplan will become the reference point for the joint strategic objectives set, allowing the NBE departments to monitor and update them if necessary. Among others, key topics to consider could include:

1. Coordination between the ISD and the Bank Supervision Directorate to discuss and update regulations to accommodate bancassurance.
2. Discussions and coordination with the FIS to integrate insurance into the strategic approach taken by the FIS to promote the financial needs of the excluded and unserved in Ethiopia from a resilience perspective.
3. Development of fit-for-purpose insurance and financial inclusion targets to pursue.
4. Ring-fenced cross-cutting capacity dedicated to supporting market development for enhanced insurance penetration and resilience for financial inclusion.

Action 4c: Position the workplan within the NBE and wider ecosystem. The NBE is responsible for several components of the financial sector, which means that the workplan should be leveraged to create awareness and buy-in among all key NBE members, such as board members and members of other departments, on what is needed to promote insurance innovation. The plan may also be shared with current and potential market players to indicate the specific intentions of the insurance regulator concerning fostering innovation.

Action 4d: Establishing an independent insurance regulatory authority. The ISD has served the industry as best as possible while housed within the NBE. Yet, as discussed in Section 2.2.5, its lack of independence means it faces constraints in prioritising market development. To better position itself to lead and to address the underdeveloped state of the insurance market in the medium to long term, it is advised that the ISD advocates for establishing itself as an independent regulator with an enhanced dual mandate to support market development. The FSD Africa R3Lab can offer both technical assistance and peer exchange/learning with other jurisdictions to inform such a shift.

Action 5: Encourage exit strategies for donor-led innovation programmes

Supporting the development of exit strategies to sustain donor-led pilots. Traditionally, inclusive insurance market innovation efforts in the Ethiopian insurance market are predominantly driven by foreign donors. While such donor efforts have been welcome, particularly in the agricultural sector, these programmes often remain in the pilot stage due to the inability of domestic market players to fully implement and sustain them in the absence of donor assistance. To support the sustainability of such ventures, the ISD should actively encourage the co-development of realistic exit strategies between donors and insurance companies as a prerequisite for product piloting approval by the ISD. This requirement will prompt local players to assume greater accountability for the ongoing success of such ventures.

Action 6: Upskill ISD and industry

Action 6a: Promote technical assistance to address insurance skills gap.
According to stakeholder consultations, there is a lack of technical insurance skills in the Ethiopian insurance market, notably actuarial skills. To address this constraint, the NBE can further push and promote its insurance colleges to entice more professionals to join the industry and to provide targeted training. Moreover, the ISD can leverage the International Actuarial Association's framework for Proportionate Risk Assessment, with technical assistance from international partners such as the FSD Africa R3Lab, to upskill insurers to assess risks and their impacts on an organisation and for ISD staff to apply in the product approval process.

Action 6b: Participate in peer exchanges to inform supervision approach.
The ISD lacks resources to effectively prioritise and achieve market development. Staff in the insurance department could benefit from learning from other regulators through the R3Lab. The R3Lab can also be leveraged to further upskill the insurance department staff on relevant identified topics.

Action 7: Digitalise supervisory processes to make processes more efficient

Digitalising licensing procedures and product approval processes. There is a need for the NBE to develop digital processes for product approvals and licensing to ensure that players outside Addis Ababa can engage with the ISD as easily as in-person players can. A practical outcome could be a web portal or website (either on the NBE's home page or an external portal) to allow for insurers to digitally lodge and resolve applications, queries and data submissions.

To automate supervisory processes, underlying IT system updates are required. The development of these will need to be coordinated with the broader NBE. There will also be a need for targeted digital systems training for the insurance department staff.

4. Conclusion

Positive developments. Triggered by liberalisation and market reforms, the Ethiopian insurance sector has taken positive yet relatively small steps to promote an enabling and inclusive insurance environment. A growing number of insurers in the market, coupled with a growing start-up scene, indicates promise for development in the insurance space.

Market challenges inhibit insurance growth at scale. Despite the positive steps taken by the insurance market to deepen access to insurance, greater market development progress remains hampered by the existence of a highly rural and informally employed population that earns inconsistent and low incomes; unreliable electricity access; limited financial and digital literacy; and a weak supply of insurance-related skills. These challenges highlight the underlying and often uncontrollable constraints that limit insurance uptake in the country.

The NBE is constrained in its ability to promote market development. While the ISD has regulated the insurance industry to the best of its ability, it has struggled to move the insurance market to the next step due to resource constraints and poor intra-coordination, as well as being overlooked by banking-related matters. The lack of independence of the ISD has further constrained its ability to address these challenges.

To break the mould, innovation is important. The underdeveloped state of Ethiopia's insurance sector suggests the particular importance of innovation to break the mould of traditional insurance offerings and take advantage of the untapped market. However, these changes cannot be expected to happen overnight – setting unrealistic innovation expectations will be unproductive. Creating an innovative space in the market will likely be a gradual process, which can be achieved through embarking on four overarching processes:

- **Basic insurance skills are built**, and market players are strengthened in their core operations. This can partly be achieved through updating and digitalising their systems, which will enable higher potential uptake as well as more efficient supervisory processes.
- **The market is proactively engaged** and has innovative capabilities.
  To promote innovation in the market, the NBE can play a role in developing innovative hubs or programmes and learn from the experiences of neighbouring insurance regulators. It is recommended that joint partnerships and ventures, such as the BimaLab, be developed in the Ethiopian context where both insurers and insurtechs can engage in innovation and depart from the business-as-usual model.
- **The NBE is well capacitated** through peer exchange to apply the learnings of different regulators in different countries and ensure that insurance innovation in Ethiopia be achieved. The R3Lab and FSD Africa can play a prominent role

in fostering partnerships and collaborations with external regulators to ensure cross-pollination of learnings across sub-Saharan Africa.

- **The remaining regulatory and institutional structure barriers are revisited** as a longer-term priority. While insurance business is well defined in legislation, there is a need for the NBE to revisit structural barriers that inhibit innovation in the market. Of particular note, the lack of regulation surrounding e-signatures and digitalisation initiatives should be reconsidered. Enabling innovative insurance mechanisms in legislation and regulation will have a ripple effect on the industry at large.

Table 4 summarises the key action plan elements by responsibility and term.

Intervention	Responsibility	Action plan term
1. Tailor regulatory landscape to boost inclusion. • Amend microinsurance guidelines to create an enabling microinsurance environment. • Introduce bancassurance regulations.	ISD	**Medium term:** Microinsurance regulations **Long term:** Bancassurance regulations
2. Enable digitalised insurance through clear regulation and guidance. • Clarify the provision of digital insurance through directives. • Develop directives for e-signatures, remote onboarding and alternative distribution partnerships.	ISD FSD Africa	Short to medium term
3. Proactively communicate with the market. Better leverage workshops, seminars and other existing channels to promote knowledge exchange and sharing for positive feedback loops.	ISD AEI	Short to medium term
4. Identify and align key strategic priorities. • Identify and align strategic priorities between the ISD and other relevant NBE departments. • Develop an insurance innovation workplan for Governor approval. • Position the workplan with the NBE and wider ecosystem. • Over the medium term, take steps towards creating an independent insurance regulatory authority, with industry and international donor support.	ISD, FIS, CMPCD Bank Supervision Directorate FSD Africa R3Lab	**Medium term:** Develop, share and coordinate ISD strategy **Medium to long term:** Independent insurance regulatory authority
5. Encourage exit strategies for donor-led innovation programmes. Proactively encourage the development of realistic exit strategies between donors and insurance companies as prerequisites for product piloting application and approval.	ISD FSD Africa	Medium term
6. Upskill ISD and industry. • Promote technical assistance to address actuary skills gaps. • Participate in peer exchanges to inform supervision approach.	NBE R3Lab FSD Africa	Short to medium term

7. Digitalise ISD supervisory processes. Digitalise supervisory processes such as product approval and licensing to allow for a more streamlined and enabling insurance environment.	NBE R3Lab Independent IT provider	Medium term

Table 4: Key action plan elements: what, who and when?

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Appendix: Stakeholder engagements

Throughout the project, Cenfri engaged with various stakeholders within the Ethiopian insurance market to understand the opinions and perceptions of innovation from the industry itself. Table 5 summarises the stakeholders Cenfri engaged with.

Stakeholder type	Name of organisation	Date of engagement
Regulator	National Bank of Ethiopia	11/04/2022
Insurance firms	NICE Insurance	21/04/2022
	Nib Insurance	29/04/2022
	Nyala Insurance	10/04/2022
Insurtech firms	Pula Advisors	05/04/2022
	Kifiya	12/04/2022
Accelerators and innovation hubs	Startup Factory	12/04/2022
	Growth Africa	10/05/2022
Associations	Association of Ethiopian Microfinance Institutions (AEMFI)	13/05/2022

Table 5: Stakeholder engagements