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Challenges and Opportunities of Life Insurance Business in Ethiopia

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Abstract: This study is conducted on the challenges and opportunities of life insurance business in Ethiopia. The study is mainly conducted using primary data. Eight insurance companies from the total of 17 insurance companies, which are providing life insurance services, are included in the study as a sample. The study found that of awareness of people towards life insurance, religious, habit of saving of the people and low level of urban to total population ratio and illiteracy are the major demographic challenges of life insurance business in Ethiopia. It was indicated in the study that low level of income of the society and the interest are the major economic challenges for the development of life insurance whereas the banking sector development, a decrement in an annual inflation rate can be the opportunities that can positively help the development of life insurance business in Ethiopia. The study recommended that insurance companies should create awareness with respect to life insurance, training should be provided for insurance officials and strong training centre should be established.

Key words: Development of Life insurance in Ethiopia, Life insurance business in Ethiopia

1.1 Introduction

According to (E.Regda, 2008), and (Zeleke, 2007), insurance can be defined from the viewpoints of economics, law, history, actuarial sciences, risk theory and sociology. However, the American risk and insurance association defined insurance 'insurance is the pooling of accidental losses by shiftingit to insurance companies, who agree and in a better financial position to indemnify insureds for such losses to offer other financialsettlement on their occurrence".

Life insurance guarantees to pay a stated sum to the beneficiaries on the death of the head of the family (if he /she is insured). In doing so, it pay for families a measure of protection against the unfavourable financial consequences of early death, offers individuals a betterbrains of financialsafety, and can help reduce worry and suffering and thusboost initiative. No other privately acquired financial tool can do these functions.

Despite, life insurance can permit more favourable credit terms to borrowers – both individuals and commerceand can declines the risk of default. Life assurance can also reduce the financial trouble to businesses caused by the death of key employees.

Cash value life insurance can be a means with which persons save. Severalindividuals who might not if not save always will, however, frequentlydisburse their life insurance premiums; thus, life assurance might form a kind of compulsory savings.

Life insurance products, especially annuities, afford a suitable, if not unique, wealth by which individuals can make financial provisions for retirement. The life insurance business is small in various developing countries, because itmay be considered extraneous or improper for ideological, cultural, or spiritual reasons, or because economic security is provided through the family.

According to Lamaire (2012), life assurance policyholders are making rational decisions, maximizing benefits to dependents after death, and focus on economic determinants such as income, legal system, and education. However, it may be irrational to suppose such a high level of competence and rationality on the part of insureds confronted with the purchase of very complex and nonfigurative products. It may very well be that national culture has a strong impact on insurance buying decisions. Individuals do not share the same decision-making process when facing economic decisions. Customers may react to insurance solicitations according to their cultural beliefs, not only on economic rationality.

1.2 Statement of the problem

Assessment is, commonly, a technique of evaluating and identifying how far an activity or an operation of a business has developed. With respect to life insurance business in Ethiopia, it is more overbearing to monitor the goals in a more liberalized situation. The most vital purposes are the spread of insurance awareness among prospecting public, increasing levels of insurance perception and meeting rural and social obligations.

Various factors are blameable for growth in the insurance business and the most significant of these are the factors connecting with financial, culture, religion, quality of the product, personal and customer servicing. Moreover, efficient internal manpower and operational policies, the operations of insurance industry is also affected by the external factors like the policies of the government, competition among public and private sector insurance companies. These pose major challenges and opportunities to the efficient functioning of the life insurance business in Ethiopia. Hence, this study is aimed at examining the challenges faced by the life insurance business and opportunities that the life insurance business in Ethiopia will have. Hence, this study will address the following basic questions.

1. What are the major external challenges that life insurance in Ethiopia faces?
2. What are the major internal challenges of life insurance business in Ethiopia?
3. What are the basic opportunities for the development of life insurance in Ethiopia?

1.3 Objectives of the study

The main objective of this study is to identify the challenges and opportunities of life insurance business in Ethiopia.

In addition to the above broad objective, the study will have the following specific objectives.

1. To identify the exogenous challenges of life insurance business in Ethiopia
2. To examine the internal challenges of life insurance business in Ethiopia
3. To identify the life insurance businessopportunitiesin Ethiopia

1.4 Significance of the study

The result of study will be important for the policy makers of insurance business in order to consider major challenges and opportunities of insurance business in Ethiopia. Moreover, the insurance companies can use this study as input in order to find out solutions after they understand the challenges their company faced and to use the available opportunities as much as possible.

2. Review of related Literature

2.1 Life insurance in Ethiopia

Modern insurance business in Ethiopia was started with an Egyptian Bank in 1905. According to Ethiopian Chamber of Commerce, in Ethiopia, there were 19 insurance companies in 1954, 33 insurance companies in 1960 and 40 insurance companies in 196. Subsequent tothe nationalization in 1975, the state owned Ethiopian Insurance Corporation was established as the only insurer providing life and non-life insurance services. After the partial liberalization of the industry in 1991, 16 insurers have been existed with a joint branch network of 264 as of June 2012. Nine of these companies are providing both life and non-life insurance services, while the remaining are transact only non-life insurance.

In the sight of life insurers, the Ethiopian economy with 85 million and predominantly young population presents worthwhile as well as various business opportunities to the insurance sector. Like other sectors, insurance in general and life assurance in particular need to be linked with the country's development plan as a consequence to the promising middle class and educated community. Nonetheless, the facts in life insurance market in the country are not very well recognized to the majority, including to those engaged in the business.

The significance of life insurance in modern economies has been recognized much earlier. It is the indispensable way by which a calamity to an individual or a community is shared by many.

Despite, the advantage it presents to the policy owner and beneficiaries upon the occurrence of certain events, such as premature death, deadly illness, and critical illness of a bread winner or maturity depending on the type of contract, life insurance plays a fundamental role in a country's socio-economic development.

This can be attained via saving mobilization it holds the national economic development through development of the financial market, creation of employment opportunity and overall attractive the socio-economic development of the country. This in turn will improve the supply of long-term financial products, thereby causing a series of effects on the development and structure of the financial markets.

While the fundamentalprinciple of life assurance has been 'protection', certain insurance products also afford the suppleness of it being used as a long term saving and capital creation tool. These products allow the person to thoroughly save over the long run and make proceeds to create accumulation that can be used to fund children's education, marriage or retirement. In short, buying life insurance means, having a peace of mind perceptive that one's family's financial outlook is saved, by providing them when one may no longer be able to.

Regardless of its prospective importance, particularly, the life assurance has not yet developed in Ethiopia. As of June 30, 2012, an insurance branch to population ratio in Ethiopia was 1:334,608, insurance density (Premium/Population) became birr 44.2 per individual and Insurance penetration (Premium/GDP) was 0.61 percent. These measures categorically indicated that considerableamount of the total population has limited access to insurance services. The concern gets worse in life insurance. Only 6 percent of the total premium portfolio in Ethiopia is derived from it whereas the proportion in South Africa, Zambia, Namibia and African average account for 77.8, 75.5, 73.4 and 32.4 respectively (African Insurance Organization, 2012). Accordingly, Ethiopia rose as the least in the World whilst there is progress and developed market in other African countries. The life insurance business has been turned away from their business portfolio and weak headedly take over to the general insurance business.

The following table indicates the ratio of life insurance to total premium of Ethiopian insurance business in comparison with other selected African countries.

The above table 2.1 presents ratio of life insurance to total premium of some selected African countries.

Having the foresighted challenges in mind, one may ask why life insurance is less developed in Ethiopia and what opportunities the Ethiopian life insurance business has. Amazingly, the actual challenges contributing for such a low figure are not well examined and the opportunities are not identified.

However, an oversight which many families typically make is that their benchmark is the returns from life insurance business with other investment opportunities. Accordingly, what they totally fail to understand is that the primary purpose of life insurance is security consequent with proceeds and not the other way round. According to Fikru Tsegaye (2013)**,** to aggravate the issue, the required efforts have not been exerted from the concerned stakeholder's: the regulator, insurance companies, insurance auxiliaries, intermediaries, the government, and academic institutions.

The existence of insurance business in its modern sense is a recent phenomenon which is said to have been started in the early 1920s. Based on proclamation No. 83/1994 and proclamation on the Licensing and Supervision of Banking and Insurance, seventeen insurance companies- were established and they are currently (as of 2015) operating in Ethiopia.

Subsequent to the liberalization practice, contrasting the pre-reform practice, the form of financial intermediation has been largely tackled towards the private sector as opposed to the public and cooperative sector. The people are high confident of private financial organizations through time. This private sector involvement in the financial sector has smoothed the horizontal implementation of the monetary and financial intermediation through the creation of

Table 2.1 Ratio of Life Insurance to Total Premium

Country, Region	South Africa	Zambia	Namibia	Sub Saharan Africa	Ethiopia
Ratio of Life insurance to total premium	77.8 pct	75.5 pct	73.4 pct	32.4 pct	6 pct

Sources: *African Insurance Organization (2012)*

2.2 Insurance companies operating in Ethiopia

Table 2.2 list of insurance companies operating in Ethiopia as of 2015

s.no	Company	Type of business	Establishment year
1.	Africa insurance company	General	1994
2.	Awash insurance company	Composite	1994
3.	Ethiopian insurance corporation	Composite	1975
4.	Global insurance company	General	1997
5.	NIB insurance company	Composite	2002
6.	National insurance company of Ethiopia	General	1994
7.	Nyala insurance company	Composite	1995
8.	Nile insurance company	Composite	1995
9.	Oromia insurance company	Composite	2009
10.	The united insurance company	Composite	1997
11.	Ethio-life and General insurance	Composite	2008
12.	Tsehay insurance company	General	2012
13.	Lucy insurance company	General	2012
14.	Lion insurance company	General	2007
15.	Berhan insurance company	General	2011
16.	Abay insurance company	General	2010
17.	Buna insurance company	General	2013

Source: http://www.nbe.gov.et/financial/insurer.html

Table 2.2 presents the list of insurance companies which are operating in the year 2015 in Ethiopia.

competition thereby causative to the growth of theindustry in particular and the country in general.

During the Derg regime, the publicly owned, Ethiopian Insurance Corporation has been in a position to control the insurance business by monopoly. The emerging private insurers have penetrated the financial market and concentrated the market share of Ethiopian Insurance Corporation from 100% to 57% (Ermias, 2008).

There are seventeen insurance companies in Ethiopia (in 2015) of which only one insurance company is owned by public (Ethiopian Insurance Corporation).

As it is revealed in the table 2.2 above, eight insurance companies are composite that is they are providing both general and long term insurance services whereas nine insurance companies are providing only general (non-life) insurance services. However, no insurance company is providing a separate life insurance services in Ethiopia. This is an indication that the Ethiopian insurance business is highly inclined to the general insurance business.

2.3 Empirical literature

Zhu (2007) found that life insurance purchases are affected by individual's income, bequest intensity, risk attitude, survival probability, and the insurance premium.

Beenstock, et al (1986), Truett and Truett (1990), Browne and Kim (1993), and Outreville (1996) have all found that the development of life insurance is positively associated with the income of the society, using both aggregate national account data and individual household data. According to Thorsten and Webb (2003), life insurance development should rise with the level of income, for several reasons. First, an individual's consumption and human capital normally increases along with income. This can create a greater demand for insurance (mortality coverage) to protect the income potential of the insured and the expected consumption of his/her dependents. Second, life insurance may be a superior good, in as much as increasing income may explain an increasing ability to express a higher share of income on the way of retirement and investment related life insurance products.

Chui and Kwok (2008), taking data from 1976-2001 across 41 countries and found that that national culture influences the consumption prototype of life insurance through countries.

Ayaliew (2013) investigated the determinants of life insurance based on a time series data for the period 1991-2000. There is a cause-effect relationship between life insurance sector development and economic growth in the developing country. The study pointed out that life insurance is determined by per capita income, life expectancy, real interest rate and inflation.

Oke et al (2010) investigated the determinants of life insurance utilization in Nigeria from 1970 to 2005, and the study revealed that real gross domestic product positively and significantly affects life insurance consumption while domestic interest rate affects the life insurance consumption significantly and negatively in Nigeria.

Webb and Back (2003) examined that economic factors such as inflation, income per capita, the banking industry development, religious and institutional were the strong determinants of life insurance whereas education, life expectancy, the young dependency ratio, and the size of social security system have insignificant relationship with the insurance consumption and highlighted the importance of price stability and banking industrygrowth in fully recognizing the savings and investment functions of life insurance in an economy.

Naresh R. (2014) conducted the research entitled insurance sector in India. this study investigated challenges and opportunities of the insurance industry and the result of the study revealed that aggressive marketing strategies by private sector insurers and expand the markets for products, competition in the insurance; the falling interest rates are opportunities. The study also identified the following challenges of the insurance sector in India: premium rates will stay on under pressure due to passionate competition on higher profitable position, public and private sector insurer's greater reliance on their business portfolio to producesufficientreturns and gains for net profits make them to the volatility of the financial markets, as far as the potential are concerned, the major challenge is that of setting up infrastructure and to reach out to as many areas as possible, the biggest challenge for public sector giant, the Life Insurance Corporation is one of the satisfying the enormousexpansion it has revealed in the currentperiod, despite the liberalization in the insurance sector, public insurers are expected to maintain their leading positions, at least in the foreseeable future.

It is expected that banking sector development to have its own impact on the development of life insurance. Well-functioning banks will increase the confidence of consumers in other financial institutions, such as life insurers. They also offer life insurers with an efficient payment system. The development of the whole financial system (as might be reflected in the absence of interest rate ceilings and other distortionary policies) is supposed to assist life insurers invest more efficiently. This in turn may translate into a better value, or price, offered to consumers for their life insurance.

Outreville (1996) and Thorsten and Webb (2003) found that banking sector development has a positive and significant correlation with life insurance consumption.

A higher share of young dependents to working population is assumed to increase the demand for death coverage and reduce the demand for savings through life insurance. On the other hand, a larger ratio of dependents increases the total present value of consumption of the insured's beneficiaries, and therefore the demand for life insurance that provides dependents with payments in the event of the premature death of the primary wage earner. On the other hand, a high dependency ratio indicates the degree to which the population is too young to consider saving for retirement, and therefore reduced demand for savings through life insurance products.

Beenstock et al (1986), Browne and Kim (1993) and Truett and Truett (1986) find that the dependency ratio is positively correlated with life insurance penetration. However, Thorsten and Webb (2003) found that young dependency ratio is not robust determinants of life insurance consumption. To measure the ratio of young dependents to the working population, this study will use indicator which is defined as the ratio of the population under 15 to the population between 15 and 65.

A higher ratio of old dependents to working population will increase the demand for both the mortality and the savings element of life insurance policies. According to Thorsten and Webb (2003), while the theoretical work focuses mostly on the life insurance policies held by primary wage earners, life insurance policies held by retirees have obtained significance in many developed countries. The indicator used by the study of Thorsten and Webb (2003) and will be used in this study is the ratio of the population over 65 to the population between 15 and 65. Thorsten and Webb (2003) investigated the determinants of life insurance consumption across countries bay taking 63 countries as a sample and they found that old dependency to the working population is not robust determinants of life insurance consumption across countries.

It is expected that a higher level of education in a population will have a positive effect on the demand for any type of life insurance product. The level of a person's education may determine his/her capacity to understand the benefits of risk management and savings. A higher level of education might therefore increase an individual's level of risk aversion. Educationmay also increase the demand for pure death protection by increasing the period of dependency, as well as improving the human capital of, and so the value to be protected in, the primary wage earner. As an indicator of the level of education across countries, the average years of schooling in the population over 25 is appropriate (Barro and Lee, 1996).

Truett and Truett (1990) and Browne and Kim (1993), found that there is a positive relationship between life insurance consumption and the level of education. Thorsten and Webb (2003) found that education is the most robust determinants of life insurance consumption.

3. Research Methodology

3.1 Sources of data and data collection method

The sources of data for this study was mainly primary data that was collected through five Likert scale questionnaire and interview from the life insurance departments of each insurance company.

3.2 Target population and sample size

The target population of this study were both the life insurance companies and the life insurance experts (life insurance officers, claim and underwriter supervisors and underwriters and life insurance marketing heads of each insurance company). Hence purposive sampling technique was used in order to select the representative sample from the insurance companies whereas; and the total underwriters of life insurance business of the selected insurance companies were taken. In Ethiopia, currently, as of 2015, a total of 17 insurance companies (1 public and 16 private) are operating. From the total of 17 insurance companies, 8 insurance companies which are providing life insurance services were selected purposely and the total underwriters of the selected insurance companies were included in the study.

3.3 Data analysis

The data after it is collected, entered and coded, it was analysed through inferential statistics. Basically, descriptive statistics was employed with the help of SPSS version 16.0.

Table 3.1 comprises the selected (sample) insurance companies for this study.

All the above insurance companies comprised in table 3.1 are included in this study because they are providing both life insurance and non-life insurance services. As they are providing life insurance services, they are purposely selected and included in this study as a sample.

1. Result and Discussion

This part presents the data analysis, discussion and presentation with respect to the objectives of the study.

4.1 Descriptions of variables

This study includes demographic, economic, institutional and governmental determinants as variables. The data is analysed using descriptive analysis so as to identify the major challenges and opportunities of life insurance business in Ethiopia. Each variable is analysed and discussed as follows.

Table 4.1 above contains Demographic characteristics of the respondents. As it is clearly shown in the above table, 51.7% of the respondents are males whereas 48.3% of them are females, which is an indication that there are almost a proportion of male and female employees in the insurance industry in Ethiopia. The above table similarly indicated that from the total respondents, 31%, 48.3% and 20.7% of them are below 27 years old, between 28 to 35 years old and 36 to 45 years old respectively. From this it is possible to conclude that most of the employees in Ethiopian insurance industry are youths or between 28 to 35 years old.

Table 3.1 Selected insurance companies in Ethiopia

S.no	Insurance companies	Year of Establishment
1.	Awash Insurance Company S.c	1994
2.	Ethiopian Insurance Corporation	1975
3.	Ethio-life and general insurance company	2008
4.	Nib Insurance Company	2002
5.	Nile Insurance Company S.c	1995
6.	Nyala Insurance Company S.c	1995
7.	The United Insurance S.c	1997
8.	Oromia insurance company	2009

Sources: http://www.nbe.gov.et/financial/insurer.html

4.1.1 Demographic characteristics of the respondents

Table 4.1 Demographic characteristics of the respondents

Valid	***N***		***fr***	***%***	***V. %***	***C. %***
Age	29	Below 27years	9	31.0	31.0	31.0
		28-35 years	14	48.3	48.3	79.3
		36-45 years	6	20.7	20.7	100.0
Sex	29	Male	15	51.7	51.7	51.7
		Female	14	48.3	48.3	100
Educational status	29	Diploma	1	3.4	3.4	3.4
		BA degree	23	79.3	79.3	82.8
		Master's degree	5	17.2	17.2	100
Work experience	29	Below 1 year	3	10.4	10.4	10.4
		1-5 years	9	31.0	31.0	41.4
		5-10 years	9	31.0	31.0	72.4
		Above 10 years	8	27.6	27.6	100.0

Source: own computation from primary data

It is also shown in the table that of the total respondents, 3.4%, 17.2% and 79.3% of the respondents have diploma, bachelor's degree and master's degree respectively. This shows that the Ethiopian insurance industry is mainly operated by first degree holders. In the table above it is also revealed that from the total respondents, 3 (10.4%), 9(31%), 9(31%) and 8(27.6%) have under 1year, from 1 to 5 years, from 5 to 10 years and above 10 years of work experience and this in turn reveals that most of the respondents have 1 to 10 years of work experience in Ethiopian insurance industry so that it is possible to conclude that the respondents have sufficient knowledge on challenges and opportunities of the life insurance business in Ethiopia.

The above Table 4.2 presents Demographic challenges and opportunities of life insurance business in Ethiopia. Life insurance business development is depending on the demographic challenges and opportunities in every country especially in developing countries like Ethiopia. Ethiopia is a country having different demographic problems such as low level income of individuals, lack of awareness of people about life insurance, and a higher degree of young dependent to the working population. The above table presents the demographic challenges and opportunities of life insurance business in Ethiopia. The table above revealed that 62.1% and 20.7% (with the mean and standard deviation of 1.79 and 1.31 respectively) of the respondents are strongly agreed and agreed respectively that the people lacks awareness about life insurance, policies and its advantage.

The table also shows that 41.4% and 34.5% of the respondents strongly agreed and agreed respectively on the effect of religious inclination on life insurance development. Similarly, of the respondents, 48.3% and 13.8% (having the mean and standard deviation of 2.14 and 1.33 respectively) of them strongly agreed and agreed that people have focusing on present consumption than future saving.

According to the World Bank report (2011), the urban to total population is only 17% and the rest 83% of the total population is living in rural area; which will have a negative effect on the development of life insurance. This is proved by the respondents in the above table. 24.1% and 37.9% of the respondents strongly agreed and agreed that a lower share of urban to total population has a decreasing effect on the life insurance development.

4.1.2 Demographic challenges and opportunities of life insurance business in Ethiopia

Table 4.2 Demographic challenges and opportunities of life insurance business in Ethiopia

Descriptive Statistics													
Items	***N***	***SA***		***A***		***Ne***		***DA***		***SDA***			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	***mean***	***St.dev.***
people lacks awareness about life insurance, policies and its advantage	29	18	62.1	6	20.7	1	3.4	1	3.4	3	10.3	1.79	1.31
Religious inclination affects life insurance	29	12	41.4	10	34.5	4	13.8	2	6.9	1	3.4	1.96	1.08
people has tendency of focusing for present consumption	29	14	48.3	4	13.8	6	20.7	3	10.3	2	6.9	2.14	1.33
lower share of urban to total population causes lower level of life insurance consumption	29	7	24.1	11	37.9	7	24.1	2	6.9	2	6.9	2.34	1.14
A higher level of education increase individual's level of risk aversion	29	11	37.9	5	17.2	6	20.7	6	20.7	1	3.4	2.34	1.29
A higher ratio of old dependent to working population increase demand for life insurance	29	3	10.3	7	24.1	10	34.5	8	27.6	1	3.4	2.89	1.05
A higher ratio of young dependent to working population decrease demand for life insurance	29	11	37.9	5	17.2	9	31	2	6.9	2	6.9	3.21	1.04

SA- strongly Agree, A- Agree, Ne-Neutral, DA-Disagree, SDA-Strongly Disagree, Fr- Frequency, %- percent,st.dev-standard deviation

Source: own computation from primary data

Educational level of the society in a given country will have its own contribution for the development of life insurance in that country because the understanding level of risk elimination of the society will be proportionally increased with their educational status. The above table shows that 37.9% and 17.2% of the respondents strongly agreed and agreed that a higher level of education increase individual's level of risk aversion.

According to World Bank, the young dependent to the working population in Ethiopia is 77.2% in the year 2014.According to Marijana, et al (2013), during age between 30 and mid 40 individuals spend most of the income on dependents and durable goods. Thus, fewer incomes are available for life insurance comparing to those in age class of mid 40to mid 50 years. The above table supports this fact. As the young dependent ratio to working population is high (77.2%), the higher proportion of the income of the society is used for supporting the dependent family members not to purchase life insurance in Ethiopia.

It is clearly known that the life expectancy in Ethiopia is around 45 years. Hence, the ratio of old dependence to total population is low. According to World Bank report, the old dependency ratio in the year 2014 was 6.3%. This is an indication that the life expectancy in Ethiopia is short. The above table also shows that 27.6% of the respondent disagreed a higher ratio of old dependent to working population increase demand for life insurance where as 34.5% of them have no idea on the issue.

From this it is possible to conclude that lack of awareness of people towards life insurance, religious, habit of saving of the people and low level of urban to total population ratio, young dependency to working population and illiteracy are the major demographic challenges of life insurance business in Ethiopia.

The above table 4.3 presents the economic challenges and opportunities of life insurance business in Ethiopia. The life insurance development with the mean value of 1.83 and standard deviation of 1.07 indicated that the life insurance development in Ethiopia is highly depending on the level of income of the people. With the low level of income, people have no intention to purchase life insurance as a result the development of life insurance is affected.

4.1.3 Economic challenges and opportunities of life insurance business

Table 4.3 Economic challenges and opportunities of life insurance business in Ethiopia

Descriptive Statistics													
Items	N	SA		A		Ne		DA		SDA			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	***mean***	***St.dev.***
life insurance development raises with level of income	29	14	48.3	10	34.5	2	6.9	2	6.9	1	3.4	1.83	1.07
banking sector development affects life insurance development	29	8	27.6	10	34.5	7	24.1	1	3.4	3	10.3	2.34	1.23
Interest rate has significant effect on development of life insurance	29	8	27.6	8	27.6	9	31	1	3.4	3	10.3	2.41	1.24
Inflation has significant effect on life insurance development	29	6	20.7	9	31	8	27.6	5	17.1	1	3.4	2.52	1.12

SA- strongly Agree, A- Agree, Ne-Neutral, DA-Disagree, SDA-Strongly Disagree, Fr- Frequency, %- percent,st.dev-standard deviation

Source: own computation from primary data

The life insurance development will also be directly associated with the development of banking sector. As the banking sector development is increased, the life insurance industrywill be developed as well. According to the association of Ethiopian micro-finance institutions (2009), the insurance sector is dependent on the banking sector for much of its new business. The report also stated that most Ethiopian insurance companies have sister banks and its common for these banks to refer their clients to their sister insurance companies. Besides, insurance companies in Ethiopia tend to derive a large portion of their total income from investments in banks. This fact is also revealed in the above table with the mean value and standard deviation of 2.34 and 1.23 respectively showed that the banking sector development affects the development of life insurance in Ethiopia. This can be considered as an opportunity for the life insurance business in Ethiopia, because the banking sector is showing improvement in different aspects from time to time. The other important determinant of life insurance development is interest rate. The respondents also state that the interest rate has a significant effect on the development of life insurance business in Ethiopia (27.6% of the respondents strongly agreed and 27.6% of them agreed).

Inflation has also its own effect on the development of life insurance. Currently, Ethiopian economic condition can be considered as inflationary. However, according to the report of National Bank of Ethiopia Quarterly Bulletin (2014/15), during the first quarter of fiscal year 2014/15, headline inflation slowed down to 1.9 percent from 4.1 percent registered last year same quarter.

Similarly, the annual report of National bank of Ethiopia (2014) stated that the annual inflation rate was reduced from 13.5% (in the year 2012/13) to 8.1 % (in the year 2013/14). Hence, the decrement in the annual inflation rate can be a basic opportunity for the development of life insurance in Ethiopia. As it can be seen from the above table, 20.7% and 31% of the respondents strongly agreed and agreed that the rate of inflation has its effect on the development of life insurance business in Ethiopia.

From this we can possibly say that the low level of income of the society and the interest are the major economic challenges for the development of life insurance whereas the banking sector development, a decrement in an annual inflation rate can be the opportunities that can positively help the development of life insurance in Ethiopia.

One of the purposes of this study is to find out the internal challenges and opportunities of life insurance business in Ethiopia. The above table 4.4 presents different institutional or internal challenges faced by the Ethiopian life insurance business and opportunities that the industry currently has. Thus, of the total respondents, 24.1% and 31% of them strongly agreed and agreed that fraud to increase the amount of claim is the challenge that the industry faces. Thus, its mean value (2.45) is closer to 2.00 and indicating that fraud is the major challenges of life insurance business in Ethiopia.

The other challenge of life insurance business in Ethiopia is the breaches of contract which decrease the value of life insurance policy. On this issue, 13.8% and 24.1 % of the total respondents strongly agreed and agreed whereas 41.1% of them have no an idea on it.

5 It is clearly known that fair and healthy competition will help any industry to grow. However, as it is clearly shown in the above table, it seems that there is unfair competition among the insurance companies in Ethiopia. Likewise, Ermias (2008) stated that competition among insurance companies in Ethiopia is stiff. Private insurance companies ambitious to increase their sales volume have been granting unfair and adjustable discount to attract customers and achieve their estimated sales. This aggressive pricing policy has led to an unhealthy spiral of premium cutting. This fact is indicated in the table above, 34.5% and 31% (with the mean and standard value of 2.79 and 1.26) of the

respondents strongly agreed and agreed that there is unfair competition among insurance companies in Ethiopia.

5.1.1 Institutional challenges and opportunities of life insurance

Table 4.4 Institutional challenges and opportunities of life insurance

Descriptive Statistics														
Items	N	SA		A		Ne		DA		SDA			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	***mean***	***St.dev.***
An inclination to fraud induces individual to duplicate claim	29	7	24.1	9	31	9	31	3	10.3	1	3.4	2.38	1.08
The inability to appeal the breach of life insurance contract reduces the value of life insurance contracts	29	4	13.8	7	24.1	12	41.4	4	13.8	2	6.9	2.76	1.09
Insurance companies ambitions to increase their sales will create unfair and un adjustable discount	29	10	34.5	9	31	4	13.8	1	3.4	5	17.2	2.79	1.26
The range of insurance products offered is limited	29	12	41.4	4	13.8	5	17.2	4	13.8	4	13.8	2.45	1.50
Re-insurance and actuaries are hardly available in Ethiopia	29	12	41.4	9	31	2	6.9	0	0	6	20.7	2.27	1.53
The insurance market has been increasing	29	10	34.5	15	51.7	2	6.9	1	3.4	1	3.4	1.89	0.94
The insurance sector in Ethiopia focuses on general insurance	29	20	69	5	17.2	1	3.4	1	3.4	2	6.9	1.62	1.17
The premium is not affordable for lower income individuals	29	6	20.7	6	20.7	6	20.7	6	20.7	5	17.2	2.94	1.41
There is less effort by insurers to create insurance awareness to the society	29	11	37.9	10	34.5	5	17.2	0	0	3	10.5	2.10	1.23
Absence of strong insurance association has significant effect on life insurance development	29	14	48.3	9	31	2	6.9	3	10.3	1	3.4	1.89	1.15
Credit sales leading increasing uncollectible premium	29	7	24.1	6	20.7	4	13.8	5	17.2	7	24.1	2.96	1.54

SA- strongly Agree, A- Agree, Ne-Neutral, DA-Disagree, SDA-Strongly Disagree, Fr- Frequency, %- percent,st.dev-standard deviation

Source: own computation from primary data

The table above also revealed that 41.4% and 13.8% of the respondents strongly agreed and agreed respectively that there is a limited and almost similar product provided by the insurance companies in Ethiopia. This will in turn limits the development of life insurance business in the country.

It is indicated in the table above that 71.4 % (41.4%+31%) of the respondents stated that there are no re-insurers and actuaries for the insurance industry in Ethiopia. The re-insurers and actuaries mainly are from other African countries which will hinder the operation of insurance industry and be costly for the companies.

According to Ermias (2008), the insurance market has increased on average by more than 10% since 2001. This fact is indicated in the above table that 86.2% (34.5% +51.7%) of the respondents replied the insurance market is increasing through time and is one of the opportunities that the insurance business should use.

The most considerable and observable challenge of the life insurance industry in Ethiopia is the sector itself is mainly focused on the general insurance policy. The only insurance company which was established as Life Insurance Company is Ethio-life insurance company, which was established in 2008. However, the company operates the life insurance business only to 2011 and was changed in to Ethio-life and general insurance company in the year 2012. All (17) insurance companies are giving the none life insurance services, however, only 8 insurance companies are given life insurance services in addition to the none life insurance. Hence, it affects the development of life insurance business in Ethiopia. This fact is indicated in the above table that 69% and 17.2% (mean value of 1.62 and standard deviation of 1.17) strongly agreed and agreed as the insurance industry in Ethiopia is focused on none life insurance, it negatively affects the development of life insurance business.

One of the basic factors that can attract numbers of customers is the fair prices that the insurance companies set. However, in this study, it is found that 41.4% replied that the premium of the life insurance is not affordable especially for the low level income earners. Similarly, Smith and Doubell (2010) stated that the insurance sector in Ethiopia focuses on the corporate market and is costly for persons with low income to pay regular fixed premiums.

The existing companies which are providing life insurance services even are not exerting their effort as expected in order to create awareness about the life insurance benefit and policy. This study found that37.9% and34.5% of the respondents strongly agreed and agreed that there is less effort by the insurance companies to create awareness). The existence of strong insurance association in every country is the base for the development of insurance sector in general and the life insurance business in particular. However, in Ethiopia, there is no strong insurance association that can contribute for the development of the sector. This fact is indicated in the above table, (48.3% and 31% of the respondents strongly agreed and agreed that there is no strong insurance association in Ethiopia).

5.1.2 Regulatory challenges and opportunities of Ethiopian life insurance business

Table 4.5 Regulatory challenges and opportunities of Ethiopian life insurance business

Descriptive Statistics													
Items	N	SA		A		Ne		DA		SDA			
		Fr	%	Fr	%	Fr	%	Fr	%	Free	%	***mean***	***St.dev.***
Government regulation prohibited the investment criteria of companies	29	9	31	9	31	8	27.6	1	3.4	2	6.9	2.24	1.15
prohibition of foreign insurance companies limits technological advancement	29	7	24.1	9	31	7	24.1	2	6.9	4	13.8	2.55	1.32
Government had put in place necessary training for insurance professionals	29	3	10.3	3	10.3	10	34.5	5	17.2	8	27.6	3.41	1.29
Government regulation promoted ethical behaviour of insurance players	29	9	31	3	10.3	11	37.9	5	17.2	1	3.4	2.51	1.21
Government regulation protected consumers	29	5	17.2	7	24.1	6	20.7	9	31	2	6.9	2.86	1.24
Government regulated the number of insurance companies through capitalization	29	11	37.9	6	20.7	4	13.8	5	17.2	3	10.3	2.41	1.43

SA- strongly Agree, A- Agree, Ne-Neutral, DA-Disagree, SDA-Strongly Disagree, Fr- Frequency, %- percent,st.dev-standard deviation

Source: own computation from primary data

The above Table 4.5 presents regulatory challenges and opportunities of Ethiopian life insurance business. It is clearly known that the finance sectors in general and the insurance industry in particular of any country is highly regulated sectors. Unless such sector is regulated effectively and properly, its operation will have an adverse effect on the particular country's economy. The above table presents challenges and opportunities of life insurance business related to government regulation. It is prohibited for foreign insurance companies to exist in Ethiopia and it will have a negative effect on the technological advancement and introduction in the industry in one side and will have a positive effect by eliminating the competition among the foreign and domestic insurance companies. 24.1% and 31% of the respondents strongly agree and agree with the mean value of 2.55 on this issue as it is shown on the table 4.5 above.

The other challenge that the life insurance business faces is there is no training concerning the life insurance and the government has no training centres for insurance professionals so as to enhance the life insurance business. As it is clearly shown in the table above, 27.6% and 17.2% (mean of 3.41) of the respondents strongly disagree and disagree respectively on government put in place necessary trainings for the life insurance professionals.

The National Bank of Ethiopia has raised the minimum paid up capital required to establish an insurance company from 7 million birr to 75 million birr (60 million for general and 15 million for life insurance establishment) in the year 2013. The above table indicated that 58.6%of the respondents strongly agreed and agreed that the government regulation limits the number of insurance companies by increasing the paid up capital in Ethiopia.

5. Conclusion and Recommendation

5.1 Conclusion

This study was conducted on the challenges and opportunities of life insurance business in Ethiopia. Primary data was used for the completion of the study. The study found that lack of awareness of people towards life insurance, religious attitude, habit of saving of the people and low level of urban to total population ratio, the higher rate of young dependence to working population and illiteracy are the major demographic challenges of life insurance business in Ethiopia.

It is also indicated in this study that the low level of income of the society and the interest are the major economic challenges for the development of life insurance whereas the banking sector development, a decrement in an annual inflation rate can be the opportunities that can positively help the development of life insurance business in Ethiopia.

As it is indicated in this study, there is no training provided for insurance officials in Ethiopia and it has its own negative effect on the promotion of life insurance business in the country. The national bank of Ethiopia limits the establishment of new insurance business by raising the paid up capital from 7 million birr to 75 million birr (60 million for general insurance and 15 million birr for life insurance) starting from the year 2013.

The other challenge that the life insurance business in Ethiopia faces is there is no training concerning the life insurance and no training centres for insurance professionals so as to enhance the life insurance business.

5.2 Recommendation

The insurance companies in Ethiopia should try to create awareness about the significance of life insurance to the community through different mechanisms such as advertisements and training should be provided to the people with respect to saving so as to enhance saving habit of the community. Training should also be provided for the insurance officials concerning life insurance business and strong training centre should be established in the country. Public financial literacy should be maintained through training so that sufficient saving can be mobilized and life insurance will be purchased in large amount. The Ethiopian insurance industry should have its own actuaries so that immediate evaluation of events can be performed. The Ethiopian insurance market should be open to foreign companies, and then advanced technology, experience; skill knowledge and innovation can be introduced to Ethiopian insurance industry. Last but not least, numbers of insurance companies should be increased through the adjustment of paid up capital required to establish new insurance companies.

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