

# Image of Insurance Industry in Society in Ethiopia

## Girma Zeleke

Accounting and Finance Department, College of Business and Economics, Debre Berhan University, Ethiopia, Email: girma.zeleke23@gmail.com

## Amogne Mamaw

Accounting and Finance Department, College of Business and Economics, Debre Berhan University, Ethiopia

## Abebaw Fisseha

Accounting and Finance Department, College of Business and Economics, Debre Berhan University, Ethiopia, Email: abebawfisseha@gmail.com

## Dr. N. Robindro Singh

Accounting and Finance Department, College of Business and Economics, Debre Birhan University, Ethiopia, Email: drrobindrosingh@gmail.com

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**Abstract:** This paper attempts to assess the image of insurance industry in society through a sample of 109 customers of insurance companies operating in Debre Birhan and Addis Ababa Metropolis. The study was a cross-sectional survey that used self-administered structured questionnaire to the target population, both customers and staff of insurance companies in Ethiopia. The responses obtained from the data collection were cross tabulated and subjected to descriptive analysis. The study revealed that insurance companies find it difficult to settle claim payment and subject customers to long processing period, high premium and unsatisfactory performance. Besides, unethical practices increased the rate of dissatisfaction. In addition, lack of insurance culture, awareness and attitude of our people contributed to their poor image subsequently leading to low patronage by the public. These insurance companies however collect their premium promptly. In an effort to repositioning the industry for effective and efficient performance, the paper proposes from the public relative perspective a number of strategies such as prompt and accurate claims payment, automation of operation, good customer relationship management, and the good code of ethics as strategies for repositioning the insurance industry in Ethiopia.

**Keywords:** Insurance, Image, Claim, Culture

## Introduction

The Ethiopian economy is made up of many sectors. These include the financial sector, agriculture sector, education, power, communication, aviation sector, etc. Insurance sector is one of the sub-sectors in the financial sector of the economy that has played a critical role towards the growth and development of the Ethiopian economy as a whole. The Ethiopian insurance industry has suffered what experts called an image problem.

Until very recently, many did not perceive insurance business as a crucial financial service mainly because the purchase of insurance service does not involve the exchange of any physical product (Babington- Ashaye, 2009). Although it is intangible, insurance is a crucial business service that creates and adds value. It lubricates the oil of business by being the risk bearer. Its importance is better appreciated when any kind of disaster occurs. Indeed, the economic importance of insurance is to reduce the financial

implications of disasters thereby creating a sense of security which encourages people to engage in commercial activities without fear, irrespective of the degree of uncertainty.

The insurance sector plays an important role in the financial services industry in almost all developed and developing countries, contributing to economic growth, efficient resource allocation, reduction of transaction costs, creation of liquidity, facilitation of economies of scale in investment and spread of financial losses (Haiss and Sümegi, 2008). The insurance sector of any country can take a major part in the economic growth and development (Brainard, 2008; Ward & Zurbrugg, 2000). But this sector in developing countries has an inactive role in the economic growth and development.

In developed economies, insurance companies play a pivotal role in the economic growth. However, in developing countries like Ethiopia, insurance companies help in transferring risks only marginally from unfortunate individuals or business towards policy holders because there are no developed capital markets where the insurance firms can invest their portfolios. In developed economies, insurance companies smooth the economic cycle and reduce the impact of crisis situation by reducing uncertainty and volatility. They enhance trade, transportation and capital lending.

Ethiopia is the second most populous country and has one of the fast growing economies in Africa. However, the insurance industry is one of the least developed measured by insurance density and penetration. According to African Insurance Organization's 2009 annual review, Ethiopia and Uganda are the only countries in sub Saharan Africa without reinsurer companies. As a result, a huge amount of foreign exchange has been flowing out to reinsurance companies.

Figures indicate that Ethiopia's insurance sector is skewed towards corporate clients who insure their assets (motor vehicle, fire), business (aviation, engineering) and staff members (accident, health, workmen's compensation). General insurance dominates the sector, with motor vehicle insurance forming the largest

category of general insurance - constituting 43% of total insurance premium. On the other hand life insurance constituted merely 6% of total premiums. Ethiopian insurance represented merely 0.3% of GDP in 2011 - while in Kenya and Namibia premiums represent 2.5% and 8.1% of GDP respectively.

Insurance penetration as measured by gross written premium as percentage of GDP has been low. The global credit crunch which had visible impact on the global insurance demand in the last few years has also affected the insurance business in Ethiopia. Factors that affected the insurance business in Ethiopia are the structure of the economy which is dominated by rain-fed agriculture, absence of differentiated products, unethical competition, and obsolete technology, non-existence of re-insurance companies, lack of developed capital market and low and negative interest rate (ADBF, 2010).

### **Statement of the Problem**

The insurance industry in Ethiopia was not growing in the last five years in line with the population and economic growth. Currently, the minimum required capital to establish an insurance company is Birr 3 million for general insurance, Birr 4 million for long-term insurance and Birr 7 million for composite insurance. The minimum required capital in Ethiopia is lower than South Africa, Egypt, Kenya and Tanzania. South Africa and Egypt required capital of more than USD 1.5 million to establish insurance business. Ethiopia's minimum required capital is higher than only Uganda and Zambia (African Insurance Organization, 2009).

At the end of June 30, 2010, the total capital of the industry (both life and non-life) reached Birr one billion. The general (non-life) insurance business constituted more than 95% of total industry's capital on average during the last ten years. The share of long term (life insurance) has taken only the marginal share of 5% of the industry's capital in the last 10 years. The dominance of the general insurance business is an indication that the insurance products of the companies is not diversified. Since the rural economy has low insurance coverage, most of the branches are

found in the urban centers. By June 30, 2010, 50% of the total branches were located in Addis Ababa. ([www.addischamber.com](http://www.addischamber.com))

The German sociologist Beck (1992, 1999) argues that a new frame of reference is needed to understand the world in which we have entered: that of a risk society on the global setting. The fast pace of environmental devastation, as well as the relentless advance of technological progress generate an ever-increasing number of implications in terms of risks and uncertainties. We thus need to learn how to address these new problems posed to our culture, for instance by the mounting threats on ecosystems or by the development of genetics or nanotechnologies. The advent of this "world risk society" with all its consequences provides new opportunities for insurance companies, which can find in this evolution new fields to apply their expertise in assessing and managing risks.

At first sight, one could estimate that the insurance sector enjoys a positive reputation in the public opinion, in so far as it significantly contributes to wealth creation. Beyond offering services useful to society, insurance firms - like any other companies - provide jobs to a number of people, pay taxes to government, and fuel economic growth in countries where they operate, both in the western industrialized societies and in the developing world.

So far as it significantly contributes to wealth creation, and as the insurance sector brings a number of positive contributions to society, however, it appears that the image of the insurance industry in the public opinion is not so clear. A number of reasons may account for this negative perception: the opacity of the insurance business with its misrepresentation and mis-selling practices, the dissatisfaction about the insurance agents' reward system, and the problems associated with the respect of customers' privacy count among the major determinants of the bad image conveyed by the industry.

The relationship between insurance industry and the public has been a subject of concern by many writers. In trying to establish this relationship, many authors have adopted different approaches, methods and techniques. Some attempt an analysis

of the role that insurance plays in ensuring the safety of the public; some focused on the importance of the industry to the economy and the society; and yet others emphasized the regard that the people have for insurance industry.

In this section, we shall focus our discussion on the main thrust of the study, i.e. how the public perceive the insurance industry and the need for a review of the strategies that have been in use in relation to the current market situations.

Thus, the focus of this paper is to investigate the image of the insurance industry in society at a time when it is confronted with new challenges in the context of globalization, such as the fast pace of environmental devastation and the relentless advance of technological progress that generate an ever-increasing number of implications in terms of risks and uncertainties.

### **Research Questions**

This research will try to address the following questions:

- How are the insurance companies in Ethiopia managing the claims of their clients?
- How is client relation in the Ethiopian insurance industry?
- Why the ordinary Ethiopian does not see any need in taking insurance policy?

### **Objectives of the study**

The general objective of this paper is to investigate the image of the insurance industry in society at a time when it is confronted with new challenges in the context of globalization,

In light of the above general objectives, the specific objectives will be:

- To evaluate how the insurance companies in Ethiopia are managing the claims of their clients
- To find out the client relations in the Ethiopian insurance industry
- To point out why the ordinary Ethiopian does not see any need in taking insurance policy

### **Research Design and Methods**

The study focused on the Ethiopian insurance market taking Debre Birhan and Addis Ababa City as the scenario for the study. The research

specifically has investigated the insurance business and its image in society. A cross-sectional data were used which were obtained from policyholders for the year 2017. Descriptive survey research design (qualitative) is employed for conducting this study. Such a study is helpful in obtaining pertinent and precise information as well as to draw valid conclusions about the target population.

### Sample Size and Sampling Techniques

Selection of the sampling method to use in a study depends on a number of related theoretical and practical issues. These include considering the nature of the study, the objectives of the study and the time and budget available. Convenience sampling involves selecting sample members who can provide required information and who are most available to participate in the study. Thus, convenience sampling technique was used to select policyholders. The researcher's judgment was used to select the sample element and it

involves for a specific purpose. A sample should consist of a group of people who have knowledge about a particular problem. Staff members were included as sample size using judgmental sampling.

**Source of Data and Procedure of Data Collection**  
The study is based on primary data. This was obtained through questionnaires distributed to sample respondents in the insurance business when available for premium payment.

### Methods of Data Analysis

The responses generated from the survey were edited to detect and deal with any inconsistencies in the data. Qualitative descriptive analysis methods were used to summarize the information generated so that appropriate analytical methods could be used to deliver relationships among the variables.

### Results and Discussion

This section presents research findings based on responses obtained from staff and policyholders.

**Table 1: Analysis of responses from staff members**

	Questions	Very Satisfactory	Undecided	Unsatisfactory
1	How do you rate your company in undertaking professional sales staff training?	8	1	33
		Lack of culture	Lack of income	Thought unnecessary
2	Why do you think people do not take insurance policy?	24	14	4
		Agree	Neutral	Disagree
3	To what extent do you think government regulation & policies in Ethiopia affect marketing and growth of insurance business in your company?	33	5	4
		In Ethiopia	Abroad	No where
4	Where you acquired re- insurance?	0	32	10
		Yes	No	
5	Do you collect premiums promptly?	38	4	
		Yes	No	
6	Do You Have Any Customer Service Unit for Complaints?	28	14	
7	Do You Have Any System for Customer Feedback After Claim Settlements?	26	16	
8	Do You Undertake Any On-going Customer Satisfaction Research?	36	6	

Source: Survey data (2017)

A majority (90%) of the respondents responded that the company does not undertake professional sales staff training, 4% were undecided, and 6 % indicated their affirmation that it was very satisfactory.

Diacio and Carter (1992) study (as cited in Kamau (2003) notes that the insurance company's marketing staff especially the sales representatives need to be motivated always. Some will put their best effort without any special coaching from management. The study findings are in agreement with the above previous studies by Kotler (2003) and Diacon et al. (1992).

About 57.1% of the respondents said that people have low insurance culture while 33.33% said that the poverty level contributed for not acquiring insurance. The remaining 9.48% had no opinion to offer.

The ordinary Ethiopian does not see any need in taking insurance policy. It is not that he/she had been disappointed some time while making a claim. The culture for insuring their life or asset is not there. While some people see banks as partners in safekeeping of their money and valuables, insurance is seen as a product for some kind of people. This is a challenge confronting insurers. They have to find ways to improve market penetration and make the industry compete effectively in the financial market. Morduch (1994) cited by Tajudeen, Ayantunji and Dallah (2009) pointed out that the weak financial institutions in low income countries (of which Ethiopia is one) is a major reason for low insurance culture in these countries which in turn affects this business negatively. It is a known fact that the level of poverty in Ethiopia is on the high side.

When people below poverty line are high and per capital income is low, then insurance penetration is

bound to be low (Atamand, 2003 cited by Tajudeen, Ayantunji and Dallah, 2009).

From the study findings, 77% of the respondents agreed that the government regulations and policies in Ethiopia affected the marketing and growth of insurance business in the country. 14% were neutral while 9% disagreed.

The findings agrees with Ogutu (2004) that the government through the Commissioner of Insurance should ensure that policies and regulations aimed at shielding the life insurance business from harsh socio-economic, political, legal and environmental factors are formulated to ensure a positive contribution towards the growth of life insurance business in Ethiopia.

Insurance companies in Ethiopia were using foreign based reinsurers. This will cause unnecessary loss of foreign exchange through the purchase of reinsurance from across the border. Wang (2003) advocated having a legal and regulatory framework in place regarding reinsurance. He considered it crucial for the stability and the solvency of the insurance industry and reinsurance market.

Insurance companies collect their premiums promptly. This means that most of the life assurance companies are doing well in the country so far as collection of premium is concerned. This goes a long way to help government raise enough revenue through taxation from insurance companies to embark on developmental projects.

The results indicate that some of the companies have customer service units where claimants could lodge their complaint and place systems for customer feedback after claim settlement. They also conduct an on-going customer satisfaction research.

**Table 2: Customer satisfaction of client from staff respondent**

Claimants' Satisfaction With the Time Taken to Settle a Claim		
Satisfied	Not satisfied	Total
27	15	42
Do claimants whose claims are settled renew their insurance policies?		
Yes	No	Total
23	19	42
Has there been any Increase in the number of policies written in the last three years?		
Yes	No	Total
31	11	42
Is the increase in the number of policies written attributable to the quality of companies' claims service?		
Yes	No	Total
24	18	42
Have you ever declined to settle a claim?		
Yes	No	Total
13	29	42
Does every insured renew their insurance policy?		
Yes	No	Total
23	19	42

Source: Survey Data (2017)

The above table shows responses of the insurer's staff to questions relating to customer satisfaction. The responses show that 15 (35.7%) claimants were not satisfied with the time it took the insurer to settle their claims whereas 27 (64.3%) were satisfied.

The responses received showed that a larger number of staff members, i.e. 19 (45.2%) stated that claimants whose claims had been settled did not renew their policies after settlement of claims, whereas 23 (54.8%) claimed clients renewed their policies after claims settlement. Furthermore, 31 (73.8%) of the company's staff stated that there has been an increase in the number of policies

written. This, they believed was attributable to the quality of claims service provided but 11 (26.2%) indicated otherwise.

On the question of whether they have ever declined to settle a claim, 13 (31%) of the respondents claimed in the affirmative, where as 29 (69%) indicated otherwise.

According to the response given on the above table, one can understand that most insured are not willing to renew their insurance policy at the insurance company which insured them. This implies that claimants were not satisfied with the time it took the Insurer to settle their claims.

**Table 3: Background information from policyholders**

		Male	Female	
1	Gender	94	15	
		18 -30	31 - 46	>46
2	Age	13	24	72
		Primary	Secondary	Tertiary
3	Educational background	3	23	83
		With broker	With Website	At office
4	How did you acquire insurance policy from the company?	6	0	36

Source: survey data (2017)

Table 3 indicates that out of the 109 questionnaires administered to the Insured, 86.2% respondents were male while 13.8% respondents were female. On the other hand, in spite of a social change resulting in more women working today as compared to a few years ago in Ethiopia, on the whole, males are expected by the society to shoulder all responsibilities of most families and therefore they have a tendency to own insurable properties which invariably results in higher number of respondents for males than females.

On the bases of age 11.9% of respondents were within the 18-30 years age bracket, 22% of respondents were within the 31-40 years age bracket, 66.1% of respondents were within the 46 - 55 years age and above. This could be attributed to the fact that larger numbers of Ethiopians are able to acquire tangible insurable properties as they get older. Respondents within that age band also have an understanding of their risk exposures. Therefore, they are prepared to

take up insurance cover to protect them from any financial disaster.

The educational background of the respondents, which is presented in Table 4.3, shows that 2.6% of the respondents were primary school leavers whereas 21.2 % respondents were secondary school leavers. 76.2% of the respondents had completed tertiary education. It is evident that people with higher education take on more insurance policies than those who have little education. This is because insurance is perceived to be more technical and has a lot of legal aspects governing insurance products; therefore, people who are more educated can decipher the fine prints and make adequate judgments on the products.

The majority (85.7%) of the respondents indicated that they had acquired insurance policy directly from the insurance company by approaching the main office while 14.3% said they acquired it through insurance brokers. There is no doubt that sound information technology cannot be ignored in any business that is success oriented and wants

to be on top. Lots of insurance companies in Ethiopia do not have a functional website. Most of their sites are just there for namesake and no tangible information can be obtained from them. Their failure to communicate with the public

through the internet has kept them in the dark for long. In Ethiopia insurance companies are still paper based, virtually all their operations are still done manually.

**Table 4. Time taken for claim satisfaction**

		Satisfied With Duration of Payment?			Total 2
		Yes	No	Never made claim/ claim declined	
How long before settlement	Within 3 months	22	9	44	31
	4-6 months	9	2		11
	7-12 months	5	2		7
How can you describe the relationship between you and your insurer?	1 year	3	3		6
	2 years & above	3	6		9
	Very cordial			Not cordial	
	58			51	

Source: Survey Data (2017)

Table 4 shows that a total of 65 respondents had their claims settled. 31 claims were settled within 3 months, 11 claims were settled in 4-6 months, whilst 7 claims were settled within 7-12 months. Six claims took one year to settle while 9 claims took as long as 2 years. It is worthy to note that none of the claims took more than two years before settlement was effected.

Out of the 109 respondents who made a claim, 42 indicated that they were satisfied with the duration of settlement while 23 indicated they were not satisfied. It can be observed that all except 9 claimant whose claims settlement were completed within three months were all satisfied with the duration of the payment but the same cannot be said for the other periods. It could be observed that the rate of dissatisfaction increased with increasing period of claim settlement.

27.5% of the respondents maintained that the relationship between them and their insurers were very cordial while 25.7% said that the relationship between them was a cordial one. Thus, only 46.8% respondents indicated that the relationship that existed between them and their insurers was not so cordial.

### Conclusion

The financial services and insurance industry will be able to build the trust of all its stakeholders only by demonstrating that it understands its responsibilities and operates with integrity. Trust is vital to the insurance business; it represents its main asset. This is why transparent and ethical practices are needed to restore the reputation of the industry. It will demand skills in managing change. Enlightened leadership is essential to provide the impetus, to set the organization in motion, and to follow up the internalization process. Implementing compliance programs, defining sets of values and elaborating codes of conduct are some of the challenges for the insurance companies.

The perception of Ethiopians toward insurance products must be of great concern to every citizen. More than ninety-five percent of Ethiopians do not have any form of insurance protection for themselves, their beneficiaries and possessions due to bad perception. This has a negative implication towards nation building. Ethiopians over the years have witnessed a lot of fire outbreaks in market places, farms and other government agencies, accidents on the road and

at the work places, gas explosion and house burglary among others. In all these incidents, the citizenry appeal to the central government to come to the aid of the victims. This is because the victims do not have insurance cover. There is the need to build confidence in the insurance sector and this will go a long way to help increase the patronage of insurance.

The study revealed that insurance companies find it difficult to settle claim payment and they subject customers to long processing period, but the insurance companies collect premiums promptly. Again a majority of the customers/policyholders agreed to the fact that the premiums charged by insurance companies are high. The operations of the service providers, according to a section of the customers, need to be improved due to some lapses identified in the study. Approximately 55 per cent of the customers rated the performance of insurance industry in Ethiopia as unsatisfactory. In addition, 76% of the respondents said that the members of the sales personnel were involved in unethical practices but were not exposed. About 20% of the respondents indicated that they were not satisfied with the duration of settlement. It could be observed that the rate of dissatisfaction increased with increasing period of claim settlement. Coupled with unethical practices this shows these companies in poor light and it is not good for the growth of insurance business.

All these give out a signal that the National Insurance Commission needs to sit up in its dealings to identify the needs of customers and develop appropriate service quality strategies to meet their needs. It was clear that most of the insurance companies are doing well in the country so far as collection of premium is concerned. The study also revealed that some (70%) of the customers do not receive feedback after lodging complains concerning their policies.

Finally, we realized that the major impediment to the penetration of insurance in Ethiopia is lack of awareness coupled with the culture and attitude of our people. The ordinary Ethiopian does not see any need of taking an insurance policy. While some people see banks as partners in safekeeping of their money and valuables, insurance is seen as a product for some kind of people.

## Recommendations

The problem of claim settlement has plagued the insurance industry in Ethiopia for a long time giving it a poor image. This poor image is due to the complex and peculiar nature of the insurance business. However, there is the need to improve on the image of insurance companies which will lead to the growth of the companies and the insurance industry as a whole. In the light of the above findings and conclusions the following recommendations are made to improve the image of the insurance companies in Ethiopia:

Claims must be settled promptly and equitably in order to earn the confidence of customers and to retain their loyalty. Reducing documentation required to process a claim and minimizing correspondence and claims communication and reporting could do this. The Ethiopian insurance industry should create and improve on their customer service units so that complaints and suggestions could be addressed promptly. The researchers are of the view that since insurance companies collect their premium promptly; they should do well to settle their customers' claims on time to create a good impression about their products. Government should play an important role in ensuring a conducive environment, capacity building, appropriate regulatory and legal framework as well as strategies to guide insurance operation in the country. Also long processing of claim by insurance companies can be reduced through educating potential customers about the documents needed for claim assessment, and this will address the negative perception people have about insurance. Even the companies can institute on-line payment of claims, where customers can fill all their documents on-line for onward processing for claim settlement to avoid unnecessary travelling. Also, insurance companies can reward their customers for loyalty through price discounts or extra value, publication of their names in national dailies, free insurance policy for a year, special dinner dance, meeting with CEO, among others. The National Insurance Commission (NIC) in collaboration with the insurance companies should develop an educational and information program on insurance

policies to enhance public confidence in the insurance sector. This will go a long way to help increase the patronage of insurance products in the country and its contribution towards the economy. Finally, the government should explore the possibility of establishing locally owned reinsurance firms to avoid unnecessary loss of foreign exchange through the purchase of reinsurance from across the border.

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