

## **The Effect of COVID -19 on Insurance Industry in Ethiopia**

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### ***Abstract***

*This study explored the performance of Ethiopian insurance industry prior to the pandemic, current measures taken for adverse effect of COVID-19 by insurance industry, its probable future effect and the way forward. Data were gathered from professionals via telephone interviews, websites, published articles, reports, and press conference release. The study result showed that, before the pandemic the country's insurance industry is one of the segments that have been broadly safe, sound, well capitalized and profitable. But, due to rise in the number of cases, the usual business of insurances in Ethiopia is decreasing. Potential customers are not willing to be covered for third and damage insurance due to restriction imposed on their usual activities. Furthermore, if the pandemic remains for additional months, it will have adverse probable effects on general, life and health insurances. To reduce these adverse effects, the researchers suggest that, it is better for the industry to work hard and collaborate in this difficult time with the government in fighting COVID-19. The insurance companies should be attentive, flexible enough to accommodate emerging scenario and communicative to their core stakeholders.*

**Key words:** *COVID-19, Insurance Industry, Probable Effect*

## **1. INTRODUCTION**

Insurance industry plays a pivotal role during times of economic stress by helping companies and households manage risks and cushion against losses. Yet, as one of the biggest groups of investors, they are also vulnerable to volatility in financial markets. Volatile financial markets and the global economic downturn have had a relatively greater effect on insurers, particularly life insurers, due to large holdings of fixed income securities and, correspondingly exposure to movements in interest rates. A global economic recession, which is becoming increasingly likely, might affect insurers in several ways. These include, for example, lower demand for insurance products, higher surrenders of certain life insurance and disruption of normal operation. This is true during pandemic COVID-19 crises.

Advanced countries have taken stringent measures essential to contain the virus, though it is pushing their economies into an unprecedented deep freeze state (OECD, 2020). The same thing is true in developing countries, though the extent and context are different. Developing Countries have implemented measures to contain the spread of the virus by: i) limiting travel; ii) reducing non-essential work and promoting teleworking; iii) cancelling mass gatherings and promoting physical distancing, among others. Borders remain open in most countries to keep supply chains functioning and to allow for continued trade in essential items including food, manufactured goods, and vital medical supplies. Customs Administrations and cross border agencies provide essential services to guarantee and secure the cross-border movement of goods, especially essential products. Nonetheless, their staff and traders are exposed to contamination and further spread of the virus if appropriate measures are not adopted (UNCTAD, 2020).

Pandemic risk management is particularly relevant to developing countries because many of them are positioned to be the main supplier of pandemic prevention, which is a pure global public good. Many developing countries that increasingly take part in global trade and travel do not yet have the veterinary and human public health capacities to arrest the contagion early. This capacity gap is a source of pandemic risk. These capacities would produce national public goods, the lack of which is an obstacle to development and poverty reduction. Investing in these capacities would substantially strengthen critical parts of the national and international systems for prevention of pandemics and thus increase the supply of the global public good of pandemic risk reduction. The benefits would accrue to all people and all firms in all countries.

The aforesaid pandemic risk has huge negative impact on business operation risk that will result in today's economic turmoil potentially more severe than we witnessed during the global financial crisis. The COVID 19 pandemic is a different kind of shock. Never before have modern economies shut down at the drop of a top. From day to day, many workers lost their jobs and paychecks. Restaurants, hotels, and airplanes all shrunk and consumers and businesses now face steep losses in income and potentially widespread bankruptcies. These problems, in turn have great spillover effect on insurance business, as its heart of business is related to insured's income and their risk exposures.

Similarly, the Ethiopian insurance industry might have identical fate, though there is context difference with others due to closed financial system. Although, Ethiopian insurance industry has been performing well before the pandemic, the insurance industry has not escaped from

pandemic effect. As the broader economy recovers and responds for the pandemic, insurers will face a number of challenges but also see many new opportunities in the medium to long term. Among, its challenges, lower demand for insurance products, higher surrenders of certain life insurance. Whereas the main opportunity is the probability of opening business venue for such pandemic coverage.

**The aforesaid effects of the pandemic were not investigated from Ethiopia perspectives. Therefore, it appeals to examine the major COVID-19 caused spillover effect on insurance industry** for better understanding the probable effect of COVID-19 and suggest the way forward to mitigate its adverse effect and take the opportunity that it has on insurance industry in Ethiopia. The authors have made desk review on the prior to pandemic performance, response given by the industry and pandemic's probable effects. The main objective is to highlight on the extent of the problem in the context of Ethiopian insurance sector and provide feasible recommendation.

## **2. MATERIALS AND METHODS**

This study used exploratory and descriptive research design in order to assess the probable effect of COVID-19 on insurance industry in Ethiopia. The main purpose of exploratory study is that of formulating a problem for more precise investigation or of developing the working hypotheses from an operational point of view. The major emphasis in such studies is on the discovery of ideas and insights. As such, the research design appropriate for such studies must be flexible enough to provide opportunity for considering different aspects of a problem under study. Whereas, descriptive research, the researcher can only assess what has happened or what is happening (Kothari, 2004). The study has adopted qualitative research approach. According to Hoepfl (1997), qualitative research method can be used to gain new perspectives on issues few or little is already known, or to gain more information that may be difficult to convey quantitatively.

The study used both primary and secondary source of data. The primary data was collected from managers and experts in the field through phone interview. Secondary data was obtained from document review of various reports and research results focusing on insurance industry included in this study. These were gathered from websites, newspapers, published articles, government reports (NBE) and press conference release. Authors are unable to collect field data due to movement restriction as a result of the pandemic. Content analysis was used to conduct the analysis of this study.

## **3. RESULTS AND DISCUSSION**

### **3.1. Ethiopian Insurance Industry Prior to COVID-19**

The insurance industry is one of the vital industries of the economy. It performs a lot of functions that are indispensable for many modern economy and society. Insurers contribute significantly to the financial security of private households and take on risks from companies, laying the foundation for economic activities, innovation and sustainable economic growth. In case of major losses e.g natural disasters, the insurance industry quickly provides the affected insured's

with financial means, thereby contributing to macroeconomic stability. In addition to that, Insurers are the biggest group of institutional investors and their focus on long term investments makes them an announcer of stability in the financial markets. Risks and insecurity are an integral part of our daily lives. Managing these risks in the best possible way is one of the major challenges for each individual, each business as well as society as a whole. Therefore, Insurance financial system is the prerequisite for sustainable economic growth and prosperity (Kahase, 2018). However, sometimes they will be challenged more during pandemic like COVID-19.

Prior to pandemic COVID-19, Ethiopian insurance industry is one of the segments which were safe, sound, well capitalized and profitable. The Insurance Companies have scaled up their services by expanding their network and product diversification by showing visible signs of improvement. Although the number of insurance companies remained at 17, in 2018/2019 their branches rose from 532 to 568 following the opening of 36 new branches. As a result, this brought for the decrement of insurance to population ratio from 181,396 to 173,848 for one insurance company. The industry's capital also improved well by 49.5 percent to Birr 8.2 billion, of which, the share of private insurance companies was 68.3 percent and that of public insurance company was 31.7 percent (NBE, 2019).

### **3.2. Response of the Insurance Industry to COVID-19 Pandemic**

COVID-19 outburst resulted in universal concern and economic hardship for different economic sectors of socio economic across the globe in general and Ethiopia in particular. The usual business of insurances in Ethiopia is decreasing. Potential insured are not willing to be covered for third and damage insurance due to restriction imposed on their usual activities. Furthermore, recently high risk of the problem is rising all over the country.

The number of people visiting insurance companies for new subscription and premium payment is decreasing from week to week. As a response to current pandemic, the industry has decreased the number of employees deployed on work for the purpose of maintaining physical distance. Besides, they are taking precautionary measures for their employees to keep their personal hygiene with hand wash, sanitizer and mask wearing. Additionally, some insurance companies are extending their hands and providing millions of birr to support the low income citizens and combat the challenge of the Virus. Moreover, the government has started to provide health insurance coverage for health professional who join this anti COVID-19 campaign during the pandemic period.

### **3.3. The Probable Effect of COVID-19 on Insurance Industry**

In the insurance industry, the most obvious potential effect of COVID-19 is an increase in insurance claims from death, hospitalization, events cancellation and business interruption cover, among other eventualities. Yet, these have not significantly affected insurers' solvency so far. This may be due to delays in claims submission because of restrictions on movement, exclusion of pandemic events from insurance contracts, protracted loss adjustment process or diversification effects (eg higher insured death pay-outs being offset by lower annuity payments or lower claims from motor insurance). In some emerging market economies, low insurance penetration rates mean that most of the financial losses are not covered by insurers. COVID-19 has different probable effect on different line of insurance business.

**a. General Insurance**

The effect of COVID-19 Pandemic on general insurers will vary depending on the products and types of coverage offered by the insurers. The pandemic has brought great effect on new premiums on certain lines of business such as international trade, travel and events. Losses from these lines of business may become significant. Other lines of business such as motor and home have remained relatively stable. Because, their transaction nature is not frequently happening events, claims volumes for personal lines (e.g., motor) have greatly decreased due to partial lockdown on transportation after state of emergency declaration in Ethiopia.

**b. Life Insurance**

COVID-19 has great probable effect on life insurance business. First, It has significant effect on economic activity and employment levels at a local, regional and global level, consumer spending power has reduced significantly over a short period. Second, insurers are responding with payment breaks in an effort to stem a potential large level of lapses. Third, coupled with the reduction in consumer spending power is the effect of market volatility and general uncertainty on consumer confidence and, therefore, on willingness to spend. Life insurers expect this to translate into significantly lower new business volumes for a period of uncertain duration. Fourth, in addition to the expectation of lower new business volumes coupled with increased lapses, there has been a significant drop in market values and interest rates. The effect of this on life insurer income levels in some cases may lead to financial tension and the need to consider unfavourable actions such as expense cuts. Finally, although the tragic loss of life will resound across society, from an insurance perspective life insurers may not see a large volume of life claims as many of those that succumbed to the disease were of the age cohort that may not have coverage. However, there is a risk that mortality for other cohorts may increase arising from fear of seeking hospital or medical care or the general stress of self-isolation.

**c. Health Insurance**

There is a wide diversity of health systems across the globe; the effect on health insurers will not be uniform. For instance, in Ireland the government has mandated that private hospital services are redirected to support the COVID-19 surge, while in other countries private health providers have volunteered their services to support the response. This and the enforced self-isolation rules have meant that elective procedures and consultations have been greatly curtailed and subsequently claim volumes have reduced in the short term. However, in the circumstances where customers are paying for private health insurance but are not being distinguished from a public patient, it is possible that some customers will expect credits or rebates. In Ethiopian context, even though health insurance is not prevalent like other insurance type, it has positive externality as government planned to cover health professionals involved in the pandemic prevention.

#### **4. CONCLUSIONS AND RECOMMENDATIONS**

The study was conducted with the aim of describing the insurance industry performance prior to COVID-19, measures that were taken to reduce impact of COVID-19, and exploring the probable effect of COVID-19 in Ethiopia. To attain the stated objective, the researchers have used both exploratory and descriptive research design. Insurance industry has major role in

stabilizing and sharing the effect of risk among its policy holder. Since the industry activities are highly reduced due to the pandemic, the following recommendations were forwarded.

The industry has to work hard and collaborate in this difficult time with government in fighting COVID-19 and they have to be attentive, flexible enough to accommodate emerging scenario and communicative to its core stakeholders. As a regulatory body, National bank of Ethiopia should also enhance its supervising capacity and provide its leadership based on the emerging scenarios, international practice and country's context. Insurance Companies are expected to face liquidity problem in short run and solvency problem in the long run if the pandemic stays for a long time. To prevent this from happening, the industry is supposed to take precautionary measures and National Bank of Ethiopia has to support with great care in maintaining the liquidity of the industry.

It is evident that in Ethiopia there is an opportunity for health insurance business. The government has reached an agreement with the Ethiopian Insurance Corporation though did not disclose the value of the cover. It is obvious that, as COVID-19 cases continue to raise in Ethiopia, several doctors, nurses and other health workers in emergency rooms remain at high risk. Hence, they need to get coverage from government to do their job with full confidence. Therefore, insurance companies are advised to effectively use these business opportunity.

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