



THE ETHIOPIAN MICROINSURANCE REGULATORY FRAMEWORKS:

A CRITICAL ANALYSIS

LLM.THESIS IN COMMERCIAL LAW

BY

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This is to certify that the thesis entitled “**THE ETHIOPIAN MICROINSURANCE REGULATORY FRAMEWORKS: A CRITICAL ANALYSIS**” submitted in partial fulfillment of the requirements for the degree of Master's with specialization in commercial law, the Graduate Program of the School of law, and has been carried out by BEHAILU ALEBACHEWC ID. No. GPCLW/OOO3/14 under my supervision. Therefore I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

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ACRONOYIMS

AIG	American International Group
CGAP	Consultative Group to Assist the Poor
CIMA	Chartered Institute of Management Accountants
CP	Consumer Protection
EIC	Ethiopian Insurance Company
EIK	Ethiopian Insurance Corporation
EPDRF	Ethiopian People Democratic Republic Front
ETB	National Currency of the Federal Democratic Ethiopia
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für International Zusammenarbeit
IAIS	International Association of Insurance Supervisors
ICC	Increased Cost of Compliance
ICP	Insurance Core Principles
ILO	International Labor Organization
MFI	Micro Finance Institution
MI	Micro Insurance
MIN	Micro Insurance Network
NAICOM	National Insurance Commission (Nigeria)
NBE	National Bank of Ethiopia
NGO	Non-Government Organization
NIC	National Insurance Commission (Ghana)

SIPE	Satellite Index Insurance for Pastoralist Ethiopia
UK	United Kingdom
UNDP	United Nation Development Program
USA	United State of America
WFP	World Food Program

ABSTRACT

Micro insurance is a novel financial strategy that recently evolved for the purpose of providing appropriate risk control mechanisms for low income-segment of the society. Our country Ethiopia is characterized by extreme levels of poverty exacerbated by the fragmented and under-developed state of agriculture. Illness, death and drought are the biggest risks in Ethiopia. Even though, micro insurance is understood to be an effective tool for the protection of the poor, the micro insurance industry of the country is in infant stage and its regulatory frameworks are marred by a lot of regulatory inefficiencies .This study critically assessed the existing regulatory frameworks of Ethiopian micro insurance industry. The study applies doctrinal and non-doctrinal research approach. In order to explore the different issues included in the research, both primary and secondary data are used .Key informant interviews with carefully chosen from National Bank of Ethiopia, Ethiopian Insurance Corporation and former Omo Micro Finance Institution S.C current Omo Bank S.C personnel and knowledgeable specialists and relevant laws were employed to gather the study's primary data. The secondary data were gathered from various published and unpublished publications, including internets, scholarly works, books and journal articles. Both descriptive and explanatory methods were used to analyze the data. Based on the findings, although, the NBE has enacted micro insurance business licensing, license renewal and product approval Directive No. SMIB/3/2020, its regulatory frameworks are marred by a lot of regulatory inefficiencies .Some of the notable challenges of the regulatory framework include absence of separate , consolidated, specialized , adequate and fragmented structure of the regulatory frameworks .The researcher recommends regulatory approach shift from functional and institutional approach to only institutional approach and legislative amendments for the introduction of separate, specialized, comprehensive, adequate and consolidated micro insurance regulatory frameworks which will enables the coming of separate and specialized micro insurance companies and to enhance micro insurance penetration in the country.

Key words: Regulatory Frameworks, Micro Insurance, Low-Income, Ethiopia.

CHAPTER ONE

1. INTRODUCTION

1.1 Back ground of the study

Financial service in general and micro insurance business in particular plays an important role in the country's economic development, financial inclusion and social protection. Among the financial services, micro insurance business which is insurance for low income segment of the society is relatively new concept and its documented experiences are still scarce.¹ Low income society lives in risky environments vulnerable to numerous perils, like accidental death, disability, illness, loss of property due to fire or theft, agricultural loss and both the natural and manmade disaster.² Because their resources are so limited, poor people can experience great financial disruption when unexpected events befall them.³ In the absence of formal insurance markets the poor typically cope with economic crises by tapping in to their savings falling in to debt, or selling assets often with disastrous result.⁴

According to Churchill (2006) micro insurance is the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.⁵ There are two main varieties of micro insurance one focused on extending social protection to the poor in the absence of appropriate government schemes and the other is offering a vital financial service to low income

¹ Health Micro –insurance Schemes : A compendium Strategies and Tools Against Social Exclusion and Poverty .International Labor Office Social Security Department .Working Paper .Septmber,2000 p 4 <https://www.ilo.org>,accessed on 10 June ,2023 .

² Roth, McCord and Liber, the Landscape of Micro insurance in the World's 100 Poorest Countries <https://www.MicroInsuranceCenter.ORG>,accessed on June 12/2023

³ Ibid

⁴ Lloyd's annual report .Apr2010.<https://www.lloyds.com> , accessed on June 12/2023

⁵ Craig Churchill and Michal Matul , current trends in micro insurance p, 11. <https://www.munchre-foundation.org> ,accessed on 12 June 2023

households by developing an appropriate business model that enables the poor to be profitable.⁶

Starting from the introduction of the concept of micro insurance to the vocabulary of development and social protection in 1990⁷, in the early 2000s, the concept of micro insurance was debatable.⁸

Ethiopia is characterized by extreme levels of poverty and vulnerability, exacerbated by the fragmented and under-developed state of agriculture. Illness, death and drought are the biggest risks for Ethiopian households.⁹

Despite the fact that 80 % of the population engaged in backward rain fed agriculture in which crop and livestock failures are serious risks, the penetration of micro insurance industry is very low in Ethiopia.¹⁰ For the higher penetration of micro insurance and the economy to thrive, a sound regulatory framework is required.¹¹ Such a regulatory framework should effectively protect consumers especially the poor's and adequately control market abuse.

The term regulation denotes the establishment of rules relating to a particular industry and monitoring and enforcement thereof.¹² The important role played by the financial system

⁶ Ibid

⁷ David M. Dror Micro insurance: A short history .International Social Security review .October 2029 <https://www.researchgate.org>, accessed on June 20, 2024.

⁸ Micro insurance A short history: International Social Security Review .October 2019 .p ,109 <https://www.researchgate.net> ,accessed on 15 January 2024

⁹ Anja Smith ,Double Chamberlin, Opportunities and challenges for micro insurance in Ethiopia ,p1 <https://www.semantic scholar.org>,accessed on 20 August 19,2023

¹⁰ Ibid

¹¹ DT Llewellyn, Institutional Structure of Financial Regulation and Supervision Financial Supervisory Structures with Country Needs (World Bank Institute 2004) 36–37. <https://www.researchgate.net>,accessed on 23 August 2023

¹² Erika Botha and Daniel Makina., Financial Regulation And Supervision: Theory And Practice In South Africa International Business & Economics Research Journal – November 2011 Volume 10, Number 11 <https://www.academia.edu>., accessed on 23 August 2023

dictates that financial institutions need to be regulated for three main reasons, viz.: consumer protection, stability of the financial system and maximizing efficiency.¹³

The National Bank of Ethiopia is responsible organ for regulating, supervising and policy making of the financial sectors in general including micro insurance.¹⁴ According to the National Banks of Ethiopia Establishment (as amended) proclamation No 591/2019, the NBE formulates and enforces standards for the conduct of insurance and reinsurance business in Ethiopia.¹⁵ The NBE has an insurance supervision department their main task is ensuring the stability of insurance market and it monitor the implementation of all legislations and protect all organs that participate in the insurance business.¹⁶

Until 2019, when the insurance proclamation No 746/2012 was amended with proclamation No 1163/2019, micro insurance business did not have a specific regulation in Ethiopia.¹⁷ The new directives issued by the National Bank of Ethiopia also regulate only licensing ,license renewal and product approval of the micro insurance business in Ethiopia ,which provides coverage to the low income segment of the society coming in to effect on August 17.2020,the directive allows conventional insurance companies , micro finance institutions and micro insurance companies to give life and general insurance coverage to low-income communities in a fragmented ways without a separate ,adequate, comprehensive ,specialized and consolidated regulatory frameworks.

1.2. Statement of the Problem

Ethiopia with 80% of the population engaged in smallholder, rural and rain fed agriculture, and where crop and livestock failure is frequent.¹⁸ In sharp comparison with the penetration of other financial sectors in the country, the penetration of micro insurance is

¹³ Good hart, C., Hartmann, P., Llewellyn, D., Rojas-Suarez and Weisbrod, S., 1998. Financial Regulation: Why, how, and where now? Rutledge. <https://www.routledge.com> , accessed on 23 August 2023

¹⁴ National Bank of Ethiopia Establishment Proclamation No.591/2008,ADDIS ABABA ,2008

¹⁵ Ibid

¹⁶ Ibid

¹⁷ Insurance Business (Amendment) proclamation No.1163/2019, ADDIS ABABA ,2019

¹⁸ (n12)

in infant stage and its regulatory frame works are marred by all of regulatory inefficiencies .Even though ,the micro insurance business licensing, license renewal and product approval Directive No. SMIB/3/2020 permits the opening of specialized micro insurance companies in Ethiopia, no single company still requested license to open specialized micro insurance companies in Ethiopia.¹⁹ Confused by the dis -interest NBE ordered conventional insurance companies operating in Ethiopia to mandatorily allocate resource for micro insurance.²⁰

Currently, Nyala, Oromia and Africa insurance companies as well as state owned Ethiopian Insurance Corporation (EIC) provides micro insurance, under satellite index Insurance for pastoralist in Ethiopia (SIPE) project.²¹ The scheme, which started in 2018 and expected to end 2022, is funded by WFP and focus mainly on the Somali Region.²²

Despite, micro insurance business have better experience in managing risk in many developing countries. This is not happening in Ethiopia.

Micro insurance business is currently performing in a different financial institution in Ethiopia ,these are conventional insurance companies and micro finance institutions .These different micro insurance provider companies are directly responsible for the National Bank of Ethiopia (NBE).Among the micro insurance provider companies, conventional insurance companies and micro finance institutions are formed by enabling act (proclamation) to perform insurance and micro finance which is distinct from micro insurance business. It is Directives No SMIB3/2/2020 gives the power for conventional insurance companies and micro finance institution to perform micro insurance business.

Even though, the micro insurance business is one of the most instrumental means to assist Ethiopia to achieve its micro economic stability, financial inclusion, social protection and

¹⁹ Micro insurance Business Licensing, license renewal and product approval directives No SMIB/3/2020.2020

²⁰Micro insurance receives boost by new NBE directives <https://www.capitalethiopia.com> , accessed on 21 August 2023

²¹ Ibid

²² Ibid

growth objectives, the penetration of micro insurance is in infant stage and the sector is marred by a lot of regulatory inefficiencies.

The Center for Financial Regulation and Inclusion, in their report on Opportunities and Constraints for Micro insurance in Ethiopia, they have given insight how micro insurance regulatory barriers are one factor for Ethiopia's low level of micro insurance market penetration. Beyond stating that a regulatory framework barriers with micro insurance is one factor for the industry's lack of development for Ethiopian households, the report falls short of providing a detailed analysis of the specific regulatory challenges and the necessary recommendations for the government in general and the regulatory and supervisory body in particular.²³

Abdi Bulti also has provided insight into micro insurance regulatory barriers affect the penetration of micro insurance in his doctrinal and non-doctrinal research on the factors influencing micro insurance in Ethiopia.²⁴ The research, however, mainly focused on non-legal issues and does not address the topic in light of specific regulatory challenges. While there are other legal issues that need to be thoroughly addressed in respect to the challenges with the regulatory framework for micro insurance.

Generally, there hasn't been much thorough research done on Ethiopia's micro insurance regulatory framework because the concept of micro insurance is still relatively new both globally and in Ethiopia specifically. Additionally, the conducted research on micro insurance industry in Ethiopia has lacked discussing the contentious aspects of Ethiopia's micro insurance regulatory framework challenges, particularly absence of details and consolidated rules, non-separate, fragmented regulatory structure and its effects on less penetration, poor governance and insufficient regulation to adequately support the services provided by the various sectors. In order to address the gaps in the aforementioned studies and to better understand Ethiopia's fragmented, overlapping, inadequate, non-separate, micro insurance regulatory structure and its impact on less penetration of micro insurance, it is crucial to conduct this study of the Ethiopian micro insurance regulatory framework in detail.

²³ Ibid

²⁴ Abdi Bulti, factors affecting penetration of micro insurance in Ethiopia. Research Paper 2018, p,2

1.3 Research Questions

Based on the above mentioned inquires, the following research questions are framed

- A. What does the current micro insurance industry regulatory frameworks in Ethiopia looks like?
- B. What are the regulatory frameworks barriers that affect the penetration of micro insurance industry in Ethiopia?
- C. What is the experience of other African countries on micro insurance regulatory frameworks looks like.
- D. What are the possible remedies to mitigate regulatory frameworks barriers of micro insurance industry in Ethiopia?

1.4 Objectives of the Study

1.4.1 The General Objective

The general objective of the research is to assess the natures of micro insurance regulatory frameworks in Ethiopia. The best experiences of three African countries namely Kenya, Nigeria and Ghana's micro insurance regulatory frameworks were also examined so as to draw a lesson for the Ethiopian micro insurance regulatory frameworks.

1.4.2 Specific Objectives

- ❖ To examine the current micro insurance industry regulatory frameworks in Ethiopia
- ❖ To analyze the regulatory frameworks barriers that affect the penetration of micro insurance industry in Ethiopia
- ❖ To investigate best experience of African countries on micro insurance regulatory frameworks.
- ❖ To point out the possible recommendations to mitigate regulatory frameworks barriers of micro insurance industry in Ethiopia.

1. 5. Research Methodology and Methods

1. 5.1 Research Design

This is doctrinal and non-doctrinal legal research and it has adopted qualitative approach response to the nature of the research questions. For this study, the qualitative approach is used because the research questions of the study were concentrating on understanding and critically analyzing the regulatory frameworks of the micro insurance industry in Ethiopia. Identifying gaps and examining in line with best experience of three African countries Nigeria, Ghana and Kenya. The Kenya, Nigeria and Ghana micro insurance regulatory frameworks have been selected as a comparative analysis for different reasons. The first is, being pioneers of measures to develop micro insurance business using policy and regulatory approaches, the three countries have among the longest experience regulations of micro insurance and thus offer wealth of observed experience and rich lessons .Second, three of them countries took distinctively unique approaches based on their respective policy objectives and local market contexts, and the strategies adopted in those countries. It will also rely on looking into practical difficulties and comparing them to legal systems. The study is non-doctrinal since it addresses current practical problems caused by challenges with micro insurance regulatory frameworks above and beyond desk-level analysis. Thus, the study will examine the relevant laws to the issue in light of the practice and vice versa.

1. 5.2. Data Sources and Methods

The researcher was follows qualitative method in data gathering. The methods that were used for this study are generally relying on primary and secondary data.

Primary Data

Legal records and interviews will be used as primary sources for the study. Direct interviews with informants have been conducted as part of the interview, and semi-structured interviews have been employed since they allow for a more thorough exchange of information and the opportunity to ask follow-up questions. The research have employed Semi-structured interviewing questions because it gives the interviewer the freedom to deviate from them as needed to ask follow-up questions, allow for the exchange

of in-depth information about the subject, and uncover new findings and directions. The laws and regulations governing the micro insurance industry in Ethiopia will also be examined.

Secondary Data

Numerous books, research papers, internets, journal articles and reports have been used as secondary sources of data.

1 .5.3 Sample Size and Techniques

Purposive sampling approach have been utilized to pick the interviewee .This would force the researcher to gather data from experts who are relevant to and knowledgeable about the main issue under the study. The researcher would consider a variety of factors, such as practical experience, position, academic preparation, and exposure to the study's focus, to select the key informants.

Interviews have been conducted with two higher officials from National Bank of Ethiopia Insurance Supervision Department, two higher officials from Ethiopian Insurance Corporation, two higher officials from former Omo Micro Finance Institutions S.C (Current Omo Bank S.C) ,two legal researchers ,two judges ,two senior officers and two public prosecutors Totally fourteen respondents engaged in the collecting data to the research.

1.5.4 Data Analysis

After gathering the expected data, it has been summarized and arranged in accordance with the reviewed response; hence, in light of the methodology, the data has been qualitatively examined. In-depth critical analysis has been provided using both descriptive and explanatory interpretations of the data. Following such analysis, the findings have been summarized under each main category to support each conclusion, and the result has been presented.

1.6 Scope of the study

The study is limited to looking at Ethiopia's micro insurance industry regulatory frameworks. This study will primarily examine the existing regulatory barriers of micro insurance business in Ethiopia to determine how it affects the penetration of the micro insurance industry in Ethiopia. This study has been assessing the existing laws and practical difficulties of micro insurance industry in Ethiopia. Therefore, the analysis of the current regulatory shortcomings in Ethiopia's micro insurance market has been the primary emphasis of this study in comparison with the experience of three African countries which are Kenya, Nigeria and Ghana. The Kenya, Nigeria and Ghana micro insurance regulatory frameworks have been selected as a comparative analysis for different reasons. The first is, being pioneers of measures to develop micro insurance business using policy and regulatory approaches, the three countries have among the longest experience regulations of micro insurance and thus offer wealth of observed experience and rich lessons. Second, three of them countries took distinctively unique approaches based on their respective policy objectives and local market contexts, and the strategies adopted in those countries.

1.7. Significance of the Study

The study's conclusions are thought to be of utmost value to all parties involved in micro insurance. Because it provides relevant body of knowledge for formulating procedures and policies for decision-makers that can be successfully put into practice for more effective and straightforward micro insurance regulatory frameworks. The findings of this research will be an input in developing the required legal and regulatory framework by the government in general and National Bank of Ethiopia in particular.

This study will serve as a starting point for additional research on the challenges of micro insurance regulatory frameworks in Ethiopia. Hence, it helps to build knowledge on the area from legal perspective and triggers for further research by being an input.

1.8 Limitation of the Study

This study has various limitations for a variety of reasons. The main limitation is the concept of micro insurance is new in world in general and in Ethiopia in particular and lack of previously made research on micro insurance regulatory framework. One explanation for the lack of sufficient literature in the topic is that micro insurance and its regulation are new concepts. The existing sources are mainly internet sources. The author of this study

made an effort to look into some past publications in the topic. However, the majority of the works that are currently in existence are not conceptually legal but rather were based on economic theory. The research has lack the opinions, justifications, and recommendations of other legal experts addressing the regulatory framework barriers of micro insurance industry in Ethiopia.

1.9. Ethical Considerations

The purpose of ethics is to protect the research participant from harm and ensure that illegal privacy protection methods do not expose them to any available risk. The researcher considered the following ethical and moral dilemmas. Any information pertinent to this study is gathered by sending an official letter to the organizations chosen; the target respondents were fully informed about the purpose, methodology, and intended potential applications of the research; what their participation in the research entails; and what risks, if any, are involved. Respect is shown for both the respondents' anonymity and the confidentiality of the information supplied.

1.10. Organization of the Study

The research paper comprises four chapters. The proposal elements are all provided in Chapter one. The general concept of micro insurance regulation was discussed in Chapter two. The third chapter of the paper examined Ethiopia's regulatory frameworks for micro insurance industry. Finally, under chapter four research conclusions and recommendations were covered.

CHAPTER TWO

2. The concept of micro insurance regulatory frameworks

2.1 The Origen of Micro Insurance

In 1999 the International Social Security Review published an article that introduced the concept of micro insurance for the first time to the vocabulary of development and social protection.²⁵

In that article, the micro insurance business was not discussed as a substitute to conventional social protection program of mandating and large-scale subsidizations. Rather, it presented as a grass root movement driven by demand that could offer a solution when conventional insurance is not affordable for the low segment of the society, mainly for the large informal sector in many developing countries .The approach espoused built on two main arguments.²⁶

The analytical argument has been that civic structure, or a registry of all people and data on all inhabitants assets, income ,and job status ,is lacking in many developing countries governments and is a prerequisite for the implementation of mandates ,²⁷ that is a pre-condition for the application of mandating .The responsibility of incorporating in the civic infrastructure the informal sector insurmountable for many countries .Regarding subsidies, the gap between the existing resource and the cost of broad render sews impractical unaffordable Implied analytical reasons have stated that micro insurance was required in conditions where governments were un able to compel float large -scale subsidization of social benefits .²⁸

Additionally, micro insurance was not offered as a remedy for the gaps left by "cherry-picking " or "cream -skimming" which refers to the practice of only selling insurance to

²⁵ (n8)

²⁶ Ibid

²⁷ A Review of the analytical income classification, 2012.<https://www.worldbank.org>, accessed on 18February,2024

²⁸ (n8)

those who pose a good risk while denying coverage to others, particularly independent contractors and rural residents who do not work in the conventional insurance market as provided by private insurance in developing countries.²⁹

The social argument has been that by using social dynamics to develop, micro insurance business could expand their alternatives and reach out expand their alternatives and reach out to previously uninsured people.³⁰ Micro (meaning local, rather than atomistic coverage) was first and foremost contextualized insurance, a related to employment status, with an emphasis on welfare gains to the insured.³¹ And when the insured society was supported to leverage social dynamics, it was argued that it was necessary to invent micro insurance and to anticipate that micro insurance unites would deliver context relevant packages with affordable premiums.³²

In the early 2000s, the concept of micro insurance was debatable.³³ There were three primary points of disagreement on the definition of micro insurance: either the product: either the product, the organizational features of the insurance providers, or the target demographic, which is the impoverished. All the three variants contain an element of truth, and non-alone traces as a coherent road map for politician and insurers and hitherto an insured person.³⁴ The strategy's support was most of the time dependent on a small number of people and non-governmental organization that pioneered the idea of micro insurance, fought for money from the same sources, and looked for sub-national political allies even in case where none had strong political backing.³⁵ The conundrum of the initial years

²⁹ The power of technology to close the micro insurance protection gap 2020. Gap, 2020. <https://www.preventionweb.net>, accessed on 18 February, 2024.

³⁰ The Demand for Micro insurance :A Literature Review ,2017 <https://www.scincdirect.net> ,accessed on 18 February 2024

³¹ Ibid

³² Ibid

³³ Jean-Philippe, Ombe line De BOCK, Wouter Gelada. The Demand for Micro insurance: A Literature Review World Development .Volume 94 .June 2017 p 140. <https://www.Scincdirect.com> , accessed 20 January 2024.

³⁴ Ibid

³⁵ Ibid

reflected simultaneously the enthusiasm and the divisions within the micro insurance space, which have not entirely dissipated to this day.

The first discussion on micro insurance, which took place at the (International Labor Office Headquarters in Geneva), sixteen persons discussed about the need for a platform for learning and information exchange to improve the efficiency of micro insurance company operations.³⁶ Importantly, the ILO section that was until then engaged in supporting micro finance was among the advocates for the formation of the Working Group on micro insurance, while the ILO's Social Protection sector was not formally selected.³⁷The first meeting led to other meeting and the creation of several sub groups each focusing on specific topic. The attendants in those annual meetings did not claim to command comprehensive knowledge about activities in the field and hence agreed to commission case studies on “good and bad practices in micro insurance”, and “scoping studies”. This led to the publication of two compendiums on micro insurance, in 2006 (Churchill, 2006) and (Churchill and Matul, 2012.The ILO edited and oversaw their completion, which was partially supported by the Munch Re Foundation.³⁸

The same activists who had published for the compendiums ' publishing made the decision to break away from CGAP and crate the Micro insurance Network (MIN). The secretariat of the MN has selected Luxembourg as its location since its inception.³⁹ A few specialists who were involved in the CGAP decided to remove them from the MIN, mostly due to the decision to begin charging membership fees that were too high for many micro insurance practitioners.⁴⁰

³⁶Molly Ingram Michal J. McCord .A Discussion Paper: Defining Micro insurance: A journey towards a common understanding. <https://www.Microinsurancecenter.org> ,accessed on 21 January 2024

³⁷ Ibid

³⁸ "Protecting the poor –A micro insurance compendium " is a co-publication with the International Labor Organization (ILO) ,Geneva ,Switzerland .Volume 1 p.1. <https://www.munichre-foundation.org> ,accessed 25 January 2024

³⁹ Ibid

⁴⁰ Ibid

The Munich Re Foundation held an International Micro insurance Conference (IMC) IN 2005 and invited organizations and well-known micro insurance “names” that would be of interest.⁴¹The IMC then become an annual event. In contrast to academic conferences, which are organized by variety of influential thinkers, the Munich Re Foundation, maintained complete ownership and control over IMC and had the authority to determine ,after consulting with MN, who would provide what kind of Support . The fragmentation thus grew, not only because some schools-of-thought felt crowded-out in a dialogue that seemed to give pride of place (notably in the IMC)to commercial insurance, but also because the MN membership fees and the IMC participation fees were real barriers to access for many.⁴²

Latter on a growing number of scientific articles related with micro insurance topics were published independently of the realm of the MN or the IMC.⁴³ By the end of the first decade, some (mainly commercial insurers) learned that the simplistic definitions could not translate to a quick sweep of a mass market. Micro insurance was not merely “for the poor” or “low-cost and low-cover”, but a market with different dynamics, which requires a different business model than either the social or the commercial ones. So, while there were more and better evidence based studies, the “cheerleading” of commonly accepted virtues of micro insurance was stile absent.⁴⁴

2.2. Definition of Micro Insurance Business Regulation

Micro insurance regulation can be broadly defined as a mechanism to govern the conduct of the participants in micro insurance industry.⁴⁵ It is the legal frame work and status in which micro insurance provider companies operates in the country .Micro insurance

⁴¹Munch Re 2005 report Foundation from Knowledge to Action .[.https://www.munichre-foundation.org](https://www.munichre-foundation.org) ,accessed February 11,2024

⁴² Ibid

⁴³ International Conference on Inclusive Insurance.[.https://www.munichre-foundation.org](https://www.munichre-foundation.org),accessed on 24 February 2024

⁴⁴ Ibid

⁴⁵ Brady, U. Mellinger J.H .and Scoles, K.N., (1995). The Regulation of Insurance. Insurance In statute of America. P, 1-2.[.https://books.google.com](https://books.google.com), accessed on 20 September 2024

regulation lays down the legal framework for different key function of micro insurance business such as licensing ,product regulation ,policy terms ,condition ,provisions ,market conduct ,financial regulation ,etc.⁴⁶

Differently micro insurance business supervision is part of the executive power of for on-going supervision and monitoring of the micro insurance business providers, which is normally carried out by an authority empowered to supervise micro insurance provider companies' .According to Lawrie Savage (1998) defines insurance supervision as follows:

.....a system of oversight which is intended to ensure that the greatest degree possible, insurers will have the financial resources required to pay all claims as they become due

(i.e., solvency supervision) and (2) insurers will treat consumers in an equitable manner in all financial dealings (i.e., market place supervision).⁴⁷

Micro insurance is a relatively new concept, which means that its regulation is also new. Stakeholders are, however, now beginning to recognize its significance.⁴⁸ This is clearly demonstrated by the paucity of studies and publications that elaborate on micro insurance regulatory regimes.

2. 3.The Origin of Micro Insurance Business Regulation

It was In India; the first micro insurance legislation was implemented in 2005.⁴⁹, which, at a time when such a market did not exist, served to build micro insurance products, their distribution, and their uptake for economically vulnerable segments of the population .In many cases, specific micro insurance regulations were also developed as a focused policy response to pressing issues, like regulatory obstacles in the form of suitable transparency

⁴⁶ Hailu Zeleke, INSURANCE IN ETHIOPIA: Historical Development, Present Status and Future Challenges, (2007).

⁴⁷ Lawrie Savage, differences in risk based supervision; insurance and banking, <https://www.isacanda.com>.,accessed on 30 December, 2023

⁴⁸ Eschborn, Regulation and Supervision of Micro insurance, August 2004, page 5<https://www.yearofmicrocredit.org>. , accessed on October 4 ,2023

⁴⁹ Ratchana R.Growthandappraisal of micro insurance and the way forward, 2022.<https://www.timesindiatimes.com> , accessed on 25 ,February 2024

rules or existing product rules. Latter on a specific micro insurance regulatory framework was created in the Philippines mainly to address the high rates of informal insurance activity.⁵⁰ Because of the resulting concerns for consumer protection, these practices had to be brought under control by being included into the established financial system. Similarly extending the scope of micro insurance customer protection was another objective of Peru's micro insurance regulations.⁵¹ Supervisors implemented micro insurance legislation as a means of promoting the expansion of social protection and the inclusive insurance market.

Currently, the regulatory body is working to draft micro insurance regulations that carefully combine safeguarding vulnerable customers with fostering an environment that is supportive of micro insurance businesses. On the one hand, consumer protection must be sufficient for a clientele that is relatively new to the insurance market. This is especially important because, according to their profile, inclusive insurance customers tend to be more financially susceptible⁵² while also having lower levels of education or financial literacy. As a result, it is even more important for insurance to be affordable and to inspire confidence.

Supervisors, on the other hand, are aware that insurers require a regulatory environment that offers them the latitude and chances to operate in a way that is both profitable and sustainable. Geographically, customers with inclusive insurance are frequently hard to reach. A lot of businesses have had trouble achieving the economies of scale required to turn a profit.⁵³ Recently, the application of the notion of "proportionality" in inclusive insurance legislation has received more attention.⁵⁴ Supervisory measures must be

⁵⁰ Marc Adrian. General Guide for Micro insurance in the Philippines, 2019. <https://www.wimony.com>, accessed 25 February.

⁵¹ Martina Wiedmaier –P fiser Regulatory Impact Assessments: Micro Insurance Regulation in Peru and Philippines, 2017 <https://www.riflic.org>, accessed on 16, December 2023

⁵² IAIS Issues Paper on Conduct of Business in Inclusive Insurance (2015)

⁵³ Ibid

⁵⁴ Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups, 2019 <https://www.iaisweb.org>, accessed 24 February 2024

appropriate to achieve the jurisdiction's supervisory goals as well as the intended outcomes of the ICPs in order to execute the proportionality of the ICPs. This strategy ought to support the goals of market development and financial inclusion.⁵⁵ Regulatory frameworks for micro insurance today are typically based on this idea, even though the term "proportionality" may not be used specifically in many developing countries.

However, there is still disagreement among supervisors about how best to balance market expansion with consumer safety. The answer to this is complicated because it depends on the economic, political, and sociocultural context of each nation, as well as the infrastructure and social protection frameworks that are currently in place, the specifics of the insurance laws, and the laws that regulate cooperatives, banking transactions, telecommunications, and other industries.⁵⁶ As new businesses and technologies enter the market, regulatory hurdles change regularly. Thus, it is appropriate to consider how inclusive insurance regulations have evolved over the last ten years, taking into account what has succeeded and what hasn't, as well as future trends and key takeaways for the industry.

2.4. Rational for Regulation

Government regulation of markets is largely necessary to protect consumers. Maintaining financial stability, which is unquestionably a public good, is another justification for regulation in the financial industry. Because of this, financial industry regulation is typically more rigorous and extensive than that of other industries, requiring a more complex regulatory framework.⁵⁷

The legal, social, and economic significance of insurance in general and micro insurance in particular serves as the justification for regulations governing the insurance business in general and micro insurance in particular. One of the reasons micro insurance is regulated is to provide financial stability by making sure insurance providers have enough capital to

⁵⁵ Ibid

⁵⁶ Ibid

⁵⁷.Case for Consolidated Financial Sector Regulation in Kenya (Retirement Benefits Authority 2008) <https://ssrn.com> , accessed 20 February 2024

support their written business and be able to absorb unanticipated losses from it .More precisely, micro insurance regulations protect clients against dishonest vendors by controlling the distribution route.

,⁵⁸ the protection of the financial stability of insurers by imposing standards on qualifications, solvency, performance, risk limitation, disclosure, reserves, and reporting (periodicity, accounting and information systems), auditors, and investment restrictions, among other things. Defines the general features of insurance, such as the provision of micro insurance, the types of products, and the various kinds of micro insurance.⁵⁹

2.5. The Theory of Economic Regulation

Every industry in society faces a potential threat or resource in the form of the state and its equipment.⁶⁰ By using its authority to prohibit or enforce, to remove or supply money, the state can have a positive or negative impact on a variety of businesses. The main goals of economic regulation theory are to clarify who will benefit and bear the cost of regulations, what kind of regulations will be implemented, and how they will affect resource allocation.⁶¹

An industry may deliberately pursue regulation's primary objective or it may be imposed upon it. Unquestionably, certain regulations have a negative overall impact on the regulated industry. The industry's disproportionately high taxes are one clear example. However, these burdensome regulations are unique and may be described by the same theory that accounts for advantageous, or what we might refer to as acquired, regulation.⁶²

The public interest theory, which was passed down from the previous generation of economists to the current generation of lawyers, is one of the two main theories of

⁵⁸Christian Biner ,Martin Eling .T.Schimit .Regulation in Micro insurance market : Principles ,practices ,and Direction for Future Development .<https://www.casact.org> ,accessed on 20 February 2024

⁵⁹ Ibid

⁶⁰ George J. Stigler .The Theory of Economic Regulation .The Bell Journal of Economics and Management Science, vol.2, No.1 (spring, 1971), p.3.<https://www.jstor.org> .accessed on 25 January 2023.

⁶¹ Ibid

⁶² Ibid

economic regulation.⁶³ The "capture" hypothesis is the second theory. I'll go into more detail about the theories below.

2.5.1. The Public Interest Theory of Regulation

Two presumptions form the foundation of the "public interest" or "helping hand" paradigm of regulation. ⁶⁴ First free markets can occasionally implode because of externalities or monopolies. Second, governments can use legislation to address these market imperfections and are generally benign.⁶⁵ This regulatory theory has been applied both as a guideline for what the government ought to do. According to this view, the government should impose safety regulations to prevent incidents like fires or widespread poisonings, and regulate prices to stop natural monopolies from charging exorbitant prices.⁶⁶ The foundation of contemporary public economics and the political bible for socialists and other left-leaning politicians is the public interest theory of regulation.

Many objections of the public interest theory of regulation have been made, most of which are connected to the Chicago School of Law and Economics.⁶⁷ This critique is offered in three thought-provoking stages. First, the majority of market failures can be fixed by private and market ordering, negating the need for laws or other forms of government intervention. Second, under restricted scenarios where markets players might have. Third, government regulators are corrupt, inept, and compromised, so regulation would only

⁶³ Richard A. Posner .THEORIES OF ECONOMIC REGULATION .WORKING PAPER NO.41 [.https://www.nbr.org](https://www.nbr.org) ,accessed 25 January 2024

⁶⁴Hantke –Domas, Michael (March 2003).The Public Interest theory of Regulation: Non –Existence or Misinterpretation? EUROPEAN Journal of Law and Economics .15(2) p 166. [.https://www.typeset.io](https://www.typeset.io) ,accessed on 25 February 2024

⁶⁵ Andrei V.n. Jones. Understanding Regulation .European Financial Management, Vol .11 No .4 2005 p.440.[.https://www.scholar.harvard.edu](https://www.scholar.harvard.edu) ,accessed on 25 February 2024

⁶⁶ Ibid

⁶⁷Snyth ,Russell ;Soderberg ,Magunus (December2010) .Public interest versus regulatory capture in the Swedish electricity market .Journal of Regulatory Economics .38(3) p ,294 [.https://www.researchgate.net](https://www.researchgate.net),accessed on 26 February 2024

make matters worse even if markets and courts are unable to resolve every issue .looks at these three points of contention sequentially. ⁶⁸

First, the public interest theory is attacked for exaggerating the degree of market failure and failing to acknowledge that competition and private orderings can solve a large number of the purported issues. The justification for labor competition is that it guarantees businesses will give workers safe and comfortable working conditions. If an employer didn't take this action, his competitors would offer the more affordable packages, luring in superior workers at a lesser salary.

Similar to this, private markets ensure that goods and services, such as cars, houses, and trains, are arranged with adequate safety standards. According to the competition criticism, a business that prospective regulators may view as monopolistic may actually be open to competition and new entrants.

Private Orderings function to correct possible market failures even in the absence of strong enough competitive forces. Because they must get along with one another over extended periods of time, neighbors settle disagreements among themselves without the help of the government. ⁶⁹ To ensure that consumers continue to buy from them in the long run, industries create associations that enforce quality standards and punish dishonest members of one another. ⁷⁰

Reputations are built by families, cities, and ethnic groups in the marketplace, which helps them, keep an eye on potential misbehavior by their members.

The fundamental point of these arguments is that there is very little room for any desirable state intervention since the area of market failure or socially injurious conduct that is not automatically regulated by impersonal forces of competition is exceedingly narrow. However, this is merely the beginning of a far larger attack on regulation.

⁶⁸ (n70)

⁶⁹ Cellickson .Order With Out Law :How Neighbors Settle Dispute .HARVARD University Press .1991 .September 2013 .volume 86 .p.801 .[.https://www.cambridge.org](https://www.cambridge.org),accessed on 23 February 2024

⁷⁰ Marget M.Blair, Cynthia A.Wiliams & Li wen Lin the Roles of Standardization, Certificate, and Assurance Service in Global Commerce.2001 ,P 299 .[.https://www.springer.com](https://www.springer.com) ,accessed on25 February 2024

2.5.2. The Capture Theories

2.5.2.1. *The Marxist*

There are many different ways to argue against economic regulation as a means by which interest groups pursue their own goals and have nothing to do with the public interest.

⁷¹ The first advanced by muckrakers like to Ralph Nader and Marxist, can be roughly summed up in the following syllogism.⁷²The capitalist or big business, and are in charge of our society's institutions. Regulation is one of those organizations. Regulation must be under the hands of the capitalist the capitalists must therefore control regulation. Economic regulation has a major role in supporting small-business and non-business interests such as truck drivers, dairy farmers, pharmacists, barbers, and union labor.⁷³

2.5.2.2. *The Political Scientist 'Formulations*

Political scientists, particularly Bentley, Truman, and their adherents, have contributed to a more intriguing iteration of the "capture" idea by highlighting the significance of interest groups in the making of public policy.⁷⁴ Unfortunately, despite the fact that political scientists have provided some data regarding the role of interest groups in legislative and administrative procedure, their work is nearly entirely devoid of theory.⁷⁵ They don't explain to us why certain interests are successfully represented in politics while others aren't, or why certain interest groups are successful in passing legislation while others are not.⁷⁶

⁷¹Johan de Hertog. REVIEW OF ECONOMIC THORIES OF REGULATION .Utrecht School of Economies .December 2020.<https://www.uu.nl/rebo> ,accessed 24 February 2024

⁷² Ibid

⁷³ Ibid

⁷⁴ Arthur F. Bentley, *the Process of Government* (1908); David B. Truman, *the Government Process: Political Interests and Public Opinion* (1951). For specific application of the approach to regulatory agencies page Id. at 416.2007.<https://www.taylorfranchis.com> , accessed on 27 February 2024

⁷⁵ Richard A. Posner theories of economic regulation Nber working paper series center for economic analysis of human behavior and social institutions National Bureau of Economic Research Inc. 261 Madison Avenue, New York, N.Y. 10016. May 1974, p 11. <https://www.jstr.org> ., accessed on 25 February 2024

⁷⁶ Ibid

If nothing else, some political scientists have published the fundamental components of a plausible hypothesis. This theory—which the name "capture" best conveys—argues that over time, the industries that regulatory bodies oversee eventually come to dominate those organizations.⁷⁷

This formulation is more targeted than the general interest group theory. It pinpoints a single interest group—the regulated firm—as victorious in the struggle to sway legislation and predicts a recurring pattern in which the actions of the interest group eventually undermine the original objectives of a regulatory program. There are several objections to the capture hypothesis of regulation. Firstly, not all agencies possess a perfect virtue;

⁷⁸There is frequently no reason to conquer. Subsequent revisions, usually enacted at the Commission's request, appear to have benefited railroads less than they did. The sequence defies the predictions of the capture hypothesis.⁷⁹

Second, the theory has little predictive or explanatory value when a single agency oversees multiple companies with conflicting interests.⁸⁰ Once more, the ICC is a prime example. The idea does not specify which of the competing forms of transportation—truckers, railroads, and barge lines—the ICC is likely to support. This challenge is not unique to the organization serving a multi-sector "clientele."

Third, a wealth of evidence suggests that the interests published by regulatory authorities are frequently those of customer groups rather than those of the regulated companies.⁸¹ In fact, the effect of interest groups made up of regulated enterprises' customers on the regulatory process appears to best explain not just numerous examples of specific regulatory policies but also some of the basic elements of the regulatory process itself.

⁷⁷ Marver Bernstein, Regulating Business by Independent Commission (1955)<https://www.wikipedia.org>, accessed on 27 February 2024

⁷⁸ Amitai Etzioni .The Capture Theory of Regulation –Revised ,2009 ,volume 46,p 320<https://www.springer>, accessed on 28 February 2024

⁷⁹ Ibid

⁸⁰ REGULATORY CAPTURE :A REVIEW –University of California ,Berkeley <https://www.faculty.hass.berkeley> . ,accessed on 27 February 2024

⁸¹ Ibid

2. 6. Major Types of Financial Institutions Regulation

The laws and regulations governing the financial industry as a whole, including banks, insurance firms, microfinance, and micro insurance, are referred to as financial institutions regulation..⁸² The aim of these regulations is designed mainly to protect customers, maintain the financial systems stability and promote fair competition.⁸³

Regulation pertaining to financial institutions includes a wide range of subjects, including capital requirements, lending practices, and the kinds of financial products and services that can be offered.⁸⁴ Financial institutions regulators also have the power to impose fines, penalties, and criminal charges on financial institutions, in cases of fraud and other illegal activities.⁸⁵

Regulation of financial institutions is crucial to safeguarding consumers against fraud and promoting confidence in the financial industry. Regulation encourages investment, prevents financial crises, and fosters economic growth, making it an essential component of a functional financial system. It does this by establishing rules and regulations for financial institutions, monitoring compliance through a supervision and enforcement mechanism, and taking legal action against rule violations.

Regulatory bodies develop and implement these rules and then monitor compliance through methods including financial record audits, regular reporting requirements.⁸⁶ Regulators also collaborate with other regulatory bodies and international organizations to coordinate and harmonize regulations across borders and regions.

There are a number of financial regulations: while prudential regulation, customer protection regulation, capital requirements, market conduct regulation, and security regulation and payment system regulation are the common one.

⁸²Financial –regulation. <https://www.wallstreet.com>, accessed on 21 February 2024

⁸³ Ibid

⁸⁴ Financial Regulators: Who They Are and What They Do .<https://www.investipodia.com>, accessed on 28 February 204

⁸⁵ Ibid

⁸⁶ Ibid

2.6.1. Prudential Financial Institutions Regulation

Financial institutions that are subject to prudential regulation are required to manage risks and maintain sufficient capital, as indicated by capital requirements. By imposing concentration risk restrictions, as well as associated reporting and public disclosure requirements, supervisory controls, and procedures, liquidity is required⁸⁷ Prudential regulation can be classified into two categories: macro prudential regulation, which looks at system risk and the entire financial system, and micro prudential regulation, which focuses on individual enterprises and their ability to handle shocks.⁸⁸

The ability of the insurers to fulfill their duty is sometimes referred to as "prudential" or "solvency" in the context of financial institutions.⁸⁹ Solvency or prudential supervision has historically been primarily the responsibility of state regulators.⁹⁰

Prompt rules (such capital requirements and accounting standards, along with guidelines guiding investment portfolios) and procedures for regulatory interventions with problematic institutions (like bankruptcy proceedings and guaranty fund requirements) make up its general contents. Furthermore, supervisory practices that support and promote the safety and soundness of financial institutions (such as financial assessment and analysis, business licensing, and cooperation with regulators from other states and foreign authorities).⁹¹

Micro-prudential financial regulation and macro-prudential financial institution regulation make up prudential financial institutions regulation.

2.6.1.1 .Micro- Vs. Macro prudential financial regulation

⁸⁷ HR.Morris, CHR (2019) .The law of Financial Service Groups .Oxford University Press .p.57.<https://www.ouplaw.com>,accessed 25 January 2024

⁸⁸ Ibid

⁸⁹ How to modernize and improve the system of insurance regulation in the United States ,Federal insurance office ,U.S. Department of the treasury copulated pursuant to title v pf the Dodd –Frank wall Street Reform and consumer protection Act December 2013,p 23.<https://www.treasury.gov> ,accessed 26 December 2023.

⁹⁰ Ibid

⁹¹ Ibid

Following the recent global crisis, two significant terms that have acquired acceptance among regulators and supervisors globally are micro-prudential regulation and macro-prudential.⁹² Conversely, micro prudential regulation focuses on the security and Macro prudential regulation takes into account the overall stability of the financial sector as a whole and its relationship to the macro economy in addition to the soundness of individual financial institutions.⁹³

Micro prudential regulation does not take endogenous risk into account; instead, it looks at how a specific bank responds to external hazards. Furthermore, it mostly disregards the significance that individual institutions have for the entire financial system given their size, complexity, level of leverage, and connectivity (Brunner Meier et al., 2009).⁹⁴

Therefore, one of the main goals of macro regulation is to act as a counterbalance to institutional risk apathy during boom and excessive credit expansion periods, as well as the subsequent increase in risk assessment during subsequent collapse periods (the bust). The current regulatory structure is very procyclical, according to many economists and regulators, as it tends to exacerbate the business cycle (e.g., Kodres and Narain, 2009). As a result, it is not designed to withstand financial hardships.⁹⁵

Previously, the regulatory strategy believed that by protecting individual institutions, there will be safety throughout the financial system. However, this strategy is ineffective in reality because a large number of banks and other highly geared financial organizations have a tendency to act in a way that collectively threatens the financial system. For instance, a bank may consider selling an asset to be a smart course of action when risk is deemed to be high. However, asset prices will plummet if numerous banks adopt this

⁹²Kadija Yilla and Nellie Liang .What Macro prudential tools. <https://www.brookings.edu> ,accessed on February 23,2024

⁹³ Ibid

⁹⁴ Federic Malhererebe. Dynamic Macro –Prudential policy .<https://www.crei.cat> ,accessed on February 23,2024

⁹⁵ Ibid

strategy, and such widespread declines in asset values might cause extreme volatility in the asset markets.

Therefore, prudential regulation of banks is required to prevent systemic risks by guaranteeing that banks always have an adequate level of capital.⁹⁶ Although it is ideal for financial institutions to be individually safe, it is also important to consider how risk is distributed among the various institutions that make up the financial system. Adopting macro prudential regulations is not without its difficulties and disagreements, of course. Supervisors have explicit authority to gather data, establish regulations, and identify institutions that are systemically significant.⁹⁷ This authority must be clearly defined, delegated, and overseen.

2.6.2. Customer Protection Financial Institutions Regulation

Financial protection laws, rules, and institutional frameworks that protect consumers in the financial sector are all included in financial institution regulation.⁹⁸

The primary focus of consumer protection is the interaction and relationship between retail customers and financial institutions. It's crucial to distinguish between corporate customers with a high degree of sophistication and retail customers with less complexity when developing effective consumer protection. Many of the issues that could endanger retail consumers do not affect transactions between knowledgeable corporate and financial entities.⁹⁹

Financial products and services are essential for assisting clients in meeting their fundamental requirements, building their resilience, and seizing opportunities. However, using these goods and services comes with a number of risks for customers. Effective financial consumer protection supervision and regulation are necessary for financial consumer protection to be beneficial in reducing such risks.

⁹⁶ Ibid

⁹⁷ N(92)

⁹⁸ An Introduction to Developing a Risk –Based Approach to Financial Consumer Protection Supervision: Guidance Note .December2022. <https://www.openknowledge.worldbank.org>, accessed on 30December 2023

⁹⁹ Ibid

Controlling risks and potential harms to financial consumers, stopping unfair corporate activities, achieving fair and positive consumer outcomes, and enabling financial consumers to make better and more educated financial decisions are the main goals of customer financial institution regulation..¹⁰⁰

2.6.3. Capital Requirements Financial Institution Regulation

Standardized restrictions known as capital requirements apply to financial institutions. These requirements specify the minimum level of liquid capital that must be held in relation to a given level of assets.¹⁰¹ Legislative changes to capital requirements are typically sparked by an incensed public and an unpleasant investing environment, particularly when large institutions' reckless financial behavior is blamed for a financial crisis, market crash, or recession.¹⁰²

The goal of capital requirements is to preserve financial institutions' solvency and, by extension, the stability of the financial system overall. Regulators point out that no financial institution is an island in this day of national and international finance—a shock to one can have an impact on many. Therefore, there is even more justification for strict guidelines that can be consistently implemented and utilized to evaluate the relative soundness of various institutions.¹⁰³

2.6.4. Market Conduct Financial Institutions Regulation

Rules governing the marketing and sales of financial institution products, insider trading, and market manipulation are examples of market conduct regulations. These regulations also govern how financial institutions engage with their clients.¹⁰⁴

The goal of laws governing the financial institutions market is to guarantee that customers obtain fair and reasonable financial institution services. Additionally, it works to protect customers from insurers that do not conduct business with them in a fair and lawful

¹⁰⁰ Ibid

¹⁰¹ Capital requirements ,accessed on 19 November 2023 <https://www.investpodia.com> ,accessed on 19 November 2023

¹⁰² Ibid

¹⁰³ Ibid

¹⁰⁴ Market conducts regulation, 2016. <https://www.afi-global.org> ,accessed on 21 December 2023

manner, as well as to guarantee that they have access to advantageous and compliant insurance products. The majority of market behavior regulations take effect once a manufacturer or product is selling in the marketplace.

This is so because the goal of market regulation is to ensure that businesses and producers are acting in the marketplace in the manner that they promised to. Regulations pertaining to market conduct address company performance and subjective data with a local, regional focus. The primary focus of this regulatory oversight is on regulated companies adhering to rules and regulations that do not pertain to financial solvency.

Issues identified during a market conduct evaluation may indicate issues with financial stability. Market regulation evaluates how successfully companies fulfill their agreements with policyholders and claims. Broadly speaking, market regulation encompasses both duties that have historically been carried out outside of the departments through market conduct examinations and investigations, as well as duties that have historically been carried out inside the various state insurance departments, such as rate form review, producer licensing, and consumer assistance.

2.6.5. Financial Institution Security Regulation

A financial institutions security regulation is setting the minimum standard for data security within the financial institutions. The implementation of these rules, which are either set by the government or powerful security organizations, affects all service organizations, including banks, insurance companies, microfinance institutions, and others.

The sheer number of distinct security requirements and their substantial overlaps are among the primary issues impeding financial institutions regulations compliance in the financial sector.¹⁰⁵ This can be resolved by only focusing on regulations that are mandatory for financial institutions, and avoiding those that are optional.¹⁰⁶ The advantage of still

¹⁰⁵ Cyber control. <https://www.upgrade.com>, accessed on 21 January 2024

¹⁰⁶ Ibid

implementing optional regulatory standards is that the addition of their security controls could further decrease cyber security risk.¹⁰⁷

2.6.6 .Payment System Financial Institutions Regulation

Payment system regulations are guidelines that control how credit card and electronic fund transfer systems, among others, operate.¹⁰⁸ A transfer of value is what a payment is. There are other ways to transact payments, including wire transfers; automated clearing, and check payments. Moreover, payments can be made via distributed ledger technology or on a ledger,¹⁰⁹ from a digital wallet, and via payment cards.

By exchanging data regarding specific payment transaction and settling transactions, payment system enables payments and settles obligations. Payment systems are essential parts of the country's financial infrastructure and are necessary for the economy's financial stability. The clearing and settlement of retail and wholesale payments are made easier by payment systems.¹¹⁰

2.7. Types of Micro Insurance Regulation in Particular

2.7.1 .Prudential Micro Insurance Business Regulation

The main area of micro insurance regulation that has a clear economic justification is Prudential (solvency) micro insurance regulation. Policyholders typically lack the superior knowledge that insurers have about their risk-taking tactics.¹¹¹

In a case like this with asymmetric information, regulators may be able to influence the market to produce a socially desirable result. Decades of work on solvency regulation by regulatory agencies and academic scholars has resulted in the establishment of risk-based

¹⁰⁷ Ibid

¹⁰⁸ Federal policy on Payment System. <https://www.federalreserve.gov>, accessed on 21 FEBRUARY 2024

¹⁰⁹ Distributed ledger technology in payment ,clearing ,and settlement :an analytical framework " <https://www.bis.org>, accessed on 24 February 2024

¹¹⁰ Comptroller's Handbook. Payment Systems .Version 1.0, October 2021, p2.<https://www.occ.gov> ,accessed d on 24 February 2024

¹¹¹ Robert W. Klein .The Modernization of Insurance Company Solvency Regulation in the U.S: Issues and Implications .page 1. <https://www.indstate.edu>, accessed on 29 February 2024

capital rules in the US, solvency in the EU, and proposals in NZ. Additionally, Switzerland has developed modeling and principles-based approaches to solvency requirements.¹¹²

Many micro insurance provider companies are concerned because studies show that capital requirements are sometimes too high for the modest policies supplied by locally constituted micro insurers.¹¹³ The capital requirements for micro insurance are comparable to those for conventional insurance in many jurisdictions.¹¹⁴

The expansion of the micro insurance sector may be impeded by high capital requirements, which imply the need for more expensive risk transfer strategies like reinsurance from domestic reinsurers.¹¹⁵

2.7 .2 Micro Insurance Consumer Protection Regulations

Access to insurance as a long-term risk management tool must first be made possible by effective consumer protection.¹¹⁶ Robust consumer protection laws that target low-income consumers are necessary for the development of insurance markets that successfully handle challenges and protect low-income consumers. Public and commercial partners must collaborate to develop a comprehensive consumer protection agenda that puts low-income consumers at its core.

Through its Consumer Protection (CP) Task Force, the Micro insurance Network (MIN), which represents the global micro insurance community, has decided to advance consumer

¹¹²CHRISTIAN BIENER MARTIN ELING JOAN T.SCHMIT. REGULATION IN MICROINSURANCE MARKETS: PRINCIPLES, PRACTICE, AND DIRECTIONS FOR FUTURE DEVELOPMENT,P,24 <https://www.casact.org> ,accessed on 29 FEBRUARY 2024

¹¹³Martina Wiedmaier- Pfister and Arup Chatterje. An enabling regulatory environment for micro insurance <https://social-protection.org> , accessed on 29 February 2024

¹¹⁴ Ibid

¹¹⁵Thomas R Berry –Stolzle ,Robert E Hoyt & Sabine Wende .Successful business Strategies for Insurers Entering and Growing In EMERGING Market.2010 . <https://www.link.spring.org> ,accessed 28 January 2024

¹¹⁶ <https://www.wikipedia.org>,24 January 2024 ,accessed 25 February 2024

protection in micro insurance.¹¹⁷ Its main objective is to support diverse stakeholders' efforts in effectively protecting consumers in micro insurance. It will do this by compiling and sharing experiences and offering best practices recommendations.¹¹⁸

Inadequate protection for consumers could make them further poorer. The consumer who buys an insurance product assumes the risk that, should an insured event occur, he won't receive the promised money. The customer may be misled by the insurer about the amount of the payout or the requirements needed to qualify for it. Prospective customers are significantly less likely to purchase insurance in cases where insurers and insurance products have a poor reputation. These consumers may already be wary of novel and unfamiliar financial items. Current customers may stop using a product or service if it does not live up to their expectations, or if they learn of issues that other customers are having. In the field of micro insurance, consumer protection demands special consideration because of the nature of the products, consumers, and business type.

2.8. Model of Financial Institutions Regulation and Supervision

There are four categories in the present global paradigm of financial institution regulation. These include twin peaks regulation, institutional regulation, regulation by silos, single or unified regulation, and functional regulation.

.¹¹⁹ Various elements are taken into consideration while choosing a regulatory and legal framework, some of which may be exclusive to a particular nation.¹²⁰

It's possible that no single model is flawless, and there's often a blurring of the lines between different approaches¹²¹

¹¹⁷ An input to the Consumer Protection Task Force of the Micro insurance Network. Discussion Paper Consumer Protection in micro insurance

¹¹⁸ Ibid

¹¹⁹ Ibid

¹²⁰ Legal Aspects of Financial Services Regulation and the Concept of a Unified Regulator <https://www.openknowledge.org> ,accessed on 29 February 2024

¹²¹ Ibid

Naturally, the ability of the regulator to accomplish the policy objectives of regulation in actual situations must ultimately decide the effectiveness of any regulatory strategy rather than merely weighing the theoretical advantages and disadvantages. Before building any regulatory frameworks, a country must understand the scope and makeup of the planned regulator. Considering historical, legal, political, and economic aspects may also be essential.

Ultimately, the selection of a regulatory framework needs to prioritize efficacy and efficiency. It must be able to set rules or requirements for the behavior of financial services, ensure that the regulations are strictly followed, and supervise the sector as a whole. Additionally, the model's efficacy in a given jurisdiction may be impacted by peculiarly local circumstances; hence, no one model may be ideal for every jurisdiction on a one-size-fits-all basis.¹²²

Even though it is true that the type of legal entity will determine the kinds of transactions it may engage in and the kinds of products it may offer, financial institutions typically try to define new products in order to get around restrictions. Simultaneously, authorities aim to expand their authority to encompass these novel products..¹²³

The four systems are explained as follows: the institutional or traditional method comes in first, followed by the functional approach, the integrated approach, and the 'Twin Peaks' approach in fourth place.¹²⁴

2.8.1 Institutional Approach to Regulation and Supervision

According to the institutional approach, the regulatory and supervisory body charged with keeping an eye on an organization's operations from the perspectives of safety and

¹²² Ibid

¹²³ Ibid

¹²⁴ ANDREW SCHMULOW. APPROACHES TO FINANCIAL SYSTEM REGULATION: AN INTERNATIONAL COMPARATIVE SURVEY, 2015. <https://www.researchgate.net> ,accessed on February 2024

soundness and business regulation is determined by the organization's legal status. Several of the authorities that use this strategy include China, Mexico¹²⁵ and Hong Kong.¹²⁶

The financial system is typically regulated through institutional means, which results in a highly fragmented regulatory structure that is not appropriate for managing hybrid financial entities such as bank clients. These hybrids then have to deal with opposing and occasionally overlapping factors. In a situation like this, each regulator will normally be in charge of problems pertaining to consumer protection, market conduct, and the soundness of the financial system.¹²⁷

This strategy is believed to be the least successful in managing financial conglomerates, whose activities mix together several kinds of financial companies.¹²⁸

Financial organizations usually aim to create new goods in order to get around the restrictions on the kinds of products they may offer, even though it is true that the type of legal entity will dictate the kinds of transactions and products it can offer. Regulators are working to expand their purview in tandem with these novel items.¹²⁹

"As a result, over time, organizations with various legal statuses have been allowed to partake in similar activities and have been subject to varying levels of restriction from various authorities."¹³⁰

This institutional method is hampered by the possibility of inconsistent rule and regulation implementation by various authorities. Coordination across agencies is also problematic, and this can lead to regulatory duplication. Because organizations that are legally permitted

¹²⁵Working Group on Financial Supervision, "The Structure of Financial Supervision. Approaches and Challenges in a Global Marketplace", series edited by Group of Thirty, in Special Report, Group of Thirty, Consultative Group on International Economic and Monetary Affairs, Inc., 2008, p. 24 <https://www.davispolk.com> .,accessed on February 28 2024

¹²⁶Ibid

¹²⁷Working Group on Financial Supervision, 2008, p. 24 <https://www.group30.org>,accessed on 28 February 2024

¹²⁸ Ibid

¹²⁹ Group of Thirty the Structure of Financial Supervision: Approaches and Challenges in a Global Market Place, Washington DC, 2008, 24

¹³⁰ Ibid

and regulated as banks, insurance companies, or microfinance institutions may carry out the same or economically comparable activities, and because distinct, independent institutional regulators may regulate activity differently. Consumer protection or separate capital treatment could be examples of this different regulatory approach. .¹³¹

2.8.2 Functional Approach to Regulation and Supervision

Regardless of the type of legal entity involved, the functional approach focuses on the types of transactions or products that are regulated. Thus, a single corporation that engages in multiple types of transactions will be subject to multiple regulatory bodies. As such, each regulator is responsible for the company's commercial conduct and safety and soundness with regard to all product categories under their jurisdiction. Currently, this method is used in Italy, France,¹³² and Brazil.¹³³

Functional regulation is based on the product and services that an institution offers, including commodities and transactions.¹³⁴ Functional regulation guarantees that the most competent and qualified individuals oversee and keep an eye on the day to day function of a specialized field.¹³⁵ For instance, the Securities and Exchange Commission would oversee and regulate securities sellers and underwriters, while the state insurance commissioner would ideally oversee insurance companies.¹³⁶

The majority of the model's obvious flaws are related to safety and soundness issues, where various authorities may have differing opinions about the risk that specific companies provide to the financial system. Furthermore, the types of activity under regulation must be sufficiently specified to determine which regulator has jurisdiction.¹³⁷

¹³¹ Ibid

¹³² Ibid

¹³³ Ibid

¹³⁴International Monetary Fund The government of Financial Regulation Reform Lessons from the Recent Crises, Eng. /2011/res 2 /p 1 <https://www.imf.org>,accessed 21January 2024

¹³⁵ Ibid

¹³⁶ Ibid

¹³⁷ Ibid

Despite being widespread and potentially useful in situations when regulators collaborate closely, this system of financial regulation is nevertheless thought to be less than ideal.¹³⁸ Again, the glaring flaw in this strategy concerns hybrid financial instruments. Moreover, it is questionable if this regime can effectively handle the expansion, significance, and possible threat that shadow banks pose.

2.8.3 Integrated Approach to Regulation and Supervision

This is the situation where a single regulator oversees all financial institutions and markets in addition to prudential and commercial regulation and supervision.¹³⁹ Supporters of this strategy contend that the proliferation of regulatory bodies caused problems with regulatory overlap and under lap, duplication, double rule books, regulatory arbitrage potential, poor agency coordination, autocratic infighting, and a lack of transparency in the regulatory framework.¹⁴⁰

Germany, Singapore, Japan and the Scandinavian countries currently use the integrated approach.¹⁴¹

The potential advantage of integrated model is harmonization, rationalization, and consolidation of the guiding principles, regulations, and guidelines that are currently in place and either provided by the regulators themselves or incorporated into the law, taking into account the possibility that what works for one kind of firm, market, or client may not work for another.¹⁴²

Concerns about a single point of failure are mentioned by some observers as one of the integrated approaches issues.¹⁴³ Overlapping jurisdiction may make it more likely for a

¹³⁸ (n130)

¹³⁹ David Llewellyn ,institutional structure of financial institution an supervision :the basic issue page 25

¹⁴⁰ Ibid

¹⁴¹ Michael Taylor & Alex Fleming, “Integrated Financial Supervision. Lessons of Scandinavian Experience”, Finance & Development. A quarterly magazine of the IMF, Vol. 36, no. 4 (December, 1999)

¹⁴² Ibid

¹⁴³ Regulatory arbitrage is a practice whereby firms capitalize on loopholes in regulatory systems in order to circumvent unfavorable regulation.

supervisor to notice a problem or issue because there are less checks and balances in place if an integrated regulator is unable to spot issues.¹⁴⁴

2.8.4. Twin Peak Approach to Regulation and Supervision

Regulation by aim is a good example of this strategy. This regime, as its name suggests, is composed of two regulators whose goals are, respectively, market behavior and consumer protection and systemic stability.¹⁴⁵ Spain, and Qatar. While the UK has implemented "Twin Peaks," Italy, France, and the USA have expressed interest in implementing this type of financial regulation, and South Africa is well on its way to doing so.¹⁴⁶

The four primary objectives of financial regulation are to safeguard customers, ensure the solvency and soundness of financial institutions, promote equity and efficiency, and maintain a stable financial sector system. The twin peak regulatory model achieves all of these goals.¹⁴⁷ This model consists of two peak regulators, the first of which aimed to stabilize the financial system and the other of which focused on market conduct and consumer protection.

.¹⁴⁸ This strategy might be the best way to guarantee that concerns about consumer protection, market integrity, and openness are given enough weight.¹⁴⁹

A twin peak regulatory strategy, in which all solvency supervision is housed in one agency and all other business behavior regulation and supervision is housed in another, has various benefits. One possible location for the solvency peak is inside the central bank. The goal of this strategy is to safeguard every benefit of integration in the fields of supervision and regulation.

¹⁴⁴ Ibid

¹⁴⁵ (n130)

¹⁴⁶ Financial Sector Regulation Bill, 11 December, 2013. <https://www.treasury.gov>, accessed on 26 February 2024.

¹⁴⁷ Ibid

¹⁴⁸ Ibid

¹⁴⁹ Ibid

2.9. Micro Insurance Regulatory and Supervisory Model Approach in Particular

An insurance market can only thrive under a set of broad underlining market and economic circumstances that the IAIS has developed a set of "pre-conditions for successful micro insurance regulation ".¹⁵⁰ Although the regulators have indicated that these parameters are essential to their own success in creating a sustainable insurance market.

The IAIS also has created a set of "Insurance Core Principles (ICP)," that aims to establish an internationally recognized framework for insurance industry supervision¹⁵¹ As the pinnacle of the supervision of hierarchy, the ICP are intended to prescribe the fundamental components of supervisory frameworks that safeguards policyholders to a sufficient degree while fostering a financially stable insurance industry.¹⁵² National regulatory standards include the hierarchy and may be connected to particular ICP declarations that may be connected to the primary domains of insurance regulation.

.¹⁵³ The function and boundaries of the insurance supervisory authority are likewise precisely outlined in the ICPs.

The IAIS has recently taken a step toward regulating micro insurance by producing an application paper on the "regulation and supervision of inclusive insurance markets," in keeping with the G20's acceptance of the concepts of innovative financial inclusion. The application document has drawn criticism, and a working group comprising representatives from the Micro insurance Network and the IAIS has been established.¹⁵⁴

¹⁵⁰ A New Framework for Insurance Supervision 2022. <https://www.iaisweb.org> ,accessed on 24 February 2024

¹⁵¹.Mayer Brown. International Association of Insurance Supervisors: issues paper on resolution of cross – border insurance legal entities and groups, 2011. <https://www.lexology.com> ,accessed on 21February 2024

¹⁵² Ibid

¹⁵³Skipper, Harold D.and W .Jean Kwon .Risk Management and Insurance :perspective in a Global Economy ,Malden ,MA: 2007. <https://www.semanticscholar.org>,accessed on 25 January 2024

¹⁵⁴ Consolidation and Systematic risk in the international insurance industry, 2015. <https://www.sciencedirect.com> ,accessed 25 February 2024

The creation of an enabling regulatory environment for inclusive insurance has been approached by different countries in different ways. There are also significant differences in the maturity levels of the adopted regulation, with some having been in place for around 10 years, whilst others have only recently been adopted.¹⁵⁵

Regarding global micro insurance regulatory and supervisory approach most nations have adopted a functional approach, which permits insurers to provide micro insurance as a special business line.¹⁵⁶ This typically entails developing new distribution guidelines in addition to modifying business behavior laws to suit the kind of products and customers obtaining micro insurance. The depth of these regulations varies considerably, from a few clauses added to other regulations, to comprehensive and continuously adopted micro insurance framework based on a variety of regulatory instruments.

Some other countries followed the institutional approach, creating the option to obtain a dedicated micro insurance license, which means the commission introduced a new type of insurers for this business.¹⁵⁷ Some regulators are actively promoting inclusive insurance by requiring providers to supply in to the rural and economically disadvantaged population, as in the case in India and Nepal.¹⁵⁸

A specialized micro insurance license is granted to a particular class of risk carriers—legal entities like mutual funds or businesses—under the institutional approach. Generally, fewer rigorous licensing and prudential standards apply to entities licensed as micro insurers.¹⁵⁹ Considering that traditional insurers are hesitant to undertake this activity, another rationale for establishing a micro insurance license is to spur the market. Since these traditional insurers frequently begin as unofficial service providers, supervisors are

¹⁵⁵ The state of micro insurance the insider's guide to understand the sector .www.micro insurance network .org <https://www.microinsurancenetworg> , accessed on 21,February 2024

¹⁵⁶ Ibid

¹⁵⁷ Ibid

¹⁵⁸ Ibid

¹⁵⁹ Proportionate Regulatory Frameworks in Inclusive Insurance: Lessons from a Decade of Micro insurance Regulation <https://cenfri.org> ,accessed on 21 February 2024

compelled to establish legal conditions that can facilitate their formalization.¹⁶⁰ Supervisors that use an institutional approach typically have a department specifically dedicated to micro insurance supervision.¹⁶¹

The two regulatory strategies don't have to conflict with one another. Both the institutional and functional approaches are used in some jurisdictions.¹⁶² The CIMA area, Brazil, Cambodia, and the Philippines are relevant instances where a specialized micro insurance license is granted by the supervisor.¹⁶³ Nonetheless, a lot of countries still rely on the current insurance sector to supply micro insurance since they lack a distinct license for specialized micro insurance providers. Insurance products are underwritten by commercial insurers, who must satisfy standard solvency standards; distribution partners include entities like MCCOs.¹⁶⁴

2.10. Issus in Regulation and Supervision of Micro Insurance Industry

Creating a suitable regulatory framework for micro insurance is a complex task since it involves a wide range of stake holders and calls for several operational and strategic changes.¹⁶⁵ Even with growing expertise in the micro insurance, many unanswered questions remain regarding the best course of action to get over regulatory barriers and achieving greater inclusiveness.¹⁶⁶

Recently, a few jurisdictions have taken the lead and passed laws and regulations to encourage the development of a more inclusive insurance system

¹⁶⁰ Ibid

¹⁶¹ Ibid

¹⁶² Proportionate REGULATORY Frameworks in Inclusive Insurance
[.https://www.fundacionmicrofinzsbvva.org](https://www.fundacionmicrofinzsbvva.org) ,accessed on 21 February 2024

¹⁶³ Ibid

¹⁶⁴ Ibid

¹⁶⁵ Issus in the Regulation and Supervision of Micro insurance ,2007 <https://casact.org> ,accessed 28 February 2024

¹⁶⁶ Ibid

¹⁶⁷ These laws and regulations encourage existing insurers to provide coverage to low-income populations or permit micro insurance to develop and merge with the traditional insurance market. ¹⁶⁸The latter addresses strategies that fall under the purview of current insurance regulation or, more likely, through better micro insurance regulation; ideally both.

A few inquiries that managers and decision-makers should confront and needed to be examined in the further detail mentioned bellow.¹⁶⁹

2.10.1. The Issue Supervisors Responsibility

Policymakers and supervisors in certain jurisdictions have already developed innovative approaches to promote micro insurance penetration .In other jurisdictions, micro insurance has developed on its own without supervisors or other government prodding.

It was decided at the most recent Mumbai meeting that the supervisors should have a clear development mandate from the government.¹⁷⁰ Supervisors can encourage legislators to support micro insurance by taking aggressive measures on their own, but they can also receive the signal from the policy side.

2.10.2. The Issue of Policyholder Protection versus Access

The question of whether particular market conduct legislation may shield micro insurance policyholders, who are by definition are unaware about the details of insurance products thus, may have limited options to the address in appropriate action by an insurer?¹⁷¹

Which regulatory approaches have shown to be successful in striking balance between protection and accessibility?¹⁷² Excluding low income families access to micro insurance it

¹⁶⁷Micro insurance NOTE. Facilitating AN Appropriate Regulatory and supervisory environment for micro insurance .p7. <https://www.marketlinks>, accessed on 27 February 2024.

¹⁶⁸ Ibid

¹⁶⁹ Issues in the regulation and supervision of micro insurance. <https://www.iaisweb.org>, accessed on 21 February 2024

¹⁷⁰ Ibid

¹⁷¹ Ibid

¹⁷² Ibid

is inappropriate to do so in order to protect them. Consequently, forcing uninterested insurers to provide products in this market will likewise have unfavorable effects. Therefore, the two extremes of accessibility and protection are unsuitable for this market. The solution lies in the middle, combining necessary safeguards with advertising from insurers who cater to this market.

2.10.3. The Issue of Tiered Approach Regulation

A stale approach to micro insurance regulation might be acceptable in order to encompass micro insurance operations by individuals who do not possess an insurance license. Third, even, and secondly, exhausted. In contrast to the first tier, second and even third tier insurance have lower cost levels and simpler institutional designs, enabling them to service the low-income market where premiums are consistently lower than those in the formal market. This is linked to simpler products, less regulation, and frequently creative ways for distribution and collection. Examples of second tier institutional type are the Mutual Benefit Associations in Philippines.¹⁷³

2.10.4. The Issue of Capacity

Creating rules to regulate micro insurance the authority of the supervisor will be weakened if they lack the personnel and knowledge necessary to enforce those standards. As a result, supervisors must to carefully weigh their options before altering the regulatory structure. Enacting efficient consumer recourse procedures and opening up new distribution channels can be the first steps in a phased approach to micro insurance regulation. Supervisors seeking technical assistance can also approach foreign development bodies.

2.11. Lesson Learned from other African Countries

The majority of Africa's traditional insurance markets were founded during the colonial era, and the laws and rules governing insurance, which offered the foundation for oversight and control, were mostly derived from these colonial laws and regulations.

¹⁷³Mutual benefit association and micro insurance, 2016. <https://www.insurancegoverner.Gov>, accessed on 21 February 2024.

The majority of African nations have mostly relied on compliance-based insurance regulation, which derives its authority and safeguards from the diverse legal frameworks inside each nation. Therefore, the authority and impartiality of the regulatory organizations as specified by the relevant laws pertaining to licensing, oversight, and enforcement actions determine how successful insurance regulation is.

Up to the 1960s, there were no globally recognized norms for the oversight and regulation of insurance.¹⁷⁴, implied that there was no drive for change. As a result, the laws in many African nations lagged behind market development and were frequently impractical. This made supervision and control useless. In various forms micro insurance has been offered to some low-income sector of the population in Africa for a number of years¹⁷⁵ Since the 1970s, cooperative insurers have provided services to a market with a wide range of income levels.¹⁷⁶ The Bamako Initiative was followed in 1985 by community-based health insurance programs, particularly in West Africa.¹⁷⁷ Commercial insurers started to enter the market with specialist micro insurance products in the middle of the 1990s.¹⁷⁸ For several decades, unofficial micro insurance has been accessible in various forms, ranging from burial societies in South Africa to 'friend in need' organizations in East Africa and West Africa's 'tontines'..¹⁷⁹

Even though there are 700 million low-income people in the continent, the micro insurance sector is not very well established in Africa. Just 2% of low-income Africans are currently served by micro insurers, according to the Micro insurance Network's 2018

¹⁷⁴ The International Association of Insurance Supervisors (IAIS) was established in 1994 and the first Insurance Core Principles were issued in 1997.

¹⁷⁵ Michal Matul, McCord, Caroline Philly, and Job Harms .THE LANDSCAPE OF MICRO INSURANCE IN AFRICA. October 2009 .<https://www.microinsurancenetw.org> ,accessed on 21 February 2024

¹⁷⁶ Ibid

¹⁷⁷ Ibid

¹⁷⁸ Micro insurance and Economic Growth in Africa <https://www.mdpi.com> ,accessed on 18 February 2024

¹⁷⁹ Ibid

Landscape of Micro insurance in Africa research. This suggests that micro insurance penetration is poor throughout Africa, not just in Ethiopia.¹⁸⁰

Historically, in all African countries, the regulatory frameworks of micro insurance was bared by a lot of regulatory challenges .The absence of separate regulation and supervision ,lack of , adequate and consolidated regulatory frameworks were major problems for micro insurance business in Africa .¹⁸¹

In 2021 and the 1st half of 2022 some African countries have made regulatory and policy change with the goal of advancing inclusive insurance, social protection and penetration micro insurance.¹⁸²The new regulations varyingly affect customer centricity, inclusive insurance market development, innovation, and gender-positive environments.¹⁸³Those African countries which made policy and regulatory change have relatively high penetration of micro insurance.

This chapter of the research makes a detailed analysis of the micro insurance regulatory frameworks in three African countries. The countries under study include Kenya, Ghana and Nigeria.

2.11.1. Lesson Learned from the Experience of Kenya

Before the enactment of the "Kenya Micro insurance policy paper " in 2014, there was no law that properly regulate micro insurance business in Kenya.¹⁸⁴A slight changes have been made to Kenya's Insurance Act (Cape 485) since it was passed thirty years ago.¹⁸⁵Then the act was amended but it still did not adequately reflect Kenyan micro insurance business.

With the goal of achieving financial inclusion by 2030, the Kenyan Insurance Regulation Authority The Kenya Micro insurance policy paper was enacted in 2014 by the Kenyan

¹⁸⁰ Micro insurance in Africa.<https://www.devex.com> ,accessed on 19 February 2024

¹⁸¹ Ibid

¹⁸² Ibid

¹⁸³ Ibid

¹⁸⁴ Micro insurance in Kenya and legal regulations. <https://www.kenyaplex.com> ,accessed 20February, 2024

¹⁸⁵ Ibid

Insurance Regulatory Authority. ".¹⁸⁶ The policy paper outlines the direction that Kenya's micro insurance regulation and oversight will take going forward. It lists the principal objectives and elements that underpin this process.

The legal frameworks for micro insurance in Kenya were dispersed and fragmented prior to the adoption of the policy paper. These frameworks comprised all laws affecting the provision of insurance, as well as other acts and associated rules outside of the Insurance Act.¹⁸⁷

The Acts pertaining to Banking, Microfinance, Cooperative Societies, and Savings and Credit Co-operative Societies are all components of regulatory frameworks that contribute to the establishment of the broader regulatory environment for micro insurance.¹⁸⁸

The policy paper lays the groundwork for Kenya's micro insurance industry to flourish. It also includes a history on the Kenyan micro insurance industry and an overview of the supply, demand, and regulatory environments. This needs to be comprehended in order to enable Kenya's micro insurance regulatory structure.¹⁸⁹

The Micro Insurance Regulation (2015) was implemented by the Kenyan government subsequent to the policy change in 2015. The Micro Insurance Regulations of 2015 provide that a licensed micro insurer must have a minimum paid capital requirement of Kenya Shilling Fifty (50) million, as decided from time to time by the Authority, for the purposes of section 33(1)(a) of the Act.¹⁹⁰

Since micro insurance is a particular product line that caters to and is accessible to the lower-class market and micro insurance contributes to a more inclusive insurance market, on 7th February 2020, the cabinet secretary for the National Planning and Treasury issued a separate micro insurance regulation, 2020, with the objective of regulating the conduct of micro insurance business and the registration of micro insurers.¹⁹¹

¹⁸⁶ The Kenya micro insurance policy paper .p11 <https://a2ii.org> ,assessed on 20, February, 2024

¹⁸⁷ Ibid

¹⁸⁸ Ibid

¹⁸⁹ Ibid

¹⁹⁰ The Micro insurance Regulation <https://www.ira.gov>, accessed on 21 February 2024

¹⁹¹ Ibid

According to The Kenya Micro insurance Regulation, 2020 a registered insurers who intends to carry on micro insurance business set up a separate micro insurance company for that .The management and governance structure of the parent company may be applied to the separate micro insurance company .A micro insurers shall apply to the insurance Regulatory Authority for the renewal of its registration annually on or before the 30th of September of every year.

Following the micro insurance regulatory and policy change changes in Kenya, micro insurance underwriters in Kenyan market increased in number from 11in 2015 to 18 in 2022, implying for growth .According to findings of a study done by IPOS of behalf of Association of Kenya Insurers, micro insurance products available to consumers have increased in number, and types.¹⁹²

As of the Kenya experience have proven that, understanding the existing micro insurance regulatory barriers from the grass roots by enacting a policy paper and putting clear micro insurance strategies and vision which is suitable. Similarly based on that enacting adequate, comprehensive, specialized and separate micro insurance regulatory frameworks is important for the penetration of micro insurance.

2.11.2. Lesson Learned from the Experience of Nigeria

Several developing countries have created supportive regulatory frameworks for micro insurance regulation in an effort to use micro insurance as a means of accomplishing national transformation and other objectives of government development policy.¹⁹³ Nigeria is not exempt from the pursuit of utilizing the advantages of micro-insurance. For example, the "Guidelines for Micro-insurance Operations in Nigeria" (GMON, 2013) was released by the Nigerian Insurance Regulator, the National Insurance Commission (NAICOM), which is the main regulator of commercial insurance in Nigeria, in December 2013. It seems that the findings of the Diagnostic Study on Micro insurance in Nigeria

¹⁹² Micro insurance in Kenya and legal regulation. <https://www.KenyaPLX.COM> ,accessed on 19 February 2023

¹⁹³ Ibid

(2012) served as the foundation for this,¹⁹⁴ study revealed that, of the 168 million people living in the country, only 1% (or fewer) of adult families had access to formal insurance as a risk management tool.¹⁹⁵ Additionally, the research found that low –income groups has enormous potential, but there is also a dearth of supportive legislation that would allow micro insurance to flourish. Therefore, with the passage of the GMON 2013, it is anticipated that the micro insurance industry will not only achieve the goal of improving the lives of those involved in micro and small business, but also act as a trigger for the elimination of poverty and financial inclusion, which in turn drives socioeconomic change.

Studies have revealed that Nigeria was the bottom of the worldwide comparison chart for both economics and quality of life, even though GMON 2013 emerged as one of the legislative tools for socio –economic development.¹⁹⁶ For instance, failed State Index reveals that, out of the 178 countries examined, Nigeria is the 17th Fragile State.¹⁹⁷ This suggests that Nigeria is only leading the list of the sixteen most wretched countries in the world, and that a variety of circumstances could have led to this situation.¹⁹⁸

To address the limitation of GMON 2013 and to cater the lower segment of the population in more advanced way.¹⁹⁹NAICOM has released the revised micro insurance guideline. The commission said that the aim of the guideline was also introduced as a component of the financial inclusion plan to encourage the micro insurance sector's expansion.²⁰⁰

On January1, 2018. The updated guidelines were made available .According to NAICOM, as of January 1, 2018, In Nigeria; a defined set of guidelines has been established for the

¹⁹⁴ Ibid

¹⁹⁵ Ibid

¹⁹⁶ From failed to Fragile Reaming the Index –Fund for peace .,2014 <https://www.fundforpeace>,accessed on 15 December 2023

¹⁹⁷ Ibid

¹⁹⁸ Ibid

¹⁹⁹ NAICOM Release Revised micro insurance Guidelines ,2018 .<https://www.nipc.Gov> ,accessed on 26 February 2024

²⁰⁰ Ibid

operation of micro insurance company.²⁰¹ According to NAICOM ,the aim of the guidelines are to provide minimum standards for the conduct of micro insurance business in Nigeria, guarantee consumer protection for micro insurance insurers ,define general characteristics of micro insurance industry ,specify general obligations and responsibilities of micro insurance operators and insurance intermediaries ,and set requirements for entering and leaving the micro insurance market .²⁰² These are indications that the micro insurance market in Nigeria is starting to pay attention to low-income insurance distribution. According to the rules, micro insurance is defined as insurance designed for low-income groups that is paid by premiums and offered by licensed institutions at low cost. The policies are administered in compliance with widely established insurance concepts.²⁰³ According to its definition, micro insurance products are those whose cost, terms, coverage, and mode of distribution are all tailored to make them suitable for the low-income market. Additionally, it makes clear how much capital operators must have, saying that the maximum amount insured under a Micro insurance policy is N2, 000,000 per individual per insurer.²⁰⁴

According to the guidelines, a micro insurance firm is the only one offering micro insurance service.²⁰⁵ Because of this, conventional insurance companies unable to provide micro-insurance service under their commercial license. Nonetheless, a conventional insurance company may enter in to the micro insurance market by obtaining a license, since the guidelines defines micro insurance companies as independent ,capitalized ,licensed financial service providers overseen by NAICOM to manage micro insurance programs .²⁰⁶ The advantage of this is that it makes it possible for investors who have never worked in the insurance sector to apply for a license to provide micro insurance and to successfully compete with commercial insurance providers who have entered the

²⁰¹ Enhancing Financial Innovation and Access. <https://www.efina.org> , accessed on 25 February 2024

²⁰² Ibid

²⁰³ Ibid

²⁰⁴ Ibid

²⁰⁵ Micro insurance schemes and insurance penetration in Nigeria: An alternative review Vol. 26 No. 1 (2022)<https://www.researchgate.net> , accessed on 21 December 2023

²⁰⁶ Ibid

market.²⁰⁷ The guidelines stipulate that in order to guarantee efficiency in the management of micro-insurance companies, the management of these companies must be composed of insurance experts at a managerial level who possess either seven years of working experience in a technical department of an insurance company or five years of post-associate ship of the chartered institute of insurance qualification.²⁰⁸

As of 2020, NAICOM revealed that three companies had been granted micro insurance license in Nigeria to function as composite entities .of these ,Four was allowed to operate nationwide ,while the other two were restricted to operating inside a single state.²⁰⁹

Furthermore, a study carried out in Nigeria by EFI n A (2018) found that the majority of the 37 micro insurance products that were tagged in Nigeria under the broad categories of life and non-life coverage were bundled products, or products that offer multiple types of coverage.²¹⁰ For instance, as part of secondary coverage, certain primary life plans include disability and property and accident insurance along with health insurance with point of service payment.²¹¹

According to the EFI n A research (2018) the gross written premium for the micro-insurance market in Nigeria as at the time of the study was 1.5 billion Naira and the yearly premium per insured ranged from 400 Naira to 36 000 Naira .²¹²

In the above I have looked at the regulatory frameworks for micro insurance of Nigeria. The introduction and implementation micro insurance policy paper and guidelines in general and specialized fully separate, compressive and adequate micro insurance regulatory frameworks differs from one country to another country. Various nations have

²⁰⁷ Ibid

²⁰⁸ NAICOM Released Revised Micro Insurance Guidelines to boost Inclusion ,2018 <https://www.nipc.gov>,accessed on 23 February 2024

²⁰⁹ NAICOM Corporate Governance For Insurance and Reinsurance Companies 2021 <https://www.monda.com>,accessed 25 February 2024

²¹⁰ Ibid

²¹¹ Ibid

²¹² Background on : micro insurance and emerging markets 2017 <https://www.ii.org>,accessed 15February 2024

adopted distinct paths and strategies. There are many other causes for these variations, including historical, political, economic, and ideological considerations.²¹³

From the comparative analysis, it is observed that the introduction of micro insurance policy paper in Nigeria inevitably reflects country willingness to understand the existing regulatory barriers from the grass root. Some of the factors which have influenced countries to set up adequate, comprehensive specialized and to some extent separate micro insurance regulation include the emergence of accepting micro insurance as a distinct social protection tool . This seems to be the case even in Africa, including Ethiopia.

Compared to Ethiopia, the micro insurance sector is more important to the economies and social protection of Nigeria. Additionally, I've observed the various initiatives taken by regulators and governments to further the growth of the micro insurance industry. The presence of the relevant regulator has a significant impact on the growth of the micro insurance sector and helps to increase the penetration of micro insurance in the market.

The experience of Nigeria have proven that, understanding the existing micro insurance regulatory barriers from the grass roots by enacting guidelines and putting clear micro insurance strategies and vision .Based on that they have enacted adequate, comprehensive, specialized and separate micro insurance regulatory frameworks and the penetration of micro insurance was enhanced .

2.11.3. Lesson Learned from the Experience of Ghana

In Ghana the National Insurance Commission (NIC) decided to create a new legal and regulatory structure for the insurance industry in Ghana.²¹⁴This was primarily done to allow the (NIC) decided to do so in 2010.This was done primarily to allow the NIC to implement risk-based supervision and to help Ghana move closer to conformity with the

²¹³ Mwenda, Legal Aspects of Unified Financial Services Supervision in Germany
<https://www.cambridge.org>, accessed 15 February 2024

²¹⁴ Kofi Andoh. Ghana's Micro insurance Policy Shift.p,15

most recent international standards for insurance supervision, known as the Insurance Core Principles (ICPs).²¹⁵

Ghana had virtually limited micro insurance at the time .In addition, the majority of people work in the unorganized sector of the economy.²¹⁶Working with persons in the informal sector will be essential be essential to expanding insurance's reach in Ghana. Thus, the creation of micro insurance is essential for the insurance industry as a whole.

Three tiers make up the new legal and regulatory structure.²¹⁷ The highest level is represented by insurance Bill, which, if approved by parliament, will become the Insurance Act. The second is regulations, which the minister of finance will issue. The comprehensive regulations and prudential standards will be outlined in two codes: the Insurance Intermediaries Code and the Insurance Code. Additionally, there will be guidance available. The guidelines and rules will be released by the Ghana Insurance Regulatory Authority. They are both subject to amendment at any moment to reflect changing market conditions.²¹⁸ Appropriate transitional provisions will be included in the Act, giving insurers and insurance intermediaries time to adjust to the numerous new duties and requirements.

The new legislation is anticipated to bring about significant changes by NIC .First and for most; corporate governance and risk management will receive a lot more attention. Under the current Act insurers must obtain approval from the NIC for a number of actions, such as,²¹⁹ Regulation of Micro insurance Ghana’s Micro insurance Policy Shift²²⁰ issuing new products. Under the new legislation ,insurers and insurance intermediaries will have more autonomy in running their own business as long as they abide by the ACT, Regulations ,and Codes .These were created ,among other things ,to guarantee the application of global

²¹⁵ Creating an enabling legal and regulatory environment for micro insurance in Ghana

<https://www.knowledgecenter.org> ,accessed 21 February 2024

²¹⁶ Promoting micro insurance in Ghana <https://www.nicgh.org> ,accessed 21 February 2024

²¹⁷ Regulatory frameworks –Bank of Ghana <https://www.bod.gov.gh> ,accessed on 13 February 2024

²¹⁸ Ibid

²¹⁹ Ibid

²²⁰

best practice on risk management and corporate governance. As a result, insurers will need to set up certain system and essential process. Second, in order to comply with international norms for risk-based solvency, far more stringent prudential rules will need to be introduced. Of course, there will also be extensive provisions for micro insurance.

It could be necessary to provide more context for the goal of market development because not all insurance regulators.²²¹The NIC actively pursues a development plan, of which micro insurance is a key component, and interacts with the insurance business on a regular basis because it believes that the absence of a market, there would be nothing to regulate.²²²

The NIC and GIZ have worked together to raise awareness of micro insurance in the insurance industry ahead of the new regulatory framework. To strengthen the insurers' capabilities in several areas of micro insurance and emphasize how it differs from traditional insurance procedures, seminars were organized. Additionally, consumer education has been put into practice.²²³

While there are regional variations in the definitions of micro insurance, nearly all definitions include either quantitative, qualitative, or both types of criteria. Some examples of quantitative criteria are a set maximum premium or sum insured.²²⁴The issue with numerical standards is Qualitative criteria could include things like the insurance having to be affordable or aiming to shield the low-income population's social and economic living conditions from certain threats. The NIC believes that qualitative criteria are more subjective and somewhat ambiguous for a legal definition, even though they are more suited to convey the idea of micro insurance.²²⁵

The new regulatory frameworks employ a novel and revolutionary strategy. It suggests giving insurers the authority to identify an insurance product as micro insurance than

²²¹ Regulating for inclusive insurance markets in Ghana <https://www.cgap.org>, accessed on 13 February 2024

²²² Ibid

²²³ Promoting micro insurance in Ghana <https://www.nicgh.org>, accessed on February 2024

²²⁴ Ibid

²²⁵ Regulating for inclusive insurance markets in Ghana 2014. <https://www.cgap.org>, accessed on 2024.

defining it based on qualitative or quantitative standards.²²⁶ The definition of “micro insurance contract” is, essentially, then, an insurance policy that has been classified as micro insurance by an insurer. The authority will or the insurer will have the authority to decide whether the product qualifies as micro insurance or not. Even then, the removal of the micro insurance designation will not affect any policies previously been sold as micro insurance.

Based on a few qualitative standards outlined in the insurance code, the insurer must decide whether an insurance product qualifies as micro insurance. The insurer will utilize the criteria to determine what qualifies rather than include them in the definition. The goal of this strategy is to attain legal certainty while capturing the qualitative criteria:

The Code also contains certain clauses that are designed to safeguard micro insurance customers. Micro insurance contracts, for instance, must be written in plain, intelligible language. In order to keep policyholders' trust, claims must be resolved and paid within a predetermined amount of time.

Following legislative and regulatory changes in Ghana's micro insurance sector, micro insurance represents a new avenue for the sector's growth, and regional governments are beginning to prioritize policies that will shield their workforce and businesses from unanticipated disasters like floods and droughts.²²⁷ Many Ghanaians have historically been unable to access financial services due to low median earnings, but the late 20th century saw the rise of the micro insurance sector, which has significantly improved access to a wide range of goods and services.²²⁸ Ghana's financial inclusion rate is still low by global standards, but it has been rising quickly, especially in rural and isolated areas that have historically received less support.²²⁹

²²⁶ Ibid

²²⁷ Micro –insurance Product and Service increases access for Ghana previously underserved population <https://www.oxford.com>, accessed on 16 November 2023

²²⁸ Ibid

²²⁹ Ibid

The World Bank reports that a growing market share of non-bank financial institutions has caused rural residents' access to formal financial accounts to double in recent years.²³⁰ This includes micro insurance companies.

In the above I have looked at the regulatory frameworks for micro insurance of Ghana. The introduction and implementation micro insurance policy paper and guidelines in general and specialized fully separate, comprehensive and adequate micro insurance regulatory frameworks differs from one country to another country. Various nations have adopted distinct paths and strategies. There are many other causes for these variations, including historical, political, economic, and ideological considerations.²³¹

From the experience of Ghana, it is observed that the introduction of micro insurance policy paper in the country inevitably reflects country's willingness to understand the existing regulatory barriers from the grass root. Some of the factors which have influenced Ghana to set up adequate, comprehensive, specialized and separate micro insurance regulatory frameworks include the emergence of accepting micro insurance as a distinct social protection and economic growth tool.

2.12. Contextualizing Ethiopian Existing Micro Insurance Business

Regulatory Approach

The existing micro insurance regulatory frameworks of Ethiopia follow both functional and institutional approach.²³² According to the institutional regulatory paradigm, a particular tier of risk carriers—legal entities like mutual funds or businesses—are granted a specialized micro insurance license.

Under this structure, each financial institution is performed by specific institution and regulated by specific regulator. In Ethiopian context the Licensing, License Renewal and Product Approval for Micro insurance providers Directive No. SMIB/3/2020 allows the

²³⁰ Ibid

²³¹ Mwenda, Legal Aspects of Unified Financial Services Supervision in Germany
<https://www.cambridge.org> , accessed on 16 November 2023

²³² (n25)

establishment of micro insurance companies, but still now no single company request license for micro insurance business .²³³In addition with institutional approach, Ethiopia follows functional approach, hence conventional insurance companies and micro finance companies are also micro insurance providers.²³⁴

As per Directive No. SMIB/3/2020 on Licensing, License Renewal, and Product Approval for Micro insurance Providers ,micro insurance providers are conventional insurance companies, micro finance institutions and micro insurance companies in a fragmented way .Micro finance institutions and conventional insurance companies perform micro insurance business without a separate license in addition with their inherent obligation.

The existing Ethiopian institutional and functional regulatory model is affected by several challenges .Among this poor governance i.e. in adequate regulation and supervision, high capital requirement ,fragmented regulation and supervision, regulatory and supervisory overlapping, absence of specialized regulation and supervision and absence of separate regulation and supervision.²³⁵ The low degree of penetration and the industry's small contribution to economic growth serve as proof for this.

2.12.1. The Concept of Separate and Specialized Micro Insurance Regulatory Frameworks

In recent times in many developing countries, separate and specialized micro insurance regulatory framework is established.²³⁶ A number of commentators have advanced argument for separate and specialized micro insurance regulation.²³⁷ The case for completely separate and specialized micro insurance regulation can effectively and efficiently address the current issues associated with having non- separate and specialized

²³³ Interview with Mr.Wendime Kelemu .Principal Insurance Examiner at the National Bank of Ethiopia .March 14,2024

²³⁴ Ibid

²³⁵ Interview with Degnet Mulatu ,Head of micro Insurance unit at Omo Micro Finance S.C(on Bank Transaction) .March14/2024

²³⁶ The Key Aspects of Micro insurance Regulation <https://www.startupfino.com> .,accessed onn28 February 202

²³⁷ Ibid

micro insurance regulation. More importantly fully separate and specialized micro insurance regulation helps to reduce capital requirements, lenient solvency norms, lesser compliance burden, caps on risk accumulation and prescribed governance criteria like mutual or cooperatives.²³⁸

Open minds are preferable to a "rush to regulate," but clear and favorable regulations pertaining exclusively to micro insurance with the ultimate goal of consumer protection are essential for the development of micro insurance. However, since this will negatively affect the low-income market and their future acceptance of insurance products, it is imperative to prevent situations where risk carriers or intermediaries breach agreements, provide low-value products, or have unscrupulous and unreliable sales staffs.

Some of the benefit of fully separate and specialized micro insurance regulation includes .the harmonization, consolidation ,rationalization of the principles, rules and guidance issued by the existing regulators or embodied within the existing legislation which is specific and distinct for micro insures and insurance providers .

As micro insurance is based on determining the target market to be the low-income demographic and then extrapolating their demands for consumer protection, distribution, and product.The basis of traditional insurance was channel openings and massive outreach without a target consumer profile in mind; in contrast, it is more beneficial to have distinct micro insurance regulatory frameworks under which insurers can sell products. Because it offers insurers additional ways to connect with underserved and serviced populations. But if regulations have varied rules about market activity, the impoverished might wind up buying goods under regimes with disparate consumer protection laws, which would be confusing and leave them unaware of their rights.

Jurisdictions that have introduced separate micro insurance regulations and supervision have emphasized that micro insurance products are unique from conventional insurance because: first these are aimed at a specific segment of the population i.e. .the low segment

²³⁸Arman Oza Rajkot, India .MICRO INSURANCE DEVELOPMENT :CREATING AN ENABLING REGULATORY FRAMEWORK FOR MICROINSURANCE IN AZERBAIJAN,2015 <https://findevgateway.org>,accessed on 26 February 2024

of the population, and second micro insurance consumers are particularly vulnerable to many risks. A key cornerstone of separate micro insurance regulatory frameworks therefore is the introduction of separate market conduct provisions that aim to mitigate the consumer's vulnerability, such as claims pay-out deadlines, limits on exclusions ,prudential regulation which is suitable to run a dedicated and separate micro insurance business and establishing a dedicated micro insurance supervision department.

2.12.2. The Concept of Adequate and Comprehensive Micro Insurance Regulation

In the micro insurance world adequate micro insurance regulations are a vital framework tailored to serve the unique needs of low – income community's .These regulation defines and oversees the micro insurance sector, ensuring affordability, accessibility, and fairness.²³⁹ They establish licensing requirements, capital standards, and guidelines for prudent risk management, consumer protection measures are at forefront, with regulations emphasizing clear communication and dispute resolution.²⁴⁰

Ultimately, micro insurance regulations aim to bridge the insurance gap, providing financial security those who most needed it .This devils in to the critical aspects of micro insurance –regulation and supervision, shedding light on their crucial role in fostering financial inclusion and stability.²⁴¹

In general a comprehensive and adequate micro insurance regulation consists mainly adequate and comprehensive prudential and consumer protection regulations beyond licensing, license renewal and product approval provisions.

2.12.3 The Concept of Consolidated Micro Insurance Regulatory Frameworks

Micro insurance business is currently regulated in a fragmented way in almost all countries in the world including our country Ethiopia and it is necessary to harmonize and works towards building a consolidated regulatory frameworks just like that of Banking,

²³⁹ [https://startupinfo.com/blogs/ Key Aspects of Micro insurance Regulation](https://startupinfo.com/blogs/Key%20Aspects%20of%20Micro%20insurance%20Regulation) ,accessed on October 29,2023

²⁴⁰ Ibid

²⁴¹ Ibid

Conventional Insurance and Micro Finance Institution.²⁴² This was a realization of the extremely dispersed regulatory environment which suffered from overlapping regulatory jurisdiction which is impeded market development and consumer protection not only in Ethiopia, but also in other developing countries.

Enhancing the efficient management of systematic risks and consumer protection is the strongest justification for market regulation. A single financial regulator would be able to identify, track, and manage sector-wide risk as well as create policies to deal with the risks the entire company faces. A consolidated micro insurance regulatory framework would be responsible supervising the industry in the consolidated way.

Another argument for consolidation of micro insurance regulation arises from the cost of efficiency and effectiveness of the sector by consolidating micro insurance in one specialized regulatory frameworks. A consolidated regulatory framework will only have one dedicated supervisory department. When there are overlaps in registration and licensing then unification will also bring the establishment of specialized micro insurance companies.

It might be more difficult than I thought to combine micro insurance regulations into a single regulatory framework. Among the difficulties that could arise when combining the regulations are the following In order to provide for the new consolidated framework, consolidation necessitates either examining every law already in place for each micro insurance provider company or replacing every subsector legislation with a new, all-encompassing framework.

2.12.4. The Need to Minimize Capital Requirement

For many years, the core principle of micro insurance solvency has served as the cornerstone of insurance law, inspiring a plethora of regulations and procedures aimed at ensuring that insurance companies had the necessary capital to cover claims.²⁴³

²⁴² (n184)

²⁴³Denial A. Rabinowitz ,2017 ,Capital requirements for insurance :what they are, what they are

<https://www.propertycasualty360.com> ,accessed on 25 February 2024

As regulator and policy makers to stay up to date with changing economic pressures factors, several jurisdictions are currently undergoing significant adjustments to the capital requirement for insures.²⁴⁴ In consequence, these modifications may have a significant effect on some of the carriers' most important business decisions, including those regarding pricing strategies, asset investments, business line entry and exit, and others.

High capital requirements can make it difficult for low income people to start micro insurance business, because it could takes years, if at all, to accumulate the number of tiny policies needed to make a profit on such an investment. Moreover, it appears that such tiny policies should not be subject to large capital requirements intended to safeguard the financial system—a capital sledgehammer to crack a solvency nullity.

In Ethiopia, the establishment of specialized micro insurance companies were hampered by the introduction of higher capital requirement by licensing, license renewal and product approval directive no. SMIB/3/2020²⁴⁵ And the regulator obliged conventional insurance companies to mandatorily allocate resource for micro insurance unit.

²⁴⁴ Ibid

²⁴⁵ Ibid

CHAPTER THREE

3. THE ETHIOPIAN MICRO INSURANCE BUSINESS REGULATORY FRAMEWORKS

3.1 History of Micro Insurance Business Regulation in Ethiopia

Historical evidences indicate that, for the first time in the history of micro insurance regulation, it was in 2019 when the conventional insurance proclamation No 746/2012 when amended with proclamation No 1163/2019; the proclamation defines for the first time what Micro insurance is. Directive No. SMIB/3/ 2020, which only regulates licensing, license renewal, and product approval for micro insurance providers, was subsequently issued by the National Bank of Ethiopia.²⁴⁶The directive is applicable for conventional insurance companies, micro finance institutions and micro insurance companies to give life and general insurance coverage to low-income segment of the society without separate license for conventional insurance companies and micro finance institutions.

3.2 Current Status of Ethiopian Micro Insurance Industry

Ethiopia, the second most populous country in Africa with an estimated population of around 126 million plus,²⁴⁷ Ethiopia is mostly an agricultural nation and is classified as a poor country by the United Nations Data World Mater Elaboration. Over half of the country's economy is derived from agriculture, which also employs 80% of the workforce. More than 80% of the population resides in rural areas.²⁴⁸ According to UNDP Multidimensional Poverty Index 2023, 68.7 percent of the population of in Ethiopia is multidimensional poor.²⁴⁹ Micro insurance is at its infant stage in Ethiopia, as seen by its low penetration rate; the development of micro insurance compared with other financial

²⁴⁶ (n25)

²⁴⁷ Population of Ethiopia 2024 <https://www.worldmeters.info>, accessed on 12 February 2024

²⁴⁸ Ethiopia Demographic Profile <https://www.indexmuduni.com> ,accessed on 12 February 2024

²⁴⁹ Briefing note for countries on the 2023 Multidimensional Poverty Index, <https://www.hdr.undp.org>., accessed on 12 February 2024.

sectors in the country is not progressive.²⁵⁰ According to the latest diagnostic study by Milliman, a firm partnering with UNDP since 2022, even though micro insurance has been around in Ethiopia for a couple of decades, it is still a nascent market estimates a total of 1.83 million Ethiopians were identified as being covered by micro insurance as of the end of with micro insurance coverage ratios of 1.9 %.²⁵¹

No one business applied for a license to establish a specialist micro insurance firm in Ethiopia, which contrasts with the growth of other financial sectors in the nation.²⁵² Perplexed by the lack of enthusiasm for establishing a dedicated micro insurance firm in Ethiopia, NBE mandated that mainstream insurance providers doing business in Ethiopia allot resources for micro insurance enterprises.²⁵³ Based on this, the satellite index Insurance for Pastoralist in Ethiopia (SIPE) project currently offers micro insurance through the Nyala, Oromia, and Africa insurance companies as well as the state-owned Ethiopian Insurance Corporation.²⁵⁴ The WFP is funding the program, which began in 2018 and is anticipated to conclude in 2022. Its primary emphasis is the state of Somalia.²⁵⁵

Micro insurance is originally funded by the government and donors in many poor nations, even though insurance companies bear the risk. However, eventually, risk management by insurers will need to replace donor-managed poverty cycles.

²⁵⁶ Micro insurance companies are more skilled at risk management. However, Ethiopia is not experiencing this.²⁵⁷

²⁵⁰ Ethiopian insurance land scape and opportunities for risk financing <https://www.undop.org> ,accessed on 21 February 2024

²⁵¹ Report by Milliman.<https://www.undp.org> , accessed on 21 February 2024

²⁵² (n26)

²⁵³ (n27)

²⁵⁴ (n26)

²⁵⁵ Interview with Mr.Degnet Mulatu (n186)

²⁵⁶ Interview with Mr.Balew Yeshale .Director of Micro Insurance & Agriculture at Ethiopian Insurance Company. March 14/2024

²⁵⁷ Interview with Mr.Wendime Kelemu (n184)

Micro insurance business is currently regulating, supervising and performing in a different way in a fragmented way, these are Conventional insurance companies, micro finance institutions and micro insurance companies. These different micro insurance provider companies are directly responsible for the National Bank of Ethiopia (NBE). Among the micro insurance provider companies, conventional insurance companies and micro finance institutions are formed by enabling act i.e. proclamation to perform insurance and micro finance business which is different from micro insurance business. It is Directives No SMIB3/2/2020 gives the power for conventional insurance companies and micro finance institution to perform micro insurance business in addition with their natural responsibilities.

3.3. The Existing Micro Insurance Business Regulatory Frameworks in Ethiopia

Proclamation No. 206/1963 established the National Bank of Ethiopia as the supervisor, regulator, and producer of insurance policies. The bank started operations in January 1964.²⁵⁸ Prior to the coming in to force of this proclamation, the central bank used to perform two different types of operations i.e. commercial banking and central banking activities²⁵⁹ Following the country's adoption of socialist economic principles, the Monetary and Banking Proclamation No. 99/1976 came into effect in September 1976, thereby reshaping the Bank's mission. Consequently, the bank's duty was limited to actively participating in financial planning, a subset of national economic planning, in conjunction with the appropriate state organs. Other financial institutions like traditional insurance, micro finance and other financial institutions have come within the bank's regulatory and supervisory purview.

The National Bank of Ethiopia (NBE) is currently designated as the policy maker, regulator, and supervisor of the insurance industry in general, including micro insurance,

²⁵⁸The National Bank of Ethiopia history <https://nbebank.com>, accessed on January 21, 2024.

²⁵⁹ Ibid

under Insurance Business Proclamation No.1163/2019 ²⁶⁰ and the National Bank of Ethiopia Establishment (as Amended) Proclamation No591/2008²⁶¹

The National Bank of Ethiopia Establishment (as Amended) Proclamation No.591/2008 states that efficient management, oversight, control, and regulation of the insurance and reinsurance business in Ethiopia is one of the main duty of the NBE.²⁶² All individuals engaged in or connected to the insurance business, such as insurance and reinsurance companies, insurance and reinsurance intermediaries, loss adjusters, motor assessors, and risk surveyors, are granted licenses by the NBE, which also develops and enforces standards for the conduct of insurance and reinsurance business in Ethiopia.

The definition of micro insurance provided by Insurance Business Proclamation No.1163/2019 granted micro insurance legal standing. Prior to the coming in to force of Insurance Business Proclamation No.1163/2019, micro insurance business lacked a clear legal ground in Ethiopia. Following amendments made by Insurance Business Proclamation No.1163/2019, the National Bank of Ethiopia (NBE) enacted a new Directive on Licensing, License Renewal and Product Approval for Micro insurance Providers No. SMIB/3/2020. The Directive is aimed at encouraging micro insurance business in the country or in other words improving access to insurance for the low-income and vulnerable segment of the population. The directives designate conventional insurance companies, micro finance institutions and micro insurances micro insurance providers in Ethiopia. Below I will discuss the legal regime for each micro insurance provider companies in detail.²⁶³

²⁶⁰ Insurance Business Proclamation, the Proclamation No. 1163/2019, Federal Negarit Gazeta, 26th Year No. 6 of 2019, ADDIS ABABA, 2020

²⁶¹ The National Bank of Ethiopia Establishment (as Amended) Proclamation, the Proclamation No. 591/2008, Federal Negarit Gazeta, 14th Year No. 50 of 2008, ADDIS ABABA, 2008.

²⁶² Ibid

²⁶³ (n20)

3.3.1 The Legal Regime for Conventional Insurance Companies in Ethiopia.

Zelege (2007) claims that the provision of insurance services began in Ethiopia in 1905, the same year that the country saw the launch of sophisticated banking services.²⁶⁴ Emperor Menelik II and a representative of the National Bank of Egypt, which was owned by the British, came to an agreement at that time to establish a new bank in Ethiopia.²⁶⁵ In a similar vein, contemporary insurance services were brought to Ethiopia by outsiders and date back to 1905, when the Bank of Abyssinia started handling fire and marine insurance as an agent.²⁶⁶ The first domestic insurance business, Imperial Insurance business, was co-owned by the Emperor, his entourage, and foreign companies. It began issuing fire, life, and general accident policies in 1951.²⁶⁷ However, compared to international insurance entrepreneurship in Ethiopia, it was not that significant.

Prior to 1974, Ethiopia's financial system functioned in a free market economy. But in the 1980s, the financial system underwent reorganization and restructuring to accommodate the centrally planned economic system that had been established after the 1974 election of a new administration.²⁶⁸ Following 1974, the government nationalized all financial institutions in the nation and established one insurance company, three specialized banks, and other entities. Financial institutions could not be privately owned. The National Bank of Ethiopia (NBE), the country's central bank, oversaw the insurance business and the banks that were controlled by the three states. All insurance services were provided by the Ethiopia Insurance Corporation, the sole insurance company.²⁶⁹

Ethiopia's political landscape changed in 1991, and the new political administration formally introduced a market-oriented or liberal economic system in 1992 to direct the

²⁶⁴ Leul Lealem, Factors Affecting Financial Performance of Ethiopian Insurance Companies. A research paper December, 2020.

²⁶⁵ Ibid

²⁶⁶ Schaefer Charles, "the politics of banking: the bank of Abyssinia, 1905-1931", the international journal of African historical studies, vol. 25, No.2. 1992. <https://www.jstor.org>, accessed on 28 February 2024

²⁶⁷ Ibid

²⁶⁸ (n217)

²⁶⁹ (n217)

nation's economic growth.²⁷⁰ As a result the financial institution was reformed to conduct on market-oriented policy frameworks.²⁷¹ With regard to the insurance sector. In 1994, EIC underwent a restructuring that resulted in its acquisition as a state-owned enterprise. Its new objective was to provide insurance service and undertake any related activities that would aid in achieving its goals.²⁷²

All of the nation's economic sectors must actively participate in the implementation of the market-based economic policy. To achieve this, a comprehensive insurance law that would allow all insurance sectors to operate within the confines of a market economy was required.²⁷³ The Licensing and Supervision of Insurance Business Proclamation 86/94 were issued in order to achieve this.²⁷⁴ The 19-year insurance industry monopoly was broken by this declaration, which also permitted the domestic private sector but forbade foreign insurers from doing the same.

Ever since private insurers began operating in Ethiopia in 1994, the insurance industry has had a significant impact on the country's economy. Furthermore, the country's rapid economic growth in the 200s had a big impact on the insurance industry..²⁷⁵ These demanded the creation of brand-new, all-encompassing insurance laws to guarantee the security and soundness of the nation's insurance market. Consequently, in 2012, the Insurance Business Proclamation 746/2012 was issued.²⁷⁶

The existing insurance business proclamation No 1163/2019 which repeals Insurance Business Proclamation 746/2012 .It is this proclamation defines what micro insurance is for the first time in the history of micro insurance in Ethiopia.

²⁷⁰ Misrak Tesfaye Abate ,Insurance Sector In Ethiopia :Evolution And Currant State Section A-Research Paper Eur ,June 2023 ,p 643

²⁷¹ Ibid

²⁷² Ibid 644

²⁷³ Ibid

²⁷⁴ Licensing and Supervision of Insurance Business Proclamation No 86/94,Negarit Gazata ,ADDIS ABABA ,1994

²⁷⁵ Ibid

²⁷⁶ The Insurance Business Proclamation 746/2012,Negaritee Gazetta ,ADDIS ABABA ,2012

3.3.2. The Legal Regime for Micro Finance Institutions in Ethiopia

Proclamation No.40/1996 recognized Micro finance officially as a business organization in 1996.²⁷⁷ Currently, proclamation No. 629/2009 and 1164/2019 governs micro finance business. It is now required by this decree that MFIs in Ethiopia be set up as share corporations. In Ethiopia, institutions other than banks, including NGOs, are not permitted to offer microfinance services .Micro loans provided by.²⁷⁸ Since MFIs must be set up as share companies, as was previously indicated, they are regarded as business organizations in Ethiopia and ought to be set up and governed like business enterprises.²⁷⁹ Additionally, a responsible financial entity oversees them. In other nations as too, MFIs are increasingly being formed as business entities; in fact, the majority of MFIs that were first established as NGOs are now evolving into business firms.²⁸⁰

The National Bank of Ethiopia strictly regulates the microfinance industry, which is highly regulated in the country. Ethiopia completely strips regional states of any authority over MFIs. The documentation and administrative requirements needed to set up MFIs in Ethiopia are comparable to those for banks.²⁸¹ The law makes it very explicit that MFIs must comply with banking regulations, including directives, unless their application is specifically restricted or they conflict with laws that have been adopted specifically to regulate microfinance.²⁸² This goes completely against the idea that more permissive laws should be given to MFIs in order to allow them to fulfill their vital role in the fight against poverty. In addition to submitting a variety of reports, the National Bank of Ethiopia is obligated to use its dedicated microfinance supervision department to perform both onsite and offshore supervisions. The governments enacted Microfinance Regulation No. 626/2009 to encourage microfinance institutions to offer micro insurance to their clients in

²⁷⁷ Micro Financing Proclamation No.40/1996,Negarite Gazette ,ADDIS ABABA,1996

²⁷⁸ Ibid

²⁷⁹ Ibid

²⁸⁰ Yigerem Kassa .Regulation & Supervision of Micro Finance in Ethiopia ,2010.<https://www.findvgateway.org>.,accesed on 13 February 2024

²⁸¹ Requirements for Licensing and Renewal of Microfinance Business Directives No. MFI/23/2013

²⁸² (n217)

an effort to increase people's access to financial services, including micro insurance. It may seem unusual to encourage the provision of micro insurance by organizations lacking the technical know-how and regulatory authorization to engage in the micro insurance industry.

However, it also places a responsibility on regulation and specific microfinance institutions to ensure that their insurance-related operations do not lead to financial sector distortions or consumer exploitation, including the insolvency of microfinance institutions as a result of their engagement in insurance services.

Numerous influential MFIs have launched micro insurance businesses since the relatively new Microfinance Act was passed, primarily through credit life insurance. Some have gone above and above by introducing health insurance coverage and expanding their basic products to encompass both couples. Others have added disability coverage resulting from accidents and natural causes, and two MFIs have created pregnancy coverage.²⁸³

3.3.3. The Legal Regime for Specialized Micro Insurance Companies in Ethiopia

Establishment of a micro insurance firm in Ethiopia was designated by National Bank of Ethiopia Directive No. SMIB/3/2020. As to Directive No. SMIB/3/2020 on Licensing, License Renewal and Product Approval for Micro insurance Providers, businesses wishing to conduct micro insurance operations must possess a paid-up capital of three million birr for life or long-term insurance. A company that wants to operate both of its companies needs to have 10 million birr in paid-up capital. According to the directive, in order to meet the minimum capital requirements outlined in sub article 5.3.3, which states that the minimum paid up capital for life business is three million, and the minimum paid up capital for general insurance business is seven million, the micro insurance business unit of a microfinance institution must always maintain a financially sound position by holding assets in a separate micro insurance business unit fund. However, in contrast to other financial sectors in the nation, no single business applied for a license to establish a micro insurance firm specifically.²⁸⁴ Confounded by the lack of interest, the National Bank of

²⁸³ (n233)

²⁸⁴ Interview with Mr.wendime Kelemu (n186)

Ethiopia (NBE) ordered mainstream insurance companies operating in Ethiopia to mandatorily devote resources for micro insurance five years after the NBE approved a statute for the founding of micro insurance companies.²⁸⁵

The Directive enacted by the NBE following the Insurance Business Proclamation to some extent benefits the micro insurance providers as well as micro insurance policy holders. These changes made by the National Bank of Ethiopia and the forthcoming ones are aim to improving the performance of the micro insurance industry in general and also show the commitments on the side of the National Bank of Ethiopia to support the industry and protecting the policy holders. But when we compare the regulatory frameworks of micro insurance with other financial institution in the country, the micro insurance industry has not ensured the expected standard of governance. This is evidenced by the low penetration of the industry and the low contribution of the industry for economic development of the country.

As a result of regulatory barriers such as fragmented structure of regulation, absence of separate and specialized regulation, lack of adequate and comprehensive regulation, regulatory and supervisory overlapping and high capital requirement to run a dedicated micro insurance business. As a result, the market is still less developed; low-income groups are not protected, government budgets are not alleviated, insurance markets are not open to all, financial innovation is slow, and the nation does not see a greater penetration of financial services.

3.4 Challenges in Present day Regulatory Frameworks of Micro Insurance Industry in Ethiopia

In general the current micro insurance industry regulatory framework of the country has been criticized as being in adequate to effectively regulate the micro insurance industry of the country.²⁸⁶ Some of the notable challenges of the regulatory framework include fragmented, non-separate and in adequate structure of the regulatory frameworks. Despite, there is recently a little regulatory measures made by the regulatory body, micro insurance is currently challenged by a lot of regulatory barriers, this is evidenced by the low level of

²⁸⁵ Interview with Mr.Balew teshale (n213)

penetration of the industry and the low contribution of the sector for the economic growth. More specifically, despite the directive allow the establishment of a dedicated micro insurance companies in Ethiopia, because of high capital requirement, no single companies request license to run micro insurance business.²⁸⁷ Because of this the government obliged conventional insurance companies to mandatorily allocate resource for micro insurance unit. These types of challenges have resulted into question for reform of the regulatory frameworks, in order to advance its regulation and supervision. This section of the study is initiated to pay especial attempt on challenges in the micro insurance industry regulatory frameworks by the Government of Ethiopia in General and the National Bank of Ethiopia in particular.

Findings

Based on the analysis of collected data and interpretation, the following major findings are presented.

A. Low Emphasis Given to the Micro Insurance Industry

When we look at the composition and growth of Ethiopia's other financial sectors, such as banking, we find that the country began to develop in 1905 with the founding of the Bank of Abyssinia, which was subsequently governed by the British but was owned by the Ethiopian government in collaboration with the National Bank of Egypt.²⁸⁸ But as a well structure banking system started to evolve starting the 1940 after the Italian departure. The State Bank of Ethiopia, a government-owned financial institution, was founded in 1940,²⁸⁹ and until they were nationalized and combined into a single government-owned mono bank in 1976, a number of foreign bank branches as well as a private bank competed with the government-owned Commercial Bank.²⁹⁰

²⁸⁷ Interview with Deginet Mulatu (n186)

²⁸⁸International Institute for Science, Technology and Education :E journal .Development of Financial sector in Ethiopia :Literature Review .Vol 7.NO 17.2016 . <https://www.iiste.org>,accessed on 16 February ,2024

²⁸⁹ Ibid

²⁹⁰ Ibid

Following the 1991 political transition, the financial market was deregulated as part of the government's efforts to liberalize and refocus the economy into a commercially driven structure.

.²⁹¹ To bring about the deregulation and liberalization of the financial industry, Proclamation No. 84/94 was issued,²⁹² and other private banks and insurance firms were founded.

Differently when we look at the regulation of micro insurance sector in Ethiopia, it was in 2019 for the first time the insurance proclamation defines what micro insurance is. Similarly it was in 2020 for the first time the NBE enacted directive which regulates only micro insurance Licensing, License renewal and Product Approval directive was enacted .It was the only governing directive concerning micro insurance .Additionally, there is no a dedicated micro insurance supervision department in the National Bank of Ethiopia .Because of this low emphasizes given by the government in General and the National Bank of Ethiopia in particular, the penetration of micro insurance business in Ethiopia is very low.

B. Absence of National Micro Insurance Strategies

A comprehensive national plan that serves as a source of inspiration for the creation of micro insurance rules and oversight is implemented in certain jurisdictions. The scope and goals of these methods vary from jurisdiction to jurisdiction, but they generally produce results that are comparable due to cultural, historical, political, legal, and economic elements unique to each. The scope could include more sector-specific goals like financial sector growth, financial inclusion, or financial education, as well as more general socioeconomic development initiatives like national development plans. Under most developing nations, micro insurance would then be incorporated into the national policy

²⁹¹ Ibid

²⁹² ²⁹²Financial Sector Deregulation and Liberalization Proclamation , the Proclamation No. 84/1994, Federal Negarit G azeta, 3th Year No. 6 of 1994, ADDIS ABABA, 1994

under such circumstances. These tactics are not created or released by the Ethiopian government in general or the Ethiopian National Bank in particular.²⁹³

C. Lack of Separate and Specialized Micro Insurance Regulation

The target population's lack of expertise with insurance in particular and financial services in general is one of the unique characteristics of micro insurance marketplaces. This circumstance frequently results in a high incidence of adverse selection and moral hazard. It is common, even among those who have grown up around insurance; to believe that paying a premium should result in something material being received in return.²⁹⁴ Enabling a separate micro insurance regulation is a vital tool to serve the unique needs of low – income individual and community's. These ensure affordability, accessibility and fairness. But this is not happening in Ethiopia.²⁹⁵

D. Absence of Separate and Specialized Micro Insurance Supervision Department in NBE

The task of supervising financial institutions to make sure they follow laws and regulations and run securely and soundly falls within the purview of supervision departments for financial institutions.²⁹⁶ Micro insurance business models often involve additional intermediaries performing a variety of functions, in contrast to traditional insurance business models, which are primarily composed of the insurer and brokers or agents. Conventional insurance supervisors typically lack knowledge of and expertise with micro insurance, as well as alternative legislative and regulatory frameworks that support insurance for the underprivileged. Sometimes, politicians assume that those in poverty are

²⁹³ Interview with Wendime Kelemu (n184)

²⁹⁴ According to a study from GDV (2011), more than 20% of Germans consider insurance fraud to be a “trivial offence” which is committed by almost everyone at least once.<https://www.iii.org>, accessed on 21 February 2024

²⁹⁵ Interview with Mr.wendime Kelemu (n186)

²⁹⁶ Federal Reserve Board –Supervision and regulation <https://www.federalreserve.gov> ,accessed on 22 February 2024

unable to fulfill their financial commitments or do not desire insurance,²⁹⁷ and that as a result, the government or social security programs must pay for them. Due to the aforementioned significant differences, supervisors in many jurisdictions that employ an institutional approach have a dedicated micro insurance supervision department. However, the National Bank of Ethiopia did not set up a distinct office for micro insurance oversight.

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E. Lack of Adequate and Comprehensive Micro Insurance Industry Regulation

As I have discussed above, prudential regulation generally focuses on the larger goals of systematic stability as well as the financial viability of particular institutions. The distinction between various insurance product categories, such as life and non-life, which must be written by various providers or by a single provider upon meeting specific requirements, authorized minimum share capital requirements, actuarial requirements, restrictions on premium investment, and capital reserve, among other things, are examples of these prudential regulatory provisions. Prudent regulation is therefore a crucial framework for overseeing micro insurance. This is mostly due to its function in improving market growth, stability, and sustainability in addition to being a major contributor to reducing issues within the micro insurance sector. This is because without public support, private micro insurance cannot thrive.

The directive No. SMIB3/2/2020 solely governs the micro insurance industry's licensing, renewal of licenses, and product approval; conventional insurance regulations handle additional prudential problems. Above all, low-income clients are more likely to trust micro-insurance programs if they are connected to the savings, insurance, and community credit groups that they currently participate in and have some degree of influence over. Regulating the actions of market participants is unfortunately not possible due to the absence of any legal framework. Therefore, efficiency could be jeopardized at the expense

²⁹⁷ The experience of microfinance has shown just the opposite; often, loan default rates are much lower for the low-income market than for larger companies or the higher-income market

²⁹⁸ Ibid

of the sustainability of the micro insurance market, which is one way the industry can support financial inclusion and national economic growth.

Consumer protection (information and provisions oriented to customers) and market disciplines (transparency and disclosure of company-wide financial information and risk management) are components of market behavior. This suggests that the main goal of the micro insurance regulatory framework's market conduct structure is to limit the excessive actions of insurance market players in relation to insurance transactions. It covers licensing requirements for intermediaries, suitability requirements for agents and brokers, regulation of the selling process, including advice-giving and disclosure requirements, regulation of commission payments, and legal requirements that make the adoption of specific micro insurance company models mandatory. Therefore, the overall result of market conduct regulation is to safeguard the nation's general insured poor segment in addition to encouraging healthy market competition. However, prudential and customer protection laws are not separate in Ethiopia. It is inappropriate to apply traditional insurance laws' prudential and client protection provisions. However, the Ethiopian government is not committed to passing a distinct and sufficient micro insurance framework for prudential and consumer protection.

F. Absence of Consolidated Micro Insurance Business Regulation

Because micro insurance is a distinct business line of products intended and accessible to the low-income population, it helps create a more inclusive insurance market by bringing in low-income customers who were previously underserved or uneasy. A current micro insurance regulatory framework of Ethiopia is fragmented in different laws and supervision departments. Regulatory and supervisory body adopting a consolidate regulatory framework is vital for effectiveness of the sector. This will help for the formation of specialized micro insurance companies in the country. But the government of Ethiopia still lacks commitment to enact a consolidated micro insurance business regulation.

G. Absence of Micro Insurance Policy Paper

As previously mentioned, micro insurance policy papers and guidelines outline future directions for micro insurance regulation and oversight in three African nations. It outlines

the selected strategic strategy as well as the fundamental ideas and components of this procedure. By doing this, the paper offers policy suggestions that provide the groundwork for the creation of legislative and regulatory frameworks meant to facilitate the growth of the micro insurance market in a sensible and customer-focused atmosphere. However, there is no commitment from the National Bank of Ethiopia to implement a Policy Paper.

I. High Capital Requirement for the Establishment of a Dedicated Micro Insurance Companies

High capital needs can make it difficult to establish regulated insurance companies that target the low-income market because it could take years, if at all, to gather the number of modest policies needed to make a profit on such an investment.

Furthermore, it appears wrong to apply strong capital requirements—a capital sledgehammer to crack a solvency nut—for such tiny policies, which are intended to safeguard the financial system. Companies that request to run micro insurance must have paid up capital of three million birr for life or long-term insurance business and seven million birr for general insurance business, according to the National Bank of Ethiopia (NBE) directive no. SMIB/3/2020 on licensing, license renewal, and product approval for micro insurance providers. A company must have 10 million birr in paid-in capital in order to operate both businesses. The lack of specialist micro insurance company establishment is a result of this high capital requirement.

J. Absence of Research and Development Department on the Micro insurance Sector in the NBE

Research and development, or R&D, is the word used to characterize a variety of serious operations that businesses carry out in order to innovate and create new products and services. Research and development (R&D) refers to the efforts regulators of businesses and financial institutions make to innovate, enhance the way they regulate, pinpoint related issues, and launch new goods and services.²⁹⁹ It frequently represents the start of the development process. Usually, the goal of research and/or development is not to produce results right now. Rather, it is anticipated to support the financial industry's long-term

²⁹⁹ Ibid

expansion.³⁰⁰ Financial institution regulators and policy makers ought to engage in ongoing research and development. One of the numerous reasons Ethiopia has not developed a strong and contemporary micro insurance industry is the regulatory and supervisory bodies' lack of or insufficiency of research and development efforts in the country's micro insurance sector.³⁰¹ Therefore, it is imperative to improve the volume and depth of research and development in the insurance industry, particularly in the micro insurance sector.³⁰²

³⁰⁰ Biniyam Yitbarek, State Regulation and Supervision of Insurance Industry in Ethiopia: The Need for a Separate Regulatory and Supervisory Body, research paper ,2020,p,36

³⁰¹ Interview

³⁰² Interview with Mr.wendime Kelemu (n186)

CHAPTER FOUR

4. CONCLUSION AND RECOMMENDATIONS

4.1. Conclusion

The financial services sector in general has been regarded as vital to the nation's economic growth, social protection, development, and prosperity. Micro-insurance is one of the several socio-economic tools that recently evolved for the purpose providing affordable risk control mechanism for persons involved in micro and small scale enterprises. Nonetheless, recent regulatory difficulties in the sector prompted calls for the review of existing policy and regulatory frameworks. Even though Ethiopia is characterized by extreme levels of poverty and vulnerability, exacerbated by the fragmented and under-developed state of agriculture and illness, death and drought are the biggest risks for Ethiopian households, the penetration of micro insurance is very low. Among the reasons for the low penetration of micro insurance, the existing regulatory barrier takes a lion share.

Differently with other financial sectors regulation in the country, it was in 2019 for the first time when the conventional insurance proclamation No 746/2012 was amended with proclamation No 1163/2019; the proclamation defines for the first time what Micro insurance is? .Subsequently the National Bank of Ethiopia issues Licensing, License Renewal and Product Approval for Micro insurance providers Directive No. SMIB/3/2020. The new directives issued by the National Bank of Ethiopia to some extent has activated the micro insurance business, which provides coverage to the low income segment of the population coming in to effect on August 17.2020. It is stated that, the micro insurance industry today is marred by a lot of regulatory inefficiencies. Major problems that obstacle the development of micro insurance industry as discussed in the research are mainly related to the low attention given to the sector by the government in general and the National Bank in particular .³⁰³Specifically, absence micro insurance business policies and strategies , absence of consolidated micro insurance business regulation and supervision

³⁰³ Interview with Mr.wendime Kelemu (n186)

department, lack of adequate and comprehensive micro insurance business enabling Proclamation, Lack of imitation by the government and the regulatory body to enact detailed and comprehensive micro insurance regulation, absence of research and development on the micro insurance sector by the NBE, lack of formal collaboration between the micro insurance providers .³⁰⁴ All the above mentioned problems are evidenced by and resulted low level of penetration and the low contribution of the micro insurance industry to economic growth of the country. Micro insurance providers and regulators of the industry states that, the main reason for such low-rate penetration and growth is mostly likely related with the regulatory framework for the regulation of the micro insurance industry and these challenges have resulted into appeal for reform of the regulatory frameworks , in order to enhance its regulation.

Despite the fact that 80 % of the population of Ethiopia engaged in backward rain fed agriculture in which crop and livestock failures are serious risks, the researcher understood that micro insurance is relatively underdeveloped compared even to African peers such as Nigeria, Kenya and Ghana that achieve relatively higher insurance penetration .The development in this African countries shows the effect of having relatively fully separate, specialized ,adequate and comprehensive as it plays an unparalleled role in developing the industry, working to deepen market penetration of micro insurance and tasking it with widening coverage.

I have concluded that the Ethiopian micro insurance industry needs a separate from conventional insurance, specialized, adequate, consolidated and comprehensive micro insurance regulatory frameworks and Ethiopia should move from institutional and functional regulation and supervision of micro insurance regulation to only institutional model of micro insurance regulation and supervision. In general upon the adoption of the only institutional regulatory framework for Ethiopia, the legislation regulating the micro insurance sector shall be amended to reflect the changes.

³⁰⁴ Interview with Mr.wendime Kelemu (n186)

4.2. Recommendations

- Hence, The micro insurance industry in Ethiopia is currently regulated by conventional insurance regulation ,micro finance regulation and micro insurance Licensing ,license renewal and product approval directive in a fragmented regulatory system, the NBE is the responsible organ entrusted with the power of regulating the financial institutions of the country including micro insurance and this organ should have commitments on its move to conduct comprehensive grass-root level of study about micro insurance regulation in the country. A comprehensive study should be conducted to examine the real need of the micro insurance industry that includes all the actors of the industry and micro insurance policy paper or guideline should be enacted. As it was conducted in Kenya, Nigeria and Ghana. This will help for creating specialized, separate and comprehensive micro insurance regulation. This will solve the less penetration of micro insurance industry.
- The NBE is the responsible organ entrusted with the power of supervising the financial institutions of the country including micro insurance and this organ should have responsibility on its move establish separate and specialized micro insurance business supervision department for the three fragmented supervision does not satisfy the need of the industry and difficult for regulation and supervision. Additionally the researcher recommends that hence there is absence of Research and Development department by NBE on the micro insurance sector, it is better to establish the research and development department on the micro insurance industry.
- The researcher recommends that hence the requirements for companies that demand to run specialized micro insurance business a paid up capital of three million birr for life or long term insurance business and seven million birr for general insurance business .A Company which demands to run both business must have a paid up capital of 10 million birr is high .So the government rather than obliging conventional companies to mandatorily allocate resource for micro insurance ,it is better to minimize the capital requirement for the establishment of dedicated micro insurance companies.

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Ato Wendime Kelemu , Principal Insurance Examiner at Natinal Bank of Ethiopia ,
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Ato Balew Yeshale , Director of Micro insurance &Agriculture at Ethiopian Insurance
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Ato Deginet Mulat ,BA.MBA , Micro insurance Unit Head at former Omo Micro Finance
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Ato Biniyam Worku , Senior legal officer at Ethiopian Human Rights Commission ,
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Ato Yonatha Shiferaw, LLB. LLM, Senior public prosecutor at Ministry of Justice,
September 10, 2023

Ato Ayele Azara, LLB. LLM, Legal Service Directorate Director at former Omo Micro
Finance Institution current Omo Bank S.C, March 10, 2024

Ato Habtamu Debeko, LLB. LLM, Judge at Sidama Nation Regional Government
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Ato wendrad Techane, LLB. LLM, senior attorney at Dashen Bank Hawassa District,
March17, 2024

APPENDIXES

Hawassa University School of Law

Interview Questions for Data Gathering

The following interview questions focus on the case of THE ETHIOPIAN MICROINSURANCE REGULATORY FRAMEWORKS: A CRITICAL ANALYSIS The interview is designed only for academic purposes as part of an LL.M. thesis in commercial law at Hawassa University School of Law. Your contribution to this research is of the utmost importance. Your responses and viewpoints are maintained in strict confidence and will be used only for the purpose of the thesis.

With many thanks for sharing your experience and ideas as well as your time in advance.

I. General information

1. Full name.....
2. Educational background.....
3. Organization currently working in.....
4. Position in the organization.....
5. Year of experience in the organization.....

Interview questions

1. The Ethiopian Insurance Business Proclamation (Amendment) No.1163/2019 defines and incorporates the concept of micro insurance for the first time. Different persons objected this type's regulation, by claiming that since micro insurance is a distinct business line and the customer of micro insurance lacks experience with financial services in general and with micro insurance in particular they claim that micro insurance industry needs a separate, comprehensive and specialized proclamation. How fair and legal do you think having separate, comprehensive and specialized proclamation will help the penetration of micro insurance.
2. The Licensing, License Renewal and Product Approvals for Micro insurance Providers Directive NO.SMIB/3/2020 Assigned conventional insurance companies,

micro finance institutions and micro insurance companies to provide insurance for low segment of the society. Some persons oppose this fragmented and overlapping regulatory and performance structure, by claiming that these types of fragmented and overlapping regulatory and performance system are one reason for the less penetration of the industry. How fair and legal do you think this fragmented regulatory and performance structure affect micro insurance penetration in the country.

3. Licensing, License Renewal and Product Approvals for Micro insurance Providers Directive NO.SMIB/3/2020 governs only Licensing, license Renewal and Product Approval for micro insurance .Some people claim that this Directive is not adequate to govern the sector because it is limited to only Licensing, license Renewal and Product Approval for micro insurance. How fair and legal do you think this in sufficient regulation affect micro insurance business.
4. Micro insurance is currently supervised by Conventional Insurance Supervision Department in the NEBE. Some people claim that the micro insurance needs separate supervision and specialized department they claim that since micro insurance is a distinct business line and the customer of micro insurance lacks experience with financial services in general and with micro insurance in particular they claim that micro insurance industry needs need separate and specialized supervision department. How fair and legal do you think this in sufficient regulation affect micro insurance business
5. In Ethiopia a company which demands to run both businesses must have a paid up capital of 10 million birr. Some people oppose this by claiming this is high capital requirement cause for the non-establishment of separate micro insurance companies. How fair and legal do you think this high capital requirement affect the non –coming of separate and specialized micro insurance companies in the country.
6. For the development of any institutions the role of Research & Development department is vital. Some people rose that the absence of Research & Development department on micro insurance sector is one reason for less penetration of the micro insurance sector in the country. How fair and legal do you think this in sufficient regulation affect micro insurance business