

LICENSING AND SUPERVISION OF INSURANCE BUSINESS

LICENSING OF INSURANCE BROKER DIRECTIVE NO. SIB/31/2010

1. ISSUING AUTHORITY

This directive is issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 27 of the National Bank of Ethiopia Establishment (as Amended) Proclamation No, 591/2008 and Article 42(j) of the Licensing and Supervision of Insurance Business Proclamation No. 86/1994.

2. DEFINITION

- 1) “Insurance Broker” or “Broker” shall mean a person licensed as an insurance broker by the Bank who, acting for and on behalf of policyholders or proposers for insurance: a) places insurance business with insurers; b) carries out work preparatory to the conclusion of contracts of insurance and reinsurance; and c) where appropriate, assists in the administration and performance of such contracts.
- 2) “The Bank” shall mean the National Bank of Ethiopia.
- 3) “Chief Executive Officer” shall mean a person, by whatever title that person may be referred to, who is chiefly responsible for the day-to-day management of the affairs of a broking firm.

3. FORM OF ESTABLISHMENT

An insurance broker can be established in any form so far as it complies with the provisions of the Commercial Code of Ethiopia, the Licensing and Supervision of Insurance Business Proclamation No. 86/1994, and these Directives.

4. GENERAL REQUIREMENTS

In order to be licensed as an insurance broker, the following conditions shall be met:

- 1) An applicant shall be an Ethiopian national or a business organization fully owned by Ethiopian nationals.
- 2) An applicant or the owners, where the applicant is a firm, have not been

convicted by court of law, in any country, for an offence involving dishonesty.

- 3) An applicant shall be a person with honesty, integrity, diligence and reputation to the satisfaction of the Bank.
- 4) Chief executive officer of an insurance broker, in any form of establishment, shall:
 - a) hold, at least a diploma in insurance or any one of business related fields from an institute, college or university acceptable to the Bank; and
 - b) a minimum of eight years reputable managerial experience acquired through working at the head office of an insurance company with responsibility to oversee operational areas of underwriting and claims.
- 5) The requirements of sub article 4(4) hereinabove may not be applicable on chief executive officer of any insurance broker licensed before the effective date of this directive.
- 6) Notwithstanding Article 4(5) of this Directive, the provisions of Article 4(4) shall apply on all persons who:
 - a) apply for insurance broker license;
 - b) applied for insurance broker license but has not yet got approval on or before the effective date of this directive.

5. INFORMATION REQUIRED FROM THE APPLICANT

- 1) Professional Indemnity Insurance Policy.
- 2) Names and occupation (including dates of previous employment) of founders, where applicable.
- 3) Four (4) photographs of the proposed Chief Executive Officer.
- 4) Curriculum Vitae and supporting documents of the proposed Chief Executive Officer.
- 5) Duly completed application form as prescribed by the Bank and enclosures specified therein.
- 6) Memorandum and articles of association of the organization if the proposed insurance broker is in the form of business organization.
- 7) Full address of principal place of business and branch offices.
- 8) Any other information as may be required by the Bank from time to time.

6. PRINCIPAL PLACE OF BUSINESS

- 1) An insurance broker shall have a principal place of business where the normal day-to-day business shall be conducted, and shall furnish full information concerning its address, telephone number and other similar details to the Bank.
- 2) The broker shall provide the Bank with prior notice of the opening of any branch office together with its full address. In the event of closing any branch office, the broker shall give the reason for the closure and the manner of dealing with any pending business of the branch office.

7. DUTIES AND RESPONSIBILITIES

- 1) An insurance broker shall have the following duties and responsibilities:
 - a) represent the client in the course of negotiating insurance cover and serve the client with reasonable professional skill in the course of dispensing advice on the insurance needs of the client.
 - b) discharge his duties and responsibilities as a diligent businessman with good faith and integrity.
 - c) do everything possible to satisfy the insurance requirements of its clients before all other considerations.
 - d) subject to an agreement with the insurer, may collect premiums, issue cover notes, and settle claims up to a pre-agreed limit.
 - e) ensure all work carried out in connection with the insurance broking business is under the control and day-to-day supervision of the Chief Executive Officer of the firm;
 - f) clearly explain the differences and relative costs of the principal types of insurance to the client and provide advice on the types of insurance cover that best suit the client's needs.
 - g) offer a particular risk to at least three insurers and carry out a thorough analysis of each insurer's proposal with particular emphasis on price, scope of cover and the reputation of the insurer.
 - h) notwithstanding what is stated under sub-article (g) hereinabove, a broker may place a particular risk with an insurance company of the insured's choice, where the prospective insured has already decided upon the insurer with whom the particular risk is going to be placed, by securing a written statement from the prospective insured to this effect.

- i) place the clients' business with an insurance company/companies after providing the client with detailed information concerning the insurance company/companies, the type(s) of cover, the cost, inception and expiry date of policy and such other information relating to the risk covered after securing the full consent of the client.
 - j) make the client aware of the legal consequences of failure of disclosure of material facts pertaining to the risk being proposed and ensure that the client exercised due care in the completion of proposal form, claim form, or any other material document. Where a client provides full information to a broker and that broker fails to disclose all material facts to an insurer, thereby entitling the insurer to repudiate the contract, the client shall have a right to seek redress from the broker for any damages suffered as a result of the broker's actions or omissions.
 - k) conscientiously discharges his fiduciary responsibilities towards the client concerning any premium and/or any claim payment, received from or due to, the client.
- 2) An insurance broker shall maintain, at its principal place of business, a record of the name of every client, policy number, premium paid, subject matter of insurance, the date of inception and date of renewal of the policy, sum insured, and, in respect of claims settled through or with the involvement of the broker, the amount and date of claim made, the date on which the claim was paid, the amount paid, and, in the case of a claim being repudiated, the date and reason for repudiation, and in the event of partial settlement, the reason thereof.

8. PROHIBITION

An individual insurance broker, or in the case of a broking firm, a chief executive officer or a partner or a shareholder, and/or his/her spouse and/or any other person who is related to him/her and/or his spouse consanguinally in the first-degree relationship shall not have any equity interest in any insurance company or loss-adjusting firm or a firm of actuary.

9. PROFESSIONAL INDEMNITY

- 1) An insurance broker shall maintain a valid professional indemnity insurance cover at all times.
- 2) The Professional Indemnity Insurance Policy shall, at inception and at each renewal date, provide a minimum limit of indemnity for a sum equal to three times the annual general commission earned by the broker in the last accounting period ending prior to inception or renewal of the policy, or a sum of Birr1, 000,000 (Birr One million) which ever sum is greater.
- 3) The policy shall provide indemnity against losses arising from claims

made against the broker:

- a) for breach of duty in connection with the business by reason of any negligent act, error or omission.
 - b) in respect of libel or slander (defamation), committed in the conduct of the business by the broker, any employee or former employee of the broker, and where the business is or was carried on in partnership, any partner or former partner of the broker.
 - c) by reason of any dishonest or fraudulent act or omission committed or made in the conduct of the business by any employee or former employee of the insurance broker.
 - d) in respect of any loss of money or other property whatsoever for which the insurance broker is legally liable in consequence of any dishonest or fraudulent act or omission of any employee or former employee of the insurance broker.
 - e) in respect of legal liability incurred by reason of loss of documents and costs and expenses incurred in replacing or restoring such documents.
- 4) Maintaining a Valid Insurance Policy
- a) The Bank shall automatically cancel the license of any insurance broker who fails to maintain a valid professional indemnity insurance policy at all times.
 - b) For the purpose of ensuring compliance with the requirement of sub-article (a) hereinabove, an insurance broker shall promptly file with the Bank a copy of valid professional indemnity insurance policy at inception or subsequent renewal.

10. FEES

- 1) A person applying for a license to carry on business as an insurance broker shall pay an investigation fee of Birr550 (Birr five hundred fifty).
- 2) A person applying for a license to carry on business as an insurance broker shall pay initial license fee and subsequent annual renewal fee of Birr1,000 (Birr one thousand).

11. RENEWAL

- 1) The license of an insurance broker shall be renewed annually.
- 2) The application for renewal shall be accompanied by evidence of payment of renewal fee and a valid indemnity policy, and shall be submitted within one month of the expiry date of the license.

- 3) Renewal applications submitted one month after the expiry date of the license shall be subject to a penalty of Birr500 (Birr five hundred).
- 4) Where an insurance broker fails to apply for renewal within 12 calendar months after the date of expiry of the license, his/her license shall be automatically cancelled. Such person shall only be eligible to be licensed as an insurance broker provided he/she fully meets the requirements of these directives.

12. PENALTIES

An insurance broker that fails to comply with any of the Bank's directives and/or any of the provisions of the Licensing and Supervision of Insurance Business Proclamation No. 86/1994 shall be subject to: -

- 1) A fine of Birr5, 000 (Birr five thousand) with a written warning for the first time;
- 2) Cancellation of the license upon failure to pay the fine stated under sub-article 1 hereinabove within the specified time; and/or upon violation of any of the directives of the Bank or any provisions of Proclamation No. 86/1994 for the second time.

13. REPEAL

Directive No. §IB/29/2007 is hereby repealed and replaced by these Directives.

14. EFFECTIVE DATE

These Directives shall enter into force as of **15th day of July 2010.**

Teklewold Atnafu

**Governor
NATIONAL BANK OF ETHIOPIA**