

# History of Banking and Insurance in Ethiopia

Misrak Tesfaye Abate<sup>1</sup>, Ratinder Kaur<sup>2</sup>

<sup>1</sup>Ph.D. Scholar, Department of Commerce, Punjabi University

Patiala, Punjab, India

<sup>2</sup>Assistant Professor, School of Management Studies, Punjabi University

Patiala, Punjab, India

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## Abstract

In Ethiopia, the banking and insurance sectors are integral to the country's financial sector and economy. They have been crucial in helping the country attain its macroeconomic stability and growth objectives. This research paper aims to provide insight into the origin and development of Ethiopia's banking and insurance sectors since 1905. The study is based on the review of literature from various secondary sources. The paper concludes that the 120-year journey of Ethiopia's banking and insurance sectors is gradual and does not yet permit foreign banks and insurers to operate in the country's financial market. Ethiopia's banking and insurance sectors currently have small market sizes compared to many other low-income Sub-Saharan African countries and are incompatible with international world experiences.

## Keywords

Ethiopia, Banking Sector, Insurance Sector, History, Evolution, Current Structure.

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## Introduction

The banking sector is a fundamental part of the financial sector in any country. It plays a crucial role in any country's economic growth through intermediation services, ensuring efficient allocation of resources, and transmission of monetary policy to the entire economic system (Allahham, 2015). The banking sector is the leading sector in modern economies and even becomes the criterion for measuring the safety of a country's economy. There is a consensus in the literature that a well-functioning and sound banking sector in a country contributes to

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<sup>1</sup>Corresponding Author, email: [misrak0722@gmail.com](mailto:misrak0722@gmail.com)

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<sup>2</sup>Second Author,

the health and vitality of the country's economy, whereas a malicious banking sector devastates the entire economy. As a result, regulatory bodies have heavy regulations and standards governing the financial well-being of the banking sector (Sibindi, 2018).

The insurance sector is another crucial segment of the financial sector in both developed and developing nations. The sector plays a vital role in the economic growth of a country by promoting long-term savings, transfer of funds, risk management, and development of capital market support (Jadi, 2015; Shan, 2018). More precisely, it is a well-established fact that the insurance sector forms an integral part of the financial sector in an economy and is vital to the well-being of other sectors, households, and a nation's overall economy through the transfer and pool of risks. The absence or failure of an insurance sector in an economy may cause real instability in the financial services sector and devastate the country's overall economy (Isayas, 2021; Wise, 2018). The insurance sector is thus subject to stringent regulations and standards set by its regulators to ensure its financial stability (Sibindi & Makina, 2018).

Ethiopia, one of the least developing countries located on the African continent, shares the preceding. Ethiopia's banking and insurance industries are integral to the financial sector and critical members of the country's economy. Together, these two sectors constitute approximately 93 percent of the country's financial sector's total capital, contributing 5 percent to the national economy (NBE, 2022). As such, having financially sound and healthy banking and insurance sectors has become a policy imperative and among the top priorities of the country's policymakers and finance regulators. To this effect, this research paper aims to address the main aspects of the origin and development of Ethiopia's banking and insurance sectors.

### **Objectives of the Study**

This study intends to address the following specific objectives:

- To shed light on the evolution and development of the banking sector in Ethiopia through the different phases.
- To shed light on the evolution and development of the insurance sector in Ethiopia through the different phases.
- To provide insight into the current structure of Ethiopia's banking and insurance sectors.

## **Research Methodology**

This research paper is a review-based study, thus employing solely secondary data, primarily gathered from relevant laws (i.e., proclamations, regulations, and standards) and the annual reports of NBE, banking institutions, and insurance companies operating in the country (various issues). Besides, relevant journal research papers, magazines, manuals, and websites were consulted for the data collection.

## **History Of Banking in Ethiopia – Stages of Evolution**

Modern banking was first traced to Florence city of Italy, in 1397, but it had spread over Europe by 1700 (Bhatt, 2020). Various credible sources documented that the introduction of modern banking in Ethiopia was traced back to the reign of Emperor Menelik II (1844-1913), precisely in 1905 (Mauri, 1997, 2003; Pankhurst, 1963). Since then, the Ethiopian banking sector has exhibited different structures because of the changes in the political structure (government) and economic system in the country.

Given the different political and economic structure forms, Ethiopia's modern banking and insurance sectors' evolution and development can be categorized into three distinct periods. The first period (1905 to 1974), known as the Imperial period, was marked by the birth and early development of Ethiopia's banking and insurance sectors. Under the 'Socialist State' period, all banks and insurers were nationalized in the second phase (1974–1991). The third era (1991 to date) commenced in 1991 with a market-oriented economic policy and economic liberalization (Geda, 2006).

### **Imperial Regime Phase (1905-1974)**

Modern banking business in Ethiopia began in 1905 when the Bank of Abyssinia (BoA) was constituted in Ethiopia on 10<sup>th</sup> March 1905 by the British-owned National Bank of Egypt (Mauri, 1997; Pankhurst, 1963; Shaefer, 1992). BoA was owned and managed by the National Bank of Egypt, which the British Bank owned. BoA was formally inaugurated and started operation on 15<sup>th</sup> February 1906, with an authorized share capital of 500,000 Pounds Sterling (Ifeanyi, 2015; Mauri, 2010; Pankhurst, 1963). The Ethiopian government granted BoA an absolute right to monopolize the Ethiopian banking sector for fifty years. Establishing any other bank in the Kingdom of Ethiopia was prohibited (Pankhurst, 1963). BoA was also given a fifty-year sole right to issue currency notes (legal tender in the country), mint silver coins, and act as the financial agent of the Ethiopian government (Mauri, 1997; Pankhurst, 1963; Shaefer, 1992).

The 1905 convention guaranteed BoA the country's banking monopoly for fifty years, but Ethiopia's government did not long maintain this pledge (Mauri, 1997, 2003). On 10<sup>th</sup> May 1908, the Ethiopian government founded a kind of development bank called Societe Nationale d'Ethiopie Pour le Development de Agriculture et du Commerce (SNEPDAC) in Addis Ababa (the capital city of Ethiopia), with a paid-up capital of 200,000 Ethiopian Maria Theresa dollars (Eth.\$) (Geda, 2006; Pankhurst, 1963; Shaefer, 1992). This Bank was not a competitor of BoA because of its much smaller size and concentration on a market segment neglected by the BoA. SNEPDAC failed as a bank and became a commercial bank named Societe Nationale d'Ethiopie (SNE) in 1928 with a capital of one million Ethiopian dollars, of which a French bank subscribed 60 percent. SNE was closed during the Italian invasion (Mauri, 1997, 2003; Shaefer, 1992). Two other Italian banks, named Compagnie de l'Afrique Orientale and Banque de l'Indochine, were reputed to have been established in 1915, but neither one started operation in Ethiopia (Shaefer, 1992).

In the era when banking services were in a rudimentary stage, BoA played an undeniable role in introducing the modern banking system in Ethiopia. BoA issued Ethiopia's first currency notes of 5-, 10-, 50-, and 100-pound sterling denominations. BoA also introduced the financial services of bank notes, payment instruments like checks, import and export financing, savings and current accounts deposits, etc., which were earlier unknown in the country. However, its coverage was confined mainly to Addis Ababa, and its clients were largely foreign businessmen and wealthy Ethiopians. On top of that, BoA faced enormous pressure for being purely profit-oriented, discriminatory against indigenes in extending loans, and inefficient in meeting the development financing needs of the country. BoA played an ill-defined role in serving the British interests in Ethiopia. More precisely, BoA was not up to the expectation of the government of Ethiopia (Mauri, 1997, 2003; Shaefer, 1992). As a result, an agreement was reached with the Bank of Egypt, and BoA was formally liquidated in 1931, shortly after Emperor Haile Selassie acceded to the imperial throne in 1930 (Mauri, 1997; Pankhurst, 1963). Following the liquidation of BoA, the Bank of Ethiopia (BoE) was founded in August 1931 as a joint-stock company, with an authorized capital of 750,000 pounds Sterling and a paid-up capital of 375,000 pounds Sterling. Out of its paid-up capital at the time of establishment, the government of Ethiopia owned 95.4 percent, whereas members of the Ethiopian aristocracy of the time owned 4.5 percent (Mauri, 1997, 2003, 2010). Hence, BoE was the first nationally-owned Ethiopian and the first indigenous state-owned bank in Africa (Mauri, 2003). BoE was authorized to engage in all types of commercial banking business in the country, issue currency

notes in Maria Theresa thalers, and act as the fiscal agent of the Ethiopian government. Thus, BoE had the dual role of the country's commercial and central banks. BoE continued its dual operations until it was interrupted by the Italian invasion of Ethiopia (Harvey, 1996). Alongside BoE, Banque Del Indochine of France opened its commercial banking branch in Ethiopia in 1934 and operated until it ceased to exist in 1936, and its shares were sold to an Italian financial group (Mauri, 1997, 2003).

The five years of the Fascist Italian occupation (1936-1941) brought a different direction in Ethiopia's banking sector's history. During the five years, banking activities in Ethiopia were expanded, but only the banks of Italy were working in the country's banking market. The invader country liquidated the Bank of Ethiopia in 1938. It replaced its operations with the subsidiaries of six Italian parent banks, namely Banca d'Italia, Banco di Napoli, Banco di Roma, Banca Nazionale del Lavoro, Societe Nazionale di Ethiopia, and Casa de Creito (Geda, 2006). However, they all ceased to exist after liberation except Banco di Napoli and Banco di Roma, which remained operational under the British administration in the State of Eritrea. Eritrea was the confederated province of the Ethiopian empire until it gained its independence in 1991 (Harvey, 1996, 2010; Mauri, 2008).

Following the Ethiopian victory over Fascist Italy in 1941, the Barclays Bank of British was established in 1941 to provide banking services in Addis Ababa. Still, its presence was short-lived as the State Bank of Ethiopia (SBE) took over its activities in 1943. SBE was established as a corporate entity in August 1942 by Ethiopia's government, which returned to power after liberation (Mauri, 2008). SBE, which commenced its full operation in April 1943, was granted the exclusive right to issue currency notes and transact in foreign currencies. SBE was also the principal provider of all commercial banking services in the country until it was liquidated in 1963. Hence, from 1942 to 1963, SBE had dual fundamental banking functions: acting as the country's central bank and a primary commercial bank (Addison & Geda, 2001). Over the same period, the two Italian bank branches, Banco di Roma and Bank of di Napoli, operating in the State of Eritrea, were placed under the supervision of the SBE (Harvey, 1996; Mauri, 2008).

The year 1963 witnessed a landmark in the modern banking history of Ethiopia. It was the time for the country to lay the ground for a new banking system better suited to meeting the needs of the increased domestic economy. It was necessary to split the SBE into two independent institutions to move on to the system: a pure central bank and a pure public commercial bank (Mauri, 2008). Subsequently, the imperial government promulgated the first comprehensive banking law (Monetary and Banking Proclamation 207/1963) in 1963 to legitimately split the

two fundamental functions of the SBE. The new law liquidated SBE and gave birth to two new state-owned banks, namely the National Bank of Ethiopia to serve as a central bank and the Commercial Bank of Ethiopia to serve as a commercial bank. On top of that, the birth of the 1963 banking legislation, which contained provisions for regulating banking operations in Ethiopia, marked the beginning of the era of regulated banking and a two-tier banking system in Ethiopia. The law also opened the Ethiopian banking market to private indigenous and foreign banks (Addison & Geda, 2001; Mauri, 2008).

The National Bank of Ethiopia (NBE) was constituted in December 1963 to take over the central bank activities of the former SBE. It started functioning on 1<sup>st</sup> January 1964, with a capital of Eth.\$ 10 million. Similarly, the Commercial Bank of Ethiopia (CBE) was incorporated as a share company in December 1963 by taking over the commercial banking functions of the earlier SBE. It started its operation on 1<sup>st</sup> January 1964, with a paid-up capital of Eth.\$ 20 million (Ifeanyi, 2015; [www.nbe.gov.et](http://www.nbe.gov.et)).

The year 1964 witnessed another landmark in the modern banking history of Ethiopia. The 1963 banking law permitted Ethiopian nationals and expatriate banks to operate in the country's banking market as a joint stock banking company, specifying the maximum share capital ownership of foreign banks to 49 percent and the minimum share capital ownership for Ethiopian nationals to 51 percent (Mauri, 1997, 2008). Accordingly, the first local private commercial bank, Addis Ababa Bank S.Co., was established in 1964 as a joint venture with Grindlays Bank (British-owned). The Bank's initial paid-up capital was Eth.\$ 2 million. The foreign Grindlays Bank, foreign individuals living in Ethiopia, and Ethiopian nationals had 40, 9, and 51 percent ownership of the total share capital, respectively. The two existing Italian bank branches, Banco di Napoli (Ethiopia) S.Co. and Banco di Roma (Ethiopia) S.Co., were also licensed to operate under the new banking law in Addis Ababa and Eritrea, each with a paid-up capital of Eth.\$ 2 million (Harvey, 1996; Mauri, 2008).

The imperial reign also witnessed wholly state-owned specialized development banks established in the country. In 1945, the imperial government launched the Agricultural Bank of Ethiopia to finance the country's agricultural sector and rural economy. But the Bank was incorporated in 1951 as the Development Bank of Ethiopia S.Co. Similarly, the government founded the Investment Bank of Ethiopia in 1963, whose mandate was to buy and sell corporate and government securities. Later, the bank's name was changed to Ethiopian Investment Corporation S.C. in 1965. In 1970, the Agricultural and Industrial Development Bank (AIDB) S.Co. was inaugurated by taking over the assets and liabilities of the former Development Bank

of Ethiopia S.Co. and Ethiopian Investment Corporation S.Co. The Bank's primary motive was to provide loans to the agricultural and industrial sectors (Harvey, 1996; Mauri, 2008).

The imperial regime of Ethiopian banking history also saw housing finance intermediaries operating in the country. One of them was the Imperial Savings and Home Ownership Public Association, established in 1963 to provide loans for the construction of residential houses and to individuals using their savings as collateral. The other specialized institution was the Savings and Mortgage Corporation of Ethiopia S.Co., established in 1965 to accept savings and trust deposits and provide loans for constructing, repairing, and improving residential houses and commercial and industrial buildings (Harvey, 1996; Mauri, 2008).

In general, the banking sector of Ethiopia during the imperial or pre-socialist period constituted a central bank, Ethiopian state commercial bank, foreign commercial banks, private commercial banks jointly owned by indigenous and expatriates, mortgage bank, house financing bank, agricultural bank, investment bank, industrial bank, and development bank. Table 1 below shows the list of banks that were in existence in Ethiopia during the imperial regime.

**Table 1.** Banks Existed in Ethiopia during the Imperial Period (1905-1974)

<b>Name of the Bank</b>	<b>Estab. Year</b>	<b>Name of the Bank</b>	<b>Estab. Year</b>
Bank of Abyssinia	1905	State Bank of Ethiopia	1942
d'Ethiopie Pour le Development de Agriculture et du Commerce	1908	Agricultural Bank of Ethiopia	1945
		Development Bank of Ethiopia S.C.	1951
Societe Nationale d'Ethiopie	1928	Imperial Saving & Home Ownership Public Association	1963
Bank of Ethiopia	1931	Investment Bank of Ethiopia S.C.	1963
Banque de Indochine	1934	National Bank of Ethiopia	1963
Banca d'Italia	NA	Commercial Bank of Ethiopia S.C.	1963

Banco di Roma	NA	Addis Ababa Bank S.C.	1964
Banco di Napoli	1939	Banco di Napoli (Ethiopia) Share Co.	1964
Societa Nazionale d'Etiopia	1939	Savings & Mortgage Corporation of Ethiopia S.C.	1965
Banca Nazionale del Lavoro	1939	Ethiopian Investment Corporation S.C.	1965
Casa de Creito	1939	Banco di Roma (Ethiopia) Share Co.	1966
Barclays Bank	1941	Agricultural & Industrial Development Bank S.Co.	1970

Source: Compiled from Pankhurst (1963); Shaefer (1992); Harvey (1996); Mauri (2003, 2008, 2010); Geda (2006); <https://www.nbebank.com/history-of-banking/>

### **Socialist State Phase (1974-1991)**

The dismissal of the imperial government by the 1974 Peoples' Revolution led to a change of government and economic strategy in Ethiopia. The new military government that came to power in September 1974 declared Ethiopia a Socialist State that followed a centrally controlled economic system on the Soviet model. To suit its socialist economic ideology, the government had to bring those resources that were crucial for economic development or that provided indispensable service to the community exclusively under the control and ownership of the government (Harvey, 1996).

Accordingly, the government took complete ownership and control of the banking sector, becoming the country's sole player in the banking business. Consequently, all private banks operating in the country at that time were first nationalized in early 1975. Then, the nationalized and state-owned banks were restructured and merged to create more vital banking institutions by merging those performing similar functions. To facilitate this, the socialist government issued a new banking law (Monetary and Banking Proclamation 99/1976) in September 1976. Besides, the Proclamation replaced the former "Ethiopian Dollar" with a new legal currency called "Ethiopian Birr (ETB)" (Ifeanyi, 2015; Mauri, 1997; Harvey, 1996).



As part of nationalization, the three private commercial banks, namely Addis Ababa Bank S.Co., Banco di Roma (Ethiopia) S.Co., and Banco di Napoli (Ethiopia) S.Co., were merged in 1976 to form Addis Bank. Following the merger, Addis Bank became the country's second-largest state-owned commercial bank with a capital of ETB 20 million and 34 branches. Nevertheless, Addis Bank became defunct and merged with the Commercial Bank of Ethiopia in 1980, retaining the latter name. This merger created a monopoly of commercial banking in the country until private commercial banks re-emerged in 1994 (Ifeanyi, 2015; Geda, 2006).

Similarly, the two housing finance institutions, namely the Imperial Savings and Home Ownership Public Association and the Savings and Mortgage Corporation S.Co., merged in 1976 to form a new state-owned bank called the Housing and Savings Bank (HSB). The establishment capital of the HSB was ETB 6 million. The Bank's primary business was accepting savings and trust deposits and providing loans for the purchase, extension, renovation, and construction of residential houses and commercial buildings (Harvey, 1996).

On the other hand, the Agricultural and Industrial Development Bank (AIDB), which was formed in 1970 with complete state ownership, continued under the same name until 1994, when it was renamed the Development Bank of Ethiopia (DBE). AIDB was authorized to finance the economic development of the agricultural and industrial sectors of the national economy by extending credits of medium- and long-term nature as well as short-term agricultural production loans (Harvey, 1996).

The National Bank of Ethiopia (NBE) continued to serve as the country's central bank during the Socialist government's reign. However, the role of NBE was reformulated according to the socialist economic ideology that the country adopted. Accordingly, Proclamation 99 of 1976 authorized NBE to directly fix both deposit and loan interest rates, administer the allocation of foreign exchange and credit by favoring the public sector in support of the government's development plans, finance the government fiscal deficit, and coordinate, supervise and control the entire financial sector of the country (Addison & Geda, 2001; Geda, 2006).

In general, the banking sector of Ethiopia that the socialist-oriented military government left over at the end of its reign constituted only four state-owned banks, and each of them was a monopoly in its respective market. These were the NBE, which served as the supervisory and regulatory body; the CBE, which was tasked with providing commercial banking services; the HSB, whose specialty was the provision of loans for the construction and purchase of housing buildings; and the AIDB, which specialized in providing loans to the agricultural sector and industries. NBE was at the apex of the banking sector structure (i.e., first tier), and CBE, HSB,

and AIDB were placed under the umbrella of the NBE (i.e., second tier). Furthermore, the banking system during the socialist period (1974 to 1991) was highly controlled and restrictive, devastatingly affecting the country's economic development.

### **Liberalization Phase (POST-1991)**

Following the overthrow of the Socialist military government in 1991, the new government declared that Ethiopia adopted a market-oriented economic system to accelerate the country's economic growth through private sector development. In line with this new economic policy, the government started liberalizing its financial sector in 1994, after three years of adopting the market-based economic policy (Addison & Geda, 2001).

Ethiopia adopted a strategy of (a) gradualism approach, which is a sequential approach in carrying out various financial liberalization measures such as the gradual opening up of private banks and insurance firms along with public ones, the gradual liberalization of the foreign exchange market, and so forth; and (b) adequately strengthening the operational and competitive capacity of the domestic financial sector before moving towards full-scale liberalization, that is, restricting the financial sector to local investors, solidifying the regulatory and supervisory capability of the regulator, ensuring the autonomy of the regulator and banks, and opening up the inter-bank money market, foreign exchange market, the stock market (Addison & Geda, 2001). In line with this strategy, the government reformed the state financial institutions and issued several laws since 1992 (Geda, 2006).

Regarding the banking sector financial liberalization, the Ethiopian government restructured the state-owned commercial and development banks, re-established the country's central bank, and introduced new banking laws to suit the needs of the market-based economic system. Despite their restructuring, the government of Ethiopia retained complete state ownership of all those banks (Bezabeh & Desta, 2014; Geda, 2006).

The Commercial Bank of Ethiopia (CBE) was reorganized in 1994 to align with the new market-based economic policy. Consequently, CBE was given more autonomy in its operating and lending decisions. CBE was again restructured and signed a contract with the Royal Bank of Scotland for management consultancy services (Ifeanyi, 2015). Following this, CBE aspires to be a world-class commercial bank by 2025. The Africa Business Magazine (2022), which ranks Africa's leading banks based on capital, has ranked CBE as Ethiopia's largest bank, the third-largest in East Africa, and the 32<sup>nd</sup>-largest African bank in 2022.

The Housing and Savings Bank (HSB), a state mortgage bank during the Socialist regime, converted itself into a state commercial bank in 1994 by Proclamation 203/1994 (Harvey, 1996; Ifeanyi, 2015). At the same time, it changed its name to the Construction and Business Bank (CBB). Historically, CBB provided long-term loans for the acquisition, extension, renovation, and construction of houses for individuals and cooperatives and financed industrial construction and real estate developments (Harvey, 1996). Following its re-establishment, CBB expanded its scope to all commercial banking services, such as deposits, loans, import and export financing, mortgages, and money transfer services. However, CBB became defunct through an acquisition by the country's giant state-owned Commercial Bank of Ethiopia in 2016.

Similarly, the Agricultural and Industrial Development Bank (AIDB), which was earlier a state development bank, became a commercial bank in 1994 by Proclamation 200/1994, changing its name to the Development Bank of Ethiopia (DBE). DBE's initial setup and preparations to become a commercial bank proved inadequate to attract deposits from sources other than the public sector (Ifeanyi, 2015; Harvey, 1996). As a result, DBE has been restructured again as a specialized bank in project financing and is no longer a deposit-taking institution (Gashayie & Singh, 2019). DBE finances agricultural and industrial undertakings, which are crucial in the country's economic development.

As part of the reform process, the government passed a new Monetary and Banking Proclamation 83 in 1994 that endorsed NBE as the country's central bank and strengthened its operational autonomy regarding a market-oriented economic policy. The law reconstituted NBE as a judicial body with full government ownership and detailed its primary functions that signify the country's central bank and financial sector regulator. In the 1994 Proclamation, the role of NBE was redefined to foster monetary stability, a sound financial system, and other credit and exchange conditions that are conducive to the balanced growth of the country's economy.

The government found it necessary to reconstitute NBE again in a way that would be able to support the rapid economic growth of Ethiopia that existed in the 2000s. Subsequently, the government enacted Proclamation 591 in 2008, which broadened the operational autonomy and regulatory role of NBE. Under the amended law, NBE is mandated to maintain a stable price and foreign exchange rate, foster a robust financial system, and undertake other related activities supporting the country's rapid economic growth. The law also provides NBE with wide-ranging powers to license, supervise, and control all financial institutions operating in the

country. Recently, the World Bank recommended reconstituting the NBE's current role and operations in light of the country's recent reforms (World Bank, 2019).

As one step towards liberalizing the banking sector, the government passed the Licensing and Supervision of Banking Business Proclamation 84/1994 in 1994. This law laid down the legal basis for licensing indigenous private sector banks to operate in the country's banking market, which the defunct Socialist government completely prohibited. Soon after the promulgation, local private banks emerged to operate alongside state-owned banks, and more banks have been licensed than in any other period in the banking history of Ethiopia.

Awash International Bank was the first private commercial bank exclusively established and operated by Ethiopian nationals in 1994, followed by Dashen Bank set up in 1995, Bank of Abyssinia (1996), and Wegagen Bank (1997). Other 12 new private commercial banks entered the market from 1998 to 2012, and another 12 from 2020 to 2022. According to the official sources of NBE, the most recent private commercial bank entrant received its license in 2022. Zam-Zam Bank was the first full-fledged interest-free bank (Islamic bank) in the banking history of Ethiopia, while Siinqee Bank became the first bank to transform its status from a microfinance institution to a full-fledged commercial bank in 2021.

The most recent annual report (2022) and other official sources of NBE revealed that the total number of banks operating in Ethiopia reached 30 by the end of 2022. Eleven new banks are in the pipeline to join the industry, bringing the total number of banks to 41. Table 2 lists licensed Ethiopian banks with their establishment year, branch size, and capital as of 2022.

**Table 2.** Banks licensed in Ethiopia as of 2022

S. No.	Name of Bank	Est. Year	No. of Branches	Establishment Capital (in Birr)	Current Capital (in Birr)
1	Development Bank of Ethiopia	1908	2,057	0.2 million	30,116 million
2	Commercial Bank of Ethiopia	1963	83	20.0 million	52,388 million
3	Awash International Bank S.C.	1994	750	24.2 million	14,036 million

4	Dashen Bank S.C.	1995	721	14.9 million	9,677 million
5	Bank of Abyssinia S.C.	1996	803	17.8 million	9,899 million
6	Wegagen Bank S.C.	1997	420	30.0 million	5,253 million
7	Hibret (United) Bank S.C.	1998	429	20.9 million	5,772 million
8	Nib International Bank S.C.	1999	437	27.6 million	6,484 million
9	Cooperative Bank of Oromia S.C.	2004	602	112.0 million	9,226 million
10	Lion International Bank S.C.	2006	292	108.2 million	3,333 million
11	Oromia International Bank S.C.	2008	416	279.2 million	5,448 million
12	Zemen Bank S.C.	2008	82	99.7 million	4,740 million
13	Bunna International Bank S.C.	2009	374	156.0 million	3,969 million
14	Berhan International Bank S.C.	2009	349	95.7 million	3,844 million
15	Abay Bank S.C.	2010	411	125.8 million	4,693 million
16	Addis International Bank S.C.	2011	119	106.3 million	1,712 million
17	Debub Global Bank S.C.	2012	135	138.9 million	1,840 million
18	Enat Bank S.C.	2012	106	120.0 million	2,261 million
19	Zam-Zam Bank S.C.	2020	45	872.0 million	980 million
20	Hijira Bank S.C.	2021	44	700.0 million	1,462 million
21	Goh Betoeh Bank S.C.	2021	4	521.5 million	780 million
22	Siinqee Bank S.C.	2021	134	7,100 million	7,125 million

23	Tseday Bank S.C.	2022	30	7,750 million	7,950 million
24	Shebele Bank S.C.	2022	0	513 million	526 million
25	Amhara Bank S.C.	2022	101	4,800 million	5,526 million
26	Gadaa Bank S.C.	2022	0	600 million	--
27	Sidama Bank S.C.	2022	0	1,400 million	--
28	Rammis Bank S.C.	2022	0	724 million	--
29	Omo Bank S.C.	2022	0	500 million	--
30	Tsehay Bank S.C.	2022	0	734 million	--

Source: Compiled from NBE Annual Report (2022); Annual Reports of Banks (Various Issues); Official Websites of Banks; <https://nbe.gov.et/banks/>

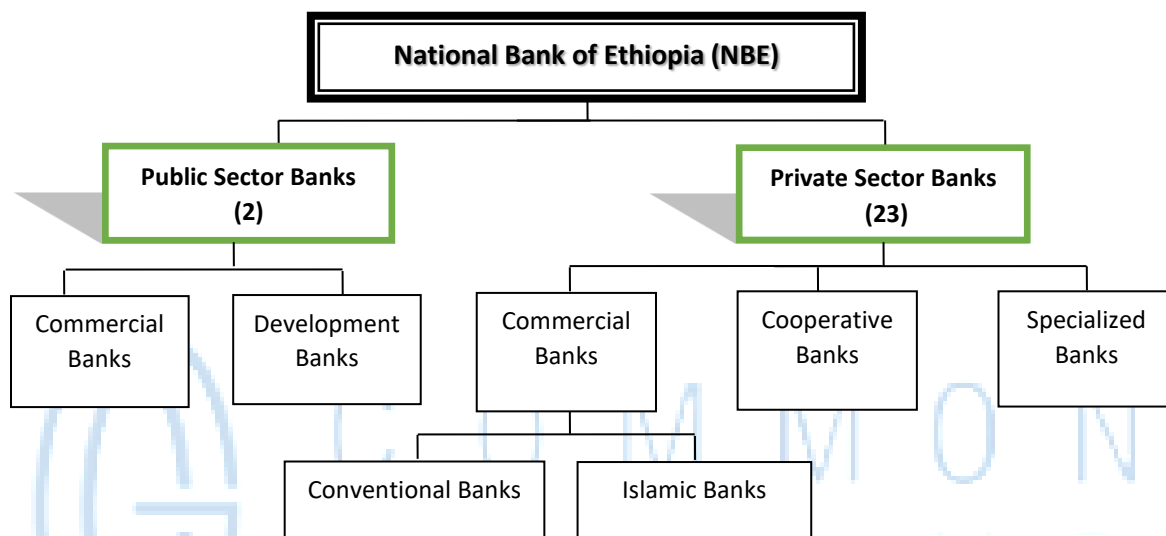
Even though the banking sector of Ethiopia currently permits private sector banks to operate in the country, the sector remains closed to foreign banks insisting on the gradual liberalization strategy adopted by the country. There is, however, an intention to open up the sector to foreign banks and foreign ownership shortly as the Ethiopian government pursues extensive reforms in the financial sector as per the 15-year Growth and Transformation Plan (GTP) implemented in 2010/11 and the 10-Year Development Plan implemented in 2020/21.

Ethiopia currently has a banking sector comprising both public-sector and private-sector banks. Banks in the public sector are those that the Government of Ethiopia entirely owns. In contrast, private sector banks are those whose share capital is owned by private individuals and corporations. Despite this, Ethiopia's banking sector currently has a small market size compared to many other low-income Sub-Saharan African countries and is incompatible with international world experiences (Menza & Eshete, 2018).

After nearly thirty years of liberalization, the banking sector of Ethiopia constituted a central bank (National Bank of Ethiopia or NBE), two public-sector banks, and 28 private-sector banks by the end of 2022. The public sector banks include one state-owned commercial bank and one state-owned development bank. The private sector banks are further categorized into commercial, cooperative, and specialized banks. By the end of 2022, twenty-six commercial banks, one cooperative bank, and one specialized bank were operating in the private banking sector. The private sector commercial banks are further divided into conventional- and Islamic

commercial banks. By the end of 2022, twenty-three conventional- and three Islamic commercial banks were operating. NBE is the regulator and supervisor of the banking sector. Until now, no foreign banks (whose registration and head offices are in a foreign country), investment banks, licensed foreign exchange (forex) offices, or licensed money remittance providers are operating in Ethiopia. Figure 1 below depicts Ethiopia's banking sector structure as of 2022.

**Fig. 1.** Structure of Ethiopian Banking Sector, 2022



*Source: Compiled from NBE Annual Report, 2021/22*

### **History Of Insurance in Ethiopia – Stages of Evolution**

Historical evidence indicates that the insurance business, in its modern sense, has been practiced in Ethiopia for more than a century. Undoubtedly, foreign insurers made an undeniable contribution to the emergence and early development of the insurance business in Ethiopia (Zelege, 2007). Based on the political and economic systems that the country has adopted for more than a century, the emergence of the modern form of insurance business in Ethiopia and its further development can broadly be categorized into three distinct phases.

The first phase (1905-1974) is Ethiopia's emergence and early development of the insurance business. The second phase (1974-1991) is the nationalization of private insurers and the government's monopoly of the country's insurance sector. Adopting a market-oriented economic system and economic liberalization (1991 to date) constitutes the third phase in the historical development of the modern insurance business in Ethiopia. These realities are explained briefly here.

### **Imperial Regime Phase (1905-1974)**

According to a handful of sources, such as Belai Giday (1987) and HaileMichael Kumsa (1992), modern insurance in Ethiopia was started in the 20<sup>th</sup> century when the Bank of Abyssinia (a foreign bank established in Ethiopia in 1905) acted as an agent for a foreign insurer to transact fire and marine insurance policies in Ethiopia. Nevertheless, there is no proof of the precise date the Bank of Abyssinia became the agent of a foreign insurer, the name of the foreign insurer and its country of origin, and the nature of fire and marine insurance transactions handled by the Bank (Zelege, 2007).

Later on, the Italian insurer called Istituto Nazionale per L'Assicurazione contro gli infortuni sul lavoro and La Baloise Fire Insurance Company from Switzerland set up their representative branch offices in Ethiopia in 1922 and 1923, respectively (Berhe & Kaur, 2017; Zelege, 2007). Until 1930, four other Italian insurance companies also started insurance business in Ethiopia on an agency basis. These insurers were Assicurazioni General di Trieste Venezia (1924), Le Assicurazioni D'Italia (1925), Istituto Nazionale delle Assicurazioni (1925), and Riunione Adriatica di Sicurtà (1930) (Zelege, 2007).

During the Fascist Italian occupation of Ethiopia from 1936-1941, only Italian insurance companies were permitted to operate in the country. However, they all ceased to exist after liberation (Economic Progress of Ethiopia, 1955, cited in Zelege, 2007). After the exit of Fascist Italia in 1941, several British and other overseas insurance companies came to Ethiopia to conduct insurance business through agents. By 1950, 11 foreign insurance companies were undertaking insurance business in Ethiopia through agents, but there was no locally incorporated insurance company (Berhe & Kaur, 2017; Zelege, 2007).

In Ethiopia, the first indigenous insurer, Imperial Insurance Company of Ethiopia Ltd, was founded in 1951 as per Ethiopian law. The company was founded with a paid-up share capital of Eth.\$ 1,000,000, and the shares were Ethiopian ordinary shares with a par value of Eth.\$ 100 each. The State Bank of Ethiopia (20%), Emperor Haile Selassie (10%), some enlightened Ethiopian nationals (10%), foreign individuals (30%), and British group companies (30%) all contributed to the first share capital (Alemayehu & Teklemedhn, 2009; Zelege, 2007).

The period from 1920 to 1950 witnessed the era of agents of foreign insurance companies operating in the country. According to the Economic Progress of Ethiopia (1955), a survey conducted in 1954 to assess the existing situation of the insurance sector in the country found that 18 insurance companies were operating in the Ethiopian insurance market at that time, of which Imperial was the only local insurance company. The second insurance survey conducted



in 1960, as reported in the Ethiopian Economic Review (1960), documented that the number of insurance companies operating in the country increased considerably and reached 34, of which 33 were agents of foreign insurers (Zelege, 2007). Table 3 shows the list of foreign insurers that existed in Ethiopia through agents until 1970.

**Table 3.** Foreign Insurance Companies Existed in Ethiopia until 1970 (1922-1970)

No.	Name of Insurance Company	Country of Origin	Estab. Date in Ethiopia
1	Nazionale per L'Assicurazione contro gli Infortuni sul lavoro	Italy	1922
2	La Baloise Fire Insurance Company	Switzerland	1923
3	Assicurazioni General di Trieste Venezia	Italy	1924
4	Le Assicurazioni D'Italia	Italy	1925
5	Instituto Nazionale delle Assicurazioni	Italy	1925
6	Riunione Adriatica di Sicurtà	Italy	1930
7	London Assurance	British	1942
8	Royal Insurance Co. Ltd	British	1942
9	Employers' Liability Assurance Corp.	British	1943
10	South British Insurance Co.	New Zealand	1945
11	Alliance Assurance Co.	British	1946
12	Queens Land Insurance Company Ltd	Australia	1946
13	New India Association Co.	India	1948
14	Alexandria Life Insurance Co.	Egypt	1950
15	British & Foreign Marine Insurance Co. Ltd	British	1950
16	United Scottish Insurance Co.	British	1950

17	Caledonian Insurance Co.	British	1952
18	General Accident & Fire Association	British	1952
19	Marine Insurance Co. Ltd	British	1952
20	Lloyds of London	British	1952
21	American Life Insurance Co.	USA	1954
22	Central Assurance Co. Ltd	British	1954
23	Groupement Francis de Assurances	France	1954
24	Provincial Insurance Co.	British	1955
24	Union Assurance Society Ltd	British	1955
26	Guardian Assurance Co.	British	1955
27	Balosie Marine Insurance Co.	Switzerland	1957
28	La Fondiaria Insurance Co.	Italy	1957
29	Phoenix Assurance Co.	British	1958
30	Liverpool Marine & General Insurance Co.	British	1958
31	National Insurance & Guarantee	British	1959
32	British Commonwealth Insurance Co.	British	1959
33	British Crown Assurance Corp.	British	1959
34	Prudential Assurance Co.	British	1959
35	Eagle Star Insurance Co.	British	1959
36	Nippon Fire & Marine Insurance Co.	Japan	1964
37	Hartford Fire Insurance Co.	USA	Not Available
38	London & Lancashire	British	Not Available
39	Century Insurance Co.	British	Not Available

*Source: Economic Progress of Ethiopia, 1955; Ethiopian Economic Review, 1960; Zeleke, 2007*

The 1960s witnessed the rise of local insurance companies in the country's insurance sector. According to the first annual report by the Controller Office (1971), the total number of domestic insurance companies operating in the country reached 15 in 1970, of which 14 (93.3%) were established in the 1960s. In contrast, a study conducted by the Addis Ababa Chamber of Commerce in 1967 revealed that the total number of foreign insurers doing insurance business in the country through agents was reduced to 30. These domestic insurance companies, alongside overseas ones, were transacting life, marine, fire, general accident, motor vehicle, burglary, aviation, and industrial accident insurance business in the country (Zeleke, 2007).

Despite the above facts, Ethiopia's insurance sector was largely uncontrolled. Until 1960, no regulatory body or insurance law regulated the country's insurance business activities. However, two bodies of law were enacted in 1960. One of them was the Commercial Code of Ethiopia. This law contained relevant provisions applicable to insurance against damages (property insurance and liability insurance), insurance of persons, and all forms of insurance (articles 654-712). The other law was the Maritime Code of Ethiopia (1960). In articles 288-356 of this law, various aspects of marine insurance, such as the nature of the insurance contract, the rights and obligations of the assured and the underwriter, and the damage settlement, had been appropriately articulated. Thus, the major insurance laws governing Ethiopia's insurance sector before 1970 were the insurance business provisions of the Commercial Code of Ethiopia and the Marine Code of Ethiopia issued in 1960 (Zeleke, 2007). The year 1970 witnessed a landmark in Ethiopia's modern insurance history. Aside from a large number of foreign insurers operating in the country, the rapid increase of local insurance companies, the expansion of the insurance business, and the existence of malpractices and abuses in the country's insurance sector in the 1960s put pressure on the government to devise a more systematic legal framework that regulates the insurance sector in the country. On top of that, an insurance survey conducted by the Addis Ababa Chamber of Commerce in 1967 suggested the need for a detailed insurance law to regulate and control the country's insurance sector properly. Following that, the imperial government promulgated the first insurance proclamation (Proclamation 281/1970) in 1970, followed by the first insurance regulation (Legal Notice 393/1971) in 1971 to regulate and monitor the insurance business in Ethiopia through a comprehensive insurance law.

The new comprehensive insurance law was peculiar in many aspects. Among others, the law created the first regulatory and supervisory bodies for the country's insurance sector to ensure the soundness of the sector. The bodies were the Insurance Council and the Office of the Controller of Insurance. The Council was authorized to formulate general insurance policies that regulate and promote the insurance business in the country. On the other hand, the Controller's Office was responsible for ensuring the implementation of the insurance legislation, undertaking supervisory functions over the insurance sector, and issuing licenses required to undertake insurance business in the country (Berhe & Kaur, 2017; Zeleke, 2007). The 1970 insurance law limited the operations of insurance businesses to Ethiopian citizens and Ethiopian national companies. It prohibited foreign insurers from operating in the country directly or through agents. Consequently, the majority of foreign insurers that were in operation in Ethiopia ceased doing insurance business in the country. At the same time, a small number were converted to domestic insurers fulfilling the requirement of the new insurance law. The other peculiar feature of the 1970 insurance law was that it set forth the minimum requirements to establish an insurance company and undertake an insurance business in the country. Among the requirements, launching an insurance business in the country without a license was prohibited. Accordingly, the Insurance Controller Office relicensed 15 local insurance companies anew in 1971 that met the licensing requirements specified in the Proclamation. Two licensed insurers were closed in 1972, and the remaining 13 continued until they were nationalized in 1975 (Berhe & Kaur, 2017; Zeleke, 2007). Table 4 shows the list of domestic insurers that received licenses under the 1970 insurance law.

**Table 4.** Local Insurance Companies in Ethiopia during the Imperial Period (1951-1974)

No.	Name of Insurance Company	Establishment Year	Class of Business
1	Imperial Insurance Company of Ethiopia	1951	General Ins.
3	Afro-Continental Insurance Co. (Eritrea Insurance Company S.C.)	1961	General Ins.
4	National Ethiopian Insurance Co.	1963	General Ins.
5	Blue Nile Insurance Co.	1963	General Ins.

6	African Solidarity Insurance Company	1963	General Ins.
7	Ras Insurance Co.	1963	General Ins.
8	Ethiopian-American Life Insurance Co.	1963	Life Ins.
10	Lion Insurance Co.	1964	Gen & Life Ins.
11	Union Insurance Company	1965	General Ins.
12	International Insurance Co.	1965	General Ins.
13	Star Fire and General Insurance Co.	1967	General Ins.
14	Ethiopian Life Insurance Company (Life & Pension Society of Ethiopia)	1967	Life Ins.
15	Ethiopian General Insurance Co.	1968	General Ins.
16	Pan-African Insurance Co.	1969	General Ins.
17	Rasai Ethiopian Insurance Co.	1971	General Ins.

*Source: Zeleke, 2007; Economic Progress of Ethiopia, 1955*

### **Socialist State Phase (1974-1991)**

Ethiopia had been under the rule of the imperial government for many decades. The 1974 Peoples' Revolution overthrew the imperial government, and the military government took over government power in 1974. The new Military government adopted the rule of a centrally planned command economy with a socialist ideology. In order to lay the foundation for the command economic system, one of the first actions taken by the communist military government was to nationalize the private companies operating in the country at that time.

Accordingly, the socialist-oriented military government nationalized all private insurance companies on 1<sup>st</sup> January 1975 and took over their ownership and control by promulgating Proclamation 26/1975. Then, by Proclamation 68/1975, the nationalized insurance companies were consolidated into a single state-owned insurance company called Ethiopian Insurance Corporation (Berhe & Kaur, 2017; Geda, 2006).

The Ethiopian Insurance Corporation (EIC) became an autonomous public enterprise on 1<sup>st</sup> January 1976 by taking over the nationalized private insurance companies' assets, liabilities, and capital. The nationalized insurers became the main branches of the EIC. The corporation's

paid-up capital at the time of establishment was ETB 11 million (about USD 1.29 million). EIC was authorized by Proclamation 68 of 1975 to manage, administer, supervise, and direct all insurance business transactions; to negotiate, arrange, underwrite, and contract reinsurance treaties and policies with foreign reinsurers; and to issue a license to any person making an application to act as insurance auxiliary or actuary. EIC had been selling various insurance policies, including life, motor, marine, fire, aviation, workmen compensation, personal accident, medical, burglary, all risk, monetary, fidelity guarantee, plate glass, livestock, engineering, and miscellaneous policies (Zelege, 2007).

Following the nationalization of private insurers and the formation of a government-owned monopoly insurer (EIC), the imperial-era insurance laws (i.e., Proclamation 281/1970 and Regulation 393/1971) were replaced with Proclamation 68/1975. In addition, the Insurance Council and the Insurance Controller Office, which were earlier empowered to regulate and supervise the insurance sector in the country, were liquidated in 1976. In the same year, but by Proclamation 99/1976, the Socialist government designated the National Bank of Ethiopia (NBE) to regulate, supervise and control the operations of the insurance sector.

The EIC was a monopoly insurer in the Ethiopian insurance sector during the entire Socialist Marxist era (i.e., 1974 to 1991). Hence, the history of the Ethiopian insurance sector during the command economic system was entirely the history of the EIC. Generally, the competition in the sector was non-existent, and the development of the Ethiopian insurance sector and its contribution to the country's economic growth were negligible (Zelege, 2007).

### **Liberalization Phase (1991 To Date)**

Following Ethiopia's political environment change in 1991, the new government officially introduced a market-oriented or liberal economic system in 1992 to guide the country's economic development. Consequently, the financial institutions were reformed to work on a market-oriented policy framework (Geda, 2001; 2007). Concerning the insurance sector, the reform resulted in the re-establishment of EIC, the new market-oriented insurance law decree, and the re-emergence of private sector insurers.

Due to the country's economic policy change to a market-led economy, the sole state-owned monopoly insurer had to be restructured to shape its role within the framework of the new market-oriented economic system. To this effect, the EIC was restructured as a state-owned enterprise in 1994 to render insurance services and other associated activities to attain its

purpose. According to Zeleke (2007), the paid-up capital of the EIC at the time of restructuring was approximately ETB 61 million.

Adopting the market-based economic policy demanded the active participation of all economic sectors (public and private) in the country. To achieve this, a comprehensive insurance law that would permit the involvement of all insurance sectors within the framework of the market economy was required. To that end, the licensing and supervision of insurance business Proclamation 86/1994 was promulgated in 1994. This law ended the 19 years of insurance business monopoly and allowed domestic private sector insurers to engage in the country's insurance sector but prohibited foreign insurers from doing so.

Shortly after the new market-oriented insurance law was passed in 1994, indigenous private-owned insurance companies came into existence in the country's insurance sector again. Universal Insurance Company was the first insurer established in August 1994 and later closed down because of supervisory measures (Zeleke, 2007). After Universal, five additional private insurers were founded within a year, and two more within two years. The most recent insurer received its license in 2020. The latest NBE annual report (2022) unveils that the total number of insurance companies operating in Ethiopia reached 18 in 2022, 17 of which are private sector insurers, as shown in Table 4.

**Table 4.** Existing Insurance Companies in Ethiopia at the End of 2022

<b>S. No.</b>	<b>Name of Insurer</b>	<b>Est. Year</b>	<b>No. of Branches</b>	<b>Est. Capital (in Birr)</b>	<b>Cur. Capital (in Birr)</b>
1	Ethiopian Insurance Corporation	1976	91	11 million	3,376 million
2	National Insurance Co. of Ethiopia S.C.	1994	39	9 million	296 million
3	Awash Insurance Company S.C.	1994	56	25 million	1,898 million
4	Africa Insurance Company S.C.	1994	32	30 million	410 million
5	Nyala Insurance Company S.C.	1995	36	35 million	1,260 million
6	Nile Insurance Company S.C.	1995	57	12 million	940 million

7	United Insurance Company S.C.	1997	43	8 million	797 million
8	Global Insurance Company S.C.	1997	20	7 million	280 million
9	Nib Insurance Company S.C.	2002	45	30 million	844 million
10	Lion Insurance Company S.C.	2007	41	16 million	346 million
11	Ethio-Life and General Insurance S.C.	2008	26	6.5 million	228 million
12	Oromia Insurance Company S.C.	2009	50	26 million	972 million
13	Abay Insurance S.C.	2010	31	7.5 million	516 million
14	Berhan Insurance S.C.	2011	23	9.7 million	266 million
15	Tsehay Insurance S.C.	2012	32	11 million	378 million
16	Lucy Insurance S.C.	2012	24	8 million	162 million
17	Bunna Insurance S.C.	2013	29	6.7 million	255 million
18	Zemen Insurance S.C.	2020	15	79.9 million	154 million

*Source: Compiled from NBE Annual Report, 2022; <https://nbe.gov.et/insurers/>; Official Websites of Insurers*

Even if Ethiopia's gradual liberalization strategy has locked the financial sector to foreign insurers, the country's insurance system has been changed from absolute ownership by the government to a system that permits private sector insurers to operate in the country. Hence, Ethiopia's insurance industry comprises public-sector and private-sector insurers. The public sector insurers are those that the Government of Ethiopia wholly owns. In contrast, private sector insurers are those whose share capital is exclusively owned by private individuals and corporates. Despite this, Ethiopia's insurance market is relatively tiny compared to most East African, Sub-Saharan African, and global insurance markets.

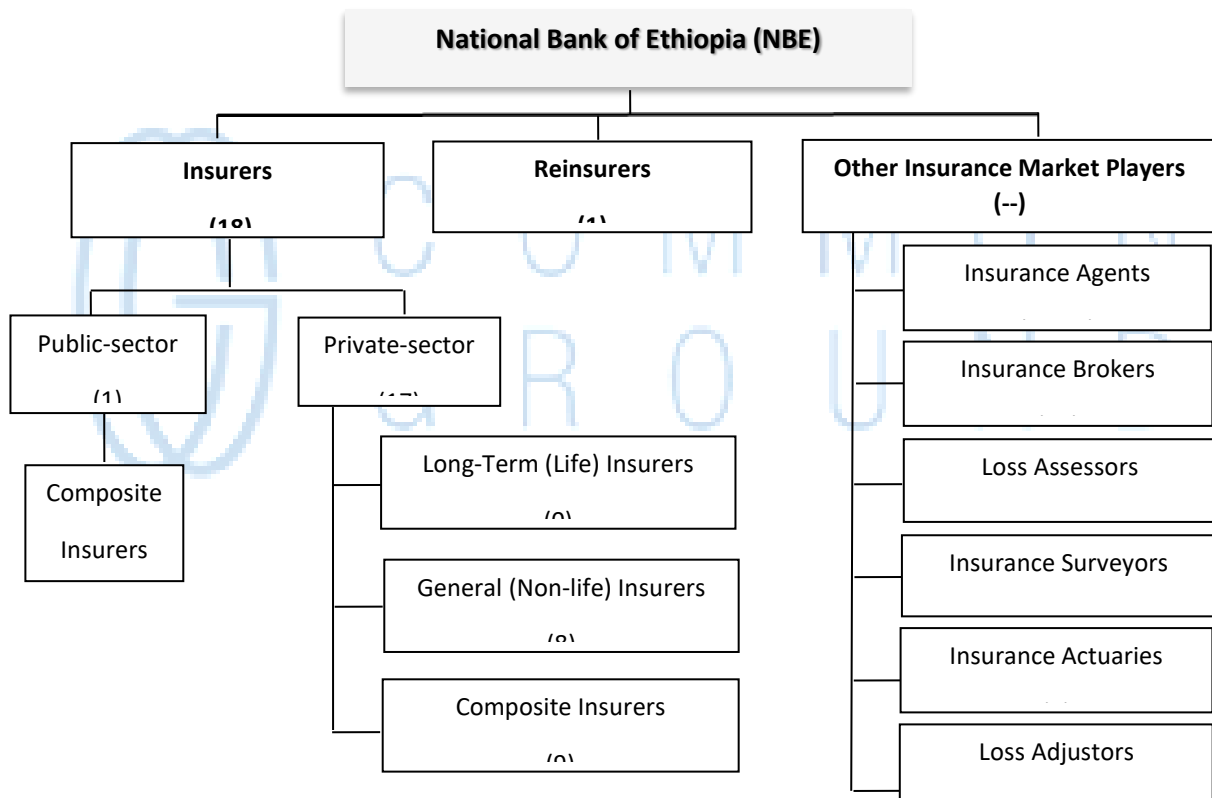
By the end of 2022, 18 insurance companies were operating in Ethiopia under the supervision of the NBE. Of these, one (5.6%) is a public sector insurer, and the other 17 (94.4%) are private sector indigenous insurers. Ten (55.6%) of the 18 insurers are composite insurance companies (i.e., they operate both life and non-life insurance businesses), while the remaining eight



(44.4%) are purely general (non-life) insurers. No life insurance-only insurer operates in Ethiopia (NBE, 2022; Atlas Magazine, 2021).

Aside from the primary insurers, other players in the Ethiopian insurance market include reinsurance companies, insurance auxiliaries, loss adjustors, and insurance actuaries. In 2021, one reinsurance company, two insurance actuaries, one loss adjustor, over 2,349 insurance agents, 61 insurance brokers, 105 loss assessors, and three insurance surveyors acting as insurance auxiliaries were operating in the Ethiopian insurance sector under the supervision of the NBE. Figure 2 provides a graphical representation of the structure of the insurance sector in Ethiopia in 2022.

**Figure 2.** Structure of the Ethiopian Insurance Sector, June 2022.



*Source:* Compiled from the Annual Reports of NBE and Insurers, 2022.

### Concluding Remarks

This study analyzed the evolution and current structure of Ethiopia’s banking and insurance sectors. The banking sector, the largest segment of the Ethiopian financial sector, has undergone a series of structural changes that can be seen in three distinct phases. The first phase started in 1905 with a foreign bank’s formation of the Bank of Abyssinia. The first indigenous

bank was founded in 1931, and the first banking law was passed in 1963. The second phase was from 1974 to 1991, when the banking sector was reformed to fit the socialist ideology, and the private sector banks were completely prohibited from operating in the country. The third phase began in 1991 when the picture of Ethiopia's banking sector was drastically changed as the new government reformed the banking sector to suit the free-market economic system. The reform permitted private-sector banks to operate in the country, leading to the existence of 28 new private banks. Nevertheless, the 30-year reform journey is gradual and does not yet permit foreign banks to operate in the banking market of Ethiopia.

The insurance sector, the third largest segment of Ethiopia's financial sector, has passed several structural changes that can be divided into three phases. The first phase began in the early 1900s with the emergence of the agents of foreign insurers. The first indigenous insurer was founded in 1951, and the first insurance law was passed in 1970. The second phase, which lasted from 1974 to 1991, saw the nationalization of all private insurers to fit the socialist ideology and the state monopoly of the sector. The third phase began in 1991 when the new government reformed the insurance sector to suit the free-market economic system. The reform permitted private insurers to operate in the country, opening 17 new insurers. Nonetheless, the reform is gradual, and foreign insurers are not yet allowed to participate in Ethiopia's insurance market.

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