



**Addis Ababa University**  
**College of Business and Economics**  
**Department of Management**

**Assessment of the Motor Third Party Compulsory Insurance  
Practices and Challenges: the case of selected Insurance  
Companies in Ethiopia**

**A thesis submitted to the College of Business and Economics, Department of  
Management, in partial fulfillment of the requirements for the Executive  
Master of Business Administration (EMBA) degree**

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**Addis Ababa, Ethiopia**

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## **Declaration**

I hereby declare that the thesis entitled “*Assessment of the Motor Third Party Compulsory Insurance Practices and Challenges: the case of selected Insurance Companies in Ethiopia*”, has been carried out by me under the guidance and supervision of Dr. Zewdie Shibre.

I further declare that the thesis is original and has not been submitted for the award of any degree or diploma to any university or institutions. All sources used have been duly acknowledged.

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## Table of Contents

DECLARATION.....	II
TABLE OF CONTENTS.....	III
LIST OF TABLES .....	VI
LIST OF FIGURES.....	VII
ACKNOWLEDGEMENT.....	VIII
ABSTRACT.....	IX
ABBREVIATIONS/ ACRONYMS.....	X

### CHAPTER ONE: INTRODUCTION

1.1. Background/Rationale of the Study.....	1
1.2. Statement of the Problem .....	3
1.3. Research Questions.....	4
1.4. Objectives of the Study .....	4
1.4.1 General objective.....	4
1.4.2 Specific objectives.....	4
1.5. Scope/ Delimitations of the Study.....	5
1.6. Limitation of the Study.....	5
1.7. Significance of the Study .....	5
1.8. Organization of the Paper.....	5

### CHAPTER TWO:REVIEW OF RELATED LITERATURE

2.1 Risk and Insurance .....	6
2.2 Development of Insurance .....	6
2.3 Benefits of Insurance .....	7
2.4 Development of Insurance in Ethiopia .....	7
2.5 The Ethiopian Insurance Industry .....	7
2.6 Development of Motor Insurance .....	8

2.7 Motor Insurance in Ethiopia .....	8
2.8 Compulsory Insurance .....	9
2.9 Compulsory Insurance in Ethiopia .....	9
2.10 Motor Third Party Compulsory Insurance in Ethiopia.....	10
2.11 Establishment of IFAA .....	12
2.12 Underwriting of MTPCI.....	13
2.13 MTPCI Claims.....	14
2.14 MTPCI experience of some Countries.....	15
2.15 COMESA Yellow Card Scheme.....	18

### **CHAPTER THREE: RESEARCH METHODOLOGY**

3.1 Research Design.....	19
3.2 Data type and Source.....	19
3.3 Questionnaire Design and Data Collection .....	19
3.4 Target Population.....	20
3.5 Sampling Method.....	20
3.6 Data Analysis Techniques.....	22

### **CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND DISCUSSION**

4.1 Data Analysis .....	23
4.2 Insurance Industry Underwriting Staff Response.....	23
4.3 Insurance Industry Claims Staff Response.....	33
4.4 Performance of MTPCI.....	42

### **CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS**

5.1 Conclusion .....	44
5.1.1 Performance of MTPCI with Insurers.....	44
5.1.2 The Provision of Premium Return.....	44

<b>5.1.3</b>	Fairness and Clarity of Compensation Award.....	45
<b>5.1.4</b>	Repudiation of Claim.....	46
<b>5.1.5</b>	IFAA Fund Levy.....	47
<b>5.1.6</b>	Supervisory capacity of IFAA.....	47
<b>5.2</b>	Recommendations.....	48
REFERENCES.....		50
ANNEXES		
Annex I:	Questionnaire.....	52
Annex II:	Performance of Motor Insurance in Ethiopia.....	67
Annex III:	Insurance Industry Branch Network.....	68
Annex IV:	Establishment of Insurance Companies.....	69
Annex V:	EMT Deposit.....	70

## **List of Tables**

Table1	Motor Vehicles Accident in Ethiopia.....	14
Table 4.1	Summary of respondents background information .....	30
Table 4.2	Summary of Policy Wordings and Purpose .....	33
Table 4.3	Summary of Challenges.....	34
Table 4.4	Summary of MTPCI benefit and IFAA Fund Levy.....	36
Table 4.5	Summary of Fairness of MTPCI Premium .....	37
Table 4.6	Summary of Uniformity of Application.....	38
Table 4.7	Summary of Pre Risk Assessment.....	39
Table 4.8	Summary of Renewal Notice and follow-up.....	39
Table 4.9	Summary of Premium Refund and Certificate Surrender.....	40
Table 4.10	Summary of Factors contributing MTPCI policy to lapse .....	41
Table 4.11	Summary of Gender and Level of Education.....	41
Table 4.12	Summary of Policy Wording and Purpose.....	44
Table 4.13	Summary of Clarity of Compensation and Award.....	45
Table 4.14	Summary of Insurers Internal Claim Capacity .....	46
Table 4.15	Summary of Fixing Compensation .....	47
Table 4.16	Summary of Adequacy of Cover and Repudiation of Claim.....	48
Table 4.17	Summary of Reasons for Claim Rejection.....	49

Table 4.18 Summary of MTPCI - Claim handled by IFAA.....	51
Table 4.19 Summary of MTPCI – Claim handled by Insurers.....	52

### **List of Figures**

Figure 4.1 Age of respondent (underwriting).....	31
Figure 4.2 Work Experience of respondents.....	31
Figure 4.3 Age of respondents (claims).....	42
Figure 4.4 Work experience of respondents .....	43
Figure 4.5 Companies’ Customer Service Self Assessment .....	50

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## ***Abstract***

*Rarely a week goes by without a motor accident featuring in the national press, often as headline news. Some of these are considered newsworthy simply due to unusual circumstances and can be quite minor, whilst others are tragic events involving death and serious injury and loss of property. The Ethiopian Government promulgated Motor Third Party Compulsory Insurance (MTPCI) law under proclamation 559/2008 with the aim of laying down a mechanism to alleviate economic loss as a result of road accident. The MTPCI in Ethiopia came into effect on 11<sup>th</sup> September 2011. The proclamation was revised after two years in service by Proclamation No. 799/2013. This paper tried to assess the practice and implementation of the legislation with insurance companies and IFAA. In order to address the research problem, both quantitative and qualitative research approaches were used and also considered both primary and secondary data. From the findings it was observed that the performance of MTPCI with both insurers and IFAA was very profitable but not well understood. The tariff premium collected by IFAA was found to be at high side compared against the payouts for hit & run and medical expenses. The EMT case was not as smooth as required and its performance was still far behind schedule. Moreover, according to the finding, there had been many operational disparities with companies including but not limited to declining both cover and claim.*

## **Abbreviations/Acronyms**

CCE	Commercial Code of Ethiopia of 1960
CII	Chartered Insurance Institute
COMESA	Common Market for Eastern and Southern Africa
ECA	Economic Commission for Africa
EIC	Ethiopia Insurance Corporation
EMT	Emergency Medical Treatment
FDRE	Federal Democratic Republic of Ethiopia
GWP	Gross Written Premium
IFAA	Insurance Fund Administration Agency
INR	Indian Rupee
IRAP	International Road Assessment Program
KSH	Kenyan Shilling
MTPCI	Motor Third Party Compulsory Insurance
NBE	National Bank of Ethiopia
PSV	Public Service Vehicles
RTA	Road Traffic Act
SIP	Society of Insurance Professionals
SPSS	Statistical Package for the Social Science
UNCTAD	United Nation Conference on Trade & Development
VIATPR	Vehicle Insurance Against Third Party Risks
ZAR	Rand (South Africa Currency)

# Chapter one: Introduction

## 1.1 Background/ Rationale of the Study

The Chartered Insurance Institute (CII) described that the concept of insurance is not new. A form of insurance even existed in early Rome, where Romans gathered together in burial societies. They all contributed to a fund and the members of the pool had their burial costs met by the society (CII 510 1999). In Ethiopian context we have been exercising the so called “Edir” which is quite similar to insurance. It is a social gathering organized to assist member family of a deceased person to smoothly undergo the burial ceremony and cover funeral expenses.

As Hailu (2007) well articulated “The growth and modernization of insurance business is very much associated with the growth of business activities-commercial, industrial or service. In other words, insurance and business are very much interrelated.”

The development of Motor car began in 1879, when George Selden applied for a patent for a road locomotive. Gratifying egos was not a top priority when, six years later, Daimler and Maybach created the first motor car. The first insurance policies were issued towards the end of the nineteenth century. At his experimental stage, there were insurance company failures, the first occurring in 1910(CII 765 2001).

According to Temesgen (2004), the history of motor vehicles in Ethiopia is of a relatively recent phenomenon. The first vehicle appeared on the roads in the early 1900. Ever since, the number and use of vehicles have shown dramatic change.

It is now over 50 years that Ethiopia had some form of premium rating agreed upon by insurance agents and representatives who were present in the market at the time. Tariff rules and regulations came into being in around 1950 for the first time by the then Fire Offices Association of Ethiopia that represented their parent organizations. The agents and Representatives offices here started operate with a Motor Rate Chart that came from abroad without having any reference to the Ethiopian context or experience. It, however, did work for them somehow and earned them some profits that they continued to stay in business flourishing. Several new local companies were also being opened and they were operating quite well ( Nur-Hussein 2005).

However, when the Dergue Revolution came in 1974, they were all nationalized at the end of 1974 and one government owned insurance firm namely the Ethiopian Insurance Corporation (EIC) was born in January 1976. In this way all the previous different rate charts were abolished bringing the competitive market to an end. Then EIC started operating with ne rate chart perhaps by drawing an average premium rate from the different rates. EIC continued to operate on a monopolistic manner for about 20years from 1976 to 1994 when EPRDF allowed the existence of private insurance companies by its proclamation no. 86/1994, soon after it removed the Dergue Regiem and seized power (Nur-Hussien 2005).

Temesgen (2004) pointed out that the role of Motor Vehicles in socio-economic continuum of the society is not simple to put in plain words due to its pervasive nature. The technology the manufacturers use to produce the vehicles is increasingly sophisticated. The use is enhanced from time to time and these day's motor vehicles are directly or indirectly dominating every pattern of human life. The number, type and use of vehicles in Ethiopia is increasing year by year. As the number, type and use of vehicle increases, the frequency and severity of motor accidents as well and leave the loss burden on the society. Large number of vehicles destroyed and damaged accidentally every year.

Damage and destruction to property is almost certain to happen every day due to motor accidents. Loss of life, series and minor injuries are sad news to listen very frequently. In Ethiopia, motor insurance plays an immense role in the alleviation of the financial burden of policyholders subsequently to accidents. Likewise, it constitutes a significant proportion of the overall business of the insurance industry. Compulsory Third party insurance obliges every owner of a vehicle to have a valid certificate of insurance or legally accepted security before driving or cause his or her vehicles to be driven by someone. Failure to comply is an offence and caters for penalty through fines and imprisonment (Temesgen 2004).

According to Debebe (2012/2013), "Pursuant to the promulgation of Vehicle Insurance Against Third Party Risks (VIATPR) proclamation no 559/2008, any vehicle to be driven on Ethiopian roads should have a valid insurance coverage against third party risks. Hence, the VIATPR proclamation, for the first time, has made third party insurance compulsory in Ethiopia."

The Insurance Fund Administration Agency (IFAA) under the Ministry of Roads Authority is established to oversee the enforcement of the law, assure victims are well compensated by insurance companies and to provide damage for untraced and uninsured vehicles (IFAA, 2010).

Therefore, this research work will describe the benefits of Motor Third Party Compulsory Insurance (MTPCI) in Ethiopia, review the cover available, and evaluate its practicability among industry players, points out the gaps in comparison with other countries and describes the challenges associated with the implementation of the law.

## 1.2 Statement of the Problem

The Chartered Insurance Institute (CII) expressed that rarely a week goes by without a motor accident featuring in the national press, often as headline news. Some of this are considered newsworthy simply due to unusual circumstances and can be quite minor, whilst others are tragic events involving death and serious injury (CII P94 2012).

“Nowadays, with the introduction of vehicle very fast vehicles on the road and constant increase in number, there is an increase in traffic density. Current claims are marked with higher cost of labour and spare parts and ever increasing awards of third party claims” (Teferi 2004).

Though the compulsory nature of the third party insurance is justifiable as it makes the process easier for the injured person to recover money from insurance company, the low limit set by the VIATPR proclamation seems inadequate to meet the liability of motorists and in his regards insurer are advised to augment the low liability limits of the VIATPR proclamation cover by providing their standard third party cover already embedded in their comprehensive motor insurance cover (Debebe 2012/2013).

Debebe (2012/2013) on his paper presented to the Society of insurance professional continued discussing that having compulsory third party insurance is an advantage to the vehicle owner because it protects the personal wealth of the insured from being dispensed to meet his legal liability.

According to UNCTAD (1982)

Obtaining decree from a court doesn't ensure the payment of compensation. If the delinquent driver is impecunious, the injured party will have only thrown good money after bad. The fact that the law requires compulsory third party insurance does not necessarily mean that every vehicle is in fact insured. Enforcement of the law is known to be very weak in many developing countries.

According to assessment made by World Bank Group (2014), Motor Compulsory insurance penetration is far from complete, with estimate ranging from 30% to 40% uninsured vehicles still on roads in Ethiopia. It is well mentioned that despite the fact that Motor insurance Third Party Liability is compulsory, the presence of uninsured vehicles is still a problem.

World Bank Group (2014) discussed further that motor accidents cause serious social and economic problems and a variety of strategies have been adopted to deal with them. There has been a somewhat ragged advance towards a more satisfactory system in each country and no such thing as a perfect system has yet emerged particularly in developing countries like Ethiopia.

According to the Proclamation no. 799/2013 article no. 20(1) an injured person is entitled to get emergence medical treatment from the nearest medical service center and according to annual report of IFAA its application however is still far from real.

Insurers hardly understand the benefits of MTPCI and little attention has been given to this business. The application of same also varies from company to company.

Therefore, as Motor class of business represents the principal share in terms of Gross Written Premium (GWP) in the industry, a clear assessment about MTPCI performance and reviewing the applicability of the law with insurance companies is found to be very essential to conduct this study.

### **1.3 Research Questions**

This research attempts to find out why insurance companies fail to understand the profitability MTPCI and unable to provide due emphasis to this class of business. Moreover, it assesses why disparity in the practice is observed among insurance companies. The research will also point out practices of some countries and forward ideas.

### **1.4 Objectives of the study**

#### **1.4.1 General objectives**

This study focuses on the assessment of the MTPCI practices and challenges with regards to insurance companies in Ethiopia.

#### **1.4.2 Specific Objectives**

- 1.4.2.1** Assess the practice and challenges of MTPCI with regards to insurance companies in Ethiopia.
- 1.4.2.2** Evaluate practices on reserving and claim payments.
- 1.4.2.3** Examine the interpretation and application of the law by IFAA.
- 1.4.2.4** Workout claim ratio and find out the performance of the class
- 1.4.2.5** Examine the reasons for variation among companies in determining personal accident injuries compensation awards.

### **1.5 Scope /Delimitation of the study**

Having a high record of motor claims, the enactment of MTPCI is very vital for a county like Ethiopia. The scope of this study is however limited to the application of the law with insurers and the challenges associated with the law since its enforcement.

### **1.6 Limitations of the study**

This research considers eight insurance companies out of sixteen companies operating in the country and the findings are therefore based on the selected eight companies and are also dependent on the accuracy of the data provided.

### **1.7 Significance of the study**

This research tries to assess the application and challenges of MTPCI with insurance companies, identifies the existing gaps and suggests on how to fill the gap. The research work is expected to benefit insurance companies and help them clearly examine their policies and claims settlement mechanisms. On top of this, policy makers such as IFAA will try to appreciate the current performance of the law and may benefit from the experience of global practice. Moreover, the research work may motivate others to undertake extensive work over the subject matter.

### **1.8 Organization of the paper**

The paper is organized in five chapters. The first chapter is an introductory part, which contained the background, problems statements, objectives, and limitation of the study. Chapter two reviewed historical development of motor insurance, its applications and benefits and challenges of Motor Third Party Compulsory Insurance in Ethiopia. Chapter three presented the research design, target population and sampling technique, data collection and data analysis of variables. Chapter four depicted the analysis and findings of the study and the last one which is Chapter five reflected the conclusion and recommendation based on the findings of the study.

## **Chapter Two: Review of Related Literature**

### **2.1 Risk and Insurance**

According to CII (655, 2002), risks come in many forms and are inevitable in every business. There is no business without risk. Risk brings sweetness to life and it brings bitterness. Whether we like it or not risk is always there. Risk is the dark and bright side of life. Risk is the future unwanted and unforeseen event living with us. It may be impractical, or even impossible, to protect against every single potential risk. There have been many examples in recent years. The man in the street would be able to name quite a number of events which he would consider to be “risks”.

Insurance is not a tangible product. The insured transfers the future unforeseen risks to insurer by way of paying a fee called premium. An insurance company having collected the premium from the insured will provide insurance cover. The premium amount at least expected to cover the expected claims, reserves, expenses plus a margin for profit. They have a reasonable expectation of making a profit (CII PO1 2007).

According to Article 654(2) of the Commercial Code of Ethiopia (CCE 1960), insurance is legally defined as “an insurance policy is a contract where by a person called the insurer undertakes against payment of one or more premiums to pay a person, called the beneficiary, a sum of money where a specified risk materializes.”

### **2.2 Development of insurance**

According to Hailu (2007), the development of insurance was presented as follows:

A proper documentation of the development of insurance in general requires an in-depth investigation of early practices that had some elements of insurance and tracing the conditions that led to the development of modern insurance business. The present documentation of the development of insurance is the result of contributions made by different countries and markets. According to Pfeffer and Klock (1974), insurance has its beginnings in ancient Babylon, its theoretical development in Europe, its modern structure in Great Britain, and its fullest expansion in USA. The growth and modernization of insurance business is very much associated with the growth of business activities-commercial, industrial or service. In other words, insurance and business activities are very much interrelated.

In the 13<sup>th</sup> and 14<sup>th</sup> century, Italia cities- Venice, Genoa, and Florence-became centers for trade and commerce and significant developments in insurance and banking were observed during those periods. Insurance contracts were being concluded on a form “polizza”, an Italian word for which the term “Insurance Policy” is derived. Italian merchants were also credited for introducing Marine insurance to Britain and Western Europe. Particularly, the Lombards (merchants from Northern Italy) were said to have introduced sophisticated financial institutions such as banking, insurance, international exchange etc to England (Hailu 2007).

### **2.3 Benefits of insurance**

According to CII 510 (1999), the importance of insurance is rarely discussed compared with that of other financial sectors namely banks and building societies. Insurance plays a vital role in stabilizing the economy of a country and boosts the smooth function of the economy. Among many others the provision of Peace of mind, Loss Control, investment of funds and providing Social Benefits are the main benefits of insurance.

### **2.4 Developments of insurance in Ethiopia**

The emergence of insurance business in Ethiopia was closely linked to expatriates and foreign insurance companies. In addition, expatriates and foreign companies operating in Ethiopia participated actively in the establishment of the first domestic insurance company. According to various sources, the emergence of modern insurance in Ethiopia is traced to the Bank of Abyssinia which was established in 1905 as the first Ethiopian Bank. According to Schaefer (1992: 364,368), the bank, which was established under a fifty year concession granted by Emperor Menilik II( 1889-1913) to the National Bank of Egypt in March 1905, was inaugurated in February 1906. According to some sources, Hail Michael Kumsa (1991:30), Society of Insurance Professionals (2004:6) and Belay Gidey (1987:100), the Bank had been acting as an agent for foreign insurance Companies to underwrite fire and marine policies (Hailu 2007).

Hailu (2007) further discussed that there were foreign owned insurance companies mostly acting as an agent to their parent company operating in Ethiopia prior to the year 1951. The Imperial Insurance Company of Ethiopia Ltd. was the first domestic insurance company, established in 1951. Thereafter, until 1960 one domestic and numerous foreign insurance companies represented by agents were operating insurance Business in Ethiopia.

### **2.5 The Ethiopian Insurance Industry**

According to Nyala Insurance S.C. Annual Report (2014/2015), “There were seventeen (17) insurance companies as at June 2015; one (1) public and the rest Private. Out of them eight (8) wrote General Insurance Business only, and nine (9) wrote both General and Long Term Business. Other players include forty nine (49) licensed insurance brokers, eighty-nine (89) Loss assessors and two (2) Surveyors.”

According to the industry data annually disseminated by the National Bank of Ethiopia, the General Insurance Business in Ethiopia has experienced growth over the years, from Birr 2,422,415,000 in 2010/2011, Birr 3,724,760,000 in 2011/2012(53%), Birr 4,497,666,000 in 2012/13(20.75%), Birr 4,687,657,000 in 2013/2014 (4.22%), and Birr 5,242,085,000 in 2014/2015 (11.82%) and finally to Birr 6,093,677,000 in the year 2015/2016 ending June 30, 2016. When we look into the portfolio mix, Motor insurance alone accounted for about 57% of the General insurance business. The claim ratio of Motor insurance stood at 79% as that of June 30 2016. The high premium growth of 53% was attained right at the year when Motor Compulsory Third Party Insurance was started in the country.

## **2.6 Development of Motor Insurance**

As to the development of motor insurance in the world, the Chartered Institute (CII) described as follows:

The first insurance policies were issued towards the end of the nineteenth century. At this experimental stage, there were insurance company failures, the first occurring in 1910. The First World War hastened technological developments because there was an obvious need for a mode of transport with the attributes of mobility, speed and efficiency. At the end of the war, popular motoring really began, in an era of cheap, light 'baby' cars. Consequently, motoring became a worldwide pursuit. Following the First World War, the volume of motor insurance business expanded and tended to be placed with the larger composite insurers (CII 765 2001).

## **2.7 Motor Insurance in Ethiopia**

UNCTAD (1982) explained that motor insurance is a very important line of business to developing countries. Unlike other classes of business motor insurance provides a continuous cash flow to insurers and thus motor insurance avails high liquid cash for investment. One can also appreciate the fact that with motor insurance, there is very little seasonal fluctuation of business and the cash inflow is continuous in nature. On top of the above its reinsurance arrangement in most cases is an excess of loss and as a result there is little cession premium payable to reinsurance companies.

According to Teferi (2004), though it is not possible to tell exactly when motor insurance had started to be written Ethiopia sources indicate that the South British Insurance Company issued the first motor insurance policy during the 1950s. In 1959, 50% of all vehicles on the roads were insured against motor risks, according to survey conducted in 1960 by the then Ministry of Commerce and Industry.

## 2.8 Compulsory Insurance

Hailemichael (2012/2013) well articulated that compulsory insurance is a kind of insurance prescribed by law to be a minimum requirement. The main objective of compulsory insurance is to protect the general public against the possible risk emanating from day to day operation of business. Liability insurance is one which is made compulsory in many parts of the world. Employers liability, product liability, public liability, professional indemnity, liability relating to construction works are the most commonly used.

Compulsory third party insurance spreads the economic consequences of negligent driving directly over the insuring public and indirectly (by cost of insurance being passed on eventually to consumers) over entire community. Obtaining a decree from a court does not ensure the payment of compensation. If the delinquent driver is impecunious, the injured party will have only thrown good money after bad. Third party insurance is also compulsory in the African states of Algeria, Benin, Burundi, Cameroon, the Central African Republic, Chad Congo, Egypt, Gabon, the Gambia, Ghana, Malawi, Mauritius, Morocco, Mozambique, Nigeria, Sierra Leone, Somalia, South Africa, the Sudan Swaziland, Tanzania, Uganda, Upper Volta, Zaire, Zambia, and Zimbabwe (UNCTAD 1982).

## 2.9 Compulsory Insurance in Ethiopia

Compulsory third party insurance is the minimum insurance required by laws before driving a car on road; it is mandatory for the sake of protection of general public who usually become victims of financial consequence of injury, loss, or damage caused by traffic accidents. Most people would find it difficult to compensate victims of their careless act. As will be seen the compulsory third party insurance law goes on to make sure that defective insurance cover should not defeat an innocent road accident victim from gaining compensation (Debebe 2012/2013).

According to Hailemichael (2012/2013), the different Compulsory insurance types available in Ethiopia are as follows:

- **Marine Insurance:** under Notice No. 1/1977 dated January 5, 1977; and the main tune was that all imports to Ethiopia should be insured locally;
- **Professional Indemnity:** under Directive No. SIB/30/2007, dated 1<sup>st</sup> January,2008, issued By the National Bank of Ethiopia, insurance Brokers and Agents are required to have a Professional Indemnity insurance cover and
- **Motor Third Party Insurance:** The Motor Vehicles Third Party Insurance was put into Law by Proclamation No. 559/2008 dated 9<sup>th</sup> January 2008.

## **2.10 Motor Third Party Compulsory Insurance in Ethiopia**

UNCTAD (1982) elaborated that some countries which are influenced by French legislation usually make both bodily injury and property damage compulsory and some others take only bodily injury to be compulsory (influence by United Kingdom legislation). If both are not made compulsory, insured should transfer its risk of third party property damage to insurer voluntarily. Speaking from insured's perspective, if the premium for the compulsory is not fair; the possibility of having the voluntary classes of business is very remote.

According to Australasian Transport Research Forum (2013), most of the increases in traffic deaths have occurred in low and middle income countries, especially in Africa. Pedestrian fatalities in African Countries account for more than 38% of total road traffic deaths. In the case of Ethiopia, pedestrian account for 55% of fatal crashes per annum. According to the research, the factors that influence pedestrian crash risk ranges from specific characteristics of pedestrian and drivers through to broad issues that affect all sectors in a country. According to the finding of the research work, the main reasons were walking at night, fatigue, walking along roads, illegal crossing behavior, socio economic factor, alcohol and drug impaired walking, poor transportation and land use planning, population growth, lack of road safety education, poor enforcement of traffic regulation, high annual growth of motorization and institutional capacity.

As Temesgen (2004) put it, thousands of people having been exposed to motor accidents, left with little or no compensation means. Especially this grave when the owner of the vehicle is unable to pay for the loss. This issue has attracted the attention of the government and the draft law on Compulsory Third Party Motor Insurance scheme is said to be in progress. If the draft law will be finalized, a vehicle cannot be driven without a valid certificate of insurance. In this respect, insurance companies will assume the liability of loss of life, bodily injury, and damage or destruction to the property of third party. Hence, risk volume associated to motor vehicle will increase.

When we look at the situation in our country, lack of traffic law, awareness by drivers and the general public's, street vendors on major roads, , poor condition of vehicles have caused a major traffic accidents. This in turn has contributed to increased traffic accidents in our country and currently finds it on the top row among countries with high traffic accidents. According to the Ethiopians Roads and Transportation Authority in 2003, for every 10,000 automobiles on the road 136 people have died. This is around 2000 deaths per year of which 48% are pedestrians 45% are passengers and 7% are drivers. During the same year a monetary damage of 400 – 500 million Birr was recorded (IFAA 2013).

Looking at the data (2008-2012), 84,459 automobile accidents have occurred in our country. This is in other words, an average of 16,892 per year. During the five years under consideration 51,883 people have suffered some sort of physical damage of which 25% death, 35% suffered major bodily damage and the remain 41% suffered minor bodily damage(IFAA 2013).

**Table1 Motor vehicles accident in Ethiopia during Five Years Average (2008-2012)**

<b>Year</b>	<b>Number of accidents</b>	<b>Number of Death and bodily injury</b>	<b>Property damage in Birr</b>
2008	15086	9301	81,766,533.00
2009	15695	11122	183,762,409.00
2010	13677	8565	325,708,583.00
2011	18469	10656	159,632,665.00
2012	21532	12239	447,540,471.00
<b>Total</b>	<b>84459</b>	<b>51883</b>	<b>1,198,410,661</b>

*Source: IFAA 2012.*

The Ethiopia Government promulgated MTPCI law under Proclamation 559/2008. The MTPCI in Ethiopia insurance system came into effect on 11th September 2011. It has mandatory, unified national rate, a policy product of standard insurance terms and wide coverage to implement.

The F.D.R.E Proclamation 799/2013, which was revised after two years in service, describing the following as standard limit:

- Death of one person: an amount not less than Birr 5000 and not exceeding Birr 40,000,
- Bodily injury of one person: an amount not exceeding Birr 40,000,
- Emergency Medical Treatment up to Birr 2,000 and
- Property damage: amount not exceeding Birr 100,000 (Proclamation No.799/2013).

## 2.11 Establishment IFAA

UNCTAD (1982) clearly put that, without strong legal backing in controlling the uninsured vehicles being driven on roads, having compulsory third party insurance does not necessarily mean that every vehicle is in fact insured. Enforcement of the law is known to be very weak in many developing countries. Another small but significant step taken by some others to remedy one of the inadequacies of tort based systems relating to motor accidents is to introduce the concept of what is sometimes called the “nominal defendants”. In essence the arrangement is to create a fund from premiums paid or other sources to enable the victim of a hit- and -run accident to claim compensation.

According to World Bank Group Report (2014), Motor Compulsory insurance penetration is far from complete, with estimate ranging from 30% to 40% uninsured vehicles still on roads in Ethiopia. It is well mentioned that despite the fact that Motor Insurance Third Party Liability is compulsory, the presence of uninsured vehicles is still a problem.

In Ethiopia, IFAA is a government agency established by regulation of the Council of Ministers; with the authority to administer the fund to discharge the following fund objectives;

- To handle the emergency medical costs for each and every victim of road traffic accident.
- For covering the costs incurred for helping victims of untraced motor vehicles or hit and run cases.
- It helps to cover the medical and other associated costs of victims of uninsured motor vehicles.

The source of fund for compensation of hit and run and uninsured driver is collected from additional amount levied on every MTPCI premium tariff. The premium tariff was prepared and in use up on the study submitted by Board of IFAA and approved by the Council of Ministers. The agency has a responsibility and in charge to oversee the full enforcement of the proclamation (Proclamation No 799/2013).

The amount of fund tariff to be collected shall be determined by the Council of Ministers based on the study undertaken by the agency as per article 23(2) of the proclamation No 799/2013. The method of determining fund tariff was based on number of past road accident record and average court decision on each death/ injury compensation amount. Accordingly fund amount has been decided to collect 10% additional amount levied on every MTPCI premium tariff (IFAA 2012).

According to World Bank Report (2014), “IFAA should be in a position to have gathered a good range of information, but they have lacked the resources and know-how to implement.”

## **2.12 Underwriting of MTPCI**

According to Teferi (2004), there exists some sort of confusion in the understanding of “Selection of risk” and “underwriting of risk” even by insurance professionals. The latter however is very broad and incorporates the former in it. A proposer requiring motor insurance cover completes or fills up a proposal form (a form prepared by insurance companies to collect material facts about the risk proposed) and hand it over to the underwriter for evaluation. As a standard practice, underwriters do not always accept all risks proposed. If the risk is of poor hazard, they may decline the risk. Having satisfied with the risk, underwriters proceed with further and jump into computing the premium and informing to the proposer. In the above process, the underwriter engages himself in clearly assessing the risk based on his personal opinion and also undergoing some sort of scientific approach. This is the reason behind why underwriting is usually referred to be both an art and a science.

As UNCTAD (1982) described, the central role of the underwriter thus is to help the insurance company in creating homogeneous portfolios by evaluating the risks and accepting them under conditions that make them behave similarly. Nevertheless, in MTPCI there are cases the underwriter has no choice to select a risk and not make a decision whether to accept the risk or not rather they simply match the rate against the proposed risk category and charge fixed amount from rating table in case of “tariff” pricing system. The discretion of underwriter in MTPCI is relatively small because rate, policy terms and conditions are stipulated in advance, even the insurance policy period. Like the practice in our country, UNCTAD further elaborated that most countries put tariff premium and upper limit for compensations where underwriters have nothing to alter. These rates are fixed by the government or by the insurance supervisory authorities and are subject to change only by them.

### **2.13 MTPCI Claims**

Adequate claims control is essential. Unfortunately this is lacking in many developing countries. This is often caused by inadequately trained staff. This results in delays in claims settlement and disbursement of victims and insured. A good claims procedure should seek a minimum of documentary evidence consistent with a reasonable level of care (UNCTAD, 1982).

The amount of Motor third party liability claims reserves that currently allocated as a liability in the profit and loss accounts derives from the case –by –case values established by the insurer’s claims department and by the loss adjuster. Besides, in most cases, when a claim is open the companies tend to reserve for bodily injury the maximum allowed by proclamation (i.e. 40,000 Birr in case of death or bodily injury). This initial amount is then adjusted as and when new information may be provided by the claimants, lawyers or doctors (World Bank Report 2014).

There were a number of different explanations from different insurers as regards to the death benefits. The minimum insurance cover of Birr 40,000 is in some sense neither a minimum nor a maximum-the compensation demands could be higher than the insurance requirements in some cases, but insurers also wanted to argue for figures well below Birr 40,000(World Bank Report 2014).

Teferra (2009) explained that as to USAID (2006), developing countries are characterized by low culture of attitude towards insurance and low infrastructure and environment that frustrate the development and strengthening of awareness. Despite insured’s low understand for their insurance contracts, the conduct of insurance companies is a matter of fulfilling public interest. However, delays in payments of claims for whatever reason is not uncommon. In general claims management procedures are lengthy and not consumer friendly. Due to this reason most of the insurance company’s claims are not settled with a reasonable time and amount and are referred to court action. Generally speaking in their majority, insurance cases going to courts don’t raise issues of application of insurance principles; rather those are liability claims mainly relating to quantum.

## **2.14 MTPCI – Experience of some Countries**

### **2.14.1 India**

India is among the pioneers in developing MTPCI. In India the practice is both fault and no fault basis. In the former case, there is no liability limit in the case of death or bodily injury and in regards to property damage the limit is 6000 INR (Indian rupee). There is Motor Insurance Bureau established to handle uninsured and untraced drivers' death or bodily injury; having the same responsibility like IFAA of our country. The Bureau gets 30% fund from insurance companies and 70% from government fund. The bureau, however does not entertain property damage claims (IFAA 2012).

### **2.14.2 Nigeria**

Hailemichael (2012/2013) in his article contributed to the Society of Ethiopian Professional (Journal) described that there were a number of insurance products that have been made compulsory by law in Nigeria. Occupiers Liability Insurance, Builders liability insurance, Employers liability insurance and Motor Vehicle Third Party insurance can be cited as an example.

Motor Vehicle Third Party insurance is meant to protect the passengers, third party property owners, members of the public and other road users in the event of motor vehicle accidents. The Scale of Compensation is Bodily injury or death: unlimited (as per court award or agreement), Third party Property damage: 1 Million Naira (equivalent to USD 5019) and Total disability 54 months earnings.

### **2.14.3 South Africa**

Hailemichael (2012/2013) continued his discussion that, there is no compulsory insurance in South Africa other than the Road Accident Fund. He mentioned that the Road Accident Fund (RAF) provides appropriate cover to all road users within the borders of South Africa for incidents arising from the use of motor vehicles and, in a timely and caring manner, compensate persons injured or their families in the event of fatal accidents, rehabilitate the injured, indemnify the wrongdoers, and actively promote the safe use of the roads. The RAF is the product of a long history spanning more than sixty years, which commenced with the introduction of compulsory motor vehicle insurance in 1942. The Motor vehicle Assurance Act 29 of 1942 was the first statute in South Africa, which provided for compulsory insurance to ensure that victims could

recover damages, which were caused unlawfully by motor vehicles. The main thrust of the initial legislation was to afford protection to persons not in or on a particular vehicle, i.e. pedestrians. During the sixties it became apparent that certain insurance companies had sufficient income to cover claims. Several Companies were liquidated and this led to the establishment in 1965 of the Motor Vehicle Accident Fund to act as reinsurer of companies which undertook compulsory Motor Vehicle Accident (MVA) insurance.

Hailemichael further discussed that from 1942 to 1986 the legal basis and the funding of the MVA system essentially remained unchanged. With the introduction of the Motor Vehicle Accidents Act 84 of 1986 the method of funding the payment of claims was radically changed. The compulsory insurance system with its statutory annual premiums was abandoned in favor of a levy on fuel sold. The 1986 Act also introduced the agency systems of which certain insurance companies acted as agents for the Fund to handle and settle claims. This agency system and funding method through fuel levies were retained in the Multilateral Motor Vehicle Accident Fund Act 93 of 1989. The purpose of this latter Act was to introduce a uniform system of compensation for road accident victims in the so-called SA TBVC states. The legal basis for compensation payable for bodily injuries sustained and personal losses suffered following road accidents, remained unchanged. The agency system was undesirable and ineffective and was phased out from 1993 to 1997 and now all claims are attended to by the Road Accident Fund. Road Accident fund Act 56 of 1996 came into operation on 1 May 1997. This act established the present Road Accident Fund whose object it is to pay compensation in accordance with applicable statutes for personal loss or damage wrongfully caused by the driving of motor vehicles. The Road Accident Fund Act was subsequently amended by the Road Accident Fund Amendment Act 19 of 2005. The liability limit is currently ZAR (Rand) 50, 000.

#### **2.14.4 Kenya**

Motor insurance in Kenya is governed by the Insurance Motor Vehicle Third Party Risks Act. The Kenya insurance Act provide compulsory insurance to protect the public for road traffic injuries arising from the use of motor vehicles and to forestall the effects of adverse selection on the insurers(Kenya Insurance law,1946).

Following the act, all Kenya insurance companies started to underwrite Public Service Vehicles (PSV'S) besides other conventional insurance cover to ensure compliance by motor vehicle owners. These companies have however, faced enormous challenges in the underwriting of PSV insurance business and a situation that has from time to time threatened to destabilize the entire insurance industry. This has made insurers reluctant to underwrite this business as a result of high loss ratios. In due time, the Government introduced compulsory motor pool in 1985 which also failed and was abolished in1989. (Kenya Gazette supplements Acts, 2013).

Even if, liability insurance in Kenya was compulsory, the method of calculating compensation in respect of the person injured was pain and suffering which is more subjective and main reason for victims invariably seeking legal redress. In that regard a structured compensation liability schedule has been adopted that laying value (compensation percentage of maximum value)on various injuries and respective category of injuries(degree of disablement)to be compensated to an injured party(Kenya Gazette supplements Acts, 2013).

According to Macharia (2009), the award of damages is guided by the compensatory principle. This is the principle relating to the various aspects that should be put into consideration before a court can informatively decide how much such compensation is worth. Therefore damages should place the plaintiff in the position he should have occupied before sustaining his injuries. The general rule for the measure of damages for personal injury which cannot be calculated in terms of money or money value is that the amount is entirely in the disposition of the trial courts subject to the supervision by superior courts of law, if unreasonably large or unreasonably inadequate. This means that in actions for torts which result in non-pecuniary personal injury a court must not attempt to give damages to the full amount of a perfect compensation for the injury, but must take a reasonable view of the case, and give what it considers, under all circumstances a fair compensation.

Kenya Gazette Supplement, Acts, (2013) put the current Kenya Third Party limit to be the following:

- Death/ Bodily injury: KSH 3,000,000 (1USD= 100KSH). No limit for aggregate.
- Medical is entertained with in KSH 3,000,000 limit. No separate limit for medical.
- Property damage: unlimited.

## **2.15 COMESA Yellow Card Scheme**

Proclamation No.799/2013, sub article 26 provided that the driver of any foreign registered vehicle permitted to be driven on the roads of Ethiopia shall possess a valid certificate of insurance and insurance sticker or, where the insurance policy is not issued by a local insurance company, he shall produce a “yellow card” or an equivalent proof of insurance coverage provided that the limit of liability may not be less than the extent of liability provided under article 16 of the proclamation.

## **Chapter Three: Research Methodology**

### **3.1 Research Design**

Research design is a blue print which facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible hence yielding maximum information with minimal expenditure of effort, time and money (Kothari 2004).

The study considered both exploratory and descriptive type of research to address the general and specific objectives of the study. The exploratory research was used to investigate and acquire general information on the implementation of MTPCI in order to identify implementation gaps and develop methods to draw sound suggestions for tackling the challenges. The description, comparison, and interpretation of opinions and attitudes were explained with the help of descriptive research type.

Both quantitative and qualitative research types were considered in this research work. The Quantitative research approach dealt with numerical data and statistical analysis and looked after factors such as claims loss ratio and adequacy of compensation awards. It could also be used to evaluate the effectiveness of MTPCI enforcement to achieve the intended objectives which will be evaluated in quantitative terms. On the other hand, qualitative research was typically used to answer questions of complex phenomena on which data collected using semi structured interviews and open ended questioners.

The use of survey research design has been put into use due its cost effectiveness, its ability to accommodate numerous questions and its capability to collect data from large number of respondents.

### **3.2 Data Type and Source**

Both primary and secondary data have been used in this study. Primary data was collected from Company Executives, Underwriting & Claims Department Managers and Officers using questionnaire and secondary data from annual reports of companies, the National Bank of Ethiopia and IFAA.

### **3.3 Questionnaire Design and Data Collection**

A questionnaire was developed to evaluate the performance of MTPCI practice in the Ethiopian Insurance industry. The questionnaires are a mix of both five-point likert scale type and specific subject matter related questions. The questionnaires were mainly of four types. The first two

were questionnaires designed to Underwriting staffs including Branch Managers and Head Office Claims Executives and Managers which is entirely revolves around operations and the other two were an interview guide for IFAA and Insurance Company Executives.

Data was collected through the use of a structured questionnaire and interview. The questionnaires were administered to the respondents through personal delivery (drop and pick) method. Telephone and e-mail follow-up was also deployed in order to increase the response rate.

### **3.4 Target Population**

The total population of the study was 17 insurance companies operating in Ethiopia. The total target staff size was 805; 17 Executives, 754 Branch Managers and Underwriters (2 per Branch) and 34 Head Office Claims Managers and Officers (2 per Company). In addition to the mentioned insurance industry, IFAA higher officials were purposely considered in the target population.

### **3.5 Sampling Method**

A Multi-stage sampling technique was used to select the respondents for two main reasons. First the target population were scattered across the country, which made it very difficult to contact each of them individually. When we looked at the population of the industry as a whole, two main clusters were clearly observed. These were branches found in Addis Ababa and Regional branches. Addis Ababa had been selected to be the focus area for many reasons including but not limited to the fact that the Head Offices of all companies were situated in Addis Ababa, claim was almost centrally handled in Addis Ababa and also out of 377 entire branches more that 52% were found in Addis Ababa. Moreover, the researcher was working within the demands of an academic schedule so that very limited time and resources to conduct the study.

Again, in order to have a good representative from the population, we have classified the population into two sub groups; companies above ten years in operations and companies below ten years in operations. Eight companies (four from each group) have been randomly selected on lottery method with the exception of the Ethiopian Insurance Corporation (EIC) which was purposely considered. The sample companies constituted 64% and 59% in terms of industry GWP and Motor Premium respectively.

Insurance companies which were randomly selected as a sample from the first category were Ethiopian Insurance Corporation, Nile Insurance Company, Global Insurance Company and

Population

$$SS = \frac{Z^2 \times p(1-p)}{M^2} \rightarrow \frac{SS}{1 + \frac{(SS-1)}{N}}$$

will be

$$\frac{384 \times 0.5(0.5)}{0.05^2} = 384$$

$$\frac{384}{1 + \frac{(384-1)}{805}} = 260$$

Finally, using stratified random sampling questionnaires will be distributed among 260 respondents considering their branch network in Addis Ababa proportionally and the summary is as follows:

Name of Company	No. of Branches in Addis	Head Office Executives	Head Office Claims Department	Proportion of Branches	Sample size of branches
EIC	18	1	2	0.20	49
NILE	14	1	2	0.16	37
GLOBAL	6	1	2	0.07	17
NYALA	13	1	2	0.14	34
ABAY	8	1	2	0.09	22
BUNNA	8	1	2	0.09	22
OIC	17	1	2	0.19	46
TSEHAY	6	1	2	0.07	17
<b>TOTAL</b>	<b>90</b>	<b>8</b>	<b>16</b>	<b>1.00</b>	<b>244</b>

Source: NBE, 2015(for no. of branches)

### 3.6 Data Analysis Techniques

In the analysis part, the data obtained from the survey was analyzed using the Statistical Package for Social Sciences (SPSS), Version 23 Software. The results then presented in the form of tables, pie charts and bar graphs. Both quantitative and qualitative methods were applied in the data analysis.

## **Chapter Four: Data Presentation, Analysis and Discussion**

### **4.1 Data Analysis**

Taking the general and specific objectives of the research into account, this chapter presents, analyzes and interprets the responses gathered from the respondents, namely from Insurance companies, the National Bank of Ethiopia (NBE), and IFAA through questionnaires consisting both close and open-ended questions, secondary data and interview conducted with Senior Executives of Insurance Company and IFAA. For this purpose, descriptive statistics like frequencies and percentages were used.

The study was carried out by taking a total 260 sample sizes of which 244 were distributed to motor insurance underwriting staffs from 8 insurance companies and 16 were distributed to Claims Executives at Head Office level. 241 of the underwriting staffs (98.77%) and all of the Claims Executives (100%) responded and questionnaires collected that gives a weighted average response rate of 98.85%.

Therefore, the entire results, analysis and discussion given in this paper were based on the actual completed questioners, i.e., 98.85% and this sample size could be considered adequate to draw conclusions on the population parameters.

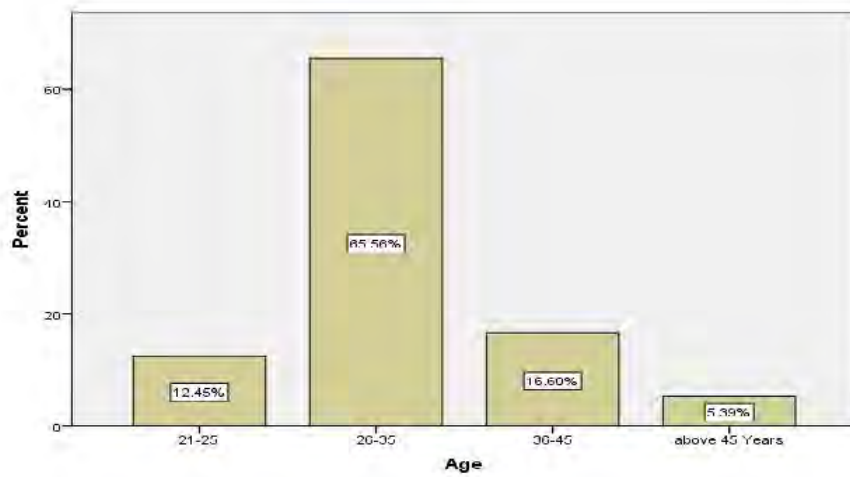
The analysis part of this paper comprises the two core business of insurance, namely Underwriting and Claims and we are going to deal with the Underwriting part first.

### **4.2 Insurance Companies Underwriting Staff Responses**

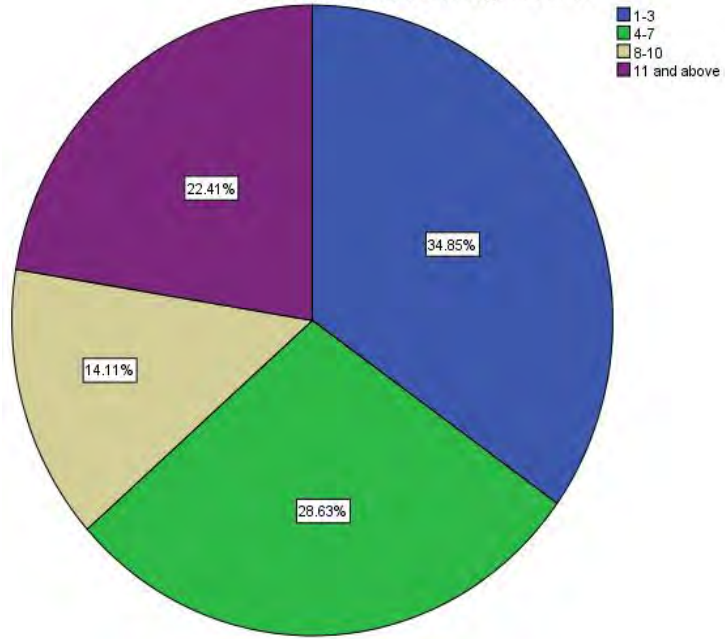
#### **4.2.1 Demographic characteristics of respondents**

Though many demographic characteristics of respondents could be there, this paper emphasizes on limited characters such as age, educational level and work experience in the organization.

Characteristics	Values	Frequency	Percentage
<b>Gender</b>	Male	144	59.8
	Female	97	40.2
	Diploma	8	3.3
<b>Level of Education</b>	1 <sup>st</sup> Degree	199	82.6
	2 <sup>nd</sup> Degree	32	13.3
	ACII/FCII/LOMA	2	0.8



Work experience in the organization



#### 4.2.2.1 Policy wordings and Main purpose

**Table 4.2: Policy wordings and purpose**

<b>Indicators</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
MTPCI policy wording in use is clear and unambiguous	25(10.4)	132(54.7)	26(10.8)	53(22.0)	5(2.1)
The main purpose of the MTPCI Proclamation is to guarantee limited compensation to all third party victims	50(20.7)	145(60.2)	9(3.7)	32(13.3)	5(2.1)

Source: Survey data of this study.

Insurance underwriters were requested to evaluate the neat and clearness of the policy crafted and in use by the Association of Ethiopian Insurers and 54.7 % of the respondents were voted for its unambiguousness and 10.40% also strongly agreed .

All together the clarity of the policy wording in use will hit up the score to 65.10% and those responded as disagree and strongly disagree positioned at 21.1%; much below the former.

With regards to the purpose of the Proclamation, 80.9% of the respondents voted that the purpose of the Proclamation is to provide limited compensation to the road victims and 15.4% disagree with the idea.

**4.2.2.2 The challenges experienced and dealing with such challenges under MTPCI application**

**Table 4.3: The challenges experienced and dealing with the challenges**

<b>Question statement</b>	<b>Values</b>	<b>frequency</b>	<b>%</b>
Was <b>frequency of accident</b> from repeated customer the challenges experienced?	No	141	58.5
	Yes	100	41.5
Was <b>Severity of accident and unlimited liability</b> the challenges experienced?	No	179	74.3
	Yes	62	25.7
Large number of <b>lapsed policy</b> the challenges experienced?	No	142	58.9
	Yes	99	41.5
Preference of clients to <b>shift from Comprehensive to MTPCI</b> cover?	No	133	55.2
	Yes	108	44.8
Did you Propose <b>solution</b> to IFAA dealing with the challenges?	No	184	76.3
	Yes	57	23.7
Does <b>cancelation or declining</b> policy cover a solution to challenges?	No	207	85.9
	Yes	34	14.1
No matter <b>the number of claims</b> issue policy?	No	152	63.1
	Yes	89	36.9
Selection of risks as a remedy to challenges?	No	177	73.4
	Yes	64	26.6

Source: Survey data of this study.

The tabular presentation above deals with challenges and remedies in handling MTPCI. As clearly observed, frequency of accidents, severity, lapsed policy and downsizing cover from comprehensive to MTPCI were not major challenges encountered in handling the transaction. In other words it is the same as saying that the previous loss history of a given claimant whether in terms of repeated claims or severity does not affect their underwriting decision as such.

Again, the data described that during handling challenges and prescribing remedies or solutions, insurers did hardly communicate with IFAA, according to 76% of the respondents.

Further, 86% of the respondents agreed that neither policy cancelation nor decline was also a solution to address the challenges posed. Of course this is also

in line with the tune of the Proclamation that insurers must accept MTPCI proposal of any nature.

The data also showed that, though it is very small in terms of number, 14% of the respondents still put in use policy cancelation and cover decline as remedy to address challenges in contravention with the Proclamation, a paradox.

Selection of risk was also a point of concern. Article 3 sub-article 1 of the Proclamation clearly stipulated that “*No person may drive, use or cause or permit any other person to drive or use a vehicle on roads unless he has a valid vehicles insurance coverage against third party risks in relation to such vehicle*”. This is nothing but once a vehicle is roadworthy and given clearance certificate (customarily known as Bolo) by the concerned government authority, selection is not a choice given to insurers. However according to the finding, about 26% of the respondents did undergo selection as a remedy to address the challenges encountered.

Further to this according to the interview conducted with Senior Executive Officers of companies, the main challenge frequently observed was dealing with death/or bodily injury caused by incapacitated driving license.

#### 4.2.2.3 MTPCI benefit to Insurers and Fairness of IFAA Fund Levy

**Table 4.4: MTPCI benefit and IFAA Fund Levy**

Characteristics	Values	Frequency	Percentage
<b>MTPCI benefit to insurers over workload</b>	Very high	33	13.7
	High	76	31.5
	Low	96	39.81
	Very Low	36	14.9
<b>High side Fund Levy (10%)</b>	Yes	104	43.1
	Have no idea	58	24.1
	No	57	23.7
	Other	22	9.1

Source: Survey data of this study.

Table 4.4 above depicted a very good point and we will also further look into it with actual figures collected from IFAA in the subsequent paragraphs. The data revealed that insurers do believe, above 54%, the benefit of having MTPCI is very low compared against the challenges posed namely workload.

With regards to the issue of fairness of Fund levy, two conflicting (opposite) understanding exists between Companies and the Agency. Senior Company Executives in the interview undertaken unanimously agreed that the levy is at high side compared against the Hit & Run and Uninsured vehicles cases handled by the Agency. The Agency, however, in the interview conducted with top officials revealed that the premium tariff shouldn't be compared against the claims this time and the Agency's future enormous liability has to be taken into consideration. The Agency is with a view that the premium is too small and should be upward adjusted in the immediate future.

The data in the above table supports the point of Company Executives and revealed that more than 43% of the respondents were in favor of the fact that IFAA Fund Levy is at high side.

#### 4.2.2.4 MTPCI premium fairness and insurers adherence to same

**Table 4.5: MTPCI premium fairness and insurers adherence to same**

<b>Indicators</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
The premium tariff is fair and sufficient	13(5.4)	36(14.93)	26(10.8)	130(53.94)	36(14.93)
Insurers do strictly adhere to the Premium Tariff	26(12.0)	117(48.5)	36(14.9)	51(21.2)	8(3.31)

Source: Survey data of this study.

As one can see in the above table, 68.87% of the respondents (disagree and strongly disagree) responded that the premium was not fair. About 20% of the respondents agree (both strongly agree and agree) that the premium is fair and sufficient. Moreover, the majority of the respondents voted that insurers do adhere to the given tariffs strictly. The interview with IFAA substantiates this issue that so far no insurance company has faced disciplinary measure violating the application of the law.

#### 4.2.2.5 Insurers uniformity of application and compensation limit adequacy

**Table 4.6 Uniformity of application and compensation limit adequacy**

Indicators		Count
Uniformly of application across all insurers branches?	Strongly agree	43
	Agree	113
	Neutral	33
	Disagree	45
	Strongly disagree	7
Adequacy of MTPCI liability limits in the light of today's 3rd party damage claims and court awards?	Strongly agree	9
	Agree	35
	Neutral	29
	Disagree	103
	Totally disagree	65
Appropriate explanation of policy terms given during underwriting?	Strongly agree	17
	Agree	78
	Neutral	47
	Disagree	87
	Strongly disagree	12

Source: Survey data of this study.

It is evident from the table above that, 65% of the respondents (both strongly agree and agree) were in favour of uniformity of application across all branches. Concerning the adequacy of liability limit set by the proclamation, 70% of the respondents perceived the limit to be low. In regards to policy terms description to insured, about 39% of the respondents (both strongly agree and agree) replied that they do undergo proper explanation whereas 41% of the respondents (both strongly disagree and disagree) were against this; no adequate explanation.

#### 4.2.2.6 Pre-risk Assessment

**Table 4.7: Do you undergo pre risk assessment before writing MTPCI?**

Values	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	17	7.0	7.0	7.0
Not sure	12	5.0	5.0	12.0
No	212	88.0	88.0	100.0
Total	<b>241</b>	<b>100.0</b>	<b>100.0</b>	

Source: Survey data of this study.

Table 4.7 described that 88% of the respondents voted for the non application of pre-risk survey. A small percentage, 7%, will undertake the task against the Proclamation. In MTPCI, the underwriter has no choice to select a risk and not make a decision whether to accept the risk or not rather simply mach the rate against the given tariff premium. This is similar with the practice of risk selection discussed under 4.1.2.2 above.

#### 4.2.2.7 Renewal Notice and follow-up mechanism

**Table: 4.8: Do you undergo the normal renewal notice and follow up procedure under MTPCI**

Values	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	205	85.1	85.1	85.1
Not sure	19	7.9	7.9	92.9
No	17	7.1	7.1	100.0
Total	241	100.0	100.0	

Source: Survey data of this study.

The data in the above table showed us that about 85% of the respondents do follow the normal renewal notice procedure laid down in their practice for MTPCI business.

#### 4.2.2.8 Handling of Premium Refund and Certificate Surrender

**Table 4.9 Premium Refund and Certificate Surrender**

Question statement	Values	Count
Requirement to collect the old Certificate /Sticker strictly implemented whilst renewing MTPCI policy?	Yes	8
	No	233
Level of MTPCI lapsed policies compared against other classes of business?	Too much	132
	Normal	91
	We don't have the record	18
Entertain cancelation requests and refund premium (if any) under MTPCI?	Yes	123
	No	118
Rating of service efficiency in relation to MTPCI underwriting?	Very high	58
	High	145
	Low	29
	Very Low	9

Source: Survey data of this study.

The Proclamation under its Article 9 sub article 4 described that “*upon termination or expiry of the insurance policy, the insured person shall immediately handover to the insurer the certificate of insurance and the insurance sticker.*” It is clearly observed that this requirement under the Proclamation is defeated by practice. 97% of the respondents do not collect the old certificate whilst renewing MTPCI policy.

More than 54% of the respondents perceive that there have been more policies going to lapse under MTPCI than other class of business.

The issue of premium refund apportioned almost equally. About 51% of companies do provide refund of premium for the unutilized portion of the premium to clients during policy cancelation and 49% of respondents do not make refund of whatsoever. The proclamation has stipulated nothing about this issue and in insurance making refund is a normal practice.

The service efficiency of underwriters in handling MTPCI is rated to be high, 60%, according to the data.

#### 4.2.2.9 Major factors contributing to MTPCI policies to lapse

**Table 4.10: Factors contributing to MTPCI policies to lapse**

Major factors		Count
High Premium amount	No	218
	Yes	23
The provision of no NCD (discount)	No	187
	Yes	54
Requirement for Certificate surrenders	No	214
	Yes	27

Source: Survey data of this study.

The tariff premium amount is not a major contributing factor for policies not to get renewed with their original insurer; according to 90% of the respondents. Again according to 78% of the respondents, the prohibition of NCD for claim free years was not also a major factor for a policy to lapse. Moreover 89% the data showed that certificate surrender was not the main issue as well. Of course certificate surrender was almost not put into practice by all, according to the finding under table 4 .9 above.

### 4.3 Insurance Companies Claims Staff Responses

In regards to Claims, as well mentioned in Chapter Three under sample size determination, for the fact that Companies Claim Operation is highly centralized at Head Office level, 16 questioners were distributed and managed to collect all of them.

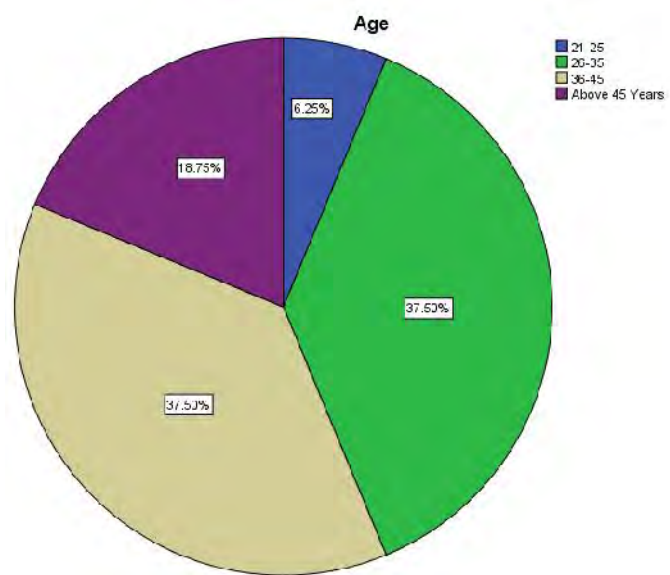
#### 4.3.1 Demographic characteristics of respondents

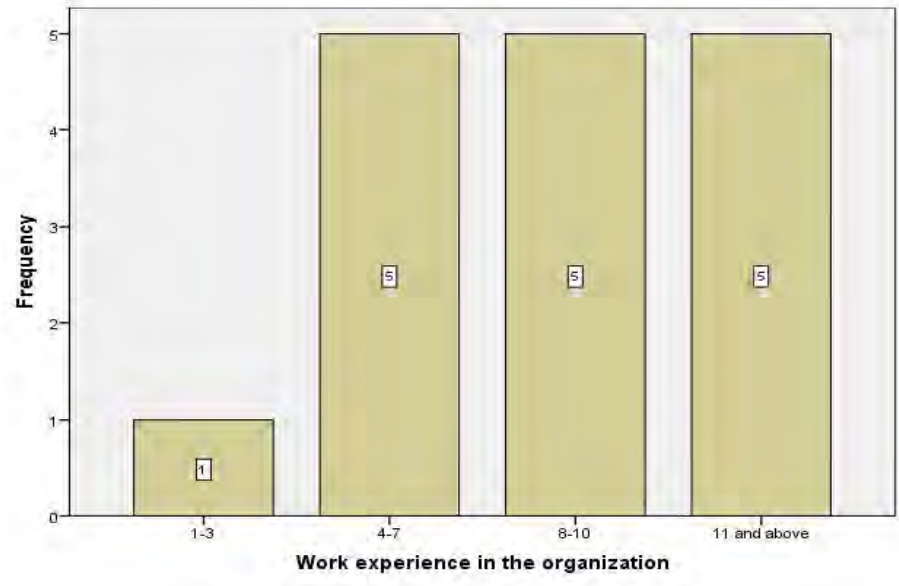
##### 4.3.1.1 Gender and Level of Education

**Table 4.11: Gender and Level of Education**

Characteristics	Values	Frequency	Percentage
<b>Gender</b>	Male	12	75
	Female	4	25
<b>Level of Education</b>	Diploma	1	6.25
	1 <sup>st</sup> Degree	14	87.5
	2 <sup>nd</sup> Degree	1	6.25

Source: Survey data of this study.





## 4.3.2 Insurance Company’s Response to MTPCI Operations- Claims

### 4.3.2.1 Policy Wordings and Purpose

**Table 4.12: Policy wordings and purpose**

Indicators	Strongly agree	Agree	Neutral	Disagree	Totally Disagree
MTPCI policy wording in use is clear and unambiguous	9(56.3)	5(31.2)	0(0)	2(12.5)	0(0)
The main purpose of the MTPCI Proclamation is to guarantee limited compensation to all third party victims	1(6.3)	7(43.7)	1(6.3)	5(31.2)	2(12.5)

Source: Survey data of this study.

As we did under Underwriting part of the study (please refer table 4.2), Claims operators were also requested to evaluate the neat and clearness of the policy crafted and in use by the Association of Ethiopian Insurers and 56.3 % of the respondents were strongly agreed that the policy is clear and unambiguous and 31.20% of the respondents agreed that the policy is clear and unambiguous. 12.5% of the respondents however disagree with the matter. All together (strongly agree and agree) will lift up the score to 87.5%. The finding is almost similar with the one showed under Underwriting part and justified its consistency.

With regards to the purpose of the Proclamation, 50% of the respondents voted that the purpose of the Proclamation is to provide limited compensation to the road victims and 43.7% disagree with the idea.

#### 4.3.2.2 Clarity of Compensation and award

**Table 4.13: Clarity of Compensation and award**

Indicator		Frequency	Percentage
Compensation sufficiently prescribed under MTPCI Proclamation.	Yes	1	6.25
	Not sure	6	37.5
	No	9	56.25
Motor Third Party insurance cover within the old Comprehensive cover and MTPCI policy similar?	Yes; perfectly the same	1	6.25
	No; MTPCI is wider	7	43.75
	No; the old third party is wider	4	25
	Almost the same; no significant difference	3	18.75
	Have no idea	1	6.25
Determining compensation award Clarity and unambiguous?	Yes	3	18.75
	Not sure	4	25
	No	9	56.25

Source: Survey data of this study.

As depicted in the above table, 56.25% of the respondents mentioned that the compensation benefit and compensation award mechanism and its clarity is not well prescribed in the Proclamation. Most respondents do perceive that the new MTPCI is wider in scope of cover when compared against the old Motor Third Party only cover.

### 4.3.2.3 Internal Claim Capacity of Companies

**Table 4.14: Company's internal claim capacity**

Claim	Values	Frequency	Percentage
Do you have insurance software that enables you to separately register & keep third party claims?	Yes	3	18.75
	No	13	81.25
Do you have a 24 hour help line / claims line to assist clients and third parties?	Yes	1	6.25
	Not sure	1	6.25
	No	14	87.5
Does your company always maintain a reserve for each claim from the time the claim is intimated?	Yes	16	100
	Not sure	0	0
	No	0	0
Have you received any bill so far for reimbursement in regards to Emergency Medical Treatment (EMT) form medical service providers?	Yes	5	31.25
	I have no idea	0	0
	No	11	68.75

Source: Survey data of this study.

As clearly observed, 81.25 % of the respondents declared that their respective companies do not have IT Software to support their operation. It is also quite evident that insurance is a service giving organization that strives for service excellence and in contrary to this more than 87% of the respondents do not have 24 hours help line so that clients do submit their claim any time including weekends and holidays. In regards to reserve taking, almost all respondents replied that they do reserve in all cases.

Again the table presented that reimbursement procedure of Emergency Medical Treatment (EMT). 68.75% the respondents declared that they have received none so far in the form of claim from Medical Service Providers through IFAA. The interview conducted with Top Officials of IFAA further substantiates this fact that since establishment of the medical fund, they are unable to provide

companies their claim status. This, according to IFAA’s explanation, is the incapability of Health Bureaus to provide them clear picture for what they have settled. Thus, the 37.5% replied in the above table as “Yes” is the possible mix of other medical cost with EMT by mistake. It must be well noted that according to the directive of IFAA, insurance companies neither directly settles EMT bills to medical service centers nor to the claimant/insured.

#### 4.3.2.4 Fixing compensation

**Table 4.15: Fixing compensation**

<b>Factors mostly used in Fixing Compensation</b>		<b>Count</b>
Age and earning history of the injured	No	5
	Yes	11
Number of dependants as a factor	No	4
	Yes	12
Settling just the maximum liability limit in all cases	No	16
	Yes	0
Settling any amount advised by Legal Services	No	15
	Yes	1

Source: Survey data of this study.

Table 4.15 above described variables that companies considered whilst fixing compensation awards. The data clearly revealed (100%) that companies under no circumstance pay their maximum limit without undergoing some sort of analysis. Again the data collected showed us that there existed very little legal service involvement in fixing award to victims (6.25%). The number of dependants, age and earning history of the victim were parameters companies widely considered.

#### 4.3.2.5 Adequacy of Cover and deciding on Repudiation of Claim

**Table 4.16: Adequacy of cover and deciding repudiation of claim**

Indicators		Frequency	Percentage
Branches do hold authority to settle bodily injury/ death claims under MTPCI?	Yes	5	31.25
	No	11	68.75
Compensation award for death body injury is fair enough compared again the sustained damage/loss?	Yes	0	0
	I have no idea	0	0
	No	16	100
Victims most claimant area whilst entertaining death or bodily injury claims under MTPCI?	Death	12	75
	Permanent Disability	3	18.75
	Medical	1	6.25
	Other	0	0
Senior management involvement in deciding repudiation of MTPCI claim	Yes	13	81.25
	Not aware	0	0
	No	3	18.75
Communication of repudiation in writing and giving clear grounds for repudiation?	Yes	13	81.25
	Not aware	1	6.25
	No	2	12.5
Do you file a copy of any letter written to repudiate a claim to IFAA?	Yes	6	37.5
	Not aware	2	12.5
	No	8	50

Source: Survey data of this study.

The above table well informed us the real situation revolving around entertaining the claimant; the moment of truth. As depicted above, 68.75% of the claims involving bodily injury/death was centrally handled at Head Office level. The subject in caption is further substantiated that 81.25% of the decision to repudiate claims were centrally handled by Senior Managements.

Insurance by law is a written contract and is summarized that 81.25% of the communications for repudiation of claims were handled through official rejection letters.

The other issue is that whilst handling bodily injury/ death, 75% of the complaints did emanate from settlement of death compensation. This is very clear that other compensations were well supported by external professional like medical doctors and medical bills. This will end up with high subjectivities in settling death claims.

**4.3.2.6 Company’s most reason for rejection bodily injury/death claim**

**Table 4.17: The most reasons**

Major reason for rejection		Frequency	Percentage
Late reporting	No	10	62.5
	Yes	6	37.5
Improper driving license	No	9	56.25
	Yes	7	43.75
Incomplete documentations	No	11	68.75
	Yes	5	31.25
No rejection at all.	No	10	62.5
	Yes	6	37.5

Source: Survey data of this study.

The table summarized the reason for companies do reject a submitted claim under MTPCI. It is well understood that the tune of the Proclamation is entertaining the injured person at all cost and rejection is very rare in its application. The above table showed that some Companies were deploying their policy wording exclusions in rejecting claims in contrary to the law. The good part of this finding was that some companies, 37.50%, were not rejecting any MTPCI claims in line with the spirit of the proclamation.

In your Company, would you fairly estimate level of satisfaction of claimants in regard to bodily injury/death claims compensation awards under MTPCI?



Year	Premium Collected	Claim		Total	Loss ratio
		Hit & Run	Uninsured vehicle		
2012/13	44,778,252	315,028.00	0	315,025	0.70%
2013/14	46,254,668	809,821.00	40,000	849,821	1.84%
2014/15	54,679,244	1,278,478.80	292,000	1,570,478.80	2.87%
2015/16	62,522,046	1,806,336.62	327,517.82	2,133,854	3.41%

According to the Article 20 sub article 1 of the Proclamation, Insurance Fund Administration Agency, IFAA, is required to handle all third party claims for Hit &Run and Uninsured vehicles along with EMT. In order to run these operations, companies are collecting 10% additional premium from clients and deposit same every quarter to the Fund Agency. As one can see in the table above, the premium collected and the claims incurred were incomparable. It worth mentioning at this juncture that the industry average loss ratio for the general motor insurance stood at more than 80 % ( please refer Annex II).

According to the interview conducted with the top IFAA officials, the collected fund on top of settling claims will also reserved for the future unforeseen obligations like liquidation and/or bankruptcy of companies and court award. This is something unrealistic and still the fund amount is highly exaggerated.

#### 4.4.2 MTPCI claim handled by insurance Companies

**Tabl4.19 Insurance Companies MTPCI Claim Ratio**

<b>Year</b>	<b>Premium collected</b>	<b>Claim incurred</b>	<b>Loss Ratio</b>
2012/13	447,782,520	110,015,092	25%
2013/14	462,546,680	175,729,089	38%
2014/15	546,792,440	212,579,776	39%
2015/16	625,220,460	289,906,835	46%
<b>Total</b>	<b>2,082,342,100</b>	<b>788,230,792</b>	<b>38%</b>

**Source IFAA (2017)**

This table summarized the claim ratio of Companies under MTPCI alone. As we have seen in the aforementioned analysis and as per the attached annex (Annex II) the industry’s general motor claim ratio is much more than 80%. This figure is however included both motor own damage and MTPCI which is customarily known as motor comprehensive cover. Motor Comprehensive is one of the widely used cover that comprises both own damage to the vehicle and MTPCI.

As we can see above, the performance of MTPCI is not only profitable to the IFAA but also highly profitable to Companies. Contrary to this, in the analysis under table 4.4 above, companies are perceiving that the benefit under MTPCI is not attractive compared against the workload, a paradox. It is well mentioned under table 4.9 that some insurers do not entertain refund of premium for the unutilized portion of the period simply mentioning that the premium is thin. Moreover, according to table 4.9 even the high policy lapse case was not an issue to insurers due to lack of information about the profitability of the business; like untapped oil.

## CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Conclusions

The purpose of this research was to find out the challenges and benefits of MTPCI in Ethiopia. Based on this objective, this research has used both primary and secondary data. Therefore, the following conclusions have been made based on the findings of the study.

#### 5.1.1 Performance of MTPCI with Insurers

With the discussed extraordinary result in increasing the overall premium and high profitability, the benefit of MTPCI Proclamation is not well understood and endorsed by insurers (refer table 4.4 and table 4.19). The following are major points that substantiate the fact:

- One can clearly observe that the historical premium growth of 53% in the year 2011/2012 was attained during the year MTPCI is put into effect (refer Annex II). This is not a coincidence.
- As we have well produced in the analysis part of the paper, the loss ratio of MTPCI is much below average and thus the performance of MTPCI is much more profitable (table 4.19).
- It is well noted that according to the analysis (table 4.14), 81.25% of insurers do not have a mechanism to separately track and register MTPCI claims and due to this insurers are not well aware of the performance of same. It appears that insurers do hardly evaluate loss ratios for Motor Own damage and MTPCI separately.
- Moreover according to the analysis under table 4.9, more than 54% of the respondents mentioned that MTPCI lapse rate is high. Further, in the same table, about 7% of the respondents responded that they do not have any renewal follow-up mechanism for MTPCI.
- Moreover, according to the analysis under table 4.5 of chapter four, 68.87% of the respondents responded that the premium tariff is too small to cover even claims; a complete contra to the findings (refer table 4.19).

### **5.1.2 The Provision of Premium Return/Refund**

Let alone giving high emphasize to this class of business, there are some companies that are not entertaining refund premiums for unutilized portion of the period (table 4.9) which is provided to all class of business even to those unprofitable.

The reason described for this is that MTPCI premium is too small upfront to cover administrative costs and workloads. This is something wrongly inculcated in the mind of insurers and requires intensive work to curb the matter pointing out the actual figures. Something contrary to the fact!

### **5.1.3 Fairness and Clarity of Compensation Awards and Fixing Compensation**

- It is understood that there exists high disparity among companies as to the level of compensation particularly in handling death compensations. It is difficult to precisely tell how much to compensate a death claim given the maximum limit being the ceiling. Unlike other countries, there is no clear guideline set either by IFAA or the Association of Ethiopian Insurers to maintain uniformity and provide fair compensation to road victims.
- According to the analysis under table 4.16, about 75% of the respondents mentioned that settling death compensation is tiresome and subjective and is the most critical area where claimants are complaining. This is further substantiated by the interview conducted with IFAA top officials that Companies are deliberately lowering down compensations by all possible means justifying that they work for profit and this is what they pay for the loss; no further justification.
- Even IFAA is not in a position to influence the judgment of insurers. This will leave the victim to stand alone with the matter. This is nothing but the result of not having a clear guideline as to settlement of compensation classified according to age, earning capacity, number of dependants and the like. The Kenyan market experience discussed in chapter 2,(2.15.4) justifies the possibility of having one.
- IFAA has no administrative power to establish and made available uniform insurance claim procedure and handling system.
- Besides, there is no claim request and settlement manual prepared by independent bodies to date. Only the court decides the actual amount upon appeal of the victim (a rare scenario).
- In all cases the compensation to be granted for the victims of road traffic accident doesn't consider social and psychological pain and suffering. The court decides on

compensation amount based on actual earning capacity of the injured, which failed to predict a young man future earning capacity.

- Further to the above, the analysis under table 4.16 showed that almost all MTPCI claims will hit up to Senior Executives' table and this will consume the time of managements that should have been invested in big strategic issues.
- On top of this, given the current situation in our country, the amount of Compensation limit laid down in the article 16 sub article 1 of the Proclamation is not fair, according to the respondents in chapter four under table 4.16.
- Also the interview with IFAA top officials mentioned that the matter is noted at their end and revision is undergoing as we speak right now; a job that we all appreciate and welcome.

#### **5.1.4 Repudiation of Claim**

- In accordance with this finding, if not many, companies are rejecting claims citing various issues including, late reporting, improper driving license, incomplete documentation and the like (refer table 4.17). This decision is not welcomed to IFAA Officials.
- IFAA officials went on mentioning that according to article 6 (a, b) of the Proclamation, companies shall not reject a claim of bodily injury/death in any ground. The last resort is to instigate legal action over the insured after settling it to the victims, according to article 6 sub article 2 of the Proclamation.
- Companies are trying to use the loophole in the Proclamations and except those clearly mentioned conditions, there is a possibility of rejecting claims and this brought up disparity of application among insurers.
- The handling of EMT
- According to Article 25, Sub article 1 and 2 of the Proclamation, Medical Service providers are required to give EMT to road victims without any subjectivity. In line with this IFAA has apportioned the advance settlement of the fund among insurers (please refer Annex V) and deposited to respective Health Bureaus in the form of revolving fund in the year 2014.
- According to the interview conducted with IFAA Officials, still some Medical Service Providers haven't widely opened their door to entertain same and above all the problem is evident in the Private Health Institutions.
- On top of this, the Health Bureaus are unable to provide clear figures as to how much of the fund is utilized so far.

### **5.1.5 IFAA Fund Levy**

- In accordance with Article 23, sub article 1 and 2 of the Proclamation the amount of fund levy to be collected shall be determined by the Council of Ministers based on the study undertaken by the Agency. The method of determining fund levy was based on number of past road accident record and average court decision on each death/ injury compensation amount.
- Accordingly IFAA has been authorized to collect 10% additional amount levied on every MTPCI premium tariff (IFAA, 2010 Report).
- According to the findings under (table 4.4), and as far as the figures are concerned IFAA is collecting over and above what is being paid out to third party victims at the expense of the insured public.
- Other than murmuring to one another, insurers have never heard mentioning this point in the quarter meetings usually conducted with all stakeholders. For one thing insurers don't have the appropriate data to convince the audience and for other thing it looks who cares as far as the client is paying it.
- The point that IFAA always keeps on mentioning in regards to this issue is the future unforeseen liabilities.

### **5.1.6 Supervisory capacity of IFAA**

In the aforementioned paragraphs and in the analysis part, the numbers of points discussed as shortfall with companies are in one way or another related to the performance of IFAA and thus it goes straightforward that the supervisory capacity of IFAA is found to be very weak.

## **5.2 Recommendations**

Based on the findings of the study and the conclusions made, the following recommendations are forwarded.

- 5.2.1** It is really high time that insurers understand the profitability of MTPCI and give due attention to this class of business. Insurers must change their gear and work intensively to write the business in as much as possible by giving some incentives.
- 5.2.2** Further in order to attract as many clients as possible through words of mouth transmission, insurers should immediately in place a 24 hours help-line in all markets they serve. On top of this, insurers should sponsor traffic police office through various means and encourage the strict control of uninsured vehicles running on public roads,
- 5.2.3** Insurers should install IT Software and start separately recording MTPCI both the claims and underwriting part to evaluate loss ratios and take appropriate measures within the application of the law.
- 5.2.4** There is no justified reason why companies are declining the provision of refund/return of premium under MTPCI. I strongly recommend all companies do provide such provision to their clients clearly understanding the profitability of the business.
- 5.2.5** Fairness of claims compensation and fixing death compensation is posing a huge problem. The method and procedure followed in order to decide compensation amount should not be arbitrary. Thus, a well-organized claim settlement schedule on bodily injury/death should be adopted based on the study conducted. The researcher recommends representative of Insurers, the Association of Ethiopian Insurers and IFAA should collaborate and institute mechanism to tackle the situation.
- 5.2.6** As well discussed, with the tune of the Proclamation, insurers are not in a position to reject claims. If this is a must to do, IFAA should strictly instruct insurers to file a copy of all rejected claims immediately and intervene as deemed necessary.
- 5.2.7** Emergency Medical Treatment is not as smooth as required. IFAA is unable to force Ministry of Health to provide the balance of the deposit from respective health bureaus. Insurers are also unprofessionally keeping the money deposited for medical treatment as suspense cash for more than three years. This must come to its normal sense.
- 5.2.8** IFAA should upgrade itself professionally and filled with appropriate workforce to undertake the following assignments as soon as possible:

- a)** Assign competent actuaries to assess the premium amount and compensation limit and try to generate proposal.
- b)** The wide gap between the fund collected amount and that claims incurred must be addressed. This is unnecessary burden on the policyholders.
- c)** To clearly workout the importance of Certificate Surrender and work on the amendment of same.
- d)** To regularly visit and supervise the application of MTPCI with insurers and settle issues like premium refund, claims repudiation and the like.

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## **Annex I: Questionnaire**

**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
DEPARTMENT OF BUSINESS ADMINISTRATION  
Masters Degree in Executive Business Administration**

**Questionnaire: Questionnaire on Motor Third Party Compulsory Insurance (MTPCI) in Ethiopia: Benefits and Challenges** *(to be filled by Main Branch/ Branch Managers, Underwriting Officers).*

**Dear Respondent;**

My name is Habtamu Debela. I am a student in the postgraduate program at the College of Business and Economics, Addis Ababa University and working towards the Masters Degree in Business Administration (EMBA).

The purpose of this questionnaire is to collect primary data on “Motor Third Party Compulsory Insurance (MTPCI): Benefits and Challenges in Ethiopia” for partial fulfillment of the requirements for the award of Masters Degree in Executive Business Administration (EMBA).

It is with due respect and gratitude that I extend my sincere appreciation and thanks for your kindness in filling out this questionnaire.

Please be sure that any information provided is strictly confidential; therefore, please do not write your name or sign anywhere in the questionnaire.

You are kindly requested to encircle on your choices and provide short and clear answer to the open-ended questions where necessary.

Thank you very much for your cooperation in advance and if you have any queries or doubt please feel free to contact me with the following address:

*Habtamu Debela: Email: [habtish\\_d@yahoo.com](mailto:habtish_d@yahoo.com) ;*

*Cell phone; +251-911-691884*

## **Section I: Demographic Data/Background Information**

1. Gender    A. Male            B. Female
2. Age        A. 21-25            B. 26-35            C. 36-45            D. above 45 year
3. Level of education  
A. Diploma    B. 1<sup>st</sup> Degree    C. 2<sup>nd</sup> Degree    D. Doctorate    E. ACII/FCII/LOMA
4. Your position in the organization: \_\_\_\_\_
5. Work experience in the organization  
A. 1-3            B. 4-7            C. 8-10            D. 11 and above

## **Section II: Operational Questions**

6. Do you think that the standard MTPCI policy wording in use is clear and unambiguous and is in line with the provisions of the Proclamation?  
A. Strongly agree            B. Agree            C. Neutral  
D. Disagree            E. Strongly disagree
7. Do you agree that the main purpose of the MTPCI Proclamation is to guarantee limited compensation to all third party victims?  
A. Strongly agree            B. Agree            C. Neutral  
D. Disagree            E. Strongly disagree
8. What are the challenges you have experienced after the application of MTPCI coverage on insurance companies? (Multiple answers are possible)  
A. Frequency of accident from repeated customer  
B. Severity of accident and unlimited liability  
C. Large number of lapsed policy  
D. Insured preference shift from comprehensive to MTPCI cover
9. How are you dealing with the challenges that have been circulating around MTPCI underwriting? (Multiple answers are possible)  
A. Propose solution to IFAA through management based on available data  
B. Cancel or decline the policy cover  
C. Issue the policy coverage regardless of number of claims  
D. Selection of risks among various risks
10. How do you rate MTPCI benefit compared with its work load on insurer?  
A. Very high            B. High            C. Low            D. Very low
11. Do you agree that the premium tariff for each vehicle categories is fair and sufficient?  
A. Strongly agree            B. Agree            C. Neutral            D. Disagree  
E. Strongly disagree

12. Do you think that the 10% fund levy to IFAA fair and adequate?
- A. Yes                      B. Have no idea              C. No  
D. Any other view (Please specify) \_\_\_\_\_
13. Do you think that all insurers do strictly adhere to the Premium Tariff approved by the government for the MTPCI policy cover?
- A. Strongly agree              B. Agree              C. Neutral  
D. Disagree              E. Strongly disagree
15. Among the policy conditions stipulated under MTPCI Proclamation which one do you think should be amended or totally changed in your opinion (Multiple answers are possible).
- A. The premium tariff lacks clarity and has loopholes
- B. Policy issued not less than one year
- C. Collect insurance certificate with the sticker upon policy expire/renewal.
- D. Insurers inability to the reject liability on ground of policy conditions.
- E. Other (please specify) \_\_\_\_\_
16. Do you agree that the MTPCI Proclamation, directive and policy are getting implemented uniformly across your all branches?
- A. Strongly agree              B. Agree              C. Neutral              D. Disagree  
E. Strongly disagree
17. Do you think that the minimum third party liability limit set by MTPCI Proclamation is sufficient enough to cover damages in the light of today's 3rd party damage claims and court awards?
- A. Strongly agree              B. Agree              C. Neutral  
D. Disagree              E. Strongly disagree
18. Do you agree that Policy Terms, Conditions and Exclusions are properly explained during MTPCI policy issuance?
- A. Strongly agree              B. Agree              C. Neutral              D. Disagree  
E. Strongly disagree
19. Does your Company accept MTPCI only proposals (cover without Own Damage)?
- A. Yes                      B. Seldom              C. Not sure              D. No
20. Does your Company accept Motor Own Damage only proposals (cover without MTPCI)?
- A. Yes                      B. Seldom              C. Not sure              D. No

21. Do you entertain extensions and increase third party liability limits over the minimum limit provided by the Proclamation?  
 A. Yes for any limits                      B. Yes for some limit                      C. No
22. If your answer to the above question is “A or B” do you provide with clear and sufficient information about extensions and increase in third party liability limits over the minimum limit provided by the Proclamation?  
 A. Yes                                              B. Not sure                                              C. No
22. In your Company, do you undergo pre risk assessment before writing MTPCI?  
 A. Yes                                              B. Not sure                                              C. No
23. In your Company, do you undergo the normal renewal notice and follow up procedure to let clients renew their policy?  
 A. Yes                                              B. Not sure                                              C. No
24. In your Company, is the requirement to return the old Certificate /Sticker strictly implemented whilst renewing MTPCI policy?  
 A. Yes                                              B. No
25. How do you perceive the level of MTPCI lapsed policies compared against other classes of business?  
 A. Too much                                              B. Normal                                              C. We don't have the record
26. In your Company, what are the major factors contributing to MTPCI policies to lapse? (multiple answers are possible)  
 A. High Premium                                              B. The provision of no NCD (discount)  
 C. Requirement for Certificate surrenders
27. Do you entertain cancelation requests and make refund premium (if any) under MTPCI?  
 A. Yes                                              B. No
28. Would you please rate your service efficiency in relation to MTPCI underwriting?  
 A. Very high                                              B. High                                              C. Low                                              D. Very low

*Thank you very much*

**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
**DEPARTMENT OF BUSINESS ADMINISTRATION**  
**Masters Degree in Executive Business Administration**

**Questionnaire: Questionnaire on Motor Third Party Compulsory Insurance (MTPCI) in Ethiopia: Benefits and Challenges** *(to be filled by Main Branch/ Branch/ Claims Managers, and Claims Officers).*

**Dear Respondent;**

My name is Habtamu Debela. I am a student in the postgraduate program at the College of Business and Economics, Addis Ababa University and working towards the Masters Degree in Business Administration (EMBA).

The purpose of this questionnaire is to collect primary data on “Motor Third Party Compulsory Insurance (MTPCI): Benefits and Challenges in Ethiopia” for partial fulfillment of the requirements for the award of Masters Degree in Executive Business Administration (EMBA).

It is with due respect and gratitude that I extend my sincere appreciation and thanks for your kindness in filling out this questionnaire.

Please be sure that any information provided is strictly confidential; therefore do not write your name or sign anywhere in the questionnaire.

You are kindly requested to encircle on your choices and provide short and clear answer to the open-ended questions where necessary.

*Habtamu Debela: Email: [habtish\\_d@yahoo.com](mailto:habtish_d@yahoo.com) ;*

*Cell phone; +251-911-691884*



10. In determining compensation payments to victims of vehicle accidents the relevant provisions on the respective laws are clear and unambiguous?  
 A. Yes                      B. Not sure                      C. No
11. Do you have insurance software that enables you to separately register & keep third party claims?  
 A. Yes                      B. No
12. Do you have a 24 hour help-line / claims line to assist clients and third parties?  
 A. Yes                      B. Not aware                      C. No
13. Does your company always maintain a reserve for each claim from the time the claim is intimated?  
 A. Yes                      B. Not sure                      C. No
14. How do you manage your register for a single claim involving both Own Damage and Third Party?  
 A. One claim number & registration for both  
 B. Separate claim number & registration for each  
 C. Any other way (please specify) \_\_\_\_\_
15. In your company, who is authorized to fix compensation awards in regards to bodily injury/ death claims under MTPCI?  
 A. The staff handling the case                      B. Senior Claims Officer  
 C. Claims Manager                      D. Always involve Legal Services  
 E. Any other person (Please specify) \_\_\_\_\_
16. What is your basis in fixing compensation awards for death / bodily injury under MTPCI (you may circle more than one)?  
 A. Age and earning history of the injured      B. Number of dependants  
 C. Settle the maximum                      D. Any amount received from Legal Service
17. Have you received any bill so far for reimbursement in regards to Emergency Medical Treatment (EMT) form medical service providers?  
 A. Yes                      B. I have no idea                      C. No
18. If your answer is “Yes” to the above question, how often?  
 A. Within a month time      B. Within three months                      C. Above six months  
 D. Any other view (please specify) \_\_\_\_\_
19. Are your branches authorized to settle bodily injury/ death claims under MTPCI?  
 A. Yes                      B. No
20. If your answer is “Yes” to the above questions do you think that the amount of compensation award provided throughout your branches set objectively?  
 A. Yes                      B. Not aware                      C. No



**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
**DEPARTMENT OF BUSINESS ADMINISTRATION**  
**Masters Degree in Executive Business Administration**

**Interview Guide Questionnaire on Motor Third Party Compulsory Insurance (MTPCI) in Ethiopia: Benefits and Challenges** *(for Senior Insurance Executives (CEO, D/CEO Operations, Underwriting and Claims Executives)).*

**Dear Respondent;**

My name is Habtamu Debela. I am a student in the postgraduate program at the College of Business and Economics, Addis Ababa University and working towards the Masters Degree in Business Administration (EMBA).

The purpose of this interview guide is to collect primary data on “Motor Third Party Compulsory Insurance (MTPCI): Benefits and Challenges in Ethiopia” for partial fulfillment of the requirements for the award of Masters Degree in Executive Business Administration (EMBA).

It is with due respect and gratitude that I extend my sincere appreciation and thanks for your kindness and precious time.

This interview question consists two sections. The first section is general background information of the interviewee and the second section contains questions that are related to the implementation of MTPCI in Ethiopia.

Thank you very much for your understanding and cooperation in advance.

**Section I: Demographic Data/Background Information**

- 1. Name: -----
- 2. Educational status -----
- 3. Position -----
- 4. Work experience -----

**Section II: Interview Questions related to the practice of MTPCI**

- 5. According to your view, what opportunities insurers have got following MTPCI enforcement?  
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- 6. Is there any of the existing Proclamation conditions which you think should be amended or totally changed?  
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- 7. What are the challenges you have been facing during MTPCI enforcement?  
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-----  
-----
- 8. Is there any moral hazard created due to MTPCI enforcement which has been exposed insurer for extra cost beyond insurer actual liability?  
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-----  
-----
- 9. Are you satisfied with the control of Traffic Police in regards to uninsured vehicles on roads? What are your recommendations to improve?  
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-----  
-----

10. Do you think that the premium allocated to MTPCI fair and commensurate with the risk?  
-----  
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11. Do you think that the 10% Fund levy to IFAA fair and adequate?  
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12. Do you think that the promulgation of MTPCI enhance profitability of insurance companies.  
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13. Do you think that the Association of Ethiopian Insurers has the capacity to influence concerned authorities to amend the premium tariff and other issues related to MTPCI Proclamation?  
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14. Do you think that all medical service providers strictly complying to the provision of Emergency Medical Treatment (EMT)?  
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15. What have you done to raise public awareness towards MTPCI practice?  
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-----

16. Do you oversee the adequacy of compensation award set by your Managers/ Claim Officers under MTPCI death or bodily injury claims?  
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-----  
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17. Would you like to comment on measures to be taken so that MTPCI Proclamation meets its set objective?  
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*Thank you very much*

**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
DEPARTMENT OF BUSINESS ADMINISTRATION  
Masters Degree in Executive Business Administration**

**Interview Guide Questionnaire on Motor Third Party Compulsory Insurance (MTPCI) in Ethiopia: Benefits and Challenges** *(for Insurance Fund Administration Agency (IFAA)).*

**Dear Respondent;**

My name is Habtamu Debela. I am a student in the postgraduate program at the College of Business and Economics, Addis Ababa University and working towards the Masters Degree in Business Administration (EMBA).

The purpose of this interview guide is to collect primary data on “Motor Third Party Compulsory Insurance (MTPCI): Benefits and Challenges in Ethiopia” for partial fulfillment of the requirements for the award of Masters Degree in Executive Business Administration (EMBA).

It is with due respect and gratitude that I extend my sincere appreciation and thanks for your kindness and precious time.

The interview question consists two sections. The first section is general background information of the interviewee and the second section deals with the practical application of MTPCI in Ethiopia.

Thank you very much for your understanding and cooperation in advance.

**Section I: Demographic Data/Background Information**

- 1. Name: -----
- 2. Level of education -----
- 3. Your position in the organization: -----
- 4. Work experience in the organization -----

**Section II: Interview Questions Related to MTPCI**

- 5. Would you please tell your organizations structure, vision, mission and objectives  
-----  
-----  
-----
- 6. Are you well organized in terms of manpower to promote service delivery and efficiency across insurance industry and road victims?  
-----  
-----  
-----
- 7. Do you have insurance software?  
-----  
-----  
-----
- 8. Do you have Branches out of Addis Ababa?  
-----  
-----
- 9. Do you think that the maximum third party liability limit set by the proclamation is sufficient enough to cover damage/losses in regards to bodily injury /death?  
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-----  
-----

10. Do you think that all medical service providers strictly complying to the provision of Emergency Medical Treatment (EMT)?

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-----

11. If your answer is “Yes” to the above question, how often are they filing their bill to your office or insurers?

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12. Do you have well established mechanism to control insurance companies’ noncompliance on premium tariff, fulfillment of Proclamation condition, and fair compensation to road victims?

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-----

13. Have you observed insurer (s) committing a serious violation of the applications of the law?

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-----  
-----

14. If your answer is “Yes” to the above question, would you please list some of them violations?

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15. If your answer is “Yes” to question no. 13 above, what major disciplinary actions you have taken with insurers violating the applicable law.

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-----  
-----

16. Do you think that the premium allocated to MTPCI fair and commensurate with the risk?

-----  
-----  
-----

17. Do you think that the 10% Fund levy to IFAA fair and adequate?

-----  
-----  
-----

18. Do you think that the promulgation of MTPCI enhance profitability of insurance companies?

-----  
-----  
-----

19. What is the claim ratio for a Hit and Run cases handled by your Agency?

-----  
-----  
-----

20. Are you satisfied with the control of Traffic Police in regards to uninsured vehicles on roads?

-----  
-----  
-----

21. Is there any of the existing MTPCI Proclamation conditions which you think should be amended or totally changed in your opinion?

-----  
-----  
-----

22. Do you have any plan to review the Proclamation? If yes what areas?

-----  
-----  
-----

23. What are the challenges you have been facing during MTPCI enforcement?

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-----  
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24. Would you like to comment on measures to be taken so that MTPCI Proclamation meets its set objective?

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***Thank you very much.***

## Annex II

### Performance of Motor Insurance in Ethiopia

(, 000)

<b>Year</b>	<b>Industry Gross Written Premium</b>	<b>Motor Gross Written Premium</b>	<b>Motor Industry Loss Ratio</b>	<b>Industry Premium Growth</b>	<b>Motor Premium Growth</b>
2010/2011	2,422,415	1,082,113	93%		
2011/2012	3,724,760	1,861,172	87%	53%	72%
2012/2013	4,497,666	2,101,661	82%	20%	13%
2013/2014	4,687,657	2,421,725	81%	4%	15%
2014/201	5,242,085	2,830,635	83%	11%	17%
2015/2016	6,093,677	3,489,111	79	15%	23%

Source: National Bank of Ethiopia (issued every year in June 30).

### Annex III

#### Insurance Industry Branch Network as at June 30, 2015

No	Insurance company	Number of Branches		
		A.A	Region	Total
1	Ethiopian Insurance Corporation	18	48	66
2	National Insurance Company of Ethiopia	9	13	22
3	Awash Insurance Company	22	14	36
4	United Insurance Company	18	10	28
5	Africa Insurance Company	9	9	18
6	Nile Insurance Company	14	17	31
7	Nyala Insurance Company	13	10	23
8	Global Insurance Company	6	6	12
9	Nib Insurance Company	19	9	28
10	Lion Insurance Company	15	10	25
11	Ethio-Life & General Insurance	8	4	12
12	Oromia Insurance Company	17	12	29
13	Abay Insurance Company	8	9	17
14	Berhan Insurance Company	6	1	7
15	Tsehay Insurance Company	6	2	8
16	Lucy Insurance Company	3	2	5
17	Bunna Insurance Company	8	2	10
<b>Total</b>		<b>199</b>	<b>178</b>	<b>377</b>

Note: AA= Addis Ababa

Source: National Bank of Ethiopia Annual Report, June 30, 2015.

## Annex IV

### Establishment of Insurance Companies

No	Name of Insurance Company	Establishment Date
1	Ethiopian Insurance Corporation(EIC)	1975
2	National Insurance Company of Ethiopia(NICE)	23/09/1994
3	Awash Insurance Company S.C.(AIC)	01/10/1994
4	United Insurance Company S.C.(UNIC)	09/11/1994
5	Africa Insurance Company S.C.	22/12/1994
6	Nile Insurance Company S.C	11/04/1995
7	Nyala Insurance Company S.C(NISCO)	27/06/1995
8	Global Insurance Company S.C	14/01/1997
9	Nib Insurance Company S.C	02/05/2002
10	Lion Insurance Company S.C	10/07/2007
11	Ethio-Life & General Insurance S.C	23/10/2008
12	Oromia Insurance Company S.C(OIC)	26/01/2009
13	Abay Insurance S.C	26/07/2010
14	Berhan Insurance S.C	24/05/2011
15	Tsehay Insurance S.C	28/03/2012
16	Lucy Insurance S.C	01/10/2012
17	Bunna Insurance S.C	21/05/2013

*Source: National Bank of Ethiopia Annual Report, June 30, 2013.*

## Annex V

### Emergency Medical Treatment Deposit (2014)

No	Name of Insurance Company	Amount deposited
1	Ethiopian Insurance Corporation(EIC)	1,325,800.13
2	National Insurance Company of Ethiopia(NICE)	262,812.39
3	Awash Insurance Company S.C.(AIC)	736,592.53
4	United Insurance Company S.C.(UNIC)	478,480.51
5	Africa Insurance Company S.C.	373,577.80
6	Nile Insurance Company S.C	374,561.30
7	Nyala Insurance Company S.C(NISCO)	307,568.16
8	Global Insurance Company S.C	161,153.96
9	Nib Insurance Company S.C	462,390.60
10	Lion Insurance Company S.C	220,623.95
11	Ethio-Life & General Insurance S.C	11,406.08
12	Oromia Insurance Company S.C(OIC)	321,413.83
13	Abay Insurance S.C	57,004.85
14	Berhan Insurance S.C	58,409.85
15	Tsehay Insurance S.C	32,072.41
16	Lucy Insurance S.C	8,136.25
17	Bunna Insurance S.C	6,386.38
18	Insurance Fund Administration Agency	1,251,500
<b>Total</b>		<b>6,449,899.98</b>

Source: IFAA report (2017)