College of Business and Economics
Management Department
EMBA Program

Identification and Analysis of Determinant Factors for the Growth of Non–life Insurance Gross Written Premium in Ethiopian Insurance Industry, in the case of some selected insurance companies

A Thesis Submitted in Partial Fulfillment of the Requirements for Master of Executive Business Administration (EMBA)

By: - Getachew Legesse

June, 2018

Addis Ababa, Ethiopia

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Advisor: - **Dr. Zewdie Shibre**

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DECLARATION

I hereby declare that the research thesis work entitled "*Identification and analysis of determinant factors for the growth of non–life insurance Gross Written Premium in Ethiopian Insurance Industry, in the case of some selected insurance companies*" submitted to College of Business and Economics Management Department EMBA Program, is based on my original research work carried out by me, myself, under the supervision and guidance of Dr. Zewdie Shibre. This work has not been submitted earlier in full or in a part thereof, for the award of other similar Degree, Diploma, Fellowship, Associate ship or any other similar titles to this or any other University or Institution.

Name : Getachew Legesse

Signature: _____ Date _____

Confirmed by Advisor:

Zewdie Shibre (Phd)

Signature: _____ Date _____

EXAMINERS' APPROVAL SHEET

As members of the Board of Examiners of the final Master's degree open defense, we certify that we have read and evaluated the thesis carried out by Getachew Legesse under the title " Identification and analysis of determinant factors for the growth of non–life insurance Gross Written Premium in Ethiopian Insurance Industry" and recommend that it has been accepted as fulfilling the thesis requirement for the degree of EMBA.

Approved by Board of Examiners' and Officials

Zewdie Shibre (PhD)	_____	_____
Name of Advisor	**Signature**	**Date**
Yohannes Workaferaw (PhD)	_____	_____
Name of Internal Examiner	**Signature**	**Date**
Deribe Assefa (PhD)	_____	_____
Name of External Examiner	**Signature**	**Date**
_____	_____	_____
Name of the Chairperson/coordinator	**Signature**	**Date**

ACKNOWLEDGEMENT

Before all, I Praise the almighty God for paving me all the way from beginning to end, gave me the patience and courage, without which that would have been difficult to tackle inconveniences around me.

I would like to have a special acknowledgement to Dr. Zewdie Shibre, my advisor, whose valuable comments with constructive, profound and energetic efforts paved the way for me to rethink and apply to my part a great deal of effort in the preparation of this research thesis. It is a pleasant and inspiring experience for me to work under his invaluable guidance.

And also my deepest thanks are also attributed to all my family members, my beloved wife and my new sweet baby as they hold the load of being alone for some responsibilities and duties of my own while I was absent for my academic issues.

Finally, my appreciation goes to, all my class mates and friends especially Wendie, Esu, gorge and Yared, oh friends you are always there when I need your support and encouragement thank you once again.

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LIST OF ACRONYMS/ABBREVATIONS:

- **CAR -** Construction All Risk
- **EIC**- Ethiopian Insurance Corporation
- **FDI**- foreign direct investment
- **GDP** – Gross Domestic Product
- **GWP**- Gross Written Premium
- **i.e. -** In Latin, id est ("That is")
- **NBE -** National Bank of Ethiopia
- **NCAER**- National Council of Applied Economic Research
- **S.C.** - Share Company
- **Sig.** – Significance
- **SPSS** - Statistical Package for Social Sciences
- **Std**. - Standard
- **USA -** United States of America

ABSTRACT

Insurance is one of the major risks mitigating mechanism in modern economy. In Ethiopian insurance industry the non-life insurance growth of gross written premium for the past 5 years have been grown on the average of 17.5%. This is significantly above the economic growth of the country. Though there is a rapid growth rate in the sector as compared to other countries, insurance penetration rate and density is at infant and at the very low stage. For the year 2016/2017 Ethiopian insurance industry non life insurance premium penetration rate is below 1% and insurance density is birr 52.00. The objective of this study is to identify and analyze the factors that affect the growth of non life insurance gross written premium. In order to achieve the objective both primary and secondary data were used. Primary data collected by means of structured questionnaires which were distributed to employees of some selected insurance companies which were operated over 20 years. They were asked to rate their opinion according to a 5-point Likert scale ranging from strongly disagree to strongly agree levels. And Secondary data were collected from the selected seven insurance companies of Ethiopia and from National bank of Ethiopia. The result indicated that there was a statistically strong correlation between the growth of non life insurance gross written premium and GDP agriculture, GDP service and GDP industry. And there was strong and statistically significant positive correlation between non life insurance gross written premium and number of branches. Furthermore, the result showed that predictor variables, variables like, claims expense, operating expense, underwriting operation, Intermediaries, GDP services, GDP agriculture, No. of branches, capital, and new product and NBE regulation made a statistically significant prediction in influencing/predicting the dependent variable, non life insurance GWP. The results are presented using tables and figures. Therefore, the finding of this thesis recommends that Government need to sustain economic growth, insurance companies need to increase capital and expand branches (outlets).

Key Words: *Insurance, Economic Growth, non life Gross Written Premium.*

CHAPTER ONE: INTRODUCTION

The introductory part of the paper presents different ideas and concepts, which include background/rationale of the study, statement of the problem, objective of the study,scope/delimitation of the study, limitations of the study, significance of the study, operational definition of the study, and organization of the paper

1.1 Background /Rationale of the study

Financial institutions especially insurance companies plays important role in financing and insuring economic activity and contribute to the stability of the financial system and the stability of the economy of concerned country in general is part of immune and repair system of the economy. Insurance is the backbone in managing the risk of the country. The insurance providers offer diversity of products to business, providing protection from risk thereby ensuring financial security. It helps individual and organization to minimize the consequences of risk which impart significant cause on the growth and development of insurance industry (Hailu, 2007).

Many people heard about insurance, what is the meaning of insurance? Wa and Pong (2003) defined insurance as a broad and generic term but normally the function of insurance is used to lessen the systematic risk. Insurance is the pooling of fortuitous (unforeseen) losses by transfer of such risks to insurers, who agree to indemnify insured's for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk.

The concept of **i**nsurance is the spreading of risks for a few individuals, among many. The two fundamental characteristics of insurance is risk sharing and risk transfer, which is transferring or shifting risk from one individual to a group and sharing of losses, on some equitable basis, by all members of the group (E. and T Vaughan, 2007). And also Insurance is designed to meet the financial well-being of an individual, company or other entity in the case of unpredicted losses. Some forms of insurance are compulsory while others are optional (Outreville, 1998).

The insurance sector is sine-qua-non for development and economic growth of any economy and it has been recognized for many years. The significance of insurance was also acknowledged in the first conference of United Nations Conference on Trade and Development (UNCTAD) in

1964 by stating that “a sound national insurance and reinsurance market is an essential characteristic of economic growth.” It seems Insurance not only facilitates economic transactions through risk transfer and indemnification but it also promotes financial intermediation (Ward and Zurburegg, 2000). More specifically, insurance can have effects such as promote financial stability, mobilize savings, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs (Skipper, 2001).

The insurance industry constitutes one of the fundamental building blocks of the global financial markets. The importance given to the insurance has been increasing every day. The basic reason for this is the contribution provided by the insurance industry on the economic growth and the level of national wealth. Between the years of 2012 to 2017 the premium generated in the Ethiopian insurance industry is increased tremendously from year to year for instance the Ethiopian insurance companies have registered close to a total premium of Birr 7.5 billion from both life and non life (general insurance business). The premium generated by life insurance constituted only Birr 400 million or 5% of the total premiums, while general insurance premium amounted to over Birr 7.1 billion or 95% of the total premiums. The premium of the general insurance for the year 2015/16 were Birr 6.2 billion and as stated above the amount increased to Birr 7.1 billion this showed that the premium generated from general insurance in the year 2016/17 is increased by 14.5 percent with the same token the number of branch offices operated with the stated insurance companies increased from 414 in the year 2015/16 to 482 in the year 2016/17 (2016/17 annual report of Africa insurance and National Bank of Ethiopia).

Various literatures identify different determinant factors for the growth of non life insurance gross written premium. Feyen et al (2011) examined the determinants of non-life insurance premiums for a panel of 90 countries during the period 2000 to 2008, The results show that premiums are driven by gross domestic product, investment income, per capita income, the population size and density, company size and density, demographic structures, income distribution, capital, government policy.

Due to this, the study aims to determine the factors that affect the growth of non life Gross written premium in Ethiopian Insurance industry.

1.2 Statement of the Problem

The insurance industry forms an integral part of the global through direct contributions to gross domestic product (GDP) via increased levels of employment within the sector; and indirectly through higher levels of risk transfer and financial intermediation. Expanding further on this issue, it must be remembered that the insurance industry's primary function is to supply individuals and businesses with coverage against specified contingencies. Insurance companies, therefore, engage in underwriting (risk selection process), managing, and financing risks (Sigma, 2001).

Ethiopia's Insurance sector has shown strong resilience to a challenging macroeconomic environment and global development. According to a report by NBE (2017) the non-life insurance sector also registered a higher gross written premium year after year, thus showing an increase of 15 to 20 percent per year for the last five years. Moreover, the life insurance written premium has increased by 14 percent. Overall, the nation recorded strong economic growth during the period 2012-2017.

It is evident that the Ethiopian insurance industry is relatively under developed in comparison to even that of other African countries. The range of insurance products offered is limited indicating that the sector is still at an early stage of development. Reinsurance and auxiliary services (such as actuaries) are hardly available in the country. Besides, insurance companies have limited capacities and premium setting is based on outdated methods. There is also a considerable lack of risk assessment methodologies.

With regard to competition globally, it is becoming fierce due to mushrooming of insurance companies and development of information technology enhancing customer awareness in the insurance sector (Kassegne & Pagidimarri, 2013). In the case of Ethiopia, competition is stiff in the insurance industry (Ermias, 2012). Accordingly, private insurance companies (or at least some of them), ambitious to increase their sales volume in line with the law of large number one of the insurance principles, have been granting unfair and unjustifiable discounts to attract clients and attain their sales forecast. In recent decades, the insurance sector, like other financial services, has grown in economic importance. This is pricing policy has led to an unhealthy spiral of premium cutting rather than finding other possible ways. In addition to the above, there is

also limited type of insurance products available in insurance market, relatively law awareness about insurance, and change of covers to pay minimum premiums, in spite of all this there is an increase in non life insurance gross written premium in the country. As to the best knowledge of the researcher, as research gap is observed.

It is observed that Ethiopian insurance industry for non life insurance gross written premium is increased for the past five years on average by 17.5%. Several studies identified different factors for the growth of non – life insurance gross written premium. Even if the insurance growth rate is high the level of insurance penetration and density is at the lowest level in the world even at Sub Saharan African countries level.

Due to this, the researcher is trying to investigate, identifying and analyzing the factors that affect the growth of non life insurance gross written premium in Ethiopian insurance industry and it is useful to focus in this area for further growth of the sector. Lack of empirical and secondary data analysis in the relationship among the insurance sector and various factors in Ethiopia initiated this study. The researcher thoroughly explored researches in insurance in reference to Ethiopian contexts and found very limited literature. This research will fill the knowledge gap in this aspect.

Therefore, the researcher is interested to assess the different factors that affect the growth of the gross written premium towards the nonlife insurance business of Ethiopian insurance companies.

1.3 Research Questions

This research project is planned to conduct to assess the determinant factors for the gross of gross written premium of non life insurance which is mentioned above and it is attempted to answer the following specific questions.

I. What are the variables that affect the growth of non life insurance gross written premiums?
II. To what extent do claims cost and administrative expenses increases the non life insurance gross written premium?
III. How GDP sectors have a direct impact on growth of non life insurance gross written premium?

IV. How new product development have an impact on the premium growth?

V. To what extent does insurance intermediaries (Insurance brokers and sales agents) have an impact on the non life insurance premium growth?

1.4 Objective of the Study

1.4.1 General Objective

To assess the determinant factors that contributes to the growth of non life insurance gross written premium in Ethiopia insurance market specifically to insurance companies operating for more than twenty years.

1.4.2 Specific Objectives

This study has the following specific objectives:

- ✓ To identify and analysis factors for the growth of non life insurance gross written premium.
- ✓ To evaluate the relationship between various factors and non life insurance gross written premium
- ✓ To identify the impact of GDP growth at national level on premium growth.
- ✓ To analyze the impact of insurance intermediaries on the growth of premium.
- ✓ Draw recommendations and lessons from the in-depth analysis of the research findings.

1.5 Hypothesis

Based on the above objectives and different literatures, the following hypotheses are set for the study under consideration: The hypotheses are indicated here below:

- H_{o1}: There is no strong statistical significant relationship between GDP Service and non-life insurance gross written premium.

  H_{a1}: There is strong statistical significant relationship between GDP Service and non-life insurance gross written premium.
- H_{o2}: There is no strong statistical significant relationship between GDP Industry and non-life insurance gross written premium.

  H_{a2}: There is strong statistical significant relationship between GDP Industry and non-life insurance gross written premium.

- Ho3: There is no strong statistical significant relationship between GDP Agriculture and non-life insurance gross written premium.
  Ha3: There is strong statistical significant relationship between GDP Agriculture and non-life insurance gross written premium
- Ho4: There is no strong statistical significant relationship between no. of branches of insurance companies and non-life insurance gross written premium.
  Ho4: There is strong statistical significant relationship between no. of branches of insurance companies and non-life insurance gross written premium.

1.6 Scope/ Delimitation of the study

As the research indicates clearly, the coverage of this research delimited to identification and analysis of the determinant factors for the growth of non life insurance gross written premium in Ethiopian insurance industry specifically to insurance companies established before 1998 G.C.

1.7 Limitations of the Study

In this study campaign, there were some limitations.

First, since there was no research work done on the area so far lack of secondary data and literatures will be a major problems.

Second, there will be limitation of resources like time, finance, and other resources to be effectively undertaking the research in general.

1.8 Significance of the Study

The gist of this study is that the researchers prior to this paper have not paid attention to this separate issue for insurance in Ethiopia. Most of the studies previously focused on factors affecting profitability of insurance companies, determinants of dividend policy in Ethiopia and the like.

Therefore, as to the knowledge and understanding of the researcher, a study has not been conducted in the area of insurance with regard to factors that affect the growth of non life gross written premium.

As this is the observed gap by the researcher, he research is expected to provide its own contribution by having conceptual and empirical evidence on factors that affect the growth of gross written premium.

Moreover, after finalization of the paper, many parties are expected to benefit from the results of the study. Among them are the following:

- ✓ **Management:** Managers, mainly, of insurance companies interested in identifying sources of factors that affect growth of premium in order to increase the premium.
- ✓ **Researchers:** other researchers who have an interest in the area may use this paper to fill the gap that they may observe. That means, they could use this paper to investigate further issues in the subject area or to investigate facts to establish, or further revise a theory. Researchers may again adopt this research outcome to build a plan of action based on the facts discovered. In general, the research contributes that it can potentially serve as a stepping stone for further research in the area.
- ✓ **Investors:** Mainly private investors interested in the purchase of insurance shares may use this paper for their financial investment plan by considering it as a base for their decision at country level.
- ✓ **Employees:** Individuals especially mangers and underwriters who work or intend to work in insurance organizations may be interested in identifying the factors in order to plan the day to day operational activities.

1.9 Operational Definition of Terms

Premium: - This is the amount, which is paid by the insured to the insurers for their policies the consideration for which the insurer gives protection to the insured (CII, 2014).

Gross Written Premiums - Total premiums generated from all policies (contracts) written by an insurer within a given period of time (CII, 2014).

Insurance Penetration - The penetration ratio shows the contribution of the insurance sector to a country's GDP (Glossary of Insurance Terms).

Insurance Penetration= Gross Premium Written/GDP*100

Insurance Density: Density measures the average amount of money spent on insurance product by a single person in a given country which is measured as insurance spending (premiums) per capita (Glossary of Insurance Terms).

Insurance Density= Gross Written Premium/Population

1.10 Organization of the paper

The structure of the paper is organized as follows:

Chapter one contains; background/rationale of the study, statement of the problem, research questions, objectives of the study, research hypothesis, Scope/delimitation of the study, Limitations of the study and significance of the study.

Chapter two presents related to literature review, this chapter contains two to parts the first part theoretical review it includes, Definition of insurance, history of insurance industry, how insurance works, definition of gross written premium, principles of insurance, types of insurance and the second part contains empirical review it includes Relationship between insurance and economic development and identifying factors for the growth of non life insurance gross written premium.

Chapter three focuses on methodology of the study which includes types of data and method of data collection, selecting variables and method of data analyses.

Chapter four shows results and discussion, and finally

Chapter five contains summery of findings, conclusions and recommendations.

And at the end the final section of this study contains appendix and reference.

1.11 Background of insurance companies to be studied

The united Insurance Company (UNICE)

The United Insurance Company SC, better known as, <UNIC-ETHIOPIA> was established by 87 Ethiopians (individuals and enterprises) in November 1994 with an authorized capital of Br 25 million and an initial paid up capital of Br 8.073 million. Following the merger with Lion Insurance Company SC in 2002, is currently owned by more than 431 shareholders. As a result of the merger and the decision of the Seventh Extra-Ordinary General Meeting of shareholders, the Company's authorized capital rose to Br 250 million. The paid up Capital is now Br 319,000,000. Currently the insurance company underwrites annual gross written premium of Birr 387,215,000 with a total branches of 31 all over the country

National Insurance Company of Ethiopia (NICE)

NICE is the first wholly privately owned insurance company, established in post – 1994 Ethiopia, to engage in general insurance business. Its Head office is in Addis Abeba, Ethiopia, and operates through 34 Branch offices and 4 licensed Contact Offices located in Addis Ababa and different parts of the country. It started business transaction in October 1994.

The founding shareholders of NICE are prominent businessmen and professionals with wide knowledge and experience of the Ethiopian economy and business, and with extensive exposure of the economic activities and business realities of the outside world. The founding shareholders are committed to making the company sound, sturdy and efficient financial institution in Ethiopia**.**

Currently, the paid up capital of the company stands at 93,000,000 currently the insurance company underwrites annual gross written premium of Birr 231,158,906

Africa Insurance Company (AIC)

Africa Insurance Company (AIC) is a privately owned professional Insurance Company established in 1994 in accordance with the Licensing and Supervision of Insurance Business Proclamation No.86/1994, and the Commercial Code of Ethiopia. The Company is set up with fully paid up capital of 30 million Ethiopian Birr. The capital is divided into 30,000 ordinary shares, each with a par value of 1000 Ethiopian Birr. The capital base AIC utilizes makes it the strongest private Insurance Company in the Country.

Now the paid up capital is Br 243,000,000. And currently the insurance company underwrites annual gross written premium of Birr 494,209,310 with a total branches of 26 all over the country.

Nyala Insurance Share Company (NISCO)

Nyala Insurance Share Company (NISCO) was founded in July 1995 following the liberalization of the insurance business to the private sector in 1994 with the Licensing and Supervision of Insurance Business Proclamation No. 85/1994.

Over the years Nyala Insurance become one of the leading private insurance companies in Ethiopia with strong financial capacity of Birr 401 million subscribed capital,

Currently, NISCO guarantees protection with care to its customers through three pronged services – General, Life and Micro-insurance solutions with a network of 43 service outlets (29 Service Centers and 15 Contact Offices) distributed all over the country.

And currently the insurance company underwrites annual gross written premium of Birr 383,700,000

Nile Insurance Company

Nile Insurance Company (S.C) is one of the pioneer private insurers in Ethiopia. It was established in April 1995 with a capital of birr 12.5 million. Over the past 22 years, the subscribed capital of the company has grown to Birr 266 million. Currently, Nile's branch has reached 39, The total asset of the company was Birr 890 million at the end of the fiscal year. And currently the insurance company underwrites annual gross written premium of Birr 419,511,250.

Ethiopian Insurance Corporation (EIC)

Ethiopian Insurance Corporation (EIC) was established in 1976 by proclamation No.68/1975. The Corporation came into existence by taking over all the assets and liabilities of the thirteen nationalized private insurance companies, with Birr 11 million (USD 1.29 million) paid up capital.

But EIC was re-established as public enterprise under proclamation number 201/94 with Birr 61 million (USD 7.13 million) paid up capital.

EICs current total asset has reached Birr 4.1billion paid up capital of 977 million and a branch of 70.The corporation has able to underwire a gross premium of Birr 3,546,655,200

Awash Insurance Company S.C. (AIC).

AIC was Founded at October 1, 1994. Main Activity/Service: General Insurance and Long-term (Life) Insurance Business with a Paid-up Capital of ETB 327 million and total Asset: ETB 1.2 Billion. The total Branch AIC has 41 Non-Life branches and one Life branch and 5 underwriting contact offices. The corporation has able to underwire a gross premium of Birr 540,818,794

CHAPTER TWO: LITERATURE REVIEW

This part of the paper is devoted to review literatures related with Insurance, Performance of Insurance in the Economy, Factors affecting for the growth of non-life insurance gross written premium, conceptual frame work and conceptual models.

2.1 Definition of Insurance

Although there is no uniform definition available as to what constitutes insurance, most researchers agree that insurance has to involve a risk transfer from one party (buyer) to another (insurer). (Rejda & & Georg, 2008) offers the definition of the Commission on Insurance Terminology of the American Risk and Insurance Association which states:-

"*Insurance is the pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify insured's for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk*". However, some Scholars and writers have given various definitions of insurance from different perspectives such as economic, social, legal…etc. (Ration, 1956) provides the economic definition of insurance:-

"*Insurance is a device for the reduction of the uncertainty of one party Called the insured, through the transfer of particular risks to another Party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured*."

(Pritchett, et al.1996) provide the social definition of insurance:-

> " *Insurance is a social device, in which a group of individuals(called insured's) transfer risk to another party(called "insurer") in order to combine loss experiences, which permits statistical prediction of losses and provides for payment of losses from fund contributed(premium) by all members who transferred risk*."

And Article 654(2) of Commercial Code of the Empire of Ethiopia (1960) provides a legal definition of insurance:-

"*An insurance policy is a contract whereby a person called the Insurer Undertakes against payment of one or more premiums to pay to a person, called the Beneficiary, a sum of money where a specified risk materializes.*"

Insurance is also defined as the simple mechanism of some people who are exposed to the same level of risks of suffering destruction of damage to their properties, that are likely to be caused by perils like accident, fire, floods, earthquakes, etc., coming together and agreeing to share the loss sustained any one of the members; that is, the loss of one or more members is spread among all (Kavitha, Latha, & Jamuna, 2012). Risk is uncertainty of a financial loss. It should not be confused with the chance of loss which is the probable number of losses out of a given number of exposures. It should not be confused with peril which is defined as the cause of loss or with hazard which is a condition that may increase the chance of loss. Finally, risk must not be confused with loss itself which is the unintentional decline in or disappearance of value arising from a contingency. Wherever there is uncertainty with respect to a probable loss, there is risk.

According to Anderson and Brown (2005), insurance is an agreement where, for a stipulated payment called the premium, one party (the insurer) agrees to pay to the other (the policyholder or his designated beneficiary) a defined amount (the claim payment or benefit) upon the occurrence of a specific loss. This defined claim payment amount can be a fixed amount or can reimburse all or a part of the loss that occurred. The insurer considers the losses expected for the insurance pool and the potential for variation in order to charge premiums that, in total, will be sufficient to cover all of the projected claim payments for the insurance pool. The premium charged to each of the pool Unknown Future Events Risk Uncertainty participants is that participant's share of the total premium for the pool. Each premium may be adjusted to reflect any special characteristics of the particular policy. Normally, only a small percentage of policyholders suffer losses. That is, many are fortunate but few are unfortunate. Their losses are paid out of the premiums collected from the pool of policyholders. Thus, the entire pool compensates the unfortunate few.

Each policyholder exchanges an unknown loss for the payment of a known premium (Anderson & Brown, 2005). Accordingly, under the formal arrangement, the party agreeing to make the claim payments is the insurance company or the insurer. The pool participant is the policyholder.

The payments that the policyholder makes to the insurer are premiums. The insurance contract is the policy. The risk of any unanticipated losses is transferred from the policyholder to the insurer who has the right to specify the rules and conditions for participating in the insurance pool. The insurer may restrict the particular kinds of losses covered. For example, a peril is a potential cause of a loss. Perils may include fires, hurricanes, theft, and heart attack. The insurance policy may define specific perils that are covered, or it may cover all perils with certain named exclusions (for example, loss as a result of war, and wear and tear).

According to National Council of Applied Economic Research (NCAER, 2011), insurance is a form of risk management which is used primarily to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of loss, from one entity to another, in exchange for payment. Insurance is essentially an arrangement where the losses experienced by a few are extended among many who are exposed to similar risks. It is a protection against financial loss that may occur due to an unexpected event. The transaction involves the insured assuming a guaranteed and known relatively as small loss (premium) in the form of payment to the insurer in exchange for the insurer's promise to compensate or indemnify the insured in the case of a large, possibly devastating, loss. The insured receives a contract called an insurance policy which details the conditions and circumstances under which the insured will be compensated. Insurance can be classified broadly into: life insurance; and general or nonlife insurance.

Moreover, Insurance is a contract in which the insured transfers risk of potential loss to the insurer who promises to compensate the former upon suffering loss. The insured then pays an agreed fee called a premium in consideration for this promise. The promisor is called the insurer and the promisee is called the insured (Lowe, 1999). Insurance premium is the monetary consideration paid by the insured to the insurer for the cover granted by the insurance policy. The Insurer takes on a number of clients (Insured) who pay small premiums that form an aggregate fund called the premium fund (Norman, 2000). The likelihood of an event or loss may be mathematically calculated or it may be based on the statistical results of past experience in order to determine the amount of premiums that would be required to accumulate a common fund or pool, to meet the losses upon their arising (Grose, 1992).

Nonlife or general insurance, also known as property and casualty insurance, refers to the insurance coverage that is not life insurance but instead covers such things as automobiles, buildings, hulls, goods-in-transit, money, etc. In addition, it also covers liability damages and personal health (Rejda & George, 2008). Nonlife insurance usually provides coverage for one year only, unlike life insurance which allows an insured to obtain insurance coverage longer than one year. In the case of nonlife insurance, the policy will be renewed every single year, except for some type of policies, e.g. Construction All Risk insurance (CAR) and Marine which is nonrenewable (Poontirakul, 2013).

And yet underwriting is the most important activity of a general insurer. The risk transfer requires the assessment of the risk in order to calculate the appropriate premium which the insured should pay. This process is called underwriting. The individual who acts on behalf of the insurers is the underwriter and his/her responsibility is to consider 'the facts presented and decides whether to offer terms, request additional information or decline the risk. If the terms offered are approved by the insured, the underwriter will accept the risk in exchange for payment of a premium' (CII, 2014).

2.2 History of insurance

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. Sources indicate that practices having important concepts and elements of insurance existed as far back as the Babylonian era. Hammurabi, ruler of Babylon from 1792 to 1750 B.C was credited for developing a set of laws, known as code of Hammurabi which was used to govern the Babylonian society.

According to the Encyclopedia Americana (1995.263), a crude form of insurance (financial protection) designed to protect marine merchant existed in Babylon around 2000 B.C in those periods Babylon was said to be the center of early world trade involving countries of Europe, Africa and Asia. Goods were flowing in to Babylon through various surface and sea trade routes. During this time, caravans carrying tradable foods were exposed to robbery. Sea traders were facing marine risks (i.e., Fire, storms) along their voyages. Consequently, traders making marine expeditions to bring commodities were losing their property due to such risks and hence were

unable to pay the financing money they borrowed from the lending merchants. These uncertainties gradually led to a decline in trade and commercial activities.

To deal with such risks, the Babylonians were said to have devised a system that could provide protection to the ship-owners and marine merchants. Under the system, the creditor and the shop-owners and merchant entered into a contract whereby the creditor advance loans to the ship-owner or the merchant for the business venture. The loan was repayable only upon the safe arrival of the ship at the destination. The creditor cancelled the loan if the ship faced accident misfortune during the voyage and that the shop or the property was lost. Thus, the risk was being shifted from the sailors to the creditors (money lenders). If the ship and cargo arrived safely, the money lenders (creditors) would collect their loans, including the nominal interest plus some extra charge for assuming the risk.

2.3 Insurance in Ethiopia

The history of insurance service is as far back as modern form of banking service in Ethiopia which was introduced in 1905. At the time, an agreement was reached between Emperor Menelik II and a representative of the British owned National Bank of Egypt to open a new bank in Ethiopia. Similarly, modern insurance service, which were introduced in Ethiopia by foreigners, mark out their origin as far back as 1905 when the bank of Abyssinia began to transact fire and marine insurance as an agent of a foreign insurance company. According to a survey made in 1954, there were nine insurance companies that were providing insurance service in the country. With the exception of Imperial Insurance Company that was established in 1951, all the remaining of the insurance companies were either branches or agents of foreign companies. In 1960, the number of insurance companies increased considerably and reached 33. At that time insurance business like any business undertaking was classified as trade and was administered by the provisions of the commercial code (Hailu, 2007).

For the last decade, the Ethiopian financial institutions in general and insurance companies in particular have shown the impressive progress in terms of number and service which not only creates the employment opportunities but also enhances the business activities in the Ethiopian economy. The work of (Hailu, 2007) explores the historical routes, examines its emergence and indicates the track that the insurance industry in Ethiopia has gone through ever since its inception in early twentieth century.

The first significant event that the Ethiopian insurance market observation was the issuance of proclamation No. 281/1970 and this proclamation was issued to provide for the control and regulation of insurance business in Ethiopia. Consequently, it created an insurance council and an insurance controller's office, it's strange impact in the sector. The controller of insurance licensed 15 domestic insurance companies, 36 agents, 7 brokers, 3 actuaries and 11 assessors in accordance with the provisions of the proclamation immediately in the year after the issuance of the law (Hailu, 2007).

After four years, that is, after the enactment of the above mentioned proclamation, the military government that came to power in 1974 put an end to all private enterprises. Then all insurance companies operating were nationalized and from January 1, 1975 onwards the government took over the ownership and control of these companies and merged them into a single unit called Ethiopian Insurance Corporation.

In the years following nationalization, Ethiopian Insurance Corporation became the sole operator. After the change in the political environment in 1991, the proclamation for the licensing and supervision of insurance business heralded the beginning of a new era. Immediately after the enactment of the proclamation in the 1994, private insurance companies began to increase.

According to the annual report of NBE at the end of June/2017 there are seventeen insurance companies in operation. One government owned and sixteen private insurance companies which are operating throughout the country. And the total number of branches distributed throughout the countries is increased to 482 from 414 a year ago. Of the total branches about 53.9% were located in Addis Ababa. And according to the report there are 54 insurance brokers and 1,438 agents are operating as an intermediaries in the insurance industry.

And the seventeen Insurance companies are giving different insurance products to their customers basically insurance products are divided in to two Non- life and life insurance for our study we focused on non-life insurance sector. There are different types of non life insurance products some of these are aviation insurance, Fire and Allied Perils Insurance, Marine Insurance, Engineering, Motor, Liabilities, Accident & Health, Workmen's and Pecuniary.

During the 2016/2017 budget year, the insurance industry has registered a total of 1.1 billion Birr profit after tax and EIC and Nyala Insurance Company have the lion's share in making 700 and 122 million Birr profit respectively. Both EIC and Nyala recorded a massive profit margin in the history of the respective companies. During this period the industry's total asset and capital reached to 13.6 billion Birr and 4.3 billion Birr respectively. Compared to 2015/16, industry's profit after tax, assets and combined capital increased by 30 percent, 18 percent and 21 percent respectively (The Ethiopian herald cited EIC report).

Despite this, insurance penetration is still low in Ethiopia. The Ethiopian insurance industry is very infant like its economy, non life insurance Gross written premiums by its capacity is increased from time to time. The insurance industry exhibited non life insurance gross written premiums (GWP) in 2004/2005 of Birr 640 million after 12 years in 2016/2017 the non life insurance gross written premium was reached Birr 7.1 billion .This shows that in Ethiopia like other economic sector growth the insurance sector also grows, even if the sector is growing the industry's aggregate contribution to national GDP (insurance penetration rate) is very low as compared to even some of the sub – Saharan countries like Kenya, Zimbabwe, Rwanda, Namibia and South Africa, for instance Ethiopia has below 1% penetration rate but in the other way , Kenya 2.83%, Zimbabwe 4.09%, Rwanda 1.74%, Namibia 6.69% and South Africa 17%. (www.statista.com.)

The Ethiopian Insurance Business proclamation defines insurance policy to mean "a document evidencing a contract of insurance whereby an insurer undertakes, against payment of premiums, to pay indemnity, or the benefits specified in the policy to the insured where condition specified in the policy fulfilled or risk materialized, and includes a certificate, interim receipt, renewal receipt, or any other document evidencing a contract of insurance". Under the Ethiopian insurance laws, there are at least two main classes of insurance business, namely, long term insurance business and general insurance business as the case may be. An insurance policyholder is thus a person who owns an insurance policy or any other person who has legal right to claim the benefits of an insurance policy.

2.4 Concept of Insurance Companies

The financial system comprises of financial institutions, financial instruments and financial markets that provide an effective payment, credit system and risk transfer and thereby facilitate channelizing of funds from savers to the investors of the economy (Boadi and et al, 2013). As part of financial institution, social welfare created by insurance companies is unquestionable. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country (B. Charumathi, 2012). (Chen and wong, 2004) also suggests that a strong and healthy insurance sector is of utmost importance for all groups and sectors of the economy.

Insurance serves a number of valuable economic functions that are similar and largely distinct from other types of financial intermediaries. According to (Malik, 2011) insurance plays a crucial role in development commercial and infrastructural businesses. From the latter perspective, it promotes financial and social stability; mobilizes and channels savings; supports trade, commerce and entrepreneurial activity and improves the quality of the lives of individuals and the overall wellbeing in a country. Michael Koller (as cited in Abate, 2012) suggests that insurance companies are playing the role of transferring risk and channeling funds from one unit to the other (financial intermediation). This implies that insurance companies are helping the economy of a country one way by transferring and sharing of risk which can create confidence over the occurrences of uncertain event and in another way insurance companies like other financial institutions plays the role of financial intermediation so as to channel financial resources from one to the other.

Even if there are numerous types of insurances it can be divide in to two broad categories based on their role to the economy. Those are general insurance companies and life (long-term) insurance companies.

General insurance companies and life insurance companies are different each other in terms of operation, investment activities, vulnerability and duration of liabilities. Life insurers are said to function as financial intermediaries while general insurers function as risk takers (Chen and Wong2004).

2.5. Performance of Insurance in the Economy

The performance of any business firm not only plays the role to increase the market value of that specific firm but also leads towards the growth of the whole sector which ultimately leads towards the overall prosperity of the economy. Assessing the determinants of performance of insurers has gained the importance in the corporate finance literature because as intermediaries , these companies are not only providing the mechanism of risk transfer, but also helps to channelize the funds in an appropriate way to support the business activities in the economy. However, it has received little attention particularly in developing economies (Ahmed et al, 2011).

Although, Ethiopia's Insurance sector has shown strong resilience to a challenging macroeconomic environment and global development, it seems Insurance not only facilitates economic transactions through risk transfer and indemnification but it also promotes financial intermediation (Ward and Zurburegg, 2000). More specifically, insurance can have effects such as promote financial stability, mobilize savings, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs (Skipper, 2001). Insurance provides economic protection from identified risks occurring or discovered within a specified period.

For example, according to a report by NBE (2010) the size of the country's Insurance sector in terms of assets has increased by 47.5% by the end of June 2010. The non- life insurance sector also registered a higher gross written premium of about Birr 1.38 billion, thus showing a 17% increase over the previous year's premium. Moreover, the life insurance written premium has increased by 14%. Despite the current insurance companies' development with respect to both total assets and in number, no studies were conducted to investigate the factors influencing the performance of insurance sector in Ethiopia.

2.6. Characteristics of Insurance

Insurance is intangible product that has some special features apart from the material goods. Insurances represent a service that cannot be touched, price standardization is not possible, there is no ownership transfer and production and consumption are inseparable.

The consumer is a part of the production process so the delivery system must go to the market or the consumer must come to the delivery system. Because the insurance is linked also to the value of risk is very important to analyze if consumer of insurance is risk averse or not. The risk is evaluated before insuring to charge the amount of share of an insured as consideration or premium. There are several methods of evaluation of risks.

If there is expectation of more loss, higher premium may be charged. So, the probability of loss is calculated at the time of insurance.

The insurance serves indirectly to increase the productivity of the community by eliminating worry and increasing initiative. The uncertainty is changed into certainty by insuring property and life because the insurer promises to pay a definite sum at damage or death (Store & Iliescu, 2013). In the following subsection, the meaning and concept of insurance service as having a product will be considered to clarify the phrase “insurance product” under the topic of this thesis. As the insurance product is the contract/document, known as a policy, the two (product/policy) could be used interchangeably under this thesis as briefed here below.

2.7. Insurance Product /Policy

Insurance is a service business that has its own product, simply means the contract, which provides a certain type of protection from risk, written to both insurer and insured (Wa & Pong, 2003).

The insurance services can be described as a product in the form of a written legal contract (the insurance document) plus a bundle of services associated with it (Chowdhury, Rahman, & Afza, 2007). Services are activities and/or benefits that one party offers to the other and that services are necessarily intangible and do not result in the ownership of anything. Insurance service is different from other services, as it is complex and future contingent service involves substantial legal characteristics. The insurance companies have to find ways to make their services more tangible. To increase the productivity of providers who are inseparable from their products, to standardize the quality in the face of variability, and to improve the demand situation and supply capacities in the face of service perishability. Informing, educating, motivating, persuading, advising and other services prior to, at the time of and after the issuance of the insurance

document make the purchase of insurance dissimilar from purchasing other products and from even other services (Chowdhury et al., 2007).

As stated by Insurance Institute of Michigan (2010), when someone buys insurance, he gets a policy. That policy is a legal contract. It spells out exactly what he is buying; it lists what is covered and what is not. It lets him know how much he must pay as consideration (the premium) and when it must be paid. He needs to read that policy and try to understand it, even if it seems complicated. He should contact his agent or his insurance company representative and ask questions about anything he does not understand.

According to AIC's various documents, the types of nonlife insurance products/policies transacted by Africa Insurance Company (S.C) include: fire, lightning and allied perils, business interruption (loss of profit), burglary and housebreaking, motor (private and commercial), marine (hull and cargo), inland transit, engineering, personal and group personal accident including illness, workmen's compensation, public liability, fidelity guarantee, different bonds, money (cash in safe and in transit), all risks, plate glass, domestic package, weather index insurance, etc.

2.8. Benefits of Insurance

Insurance occupies an important place in the complex modern world since risk, which can be insured, has increased enormously in every walk of life. This has led to growth in the insurance business and evolution of various types of insurance covers. The insurance sector acts as a mobiliser of savings and a financial intermediary and is also a promoter of investment activities. It can play a significant role in the economic development of a country, while economic development itself can facilitate the growth of the insurance sector (NCAER, 2011).

Rao (2007) reported that Insurance is a vital economic activity and there is an excellent scope for its growth in the emerging markets, like Ethiopia. The opening up of the insurance sector has raised high hopes among people of the world. In recognizing its benefit, Arora and Mehta (2010) have shown that Insurance companies will have to take initiative in educating people about the benefits of taking insurance and also they should come with more innovative and flexible plans so that the people are encouraged to take policies. If people are aware of the insurance policy,

they should understand the reality of why they are insured and should try to understand its essence.

2.9 How insurance works

The insurance system operates on the principle of pooling or sharing of risks and the law of large numbers pooling or sharing is refers to the combination of similar insurable pure risks of individual and organizations in a pool ,predicting the probable loss to pool and then distributed the predicted loss of the group to all members in a given period

Insurance reimburses an individual for some or all of a financial loss that is linked to an unpredictable event or risk. This protection is accomplished through a pooling mechanism whereby many individuals who are vulnerable to the particular risk are joined together into a risk pool. Each person pays a small amount of money, known as a premium, into the pool, which is then used to compensate the unfortunate individuals who do actually suffer a loss. Insurance reduces vulnerability by replacing the uncertain prospect of large losses with the certainty of making small, regular premium payments (Hailu, 2007)

2.10 Functions of insurance

Primary purpose of insurance is to provide financial compensation (indemnity, in insurance terminology) to the policyholder in the event the risk insured against materializes and a loss occurs to the policyholder. Through indemnification, the policy holder, would then be restored to approximately his/her financial position just before the occurrence of the risk,

Insurance does not eliminate the possibility of loss and cannot stop the accidental misfortune from happening. It merely finances the loss that happens to the policyholder, by purchasing insurance, the policyholder who is exposed to a particular risk transfer the potential economic loss to the insurer by paying a price, which in insurance terminology is called “premium” Thus, the insurer, by charging a price Enters into a legal contract to assume the financial loss of the risk transferred. The insurer does not guarantee to the policyholder, that the rick inured against will not happen. Indemnity is providing to the policyholder only if the risk materialize in accordance with the terms and conditions of the insurance policy purchased. Insurance indemnity takes the form of replace, reinstate or cash payment, which is at the option of the insurer.

Insurance provides various benefits to individuals, families, organizations and the county as whole, firstly, insurance companies are business organization and hence they strive to remain profitable and create value to their owners. Owners, creditors, managers and employees will derive direct benefits from the profitable operations of insurance companies. Government wills also benefits in the form tax collection. Secondly by providing cover to other organizations against variety of risks, insurance enables the sustainability of such organization. Probably, much organization that has to operate under risky environment would not have been established or would not become sustainable in the absence of insurance. In the event of frequent and severe losses due to accidental misfortunes, organization may be unable to raise the required finance from owners and/or creditors to replace the resources lost. Purchase of insurance provider organization (policyholders) with financial compensation at all times in the event the risk insured against materializes and creates a loss. Some of the importance benefits of insurance are (Williams and Heins, 1985)

Indemnification: The direct advantage of insurance is indemnification for those who suffer unexpected losses. These unfortunate businesses and families are restored or at least moved closer to their former economic position. The advantage to these individuals is obvious. Society also gains because these persons are restored to production and tax revenues are increased

Reduce Reserve requirement. If there is an insurance protection the amount of accumulated funds needed to meet possible losses is reduced, one of the chief economic burdens of risk is the necessity for accumulating fund to meet possible losses. One of the great advantages of the insurance mechanism is that it greatly reduces the total of such reserves necessary for a given economy. Since the insurer can predict losses in advance. It needs to keep readily available only enough funds to meet those looses and to cover expenses. If each individual has to set aside such funds, there would be a need for a far greater amount because the individual not knowing precisely how much would be required would tend to be conservative

Capital Freed for investment. Cash reserves that insurance accumulate are freed for investment purpose, thus bringing about a better allocation of economic resources and increasing production. Insures as a group, and life insurance in particular have become among the largest and most important institution to collect and distribute a nation's saving individuals through life insurance

contract derive a substantial part of the contributions of insurance companies from regular savings.

The provision of the life insurance mechanism which encourage individual saving is a most important contribution of insurance to the saving supply. The insurance mechanism encourages new investment. For example if an individual knows that his family will be protected by life insurance in the event of premature death the insured may be more willing to invest saving in a long desired project, such as a business venture, without feeling that the family is being robbed of its basic income security. In this way a better allocation of economic resources is achieved.

Business and social stability: Insurance contributes to business and social stability and to peace of mind by protecting business firms and the family breadwinner adequately protected a business need not face the grim prospect of liquidation following a loss. A business venture can be continued without interruption even though a key person or the sole propriety or dies. A family need not lose its life savings following a bank failure. Old-age dependency can be avoided loss of a firm's assets by theft can be reimbursed; whole cities ruined by a hurricane can be rebuilt from the proceeds of insurance.

Aid to small Business: Because without an insurance industry, small business would be a less effective competitor against big business. Big business may safely retain some of the risk that. If they resulted in loss would destroy most small business. Without insurance, small business would involve more risk and would be ales attractive outlet for fund and elegies.

2.11 Factors affecting for the growth of non-life insurance gross written premium

Insurance industry is grow at a faster rate than economic development different researcher argue that, there are various factors for the growth of Non-life and Life insurance premium, some of the research analyses are; Income level, The price of insurance, Financial development, Market structure, government policies, GDP, age of the company ,branch size of the company ,investment, capital of insurance company .

Some papers stated that the insurers to be successful have to improve through training to the intermediaries, provide required capital and quality service, make efforts to attract and retain

quality people and pressure on the use of information technology. In order to be successful, the insurance companies have to be innovative, select the right type of distribution channel, offer continuous training, educate the customer on the other side to provide quality service to customers and follow prudent investment pattern to increase the customer base. Kimble C.K in their study, analyzed the perceptions of customers and they also evaluate efficient pricing, underwriting skills, stronger claims management system, superior customer service, continuous product innovation, timely reforms are the key success factors in these sectors

Global Consumer Insurance Survey (2012) analyzed that for success of the industry price is important, but brand value and service are more important than price and it is very necessary to Designing new strategies, Environmental issues like political factors affecting Insurance Industry.

Feyen et al (2011) examine determinants of life and non-life insurance premiums for a panel of 90 countries during the period 2000-08. The results show that premiums are driven by per capita income, the population size and density, demographic structures, income distribution, the size of the public pension system, state ownership of insurance companies, the availability of Financial Stability Report ,private credit and religion. The study further points out that the development of the insurance sector can be influenced by a number of policy variables. In addition this to examine non-financial statements variables is classified as management quality, efficiency and productivity, age and number of branches. Most researches concerning insurance companies are conducted with respect to only financial statement variables. In property-liability insurance, the frequency of losses is greater in areas with higher rates of urbanization, and the relationship between urbanization and premium density is statistically insignificant.

2.12 Conceptual Framework of the Study

2.12.1 Growth in Gross Domestic Product

The Ethiopian economy which had registered 9.9 percent average annual growth during 2012/13-2016/17, but had registered 10.9 percent growth in 2016/17, depicting recovery from challenging macroeconomic and weather conditions of the previous year. This was made possible as a result

of 18.6 percent growth in industrial output, 10.3 percent rise in service sector and 6.7 percent expansion in agriculture.

Accordingly, the share of industry in GDP rose sharply to 25.6 percent in 2016/17 from 16.7 percent 0f previous while that of agriculture largely remained at around 36 percent. In contrast, the share of service sector dropped to 39.3 percent from 47.3 percent a year ago. This gradual but steady shift in the structure of the economy reflects the government's policy of developing manufacturing sector and promoting export-led growth while continuing to give due attention to modernizing the agriculture sector which has dominated for long the country's economic base.

Ethiopian insurance industry Gross written premiums increased from time to time. In the year 2007/2008 the insurance industry exhibited gross written premiums (GWP) of Birr 1,187,030,000 billion was generated from non life insurance business after 10 years in 2016/2017 the industry gross written premium was reached birr 7,100,000,000 billion and average growth rate within 10 years was 19.5%.

The influence of the insurance industry on the macroeconomic activity can be analyzed from two viewpoints:

(1) Its role in providing indemnification, and

(2) Its role as an institutional investor.

At the macroeconomic level, the insurance industry contributes to the formation of national income by creating value added. The latter is often ignored in national accounting systems. The service offered by the insurer is that of an intermediary and knowledge of the cost of insurance helps to measure the effort made by the community to provide itself with an insurance system. On the basis of premiums collected less liabilities incurred (and ultimately monetary compensation), this value added is apportioned for the payments of salaries and commissions, dividends and indirect taxes.

The structure of the insurance market could have significant effects on the growth of the market, but there have been few attempts to test these effects. For example, a monopolistic market based on state insurers could have a strong negative impact on market development. The presence of foreign insurers would be expected to contribute to market development through product

innovation and marketing techniques, but has produced mixed results. A low level of foreign participation may also reflect the high degree of competitiveness of the domestic market, as well as its possible saturation. An alternative approach is to calculate the degree of openness of the economy by looking at the ratio of exports (and imports) to GDP. Papers exploring this relationship all find a positive and significant relation

Financial development is generally identified with the growth of the real size of the financial sector in absolute terms, and in relation to GDP or national wealth, i.e. financial deepening. Financial development should have a positive effect on the insurance sector, and this effect could operate both from the demand and supply sides. Broad money M2 is often taken as a measure of the size of the financial sector. This variable also may be an appropriate measure of monetization in inflation prone countries. Several papers document a positive relationship between insurance consumption and the size of the financial sector. In view of the predominance of the banking sector in many countries, several authors are considering the role of banks and the banking sector development. Well-functioning banks may increase the confidence consumers have in the financial system and increase the efficiency of financial transactions following empirical papers in the banking sector, several variables are used to verify the Non-life insurance essentially consists of insurance policies that protect the insured against losses and damages other than those covered by life insurance such as property, motor, pecuniary loss, marine, transport, and aviation. Skipper (1997) show that insurance market activity, both as a provider of risk transfer and indemnification and as an institutional investor, may contribute to economic growth in the following ways:

- mobilizing domestic savings;
- allowing different risks to be managed more efficiently, thereby encouraging the accumulation of new capital;
- boosting financial stability;
- facilitating trade and commerce ;
- supporting to reduce or mitigate losses ;and
- Fostering a more efficient allocation of domestic capital.

Several other papers focus on the potential for the insurance sector to contribute to economic growth. Arena (2006) tests empirically how insurance market activities (life and non-life)

can influence economic growth by using the generalized method of moments for dynamic models of panel data for 56 countries and for years 1976-2004. The results show that both life and non-life insurance have a positive and significant causal effect on economic growth.

While insurance, like other financial services, has grown in quantitative importance as part of the general development of financial institutions, it also has become qualitatively more important due to the increase of risks and uncertainties in most societies. More recently, the economic importance of the insurance sector has been increasing as part of the liberalization of financial systems (including privatization) and globalization.

2.12.2 Government regulations

The quality of the legal and regulatory environment also has a significant effect on market development. A society's attitude to authority, government and the rule of law is important when examining the possible success of insurance services. In developing Countries where authority is weak and rules are not enforceable; the implication is a negative impact on the level of development of the insurance sector. Some of the most influential papers on this topic are from La Porta et al. (1997 and 1998) and Levine (1998 and 1999) which show that legal environments which provide good investor protection tend to encourage a higher degree of financial intermediation, as well as economic growth. It is also argued that the legal system (common law vs. civil law) influence the ability of financial institutions to mobilize and allocate efficiently resources. Legal systems that protect creditor rights should facilitate.

Regarding the Ethiopian insurance industry recently the government has issued various proclamations which were approved by the Ethiopian parliament and considered as a good opportunity for the premium growth.

- ✓ **Proclamation no. 746/2012 insurance Business proclamation**

The proclamation has also prohibited Insurance companies from providing policy coverage on partial or full credit basis/ "No premium, No Cover". / by this law all the customers have to pay fully in order to get the required cover.

- ✓ **Investment of insurance Funds Directive No SIB/25/2004**

A significant portion of insurance companies' financial resources are expected to be invested by insurance companies in income-earning assets in order to maximize profits. However, the practice of investment is affected by many factors. These factors forces insurance companies to invest the majority of their funds in government securities and bank deposits at interest rates significantly lower than that could have been earned if invested in other investment areas.

- ✓ **Proclamation No. 559/2008, Vehicle Insurance against Third Party Risks**

The government has issued another proclamation by proclamation no. 559/2008 compulsory motor third party insurance (this paper solely focused on this proclamation) this Prompted by the escalating occurrence of accidents caused by vehicles in the country, loss of lives, bodily injuries and damages to properties caused by these accidents creating social problems the Ethiopian parliament has enacted **a proclamation to provide for vehicle Insurance against third party in** 2008 and then after, the Insurance Fund Office was established in 2010, as an executive body to oversee the implementation of third-party insurance. The third party proclamation got into effect starting from 2011. By this law the gross written premium is expected to increased, the law is implemented partially in 2009/2010 and fully implemented as of 2010/2011.

2.12.3 Capital and branch expansions

Insurance companies in Ethiopia are supervised by the National Bank of Ethiopia under the legislative regulation of Insurance Proclamation No. 591/2008 and Article 42 of the Licensing and Supervision of Insurance Business Proclamation No. 86/1994

The provisions of the proclamation to provide for the Licensing and Supervision of Insurance Business No. 86/1994 governed the terms and conditions for undertaking insurance business with requirements that, in order to carry on insurance business in Ethiopia, any person will have to be established as a share company and its share capital should not be less than Birr 3,000,000 if the business to be done is general insurance business; Birr 4,000,000 if the business to be done is long-term insurance business; Birr 7,000,000 if the business to be done is both general and long-term insurance business.

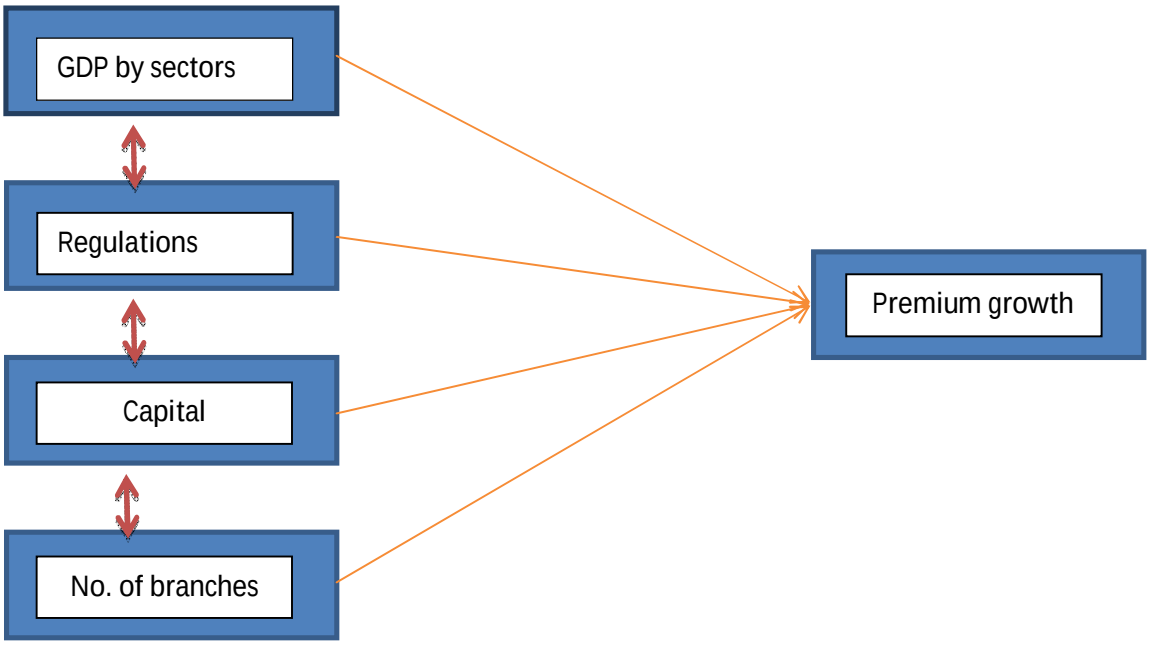
However, this proclamation is repealed by Proclamation No 746/2012 referred to as a proclamation to provide for insurance business. Based on this proclamation the National Bank of Ethiopia has issued Directive No.SIB 34/2013 by which it has increased the minimum paid up capital required to obtain general insurance license to Birr 60 million and for long term insurance to Birr 15 million which ought to be fully paid and deposited in blocked bank account in the name of the insurer to be established.

Consequently the paid up capital of the seventeen insurance companies increased from Birr 1,489,000,000 to Birr 3,896,000,000 during the period of 2012/13 to 2016/17 this leads to branch expansion across the country during the same period the branches of the insurance companies increased from 273 to 482. And the expansion of branches directly contributed to the increase of premium from Birr 4,497,666,000.00 to Birr 7,100,000,000 so it is assumed to be positive relationship with the premium growth in the industry.

2.13 Conceptual Model

In order to show the relationship between premium growth and factors affecting the premium growth in selected private insurance companies in Ethiopia, the following conceptual model was hypothesized.

Figure 2.1 Conceptual Framework of the Study



CHAPTER 3: RESEARCH METHODOLOGY

3.1. Introduction

This chapter focuses on the description of the techniques adopted in this research work. The methodology of carrying out this research is based on the objectives of the paper i.e. identification and analysis of determinant factors for the growth of non–life insurance Gross Written Premium in Ethiopian Insurance Industry in the case of some selected insurance companies, and the availability of relevant information to comply with the objective of this research paper. It includes the research purpose, research design, sampling techniques and sample size, data collection procedure, data analysis, presentation and descriptive analysis and regression analysis. In general, this chapter provides the methodological framework to collect data from various sources, sampling, data collection instruments, and approach to data analysis for achieving set objectives.

And also this research used both qualitative and quantitative data and the work performed such as research document analysis, critical review of literature and questionnaire is used.

3.2 Research Design

Research design is a comprehensive plan for data collection in an empirical research paper. It is a blueprint for empirical research aimed at answering specific research questions or testing specific hypotheses (Bhattacherjee, 2012).

The researcher utilized both quantitative and qualitative research methods. These methods refer to the type of data being collected (quantitative data involve numeric scores, metrics, and so on, while qualitative data includes questionnaire) and analyze (i.e., using quantitative techniques such as regression or qualitative techniques such as coding). This is because the qualitative approach enables to make subjective assessment of attitude, subjective norm and perceived behavioral control on the purchase behavior of nonlife insurance products. It is true that a good description provokes the `why' questions of explanatory research. The quantitative approach helps to quantify or objectively measure certain variables in numeric terms, which makes descriptive analysis easy and manageable. To this end, both qualitative and quantitative research approaches were applied in this study.

Research design is the arrangement of conditions for collection and analysis of data in a manner that aimed to combine relevance to the research purpose with economy in procedure (Kothari, 2004). This study adopted a descriptive research design. According to (Cooper and Schindler, 2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design was chosen because it enabled the study to generalize the findings to a larger population.

It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders, Lewis and Thornhill, 2003). State that a descriptive method in data collection in qualitative research is central to open, unstructured qualitative research interview investigations.

3.3. Data Source

Both primary and secondary data will be used that can help to achieve the above objectives. The primary sources of information are supervisors, branch managers, and department managers of the respective companies. On the other hand, the secondary sources mostly include: National Bank of Ethiopia reports, annual reports of each insurance company, books, articles, journals, research works, internet browsing, etc that have relevance with the research topic.

3.4 Data Collection Technique

Data collection involved contacting the respondents in the sample in order to collect the required information about the study (Cooper & Schindler, 2003). For this particular case study the researcher will use questionnaires and additional data for the financial years of 2011/12 to 2016/17. Data collection for the study was involved a self-administered questionnaires.

3.5 Target Population and Sampling Technique

Mugenda and Mugenda (2003) define population as the entire group of individual's, events or objects having a common observable characteristic. Mugenda and Mugenda (2003), defines target population as that population the study studies, and whose findings are used to generalize to the entire population.

According to National Bank of Ethiopia report, currently there are a total of 17 insurance companies functioning in Ethiopia. From the total of seventeen insurance companies seven insurance companies are selected using purposive or judgmental sampling techniques, which

were operated over 20 years in the insurance industry to meet the research objectives. For these selected insurance companies the data used to analyze is for the financial years of 2011/12 to 2016/17.

3.6 Sample Size

To determine sample size, the researcher takes all supervisors, branch managers and department managers of all seven insurance companies which are working at the city branches and at the department level, as per tabulated below.

Table 3.1 Population size for each insurance company

	Department managers	**City branch managers**	**supervisor/senior officers**	**Total**
EIC	11	18	12	41
Awash Insurance	9	26	10	45
Africa insurance	9	14	6	29
NICE	9	19	9	37
United insurance	9	20	11	40
Nile insurance	9	19	10	38
Nyala insurance	11	15	12	38
			Total	**268**

Accordingly, the required sample size of respondents is determined based on a formula developed by Yamane (1967, cited in GfK, 2013), at 95 percent level of confidence as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where, n = sample size

N= Target Population, which is known (i.e., 268); and

e = the acceptable sampling error at 0.05.

$$\mathbf{n = \frac{268}{1 + 268(0.05)^2} = 160}$$

Accordingly, as tabulated below each respondent were selected proportionally from the respective insurance company and position.

Table 3.2 Sample size from each insurance company and position

	Department managers	**city branch managers**	**supervisor/senior officers**	**Total**
EIC	6	11	7	24
Awash Insurance	5	15	6	27
Africa insurance	5	8	4	17
NICE	5	12	5	22
United insurance	5	13	6	24
Nile insurance	5	12	6	23
Nyala insurance	6	9	7	23
			Total	160

Thus, the questionnaire is distributed to all of 160 respondents proportionally under the sample size frame in the population. And from the total of 160 questionnaires distributed to each respondent only 151 were collected and analyzed.

3.7 Data Processing and Analysis

The researcher utilized both qualitative and quantitative data. Therefore, the aim of the study is identifying and analyzing of determinant factors for the growth of non–life insurance Gross Written Premium in Ethiopian Insurance Industry in the case of some selected insurance companies. By considering the aim and nature of the research problem, both descriptive and analytical approaches were applied.

Descriptive statistics data analysis method is applied to analyze both qualitative and quantitative data. Data obtained from the questionnaires were processed through editing and coding and then entering the data into a computer for analysis using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 20.0, which offers extensive data handling capabilities and numerous statistical analysis procedures that analyses small to very large data statistics. Qualitative data is analyzed using content analysis. The analyzed findings were presented in the form of frequency and percentage tables, they are user friendly and gave a graphical representation of the different responses given by the respondents.

CHAPTER FOUR: DATA PRESENTATION AND DISCUSSION OF FINDINGS

4.1. Introduction

The data presentation and discussion of findings from questionnaires and secondary data are treated with equal importance to explain Identification and analysis of determinant factors for the growth of non–life insurance Gross Written Premium in Ethiopian Insurance Industry. This chapter contains four sections including; characteristics of background variables, Descriptive Statistics of Independent and Dependent Variables, Relationship among Variables, Multiple Linear Regressions.

4.2 Characteristics of Background variables

The general descriptions of the respondents, i.e., Supervisors/senior officers, branch managers and department managers are going to give us the overview of the people participating in this case study. Under this section respondents are asked about their educational background, age and position in the company.

Table 4.1 Frequency and Percentage of Background Variables

Background variable	Group	Frequency	Percent
Age	26-40	70	46.4
	41-60	78	51.6
	>60	3	2.0
	Total	151	100.0
Educational level	Secondary education	12	7.9
	University education	139	92.10
	Total	151	100.0
Position	Supervisor/senior officers	39	25.8
	Branch manager	77	51.0
	Department manager	35	23.2
	Total	151	100.0

Source: Survey Questionnaire (2018)

Table 4.1 shows frequency and percentage of background variables of participants participated in this study. A total of 151 participants involved in this study of which almost half of participants (52%) were in the age group of 41-60, 46.4% were in the age range of 26-40 while the remaining minorities, 2% were 60 and above years old.

Regarding educational level of participants, the majority, 92.1%, were having educational qualification of university education whereas the remaining minorities, 7.9% were having educational level of secondary education complete.

Concerning work position of participants, almost half of the total participants (51%) were branch managers, working in a position of supervisor or senior officer are 25.8%. And the rest 23.2% are department managers.

4.3 Descriptive Statistics of Independent and Dependent Variables

Table 4.2 ***Descriptive Statistics of Variables in Billions of Birr***

Variable	N	Minimum	Maximum	Mean	Std. Deviation
GDP Agriculture	151	222.90	573.10	304.7333	121.63257
GDP Industry	151	59.60	404.30	142.1667	119.46794
GDP Services	151	237.00	620.20	347.7000	128.24598
Capital	151	582.10	3896.00	1745.5600	1071.92957
GWP	151	640228000.00	7100000000.00	3042980886.6667	2133675329.05429

Table 4.2 above shows that the mean, minimum, maximum score and standard deviation of independent and dependent variables in billions of Birr. The mean or average amount of GDP service was 347.70 with a standard deviation of 128.25 which was relatively the highest amount among the three sectors. The mean amount of GDP agriculture was 304.73 with a standard deviation of 121.63 which was the second highest amount next to GDP service. The mean amount of GDP industry was almost half of the agriculture sector with average amount of 142.17 and standard deviation of 119.47.

In addition, table 4.2 shows that the average amount of gross written premium and capital was 3,042,980,886.66 and 1745.56 in billions of Birr respectively.

Figure 4.1 share in GDP in the three sectors (Agriculture, Industry and Service)

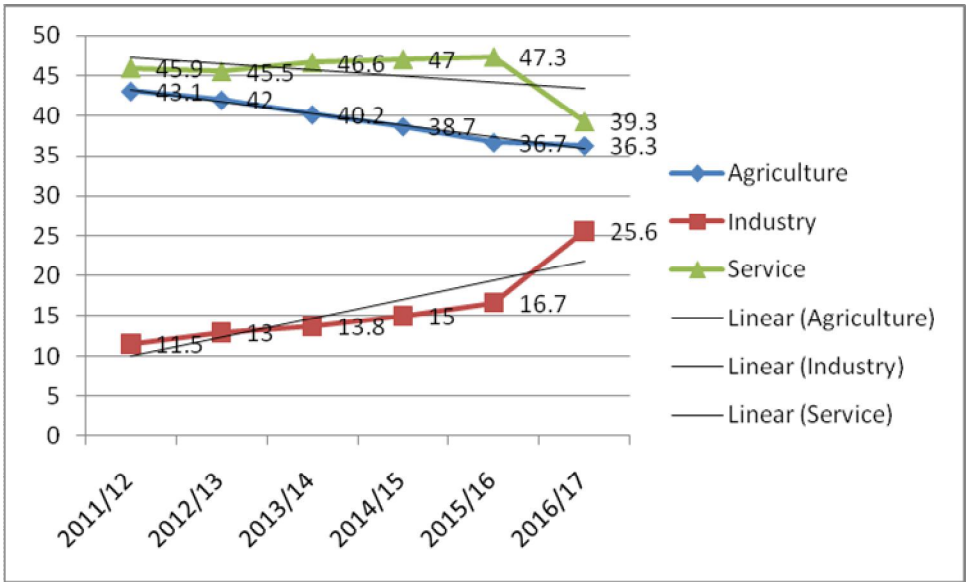


Figure 4.1 shows the trend of share in GDP in the three sectors over the last five years. As shown in figure 1 GDP in the service sector shows an increasing trend from year 2011/12 to 2016/17. The GDP in service sector was 11.5 in billions of Birr in the year 2011/12. This figure increases to 13.8 billion in the year 2013/14 and becomes almost double in the year 2016/17 and reaches to 25.6 billion. On the other hand, the trends of GDP share in the agriculture and industry sector were decreasing for the last five years. For agriculture sector the GDP was 43.1 in the year 2011/12 and this amount decreases into 36.3 billion in the year 2016/17. Similarly, the GDP for industry was 45.9 billion in the year 2011/12 and this amount decreased in to 39.3 billion in the year 2016/17.

In addition from the period 2011/2012 to 2016/2017 GDP increased on average by 10.74% in the same period Ethiopian insurance industry non life gross written premium is also increased by close to 19% . At the same time most of Non-life insurance gross written premium is derived from motor insurance which equal to around 52% and also the stated type of insurance is especially comes from service and industry sector, at the same period service and industry combined contribute to the GDP was 64.9 (see annex I), it shows that industry and service sector increased Non-Life insurance gross written premium also increased. In general GDP is one of the factors for the growth of Non-life insurance gross written premium

4.4 Relationship among Variables

Table 4.3 ***Correlation Statistics of Independent and dependent Variables***

	GWP	GDP Agriculture	GDP Industry	GDP Service
GWP	1	.972**	1.000**	.992**
GDP Agriculture		1	.975**	.988**
GDP Industry			1	.994**
GDP Service				1

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Questionnaire (2018)

Correlation analysis estimates the extent of the relationship between any pair of variables (Reimann, Filzmoser, Garrett, &Dutter, 2008). The correlation coefficient is a measure of this relationship and depends on the variability of each of the two variables. Because of covariance, correlation coefficient can take a number with + or – sign (Reimann et.al, 2008). One of the widely-used methods to calculate a correlation coefficient is the Pearson product moment correlation. This method result in a number between −1 and +1 that expresses how closely the two variables are related, ±1 shows a perfect 1:1 relationship (positive or negative) and 0 indicates that no systematic relationship exists between the two variables (Reimann et.al, 2008). In relation to the magnitude of correlation coefficient, Cohen (1988) stated that a correlation coefficient between 0.10 to 0.29 can be considered as small or weak, from 0.30 to 0.49 medium and from 0.50 to 0.10 large or strong.

Table 4.3 shows correlation between dimensions of gross written premium and GDP in the three sectors. As can be seen in table 4.3, gross written premium had statistically positive significant relationship with three sectors (GDP agriculture, GDP Industry and GDP Service). This implies that as one variable increase, the other variable also increases and vice-versa. There was strong correlation between gross written premium and GDP agriculture, $r = 0.972$, $p < 0.001$. Surprisingly, the correlation between gross written premium and GDP Industry was perfect positive 1, $r = 1.000.$, $p < 0.001$. The correlation between gross written premium and GDP Service was also strong, $r = 0.992$, $p < 0.001$.

Table 4.3 also shows the correlation among the three sectors. The result indicated that the correlation among the three sectors were positive and statistically significant. The first strong correlation was between GDP Industry and GDP Service, $r = 0.994$, $p < 0.001$. The second strong correlation was between GDP agriculture and GDP Service, $r = 0.798$, $p < 0.01$. The third strong correlation was between GDP agriculture and GDP Industry, $r = 0.975$, $p < 0.001$.

Table 4.4 ***Correlation Statistics between Gross Written Premium and Number of Branches***

	Gross Written Premium	**Number of Branch**
Gross Written Premium	1	.978**
Number of Branch		1

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.4 shows the relation between gross written premium and number of branches. As indicated in the table 4.4 there was a strong and statistically significant positive correlation between gross written premium and number of branches, $r = 0.978$, $p < 0.01$. This implies that as number of branches increases, gross written premium also increases and vice-versa.

4.5. Multiple Linear Regressions

Tests of assumptions for Multicollinearity, Outliers, normality, linearity, homoscedasticity, independence of residuals

Multicollinearity

The variables from the questionnaire claims expense, operating expense, underwriting operation, Intermediaries, GDP, No. of branches and capital, and new product or NBE regulation have shown significant relationship with each other and except the relationship between GDP Agriculture and GDP Industry, which was a correlation coefficient of greater than 0.90, and the correlation coefficient of rest was not too high (see table 4.5).

To avoid the multicollinearity effect, the predictor variable GDP Industry was removed from the model. In such a way, the assumption of multicollinearity was not violated. In addition the assumption of multicollinearity can also be assessed using SPSS as part of multiple regression procedure. In the collinearity statistics section, Tolerance and VIF values are given. Tolerance is

an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model and is calculated using the formula (1 – R squared for each variable. If this value is small (less than 0.10) it indicates that the multiple correlation which other variables is high, suggesting the possibility of multicollinearity. In the present study the tolerance value for each independent variable was not less thatn0.10 therefore, this also suggests that the assumption of multicollinearity was not violated (see table 4.5). The other value given is the VIF (Variance inflation factor), which is just the inverse of the Tolerance vale. VIF values above 10 would indicate multicollinearity. Again in the present study the VIF value was less than 10 for all independent variables (see table 4.5). This also indict that the assumption of multicollinearity was not violated.

Table 4.5 Collinearity Statistics Test of Independent Variables

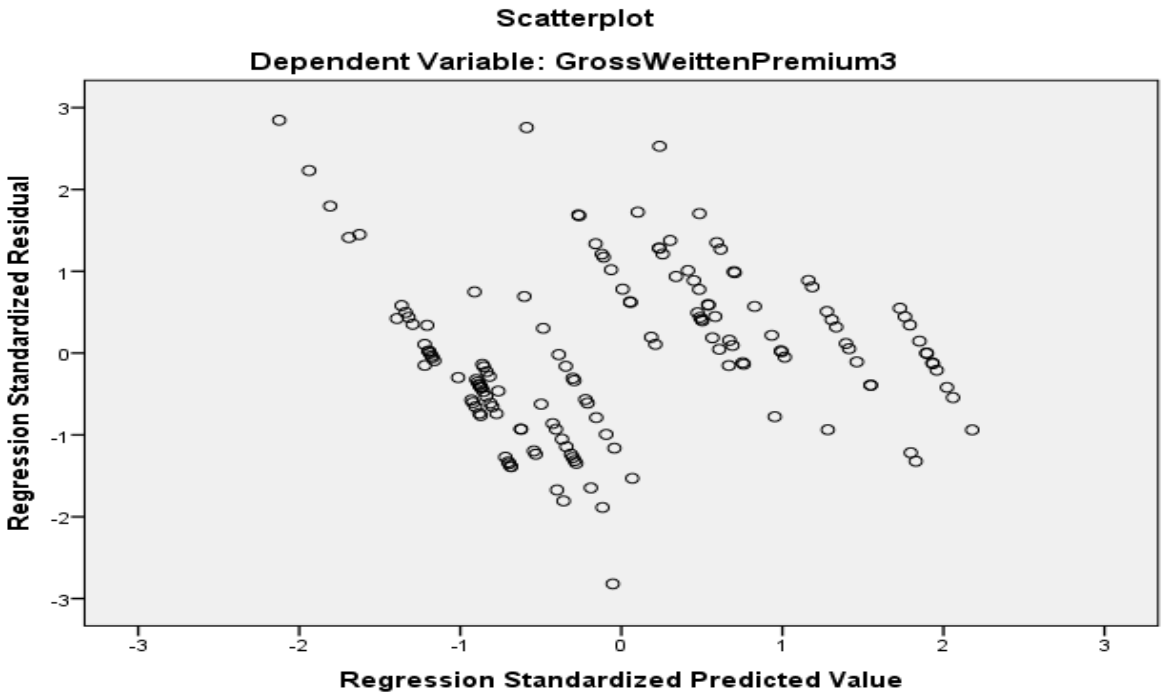
Collinearity Statistics		
	Tolerance	VIF
Claims expense	.138	7.268
Operating expense	.619	1.614
Underwriting operation	.186	5.372
Intermediaries	.266	3.753
GDP total	.334	2.993
No. of branches	.283	3.528
New Product/ NBE regulation	.371	2.696
GDP Services	.215	4.648
Capital	.961	1.040
GDP Agriculture	.354	2.825

Source: Survey Questionnaire (2015)

Homoscedasticity - "homogeneity of variance" assumption or homoscedasticity. It states that the variances of the same variable, selected from independent samples, will be equal. In regression analysis, this assumption states that the variances of the *Y*s, for each *X*, will be equal. The standard suggestion for examining the assumption of homoscedasticity in regression analysis is to plot the predicted *Y* values against the residual values. Heteroscedasticity is indicated when these values spread or fan out from left to right or right to left. The scatterplot shows that the

points are concentrated around 0 which shows that no violation of homoscedasticity (see figure 4.2).

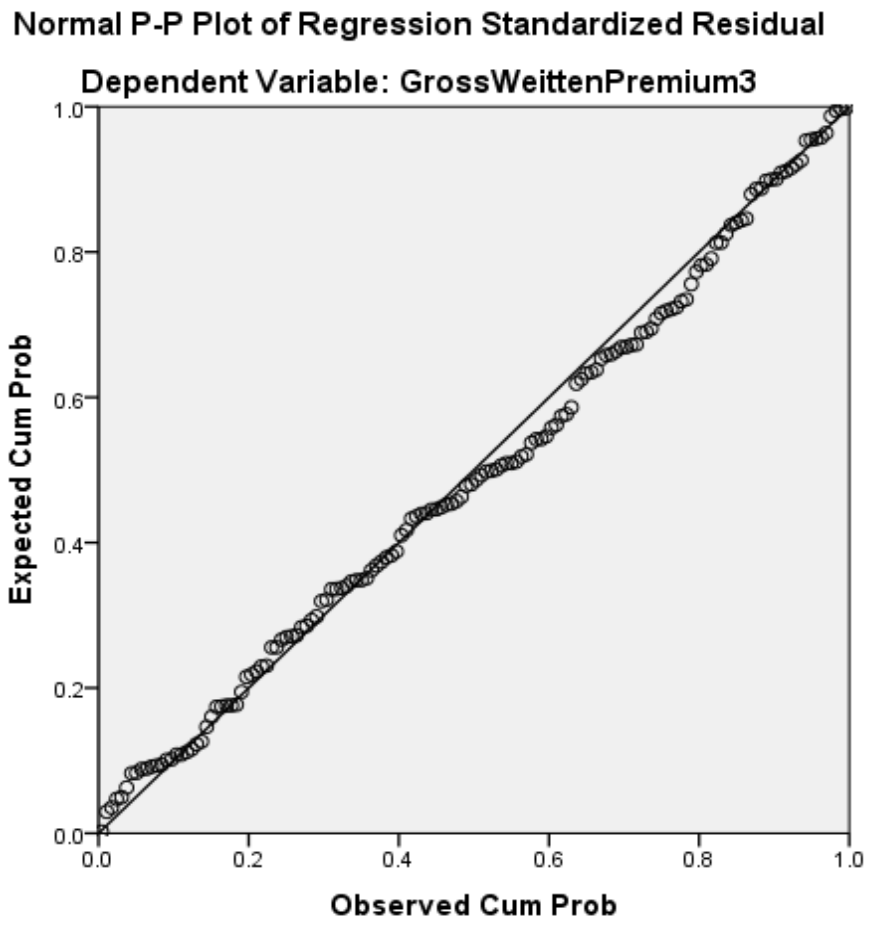
Figure 4.2, Scatter plot of Gross Written Premium



Outliers, normality, linearity, independence of residuals

These assumptions can be checked by inspecting the Normal Probability Plot (P-P) of the Regression Standardized Residual and the Scatterplot shown as part of the analysis. If points lie in a reasonably straight diagonal line from bottom left to top right in the Normal P-P plot, no major deviation from normality can be suggested. In the present study, we can easily inspect from the Normal P-P plot that points line in a reasonably straight diagonal line from bottom left to top right for all dependent variables (see figure 4.2). This suggests that the assumption of normality was not violated. In the Scatterplot of the standardized residuals, the residuals were roughly rectangular with most of the scores concentrated in the center, along the line 0. This also suggests no violation of the assumption of independence of residuals. Outliers can also be detected from the Scatter plot. From this Scatter plot we can find that there were no major outliers.

Figure 4.3, P-P plot of Gross Written Premium



In summary, as we can understand from the above paragraphs, all the essential assumptions, such as multicollinearity, Outliers, normality, linearity, homoscedasticity, independence of residuals for computing regression analysis were not violated for using linear regression.

Table 4.6 The Influence of Predictor Variables on the Gross Written Premium

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.960[a]	.922	.916	616483378.87463

a. Predictors: (Constant), claims expense, operating expense, underwriting operation, Intermediaries, GDP services,
GDP agriculture, No. of branches, capital, and new product and NBE regulation

b. Dependent Variable: Gross Written Premium

As shown in table 4.6 the value of adjusted R square is 0.922. This value tells how much of the variance in the dependent variable Gross Written Premium is explained by the model (claims expense, operating expense, underwriting operation, Intermediaries, GDP services, GDP agriculture, No. of branches, capital, and new product and NBE regulation). In other words, multiplying R Square value with 100, the model explains 92.2% of the variance in the dependent variable **(**Gross Written Premium**)**.

Table 4.7 ***Goodness of Fit – ANOVA Result***

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	6221586134284152000000.000	10	622158613428415200000.000	163.704	.000[b]
Residual	528271941435866300000.000	139	380051756428680830.000		
Total	674985807572001900000.000	149			

a. Dependent Variable: Gross Written Premium

b. Predictors: (Constant), *claims expense, operating expense, underwriting operation, Intermediaries, GDP services, GDP agriculture, No. of branches, capital, and new product and NBE regulation*

The goodness of fit results of linear multiple regressions with Gross Written Premium as the dependent variable and variables (claims expense, operating expense, underwriting operation, Intermediaries, GDP services, GDP agriculture, No. of branches, capital, and new product and NBE regulation) as predictors is reported in table 4.7. The model reveals a statistically significant relationship between Gross Written Premium and predictor variables, $F(10,139) = 163.70$, $p < 0.001$. In other words the model was significant.

Table 4.8 Regression coefficients of predictor variables in predicting the dependent variable, Gross Written Premium

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-8547034758.916	894670390.223		-9.553	.000
Claims expense	398446862.599	32118442.213	.794	12.406	.000
Operating expense	-39187950.355	18667393.847	-.063	-2.099	.038
Underwriting operation	22386105.557	31597033.724	.039	.708	.480
Intermediaries	264540200.253	48061297.535	.253	5.504	.000
GDP industry	-49717691.336	34159904.518	-.060	-1.455	.148
No. of branches	31127646.150	30781219.148	.045	1.011	.314
New Product/ NBE regulation	69097314.643	30893130.682	.087	2.237	.027
GDP Services	1276423.202	849063.154	.077	1.503	.135
Capital	66464.046	48052.181	.033	1.383	.169
GDP Agriculture	2932839.087	697900.654	.168	4.202	.000

a. Dependent Variable: Gross Written Premium

In order to assess the influence of predictor variables from questionnaires on Gross Written Premium, multiple linear regression analysis was computed. The table 4.8 shows that, among the predictor variables, variables like claims expense, underwriting operation, intermediaries, new product/ NBE regulation and GDP agriculture made a statistically significant prediction in predicting the dependent variable, Gross Written Premium. To evaluate the contribution or influence of each independent variable to the dependent variable, one can see the Beta value. In the table 4.8 above, the Beta value for predictor variable, claims expense was 0.794 which implies that this predictor variable made the first strong positive and statistically significant influence in explaining or predicting the dependent variable Gross Written Premium when the variance explained by all other variables in the model is controlled for.

In addition, intermediaries made a statistically significant positive prediction to the dependent variable with Beta value of 0.253. This implies that predictor variable intermediaries made the second strong influence in predicting the criterion variable, Gross Written Premium. GDP agriculture made the third strong influence to the dependent variable with Beta coefficients of 0.168. Furthermore, new product and operation made the third and the fourth positive and negative strong influence/contribution in predicting the dependent variable respectively. However, the remaining predictor variables (claim expense, GDP industry, no. of branch, GDP service and capital) didn't make any statistically significant contribution/influence in determining the dependent variable, $p > 0.05$.

In general, the study explored the relationship between GWP and various determinants (GDP service, GDP industry, and GDP agriculture and branch expansion) by hypothesizing that there is no statistically significant relationship between GWP of insurance companies and the stated factors or determinants. However, results of this study indicated that the relationship between the GWP and selected factors was statistically significant ($p < 0.001$) for the dependent variables. Therefore the null hypothesis was rejected and therefore the alternate one was accepted, meaning that there is a significant relationship between GWP and determinants (GDP service, industry, agriculture and branch expansion).

4.6. Hypothesis Testing

Hypothesis testing is the method of testing whether claims or hypotheses regarding a population are likely to be true. The goal of hypothesis testing is to determine the likelihood that a population parameter, such as the mean, is likely to be true. Here there are two hypotheses: null (H0), and alternative (Ha). The null hypothesis (H0), stated as the null, is a statement about a population parameter, such as the population mean, that is assumed to be true. The null hypothesis is a starting point. The researcher tests whether the value stated in the null hypothesis is likely to be true. The only reason of testing the null hypothesis is because the researcher thinks that it is wrong. An alternative hypothesis (Ha) is a statement that directly contradicts a null hypothesis by stating that the actual value of a population parameter is less than, greater than, or not equal to the value stated in the null hypothesis.

The significance (sig.) value expresses a value to accept or reject the (null) hypotheses. It is also called the p-value. The p-value is the probability that the correlation is one just by chance. Therefore, the smaller the p-value, the better will be. The general rule is: reject H0 if $p < .05$ and accept H0 if $p \geq .05$ (Pallant, 2007).

For this part of the research, it is better to state again what the three hypotheses were under the introduction part of the study.

Hypothesis 1:

Ho1: There is no strong statistical significant relationship between GDP Service and non-life insurance gross written premium.

Ha1: There is strong statistical significant relationship between GDP Service and non-life insurance gross written premium.

As shown on table 4.3 the correlation between gross written premium and GDP Service was strong, $r = 0.992$, $p < 0.001$. In this case in all the p-value is less than 0.05 so the value is highly significant. Thus, we reject the null hypothesis (Ho1) and, instead, accept the alternative hypothesis (Ha1) it says that there is strong statistical significant relationship between GDP Service and non-life insurance gross written premium.

Hypothesis 2:

Ho2: There is no strong statistical significant relationship between GDP Industry and non-life insurance gross written premium.

Ha2: There is strong statistical significant relationship between GDP Industry and non-life insurance gross written premium.

As shown on table 4.3 the correlation between gross written premium and GDP industry was perfect positive 1, $r = 1.000.$, $p < 0.001$. In this case in all the p-value is less than 0.05 so the value is highly significant. Thus, we reject the null hypothesis (Ho2) and, instead, accept the alternative hypothesis (Ha2) it says that there is strong statistical significant relationship between GDP Industry and non-life insurance gross written premium.

Hypothesis 3:

Ho3: There is no strong statistical significant relationship between GDP Agriculture and non-life insurance gross written premium.

Ha3: There is strong statistical significant relationship between GDP Agriculture and non-life insurance gross written premium.

As shown on table 4.3 There was strong correlation between gross written premium and GDP agriculture, $r = 0.972$, $p < 0.001$. In this case in all the p-value is less than 0.05 so the value is highly significant. Thus, we reject the null hypothesis (Ho3) and, instead, accept the alternative hypothesis (Ha3) it says that there is strong statistical significant relationship between GDP Agriculture and non-life insurance gross written premium.

Hypothesis 4:

Ho4: There is no strong statistical significant relationship between no. of branches of insurance companies and non-life insurance gross written premium.

Ha4: There is strong statistical significant relationship between no. of branches of insurance companies and non-life insurance gross written premium.

As shown table 4.4 the relationships between non life insurance gross written premium and number of branches. There is a strong and statistically significant positive correlation between gross written premium and number of branches, $r = 0.978$, $p < 0.01$. In this case p-value is less than 0.05 so the value is highly significant.

Thus, we reject the null hypothesis (Ho4) and, instead, accept the alternative of hypothesis (Ha4) that says there is strong statistical significant relationship between no. branches and non life insurance gross written premium.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In the first part of this chapter summary of the main findings of the study was presented and followed by conclusions, recommendations and Suggestion for Future Study. Finally, the identified area for further research was presented.

5.2 Summary

As stated in this paper Gross written premium is total premiums generated from all policies (contracts) written by an insurer within a given period of time. The objective of the study was to analyze and identify factors for the non life premium growth in some selected insurance companies which were operated over 20 years in Ethiopian insurance industry. Due to this, the study explicated the following specific objectives: to explore the major factors on insurance companies on the growth of non life GWP, to evaluate the relationship of this factors on the growth of non life GWP, to identify the impact of non life GDP growth on premium growth, to analyze the impact of insurance intermediaries on the growth of premium.

In this study quantitative and quantitative approaches were employed to ensure effectiveness of the research process and meet the objective of the research. Secondary data's like annual premiums, number of branches, capital of seven insurance companies from the period of 2012 to 2017 were used, in addition to this GDP by sector for the last five years were used. The primary data's were collected through questionnaires which were distributed to 151 selected employees of all seven insurance companies. Using SPSS computer program descriptive statistics like means and standard deviations were used to describe the data. In addition correlations and regression analysis were used to assess the relationship among variables.

To measure the predictor variables of insurance industry GWP growth, ten measures were used as independent variables which were identified by the researcher. The variables were claims expense, operating expense, underwriting operation, Intermediaries, GDP services, GDP agriculture, No. of branches, capital, and new product and NBE regulation.

In this study it was found that the dependent variable i.e. Gross written premium was affected by the independent variables included at different level of significance. Accordingly, the findings showed that claims expense, operating expense, underwriting operation, Intermediaries, No. of branches, capital, and new product and NBE regulation have statistically significant relationship with the growth of GWP. Moreover, the result indicated that the correlation between GWP and GDP sectors had statistically positive significant relationship. And also the result shows that the correlation among the three GDP sectors were positive and statistically significant.

5.3 Conclusions

Insurance is a key instrument which plays a major role in a country's economic activity and offers financial protection to an individual or firm against monetary losses suffered from unforeseen circumstances.

The objective of the study was to analyze and identify factors affecting for the growth of non life insurance gross written premium. Based on the objective of this thesis, the following conclusions are drawn from the above findings, discussions and summary of the study.

The dependent variable non life insurance gross written premium has highly affected by the independent variables. The growth of premium in the non life insurance had statistically positive significant relationship with GDP service, agriculture and industry. This shows that there was strong correlation between the growth of gross written premium and GDP sectors. This means that the dependent variable highly affected by the GDP sectors which means as one variable increase, the other variable also increases and vice-versa.

Also there is strong and statistically significant positive correlation between the dependent variable non life insurance gross written premium and number of branches, the study investigates that the independent variable branch expansion and capital of insurance companies have a direct influence on the growth of non life insurance premium. Furthermore, the result showed that predictor variables, variables like, claims expense, operating expense, underwriting operation, Intermediaries, GDP services, GDP agriculture, No. of branches, capital, and new product and NBE regulation made a statistically significant prediction in influencing/predicting the dependent variable, non life GWP.

5.4 Recommendations

Based on the major findings of this study, the following recommendations were forwarded;

- The government should sustain the economic growth of the country to maintain the insurance sector growth because one of the factors for the insurance industry development is the development of country economy, when the economy is strong the insurance sector also become strong, based on the research result GDP growth results to increase non-life insurance gross written premium. In addition to this the industry sector has high contribution to the gross written premium.

- The economy is showing some trend of shift from agriculture to industry and also the industry is major contributor of the insurance sector development. And this is a good opportunity for the insurance industry, and has to go in line with the development.

- Insurance companies should increase their capital of insurance companies through the sale of shares due to the fact that capital of insurance has one of the other factors for the growth of non life insurance growth written premium.

- Branch size is the other factor for the growth of non life insurance gross written premium, when number of branch is increased the premium is increased, so that the insurance companies have to open branches in order to increase their premium and better serve the customers as well.

- Insurance companies should develop new products or policies based on the customers need assessment and market research in order to give them better protection and increase non life insurance gross written premium.

- In general, though the Ethiopian insurance industry sector is a growing, it is at the early stage of development, even lack of awareness by the society and not backed by IT infrastructure. We can say this by seeing the insurance penetration and density ratio it is very small as compared to other countries insurance industry.

5.5 Suggestion for Future Study

- In the current study only seven insurance companies of Ethiopia were included as a sample. Therefore, the findings of the study might not be generalized to all insurance companies found in Ethiopia or to other locations or populations. One possible implication for future research might be confirmation of the results through replication of the study with other demographically different insurance companies.

- This study was conducted to assess “Identification and Analysis of Determinant Factors for the Growth of Non–life Insurance Gross Written Premium in Ethiopian Insurance Industry, in the case of some selected insurance companies” However, future research may investigate additional factors in relation with Investment, capital of insurance companies, income level, public awareness to the benefit of insurance, political, economic, legal, cultural, technological must be better analyzed.

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Appendix I: Research Questionnaires

The objective of this study is to find out determinant factors for the growth of non–life insurance Gross Written Premium in Ethiopian Insurance Industry.

For this reason we request for your kind responses to the following questions. All information collected will be strictly confidential and exclusively be used for academic purposes only.

1. What is your level of education?

	Education	TICK
A	Primary education	
B	Secondary education	
C	University education	

2. What is your age?

	Age	TICK
A	Between 26-40	
B	Between 41-60	
C	Above 60	

3. What is your Position?

	Position	TICK
A	Supervisor/ Senior officer	
B	Branch manager	
C	Department manager	

4. Are you satisfied with the following mode of Underwriting operation?

	Mode of operating	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	Providing of renewal notice					
B	Risk selection					
C	Risk acceptance					
D	Rating factors					
E	Policy approval procedures					

5. Which variables will increases claims expense?

	Variables	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	Expenses related to inspectors and surveyors					
B	Expenses related with legal proceedings					
C	Claims loophole					
D	Poor pre and post risk survey					
E	Expenses related to garages					
F	Moral hazard					

6. Which variables will increases operating expense?

	Variables	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	General and administration expense					
b	Benefits and allowance					
C	Directors remuneration					
D	Training cost					

7. Which intermediaries will contribute to the premium growth?

	Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
A	Brokers					
B	Agents					

8. Which variables will contribute to growth in GDP in relation to non life gross written premium?

	Variables	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	Service					
B	Industry					
C	Agriculture					

9. No. of branches and capital of insurance companies will increase the premiums?

	Variables	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	Branches within Addis Ababa					
B	Branches outside Addis Ababa					
C	Capital of insurance companies					

10. Which variables will influence the growth of non life gross written premium?

	Variables	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	New type of product					
B	New covers					
C	NBE regulations					

MANY THANKS FOR YOUR TIME AND COOPERATION

Annex II

Sectoral Contributions to GDP and GDP Growth[2]

(In Billions of Birr)

Items		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Sector	Agriculture	222.9	238.8	251.8	267.8	274.0	573.1
	Industry	59.6	73.9	86.5	103.7	125.0	404.3
	Services	237.0	259.0	292.0	325.0	353.0	620.2
Total		519.5	571.7	630.3	696.5	752.0	1,597.6
Less FISIM		3.0	3.0	4.0	4.0	5.0	20.5
Real GDP		517.0	568.0	627.0	692.0	747.0	1,577.1
Growth in Real GDP		8.7	9.9	10.3	10.4	8.0	10.9

Source tradingeconomics.com National Bank of Ethiopia

Share in GDP (in %)

Agriculture 43.1 42.0 40.2 38.7 36.7 36.3

Industry11.5 13.0 13.8 15.0 16.7 25.6

Service 45.9 45.5 46.6 47.0 47.3 39.3

Annex III

Insurance company Branch in Number & Capital in Millions of birr)

S/No	Insurance Companies	Branch						Capital	
		2015/16			2016/17			2015/16	
		A.A	Reg	Total	A.A	Reg	Total	Capital	Capital
1	Ethiopian Insurance Corporation	18	48	66	18	52	70	692	977
2	Awash Insurance Company S.C	24	14	38	26	15	41	254	327
3	Africa Insurance Company S.C	10	11	21	14	12	26	209	243
4	National Insurance Corporation of Ethiopia S.C	15	14	29	19	15	34	93	93
5	United Insurance Company S.C	18	10	28	20	11	31	280	319
6	Global Insurance Company S.C	6	7	13	7	7	14	104	116
7	Nile Insurance Company S.C	17	18	35	19	20	39	220	266
8	Nyala Insurance Company S.C	13	10	23	15	14	29	306	401
9	Nib Insurance Company S.C	20	9	29	24	11	35	272	281
10	Lion Insurance Company S.C	15	12	27	16	15	31	98	77
11	Ethio-Life Insurance Company S.C	11	4	15	15	4	19	76	94
12	Oromia Insurance Company S.C	17	15	32	18	19	37	76	191
13	Abay Insurance Company S.C	10	9	19	12	11	23	147	158
14	Berhan Insurance Company S.C	7	1	8	9	2	11	68	79
15	Tsehay Insurance Company S.C	8	3	11	10	5	15	77	98
16	Lucy Insurance Company S.C	6	2	8	7	4	11	87	107
17	Bunna Insurance Company S.C	10	2	12	11	5	16	59	69
	Total	225	189	414	260	222	482	3118	3896

Annex IV

Gross written premium of seven insurance companies

2012/13	**3,301,217,365.00**
2013/14	**3,882,304,458.00**
2014/15	**4,375,399,758.00**
2015/16	**5,099,620,016.00**
2016/17	**6,003,262,460.00**