



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF COMMERCE
GRADUATE PROGRAM**

**CORPORATE GOVERNANCE PRACTICE OF INSURANCE
COMPANIES IN ETHIOPIA: AN ASSESSMENT FROM THE
REGULATOR'S VIEWPOINT**

GEDA ABERA FANA

June 2022

Addis Ababa, Ethiopia

Corporate Governance Practice of Insurance Companies in Ethiopia: An Assessment from the Regulator's Viewpoint

By: Geda Abera Fana

Advisor: Wubshet Bekalu (PhD)

A Thesis Submitted to the Department of Business Administration and Information System

Presented in Partial Fulfillment of the Requirements for the Degree of Master of Art in Business Leadership

Addis Ababa University

Addis Ababa, Ethiopia

June 2022

Declaration

I, Geda Abera Fana, hereby declare that this study entitled “Corporate Governance Practice of Insurance Companies in Ethiopia: An Assessment from the Regulator’s Viewpoint” is my original work and has not been presented to any other examination body and that all the materials used for the project have been duly acknowledged.

No production of this study be done without the consent of the author or that of Addis Ababa University.

Geda Abera Fana

Signature and Date

Certification

This is to certify that Geda Abera has completed his project work entitled “Corporate Governance Practice of Insurance Companies in Ethiopia: An Assessment from the Regulator’s Viewpoint”. His project is appropriate to be submitted as a partial fulfillment of the requirements for the award of Master of Arts Degree in Business Leadership.

Dr. Wubshet Bekalu

Project Advisor

Signature and Date

Approval

This is to Certify that the thesis prepared by Geda Abera, entitled: “Corporate Governance Practice of Insurance Companies in Ethiopia: An Assessment from the Regulator’s Viewpoint” submitted in partial fulfillment of the requirements for the Master of Arts in Business Leadership complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Submitted by:

Geda Abera Fana

(Author)

Signature

Date

Approved by:

Dr. Wubshet Bekalu

(Advisor)

Signature

Date

Dr. Wassihun Mohammed

(Internal Examiner)

Signature

Date

Dr. Berhanu Endeshaw

(External Examiner)

Signature

Date

School of Commerce
Addis Ababa University

Acknowledgment

First and foremost, I would like to express my appreciation and gratitude to Dr. Wubshet Bekalu for sufficiently supporting and guiding me while undertaking this study.

I am indebted to the employees of National Bank of Ethiopia who provided me with the information and data needed to undertake this study.

A special thanks goes to Addis Ababa University School of commerce, all my instructors and classmates for their remarkable help while I was undertaking this study, and throughout the three years of my study at the University.

Last but definitely not least, I would like to extend my heartfelt gratitude to my family for their priceless love and support.

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Acronyms

AACCSA	Addis Ababa Chamber of Commerce and Sectoral Associations
BA	Bachelor of Arts
BCBS	Basel Committee on Banking Supervision
BSc	Bachelor of Science
EICG	Established Institute of Corporate Governance
IFRS	International Financial Reporting Standards
MA	Masters of Arts
MFI	microfinance institution
MSc	Masters of Science
NBE	National Bank of Ethiopia
OECD	Organization for Economic Cooperation and Development
RoA	Return on Asset
RoE	Return on Equity
SPSS	Statistical Package for Social Sciences

Abstract

Corporate governance has an important role in the performance of companies and the economy at large given the different stakeholders it involves. The main goal of this study was to assess the role National Bank of Ethiopia plays in the practice of corporate governance in the Ethiopian Insurance Industry. The research design used was descriptive and both qualitative and quantitative approach was utilized to analyze and interpret the results. Primary data which was collected using questionnaires and interview were mainly used in this study. The target population for the study was technical employees of the National Bank of Ethiopia that work in the Insurance Supervision Directorate. For this study 15 respondents were identified and completed response was gathered from 11 of them. To analyze the quantitative data, descriptive analysis was employed using Statistical Package for Social Sciences (SPSS) version 28 while the qualitative data was analyzed and interpreted thematically. The findings show that National Bank of Ethiopia being the principal regulator and supervising body of insurance companies, has a strong role in the practice of corporate governance. It was also observed that the practice of corporate governance is affected more by internal factors within the insurance companies instead of external factors. The study recommends that NBE introduces a dedicated function that is solely responsible in overseeing corporate governance affairs of companies and the skills and capacities of stakeholders (particularly the insurance companies) should be developed to enhance the practice of good corporate governance.

Key words: *Corporate Governance, Insurance, Regulator*

Chapter One

1. Introduction

This section provides a brief background of the study and introduces the initiation for the research and the beneficiaries of the study. It outlines the problem statement, research questions, and objectives of the study.

1.1. Background of the Study

The corporate governance concept has recently become a major issue in the corporate practices of both developed and developing countries alike (Amara, 2021). It has even been adopted by countries that have not yet regulated the adoption of corporate governance in their organizations. The reason for the global interest in corporate governance is that it underpins a company's operating framework (Castrillón, 2021).

National Bank of Ethiopia defines corporate governance, in the context of insurance business, as the process and structure used to direct and manage the business and affairs of an insurer towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long term shareholders' value as well as customers' and other stakeholders' interest. In other terms, Corporate Governance can be defined as the relationship among shareholders, board of directors, top management, employees, regulators, any other stakeholders and the community in determining the direction and performance of the corporation (Ruin, 2001 cited in Fekadu, 2017). A simpler way to put it is that Corporate Governance is the administrative system of companies (Berle and Means, 1932 cited in Legesse, 2018).

The concept of corporate governance has received new meaning over time because of financial events that affected finances and the global economy (Fülöp, 2013). Before these events, corporate governance was seen as a system that ensured that the manager and management team did not make decisions based on personal interests that could lead to decreasing stockholder earnings. Currently, corporate governance must be understood in a much broader and complex sense. It is perceived as a system that ensures the optimal use of resources for the benefit of shareholders and in compliance with the expectations of society.

The insurance industry safeguards the assets of its policyholders by transferring risk from an individual or business to an insurance company. Insurance companies act as financial intermediaries in that they invest the premiums they collect for providing this service (Insurance Information Institute, 2010). According to Sisay (2015), the importance of insurance in modern economies is unquestioned and has been recognized for centuries. It is

practically a necessity to business activity and enterprise. But insurance also serves a broad public interest far beyond its role in business affairs and its protection of a large part of the country's wealth. It is the essential means by which the disaster to an individual is shared by many, the disaster to a community shared by other communities; great catastrophes are thereby lessened, and, it may be, repaired.

The core code of Corporate Governance for financial institutions generally revolves around responsibilities of the Board, Directors, Board Chairmen, CEOs, senior management, Board appointed committees, auditors, shareholders and regulators (Kebede F. , 2016).

In this study, the role National Bank of Ethiopia plays in the corporate governance practice of insurance companies, as a regulator for the insurance business in Ethiopia, is assessed.

1.2. Background of the Organization

The National Bank of Ethiopia was established in 1963 by proclamation 206 of 1963 and began operation in January 1964. Prior to this proclamation, the Bank used to carry out dual activities, i.e. commercial banking and central banking. The proclamation raised the Bank's capital to Ethiopian dollars 10.0 million and granted broad administrative autonomy and juridical personality. Following the proclamation, the National Bank of Ethiopia was entrusted with the following responsibilities.

- To regulate the supply, availability and cost of money and credit.
- To manage and administer the country's international reserves.
- To license & supervise banks & hold commercial banks reserves & lend money to them.
- To supervise loans of commercial banks and regulate interest rates.
- To issue paper money and coins.
- To act as an agent of the Government.
- To fix and control the foreign exchange rates.

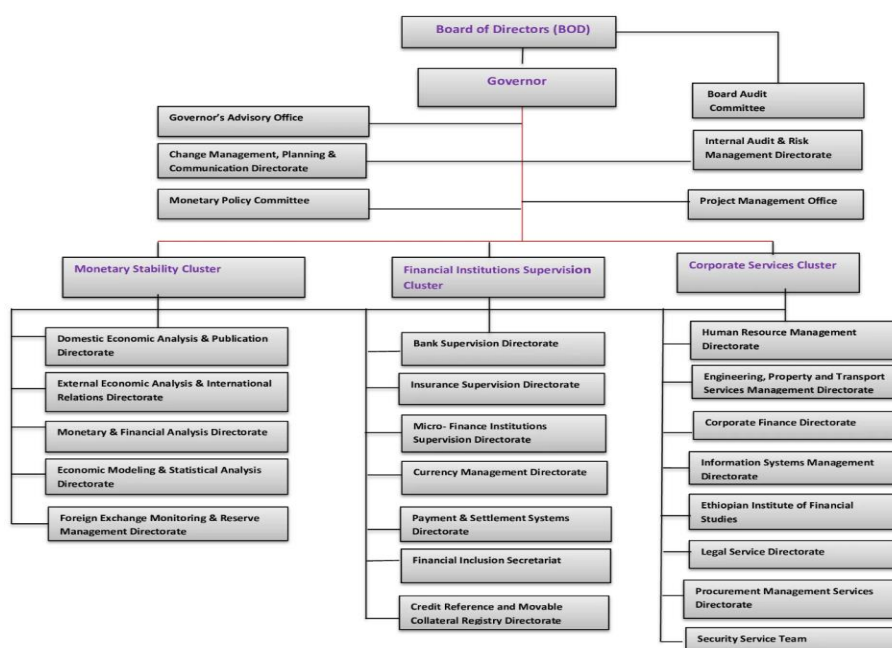
However, monetary and banking proclamation No. 99 of 1976 came into force on September 1976 to shape the Bank's role adoring to the socialist economic principle that the country adopted. Hence the Bank was allowed to participate actively in national planning, specifically financial planning, in cooperation with the concerned state organs. The Bank's supervisory area was also increased to include other financial institutions such as insurance institutions, credit cooperatives and investment-oriented banks. Moreover, the proclamation introduced the new Ethiopian currency called 'birr' in place of the former Ethiopia Dollar that eased to be legal tender thereafter.

The proclamation revised the Bank’s relationship with Government. It initially raised the legal limits of outstanding government domestic borrowing to 25% of the actual ordinary revenue of the government during the proceeding three budget years as against the proclamation 206/1963, which set it to be 15%.

This proclamation was in force till the new proclamation issued in 1994 to reorganize the Bank according to the market-based economic policy so that it could foster monetary stability, a sound financial system and such other credit and exchange conditions as are conducive to the balanced growth of the economy of the country. Accordingly, the following are some of the powers and duties vested in the Bank by proclamation 83/1994.

- Regulate the supply and availability of money & credit and applicable interest and other changes.
- Set limits on gold and foreign exchange assets which banks and other financial institutions authorized to deal in foreign exchange and hold in deposits.
- Set limits on the net foreign exchange position and on the terms and amount of external indebtedness of banks and other financial institutions.
- Make short and long-term refinancing facilities available to banks and other financial institutions.
- Moreover, the proclamation has also raised the paid-up capital of the Bank from Birr 30.0 million to Birr 50.0 million.

Figure 1: High-Level Organizational Structure of National Bank of Ethiopia



1.3. Statement of the Problem

Corporate governance has a crucial role in the growth and development of a corporation, its related activities and the Nation in general (Vukčević, 2012). Corporate governance contributes to improved efficiency and effectiveness of the economic system. The existence of an efficient system of corporate governance within a company or the economy as a whole helps to reach the level of trust necessary for proper operations of a market economy.

Corporate governance plays a major role in macroeconomic stability; it provides the appropriate environment for economic growth as well as society welfare, therefore international institutions give major attention and concerns to this issue at the level of macro and micro aspects (Getachew, 2014). In today's business world, the corporate governance environment largely determines the profit making and the path that it will take to make more profit (Sahay & Kumar, 2015).

In the context of an insurance company, according to (Dodevska & Nuredini, 2022) good corporate governance is undoubtedly necessary to maintain a fair, safe and stable insurance sector that will take care of the good and protect the interests of insurers, which in turn will contribute to the stability of the financial system as a whole.

Based on a review conducted on different studies, Wolde (2018) indicated that one of the many challenges the business world is facing currently is installing sound and proper corporate governance system in an organization. This might lead to irreversible bankruptcies if not managed and addressed properly and timely. The messing up of big international organizations like WorldCom had provided concrete and costly lesson to the business world.

Over the years, principles of corporate governance have been ignored. Thus, a series of failures and financial scandals have drawn world attention (Maxwell, Enron, European Commission, WorldCom). This has led to the renewal and development of new codes, regulations of corporate governance, and increased emphasis on the importance of effective corporate governance (Fülöp, 2013).

Asnakech (2013) cited in Kebede (2018), identified some of the factors which make ensuring effective corporate governance in the Ethiopian financial sector (particularly in the banking sector). Some of the identified issues were lack of well-developed corporate culture, the absence of an adequate legislative framework, political parties' involvement, inadequate shareholder protection laws and the ineffective judicial system, discrimination of regulatory rule enforcement between state-owned and private institutions, lack of knowledgeable

stakeholders and a culture of accepting miss-governance are some of the challenges observed in Ethiopian banking sector. The same study also observed that, given the challenges in ensuring corporate governance, its practice has not been evolved in a balanced form with the expansion of banks and economic growth of the country. Given both banks and insurance are financial institutions and both are regulated by the National Bank of Ethiopia, this study could partly be applicable to insurance companies as well.

Taking the significant role corporate governance has for a Company and the nation in general, it is crucial to assess the role the different stakeholders play in corporate governance. There are many studies conducted in the area of corporate governance globally as well as in the context of Ethiopia. While some of these studies were conducted in the case of insurance companies, most of the literatures available, particularly in the case of Ethiopia, are conducted in the banking industry and they focus the role corporate governance has on the performance of the institutions. The case where studies are conducted by considering the role regulating bodies play in corporate governance is also very rare. Meaning, there is a big literature gap in this area.

Thus, the focus of this paper is assessing the role National Bank of Ethiopia plays as a regulator in corporate governance of insurance companies in Ethiopia.

1.4. Research Questions

Based on the above problem statement and research gap, this study attempts to answer the following questions:

- a) What is the role of National Bank of Ethiopia in the Corporate Governance of insurance companies in Ethiopia?
- b) What are the challenges in the implementation of good corporate governance within the insurance companies in Ethiopia?
- c) Who are the factors that affect the practice of corporate governance in insurance companies?
- d) Who are the stakeholders in the corporate governance system of the insurance industry in Ethiopia?

1.5. Research Objectives

The general objective of this study is to assess the regulation of corporate governance practice in insurance companies of Ethiopia.

The specific objectives of the study are:

- To identify the role of NBE in the Corporate Governance Practice of Insurance Companies.
- To identify challenges in corporate governance practice of insurance companies.
- To assess factors that affect practice of corporate governance in insurance companies
- To identify key stakeholders in the corporate governance system of the Ethiopian Insurance Industry.

1.6. Significance of the Study

Corporate governance is a crucial issue for an organization, especially when considering a financial institution such as banks and insurance companies given the strong contribution these industries play in the health of an economy. In light of these, this study provides clear understanding with respect to the role the National Bank of Ethiopia, which is the regulator of these industries plays in the corporate governance of insurance companies.

This project fills the literature gap that exists the role a regulator has in corporate governance of the Ethiopian insurance industry. In addition to this, the study could also serve as a stepping stone for further research in the area of corporate governance in the insurance industry and the role played by the regulating body.

1.7. Scope of the Study

The scope of this study is delimited to assessing the role National Bank of Ethiopia plays in the corporate governance of the insurance industry. The geographical scope of the study focused on the Insurance Supervision Directorate of National Bank of Ethiopia which is located in the headquarter of the regulating body.

Besides the aforementioned delimitations, the study did not consider any specific insurance company as it looks in to the role played by the regulator in general.

1.8. Limitations of the Study

This study is conducted only by considering the role National Bank of Ethiopia plays in the corporate governance of the local insurance industry. It does not consider the opinions of insurance companies or other stakeholders other than National Bank of Ethiopia itself. Another possible limitation and challenge was that there are no adequate literatures around corporate governance in the Ethiopian insurance industry and especially by considering the role of the regulator, i.e., NBE.

1.9. Organization of the Study

The study consists of five chapters. The first chapter, which is an introductory section, mainly consist the background of the study, state of the problem, research questions, objectives of the study, scope, and significance of the study. The second chapter provides a detailed theoretical and empirical literature on corporate governance and its role in general and specifically in the insurance industry. In the third chapter, data collection and analysis methods are given. The fourth chapter presents the main findings of the study and interprets the results. Finally, on the fifth chapter, major findings of the study and conclusions are given followed by recommendations forwarded based on the findings.

Chapter Two

2. Literature Review

Different studies have been conducted by different people and organizations revolving around corporate governance. Under this section of the study, the findings of existing literature through reviewing past studies is given.

This section has three main parts – the theoretical framework part, the empirical evidence and the summary of existing literatures. In the theoretical framework section, basic definitions and concepts of corporate governance is given followed by the evolution of corporate governance, theories and its importance. This section will also look in to the insurance industry of Ethiopia among others.

In the second sub-section, empirical evidences will be reviewed while the third sub-section presents the summary of literatures.

2.1. Theoretical Framework

2.1.1. Meaning and Nature of Corporate Governance

According to Dehkordi and Royae (2013), corporate governance has been suggested as one of the most important commerce terms of the 21 the century. After analyzing the existing literature, Dehkordi and Royae observed that there is no definition agreed with the corporate governance system. They noted that there are significant differences between the definitions of the corporate governance system based on cultural, economical, and other conditions of ach country, there for, these definitions locate in the range included from in finite views to advanced views. Gillan (2006) supports this by indicating that the definition of corporate governance differs depending on one’s view of the world. Du Plessis et al. (2005) cited in Amara (2021), stated that there is no universally accepted or definite meaning of corporate governance. Many scholars and organizations have their own definitions. Each such definition has been founded according to the understanding or the interests of the person provided the definition (Amara, 2021).

Tilahun (2015) highlighted that the concept of the corporate governance is wide ranging, and it goes far away from corporate administration. When we see the consideration of management, it comprises application of science to the practice of administration, development of the basic management functions and articulation and application of specific principles of management. However, the idea of governance is broad and includes fair, efficient, equitable, transparent and accountable administration to meet well defined corporate objectives. It also considers

structuring, operating and controlling a company with a view to achieving long term strategic goals to satisfy owners and stakeholders' interest and to comply with the legal and regulatory requirements (Tilahun, 2015).

Generally, corporate governance can be defined as a procedure, customs, laws, policies, and institutions that affect the way a corporation is directed, administered or controlled. It can also be the relationships between stakeholders and the goals that are already laid down for the corporation to follow, in which the principal stakeholders are the following: shareholders, management, and the board of directors. In addition, employees, customers, creditors (banks and bond-holders) are stakeholders (Tilahun, 2015). Ruin (2001) cited in Fekadu (2017) gave a closely similar definition by defining corporate governance can as the relationship among shareholders, board of directors, top management, employees, regulators, any other stakeholders and the community in determining the direction and performance of the corporation.

Shodhganga (2002) cited in Kebede B. T. (2018), define corporate governance from two perspective. The first perspective was the narrow sense. In this sense, corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders. The second sense was the broader sense. According to the broader sense, good corporate governance- is the extents to which companies are run in an open and honest manner- is important for overall market confidence, the efficiency of capital allocation, the growth and development of countries' industrial bases, and ultimately the nations' overall wealth and welfare.

Corporate Governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed (Kebede F. , 2016). Tilahun and Kibre (2007) cited in (Tesfaselassie, 2021) explain the term corporate governance as the set of processes, customs, policies, laws and institutions affecting the way a company is directed, administered or controlled and defines the relationships among the various stakeholders. In the real world, all enterprises, irrespective of size and ownership structure, need some principles and guide to

conduct a business. According to Kim and Rasiah (2010) cited in Mekonnen (2016), corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation and it includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed.

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2015).

Perhaps, a more appropriate definition of corporate governance for this study is one given by the National Bank of Ethiopia. According to the Insurance Corporate Governance Directive (Directive No.SIB/48/2019) of National Bank of Ethiopia, corporate governance is defined as the process and structure used to direct and manage the business and affairs of an insurer towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long term shareholders' value as well as customers' and other stakeholders' interest.

Corporate governance mechanisms had been dealt and categorized as endogenous and exogenous governance mechanisms. Endogenous corporate governance mechanisms are otherwise known as internal corporate governance. Internal corporate governance is about mechanisms for the accountability, monitoring, and control of a firm's management with respect to the use of resources and risk taking this starts with the Board of Directors which is the supreme governing body of insurance company. Exogenous corporate governance mechanisms are external governance mechanisms related external force and regulation with the power to discipline the agent (Joan et al. 2010; Sapovadia 2009 cited in Fekadu, 2017).

2.1.2. Evolution of Corporate Governance

According to Fülöp (2013), the topic of corporate governance was initiated in 1776 by Adam Smith and it has recently become an interesting topic of debate. Wolde (2018) suggests that the practice of corporate governance started as far back as 1612, when the world's first listed company was founded, though they did not use the term directly at that time.

Hanoi (2010) cited in Getachew (2014), states that corporate governance systems have evolved over centuries, often in response to corporate failures or systemic crises. According to Hanoi, the first well-documented failure of governance was the South Sea Bubble in the 1700s, which

revolutionized business laws and practices in England. Similarly, much of the securities law in the U.S. was put in place following the stock market crash of 1929.

Corporate governance has gained attention of governments since 1990 after the financial scandals witnessed by western economies such as Enron, WorldCom and Parmalat which were facilitated by wrongdoings on the part of the management, auditors and financial market operatives (Amara, 2021). Fülöp (2013) is of the same view that over the years, principles of corporate governance have been ignored and a series of failures and financial scandals have drawn world attention (Maxwell, Enron, European Commission, WorldCom), which eventually has led to the renewal and development of new codes, regulations of corporate governance, and increased emphasis on the importance of effective corporate governance.

2.1.3. Theories of Corporate Governance

Several corporate governance theories exist that attempt to highlight the objective of the firm and how the firm should be responsible in meeting its obligations. However, it lacks any accepted theoretical base or commonly accepted pattern till date (Larcker, Richardson, & Tuna, 2004; Parum, 2005 cited in Tilahun, 2015).

2.1.3.1. Agency Theory

Agency theory is widely used as a means of explaining various corporate governance issues (Kebede F. , 2016). The essence of this theory is based on the existence of separation between ownership and management of corporations. In such corporations, the managers (agents) are hired to work and make decision on behalf of the owners (Principals) in order to maximize return to the shareholders. However, the managers who are put in control of the affairs of the organization may not always consider the best interest of the owners and may pursue their self-activities to the detriment of the welfare of the Principals (David and Tobias, 2013 cited in Fekadu, 2017).

According to agency theory the agent strives to achieve his personal goals at the expense of the principal. Managers are mostly motivated by their own personal interests and benefits, and work to maximize their own personal benefit rather than considering shareholders' interests and maximizing shareholders wealth. To reduce agency problem there must be better monitoring and controlling mechanisms which helps to ensure that managers pursue the interests of shareholders rather than only their own interests agency costs (Bathula, 2008 cited in Kebede F. , 2016). The theory offers many useful ways to examine the relationship between owners and managers and verify how the final objective of maximizing the returns to the owners is achieved, particularly when the managers do not own the corporation's resources. Agency

theory identifies the role of the monitoring mechanism of corporate governance to decrease agency costs and the conflict of interest between managers and owners. The assumptions of agency theory also indicates that corporate governance mechanisms affect financial performance. As a consequence, enhancing corporate governance mechanisms should result in improved financial performance (Kebede F. , 2016).

2.1.3.2. Stewardship Theory

A steward is defined by Davis, Schoorman, and Donaldson (1997) cited in Fekadu (2017), as one who protects and maximizes shareholder's wealth through firm performance because by doing so, the steward's utility functions are maximized. In this perspective, stewards are Company Executives and Managers working for the shareholders, protects and makes profits for the shareholder (cited in David and Tobias 2013). This theory is a contrast or a direct opposite to the agency theory and this theory adopts a more idealistic view of humans. This theory is based on a belief that the agent is not self-opportunist but a steward that perceives greater utility in the interest of the principal and the organization as a whole. The theory assumes that a significant correlation exists between the firm's success and the manager's satisfaction. This trade-off is achieved by the steward admitting that working towards achieving company's and collective goals will lead to self-actualization. The theory argues for the post of Chief Executive Officer and Chairman to be held by the same person. Therefore, control lowers the motivation of steward and weakens motivational attitude (Davis et al. 1997 cited in Fekadu, 2017)

Coleman (2007) cited in Kebede F. , (2016) stated that according to stewardship theory, a manager's objective is primarily to maximize the firm's performance because a manager's need of achievement and success are satisfied when the firm is performing well. One key distinguishing feature of the theory of stewardship is that it replaces the lack of trust to which agency theory refers with respect for authority and inclination to ethical behavior.

Stewardship theory poses that stewards are likely to ignore selfish interests in order to pursue the best interest of the firm. Davis et al, (Ibid) observed that when a steward has been in a company for so long, the steward and the firm become one entity. Instead of using the firm for their own selfish interest, the stewards seem to be more in ensuring the continuous existence and long term success of the firm because they now see the firm as an extension of themselves (David and Tobias 2013 cited in Fekadu, 2017).

2.1.3.3. Stakeholder Theory

The other popular theory of corporate governance is the Stakeholder Theory. Stakeholder theory is an extension of the agency theory, where the agency theory expects board of directors to protect only the interests of shareholders. However, stakeholder theory extends the narrow focus of agency theory on shareholders' interest to stakeholders to take into account the interests of many different groups and individuals, including interest groups related to social, environmental and ethical considerations (Freeman et al., 2004 cited in Kebede F. , 2016). However, unlike the agency theory, whereby managers are predominantly responsible for satisfying the interests of shareholders, stakeholder theory maintains that managers in organizations are not only responsible for the interests of shareholders but also for a network of relationships to serve which includes the suppliers, employees and business partners (Fekadu, 2017).

The stakeholder theory originated from the management discipline and gradually developed to include corporate accountability to a broad range of stakeholders (Abdullah and Valentine 2009 cited in Fekadu, 2017). According to stakeholder theory, decisions made regarding the company affects and are affected by different parties in addition to stockholders of the company. Hence, the managers should on the one hand manage the company to benefit its stakeholders in order to ensure their rights and their participation in decision making and on the other hand the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long-term stakes of each group (Fontain et al. 2006 cited in Fekadu, 2017).

2.1.3.4. Resource Dependency Theory

Resource Dependency Theory concentrates on the role of Board of Directors in providing access to resources needed by the firm while the stakeholder theory focuses on relationships with many groups for individual benefits. Hillman et al. (2000) cited in Fekadu (2017) contend that resource dependency theory focuses on the role that Directors play in providing or securing essential resources to an organization through their linkages to the external environment. This theory introduces accessibility to resources, in addition to the separation of ownership and control, as a critical dimension to the debate on corporate governance. Again, the theory points out those organizations usually tend to reduce the uncertainty of external influences by ensuring that resources are available for their survival and development. By implication, this theory seems to suggest that the issue of dichotomy between executive and non-executive directors is actually irrelevant (Kebede F. , 2016).

2.1.4. Principles of Corporate Governance

The organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance were originally developed in response to a call by OECD Ministers in 1999 to develop a set of corporate governance standards and guidelines. Since then, these principles have become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. The principles are intended to assist governments in their effort to evaluate and improve the legal, institutional and regulatory framework in their countries. (Asseffa, 2017). The first five corporate governance principles of OECD were developed initially in 1999 while the sixth principle was incorporated in 2004 (Amara, 2021). These principles are:

- 1) Ensuring the Basis for an Effective Corporate Governance Framework.
- 2) The Rights of Shareholders and Key Ownership Functions.
- 3) The Equitable Treatment of Shareholders.
- 4) The Role of Stakeholders in Corporate Governance.
- 5) Disclosure and Transparency.
- 6) The Responsibilities of the Board.

According to Amara (2021), each of the principles listed above are supported by additional sub-principles which are intended to clarify the purpose of the principle and help the interested parties with the implementation in practice. These principles are updated with experiences from OECD area and non-OECD countries to accommodate the legal and cultural circumstances and differences. Furthermore, the principles are designed to provide guidance for stock exchanges, corporations, investors and other parties of interest with a role in the building good corporate governance (OECD, 2004 cited in Amara, 2021).

Coming to Ethiopia, the Basic Principles and Values for Corporate Governance as outlined by the Institute of Corporate Governance are Respect for Human Rights, Non-Discrimination and Commitment to Peaceful and Harmonious Development; Obligation to the Democratic Values, Institutions and Laws; Commitment to Poverty Alleviation and Wealth Creation; and Care for Environment and the Natural Resources of the Country (the full Principles and Best Practices of Corporate Governance is given in Annex 2). Additionally, the basic values that re developed based on the above four principles are Trustworthiness in all Business Relations; Accountability to the Owners, Employees and Creditors; Responsibility to Stakeholders and Society; Integrity in all Business Undertakings; and Transparency in Communication and Publication.

2.1.5. The Importance of Corporate Governance

The role of corporate governance in today's business environment is extremely large because it has a direct effect on the problems associated with the financial crisis of the company. Because of this the significance of corporate governance around the world has attracted the attention of regulators, academician and practitioners due to the widely held belief that profitability of a firm has been influenced by corporate governance (Cornett, Gou, Akhter, 2006 cited in Tilahun, 2015).

Corporate Governance, addressing the need for company management control, dividing economical unit from its ownership and improving the performance of the board of managers, auditors, accounting system, internal control, and finally maintaining investors and stakeholders' rights (Dehkordi & Royae, 2013). Corporate governance contributes to growth and development of the corporation itself, the related activities and the state in general. For a long time now the role of the company is not only to produce or provide services and make profits in this way. Companies take responsibility for development of the social environment. It is not possible to ensure development of the company relying only upon the interest of the company, while neglecting the overall development of the community (Vukčević, 2012).

Good corporate governance is an important pillar of the market economy and it enhances investor confidence (Mekonnen, 2016). Its objective is to ensure the accountability and transparency of the organization (Wilson, Casu, Girardone, Molyneux, 2010 cited in Tilahun, 2015). In terms of economic growth, corporate governance plays an increasingly important role in the development of the entity. Without a transparent corporate governance structure that involves interaction among the shareholders, board, and management, a shortage of capital in the entity could result (Fülöp, 2013). Corporate governance plays a major role in macroeconomic stability; provide the appropriate environment for economic growth as well as society welfare (Getachew, 2014). It contributes to improved efficiency and effectiveness of the economic system. The existence of an efficient system of corporate governance within a company or the economy as a whole helps to reach the level of trust necessary for proper operations of a market economy (Vukčević, 2012).

According to Wolde (2018), the importance of corporate governance became dramatically clear in 2002 as a series of corporate meltdowns, frauds, and other catastrophes led to the destruction of billions of dollars of shareholder wealth, loss of thousands of jobs, criminal investigations of dozens of executives and record-breaking bankruptcy filings.

Kebede F. (2016) noted that a sound corporate governance encourages the efficient use of resources and provides for accountability for those resources by managers. The organizational goals and objectives of companies are also most likely to be met when these institutions practice good corporate governance. She further highlighted that the issue of good corporate governance should be a prime concern to owners and other stakeholders of the institutions alike by indicating that good corporate governance helps promote the general welfare of the society and should be of interest to the general public and governments.

According to OECD cited in Engida (2020), good corporate governance is not an end in itself. Rather, it is a means to create market confidence and business integrity, which in turn is essential for companies that need access to equity capital for long term investment. Access to equity capital is particularly important for future oriented growth for companies and to balance any increase in leveraging.

2.1.6. The Role of Corporate Governance in the Insurance Industry

The role of corporate governance in financial institutions differs from that of non- financial institutions for the discretionary power of the board of directors would be limited especially in regulated financial systems where financial institutions are obliged to function through legislative and prescriptive procedures, policies, rules and regulations (Fekadu, 2017).

The benefit of corporate governances gives way to balanced risk taking and enhances business prudence, prosperity and corporate accountability with ultimate objective of realizing long term Shareholders value, insurance consumers' and other stakeholders interest (Mekonnen, 2016).

According to Dodevska and Nuredini (2022), the benefits of good corporate governance are unquestionable for the insurance industry. Not only does it provide for greater competitiveness of insurance companies, but it also increases efficiency and corporate results. Besides, it also leads to greater company asset value and higher company reputation, all of which are important factors in the modern business environment. Dodevska and Nuredini (2022), noted that the insurance industry, like other parts of the financial system, is undergoing a number of changes and that is why insurance companies need to have a stable corporate system in order to face changes easily and respond adequately to rapid sociological, technological changes and economic development. Hence, good corporate governance is undoubtedly necessary to maintain a fair, safe and stable insurance sector that will protect the interests of insurers, which in return will contribute to the stability of the financial system as a whole.

2.1.7. Challenges in Corporate Governance

Problems related to corporate governance are similar in all countries. That is why countries such as Japan, Ecuador and Thailand have hybrid company laws that benefit from the synthesis of different legal traditions and indigenous realities. Ethiopia's Commercial Code is also hybrid (Gebremeskel, 2010).

The problems of poor corporate governance are the main concerns in most of developing countries like Ethiopia (Kebede B. T., 2018). According to Asnakech (2013) cited in Kebede B. T. (2018), ensuring effective corporate governance in the banking sector of Ethiopia becomes more difficult due to different constraints. She specified that lack of well-developed corporate culture, the absence of an adequate legislative framework, political parties' involvement, inadequate shareholder protection laws and the ineffective judicial system, discrimination of regulatory rule enforcement between state-owned and private banks, lack of knowledgeable stakeholders and a culture of accepting miss-governance are some of the challenges observed in Ethiopian banking sector. As a result, the practice of corporate governance has not been evolved in a balanced form with the expansion of banks and economic growth of the country. The findings of Kebede B. T. (2018) also identified other major challenges that limits the effectiveness of corporate governance of Commercial Bank of Ethiopia which included management reluctance in implementing the provisions of the corporate governance policy, deficiency in the professional competency of board members, undue political interference and lack of corporate culture.

According to Gebremeskel (2010), the most important changes that are needed to address the governance problems at the wake of growing separation between ownership and control include strengthening the voice and exit rights of shareholders. With regard to the voice rights, introduction of a derivative suit mechanism seems to be relevant. However, as derivative suits are prone to abuse, sufficient conditions should be provided to prevent abusive exercise of the right. Both as a mechanism of shareholder empowerment and as a good corporate governance practice there should be a better regime of disclosure of corporate information.

2.1.8. Corporate Governance in Ethiopia

According to Mekonnen (2016), corporate governance in Ethiopia is at its rudimentary stage even though the Ethiopia economy is at a stage of transformation. Introduction and development of corporate governance in Ethiopia is therefore a necessary but revolutionary change in the ownership philosophies, management and operations of Ethiopia companies. It would help to dissolve financial and market access blockages but at the same time place far

reaching requirements for revision of business practices by companies aiming at growth and prosperity for their owners and stakeholders.

Gebremeskel (2010) noted that there is a tight regulatory environment under Proclamation 592/2008 within which financial companies, especially banks operate brings their managers and block holders under a strict control of the National Bank. According to Gebremeskel, these are not adequate enough in protecting minority rights. Financial regulation, which is the objective of the National Bank, is just one aspect of the governance and does not give sufficient solution to the problems minority investors face in these companies.

According to Getachew (2014) the corporate governance of banks and insurance firms in Ethiopia before 2003 was directed and supervised by the central bank. The National Bank of Ethiopia monitors and controls the insurance business and functions as regulators of the country's money supply. Accordingly, national bank of Ethiopia issued directives on the size, composition and competence of board of directors. In October 2013, however, the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) is actively pursuing the establishment of a non-government, private and voluntary membership based organizations and finally they established Institute of Corporate Governance (EICG).

The corporate climate in Ethiopia is changing with the emergence of newer companies with several thousand shareholders who have no control over the company (Gebremeskel, 2010). The Revised Commercial Code of Ethiopia Proclamation No.1243/2021 has relevant provisions on corporate governance application. Summary of the provision that are highly applicable to this study are presented in Annex 1. Additionally, the National Bank of Ethiopia has a directive on the Corporate Governance practice of financial institutions in the country, particularly for banks and insurance companies.

With respect to accounting standards, Ethiopia has started the implementation of International Financial Reporting Standards (IFRSs) since 2016. Adopting IFRS aim at improving effectiveness and efficiency of accounting standards (Hassen & Ramakrishna, 2020). The Country has also approved a “Directive to provide the Criteria for Identifying Reporting Entities and Registration” through the Accounting and Auditing Board of Ethiopia in July 2021.

2.1.9. The Ethiopian Insurance Industry

According to various sources, the emergence of modern insurance in Ethiopia is traced back to the Bank of Abyssinia which was established in 1905 as the first Ethiopian Bank. The Bank

began to transact fire and marine insurance as an agent of a foreign insurance company. Imperial Insurance Company was the first domestic private insurance company that was established in 1951. The origin of Ethiopia insurance industry is linked to expatriates and foreign insurance companies (Zelege, 2007 cited in Mekonnen, 2016)

According to Hailu Zelege (2007) cited in Mekonnen (2016), the first significant event that the Ethiopian insurance market observation was the issuance of proclamation No. 2811/1970 which was issued to provide for the control & regulation of insurance business in Ethiopia. Consequently, it created an insurance council and an insurance controller's office, its strange impact in the sector.

During the Derg regime, private insurance companies were nationalized in 1975. A sole public insurance company was established under the name Ethiopia Insurance Corporation (EIC), which had a monopoly in the insurance industry for 19 years. Following the regime change in 1991, there was a shift to a market economy and a new insurance proclamation, Licensing and Supervision of Insurance Business, No. 86/1994, was issued in 1994, which was later repealed by proclamation No, 742/2012 in 2012. Both regulations allowed private sector participation in the insurance business (Mihretu, 2010 cited in Mekonnen, 2016).

The sector has more or less been broadly stable and growing in terms of expanding its services and increase its premium, total asset, total liabilities as well as capital in relative to previous years. However, the sector still contributes less than 1% to country's GDP (Mekonnen, 2016). Currently, the Ethiopian insurance sector is composed of 18 insurance companies of which seventeen are private share companies and one namely is state owned.

2.2. Review of Empirical Studies

Tilahun (2015) conducted an assessment on the corporate governance practice of Ethiopia by considering the Construction and Business Bank as a case study and drawing a sample of 192 management members. His study found that the culture of corporate governance in the Bank still has a setback and needs improvements. The finding of the study also disclosed that the board and the management of the bank are not effective in discharging their roles and responsibilities. In addition, weak legal controls and law enforcement within the industry and weak relationship between executive's managements and employees of the bank are possible barriers for the implementation of good corporate governance within the bank.

Kebede B. T. (2018) conducted a study to examine the policies and practices of corporate governance in the Commercial Bank of Ethiopia by considering the basis of best practices and

principles which endorsed by Basel committee on Banking Supervision. Basel Committee on Banking Supervision (BCBS) is a primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Kebede B. T. adopted a descriptive research design and followed cross-section research strategy by considering the Executive and Middle-Level Managers from the head office and Branch Managers of the Bank from selected branches. His study found that Commercial Bank of Ethiopia has a corporate governance policy, which adopted the principles enshrined in Basel Committee and OECD guidelines. The bank uses these basic principles to guide the roles and responsibilities of key corporate actors, design of remuneration structure, performance management systems, and internal audit, risk, and compliance management processes of the bank. Besides, both internal and external factors affect the effectiveness of the policies and practices of corporate governance of the bank. Based on the findings, the study recommended that the board, senior management, National Bank of Ethiopia, and the government should work together to ensure the integrity and effectiveness of the policies and practices of corporate governance in the bank.

Kebede F. (2016) conducted a study on the effect of corporate governance on the financial performance of commercial banks in Ethiopia. Her findings tally with that of Kebede B. T. (2018) and Tilahun (2015) for the most part. She, however, introduced an additional variable: board size. The findings of this study showed that board and audit committee negatively influence financial performance; whereas board members educational qualification, industry specific experience and board composition positively associated with financial performance. Accordingly, she recommended that attention should be given for the board size of banks to be small (including the audit committee) in number to optimal level with better educational qualification since small board size with better educational qualification is more effective in monitoring managers and help to improve performance. The study also recommended the improvement of the gender balance of boards in Ethiopian banks with a great care about their qualification and competency.

Tesfaselassie (2021) examined the effect of corporate governance on the financial performance (sustainability) and social performance (outreach) of microfinance institution (MFIs) in Ethiopia from (2016- 2020) using an explanatory research design to investigate the causal association between the independent and dependent variable. The independent variables considered were: board Size, gender diversity, frequency of meeting, board member educational qualification, and board experience in finance and, audit committee size. The study

also used size and age of the microfinance institution as a control variable. As a dependent variable, the study considered return on asset and number of credit client as a proxy for financial and social performance respectively. The findings of the study showed that board size, educational qualification, and board experience are better for enhancement of financial performance, whereas gender diversity and frequency of meeting are better in reaching poor client. Based on his findings, Tesfaselassie (2021) recommended that board size should be occupied with a range of expertise, skill, and competency with proportional gender ratio to make better decisions and to monitor managers for better financial performance of the institutions, simultaneously to reach poor clients.

Getachew (2014) examined the relationship between corporate governance and performance of selected insurance companies in Ethiopia by considering ROE as proxy for financial performance and taking board size, board composition, firm size, board gender diversity and leverage was considered as predictors of the financial performance. The findings of the study showed that board gender diversity, firm size and leverage positively influence the financial performance of selected insurance firms in Ethiopia and they are significant based on return on equity (ROE); whereas board size and board composition have statistically insignificant impact on financial performance, but board size influence negatively and board composition influence positively the financial performance of selected insurance firms in Ethiopia. Based on these findings, Getachew recommended that the insurance industries encourage women to participate in corporate top position or in the board of directors to enhance financial performance and attention should be given to increase total assets of the insurance firms to improve financial performance. The findings of this study and the recommendations were similar to that of Tilahun (2015), Kebede B. T. (2018) and Kebede F, although these studies were conducted on Banks. (2016). What relates this study more with the findings of Kebede F. (2016) is the fact that board size was considered in both cases and the findings were also similar; both showing a negative relation.

Mekonnen (2016) conducted a study on the impact of corporate governance mechanism on financial performance of insurance companies in Ethiopia using a quantitative research approach and explanatory research design. He used panel data estimation techniques and by considering the compatibility of the model, the number of cross-sections, number of observations and nature of omitted variables he adopted fixed effects regression technique instead of random effect models. The variables relating to corporate governance that were conserved in the study were board size, chief executive's compensation, board member

educational qualification, female directors in the board, frequency of board meeting, board member other business managements experience, board member's industry specific experience and the study also controls the effect of premium growth of Insurers. The findings from the regression analysis showed that, board size, chief executive's compensation, board member educational qualification, female directors in the board, frequency of board meeting, and board member other business managements experience, had a significant effect on the financial performance in the Ethiopian insurance sector. While other variables including board member's industry specific experience and premium growth have statistically insignificant impact on financial performance (ROA) of insurance companies in Ethiopia. Based on this observation, Mekonnen (2016) recommended that consideration should be given to board size, chief executive's compensation, board member educational qualification, female directors in the board, frequency of board meeting, and board member other business managements experience when they set governance policy for industry as general and for the company specifically.

Using a similar approach, Fekadu (2017), conducted a study by using explanatory research design with an econometric panel data of 10 Insurance companies that covers the period 2007 to 2014 with the aim of examining the impact of corporate governance on the performance of closely regulated Ethiopian Insurance Industry. This study considered board size, board independence, audit committee size and independence, frequency of board meeting, board diversity as independent variables while ROA was considered as dependent variables. The study also considered age and size of the insurance companies as control variables. Accordingly, it was found that all corporate governance mechanisms identified as independent variables have insignificant effect on the performance of insurance companies measured by return on asset. Based on this finding, Fekadu (2017) recommended that the regulatory body could relax its prescriptive and stringent policies and devolve its power to board of directors without endangering the viability of insurance companies.

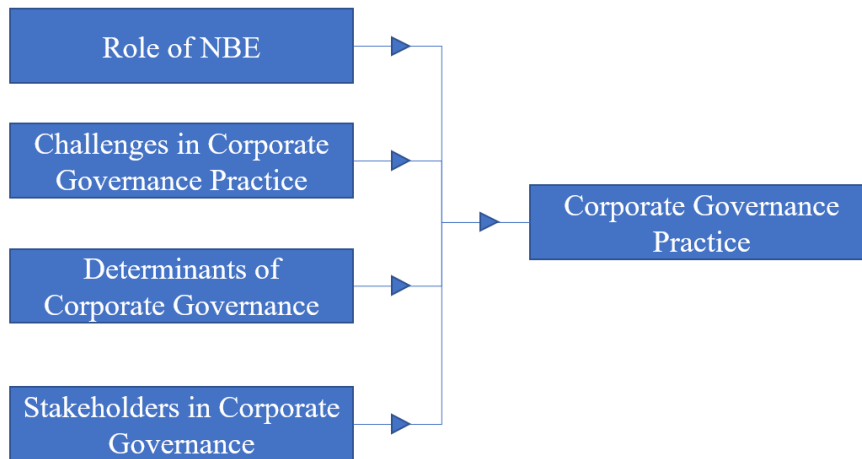
2.3. Summary of Literature Review

Most of the literatures available and reviewed in this study focused on the practices of corporate governance mechanisms on banks performance. Furthermore, they are mainly focused on the relation between variables related with corporate governance and financial performance of companies. This study tries to fill the gap around the role the regulating body plays in the corporate governance practice of insurance companies.

2.4. Conceptual Framework

Based on the review of literatures and the study objectives, the conceptual framework depicted below in Figure 2 was developed.

Figure 2: Conceptual Framework to assess the Regulation of Corporate Governance Practice in Insurance Companies of Ethiopia



Source: Researcher's own construction based on different related review (2022)

Chapter Three

3. Research Methodology

This chapter presents the research design implemented in this study, the target population, respondents, and tools used for the collection and analysis of data. It will also outline the ethical considerations.

3.1. Research Design

The study used the form of descriptive study design. A descriptive research design is appropriate to explore the role of National Bank of Ethiopia in the corporate governance of insurance companies. This method was chosen because it is purely on a theoretical basis where the researcher will collect data, analyses, interpret and then presents it in an understandable manner. Using the descriptive approach, the study describes the situation in as much depth as possible given the time and resource constraint.

3.2. Study Area and Target Population

The study area for this research is National Bank of Ethiopia. National Bank of Ethiopia is considered since it is the regulating body of the insurance industry and it issued the directive on corporate governance of insurance companies. Specifically, it considers the Insurance Supervision Directorate of the regulator which is located in its head office (3rd Building).

The target population of the study was the technical personnel of the Insurance Supervision Directorate.

3.3. Sampling Technique and Sample Size

The study used a non-random sampling technique by considering the technical staff within the Insurance Supervision Directorate of NBE.

3.4. Data Collection

Two sets of data are used for this study. These are primary and secondary data. Primary data was collected through a semi-structured questionnaire. Questionnaire was used in this study as it was the most appropriate, reliable and cheaper means of collecting primary data. In addition, the reason as to why this tool was applied is because it was more objective and convenient to both the researcher and the respondents, and it is administered in a relatively easy manner.

The researcher distributed the questionnaires to target respondents virtually through a google forms link and a hardcopy for those that could not have easy access to respond online to ensure that the everyone in the target sample got a copy of the questionnaire. Collecting the data online

also saved the time of compiling the responses gathered. The respondents were allocated adequate time to complete the questionnaires.

Qualitative data was collected by using semi-structured phone interview with the Director of the Insurance Supervision Directorate.

3.5. Data Analysis

The data collected was analyzed using descriptive statistics. Descriptive statistics involves the use of measures of central tendency, which include frequencies, percentages, the mean and standard deviation. The qualitative data gathered through interview was analyzed and interpreted thematically.

The collected data was analyzed using descriptive statistics such as mean and standard deviation which was extracted using SPSS. The results obtained are presented using tables. To interpret the results of the calculated means the following interpretation was used:

- A mean from 1 to 1.80 means Insignificant or Strongly Disagree
- A mean from 1.81 until 2.60 means Minor or Disagree
- A mean from 2.61 until 3.40 means Moderate or Neutral
- A mean from 3.41 until 4.20 means Significant or Agree
- A mean from 4.21 until 5.00 means Highly Significant or Strongly Agree

3.6. Reliability and Validity

To enhance reliability the researcher developed data collection instrument based on research questions, research objectives and problem statement. The measurement tools were developed on facts and understanding of the process that are involved in coming up with a questionnaire.

Reliability of the responses gathered were assessed Cronbach Alpha test. Accordingly, the results from all the variables used gave a value of 0.917 which is acceptable since it is over 0.7. The individual tests for the Role of NBE in the corporate governance of insurance companies, challenges in corporate governance of insurance companies and factors that affect corporate governance practice in insurance companies also gave 0.888, 0.938 and 0.759.

To ensure validity, a thorough review of the literature was made. The views of experts including the project advisor was sought and data collection was made by disclosing the purpose and goals of the study.

3.7. Ethical Consideration

The study assures confidentiality, honesty, and informed consent in study methods, procedures, and presentation of results ensuring that there was no falsified or misrepresentation of data. Before engaging in data gathering, the study secured ethical issues by informing the respondents about the purpose of the study. The participants were properly be informed the purpose of the study and confirm the confidentiality of their responses. This included briefly explaining for non-disclosure of individual identity and that they are not liable for any risk arising from the study or the response. The required information was collected only from the interested participants and they were informed of their right to withdraw at any time when felt inconvenience of participation. All the corporation documents financial or non-financial or which includes manuals, policy, procedures etc. were preserved confidential and not be disclosed to third party in any form.

The study eliminated bias in data analysis, interpretation, and other aspects of the research. Furthermore, all references used in this study that are work of other scholars or writers are properly acknowledged.

Chapter Four

4. Data Analysis and Interpretation

As indicated in the first chapter, the main goal of this study is to assess the role National Bank of Ethiopia plays in the corporate governance of insurance companies in Ethiopia. Additionally, it aims to identify obstacles or challenges of implementing corporate governance in the Ethiopian insurance industry and the key stakeholders involved.

In this section of the study, the data analysis is presented. In the first sub section, the general background of respondents is given by considering their gender composition, age, education level, their role in the Bank and their experience. Following that, a descriptive analysis is given to assess the role played by NBE in the corporate governance of insurance companies in Ethiopia, the challenges of corporate governance practice and factors that affect corporate governance practice.

4.1. General Background of Respondents

The questionnaire prepared for this study was distributed 15 technical staffs identified as the target respondents of the study. A total of 11 completed responses were submitted making the response rate 73.3%. Given the response rate and homogeneity of the respondents, it can be considered that the responses gathered are representative of the opinions of the target population.

4.1.1. Gender Composition of Respondents

Out of the total respondents, 8 of them or 72.7% of them were males while the remaining 3 or 27.3% participants were female.

Table 1: Gender Composition of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	8	72.7	72.7	72.7
Valid Female	3	27.3	27.3	100.0
Total	11	100.0	100.0	

Source: Survey Result, 2022

4.1.2. Age Group of Respondents

Most of the respondents, which make up about 36.4% were within the age group of 41 and 45 years. Three age groups (Below 30 Years, 31 to 35 Years and 36 to 40 Years) all had 2 participants from each group and one respondent was between the age of 46 to 50.

Table 2: Age Group of Participants

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 30 Years	2	18.2	18.2	18.2
	31 to 35 Years	2	18.2	18.2	36.4
	36 to 40 Years	2	18.2	18.2	54.5
	41 to 45 Years	4	36.4	36.4	90.9
	46 to 50 Years	1	9.1	9.1	100.0
	Total	11	100.0	100.0	

Source: Survey Result, 2022

4.1.3. Education Level of Respondents

Out of the total respondents, 72.7% were MA or MSc degree holders and three respondents (27.3%) were BA or BSc degree holders. This shows that the respondents have adequate academic qualification to participate in the survey and provide appropriate response.

Table 3: Academic Qualification of Participants

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BA/BSc	3	27.3	27.3	27.3
	MA/MSc	8	72.7	72.7	100.0
	Total	11	100.0	100.0	

Source: Survey Results, 2022

4.1.4. Role of Respondents

When we look at the role the respondents, most of them were insurance examiners. Four of them were principal level examiners, two were senior level insurance examiners, and two were assistant examiners who half of the were assistant examiners, while three respondents did not indicate the exact level of their role. The Interview was conducted with the Director of the Insurance Supervision Directorate. Considering it is the Insurance Supervision Directorate that overlooks the overall operations of insurance companies in Ethiopia, the respondents were appropriate participants to provide the required information.

4.1.5. Experience of Respondents

Experience wise, the participants experience was examined from three perspectives: i) their general or total experience, ii) their experience and iii) their experience in credit function. Accordingly, it was observed that most of the participants had a total experience of over five years. Twenty-one participants were employees of the Bank for at least 6 years and above and

more than half of them (53.6%) have an ample experience of working in the Bank’s credit function for at least 6 years or above.

Table 4: Work Experience of Respondents

	Total Experience				Experience in NBE				Experience in Insurance Supervision Directorate			
	Frequency	Percent	Valid Percent	Cumulative Percent	Frequency	Percent	Valid Percent	Cumulative Percent	Frequency	Percent	Valid Percent	Cumulative Percent
Valid												
Below 2 Years	0	0	0	0	0	0	0	0	0	0	0	0
2 to 5 Years	2	18.2	18.2	18.2	2	18.2	18.2	18.2	2	18.2	18.2	18.2
6 to 10 Years	2	18.2	18.2	36.4	3	27.3	27.3	45.5	3	27.3	27.3	45.5
11 to 15 Years	3	27.3	27.3	63.6	2	18.2	18.2	63.6	2	18.2	18.2	63.6
16 to 20 Years	4	36.4	36.4	100.0	4	26.4	26.4	100.0	4	26.4	26.4	100.0
Above 20 Years	0	0	0	100.0	0	0	0	100.0	0	0	0	100.0
Total	11	100.0	100.0		11	100.0	100.0		11	100.0	100.0	

Source: Survey Result, 2022

4.2. The Role of NBE in Corporate Governance Practice of Insurance Companies

In this study, the calculated mean scores of the question items in the survey were categorized in to five as per the degrees of respondents’ opinion in significance and agreement for interpretation as given below in Table 5.

Table 5: Calculated Mean Score Interpretation for Five-Scale Likert’s Response

Calculated Mean Value	Representation of Response	
	Significance	Agreement
From 1 to 1.80	Insignificant	Strongly Disagree
From 1.81 to 2.60	Minor	Disagree
From 2.61 to 3.40	Moderate	Neutral
From 3.41 to 4.20	Significant	Agree
From 4.21 to 5.00	Highly Significant	Strongly Agree

Source: Al-Sayaad, Rabea, and Samrah, 2006

National Bank of Ethiopia being the regulatory body for the insurance industry, among its other duties, it is also responsible to oversee the practice and compliance of corporate governance in the insurance companies of the Country. Among the different functions in National Bank of Ethiopia, the unit that is primarily responsible for the corporate governance practice of insurers

in the Insurance Supervision Directorate which is one of the seven units under the Financial Institution Supervision cluster of NBE.

Out of the identified roles played by NBE in the corporate governance of insurance companies, eight of them were found to be highly significant or key roles based on the response of the participants. Among these factors, the role believed to be highly significant or strong was that insurance companies submit their annual financial records to NBE with a mean of 4.82. Following that, respondents strongly agree that an annual audit of the insurance companies is conducted by an independent auditor with an overall mean of 4.73.

Based on the survey result, the role NBE plays in the establishment of internal controls and procedures to govern the work and practice of insurance companies in Ethiopia was found to be highly significant with an overall mean of 4.45 and 81.8% of the respondents indicating that the regulating body plays a highly significant role in this regard.

The finding from the survey shows that the respondents are neutral about the presence of a formal “Compliance Department” which ensures that the insurance companies understand and implement the Corporate Governance Directive. The findings from the interview also indicate that the National Bank of Ethiopia does not have a dedicated section that oversees corporate governance issues. It is undertaken by desk officers and teams of the Insurance Supervision Directorate. Activities related with the nomination, election and approval of insurance companies’ board of directors is also undertaken by the policy and licensing team in the Directorate.

The Insurance Corporate Governance Directives was issued by the National Bank of Ethiopia. Respondents believe that this directive is revised regularly and contains recommendations and suggestions from stakeholders. The latest Insurance Corporate Governance Directive in place was issued in 2019 as a replacement for the previous one, which was issued in 2015.

Furthermore, the role NBE plays in creating an on-going program to insurance companies’ and their personnel’s awareness of corporate governance issues was also found to be low with an overall mean of 3.36.

Table 6: Descriptive Statistics on the Role of NBE in Establishing Regulatory Framework for Corporate Governance

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Establishment of internal controls and procedures to govern the work and practice of all insurance companies	11	2	5	4.45	1.214	Highly Significant
NBE has a formal “Compliance Department” with a mission to ensure that insurers understand and implement the Corporate Governance Directive and play their part in discharging their obligations	11	1	4	2.91	1.221	Neutral
NBE has an on-going program to insurance companies’ and their personnel’s awareness of corporate governance issues and the role expected from the different stakeholders	11	2	5	3.36	1.027	Neutral
The financial and operating results of insurance companies are timely disclosed	11	4	5	4.36	.505	Strongly Agree
An annual audit of the insurance companies is conducted by an independent auditor	11	4	5	4.73	.467	Strongly Agree
The costs of practicing good corporate governance outweigh the benefits	11	1	5	2.45	1.695	Disagree
Insurance Companies submit their annual financial records to NBE	11	4	5	4.82	.405	Strongly Agree

	N	Minimum	Maximum	Mean	Std. Deviation	Response
The Corporate Governance Directive is revised regularly and contains recommendations and suggestions	11	3	5	4.00	.632	Agree
The insurance companies provide alert response to every issue	11	2	4	3.18	.751	Neutral
Valid N (listwise)	11					

Source: Survey Result, 2022

As indicated in Table 7 below, it was also found that the regulating body's role in regularly observing the implementation of the Corporate Governance Directive, policies and procedures in the insurance companies and its role in taking appropriate actions when companies break rules was significantly high.

Table 7: Descriptive Statistics on the Role of NBE in Monitoring and Supervising Corporate Governance Matters

	N	Minimum	Maximum	Mean	Std. Deviation	Response
The NBE regularly observes the implementation of the Corporate Governance Directive, policies and procedures and takes appropriate actions when companies break rules	11	4	5	4.64	.505	Strongly Agree
Valid N (listwise)	11					

Source: Survey Result, 2022

When looking at the role NBE has in managing stakeholders, it was found that the opportunity stakeholders have to freely express violation in their or about illegal or their concerns about unethical practices by the practice of insurance companies directly to NBE was a key role along with the right stakeholders have to obtain sufficient and reliable information from NBE on a timely basis. The study also found that there was no formal system in place for the resolution of conflicts of interest.

Table 8: Descriptive Statistics on the Role of NBE in Managing Stakeholders

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Protect the interests of persons who have an interest in the company	11	3	5	3.91	.701	Significant
Protection of rights of shareholders	11	3	4	3.64	.505	Significant
Stakeholders have the opportunity to freely express violation in their rights by the practice of insurance companies directly to NBE	11	4	5	4.64	.505	Strongly Agree
Stakeholders have the right to obtain sufficient and reliable information from NBE on a timely basis	11	4	5	4.45	.522	Strongly Agree
Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to NBE	11	4	5	4.64	.505	Strongly Agree
NBE has provided channels for the dissemination of information on a timely basis to relevant users	11	3	5	3.64	.809	Agree
NBE monitors that stakeholder rights that are established by law are respected by the insurance companies	11	4	5	4.18	.405	Agree
Systems have been set up for the resolution of conflicts of interest	11	2	5	3.36	1.027	Neutral
Valid N (listwise)	11					

Based on information gathered from the Human Resource Management Directorate of NBE, there were a total of 21 employees in the Insurance Supervision Directorate. This number is low considering that the Directorate is responsible to supervise the 18 insurance companies in the market as well as other players such as insurance sales agents and brokers. Generally

speaking, the corporate governance practice of insurance companies is supervised by the Insurance Supervision Directorate.

4.3. Challenges in the Corporate Governance Practice of Insurance Companies in Ethiopia

As briefly discussed in Chapter Two, the implementation of corporate governance has its own challenges. Accordingly, respondents were asked to rate the main challenges in the practice of corporate governance in insurance companies. Although there were no highly significant challenges identified in the overall response of the participants, some issues were believed to prevail relatively more than the others. The findings from the descriptive analysis of the challenges identified are categorized in to five and presented below in Table 9, Table 10, Table 11, Table 12 and Table 13 as: (i) company specific challenges, (ii) regulatory framework challenges, (iii) remuneration related challenges, (iv) skill and competency related challenges, and (v) communication and relationship related challenges.

As depicted in Table 9 below, lack of compliance with the laws and regulations governing the operations of companies, lack of corporate culture that reinforce appropriate norms for responsible & ethical behavior, and weak utilization of modern management methods were identified as relatively more significant company specific challenges.

Cost was not found as an issue or challenge in the practice of good corporate governance. This is supported by one of the findings in the role NBE plays in the corporate governance of companies which shows that the cost of practicing good corporate governance does not outweigh its benefits.

Table 9: Descriptive Statistics on Insurance Companies’ Related Challenges of Corporate Governance Practice of Insurance Companies in Ethiopia

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Lack of corporate culture that reinforce appropriate norms for responsible and ethical behavior	11	3	5	3.73	.786	Significant
Reluctance of senior management to carry out and manage the companies' activities approved by the board	11	2	5	3.55	1.214	Significant

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Lack of timely and accurate disclosure of material and financial information regarding governance of the companies	11	3	5	3.55	.820	Significant
Weakness of using modern management methods	11	3	5	3.73	.786	Significant
Lack of compliance with the laws governing the work of companies	11	3	5	3.91	.944	Significant
Board's reluctance in approving and overseeing management's implementation of the companies' strategic objectives, governance framework and risk management	11	3	4	3.36	.505	Moderate
High cost of applying corporate governance rules	11	2	3	2.27	.467	Minor
Valid N (listwise)	11					

Source: Survey Result, 2022

From among the regulatory framework related challenges given below in Table 10, only two were found to be significant challenges. These two challenges were insufficient laws & procedures governing the work of the insurance companies and the occurrence of Weak legal controls and law enforcement within the industry.

Table 10: Descriptive Statistics on Challenges Associated with Regulatory Framework

	N	Minimum	Maximum	Mean	Std. Deviation	Response
The occurrence of Weak legal controls and law enforcement within the industry	11	2	5	3.55	1.036	Significant

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Absence of legal and regulatory systems that govern companies' activities	11	2	5	3.36	1.362	Moderate
Insufficient laws and procedures governing the work of companies	11	3	5	3.73	.786	Significant
Lack of clear policy emphasizes adherence to moral conduct	11	3	4	3.36	.505	Moderate
Valid N (listwise)	11					

Source: Survey Result, 2022

Generally speaking, there were no significant challenges found with respect to remuneration. According to the respondents, remuneration related challenges like mismatch of remuneration structure with the companies' overall corporate governance & risk management and weakness of incentives & rewards system for boards of directors were found to be only moderate with a mean of 3.36 and 3.00 respectively.

Table 11: Descriptive Statistics on Remuneration Related Challenges

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Mismatch of remuneration structure with the companies' overall corporate governance and risk management	11	3	5	3.36	.809	Moderate
Weakness of incentives and rewards system for boards of directors	11	2	4	3.00	.894	Moderate
Valid N (listwise)	11					

Source: Survey Result, 2022

Skill and competency related challenges were found to be significant challenges in the practice of corporate governance in the Ethiopian insurance industry. Lack of professional competency from board members to understand their corporate governance role was the challenge with the highest mean of 4.09 with 36.4% of the respondents indicating it to be a significant challenge, while another 36.4% indicated it as a highly significant challenge. In addition to challenges

associated with the skill and competency of Board of Directors, weak focus on specialization in corporate management, presence of limited knowledge on the concept and requirements of corporate governance and lack of educational programs on corporate governance were also found to be significant challenges associated with skill and competency, as given in Table 12 below.

Table 12: Descriptive Statistics on Skill and Competency Related Challenges

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Lack of professional competency from board members to understand their corporate governance role	11	3	5	4.09	.831	Significant
Weakness of focus on specialization in corporate management	11	3	4	3.73	.467	Significant
Shortage of knowledge of the concept and requirements of corporate governance	11	3	4	3.55	.522	Significant
Lack of educational programs on corporate governance	11	3	5	3.91	.944	Significant
Valid N (listwise)	11					

Source: Survey Result, 2022

When we look at challenges related with communication and relationship, it was found that the level of communication between the board and senior management was more relevant than that of communication among senior management, managers and employees of the company. The level of relationship between the insurance companies and the external auditors was also found to have limited role as a challenge in practicing corporate governance.

Table 13: Descriptive Statistics on Challenges Associated with Communication and Relationship

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Poor communication of information between the board and senior management in a timely and accurate manner	11	3	5	3.73	.786	Significant
Poor relationship between executive management, managers and employees of the company	11	3	4	3.36	.505	Moderate
Good relationship between the company and the external auditors	11	2	4	2.82	.751	Moderate
Valid N (listwise)	11					

The Importance Corporate governance issues not being properly recognized by the board as well as by the management of insurance companies and its role not being properly communicated to employees was mentioned as also indicated as a major challenge. Additional challenges raised by the respondents include:

- Lack of technical knowledge on insurance,
- The existence of significant conflict of interest,
- Lack of adequate accountability and transparency,
- Reluctance to abide to relevant laws particularly of the insurance industry,
- Board of directors' failure to focus on strategical issues, and
- Limited attention is being given for the risk management system.

It was further observed that although no insurance company has faced any significant issue due to poor corporate governance, the cause for companies' noncompliance stems from the lack of good internal governance.

4.4. Factors that Affect the Practices of Corporate Governance

Different studies show that corporate governance practice is affected by many factors such as the imposition and implementation of regulatory reforms, size of the board, competency of the board, gender composition of the board and relationship between the board and senior management.

The findings from this study show that the existence of strong and competent boards and a pool of professional senior management within an insurance company is the most significant factor that affect the practice of corporate governance. About 81.8% of the respondents indicated that this was a significant factor with the overall mean giving a result of 4.45. Following this, the presence of positive relation between senior management and the board of insurance companies was identified as a significant factor with an overall mean of 4.27.

Although not quite as significant as the previous two factors (i.e., the strength/competence of the Board, and the presence of positive relationship between the Board and Management), other factors such as the imposition and implementation of regulatory reforms, the increase in complexity of the operations of insurance companies, and insurance companies' strategic planning and performance were also significant factors. This added with the fact that no additional factors were indicated by the respondents shows that corporate governance is relatively more affected by internal factors other than external factors such as the role played by the regulator.

Size of the board and gender diversification within the board members were found to have moderate impact based on the opinions of the respondents from the regulator.

Table 14: Descriptive Statistics on Factors that Affect Corporate Governance Practice of Insurance Companies in Ethiopia

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Size of the board	11	2	4	3.27	.786	Moderate
Existence of strong and competent boards and a pool of professional senior management	11	3	5	4.45	.820	Highly Significant
The positive relation between Senior Management and the Board	11	3	5	4.27	.786	Highly Significant
The gender diversification of board of directors	11	2	4	2.64	.809	Moderate
The imposition and implementation of regulatory reforms	11	2	4	3.45	.820	Significant
The increase on complexity of the operations of insurance companies	11	3	5	3.55	.820	Significant

	N	Minimum	Maximum	Mean	Std. Deviation	Response
Strategic Planning and Performance of the insurers	11	3	4	3.55	.522	Significant
Valid N (listwise)	11					

Source: Survey Result, 2022

4.5. Stakeholders in the Corporate Governance System of the Ethiopian Insurance Industry

The Corporate Governance System of the Ethiopian Insurance System is composed of many stakeholders. One respondent generalized the stakeholders as “any person (both natural and legal) who has financial interest on the insurance companies” while another categorized them as internal and external. Based on the response gathered from the participants in the survey, the key stakeholders include the shareholders, board, management and staff of the company. Internal control units such as auditors and risk management unit were also identified as stakeholder. Additionally, the regulator (i.e., NBE), Ministry of Revenues, government, creditors and suppliers, and the community as a whole were identified as stakeholders in corporate governance system of the Ethiopian insurance industry.

Policyholders, meaning customers of insurance companies, were also identified as key stakeholders. These customers were also mentioned as the main stakeholders during the interview conducted with the Director of the Insurance Supervision Directorate. It was indicated that customers are one of the main reasons why good corporate governance is needed and why NBE plays an important role in regulating and supervising the operation of insurance companies in Ethiopia. The regulator considered policyholders as key stakeholders and tries to ensure their interest is met through different regulations and directives such as NBE’s Consumer Protection Directive. What is more, although the regulator cannot force insurers to pay claims it investigates cases and recommends resolution mechanisms. This is mostly a case that happens with individual customers and companies usually resolve issues by themselves by directly negotiating with the companies. It was, however, indicated that despite not forcing companies to settle claims or force them in resolving issues, the number of customer complaints was used as a parameter to evaluate the management of companies by the regulator.

Chapter Five

5. Summary of Findings, Conclusions and Recommendations

The chapter summarizes the overall findings of the study and forwards possible recommendations to be addressed by the concerned bodies. In the following sub-sections, summary of the major findings followed by conclusions drawn from the study and recommendations are given. Finally, potential areas for further researches are indicated.

5.1. Summary of Findings

The main purpose of this was to assess the role National Bank of Ethiopia plays in the corporate governance of insurance companies in Ethiopia. Additionally, the study also tried to identify the major challenges in practicing corporate governance in the insurance industry, factors that affect corporate governance practice and the main stakeholders in the corporate governance of the Ethiopian insurance industry. The major findings from this study are:

- Being the primary regulating and supervising body of the insurance companies and many other actors in the Ethiopian insurance industry, National Bank of Ethiopia has a strong role in ensuring the practice of good corporate governance. From issuing regulation and directives of corporate governance to ensuring their implementation and the interest of all stakeholders is met in a balanced and appropriate manner, the role the regulating body has is crucial.
- Specific areas where the role of NBE was found to be significant are:
 - in monitoring annual financial records are audited and submitted timely to the regulator and other stakeholders,
 - in the establishment of internal controls and procedures to govern the work and practice of insurance companies in Ethiopia,
 - in regularly observing the implementation of the Corporate Governance Directive, policies and procedures in the insurance companies, and
 - its role in taking appropriate actions when companies break rules was significantly high.
- The Role NBE plays in resolving conflict of interest was found to be low.
- Among the different challenges in corporate governance practice, those that were found to prevail in the Ethiopian insurance industry are: lack of professional competency within board members of insurance companies to understand their role corporate governance; lack of educational programs on corporate governance; lack of compliance

with the laws and regulations governing the operations of companies; lack of corporate culture that reinforce appropriate norms for responsible and ethical behavior; poor communication of information between the board and senior management of companies in a timely and accurate manner; weak utilization of modern management methods; and insufficient laws and procedures governing the work of the insurance companies were identified as the main challenges in the practice of corporate governance in the Ethiopian insurance industry.

- The existence of strong and competent boards and professional senior management was found as the most significant factor that affect the practice of corporate governance. This was followed by the presence of positive relation between senior management and the board of insurance companies
- Other factors such as the imposition and implementation of regulatory reforms, the increase in complexity of the operations of insurance companies, and insurance companies' strategic planning and performance were also significant factors that affect the practice of corporate governance in the Ethiopian insurance industry.
- Based on the factors that affect the practice of corporate governance, it can be said that corporate governance is relatively more affected by internal factors relating to the board and management instead of external factors such as the role played by the regulator.
- Insurance companies, despite being the main players in the corporate governance practice of the insurance industry, they are not alert enough to respond to issues that arise from the regulator and there is a conflict of interest.
- The Corporate Governance System of the Ethiopian Insurance System is composed of many stakeholders. These stakeholders include internal stakeholders such as shareholders, board, management and staff of the company, and external stakeholders such as the regulator, Ministry of Revenues, the government and the community as a whole. Customers were also identified as primary stakeholders.

5.2. Conclusion

The main aim of this research was to assess the role National Bank of Ethiopia plays in the corporate governance of insurance companies in Ethiopia. To achieve this, the study used mixed research approach by using survey and interview. The study mainly employed descriptive method of analysis using frequency, percentage, and mean as deemed appropriate. The analysis tool used in the study was SPSS. Responses gathered through the interview were

incorporated in the sub topics of the analysis. Objectives of the study have been addressed through the research and articulated in the summary of findings.

5.3. Recommendation

Based on the findings of this research, the following recommendations can be forwarded as possible measures to increase the role played by the regulator and to improve the practice of good corporate governance in the Ethiopian insurance industry:

- There should be dedicated department or section within the insurance supervision Directorate that is responsible to solely oversee corporate governance matters. Alternatively, NBE could also consider to have a separate Directorate that monitors the corporate governance practice of the insurance companies and other financial institutions it regulates. Despite the crucial role a sound Corporate Governance has in the performance of a company as well as the society and even the entire economy, it is recommended to have a dedicated unit to oversee corporate governance affairs.
- Since conflict of interest will negatively impact the presence of good corporate governance, the role played by NBE in resolving conflict of interest should be developed to the highest level possible.
- Insurance companies should be alert on corporate governance matters. To do this, an initiative should be taken by the regulator to improve the culture of corporate governance at industry level. One policy and procedure document NBE requires insurers to have their respective corporate governance policy. However, having a corporate governance policy does not entail that it is being implemented. Hence, NBE should evaluate insurance companies' corporate governance policies and monitor compliance to these policies and their regular update.
- The skills and capacity of the personnel in insurance companies, in the regulating body and even within other stakeholders should be developed.
- The Insurance Supervision Directorate of NBE currently has limited personnel that undertake a variety of insurance related activities. The Directorate should be capacitated more both by increasing the number of employees it has and upskilling the employees in the Directorate.

5.4. Areas of Further Research

This particular study is limited to assessing the role National Bank of Ethiopia plays in the corporate governance of insurance companies in Ethiopia as a regulating body. The analysis in

solely based on the data gathered from the regulator side. Hence, further studies could consider the opinion of the insurance companies as well and evaluate the relationship. What is more, since NBE is also the regulating body of other financial institutions (banks for instance), its role in the corporate governance practice of these industries could also be investigated. Finally, the study recommends to investigate what kind of corporate governance system might be there if a separate institution or government body (that is solely responsible to oversee corporate governance practice) was in in charge or corporate governance affairs as opposed to the business and other operations regulating body.

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Annexes

Annex 1: Articles Pertaining to Corporate Governance in Ethiopia (an Extract from the Revised Commercial Code of Ethiopia, (Proclamation No. 1243/2021).

Article 274. Register of Shareholders

- (1) Every share company shall keep a register of shareholders at its head office. The register shall be kept in paper format or by electronic means that can be retained for a long duration.*
- (2) The register shall contain the names and addresses of shareholders, the number and numeration of the shares, the amount paid up and the date of entry of the shareholder in the register.*
- (3) Shareholders and concerned government authorities may inspect the register without charge. Persons other than shareholders may also inspect the register upon payment of the fee prescribed by the company.*
- (4) Any person may obtain a copy of or an extract from the register upon payment of the prescribed fee. The company shall give the copy or extract to the person requesting within fifteen days from the date of such request.*
- (5) Where an error has occurred in the register, the concerned government authority may order the rectification of the register on the request of any interested party or a shareholder.*
- (6) The members of the board of directors of the company shall be jointly and severally liable for any damage caused by the inaccuracy in the register.*

Article 296. The Board of Directors

- (1) A company shall have not less than three or more than thirteen directors who shall be elected by the shareholders. Two-thirds of members of the board of directors may not play a role in the day-to-day management of the affairs of the company.*
- (2) Persons who are not shareholders may be elected as members of the board of directors. However, the number of non-shareholder directors may not exceed one-thirds of the total membership of the board of directors.*
- (3) Where the memorandum of association does not clearly specify the number of directors, the meeting of subscribers shall decide the number of directors to be appointed.*
- (4) An organization or institution vested with legal personality by law may be appointed a director; Upon its appointment, it shall appoint, for the duration of its term, a permanent representative; The legal entity shall appoint a replacement at the earliest*

practicable time where the permanent representative resigns or cannot discharge his obligations for whatever reason.

- (5) Although a permanent representative is not personally a director of the company, he is subject to the same obligations including civil and criminal liability as if he were a director in his own name, without prejudice to the joint liability of the legal entity that he represents.*

Article 298. Appointment of Directors

- (1) The first directors may be appointed under the memorandum of association. The appointment shall be submitted to a meeting of subscribers for approval. Where such approval is not given, the meeting shall appoint other directors.*
- (2) Subsequent directors shall be appointed by a general meeting.*
- (3) Directors shall be appointed for a term of three years. Unless otherwise provided a contrary stipulation in the memorandum of association, directors are eligible for re-election.*
- (4) Where more than one director is to be elected, votes shall be cast for each director separately.*

Article 300. Chairperson of the Board of Directors

- (1) Only a director who is a shareholder may become the chairperson of the board of directors. A director who takes part in the day-to-day management of the affairs of the company may not become the chairperson of the board of directors.*
- (2) The chairperson of the board of directors, and where appropriate a deputy chairperson, may be elected by a meeting of subscribers or shareholders. The board shall elect a chairperson or deputy chairperson from among its members where no chairperson or deputy chairperson has been elected by the meeting.*
- (3) The board may revoke at any time the appointment of a chairperson or deputy chairperson elected by the board.*

Article 301. Special Mandates

- (1) The board of directors may give to one or more of its members a special mandate as regards one or more specific matters including to represent the company in a specific transaction.*

- (2) *The board of directors may decide to create committees consisting of directors to review matters as and when it deems that appropriate and recommend a course of action, if need be; It shall determine the composition and powers of the committees that it establishes without exceeding powers vested in the board itself.*
- (3) *The board shall establish an audit committee consisting of members of the board alone; a director who takes part in the day-to-day management of the affairs of the company may not become a member of the audit committee.*
- (4) *Subject to a contrary stipulation by the board a committee established under Sub-Articles (2) and (3) of this Article may seek the opinion of experts who are not directors.*

Article 302. Security by Directors

- (1) *The memorandum of association may provide that directors furnish security to guarantee proper discharge of their duties. Where the memorandum so requires, it shall also prescribe the necessary details regarding the type and amount of security to be furnished and how the security is to be held.*
- (2) *The security shall be released where the director has ceased to be a director and it has been ascertained that he no longer owes obligations to the company.*

Article 303. Replacing Directors

- (1) *Where during a financial year, one or more board seats become vacant, the remaining directors shall choose replacements; The replacements shall complete the period for which the directors who vacated the seat were appointed.*
- (2) *The appointment of replacements shall be submitted to the next general meeting for confirmation; The general meeting may confirm their appointments or appoint other directors in their place; The acts performed by persons appointed under Sub-Article (1) of this Article, while their appointment lasted, shall be valid even where their appointment is not confirmed by the general meeting.*
- (3) *Where the number of the surviving directors is less than half of the board of directors, they shall convene a general meeting to appoint other directors within thirty days as of the time of the shortfall in the number of board members; The surviving directors shall conduct the affairs of the company until the appointment of replacement directors.*
- (4) *Where there are no surviving directors, the supervisory board, and in its absence the Auditors shall convene within thirty days a general meeting to appoint replacement directors.*

(5) *Until the appointment of replacement of directors in accordance with Sub-Article (4) of this Article, the supervisory board, if any, in the absence of the auditors, shall manage the company; The management of the company carried out by the Auditors under this circumstance shall be verified by alternative Auditors or another licensed audit professional.*

Article 304. Remuneration of Directors

- (1) *Directors shall receive an annual remuneration the amount of which shall be fixed by a general meeting and charged against general expenses.*
- (2) *An ordinary general meeting of the company may also decide to give to the directors a specified share in the net profits of a financial year.*
- (3) *The amount of the share in the net profits that the directors may receive pursuant to Sub-Article (2) of this Article may not exceed ten percent of the amount that may be distributed as dividend in that fiscal year.*
- (4) *The director's share in the net profits under Sub-Article (2) of this Article may be paid only where dividend has been distributed to the shareholders in that year.*
- (5) *Remuneration fixed for the directors shall be made in a lump sum; The board shall distribute the sum to the directors as it deems it fit.*
- (6) *The Ministry of Commerce and Industry may, having regard to the financial position of the company, the salaries and benefits of the latter's employees, and taking into account the need to create a healthy business environment, on the request of shareholders representing at least ten percent of the capital, order the reduction of the remuneration of the directors given under Sub-Article (2) of this Article where it considers it excessive.*

Article 305. Removal of Directors

- (1) *Directors may be removed at any time by a general meeting, notwithstanding any provision to the contrary in the memorandum of association.*
- (2) *A director who was removed without good cause is not entitled to be reinstated; He may only claim damages for the wrongful dismissal.*

Article 343. Appointment of Auditors

- (1) Every share company shall have one or more independent and impartial external Auditors and assistant Auditors; The Auditors and assistant Auditors shall be elected by the general meeting of the shareholders.*
- (2) A shareholder or shareholders representing not less than 20% of the capital of the company may appoint an Auditor selected by them.*
- (3) A body corporate may act as Auditor.*
- (4) Auditors shall be elected by the meeting of subscribers and thereafter by the general meeting.*

Article 344. Term of Appointment of Auditors

Auditors shall hold office:

- (1) until the first annual general meeting where elected by the meeting of subscribers;*
- (2) till the closing of three financial years where elected at an annual general meeting.*

Article 345. Requirements to be Appointed as Auditor

- (1) To be eligible for the position of an auditor of a share company a person shall fulfill the following:
 - a) issued with a professional license from a relevant authority;*
 - b) be of a good moral character;*
 - c) not be a shareholder or an employee of the company;*
 - d) is not a person affiliated with the company as defined under Article 306 Sub-Article (6) of this Code;*
 - e) fulfill other requirements set by the law or the memorandum of association.**
- (2) Reports submitted by an Auditor and adopted by the general meeting shall not, save in the case of fraud, be invalid merely by reason of the fact that the provisions of this Article have not been observed.*

Article 346. Revocation of the Appointment of an Auditor

A general meeting may at any time revoke the appointment of an auditor. An Auditor may claim damages if his dismissal is without good cause.

Article 347. Remuneration

The remuneration of Auditors shall be determined by the general meeting of shareholders.

Article 348. Duties of Auditors

Subject to the other provisions of this Code and other relevant laws, the Auditors shall:

- (1) discharge their duties following generally accepted accounting principles;*
- (2) provide accurate information;*
- (3) treat shareholders equally;*
- (4) keep professional secrets;*
- (5) annually verify the correctness and accuracy of the inventories, balance sheets, and profit and loss accounts, books and other financial documents;*
- (6) certify that the report submitted by the board of directors to the general meeting of shareholders reflects the correct state of the company;*
- (7) carry out such other duties as may be assigned to them in the memorandum of association or by general meeting of shareholders.*

Annex 2: The Principles and Best Practices of Corporate Governance (Extracted from the Corporate Governance of Ethiopia of Ethiopian Corporate Governance Institute)

1. Compliance with the Code of Corporate Governance

- 1.1. Companies should declare in their annual report their commitment to the Code of Corporate Governance.*
- 1.2. Companies should include in the annual report their progress in compliance with the Code and indicate their plans and efforts for improvements and development.*
- 1.3. Companies, acting at capital markets or listed for public trade of their shares shall report in their annual report the status of their compliance by the principle “comply or explain”.*

2. Ownership

- 2.1. Shareholders should have the right to secure registration and transfer of their shares.*
- 2.2. Shareholders should have the right to participate in all major decisions of the company on matters substantially affecting the operation of the company and/or the value of their shares. Such decisions may concern major disposals of company assets, restructuring, takeovers, mergers, acquisitions or reorganization.*
- 2.3. Shareholders within the same series or class of shares should be treated equally.*
- 2.4. Minority shareholders should be protected from any type of abusive action against their interests by dominating, controlling or influential shareholders.*
- 2.5. Shareholders should receive information on the company’s performance through distribution of regular annual reports, half yearly results and quarterly results.*
- 2.6. The company should hold an annual general meeting. Every shareholder should have the right to participate and vote at the general shareholders’ meeting.*
- 2.7. Shareholders should receive sufficient and timely information concerning the date, location, agenda, voting rules and procedures of the general meeting as well as full and timely information regarding issues to be decided during the general meeting.*
- 2.8. Shareholders should have the right to question the Board, the Management as well as the Auditors of the company and place items on the agenda at general meetings and vote through proxy voting.*
- 2.9. Shareholder participation in the general meetings and in the company business should be stimulated and facilitated*

3. Board of Directors

- 3.1. *Directors should offer strategic guidance, provide leadership and control the company and be accountable to its shareholders and responsible to its stakeholders.*
- 3.2. *Shareholders at the annual general meeting should appoint the Board of Directors. There should be a formal and transparent procedure in the appointment and reappointment of Directors. For ensuring continuity of the functions of the Board, Directors may be elected for two or more-year terms of services.*
- 3.3. *The Board composition should not be biased towards representation by the dominating shareholder but should reflect the company's broad shareholding structure, including minority shareholders.*
- 3.4. *At least one-third of the Directors should have verified competence and expertise.*
- 3.5. *The composition of the Board should be balanced of Executive and Non-executive Directors including at least one-third Independent Non-executive Directors in order to ensure that no individual or group of individuals dominates the Board decision-making processes.*
- 3.6. *The Board should elect among the Directors a Chairperson. The Chairperson is responsible for leadership of the Board and ensuring its effectiveness on all aspect of its role*
- 3.7. *In case the Shareholders appoint the Chief Executive Officer as Director there should be a separation of the roles of the Chairperson and the Chief Executive Officer in order to ensure a balance of power of authority and to provide for checks and balances.*
- 3.8. *The Board of Directors should meet regularly, should have a pre-determined agenda, receive full and timely information on all subjects on the agenda, deliberate and decide on the subjects and produce relevant minutes from their proceedings.*
- 3.9. *Directors with any material external interest in the dealings of the company should disclose their interest and refrain from participation in the deliberations and decision making of the Board on such matters.*
- 3.10. *The Board of Directors is responsible for determining and maintaining all material controls of the business of the company including financial controls, risk controls, operational controls and compliance with the relevant laws, regulations and directives.*
- 3.11. *The Board should delegate specified tasks to committees. When committees of the Board are established, their mandate, composition, tasks and working procedures should be well defined and disclosed by the Board*

- 3.12. *All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.*
- 3.13. *The Board should implement the process of assessment of the effectiveness of the Board as a whole, of the Committees of the Board, and of individual Director*
- 3.14. *There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her remuneration.*
- 3.15. *The Board of Director should propose to the Shareholders remuneration packages for the Directors and remuneration policy for Executive Management. Performance- or equity- based remuneration should always be subject for decision by the Shareholders.*

4. Relations between the Board of Directors and Management

- 4.1. *The Board should delegate the day-to-day management of the company to executive management. There should be clear division between the duties and tasks of the Board and the Executive Management.*
- 4.2. *The Board should appoint a Chief Executive Officer. The Chief Executive Officer should be responsible for implementing Board decisions and continually informing the Board about the progress and the state of the business of the company.*
- 4.3. *The Chief Executive Officer and members of the Executive Management may be invited to participate, ex-officio and without voting rights, in the meetings of the Board.*

5. Accounting, Auditing and Disclosure of Information

- 5.1. *The Board of Directors should ensure the application of good and generally accepted accounting standards and independent internal control of the business of the company.*
- 5.2. *The Board of Directors should ensure that financial statements are presented in line with International Financial Reporting Standards. Any departure from these standards and the impact thereof should be explained in the annual report.*
- 5.3. *The Annual Report of the company should contain objective and readily understandable assessments of the company's business performance, operating position and prospects; the audited financial statements in accordance with internationally accepted auditing and reporting standards; the statements of the Auditors; and non-financial statements regarding relations with stakeholders, the environment and the community.*

- 5.4. *The Board should establish a formal and transparent arrangement for Shareholders to effect the appointment or re-appointment of independent and qualified External Auditors at each annual meeting.*
- 5.5. *The External Auditor should provide an external and objective assurance to the Board of Directors and the Shareholders that the financial statements fairly represent the financial position and performance of the company in all material aspects.*
- 5.6. *The External Auditor should ensure the Board of Directors that the accounting principles and systems and internal control mechanisms for financial transactions are holding the quality in accordance with established regulations and standards.*
- 5.7. *The External Auditors should submit their Audit Report to the Shareholders at the annual general meeting. External Auditors should provide a Management letter to the Board of Directors containing all their observations and recommendations for improvements.*
- 5.8. *The Board should establish an Audit Committee, with a majority of independent and non-executive directors, which should report to the Board, with formal Terms of Reference addressing its authority and duties. The Chairperson of the Board of Directors should not be the Chair or member of the Audit Committee.*
- 5.9. *The Board should ensure that there is an effective, risk based internal audit, independent of the management directly reporting to the Board or its Audit Committee.*
- 5.10. *The Board should prepare and issue an annual report. The annual report should be an integrated report. Beside the financial statements, explanatory notes and economic issues, the report should contain reports on the social and environmental issues concerning the operations of the company.*
- 5.11. *The integrated annual report should be submitted to the relevant Government Authority for registration and should be disclosed in its entirety at the head office of the company and on the company's website.*

6. Risk Management

- 6.1. *The Board should be responsible for the governance of risks, by determining the nature and extent of the significant risks it is willing to accept in achieving its strategic objectives, by ensuring monitoring and assessment of the risk and on continual basis and by implementing risk responses.*

6.2. *The Board should ensure that frameworks, systems and methodologies are in place and used by the Executive Management in order to undertake risk assessment, monitoring and timely reporting.*

6.3. *The Board should delegate to the audit committee or a specific risk management committee to oversee the continuous management of the company's risk responsibilities.*

7. Stakeholders

7.1. *The Company should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between the Company and stakeholders in creating wealth, jobs, and the sustainability of the environment.*

7.2. *The company should have an inclusive approach, considering legitimate interest and expectations of stakeholders and shareholders on the basis that this is in the best interest of the company.*

7.3. *The Company should have a Labor Relations and Work Place Environment Policy ensuring the fair treatment and remuneration of the workforce and that care is taken to preserve safe and healthy work conditions.*

7.4. *The Company should have a Customer Relations Policy ensuring customers' rights to adequate delivery of agreed goods and services, prompt response to complaints, and the right to compensation when the Company fails to meet its contractual obligations.*

7.5. *The Company should have a Supplier Relations Policy ensuring the fair treatment of suppliers, the commitment to establish long-term relationships for mutual benefit, and the right of the Company to demand compliance with minimum standards for corporate governance by its suppliers.*

7.6. *The Company should have open and considerate relations with directly concerned Government Agencies and Representatives.*

8. Social Responsibility

8.1. *The Company should recognize that it is in its enlightened self-interest to operate within the mandate entrusted to it by society and to shoulder its social responsibilities.*

8.2. *The Company should have an Environmental Sustainability Policy for all its operations related to the external environment in order to ensure its care for the environment.*

- 8.3. *Such a policy should reflect issues of elimination of pollution, conservation of resources and materials, energy efficiency and others affecting the preservation of environment. 8.3. The Company should have a Personnel Policy respecting Human Rights, Gender Equalities, Children's Rights and the special needs of disabled and/or handicapped citizens.*
- 8.4. *The Company should have an Ethics and Anti-Corruption Policy and should encourage and protect staff whistle blowing when observing and reporting illegal practices.*
- 8.5. *The Company should maintain open and transparent relations with taxation authorities, paying its justified taxes and avoiding all forms of tax evasion.*
- 8.6. *The Company should relate to the local community by giving appropriate information about its operations, its future plans.*
- 8.7. *The Company should promote educational, health and social initiatives in the local community and attending to the needs of the people to the best of its abilities.*

Annex 3: Questionnaire

Dear respondent,

Thank you for taking the time to fill this questionnaire!

My name is Geda Abera and I am currently working on my thesis as partial fulfillment of Master's Degree in Business Leadership at Addis Ababa University School of Commerce. The purpose of my study is to assess the Role of National Bank of Ethiopia in the Corporate Governance of the Ethiopian Insurance Industry.

This questionnaire is designed to help me gather the required data and information from employees of National Bank of Ethiopia. The quality of the result of this research is based on the accuracy of the information you provide so please take your time.

I would like to assure you that the information you provide will be reported and communicated in aggregate and utmost care will be taken for its confidentiality.

Thank you once again and should you have any questions, please call +251916585230 or email aberaged@gmail.com.

INSTRUCTIONS: The questionnaires contain questions designed to assess the Role of National Bank of Ethiopia in the Corporate Governance of the Ethiopian Insurance Industry. Please choose the answer of you believe to be most applicable according to the following five-point scale in terms of your own agreement and disagreement of the statement. Once you have answered all questions please click on the "Submit" button. Please provide your personal and professional opinion for each question.

Part One – Background Information

1. Please indicate your gender

Male Female

2. Please indicate your age bracket.

Below 30 Years <input type="checkbox"/>	41 to 46 years <input type="checkbox"/>
31 to 35 years <input type="checkbox"/>	46 to 50 years <input type="checkbox"/>
56 to 40 years <input type="checkbox"/>	Above 50 years <input type="checkbox"/>

3. Education Level

Below BA/BSc
BA/BSc

MA/MSc

PhD

Other (Please Specify) _____

4. What is your current position in National Bank of Ethiopia?

5. Please indicate your total years of experience (including experience other than NBE).

Below 2 years

11 to 15 years

2 to 5 years

16 to 20 years

6 to 10 years

Above 20 Years

6. Please indicate your experience in NBE.

Below 2 years

11 to 15 years

2 to 5 years

16 to 20 years

6 to 10 years

Above 20 Years

7. Please indicate your experience in the Insurance Supervision Directorate of NBE.

Below 2 years

11 to 15 years

2 to 5 years

16 to 20 years

6 to 10 years

Above 20 Years

Part Two: Questions Related to NBE's Role in Corporate Governance of Insurance Companies

How significant do you believe the Role of NBE in the following areas?

Statement	Insignificant	Minor	Moderate	Significant	Highly Significant
Protect the interests of persons who have an interest in the company					
Protection of rights of shareholders					
Establishment of internal controls and procedures to govern the work and practice of all insurance companies					

To what extent do you agree on the following statements regarding the role of NBE in the corporate governance practice of insurance companies?

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
NBE has a formal "Compliance Department" with a mission to ensure that insurers understand and implement the Corporate Governance Directive and play their part in discharging their obligations					

NBE has an on-going program to insurance companies' and their personnel's awareness of corporate governance issues and the role expected from the different stakeholders					
NBE monitors that stakeholder rights that are established by law are respected by the insurance companies					
Stakeholders have the opportunity to freely express violation in their rights by the practice of insurance companies directly to NBE					
Stakeholders have the right to obtain sufficient and reliable information from NBE on a timely basis					
Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to NBE					
The financial and operating results of insurance companies are timely disclosed					
NBE has provided channels for the dissemination of information on a timely basis to relevant users					
An annual audit of the insurance companies is conducted by an independent auditor					
The costs of practicing good corporate governance outweigh the benefits					
Insurance Companies submit their annual financial records to NBE					
Systems have been set up for the resolution of conflicts of interest					
The Corporate Governance Directive is revised regularly and contains recommendations and suggestions					
The insurance companies provide alert response to every issue					
The NBE regularly observes the implementation of the Corporate Governance Directive, policies and procedures and takes appropriate actions when companies break rules					

How significant do you believe the following challenges are in the corporate governance of insurance companies in Ethiopia?

Statement	Insignificant	Minor	Moderate	Significant	Highly Significant
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Board's reluctance in approving and overseeing management's implementation of the companies' strategic objectives, governance framework and risk management					
Lack of corporate culture that reinforce appropriate norms for responsible and ethical behavior					
Lack of professional competency from board members to understand their corporate governance role					
Reluctance of senior management to carry out and manage the companies' activities approved by the board					
Poor communication of information between the board and senior management in a timely and accurate manner					
Mismatch of remuneration structure with the companies' overall corporate governance and risk management					
Lack of timely and accurate disclosure of material and financial information regarding governance of the companies					
The occurrence of Weak legal controls and law enforcement within the industry					
Absence of legal and regulatory systems that govern companies' activities					
Poor relationship between executive management, managers and employees of the company					
Good relationship between the company and the external auditors					
Weakness of using modern management methods					
Weakness of focus on specialization in corporate management					
Insufficient laws and procedures governing the work of companies					
Shortage of knowledge of the concept and requirements of corporate governance					
Lack of educational programs on corporate governance					
The negative impact of some aspects of culture and social relations in the					

society on the performance of companies					
Lack of compliance with the laws governing the work of companies					
High cost of applying corporate governance rules					
Lack of clear policy emphasizes adherence to moral conduct					
Weakness of incentives and rewards system for boards of directors					

How significantly do you believe the following factors affect the practices of corporate governance?

Statement	Insignificant	Minor	Moderate	Significant	Highly Significant
Size of the board					
Existence of strong and competent boards and a pool of professional senior management					
The positive relation between Senior Management and the Board					
The gender diversification of board of directors					
The imposition and implementation of regulatory reforms					
The increase on complexity of the operations of insurance companies					
Strategic Planning and Performance of the insurers					

What additional challenges are there in the practice of corporate governance in the insurance industry in your opinion?

Who are the stakeholders in the corporate governance system of the insurance industry?

Please provide any additional feedback on the corporate governance practice of insurance companies.

Annex 4: Interview Questions

1. What is the overall role played by NBE in the Corporate Governance of Insurance Companies in Ethiopia?
2. Is there a dedicated unit within the Insurance Supervision Directorate (or in NBE) that is concerned with Corporate Governance Practice of insurance companies?
3. Is there other body besides the NBE (the Insurance Supervision Directorate) that is oversees the corporate governance practice of companies?
4. Who are the main stakeholders in the Corporate Governance system of the Ethiopian insurance industry?
5. What are the main challenges in the practice of corporate governance in the Ethiopian insurance industry?