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**COLLEGE OF BUSINESS AND ECONOMICS**

**SCHOOL OF COMMERCE**

**ASSESSING FACTORS AFFECTING PERFORMANCE OF MOTOR**

**INSURANCE: A CASE STUDY OF ETHIOPIAN**

**INSURANCE CORPORATION**

**BY**

**KABTAMU W/MICHAEL**

*A Research Project Submitted to the School of Graduate Studies of Addis Ababa University School of Commerce in Partial Fulfillment of the Requirements for the Award of Master of Art Degree in Business Leadership*

**ADVISOR: WORKU MOKENNIN (PhD)**

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ADDIS ABABA, ETHIOPIA

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**Approved and Signed by the Examining Committee**

Advisor: WorkuMekonnin (PhD) Signature \_\_\_\_\_ Date \_\_\_\_\_

Internal Examiner: \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

External Examiner: \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

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Chair of Department or Graduate Program Coordinator

## **Declaration**

I hereby declare that the work entitled: “Assessing Factors Affecting Performance of Motor Insurance: A case study of Ethiopian Insurance Corporation”, is the result of my own effort and study that any other contributors or sources of materials used for the study have been duly acknowledged. Here, it is presented for the partial fulfillment of Degree of Master of Arts in Business Leadership.

Declared by: Kabtamu W/Michael

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## Certification

This is to certify that the research project set by Kabtamu W/Michael, entitled: “**Assessing Factors Affecting Performance of Motor Insurance: A case study of Ethiopian Insurance Corporation**” for partial fulfillment of Master of Arts Degree in Business Leadership at Addis Ababa University School of Commerce. The study fulfills the rules and regulations of the university and encounters the recognized standard with respect to originality and quality. Hence, the study is original and is not worked and submitted on this specific company for any degree in this university.

**CONFIRMATION BY ADVISOR:**        \_\_\_\_\_        \_\_\_\_\_

Worku Mekonnin (PhD)    Signature

Date

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## ABSTRACT

*The objective of this study is to investigate factors affecting the performance of motor insurance in Ethiopian Insurance Corporation. The research design used in this study was descriptive research design and the research methodology used were quantitative and qualitative collection method of data. By using survey questionnaire primary data were collected from 174 respondents. The software SPSS version 25 was used to test the reliability of survey questionnaire and the Cronbach alpha was 0.788 which was in the range of good. Hence, the analysis regarding to the factors effecting the performance of motor insurance in the company was continued. From the primary data analysis and secondary data the findings of the study revealed that marketing and sales was in the range of highest with a mean of 3.64, technology and service quality were in the range of moderate with a mean of a mean of 3.45 and 3.18. The growth rate of motor insurance was 9.2%, the premium share of motor insurance was 33.2%, the loss ratio of the motor insurance in EIC was 50.5% on average and there were some similarity between the findings of this study and the study conducted by other researchers. Based on the findings of the study recommendations such as the company should provide flexible service for customers, entertain the motor insurance claim with in stated period of time and handling their complaint properly, improving improper network infrastructure were given.*

***Key words: Insurance, Motor insurance, Performance, Ethiopian Insurance Corporation***

## Table of Contents

Contents	Page
Declaration .....	III
Certification.....	IV
Acknowledgements.....	V
ABSTRACT.....	VI
Table of Contents.....	VII
List of Figures and Tables.....	X
ABRREVATIONS.....	XI
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1. Back Ground of the Study.....	1
1.2. Statement of the Problem.....	4
1.3. Research Questions .....	5
1.4. Objectives of the Study.....	5
1.4.1. General Objectives of the Study.....	5
1.4.2. Specific Objectives of the Study.....	5
1.5. Significance of the Study.....	6
1.6. Scope of the Study.....	6
1.7. Limitation of the Study.....	7
1.8. Definition of Terms .....	7
1.9. Organization of the Study .....	7
2. Chapter Two: Literature review.....	8
2.1. Theoretical Literature.....	8
2.1.1. Technology.....	8

2.2.2. Service Quality.....	9
2.2.3. Marketing and Sales.....	11
2.1.4. Development of Insurance in Ethiopia.....	14
2.1.5. Development of Motor Vehicle and Associated Risk.....	15
2.1.6. Determinants of Insurance Performance.....	17
2.1.6.1 Determinants at the Macro Level.....	17
2.1.6.2 Determinants at firm level.....	18
2.1.7 Measure of Performance.....	20
2.2. Empirical Review .....	21
2.3. Conceptual Framework.....	24
CHAPTER THREE.....	26
RESEARCH METHODOLOGY.....	26
3.1. Research Approach.....	26
3.2. Research Design .....	26
3.3. Target Population and Sampling Design.....	27
3.3.1. Target Population.....	27
3.3.2. Sampling Design.....	27
3.3.2.1. Sampling Frame.....	28
3.3.2.2. Sampling Size and Sampling Technique.....	28
3.4. Types and Source of data and Methods of Collection .....	29
3.5. Data Collection Procedures .....	30
3.6. Validity and Reliability.....	30
3.7. Methods of Data Analysis.....	31
3.8. Ethical Consideration.....	31
CHAPTER FOUR .....	32

ANALYSIS AND INTERPRETATION OF DATA.....	32
4.1. Demographic Nature of Respondents.....	32
4.2. Descriptive Statistics regarding to the study and Secondary data.....	34
4.2.1. Technology.....	34
4.2.2. Service Quality.....	37
4.2.3. Marketing and Sales.....	39
CHAPTER FIVE.....	46
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	46
5.1. Summary of the study`s Findings.....	46
5.2. Conclusions.....	47
5.3. Recommendations.....	48
REFERENCES .....	51
APPENDIX.....	59

## List of Figures and Tables

Figure 1: Conceptual Frame Work.....	25
Table 1: Cronbach`s Alpha from SPSS version 25.....	30
Table2: Demographic Nature of Respondents.....	33
Table 3: Participants Response to the Items of Technology.....	35
Table 4: Participants Response to the Items of Service Quality.....	38
Table 5: Participants Response to the Items of Marketing and Sales.....	40
Table 6: Total number of policies and growth rate.....	42
Table 7: Market share and growth rate .....	43
Table 8: Premium growth rate of motor insurance of EIC and Industry.....	43
Table 9: Percentage share of motor Insurance premium of EIC .....	44
Table 10: Loss ratio per year .....	44
Table 11: Share of underwriting surplus for Motor Insurance.....	45
Table 12: Summary of mean and standard deviation of the factors.....	45

## **ABBREVIATIONS/ACRONYMS**

EIC: Ethiopian Insurance Corporation

GDP: Growth Domestic

USD: United States Dollar

NBE: National Bank of Ethiopia

WHO: World Health Organization

NGO: Non-Governmental Organization

CCE: Commercial Code of Ethiopia

ETB: Ethiopian Birr

IFAA: Insurance Fund Administration

ROA: Return on Asset

FDRE: Federal Democratic Republic of Ethiopia

PO: Principal Officer

SO: Senior Officer

SS: Senior Surveyor

PCC: Principal Customer Care

TL: Team Leader

MO: Marketing Officer

SMO: Senior Marketing Officer

# CHAPTER ONE

## INTRODUCTION

The sub topics included in this chapter are, background of the study and background of the company, statement of the problem, research questions, objectives of the study, significance of the study, scope of the study, definition of terms and organization of the study respectively.

### **1.1. Back ground of the Study**

From the financial institutions Insurance industry is the major types organizations that has great importance acting as back bone for the economy of the country. Large number of insurance companies that are found in this world have huge amount of capital and funds. Due to their huge capital and funds millions of employees have got job opportunity. Similarly, people and business entity who have got insured are benefited from the cover given by the insurance companies (Ibrahim,2013). For the safe business activities transferring risks to the insurers have a major importance in creating stability a " sense of peace" of economic activities. Without the coverage of insurance, the world economic transaction may get difficulty in conducting and staying in the business world. As Ahmed et al (2011) studies revealed that in the, high risky business activity for the business organizations that involved business activity it is difficult for them to sustain in this ever-changing global economy. The study conducted by Akotey ,et al.(2013) revealed that the insurance companies capacity to give cover for the risk depends on their activity they do to record growth or scaling up the capital of the shareholders.

Currently, there are about eighteen insurance companies in Ethiopia. Out of the insurers seventeen of them are private insurance companies and only one company is owned by the ruling government or owned by the state. Among the seventeen private insurers, Zemen Insurance S.C was formed January, 2020. In Ethiopia the beginning of insurance was in 1905, this is because of the modern business activity started at this time. At this time the service of insurance was being given by the first bank called Bank of Abyssinia marine and fire insurance by acting as an agent for the foreigner. According (Zelege H.,2007) the well-formed insurance service in the country started in this way.

Even though, the number of insurance companies are eighteen in Ethiopia the amount of premium collected by them is not that much attractive relative to their number. According to the annual report of (NBE,2021) by all eighteen insurers the amount of premium collected from general and long-term insurance was ETB 11.1billion. From this report it understandable that the development of the business of insurance in the country less. Due to less development of the insurance business in the country its contribution for the GDP of the country is also less. Ethiopian Insurance Corporation was formed by the proclamation No.68/1975 in 1976 by combining thirteen private insurance companies because of Dergue regime declared command economic system. Up on the formation of Ethiopian Insurance Corporation its capital was Birr 11million (USD 1.29 million) and aiming at rendering the long-term insurance and general insurance across the country. After nineteen years by proclamation number 201/94 this company was changed to government owned company with a capital of Birr 61million (USD 7.13 million). Currently above 60 types of life and non-life insurance products are being provided by Ethiopian Insurance Corporation.

Both private and state-owned insurance companies in Ethiopia are providing motor insurance coverage currently. For instance, majority of the portfolio of Ethiopian Insurance Corporation is motor insurance as other private insurances do. Recently, the accidents occurring due to the road traffic by vehicles is increasing from time to time. However, those vehicles have great advantage for the country`s economy. The accident happens by those vehicles have high effect on the country`s economy. According to the (Federal Negarit Gazette 14th year No.7, 2008), the compulsory third party proclamation of motor insurance proclamation number 599/2008 came into force by Counsel of Ministers. The objective of this proclamation to safe guard the property damage against third party, bodily injury and to avoid hit and run.

The factors that have effect on Insurance companies must be identified to maintain their competitive advantage in the market of insurance industry. Based on the extent to which those factors affect their performance the insurance companies decide to formulating strategy that alter profitability of insurers as whole or a particularly the company. According, to the study made by Akotey et al (2013), the insurers profitability affected by internal and external factors. As(Dorofiti and Jakubti, 2015)sated that the company level factors focus on the insurers specific activity whereas external factors depend macroeconomic features and on its specific characteristics. The insurers` profitability can be evaluated by the micro, meso and macro phase of the economy. As

Akotey, et al (2013) revealed that the meso and macroeconomic indicators are factors that affect the meso and macro level. Premiums, claims, ownership structure, age, capital, efficiency, size, are factors that govern the specific insurer`s micro level. The study conducted by Buyinza et al, (2010) revealed that for the existence, growth and effectiveness of insurance company, the lowest basis of capital at the micro level is income.

According to the study conducted by Derbali(2014),the performance of Tunisia`s life insurance company affected by the height and age of the insured. Premium increment collected from the insured. This study was conducted by considering unique elements such as size, leverage, tangibility, risk, growth, liquidity and age of the insured. The other study maker Pervan ,et al., (2012) added on Akotey ,et al.,(2013) taking Bosnia and Herzegovina insurance companies as a case. As the finding of the study revealed that the revenue earned and the claims entertained in the insurance firms have inverse relationship with each other.

The performance of the insurance companies can also be assessed by firm level factors like operation and marketing. Some studies categorize these factors under non-financial measurements of performance of insurers. For example, factors such as size of premium collected from the insured, strength of promoting the company`s product, effectiveness of the service rendered, the availability of branches and the popularity of company revealed by the study conducted by Mathur and Tripathi (2014).Similarly, the performance of insurance companies influenced by the premium to be collected (Swiss Re,1993) , earned income (Feyen ,Lester and Roche ,2011), training and ability to create new insurance type product (Vincent ,1998),materials used ,technology ,agents and brokers ,and issuance of new policy((Ibiton, Ibok and Mbum,2012),and way of handling the claims (Nwanko and Durowoju, 2011).

So, the major factors that affect the performance of the insurance company should be known and identified. Not doing so, the profitability of the insurance companies is restricted. The objective of this study is assessing factors affecting performance of motor insurance in Ethiopian Insurance Corporation particularly. The focus of this paper was to point out the company level factors such as technology used, service quality and marketing and sales that affecting performance of motor insurance, especially concerned with to the operational and marketing aspect of the company.

## **1.2. Statement of the Problem**

In every business activity performance should be given due attention because it is a main factor that determine strategic plan of business firms and as commented by many scholars. In another way, business specialists give special care for performance in every business organizations. This is due to fact that, normal performance of the business organizations decides the continuousness of the organizations. (Naser, and Mokhtar ,2004) as cited on Sisay (2015) sated that consuming the organizations` asset effectively and efficiently means the management of the company wished to scale up its performance which has positive influence on the country`s economy broadly.

Many factors existing which has positive or negative impact on the profitability of the insurance organizations. The specific product of the insurance company may have impact on the total performance of the company. This specific product can be affected by internal and external factors and its performance has effect on the company`s profitability. For instance, the vision of Ethiopian Insurance Corporation is to become world class insurer by 2025. Unless, those factors that have effect on both particular product of insurance and the whole types of insurance product are evaluated, it is difficult for the company to achieve this mission.

Currently, the high road traffic accidents are being occurred by vehicles that are moving in Ethiopia. These occurrences of accidents have contribution for the low performance of motor insurance. The World Health Organization (WHO) report (2018) regarding to the vehicle accident describes that; the road traffic accident is responsible for the loss of life of 36.78 percent of people per 100,000 in the country. This implies that from total death occurred in the country the share of vehicle accident is 4.8 percent .As a result, Ethiopia ranked 24th in the world. According to the EIC annual report, 47.0 percent of all claims are motor claims .This percentage is out of total claim of 1.6 billion of the company (EIC, 2021). This figure indicates that similar condition occurs in other insurers because the major claim of those companies is vehicle insurance. Moreover, factors that are not out of the control of the insurer can also influence the performance of the motor insurance.

Most of the studies conducted in this area focus on the internal and external factors that affect the profitability of the whole types of insurance products that have effect on the general profitability of the company. The study conducted by Merga Gagni (2018) identified the factors that affect the performance of particular product (motor insurance) by using only data obtained from operation departments. This study assessed the extent to which technology, service quality and marketing

and sales affecting the performance of motor insurance in EIC by using data collected from both operation department and marketing department. So, the researcher motivated by this issue to place some sort of input on the effect of the factors that have effect on the performance of motor insurance in EIC by taking the firm level factors.

Thus, assessing of company level factors taking Ethiopian Insurance Corporation as a case fill the gap of knowledge that contribute for the management of the company and board of directors.

### **1.3. Research Questions**

The following questions are expected to get answer in this study:

1. To what extent technology used affect the performance of motor insurance in EIC?
2. To what extent service quality affect the performance of motor insurance in EIC?
3. To what extent marketing and sales affect the performance of motor insurance in EIC?
4. How is growth of motor insurance in EIC?

### **1.4. Objective of the Study**

#### **1.4.1. General Objective of the Study to:**

Investigate factors affecting the performance of motor insurance in Ethiopian Insurance Corporation.

#### **1.4.2. Specific Objective of Study to:**

- measure the extent to which technology used affect the performance of motor insurance in EIC.
- calculate the extent to which service quality affect the performance of motor insurance in EIC.
- evaluate the extent to which marketing and sales affect the performance of motor

insurance in EIC.

- analyze the growth of motor insurance in EIC.

### **1.5. Significance of the Study**

The result of the study can have the following significance:

- Supply important awareness of variables influencing the performance of the vehicle insurance.
- For new shareholders who want to engage in insurance industry, to future researchers, for government bodies specially for policy developers, mainly for insurance companies the recommendations and result of the research are very important.
- Reinsurers, donors, NGOs can have clear understanding of the challenges that they face and the way they get out of them by using insurance as a tool.
- Particularly the EIC gets the deep knowledge on how to deal with the factors and work on how to advance vehicle insurance performance.

### **1.6. Scope of the Study**

As mentioned above the target of the study is assessing factors affecting the performance of motor insurance in Ethiopian Insurance Corporation. Factors like GDP growth, inflation rate, interest rate, the regulatory environment and investment structure are not included in this research. The research is undertaken in branches of EIC located in Addis Ababa by excluding the outlying branches due to the lack of time and insufficient budget. The research design used in this study is descriptive and the methodology used is mixed method to assess factors affecting the performance of vehicle insurance in this company. The samples of data are employees of the company that are found in Addis Ababa who are working at operation and marketing. This study consisted of data in the fiscal year of 2017 to 2021.

### **1.7. Limitation of the Study**

In this study the encountered limitations are interview method of data collection is not included in this study, some respondents did not fill the questionnaire correctly and insufficient availability of studies conducted in this specific product of insurance and the time given.

## **1.8. Definition of Terms**

**Premium:** It is the amount paid to an insurance company, sometimes in regular installments or as per the agreement with the insurer for the insurance policy (Zelege H, 2007).

**Claim:** demand made by the insured, or the insured's beneficiary, for payment of the benefits as provided by policy. Claim is a formal request that's made either by a plan participant or his or her healthcare provider to the insurance company, asking for payment for a procedure the member received. Vaughan and Vaughan (2008)

**Motor Insurance:** motor insurance covers the insured in respect of loss or damage to the insured vehicle or other impacted by the insured vehicle (Bao and Gu, 2014).

**Underwriting:** the process of selecting, classifying and pricing applicants for insurance (George E. Rejda, MichaelJ.McNamara, 2014).

**Underwriting Surplus:** it is the difference between total premium collected in the financial period and total compensation paid due to the claims lodged in that period (Rubin, 2008).

## **1.9. Organization of Study**

This study organized into the following contents: the first chapter is about introduction of the study, chapter two is concerned with related review literature ,methodology of the study is included under chapter three ,interpretation of the study and analysis of data are included under chapter four and finally chapter five contains; summary ,conclusion and recommendation of the study.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

Review literature is the summary of new studies conducted on a topic which contains the key findings and methodology that are set carefully and the study maker used them up on making sure to keep the source as stated by (Lawrence Neuman ,2007). Thus, under this chapter sub topic such as theoretical literature, empirical review and conceptual frame work are discussed respectively.

#### **2.1. Theoretical Literature**

##### **2.1.1. Technology**

Technology defined by several authors from different perspectives. For instance, Kumara et.al (1999) defined technology by two components: The first component is a physical component which includes items like products, tooling, equipment, blueprints, techniques, and processes; and the second component is the informational component which comprises of know-how in management, marketing, production, quality control, reliability, skilled labor and functional areas. The above definition is general definition of technology but the following discussion focus on technology and insurance industry specifically.

Technology is the crucial to the insurance industry for its progress and the whole development. In insurance industry the use technology is not only adding value but also it indicates direction for the industry based on the time change and prerequisite. Digital technology is bringing about change in the sector of insurance, especially by allowing advanced data capture and analytics abilities Swiss Re Institute (2017). According to Bahman Mennati(2010) the new technology support an insurance company to advertise itself through its website and provide the insurance proposals online, it results in avoiding contact between the clients and employee. Doing so, the company`s marketing capacity increased. Using the company`s website calculating premium for clients become easy, get access to read the conditions of policy, sign the insurance policy electronically and receive his/her electronic copy of policy of insurance. The insurance company rise its sales volume reduce the cost due to these all infrastructures.

Insurers assess the type of technology they are applying and its effect on the clients for maintainable development Abdul Motin Ostagar(2018) he also added that using modern technology contribute for the insurers additional value. In addition to technology, technical inventions have great importance for the general growth of the insurance industry. For instance, the mobile phones, internet and the engagement of people`s in different social media have changed the likelihood of the application of technology by the insurers. As (Vyas,2015) stated that technology help the insurance company to go forward from the agents or brokers setting to direct selling of the insurance product. Earlier the insurance company was using labor thoroughly, but today the advancement of technology has transformed that situations. Thus, according to (Beardall,2015) the insurance company access information quickly that aid them to forward decisions about feasibility of the business. As compared to banks the financial services provided by insurance company has fewer positive insurance practice and satisfaction with in important parameters this due to significant number of clients in insurance sector but according to (Capgemini,2018) this view is changed because of the modern technology advance value added service for the insurance company`s clients and regularly with clients by personalized, notable and allowed digitally the products and services.

According to the study conducted by Sharif Mahmoud Radwan (2019) on a title” the impacts of digital technologies on insurance industry in light of digital transformation” revealed that technologies allow insurance companies to advance from pure risk protection towards risk prediction and prevention and also underwriting, pricing, claims handling they all become more efficient.

### **2.1.2. Service Quality**

As defined by Parasuraman et al. (1985) the quality of service is the difference between service expectation of the customer and the service perceived. Zeithaml and Bitner (2003) also described that the quality of service is an attentive evaluation that echoes the perception of customer about particular dimensions of service such as reliability, responsiveness, assurance, empathy, tangibles. The wants and desires of customer viewed service quality as their expectation that means what they feel a service provider should offer rather than would offer as stated by (Parasuraman et al ,1988). (Gro`nroos, 1984) stated that the output of the clients view of the service dimensions is perceived service that functional and technical in nature.

The technical quality, functional quality and image are the three components of service which are considered as the quality of service model established by Gronroos (1982). The measure of service quality as maintained by this man resulted from the customer evaluation of perceived performance of service with his/her perceived service quality. Comparing what you perceive with what you received as you expected to receive is true in technical and functional quality. You received high quality service when the expectation is meet or above the expectation. But if the expectation did not match the quality of service received considered as poor service quality. Poor service received by customer, the future patronage decision based on that perception.

The definition of service quality summarized in four perspective as stated by Hermon and Nitechki(2001).

- 1.Excellence: -excelling the quality, acquiring high degree of qualities
- 2.Value: - it strains the advantage for the receiver
- 3.Conformanceto specification: -its function is to facilitate accurate measurement; however, the service users may not care about internal specifications.
- 4.Meeting /exceeding expectation: this is applied across service industries, however the change in expectation can be corrected by service providers experience.

As a conclusion, firms giving service must know the concept of quality of service from the customer point of view, not from stand point of their point of view.

(Daroonch,2007)stated that insurance is the contract undertaken by both policy holder and the insurance company, the insurance company provides protection against the risk in the range of coverage in considering the payment called premium. The service of the insurance categorized under intangible. Or as it is described by (Sedighyan,2000) insurance is the promises and contracts held by third party to the clients which considers trust among the seller and clients. Insurance is an economic device for reducing and elimination risk through the process of combining sufficient number of homogeneous exposures into a group in order to make the losses predictable for the group as a whole. The contract made between insured and insurer bind the terms and condition of insurance policy. The service of insurance defined as a written legal contract between insured and insurer.

The service of insurance is somewhat unique from other types of service because it is based on future uncertainty events which contain legal features. In the insurance service there are three bodies involved: the insured, insurer and regulatory body (the government). The significance of insurance service for individuals and business are securing financial and societal stability, encouraging saving, aiding and facilitating international trade and commercial activity.

One of the models of service quality is SERVQUAL. This model should be amended with the type of industries this is because of to give meaning for the questions to be asked in specific industry. Several studies revealed that to use the concept of service quality to a specific industry widely SERVQUAL model is used as stated by Parasuraman et al.(1988) and by using the Gronroos (1984) models that are functional and technical models. The study made by Ahmed and Sungip(2008) on an assessment of service quality in Malaysian insurance industry revealed that reliability and responsiveness were the major problems of service quality and also their study revealed that there is large gap among expectation of customer and perception reliability proceeded by responsiveness.

Another study conducted by Graham K. et al (2004) on the diagnosis and improvements of service quality in the insurance industry of Greece and Kenya by applying SERVQUAL revealed that SERVQUAL scales need to be amended before using them. And they found that four extra items that should be included are: insurance price policies, quality of product, insurance terms contract ambiguity and claims settlement delay. The first item is taken as tangible and the rest of three items are reliability.

The study conducted by Fikru Tsegaye (2013) on insurance products in Ethiopia identified the problems like :all underwriters and middle managements do not clearly tell about coverage of policy ,terms and conditions of insurance, the understanding level of client about the issued policy is less, the policy of each product is not translated into official language, utmost good faith principle is not fully kept and price among each insurance is not fair and Study conducted by Abreham(2009) agreed with finding of FikruTsegaye that is no fair price(premium collected) among insurers.

### **2.1.3. Marketing and Sales**

Marketing and sales are very important components of any firm engaged in business activity and in the absence of marketing and sales the survival of the firm is not believable. Marketing is performance of business activity the forward the movement of goods from manufacturers to end users. It can include activities which has influence on the ownership and goods and services possession. Kotler.P (2000) defined that “marketing is a societal and managerial procedure through which individuals and firms acquire what they intend and by creating, providing and exchanging products of value with others”. Based on the above definition the points listed below are used to understand the marketing definition: determining and interpreting customer wants and wishes into products and services, generating demand for these products and services, serving the customers demand, increasing the market even in the face of intense competition.

Generally, the objective of marketing is to monitor consistent exchange of goods and service between clients with a definite goal to guarantee the maximum satisfaction of the firms, clients and society. The above is attained if the business activity undertakes their marketing events with the concepts of product, selling, marketing and societal marketing.

Sales is a core sub unit of marketing management. Sales and marketing are used together because they are separated. However, they are different in their functions and needs unique skills. In simple way sales is the exchange of goods and services between buyer and seller in exchange for money and the contract among buyer and seller on the price of a security. The duty of sales is selling the products or services possessed by the organizations and also advance the connection with the clients. On the other hand, sales are observed from interior of the firm to the clients.

Zubes (1990)endorse that marketing in insurance is highly to differ from marketing existing in the field of manufacture of merchandises. This is due to long term binding between insurer and clients, insured stay with his/her product for long time and legal nature of insurance contract. In insurance business marketing has major importance in meeting the supply and demand, this is due to the fact that insurance products are not visible it only exists in form of assurance. To Sell a promise requires a sureness, a confidence that the service render will be understood if the damage will happen. Marketing insurance plays a various, on the other hand made produce raise security, the raise the awareness of citizens about models of protection from risks BesnikZekaj(2016).The four elements of marketing in the insurance are: products, price, distribution and promotion.

There are similar insurance products around the world; the introduction of new product in the market needs the development of long term insurance products because they have a high cost spending. Views of customers for these products are extensive public compliance. Assure customers to buying these products, it necessitates trustworthiness, which is one of the core constituents in the insurance market and also insurance range is fairly affluent.

The price quotation for insurance element is premium which is the payment made for service or product given by the insurance company. The insurers deliver the means of price, policy, or premium, which in itself encompasses functional and the premium which supports to cover the charges of guiding. On premise pricing should recognize that what aids as the foundation for computing the premium.

Direct and indirect channels are used for the distribution of products of insurance. In the insurance market direct channels are the insurance companies who develop by themselves strategic policies to endorse long- term public and market expansion, using various methods of economic marketing, economic promotional etc. In order to keep close relationship between assured and the guarantor, guarantor uses indirect channels for retaining products using many agents, brokers etc.

Communication between suppliers and customers in order to generate a positive persuasion for products and services given by the insurance market is promotion. As Kotler. P(2000) states that promotion contains altogether tools of marketing arrangement, whose duty is to exchange message with major buyers. In addition to giving more attractive, sales of insurance products often rest on different public whether interior or exterior. Better exchange of message with the client firm enhances confidence because client sureness will have higher information of who will purchase services. Firms that have the maximum rankings and working practice will surely have more sales of products, but if this firm does not have sufficient communication with clients, will not get the marketing of insurance products.

The selling of insurance product is conducted through different means of communication. For instance: radio, television, newspapers, magazines, pamphlets, leaflets, publications, website, exhibitions, posters, sponsorship, billboards and etc. An effective promotion arena will blowout the word about your products and services, appeal clients and produce sales.

## **2.1.4 Development of Insurance in Ethiopia**

In Ethiopia the service of the modern insurance begun in 1905 for the first time as an agent for a foreign insurer by the bank called Bank of Abyssinia or Habesha Bank (Hailu Zeleke.,2007). By that time in Addis Ababa the Austrian citizen Mr. Muzinger opened the fully operating insurance branch which was operating as an agent for Balois Fire Insurance Company. (Fasil Alemayehu and MerhatabTeklemedhin, 2009) added that until the invasion of Italian in 1936 the expatriates opened several representative offices.

Italian companies were allowed to operate in Addis Ababa and other central regions of the country and in Eritrea at the time of Italian occupation. Until 1950 many British and other foreign companies rendered the service of insurance after World War II and by certain rational Ethiopians the insurance company called imperial insurance company wasformed (FasilAlemayehu and MerhatbebTeklemedhin, 2009). There was traditional way of people support one another when they get financial shortage or needs aid before the beginning of service of insurance in the country. For instance, “Ekub” and “Edir” are the best examples in Ethiopia. The have resemblance with Modern Insurance to some extent. The contribution of human being in the areas of Science, Technology, Law, Economy, Culture and Politics related to the historical development of insurance as one of the business activities.

In 1954, 18 insurance companies were formed locating their branches and agents in Addis Abab, Asmara, Dire Dawa, Massawa, Assab and Dessie due to the development of insurances that heartened Ethiopians. The insurance services certified and controlled by the proclamation NO.281/70 which was endorsed in 1974 and Ministry of Trade and Industry incorporated the office that supervise the business of the insurance. Only 15 companies got license under this office again. Among the 15 companies 13 insurance companies continued and two companies were closed and the remaining 13 companies persisted till the Dergue Regime took power in 1974. According to the proclamation of the provisional armed government the 13 insurers were became state owned companies on January 1,1975. Ethiopian insurance corporation formed by combination of the 13 companies as a monopoly which lasted for two decades until 1994 in insurance market by proclamation no.26/1975 in the Dergue Regime. National Bank of Ethiopia was given the power of supervising and controlling all private banks, the 13 nationalized insurance companies and the government owned banks after the 1974 revolution on January 1,1975. Therefore, the National Bank of Ethiopia, the Commercial Bank of Ethiopia, the Housing and Savings Bank, The

Development Bank of Ethiopia and the Ethiopian Insurance Corporation were the state-owned financial institutions between 1975 and 1994.

After Ethiopia's transitional government establishment, the transitional government issued the new economic policy which is aimed at shifting from monopoly economic system to market-focused and steered in private sector. Early 1990s it was the time when a number of private insurance companies were formed, among the companies Oda S.C was the first company that perceived private bank and private insurance establishment idea which paves the way for private investors to engage in financial sector. Both the re-establishment of Ethiopia Insurance Corporation by council of ministers Regulation No. 201/1994 and the Licensing and Supervision of insurance business proclamation No. 86/1994 put into existence in 1994. The local private insurance companies participating in the market by the license and supervision they were given by this proclamation. National Bank of Ethiopia was also given the power to control, certifying and formulating policies concerned with the insurance market by this proclamation.

With a paid capital of 61million Ethiopian Birr Ethiopian Insurance Corporation was re-established with regulation No.201/1994 by council of Ministers on September 19,1994. Having the objectives: to render insurance services in the insurance business and attaining its purpose by engaging in any additional activities that is conducive. Currently, there are 18 Insurance companies that are operating in the country including the state-owned Ethiopian insurance company. The total premium collected by all eighteen insurance companies from long term insurance and general insurance is ETB 11.1billion in the 2020/21 fiscal year (NBE,2021 annual report).

### **2.1.5 Development of Motor Vehicle and Associated Risk**

“Motor vehicle’ ’as defined as “any mechanical or electrical power propelled vehicle moving on roads” as stated on Vehicle Insurance against Third Party Risks Act 799/2013. At the turn of the 20<sup>th</sup> century the first spluttering appearance of Motor vehicles were made. At that time, they were much slower and so cumbersome than the common horse and carriage. As a result, during the early years of motoring, there seemed little need to consider the implications and requirements of insurance. By the time of the First World War, a motor vehicle was developed and improved with the change in technology and to comply with considerable interest for the motor car (Talk Once, 2010). In the process of building an affluent society, a car has changed from luxury consumer

goods to an ordinary merchandise which as a result is causing frequent traffic accidents. Accidents arise from poor standards of driving skills, little road discipline as well as technical challenges (Bao and Gu, 2014).

Before 1950 the cover of motor insurance category was with general accident insurance in Ethiopia. (IFAA, 2010) state that motor insurance cover is treated as a separate class of business due to the number, type and use of vehicles increased. Motor insurance is generally measured non-life insurers 'strongest class of business in terms of premium volume and promotion tool. Currently, motor insurance in Ethiopia covers the following perils:

- by accidental collision or overturning consequent upon mechanical breakdown but unless the insured vehicle is damaged at the same time the damage to the tires not covered and also, and wear and tear.
- theft or attempted theft, by fire, lightning, external explosion, self-ignition,
- By malicious act
- Whilst in transit by road, rail, inland waterway, lift or elevator(including the processes of loading and unloading incidental to such transit); and
- provided no convulsion of nature such as flood, typhoon, hurricane, volcanic eruption, earthquake etc, included under impact damage caused by falling objects

In 2008, citing the rising volume of accidents in Ethiopia, a mandatory third-party insurance was introduced to the pull of motor insurance by Proclamation No. 559/2008. A few years later, a dedicated entity, Insurance Fund Administration Agency (IFAA), was established following the Regulation No. 30012013 by the Council of Ministers. The Federal Democratic Republic of Ethiopia (FDRE) Insurance Fund Administration Agency (IFAA) is an executive government body established under Ministry of Transport with a responsibility to oversee the enforcement of mandatory third-party insurance all over the country, to ensure all motor vehicle accident victims can receive medical treatment without any precondition and provide compensation to victims for the extent of damage (IFAA, 2010). Based on the study carried out and submitted by the Insurance

Fund Administration Agency the premium tariff applicable to vehicle insurance policy against third-party risks is determined by the Council of Ministers.

## **2.1.6 Determinants of Insurance Performance**

The above sub topic focus on the factors that influence the performance of an insurance product as a whole but specifically the factors influencing the motor insurance discussed at industry level and at the company level. The discussion is about the factors that affect the performance at the macro, meso and micro levels. It begins from the factors of financial performance of the company and followed by operational activity of the company.

### **2.1.6.1 Determinants at the Macro Level**

Those factors which are beyond the management's control are referred to as macroeconomic factors and these factors are related to the industry and macroeconomic factors. The macro level determinants are variables that are not related to insurance management but reflect the economic and legal environment that affects the operation and financial performance of the company specifically the profitability Tariku Ashenafe(2019). Among the macro level determinants, growth domestic production (GDP), inflation and market share are described in many literatures.

**Growth in the domestic product (GDP)-** Gross domestic product is the market value of all finished goods and services produced in a country within a specified period, mostly one year. GDP is an economy's general monetary ability to address externalities and it is a gauge of economic recession and recovery. NO country can experience meaningful development without the presence of formidable insurance industry, thereby making insurance business in any nation indispensable irrespective of its quota to the gross domestic product by Oshinloye et al (2009), as cited on Asrat Lire and TesfahunTegegn (2016). The level of economic development and economic activity reflects growth rate of GDP and the various factors related to the supply and demand for insurance are affected products and services. The study of Asrat Lire and TesfahunTegegn, (2016) revealed that insurers are likely to benefit from the GDP growth in the form of higher profits and the likelihood of selling insurance policies also grows.

**Inflation:** - Inflation is a general rise in the prices of goods and services in a particular country; specifically, it leads to a fall in the value of money. If one's country inflation rate is significantly

increased the total goods and services of the country is also significantly fall (Suheyli, 2015), cited on Tariku Ashenafe (2019).

**Market share:** Market share is a place of an entity in the market with respect to its competitors and described as the gross premium to total premium of the industry as a whole. As cited on K. C. Meher&TemesgenZewudu(2020) ,Kozak (2011) has concluded that the financial performance of non-life insurance companies is influenced by GDP per capital and market share of foreign-owned companies

#### **2.1.6.2 Determinants at firm level**

**Historic profitability-** the company can decide whether to invest or not based on its key determinant that is profitability. In insurance company source of profit is income collected in the form of underwriting from insured and from investment (Santomero and Babble (1997) cited on Omasete(2012)). The company that has the history of premium growth consecutively is able to boost its income by accepting high risk. But it is not true for companies that have lower rate of premium growth.

Santomero and Babble (1997) as cited on Omasete(2012) stated that the other source of profitability is taking into account the evaluation of income to be obtained from investment. Most of the time larger amount of insurance company`s income obtained by engaging into investment. To do so, the company`s management need to focus on the strategy of asset utilization.

**Size of the company:** - Size refers to the creation of more branches that results in an increased volume of business, thereby increasing assets. According to the study made by (Almajali, Alamro, & Al-Soub, 2012; Berry-Stölzle, Liebenberg, Ruhland, & Sommer, 2012) the financial performance by the insurers size, total premium collected, and capital have a positive relationship. But size of the company has no effect on financial performance of the company as argued by Adams and Buckle (2013). Chen and Wang Renbao and Kie (2004) have stated that larger firms are more profitable because they have achieved the economies of scale.

**Leverage:** - the extent to which a borrowed money is used or it the ratio between debt and equity.It reflects insurance companies' ability to manage their economic exposure to unexpected losses (Adam & Buckle, 2000). The positive impact of leverage on the performance of finance the

company therefore it is used as instrument to disciplining the management of a company. (William, 1987) stated that the conflict between shareholders and management is reduced by using leverage highly. (Grossman & Hart, 1982) also stated that the wastage of company`s resource is controlled by a disciplinary tool called leverage.

**Liquidity:** -Liquidity is the capacity of an organization to meet the immediate financial obligation, and it is expressed as current assets to current liabilities K. C. Meher&TemesgenZewudu (2020).Meher K. and Getaneh H. (2019) their study revealed that being proxy of short-term financial position of the firm, liquidity ratio is not found significant with returns of assets. The study conducted by Hakim and Neaime (2005) and Shiu (2007) revealed that more liquid asset is the driver of profitability. There is a contradicting view between liquidity and financial performance according to the study made by Ahmed, Ahmed, and Usman (2011)

**Tangibility:** -Tangibility entails fixed assets; it is also termed as plants and machinery in financial statements of companies Mayowa G Ajao&EghosaOgieriakh (2018). According to the study made by (Himmelberg, Hubbard, &Palia, 1999) tangibility and profitability have positive relationship and it describes that tangible assets are easily controlled and used as a collateral the study conducted by (Himmelberg, Hubbard, &Palia, 1999) revealed that aid in reducing the disagreement between the owners of the company and the lenders(banks). There is no significant relationship between tangibility and performance as the study made by Ahmed et al. (2011); Derbali (2014); Berteji and Hammami (2016) revealed that.

**Non-financial factors-** the non-financial, qualitative or operational perspective and service quality delivery and marketing perspectives are the other way of viewing the performance as identified by research conducted. The study conducted by Krishnamurthy, et al. (2005) argued that from other alternative factors, the penetration of insurance highly focusses on the quality of service by increasing and implementing good sales program as stated by Alexadra (2003) cited on Mathur and Tripathi (2014). And also, their research stated that insurance company`s efficiency depends on how to better alter the attitude of insurable risks and have got the expectation of the insured. In the same way, determinants of insurance products performance such as amount of premium collected, influential marketing campaign, the reputation of the company, service quality, number and reach of branches are stated by Mathur and Tripathi (2014).

The insurance companies' biggest challenges as claimed by AbassandOyetayo (2016) are meeting the insured's expectation promptly, good service in case of rising loss cost and high price competition. AbassandOyetayo (2016) stated that the demand for insurance is a function of a quality of services rendered by the insurance companies from the perspective of the insured. Effective claim management and good staff attitude is the result of the quality of services given by the insurance company that developed trust and integrity among employees and management. Companies that have better service quality use it as one element of success. So, a good service quality of a company proves its competitiveness advantage.

The insured transfer and the insurer accept the risk is based on some factors which include the premium to be collected (Swiss Re,1993) , earned income (Feyen ,Lester and Roche ,2011), training and ability to create new insurance type product (Vincent ,1998),materials used ,technology ,agents and brokers ,and issuance of new policy((Ibiton, Ibok and Mbum,2012),and way of handling the claims (Nwanko and Durowoju, 2011). An insurance product can also be affected by the premium collected, financialincentives, premises, associations with other organizations, care for customers, advertisement and the technology used as stated by AbassandOyetayo(2016).

### **2.1.7 Measure of Performance**

There are several basic measures of financial performance.(Engle 2010) states that the balance sheet, income statement, and cash flow statements can be used to express the financial ratios to appraise performance by focusing on the company's financial statement.The estimates of return on equity (ROE) and return on assets (ROA) are the key metrics employed in such an assessment.

But most of the studies conducted on performance related to insurance firms employed return on assets (ROA) as the measure of performance; Ahmed et al. (2011); Murigu Jane Wanjugu (2014) ; YllkaAhmeti and EtemIsen (2020); Kazeem (2015); Mwangi and Murigu (2015); Bertejiand Hammami (2016); Alomari and Azzam (2017); Berhe and Kaur (2017); Mazviona and Derbali (2014).

Return on assets (ROA) indicates the profitability of a company as it relates to the total assets of the company and it gives a clue as it relates to whether management of the company has been efficient in using assets of the company in generating earnings Mayowa G

Ajao&EghosaOgieriakh(2018).(Epps &Cereola, 2008) states that ROA ratio depicts that positive financial performance of relative business and return on assets (ROA) is the most appropriate measure of the performance of a company

Underwriting effectiveness which includes product pricing, risk selection, claims management and marketing and administrative expenses have influence on losses and expenses and the investment made by insurance company that means the activity of asset allocation, asset management determine the profit of the insurance company as stated by Swiss Re (2008) cited on Sisay (2015). Practically, using the measure of performance ROA for particular type of product such as motor insurance in insurance company is not advice able because of it is the large portfolio of the company. The strong relationship between strategic effectiveness and operational efficiency of the company describes the performance of the company. (Berteji and Hammami ,2016) described that the first one is about putting itself into complete expansion of market and the second one has an objective of enhancing products, services, production process and marketing management and human resources.

The argument made by Calandro and Flynn(2005) underwriting profit is considered as a measure of performance in the absence of any practical measure at the business unit level. This is due to the fact that it is the difference between total premium collected and the payment made. Both of them are the measure of performance in this case. Moreover, the collection from each product type or underwriting at business unit that contribute for the whole profitability of the firm can be used to measure the performance of the whole portfolio of the firm.

## **2.2 Empirical Review**

A research conducted by YllkaAhmeti and EtemIsen (2020) examined “factors affecting profitability of insurance companies’ evidence from Kosovo” over the period of five years including eleven insurance companies. The study`s dependent variables that have effect on the profitability that was denoted by ROA were tangible asset, company capital and growth, company age, liquidity, company size, and leverage, the regression results indicate that size, leverage and age of company, have significant effects on the ROA Insurance companies in Kosovo.

Another study made by Murigu Jane Wanjugu (2014) focusing on the “determinants of financial performance in general insurance companies in Kenya” taking return on asset (ROA) as dependent

variable. The sample for this study includes all the 23 general insurance companies in Kenya and it used the data pertaining to four financial years from year 2009-2012. For this purpose, firm specific characteristics such as leverage, retention ratio, liquidity, underwriting risk, equity capital, size, management competence index, ownership and age were regressed against Return on Assets (ROA). The study finally concluded, equity capital, leverage, and management competence index have positive effect with profitability of general insurance in Kenya and significantly influence it but the performance of general insurers in Kenya negatively affected by ownership structure (foreign ownership) and size of the firm (measured as the natural logarithm of total assets). In addition performance of general insurers in Kenya, also negatively affected by liquidity and has marginal significance. The performance of general insurers in Kenya affected by age of the company because the researcher did not get evidence.

Tariku Ashenafe Birru (2019) stated in his research entitled “The Determinants of Insurance Companies Profitability in Ethiopia” considering source of data obtained from NBE and MOFEC covering the time period from 2003 – 2017 in order to increase numbers of observations and explanatory research design was used to check cause and effect relationship between dependent variable and independent variables besides. In this study, both internal and external factors were included. Internal factors used in this study include (company age, leverage, liquidity, premium growth, underwriting risk and tangibility of asset) whereas, the external factors are market share, economic growth and inflation. Profitability were also measured by ROA and ROE. The regression result reveals that company age, market share and GDP have significant impact on the profitability of Ethiopian insurance companies measured by both return on asset and return on equity in addition to those three variables premium growth also have positive significant effect on profitability of Ethiopian insurance companies measured by return on asset. The profitability of Ethiopian insurance companies was also significantly affected by other variables included in the study.

Demis Hailegebreal (2016) also attempted to examine the “Macroeconomic and Firm Specific Determinants of Profitability of Insurance Industry in Ethiopia”. The study tries to analyze the firm specific factors which have effect on the profitability of Ethiopian insurance industry are age of company, size of company, leverage ratio, liquidity ratio, premium growth, technical provision, re-insurance dependency, underwriting risk, solvency, and tangibility of assets and macroeconomic factors; GDP and Inflation. By taking nine insurance companies from the total of

17 insurance companies established before 2008 using secondary data that was collected from the financial statements (Balance sheet and income statements) of insurance companies; and annual reports of national bank of Ethiopia concluded that: under writing risk, technical provision, leverage and inflation have negative and significant effect whereas premium growth, solvency ratio and GDP and age of the company, have positive effect and statically positive significance on the profitability of Ethiopian insurance companies.

The study conducted by Derbali (2014) on ‘Determinants of performance of insurance companies in Tunisia: the case of life insurance’ stated that size, leverage, tangibility, risk, growth, liquidity and age are the firm level characteristics that have impact on the performance of Tunisia’s eight insurers for the period of (2005-2012). According to the assessment made the variables height, age, and premium growth are the most important determinants of the performance of insurance companies measured by ROA ratio (Return on Asset) but the variables like leverage, tangibility, liquidity, and risk are not statistically significant.

It is understandable that using only the secondary data like financial statement of the insurance companies to analyze the factors that affect the performance at the firm level is difficult to assess the performance of particular product of the insurance company. This is due to; secondary data are limited at the firm level and the contribution of a specific product type is not specified clearly. The factors related to the operational activity (daily activity) of the company are not identified in the study conducted instead they are portfolio structure, so this is another reason that is why the performance is not only measured by firm level factors. The next one is performance of insurance company from the perspective of the customer is not included in the study conducted.

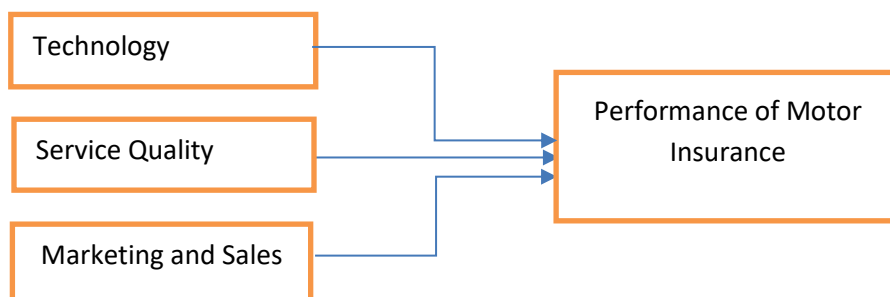
From the above point the factors affecting performance can also be operational activity or non-financial. There are some studies that can be presented as an example: For instance, the study conducted by Aishwarya V and Mr. Raghunandan M (2020) with a title of ‘‘A Study On Factor’s Influencing Customer’s Choice For Life Insurance Company’’ revealed that policy holders of the life insurance company perceive the factors like trust on insurance company, trust on agent, policy features are most influencing factors, excellent claim, company scheme, image of the company premium charged advertisement and flexibility are the least influencing factors for the policy holder.

The other study conducted by FikaduTadesse (2014) on a title of “factors that influence the choice of insurance services ” the findings of the study stated that insurance ,client decision to purchase insurance services is essentially composed of speed of disbursing indemnities, affordable premium (premium collected from the insured),trust on the insurance company, quality of service provided which is effective and efficient largely have impact on the customer to choose the insurance company to get insured and potential financial capacity of the company and the reputation of the insurance company are another factors as revealed by researcher.

In addition to the findings of the above studies there also some determinants of performance which are revealed by the studies conducted by Nwankwo and Durowoju(2011) and Krishnamurthy, et. al. (2005) identified that factors like quality of services, claims management process and employee attitude and the study conducted by Krishnamurthy, et. al. (2005) and Alexandra (2003); identified factors such as; better sales programs, communication, insurance awareness, image and meeting customer expectation. Another study conducted by (Swiss Re, 1993), identified pricing of insurance as a factor that affect the performance of insurance and lastly, demographic variables like income and education (Feyen, Lester and Roche, 2011) are identified as factor that have effect on the performance of insurance.

### 2.3 Conceptual Framework

Based on the discussion made above the financial factors used to measure performance of insurance covers, the entire company and all products of the company. While the non-financial factors are suitable to measure the particular product of the company. So, this study uses the non-financial factors to assess the performance of motor insurance at the Ethiopian Insurance Corporation and the factors affecting its performance are shown below. The following figure (Fig 1.) shows that the conceptual frame work that guide this study.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

As it is described under chapter one the objective of this study is assessing the factors affecting the performance of motor insurance in Ethiopian Insurance Corporation by using some factors affecting performance that are stated under conceptual frame work, to do so using suitable research methodology is very important. Thus, in this chapter research approach and design, target population, sample size, and sampling techniques, source of data, data collection instruments and procedure to collect data, validity and reliability, data analysis method and ethical consideration are presented.

#### **3.1. Research Approach**

Quantitative and Qualitative research approach are used in this study: Quantitative research is based on the measurement of quantity or amount. This method is useable in a condition that is described in terms of quantity. Qualitative research, on the other hand, is concerned with qualitative phenomenon, i.e., phenomena relating to or involving quality or kind (C.R. Kothari,2004). In this study the data gathered using survey questionnaires and secondary data were analyzed by the quantitative and qualitative measure.

#### **3.2. Research Design**

(Cresswell,2009), stated that the decision from broad assumption to detailed methods of data collection and analysis processed by plans and the procedures provided by research designs for research. “A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” The research design specifies source and information relevant to the research problem, it is a strategy specifying which approach will be used for gathering and analyzing the data and also it includes the time and cost of budget (Addis Ababa University School of Commerce,2014).

The basic type of research design is: descriptive, explanatory (causal) and exploratory. Describing the characteristics of a particular or individual, or of a group, whereas diagnostic research studies determine the frequency with which something occurs or its association with something else is by

descriptive research design, and the focus of exploratory research is formulating a problem for more precise investigation or of developing the working hypotheses from an operational point of view (C.R. Kothari,2004). The other basic type of research design explanatory focuses on determining cause and effect relationships between variables .So, in this study the type of research design used to assessing the factors that affect the performance of motor insurance in Ethiopian Insurance Corporation is descriptive research design.

### **3.3. Target Population and Sampling Design**

#### **3.3.1. Target Population**

The total group of people, things of interest or event under the plan of the researcher to examine is population Sekaran (2001), whereas the elements that the researcher wants to make interpretation about is target population (Okiro and Ndungu,2013).

Ethiopian Insurance Corporation has five major district A and one district B that are found in Addis Ababa and there are four branch one and nine branch two including one contact office. The number of employees that are working in the departments of motor insurance of Ethiopian Insurance Corporation that are found in Addis Ababa are 380. They are permanent employees that considered as target population and their job position is operation and marketing. This information was obtained from the human resource department of the company. They were selected based on their accessibility and by considering the cost to be incurred by the research. In defining target population, we have considered its consistency with the statement of the problem and objectives of the study. The specific position of the target population is; operation officers, senior operation officers, marketing officers, senior marketing officers, principal customer care, surveyor, team leaders, directors, principal engineers and the number of employees assigned for each position is not equal.

#### **3.3.2. Sampling Design**

The sampling design for a given study must be correctly designed for the qualification of the particular research. Variety with in the large population should represent the sample that will be the source of data to be collected from. So, in this study number of employees from each position was taken as strata to represent fair representation.

### 3.3.2.1. Sampling Frame

Leary (2004) states that the selection of participants of sample from the population of interest by the study maker is sampling frame. A selected part of interest population for the study is therefore called sample as stated by (DoylePortillo, 2009).

The member of target population which contains only the list of whole and accurate is sampling frame (Cunanan& Cruz, 2008).Hence, 194 employees of Ethiopian Insurance Corporation those who are working in the branches that are found in Addis Ababa considered as sample frame for this study.

### 3.3.2.2 Sample Size and Sampling Technique

As mentioned above the total population of this study is 380 employees from Addis Ababa branches including the five district A and one district B. By using the equation described below sample size of the study was calculated using the following formula.

$$n = N/1+(Ne^2)$$

where n = Sample size , N = 380 and e = 5%

$$N = \text{Total population} \quad n = 380/1+ (380 \times (0.05)^2)$$

$$e = \text{Standard error (5\%)} \quad n = 380/1+ (380 \times 0.0025)$$

$$1 = \text{Constant} \quad n = 380/1+0.95 = 380/1.95 = 194$$

$$N = 380 \ \& \ n = 194$$

Therefore, from 380 employees 194 employees were chosen as sample by the above formula as respondents. The respondents involved were chosen randomly from the strata of 380 employees those who are working at different position.

Amin (2005) described that, to generalize the outcome to entire population when carefully selected sample is acquired, this is common in quantitative research. In this study the sampling technique used by the researcher was random sampling method. It was applied after the number of employees

offered by the human resource management and then based on different job position the sample was selected randomly.

Conducting research was difficult by using the entire population. Because of the large number of population the researcher decided to choose from the total population, the sample that represent the population then to get the exact representation that used for the study simple random sampling method was applied to select the subjects(participants).The chosen sample of respondents were from the permanent employees of Ethiopian Insurance Corporation working in Addis Ababa branches including five district A and one district B and their position has direct relationship with motor insurance and its performance. Data required for the study was primary data. So, the source of data were employees that are assigned at the level of operation and marketing and it was collected by using survey questionnaire.

### **3.4. Types of source of data and Methods of collection**

The source of data used in this study was primary data that is the employees of Ethiopian Insurance Corporation working in Addis Ababa`s branches at the level of operation and marketing. Survey questionnaire was used to collect this primary data by distributing through outlook and face to face who are nearest to my work place. Then the distributed questionnaire were returned through outlook and collected physically after the respondents filled them. The other source of data was secondary data that is the five years performance of the company which was offered by the marketing department of the company. (Ogutu, 2012), stated that using questionnaire as a tool to collect primary data made it original data and saves time and cost.

To investigate the factors affecting performance of motor insurance in Ethiopian Insurance Corporation the questionnaire used was structured one and it focused on five point scale starting from 1(strongly disagree) to 5( strongly agree ) for the factors that affect performance of motor insurance. The prepared questionnaire was intended to collect quantitative data which aims to know the feeling of the employees regarding to each factors which is related to their daily work. The prepared questionnaire was designed to be filled by their own following the given instruction by researcher. Finally, the collected data, by using survey questionnaire were evaluated to be used by the researcher. The developed questionnaire contained two parts : The first part was about demographic nature of the participants asked to answer five questions and part two was about the

factors affecting performance of motor insurance which included 24 questions that were rated from strongly disagree to strongly agree to measure their filling about the issue. I used the questionnaire of SERVQUAL model and questionnaire used by AbdulmotinOstagar(2018),Michael Mwenda(2017) by slightly modifying them for my study.

### 3.5. Data Collection Procedures

From a total participant of 194 in the departments of motor insurance of Ethiopian Insurance Corporation in the Districts and branches that are found in Addis Ababa 174 questionnaire were collected successfully. The rest 20 questionnaire were not returned Then using 174questionnaires the coding was made and SPSS version 25 was used to for the analysis.

### 3.6. Validity and Reliability

Validity and reliability considered when preparing questionnaire. Validity answer the question does the instrument used measure what it has to measure? Validity of the instruments prepared with help of the advisor and its validity was checked whether it contains all the necessary requirements or not. On the other hand: Reliability, as defined by (Bhattacharjee, 2012) to what degree the measure of construct is the consistent or related and also the consistency between different items of similar construct is internal consistency. The instruments` reliability checked by Cronbach`s Alpha. There are 24 developed survey questionnaire which was divided into five variables. For this instrument the computed Cronbach Alpha was 0.788 which indicates that continuing for the rest of the analysis is possible. Because as Johnson and Christensen (2010) recommend that the at least alpha`s coefficient is 0.7. So, in this study the Cronbach`s Alpha is in the range of good which shows us the used instrument were reliable.

Table 1: Cronbach`s alpha coefficient of each factors

Factors	Cronbach`s Alpha	Number of Items
Technology	0.755	8
Service Quality	0.724	8
Marketing and Sales	0.731	8

Source: Own survey result,2022

### **3.7. Method of Data Analysis**

Assessing factors affecting performance of motor insurance in Ethiopian Insurance Corporation analyzed based on secondary data of five years (2017-2021) and descriptive statistics was used to analyze primary data collected by using survey questionnaire. In analyzing the demographic characteristics, the observation was presented by using frequency, percentage and tables. The primary data was analyzed by descriptive statistics. An overall image of the data collected which presents information graphical and numerical technique provided by the descriptive statistics Amin (2005).

### **3.8. Ethical Consideration**

As it was mentioned under questionnaire instruction, the data collected from the respondents or participants used only for the purpose of study and the respondents told that the data they offer kept secret and also their privacy was highly considered whatever response they provide for the researcher. At the same time, the responses gathered from the respondents have advantage whether the study maker like or not the responses of each respondent. Finally, the researcher keeping what stated above as an ethical consideration made the analysis based on the collected data.

## CHAPTER FOUR

### ANALYSIS AND INTERPRETATION OF DATA

In this chapter the study's finding analysis and interpretation were made based on the data gathered from the primary source of data and secondary source of data from 2017-2021 that was used to answer the research questions mentioned under chapter one. Hence, the contents included under this chapter were demographic nature of the participants, descriptive statistics and the five years performance of Ethiopian Insurance Corporation. Tables, frequency, percentage, standard deviation and mean were used for the analysis and interpretation of the study conducted on a title assessing factors affecting the performance of motor insurance: the case of EIC. 89.7% of the respondents responded for the survey questionnaire that were distributed for them. 20 respondents did not return the questionnaire on time so the researcher decided to continue the analysis with 174 fully completed questionnaire.

#### 4.1. Demographic Nature of the Participants

The demographic nature of the participants described by using gender, age, their level of education, experiences and their working position.

As shown below in the following table 2 out of 174 participants 122(70.1%) were male and 52(29.9%) female. The respondents with age between 16 and 24, were 16(9.2%), between 25 and 29, 69(39.7%), between 30 and 34, 37(21.3%), between 35 and 39, 24(13.8%), between 40 and 44, 12(6.9%) and 45 and above were 16(9.2%). From the above interpretation majority of the respondents were male and regarding to the age of the respondents majority of them were youngest. This implies that more of the participants are in the age of productive. It is also indicated in this table there were only 2(1.1%) of the respondents that possess certificate, 21(12.1%) respondents possess diploma, 104(59.8%) respondents were holder of first degree and 47(27.0%) of respondents were possessed masters. As we can understand from the interpretation regarding to the education level of respondents implied that the company human powers are educated. Experience of the respondents shown in the following table 2 indicated that 52(29.9%) of the respondents' experience fall in the range of 1 to 5 years, 56(32.2%) fall in the range of 6 to 10 years, 26(14.9%) of the participants' experience was between 11 and 15 years, 22(12.6%) of the

respondents` experience fall in the range of 16 to 20 years and 18(10.3%) of respondents` experience were above 20years. From this interpretation most of the participants` experience fall between 1 and 5years and between 6 and 10years.This shows that employees of the company were youths.

**Table 2: Demographic Nature of the Participants**

Category		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	122	70.1	70.1	70.1
	Female	52	29.9	29.9	100.0
	Total	174	100.0	100.0	
Age	18-24	16	9.2	9.2	9.2
	25-29	69	39.7	39.7	48.9
	30-34	37	21.3	21.3	70.1
	35-39	24	13.8	13.8	83.9
	40-44	12	6.9	6.9	90.8
	45 and above	16	9.2	9.2	100.0
	Total	174	100.0	100.0	
Education Level	Certificate	2	1.1	1.1	1.1
	Diploma	21	12.1	12.1	13.2
	First Degree	104	59.8	59.8	73.0
	Masters	47	27.0	27.0	100.0
	Total	174	100.0	100.0	
Experience	1-5	52	29.9	29.9	29.9
	6-10	56	32.2	32.2	62.1
	11-15	26	14.9	14.9	77.0
	16-20	22	12.6	12.6	89.7
	Above 20	18	10.3	10.3	100.0
	Total	174	100.0	100.0	

Position	Officer	62	35.6	35.6	35.6
	S.O	42	24.1	24.1	59.8
	P.E	10	5.7	5.7	65.5
	S.S	8	4.6	4.6	70.1
	P.C.C	24	13.8	13.8	83.9
	M.O	8	4.6	4.6	88.5
	S.M.O	9	5.2	5.2	93.7
	T.L	6	3.4	3.4	97.1
	Director	5	2.9	2.9	100.0
	Total	174	100.0	100.0	

Source: Own survey result, 2022

Lastly, as indicated in the above table2 the respondents current working position included in this study were about nine positions and they were interpreted based on the above table. Out of 174 participants 62(35.6%) and 42(24.1%) were officers and senior officers respectively and they were followed by principal customer care with a participant of 24(13.8%). This implies that majority of the employees working in the motor insurance department were officers, senior officers and principal customer care.10(5.7%) respondents were principal engineer, senior surveyors were 8(4.6%) out of the participants, 8(4.6%) respondents were marketing officer and 9(5.2%) of respondents were senior marketing officer. Team leaders and directors were 6(3.4%) and 5(2.9%) out of the total respondents. As the position of the respondents goes up from officer to directors their number decrease. This shows that to hold the position of team leaders and directors it needs to be hard worker and influential in the company.

## 4.2. Descriptive Statics concerned with the study

In this section for the analysis of the data collected by using survey questionnaire mean, standard deviation and frequency were used.

### 4.2.1. Technology

Concerning to the technology used in the company as indicated in the following table 3 for the item improper network infrastructure11(6.3%) respondents strongly disagreed,24(13.8%)

disagreed,49(28.2%) neither disagreed nor agreed,,72(41.1%) agreed ,18(10.3%) strongly agreed with the item respectively and the mean score of this item was 3.35 and the standard deviation was 1.048.According to the above interpretation majority of the respondents neither disagree nor agree with improper network infrastructure.16(9.2%) participants strongly disagreed,30(17.2%) disagreed,57(38.2%) neither disagreed nor agreed,,57(38.2%) agreed and 14(8%) strongly disagreed for the item called motor insurance is being started insuring online. The mean score of this item was 3.13 and its standard deviation was 1.086.

The level of agreement for the item technological skills and knowledge 18(10.3%) respondents strongly disagreed, 32(18.4%) disagreed, 52(29.9%) neither disagreed nor agreed,59(33.9%) agreed and 13(7.5%) participants strongly agreed with this item and its mean and standard deviation were 3.10 and 1.110 respectively. The above findings imply that the technological skills and knowledge of the respondent is somewhat better because majority of the participants agreed with it.

Coming to the item new banking system used by the company 6(3.4%) respondents strongly disagree with it and 24(13.8%) disagree, 54(31.0%) neither disagreed nor agreed, 82(47.1%) agree and 7(4.0%) strongly agreed consecutively. The mean score and standard deviation of this item were 3.44 and 0.891. The above findings also show that large number of respondents agreed with new banking system is used by the company. It implies that the company uses new banking system to some extent.

**Table 3: Participants Response to the Items of Technology used**

No	Items		SD	DA	N	A	SA	M	Std
1	The network infrastructure in the company is improper	F	11	24	49	72	18	3.35	1.048
		%	6.3	13.8	28.2	41.4	10.3		
2	The company starts insuring motor insurance products on line	F	16	30	57	57	14	3.13	1.086
		%	9.2	17.2	32.8	38.2	8.0		
3	Possessing technological skills and knowledge	F	18	32	52	59	13	3.10	1.110
		%	10.3	18.4	29.9	33.9	7.5		
4	New banking is system used in the company	F	6	24	54	82	7	3.44	0.891
		%	3.4	13.8	31.0	47.1	4.0		

5	The advertising system is through modern technology	F	6	14	50	85	19	3.56	0.915
		%	3.4	8.0	28.7	48.9	10.9		
6	Latest communication tools are used to facilitate the underwriting	F	4	15	35	88	32	3.74	0.935
		%	2.3	8.6	20.1	50.6	18.4		
7	Updated technology is used to underwrite the motor insurance product	F	5	12	33	96	28	3.75	0.909
		%	2.9	6.9	19.0	55.2	16.1		
8	The company uses equipment that goes with modern technology	F	7	23	30	98	16	3.53	0.972
		%	4.0	13.2	17.2	56.2	9.2		

Source: Own survey result, 2022

It is also shown that in the above table the level of agreement for the advertising system is through modern technology 4(2.3%) of the respondents strongly disagreed, 15(8.6%) disagreed, 35(20.1%) responded neither disagreed nor agreed, 88(50.6%) of respondents agreed and 32(18.4%) of participants strongly agreed and its mean score and standard deviation were 3.56 and 0.915. Based on the above interpretation most of the participants agreed with the advertising system is through modern technology. This shows that the company advertises the product through modern technology.

For the item latest communication tools are used to facilitate the underwriting 4(2.3%) respondents strongly disagreed, 15(8.6%) disagreed, 35(20.1%) participants' were neither disagreed nor agreed, 88(50.6%) respondents agreed and 32(18.4%) respondents were strongly agreed. The item's mean and standard deviation were 3.74 and 0.935. It is understandable that from the above interpretation more of the respondents agreed with modern communication tools are used to facilitate the underwriting, this indicates that the company used the latest tools for underwriting purpose.

From the total respondents 5(2.9%) respondents strongly disagreed, 12(6.9%) disagreed, 33(19.0%) neither disagreed nor agreed, 96(55.2%) agreed and 28(16.1%) strongly agreed with the item called updated technology is used to underwrite the motor insurance product. It is clearly stated interpreted that majority of the respondents agreed with this item. This shows that the

company uses updated technology to underwrite the motor insurance product to save time and cost to be incurred.

The last item was the company uses equipment that goes with modern technology. For this item the level of agreement interpreted as follows 7(4.0%) respondents strongly disagreed with it,23(13.2%) disagreed,30(17.2%) neither disagreed nor agreed with the item ,98(56.2%) agreed and 16(9.2%) of respondents strongly agreed with it. From this interpretation more of the respondents agreed with item mentioned above. This implies that the company uses equipment that goes with modern technology.

#### **4.2.2. Service Quality**

Regarding to the service quality in the following table 4 eight items are included and the level of agreement, their mean and standard deviation presented as follows. Hence,for the item the clients are told when insurance coverage becomes effective 2(1.1%) of respondents strongly disagreed with it and 23(13.2%) disagreed ,47(27.0%) neither disagreed nor agreed,81(46.6%) agreed and 21(12.1%) of respondents were strongly agreed consecutively and its mean and standard deviation were 3.55 and 0.909. From this interpretation more of the respondents agreed with item mentioned above. This shows that clients of the of the company are told by the employees when insurance coverage becomes effective.

From the total respondents 13(7.5%) strongly disagreed,20(11.5%) disagreed,60(34.5%) neither agreed nor disagreed ,58(33.3%) agreed and 23(12.1%) of the respondents strongly agreed with the item flexible services are being rendered for clients and the mean score and standard deviation of the item were 3.33 and 1.082. Majority of the respondents are not sure whether the flexible service is given or not.

For the item motor insurance claim is managed with in stated period of time 8(4.6%) respondents strongly disagreed with it and 28(16.1%) disagreed, 60(34.5%) respondents neither disagreed nor agreed with this item. The rest of 55(31.6%) respondents agreed and 23(13.2%) strongly agreed with this item respectively and the mean score and standard deviation of this item were 3.32 and 1.043.From this interpretation most of the respondents did not accept the management of motor insurance claim with in specified period of time.

With item complaint handled appropriately 2(1.1%) respondents strongly disagreed,13(7.5%) disagreed,41(23.6%) neither disagreed nor agreed but 84(48.3%) respondents agreed with it and 34(19.5%) strongly agreed and the mean and standard deviation of complaint handled appropriately were 3.78 and 0.887. The above interpretation shows us that the complaint raised by the clients of the company is handled appropriately.

**Table 4: Participants Response to the Items of Service Quality**

No	Items		SD	DA	N	A	SA	M	Std
1	The clients are told when insurance coverage becomes effective	F	2	23	47	81	21	3.55	0.909
		%	1.1	13.2	27.0	46.6	12.1		
2	Flexible services are being rendered to fulfill the needs of the client	F	13	20	60	58	23	3.33	1.082
		%	7.5	11.5	34.5	33.3	13.2		
3	Motor insurance claim is managed with in stated period of time	F	8	28	60	55	23	3.32	1.043
		%	4.6	16.1	34.5	31.6	13.2		
4	Complaint of the clients handled appropriately	F	2	13	41	84	34	3.78	0.887
		%	1.1	7.5	23.6	48.3	19.5		
5	Good and positive relationship among the employees	F	-	13	54	93	14	3.62	0.741
		%	-	7.5	31.0	53.4	8.0		
6	The opening and working hour of the company is convenient	F	-	25	34	96	19	3.63	0.863
		%	-	14.4	19.5	55.2	10.9		
7	Necessary knowledge is acquired to answer the customers question	F	-	14	11	89	60	4.12	0.848
		%	-	8.0	6.3	51.1	34.5		
8	The dressing rule of the company is kept(neat and well dressed)	F	-	16	17	86	55	4.03	0.886
		%	-	9.2	9.8	49.4	31.6		

Source: Own survey result, 2022

From the total participants of this study no participants select the scale strongly disagree for the good and positive relationship among employees, but 13(7.5%) respondents disagreed with it, 54(31.0%) neither disagreed nor agreed. However, 93(53.4) respondents agreed with good and positive relationship among employees and only 14(8.0%) of respondents strongly agreed with it

and mean and standard deviation of this item were 3.62 and 0.741. Large number of the participants agreed with this item. This indicates that the employees of the company have good and positive relationship with each other. It helps to serve the clients by communicating with no disagreement.

The level of agreement for the item convenience of opening and working hour of the company there were no respondents strongly disagreed with it. 25(14.4%) respondents disagreed, 34(19.5%) neither disagreed nor agreed but 96(55.2%) and 19(10.9%) respondents agreed and strongly agreed with this item respectively. Its mean score and standard deviation were 3.63 and 0.863. Majority of the respondents agreed with convenience of opening and working hour of the company. It implies that the opening and working hour of the company is convenient to undertake the service to be provided.

The other item included under this factor is knowledge acquired to answer the client's question. So, no respondents strongly disagreed with it. But 14(8.0%) participants disagreed, 11(6.3%) neither disagreed nor agreed, 89(51.1%) agreed with the item and 60(34.5%) respondents strongly agreed. The mean and standard deviation of this item were 4.12 and 0.848 respectively. Majority of the respondents agreed with the knowledge is acquired to answer the client's question. This implies that employees of the company have sufficient knowledge to answer the client's questions.

The last item included under this factor is keeping the dressing rule of the company. No respondents strongly disagreed with it but 16(9.2%) participants disagreed, 17(9.8%) neither disagreed nor agreed. However, 86(49.4%) respondents agreed keeping the dressing rule of the company and 55(31.6%) respondents strongly agreed with it. Its mean score and standard deviation were 4.03 and 0.886. From, this interpretation majority of the participants agreed with keeping the dressing rule of the company. This shows that the company's dressing rule is kept.

### **4.2.3. Marketing and Sales**

Concerning to the factor marketing and sales about eight items used for the purpose of this study. Each item level of agreement, mean score and standard deviation presented in the following table 5. For the first item availability of branches to sell motor insurance product 12(6.9%) respondents strongly disagreed with it, 37(21.3%) disagreed, 45(25.9%) neither disagreed nor agreed. But 65(37.4%) respondents agreed and rest 15(8.6%) respondents strongly agreed. This item scored a

mean of 3.19 and standard deviation of 1.084. This analysis shows us that below fifty percent of respondents agreed with sufficient availability of branches to undertake the motor insurance sale.

As it is indicated in following table 5, 13(7.5%) of participants strongly disagreed with involvement of brokers and agents to sell the motor insurance product and 28(16.1%) respondents disagreed, 48(27.6%) neither disagreed nor agreed. In contrast 70(40.2%) and 15(8.6%) Of respondents agreed and strongly agreed with it respectively. Its mean and standard deviation were 3.26 and 1.069. Most of the respondents agreed with the use of brokers and agents in selling the insurance product and it implies that the company sells the motor insurance with the help of brokers and agents.

For the third item 13(7.5%) of respondents strongly disagreed with selling of extra new motor insurance coverage for existing clients and 40(23.0%) disagreed but 56(32.2%) respondents neither disagreed nor agreed. 53(30.5%) respondents agreed and only 12(6.9%) participants strongly agreed. The mean and standard deviation of this item were 3.06 and 1.054. Since majority of the respondents neither disagreed nor agreed with this item extra motor insurance is not being sold fully.

The next item is selected costumers of motor insurance are being visited frequently. For this item, only 6(3.4%) participants strongly disagreed and 24(13.8%) disagreed. From the total of 174 respondents 51(29.3%) neither disagreed or agreed, 82(47.1%) respondents agreed with it and 11(6.3%) strongly disagreed. The mean and standard deviation of selected costumers of motor insurance are being visited frequently were 3.39 and 0.923. From this interpretation, large number of participants agreed with the item mentioned above. This indicates that the company visits some selected clients frequently.

**Table 5: Participants Response to the Items of Marketing and Sales**

No	Items		SD	DA	N	A	SA	M	Std
1	Availability of branches is sufficient to sell the motor insurance product	F	12	37	45	65	15	3.19	1.084
		%	6.9	21.3	25.9	37.4	8.6		
2		F	13	28	48	70	15		

	Brokers and agents are used to sell the motor insurance product	%	7.5	16.1	27.6	40.2	8.6	3.26	1.069
3	Extra new motor insurance coverage is being sold for existing customers	F	13	40	56	53	12	3.06	1.054
		%	7.5	23.0	32.2	30.5	6.9		
4	Some selected customers of motor insurance are being visited frequently	F	6	24	51	82	11	3.39	0.923
		%	3.4	13.8	29.3	47.1	6.3		
5	Popularity of the company has effect on the motor insurance underwriting	F	13	26	50	71	14	3.27	1.054
		%	7.5	14.9	28.7	40.8	8.0		
6	Clients are provided more discount if no claim is lodged in the previous period of insurance	F	11	32	37	75	19	3.34	1.094
		%	6.3	18.4	21.3	43.1	10.9		
7	Competitive marketing promotion is used to advertise the product	F	9	35	41	69	20	3.32	1.081
		%	5.2	20.1	23.6	39.7	11.5		
8	Image of the company is good in the society	F	13	26	43	80	12	3.29	1.049
		%	7.5	14.9	24.7	46.0	6.9		

Source: Own survey result, 2022

In the above table 5 it is also shown that 13(7.5%) and 26(14.9%) respondents strongly disagreed and disagreed on the effect of popularity of the company on the motor insurance underwriting but 50(28.7%) of the participants neither disagreed nor agreed. About 71(40.8%) and 14(8.0%) respondents agreed and strongly disagreed with it. Its mean and standard deviation were 3.2 and 1.054. According to the above interpretation most of the respondents agreed with the effect of popularity of the company on the motor insurance underwriting. This shows that popularity of the company has effect on underwriting of motor insurance.

The level of agreement for the item Clients are provided more discount if no claim is lodged in the previous period of insurance interpreted as follows. From the participants 11(6.3%) strongly disagreed and 32(18.4%) disagreed but 37(21.3%) respondents neither disagreed nor agreed. 75(43.1%) and 19(10.9%) respondents agreed and strongly agreed with this item. As it is

indicated in the above table 5 the mean and standard deviation scored by this item were 3.34 and 1.094. As interpreted above large number of respondents agreed with discount given for client up on renewal if claim is not lodged. This implies that the company offer discount for its clients if no claim is lodged in the previous period.

The other item included under this factor is competitive marketing promotion is used to advertise the product. For this item 9(5.2%) and 35(20.1%) respondents strongly disagreed and agreed and 41(23.6%) of respondents neither disagreed nor agreed. However,69(39.7%) agreed and 20(11.5%) of respondents strongly agreed. Its mean score and standard deviation were 3.32 and 1.081. From this interpretation majority of the respondents agreed with the use of competitive marketing promotion. This shows that the company uses competitive marketing promotion to advertise the product.

The last item included under this factor is good image of the company in the society. The level of agreement for this item is as follows ,13(7.5%) respondents strongly disagreed and 26(14.9%) disagreed with it and 43(24.7%) respondents neither disagreed nor agreed. The respondents replied agreed and strongly agreed were 80(46.0%) and 12(6.9%) respectively and also the mean and standard deviation of this item were3.29 and 1.049. As we can understand from the above interpretation most of the participants agreed with good image of the company in the society. This indicates that the company has good image in the society.

Based on the data obtained from marketing department of Ethiopian Insurance Corporation which shows five years (2017 to 2021) performance of the company and specifically the motor insurance was also included. This analysis of secondary data contained growth rate and number of policies, growth rate and market share, the industry`s and motor insurance premium growth rate, EIC`s motor insurance percentage share of premium, ratio of loss and motor insurance share of underwriting surplus.

#### **Table 6. Total Number of policies and growth per year**

As shown in the following table7 the growth rate in the year from 2017 to 2021 was about 9.2% on average. It is clearly indicated that in this table the growth rate was 11.2% in the year 2017,9.2% in the year 2018,7.7% in the year 2019 ,17.2% in the year 2020 which was higher and 0.98% in the year 2021 which was the least growth rate of motor insurance as compared to the rest of the

five years. Even though, the growth rate of motor insurance in the company was up and down the average growth rate was positive.

Period	2017	2018	2019	2020	2021	Average
Number of Policies	117,031	127,802	137,654	161,300	162,890	141,335
Growth rate	11.2	9.2	7.7	17.2	0.98	9.2

Source: EIC Annual report

The following table8 tells us that an increment of the market share except in the year of 2018. From the table above the market share was 36.3% in the year of 2017,35.5% in year the of 2018, but 37.8% in the year of 2019 ,44.3% in year of2020 and with a small increment in the year of 2021 the market share was 44.0%.This implies that the large market of the industry is taken by the Ethiopian Insurance Corporation.

**Table7.Market share and growth rate in `000**

Period	2017	2018	2019	2020	2021
EIC	2,721,468	2,974,764	3,435,554	4,942,317	6,103,735
Industry	7,493,571	8,380,296	9,096,762	11,158.212	13,873,959
% of share EIC	36.3	35.5	37.8	44.3	44.0

Source: EIC Annual report

The below table shows that the motor insurance premium growth is increasing from 2019 to 2021 but the motor insurance premium growth of EIC in the year 2018was less than that of 2017. According the data provided in this table most of the portfolio of insurance industry as well as EIC was premium collected from motor insurance.

**Table 8.Premium growth rate of motor insurance of EIC and the industry in `000**

Period	2017	2018	2019	2020	2021
EIC	1,105,169	1,073,917	1,261,011	1,298,184	1,603,335
Industry	3,982,203	4,346,317	4,565,616	4,918,654	5,567,981

Source: EIC Annual report

As provided in the following table the premium share of motor insurance of EIC in the year 2017 was 40.6%, 36.1% in the fiscal year of 2018, 36.7% in the year of 2020 it was 26.3% and 26.3%in

2021. On average the motor insurance premium share of EIC was 33.2%. This implies that 33.2% of collection of the company was from motor insurance premium.

**Table 9. Percentage share of motor insurance premium of EIC in `000**

Period	2017	2018	2019	2020	2021	Average
Motor Insurance	1,105,169	1,073,917	1,261,011	1,298,184	1,603,335	1,268,319
EIC Total	2,721,468	2,974,764	3,435,554	4,942,317	6,103,735	4,035,568
% share of motor	40.6	36.1	36.7	26.3	26.3	33.2

Source: EIC Annual report

**Table 10. Loss ratio per year**

In the following table it is clearly shown that the loss ratio of EIC was 52% in the year of 2017, 49.8% in the fiscal year 2018, 45.6% in year of 2019 and it was 58.0% and 47.0% in the years of 2020 and 2021 respectively. On average the loss ratio of EIC was 50.5%. This shows that about half of the collection of EIC was paid for motor insurance claim. The loss ratio of industry in year 2017 was 64.0%, 62.0% in 2018. But in 2019 it decreased to 60.0% to some extent and increased to 62.0% in the year of 2020 and in the year 2021 decreased to 57.0%. On average the loss ratio of industry was 61.0%. This implies that the motor insurance claim has taken large portion of the industry. Finally, when we come to the EIC, the loss ratio was 71.3% in 2017, and 71.3% in 2018. However, in 2019 and 2020 it decreased to 68.6% and 61.6% respectively. But in the fiscal year of 2021 it increased to 63.2% to some extent. This implies that most of the expense of the company was payment made in the form of claim.

Period	2017	2018	2019	2020	2021	Average
EIC	52.0	49.8	45.6	58.0	47.0	50.5
Industry	64.0	62.0	60.0	62.0	57.0	61.0
Total EIC	71.3	71.3	68.6	61.6	63.2	67.3

Source: EIC Annual report

Underwriting surplus is the difference between collection and payment made by the company. In the following table the underwriting surplus of 2017 was greater than that of 2018. This implies that contribution of motor insurance in 2018 was less. In the year 2019, 2020 and 2021 the

underwriting surplus were increased. It indicates that the contribution of motor insurance to the portfolio of the company is better to some extent.

**Table 11. Share of underwriting surplus for Motor insurance in `000**

Period	2017	2018	2019	2020	2021	Average
Underwriting surplus	255,557	237,081	311,126	340,873	443,844	297,696

Source: EIC Annual report

**Table 12: Summary of mean and Standard Deviation of Technology, Service Quality and Marketing and Sales**

Based on the descriptive statistics the following table6 presents the summary of each factor. For each factor mean and standard deviation were used to compare the extent to which each factor affect the performance of motor insurance.

<b>Factors</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Technology	174	3.45	0.6887
Service Quality	174	3.18	0.5934
Marketing and Sales	174	3.64	0.5547
Valid N (listwise)	174		

Source: Own survey result, 2022

The above table indicates that the mean score of technology is found to be in the range of moderate that was 3.45 with a standard deviation of 0.6887 in five likers scale. The other factor with mean score of 3.18 and standard deviation of 0.5934 was service quality and this factor is also in the range of moderate. The third factor with mean score of 3.64 and standard deviation of 0.5547 was marketing and sales. The range of mean of this factor is in the range of high. Because, as Kothari (2004) stated that the mean score measurement which is below 2.69 considered as low, the mean score found between 2.7 and 3.49 taken as moderate and it is highest if it is greater than 3.5 in the five scale. This interpretation implies that the extent to which marketing and sales affecting motor insurance performance is highest whereas both technology and service quality moderately affecting motor insurance performance in Ethiopian Insurance Corporation.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

Under chapter five; summary of interpretation made in the previous chapter was discussed and based on the summary of the major findings conclusions is presented. In addition to that recommendation was given by the researcher based on the conclusions and major findings.

#### 5.1. Summary of the study's Findings

The aim of this study was assessing factors affecting performance of motor insurance in Ethiopian Insurance Corporation. Hence, based on the output of the descriptive statistics and secondary data analysis were summarized as follows.

According to the interpretation made under chapter four regarding to the demographic nature of the participants majority of them were male or about 70.1%. Concerning to the age of respondents about 39.7% of respondents' age was in the range of 30 and 34 years and only 6.9% of respondents were between 40 and 44 years. The education level of the participants who were holder of first degree was 59.8% of the respondents but 1.1% were the holder of certificate. The other demographic nature of the participants was the experience of the respondents. Therefore, from the total participants 32.2% of them have an experience between 6 and 10 years and 10.3% of respondents acquire an experience above 20 years. Majority of respondent's current working position was occupied by officers it was about 35.6% and only 2.9% were directors.

As it is interpreted in the previous chapter the descriptive statistics analysis of technology shows that the item called updated technology is used to underwrite the motor insurance product scored the highest mean of 3.75 and standard deviation of 0.909 and it was followed by the item latest communication tools are used to facilitate the underwriting with mean score of 3.74 and standard deviation of 0.935. Among the items included under technology, possessing technological skills and knowledge scored the least mean of 3.10 and standard deviation of 1.110 and the company starts insuring motor insurance products on line was another item that scored least mean 3.13 and standard deviation of 1.086.

For the factor service quality, the descriptive statistics analysis interpreted under chapter four indicates that the item with highest mean score of 4.12 and standard deviation 0.848 was necessary knowledge is acquired to answer the customer's question and it was followed by the item the dressing rule of the company is kept has a mean score of 4.03 and standard deviation of 0.886. As compared to the mean of other items included under this factor motor insurance claim is managed with in stated period of time scored a least mean of 3.32 and standard deviation of 1.043 and also flexible services are being rendered to fulfill the needs of the client scored a mean of 3.33 and standard deviation of 1.082.

From items used under marketing and sales selected customers of motor insurance are being visited frequently has relatively higher mean score of 3.39 and standard deviation of 0.923 and followed by clients are provided more discount if no claim is lodged in the previous period of insurance 3.34 and standard deviation of 1.094. Relatively the mean score of items called extra new motor insurance coverage is being sold for existing was the least and it was 3.06 and its standard deviation was 1.054. Another item with relatively least mean score of 3.19 and standard deviation was availability of branches is sufficient to sell the motor insurance product. Among three factors marketing and sales scored the highest mean of 3.64 and service quality scored the least mean of 3.18 relative to remaining two factors.

In case of the interpretation made based on the analysis of secondary data the growth rate of motor insurance was 9.2% on average and the growth rate was only 0.98% in the year 2021. But the growth rate of the company was 44% on average. The motor insurance premium growth rate shows an increment except in the year of 2018. The share of motor insurance premium on average was 33.2%. In the year of 2017 the motor insurance share of premium was higher as compared to other four years. Loss ratio due to motor insurance accident was about 50.5% on average. But the total loss ratio of EIC and insurance industry were 63.2% and 57% on average respectively. Motor insurance loss ratio was highest in the year 2020 and lowest in the year 2019. Underwriting surplus of motor insurance in the year of 2018 was lower and higher in the year 2021

## **5.2. Conclusions**

Conclusion is drawn based on the interpretation made under chapter four by using the descriptive statistics and secondary data from 2017 to 2021 years regarding to the assessing factors affecting

performance of motor insurance in Ethiopian Insurance Corporation. As a result, factors taken in this case are technology, service quality and marketing and sales. Hence, the result of the analysis indicates that the factor having highest effect on the performance of motor insurance in Ethiopian Insurance Corporation was marketing and sales with a mean of 3.64 and the second factor that has moderate effect on the performance of motor insurance was technology used in the company and service quality was also the factor that has moderate effect on the performance of motor insurance in EIC.

The finding of this study is the same as to finding of the study conducted by Mathur and Tripathi(2014) the service quality is a factor that have effect on the performance. The finding of study conducted by Krishnmurthy, et al. (2005) agreed with the finding of this study better sales was the factor that has effect on the performance of insurance.

From the secondary data analysis, the growth rate of motor insurance Ethiopian Insurance Corporation was 9.2% on average. The market share of the company was about 44% from the total of industry. The motor insurance share of premium was 33.2% on average from the total collection of Ethiopian Insurance corporation. Coming to the loss ratio of motor insurance about 50.5% of the collection of motor insurance in the company. The company`s loss ratio was 67.3% and the loss of the industry was 61% which was nearest to the Ethiopian Insurance Corporation loss ratio. The loss ratio between motor insurance of Ethiopian Insurance Corporation and total of Ethiopian Insurance Corporation was 16.8%.

As it is mentioned under chapter one large portfolio of the Ethiopian Insurance Corporation is motor insurance. Even though, large portfolio of Ethiopian Insurance Corporation is motor insurance, its loss ratio was higher as compared to the total loss ratio of the company and loss ratio of industry. Half of the portion of claim of the company is taken by motor insurance. This is due to the fact that, the cost of the spare parts of the vehicle is increasing from past two years. Hence, as the description of the annual report of the company indicates that the company`s expense is increased highly because of the increment of vehicle spare parts.

### **5.3. Recommendations**

The recommendations given below based on the summary of the major findings of the study and conclusions given above. The recommendations forwarded by the researcher will be used to take

corrective measure on which factor the company should give attention for the advancement of the performance of motor insurance in the company.

From the study conducted marketing and sales was the factor that highly affecting the performance of motor in Ethiopian Insurance Corporation. Hence, the company should scale up the performance of motor insurance by focusing on increasing the number of branches, brokers and agents, selling additional coverage for existing customers and applying competitive marketing promotion

Technology was the factor that has moderate effect on the performance of motor insurance in Ethiopian Insurance Corporation. The company should improve the performance of motor insurance by enhancing improper network infrastructure, insuring motor insurance online and training the employees to develop their technological skills because technology proves the competitive advantage.

It is described that service quality was another factor that affect the performance of motor insurance in the company. Based on the mean scored by the this factor the company should enhance the performance of motor insurance by providing the flexible service to meet the needs of customers, entertaining the motor insurance claim with in stated period of time to retain the clients and handling their complaint properly.

As the five years growth rate of the motor insurance of Ethiopian Insurance corporation indicates that majority of portfolio of the company is motor insurance. So, the company should also increase the portfolios of other types of insurance product to increase its underwriting surplus and its market share in the industry. The loss ratio of the company was higher because of motor insurance claim. Therefore, the company should make alliance with traffic management office and driving license schools to work on ethical behavior and to train competent drivers, because most of accidents are being happening by the mistake of the drivers.

### **For Feature Research**

To assess the effect of those factors it is good to include other types of product of insurance. Because the performance of those factors can be positive or negative and also their performance may have effect on total profitability of the insurance company. Based on their performance the company formulate strategy that enable to become competent in the industry.

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## APPENDIX



### COLLEGE OF BUSSINESS AND ECONOMICS SCHOOL OF COMMERCE DEPARTMENT OF BUSSINESS LEADERSHIP POST GRADUATE STADIES

**Dear Participants,**

I, Kabtamu W/Michael a student of Masters of business leadership at Addis Ababa University School of Commerce. First of all, I would like to thank you from my core of heart for giving your valuable time to complete this survey questionnaire. The purpose of this survey questionnaire is to collect firsthand information that will support “**Assessing Factors Affecting Performance of Motor Insurance: A case study of Ethiopian Insurance Corporation**”. This study is undertaken as a partial fulfillment requirement for the award of degree of Masters of Business Leadership. Your valued responses for the questions are very useful for successful accomplishment of my research project and the trustworthiness of the research rests on your kind responses. So, I request you again to take a maximum of 5 minutes to fill the questionnaire. The information that you offer me will be used only for the purpose of the study under the standard ethics of the study and will be keeping strictly confidential. Please answer each question with no fear of consequence. No need of writing your name. For any inquiry use the following address phone number: **+251912219409** and email: **habtamu2194@gmail.com**

Thank you in advance for your cooperation.

#### **Part I: Demographic Information**

**Please indicate your choice un the box in front of each questions that require your exact answer. Use the symbol ‘x’**

1. Gender: Male  Female
2. Age: 18-24  25-29  30-34  35-39  40-44  45 and above
3. Education Level: 1. Certificate  2. Diploma   
3 First Degree  4. Post Graduate
4. Your Work experience: < 5 years  6-10 years  6 – 20 years   
11 – 15 years  Above 20 years
5. Your Current Position: Officer  Senior Officer  Principal Engineer   
Senior surveyor  Principal customer care   
Marketing Officer  Senior Marketing officer   
Team Leader  Director

**Part II: Factors affecting the performance of motor insurance**

The following are the operational factors that affect the performance of motor insurance in Ethiopian Insurance Corporation. Please rate your answer by choosing from 1-5, any number as indicate in the following table.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

1. For each of the following statements, circle the number that shows the degree to which you agree or disagree.

<i>Factors</i>						
	<b>Technology</b>					
1	The network infrastructure in the company is improper	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
2	The company starts insuring motor insurance products on line	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
3	Possessing technological skills and knowledge	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
4	New banking is system used in the company	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
5	The advertising system is through modern technology	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
6	Latest communication tools are used to facilitate the underwriting	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
7	Updated technology is used to underwrite the motor insurance product	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>

8	The company uses equipment that goes with modern technology	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
	<b>Service Quality</b>					
1	The clients are told when insurance coverage becomes effective	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
2	Flexible services are being rendered to fulfill the needs of the client	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
3	Motor insurance claim is managed with in stated period of time	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
4	Complaint of the clients handled appropriately	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
5	Good and positive relationship among the employees	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
6	The opening and working hour of the company is convenient	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
7	Necessary knowledge is acquired to answer the customers question	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
8	The dressing rule of the company is kept(neat and well dressed)	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
	<b>Marketing and Sales</b>					
1	Availability of branches is sufficient to sell the motor insurance product	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
2	Brokers and agents are used to sell the motor insurance product	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
3	Extra new motor insurance coverage is being sold for existing customers	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
4	Some selected customers of motor insurance are being visited frequently	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
5	Popularity of the company has effect on the motor insurance underwriting	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
6	Clients are provided more discount if no claim is lodged in the previous period of insurance	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>

7	Competitive marketing promotion is used to advertise the product	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
8	Image of the company is good in the society	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>