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**Addis Ababa University**  
**College of Business and Economics**  
**Department of EMBA Program**

**Factors Influencing the Performance of Nile Insurance  
Company S.C**

**The Thesis Submitted In Partial Fulfillment of Requirement  
for Master of Executive Business and Administration (EMBA)**

**By: Yared Worku**

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## **Certificate of Originality**

This is to certify that the project titled “**Factors Influencing the Performance of Nile Insurance Company S.C.**” is an original work of the student and is being submitted in partial fulfillment for the award of Master Degree in Executive Master of Business and Administration at Addis Ababa University. This report has not been submitted earlier either to this University or to any other University/Institutions for the fulfillment of the requirement of a course of study.

---

**Signature of Student** \_\_\_\_\_  
**Yared Worku**

**Date**

**Signature of Advisor** \_\_\_\_\_  
**Dr. Matiwo Ensermu**

**Date**

**Signature of External Advisor** \_\_\_\_\_  
**Dr. Abdurezak Mohammed**

**Date**

**Signature of Internal Advisor** \_\_\_\_\_  
**Dr. Mesfin Fikre**

**Date**

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## **Abstract**

*Insurance is a vital tool in the development and sustainability of both emerging and developed economies. It promotes stability in the global economy for individuals, institutions and governments by taking on risk and dispersing them around the world through the global reinsurance markets. It is also an effective catalyst for economic growth. The main objective of this study was to examine factors influencing the performance of Nile Insurance Company S.C. (NIC). To achieve this objective both primary and secondary data were used. Primary data collected by means of interview and structured questionnaires. Secondary data obtained from audited annual bulletins of Nile Insurance Company S.C. (NIC) and National Bank of Ethiopia various reports. The target population was Clients, Employees and Intermediaries. The sampling techniques used for this case study were simple random sampling and purposive sampling. Using Cochran (1997) sampling size determination formula minimum sample size of 384 was used. After testing the variables using SPSS program kit we find out the following results: Employees, Customers satisfactions, Brokers, Competitors price and Underwriting are most important determinant of performance of NIC. While authorization limit, board involvement, door-to-door service, risk acceptance and preparing a cheque and released a cheque to the insured has statistical insignificant relationship with performance of NIC. The study recommended that NIC must provide insurance training for clients and intermediaries, reducing time of processing of claims and motivate its employees.*

**Key words: Performance, Factors, Influence and insurance**

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## **List of Acronyms/Abbreviations**

|     |  |
|-----|--|
| CAR | Contractor All Risk                      |
| CCC | Cash Conversion Cycle                    |
| CEE | Central and Eastern Europe               |
| CEO | Chief Executive Officer                  |
| ERM | Enterprise Risk Management               |
| GDP | Gross Domestic Product                   |
| GWP | Gross Written Premium                    |
| HRM | Human Resource Management                |
| ICT | Information and Communication Technology |
| LQ  | Liquidity                                |
| NBE | National Bank of Ethiopia                |
| NIC | Nile Insurance Company S.C.              |
| NIS | Newly Independent States                 |
| PG  | Premium Growth                           |
| ROA | Returns on Assets                        |
| ROE | Returns on Equity                        |
| WB  | World Bank                               |

# CHAPTER ONE: Introduction

## 1.1. Background of the Study

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

The conception of **insurance** is the spreading of risks for a few individuals, among many. This is done when individuals and businesses pay a premium to an insurance company to cover them in case of a catastrophic occurrence. In other words, we all pay premiums in case something happen to one of us. Believe it or not, this simple concept is what drives the existence of all insurance companies. As much as we all complain about insurance, we all have it. If something happens, we can't afford to be without it.

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

Ethiopia's Insurance sector has shown strong resilience to a challenging macroeconomic environment and global development. The basic measures of performance are economic viability and sustainability. Once this is achieved, insurance company's objectives may turn on long-run profitability, expansion and growth, market share and finally to

diversification. Each of these stages requires strategy. The individual interests of the managers and other employees of the organization may not match with the interests of the organization, posing a major problem in attaining the goals of the organization.

The performance in business environment is consistent to some measurement such as accounting-based measurements and market-based measurements (Asian journal, 2014) Performance measurement refers to the process of measuring the action's efficiency and effectiveness (Neely, Gregory & Platts, 2005). Performance measurement is critical for effective management of any firm (Demirbag, Tatoglu, Tekinus and Zaim, 2006). Measurement of performance can offer significant invaluable information to allow management's monitoring of performance, report progress, improve motivation and communication and pinpoint problems (Waggoner, Neely & Kennerley, 1999).

Some of the non-financial performance measures may include growth in number of policies, market share of the branch or division in the local area, company's market share in total, number of branches and divisions, Speed in policy processing, speed in delivery of the policy notes, timely reminders to the customers, number of lapsed from the policies, growth in products and product lines, customer satisfaction, speed in settlement of claims, employee training, research and development, market intelligence and surveys, number of policies per agent, agents training, retention of efficient agents etc.,

Despite the current insurance companies' development with respect to both total assets and in number, no studies were conducted to investigate the factors affecting the performance of insurance sector in Ethiopia. Therefore, the aim of this study is to identify the factors that influence the performance of Nile insurance company S.C. The significance of this study stems from the fact that various studies in Ethiopia have investigated the factors affecting the performance only for non-financial and banking sectors. Therefore, the researcher believes that the study will fill an important gap in understanding the factors affecting the performance for insurance companies in the developing economy. Such an understanding is important, because it equips financial managers with applied knowledge for determining factors that affect firms' performance. From a theoretical point of view, it provides an important data for comparing factors

affecting the performance of insurance companies between developed and developing economies.

The background of this study deals with the role of financial institutions in the economy of a country in general and insurance companies in particular and it means their efficient and effective financial system through savings mobilization, risk transfer and intermediation. Hence the efficient performance of the institutions has become important and investigations by different researchers focus on factors influencing the performance of Nile insurance company S.C.

## **1.2. About Nile Insurance Company S.C**

Nile insurance company S.C. (NIC) is one of the pioneers private Insurers established on April, 1995 with capital of Birr 12.5 Million. Currently, the total asset of the company has reached 734 million. Its number of branches also reached 41. The company has more than 38, 000 customers throughout the country. NIC provide both General and Long Tem (Life) insurance services. It is also engaging in promising investments across the country.

## **1.3. Statement of the problem**

The best performance of any industry in general and any company in particular plays the role of increasing the market value of that specific company coupled with the role of leading towards the growth of the whole industry which ultimately leads to the overall success of the economy.

Managing the insurance cycle remains the most important challenge facing the global insurance industry (Cazzolla, 2007). The "big problems" facing insurance industry today are human resources; government intervention; sustaining revenue growth/profit; maintaining a consistent company strategy and tactics and so on. Those issues might even keep insurance companies; agents and brokers awake at night (Cazzolla, 2007). Insurers face mounting pressure to improve profitability, which is directly linked to their ability to accurately assess risk, manage relationships and achieve operational efficiencies. Underwriting high degree risk profile is very susceptible to occurrence of misfortune that

will result into frequent and huge outflow of compensated fund consequently impair the performance. Likewise, handling customers with great care and keep on maintaining them increases the company's credibility and overall performance.

The contribution of insurance in the overall economic development of Ethiopia was still below three per cent, which was the minimum norm as per international standards. Stakeholders in the industry must identify the gaps in insurance service delivery and find ways of plugging them for the benefit of the sector in Ethiopia (NBE report, 2017).

Hence, what factors affect the performance of insurance companies has not been adequately investigated except financial performance. While taking in to consideration the absence of empirical inquiry into the factors affecting insurance company's performance, this study attempts to work on such untouched empirical evidence in the country especial in the case of Nile Insurance Company S.C.

## **1.4. Objectives**

The objective of this study classified as general and specific objectives. The general objectives specifies the general purpose of the study and then based on this general objectives, the specific objectives are derived just from general objectives in order to satisfy the research questions.

### **1.4.1. General Objective**

The main objective of the study is to identify and assess the factors influencing the performance of Nile insurance company S.C. for the period of 2013 to 2017

### **1.4.2. Specific Objective**

In light of this the general objective, and in order to satisfy the research questions, the specific objective include:-

- i. To identify variables influencing mode of operation in underwriting, claim and finance departments at NIC determine.
- ii. To assess the extent of services rendered and its influencing on performance delivery at NIC
- iii. To identify challenges in service delivering for improvement of performance of NIC

### **1.5. Research Questions**

The main research question for this particular case study is “What are the factors influencing the performance of Nile Insurance Company S.C.?”

#### **1.5.1. Specific Research Questions**

- I. What variables influencing mode of operation in underwriting, Claim and finance department at NIC?
- II. What is the extent of services rendered and its influence on performance delivery at NIC?
- III. Which challenges faces NIC in service delivering for improvement of performance?

## **1.6. Significance of the Study**

- I. The findings from this study are expected to contribute and advance the body of knowledge for understanding better the factors that will influence the performance of insurance industry.
- II. The study findings are expected to provide useful understanding of the factors that are supportive, influencing and accelerating the growth of insurance industry in Ethiopia.
- III. The results of the study and recommendations are likely to be beneficial to other researchers, policy makers and entrepreneurs who would like to venture into the insurance industry.
- IV. The study is a partial fulfillment of my EMBA at Addis Ababa University School of business and economics department.
- V. The study will help business people, Government, Donors, Ngo's, insurers, re-insurers, insured and intermediaries to understand and have advanced knowledge and information on the constraints that they are likely to face and what they have to do in order to grow through the use of insurance services

## **1.7. Scope of the Study**

This study dwells mostly on the factors which influence performance of Nile insurance industry. The study has been chosen due to thorough understanding and familiarity with the content and subject matter by researcher. The geographical area covered by this particular case study is limited only in Addis Ababa, because the researcher has got a shortage of budget and resource. During the data collection the researcher find out reluctant respondents i.e., Some of the respondents did not give response against the questionnaires given, hence, lead to difficult in getting enough data for reporting and conclusion

## **1.8. Limitation of the Study**

It is quite obvious that much time is required to come with genuine finding of subject matter in question. Moreover, the researcher is simultaneously undertaking research and work (office responsibilities), hence, constrained with time, resources apart from financial pitfall.

## **1.9. Structure of the Study**

The reminder of this research paper is organized as follows:-

Chapter one: main theme of background and statement to the problem are covered. Also the objectives, research questions, significance, scope and structure of the study are presents. Chapter two: It is presents the previous studies and/or literatures revised relevant to this study. Chapter three: It is presents the research approach, design, methodology, data and data sources, sampling mechanism and data analysis. Chapter four: It is presents the analysis, findings and results, and Chapter five: It is presents the conclusion and recommendation for the desired outcomes.

## CHAPTER TWO: Literature Review

### 2.1. Definition of Insurance

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

*“Insurance is the pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify insured’s for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk”.* However, some Scholars and writers have given various definitions of insurance from different perspectives such as economic, social, legal...etc.

(Ration, 1956) provides the economic definition of insurance:-

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

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

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

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

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

However, according to (E.Regeda, 2008), the American risk and insurance association defined insurance “insurance is the pooling of accidental losses by shifting it to insurance companies, who agree and in a better financial position to indemnify insured’s for such losses to offer other financial settlement on their occurrence”.

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

Underwriting is the most important activity of a general insurer. The risk transfer requires the assessment of the risk in order to calculate the appropriate premium which the insured should pay. This process is called underwriting. The individual who acts on behalf of the insurers is the underwriter and his/her responsibility is to consider ‘the facts presented and decides whether to offer terms, request additional information or decline the risk. If the terms offered are approved by the insured, the underwriter will accept the risk in exchange for payment of a premium’ (CII, 2010).

## **2.2. Background of Insurance Companies in Ethiopia**

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

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

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

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

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

Currently, as of August, 2017 there are seventeen insurance companies in operation. One government owned and sixteen private insurance companies which are operating throughout the country. Their branches increased to 482 from 465 a year ago. Of the total branches about 53.9% were located in Addis Ababa, the total capital of the insurance companies reached Birr 3.9 billion, of which 75% was that of private insurance companies (NBE, quarterly bulletin), please refer Appendix III for detailed information.

### **2.3. Theoretical Literature Review**

The insurance sector is sine-qua-non for development and economic growth of any economy and it has been recognized for many years. The significance of insurance was also acknowledged in the first conference of United Nations Conference on Trade and Development (UNCTAD) in 1964 by stating that “a sound national insurance and reinsurance market is an essential characteristic of economic growth.” It seems Insurance not only facilitates economic transactions through risk transfer and indemnification but it also promotes financial intermediation (Ward and Zurbruegg, 2000). More specifically, insurance can have effects such as promote financial stability, mobilize savings, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs (Skipper, 2001).

Insurance is a pooling of risks by individual, where part of the payment of the many is used to pay to the few who suffer losses (Sebiyam, 2005). And also Insurance is designed to meet the financial well-being of an individual, company or other entity in the case of unpredicted losses. Some forms of insurance are compulsory while others are optional (Hoyoake and Weipers, 1999)

## **2.4. Concept of Insurance Companies**

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

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

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

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

## **2.5. Performance of Insurance in the Economy**

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

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

For example, according to a report by NBE (2010) the size of the country's Insurance sector in terms of assets has increased by 47.5% by the end of June 2010. The non- life insurance sector also registered a higher gross written premium of about Birr 1.38 billion,

thus showing a 17% increase over the previous year's premium. Moreover, the life insurance written premium has increased by 14%. Despite the current insurance companies' development with respect to both total assets and in number, no studies were conducted to investigate the factors influencing the performance of insurance sector in Ethiopia.

## **2.6. Empirical Literature Review**

By studying different variables the result showed that life insurance industry expanded tremendously from 2000 onwards in terms of number of offices, number of agents, new business policies, products, premium income and so on. The business performance of all life insurer's in industry on the basis of various indicators. The study indicated that even after the entry of private sector, the growth of public sector undertaking had not resulted in downfall even after facing various opportunities and challenges (Gulati and Jain, 2011).

To function successfully in business environment, an organization depends upon the decision-making ability of its managers. Who in turn, depend upon the availability of useable information (Banker, at.el., 1997)

Determined the solvency ratio of Indian Life insurance companies for the period of 3 years from 2009-10 to 2011-12. It analyzed whether performance of different companies was similar or there was any significant difference. On the basis of solvency ratio, ranks were assigned to different companies which showed that ICICI found the best among selected companies of industry followed by Birla Sun Life, SBI, HDFC and LIC. The paper also observed that solvency of life insures depend on returns received from total investible funds and interest rate (Gour and Gupta, 2012). Evaluated the performance of five life insurance companies at the time period of 2002-03 in terms of various plans and policies on the basis of annual growth rate. The study concluded that Insurance Corporation being the public sector was lagging behind due to competition faced by private insurers whereas private insurance companies had performed well in terms of financial aspects.

Many foreign and local insurers active in the region seem to be relying on motor insurance not only provide growth but more importantly to introduce consumers to their other product offerings, and hopefully in the process enhance the currently low level of local insurance culture. While this education process is essential, it is sure to be resource intensive, and in the end may not actually yield the necessary critical mass of customers required to support their operation (Pye, 2003).

Performance of insurance company in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment, return on equity etc. Budget variances measure the financial performance of insurance company. This performance will include both financial and non-financial performance. Financial performance for a company with branches can be divided as profit performance and investment performance. These measures can be classified as profit performance measures and investment performance measures (According to Kasturi, 2006).

Information about performance management is critical to the effective functioning of any business (Kaplan et al, 1992; McWilliams, 1996). However, what constitutes good performance and what constitutes good measures of performance are continuously being debated (Corrigan, 1998; Kaplan & Norton, 1998; Maisel, 1992). For instance, do financial performance indicators provide the necessary information for operating within environments that are classified as turbulent, given that they are backward looking (Armstrong, 2000; Barker, 1995; Kaplan, 1983). Is it important to utilize non-financial information for organizations that are facing changes in demand? (Chang, 1999; Kaplan, 1983).

To function successfully in a business environment, an organization depends upon the decision-making ability of its managers, who in turn, depend upon the availability of useable information (Banker, et al., 1997). Information about performance is important in different ways to the various stakeholders within a business. For example, owners and investors are interested in company performance to ensure that their investment decisions are correct, and, if not, to look for alternative investments. Managers look at the

performance of a company's subunits as a way of prioritizing the allocation of resources (Duursema, 1999; Lockamy & Cox, 1994; Tricker & Dockery, 1995).

In a more strategic sense, performance measurement is seen as an important way of keeping a company on track in achieving the company's objectives and as a monitoring mechanism employed by the owners of a company where ownership and management are separated, (Baker & Wruck, 1989). Defining performance for an individual company is highly dependent upon the company's business objective and strategy and is therefore quite unique (Hoffecker et al., 1994;). For many firms however, the main performance indicators would typically include some combination of indicators across two broad categories: financial indicators and non-financial indicators (Barsky et al., 1999; Brown et al, 1993;). In this research I will measure management performance by using both financial and non-financial indicators. The factors, which influence the performance of insurance sector, will be identified from management performance.

Even though individual firms tend to utilize firm-specific performance indicators appropriate to their needs, for many firms the main performance indicators would typically include some combination of financial; market/customer; competitor; human resource; internal business; and environment indicators (Barsky & Flick, 1999; Hoffecker & Goldenberg, 1994). HRM practices create value by attracting and retaining employees, reinforcing employee behaviors and developing employee skills through compensation, hiring and selection, staffing, training, work organization and employee involvement. They affect both managerial and non-managerial employees and affect efficiency to the extent that both groups play important roles in engaging or supporting profit-generating activities in banks (Frei, Harker & Hunter, 1998).

Solid empirical evidence shows that HRM contributes to organizational performance. This implies that bank efficiency may be increased by the effective management of human resources (Frei, Harker & Hunter, 1998). Companies that select the wrong strategy or the wrong performance measurement to drive their strategy to meet the external expectations may not survive, especially in an uncertain environment (Kaplan et al, 1996). Therefore, the challenge for companies is to align their internal perception with

the external perception, as this in itself may be a signal for managers in their choice of performance measures.

Performance dynamic, satisfaction enhances customer loyalty and retention, leading to increase revenues and lower operating costs, which result in increased profitability (Zeithaml & Bitner, 2003). The main investigation focus of this study is on how well insurance companies are meeting customer requirements given their primary focus on financial measures for examining performance (Bitner, 2001).

By comparing with the rest of the world performance in insurance business, Ethiopia is not performing well in insurance business. May be the reason is due to lack of awareness in general and long term insurance businesses. The trend is expected to continue as public awareness of the need for insurance increases.

## **2.7. Research Gap**

Some research findings do not appear to have transferred well to the workplace, that produce dual camp of knowledge producer from knowledge user, hence, create research gap. In developing valid knowledge to support thoughtful designing for practitioners that in turn support organizational problem solving in the field. The study is expected to give general enlightenment on the type of problem on hand. Unfortunately, managers continue to rely largely on personal experience to the exclusion of more systemic knowledge. New knowledge limited to problem results in solution to problem, finding of practical relevance and value to organization and manager, improve understanding of particular business or organization problem.

In some literature it is stated that Superior financial performance is a way to satisfy investors (Chakravarthy, 1986) and can be represented by profitability, growth and market value (Cho & Pucik, 2005; Venkatraman & Ramanujam, 1986). These three aspects complement each other. Profitability measures a firm's past ability to generate returns (Glick et al., 2005). Growth demonstrates a firm's past ability to increase its size (Whetten, 1987). Increasing size, even at the same profitability level, will increase its absolute profit and cash generation. Larger size also can bring economies of scale and

market power, leading to enhanced future profitability. Market value represents the external assessment and expectation of firms' future performance. It should have a correlation with historical profitability and growth levels, but also incorporate future expectations of market changes and competitive moves.

Hence, the insurance performance for the company depends on several numbers of factors which could be summarized by the below stated figure on conceptual framework. Therefore, the market share and profitability as already discussed above are the proxy of performance which is explanatory variable. The dependent variables consist of operational and service aspects as peroxide by efficiency and effectiveness in the former case and customer care for the latter. The list of several influencing variables in those aspect were also, form the part of conceptual framework.

The factor for the performance are well explained in the (Kasturi, 2006) Efficiency of actuaries and assessors of the insurance policies in fixing premiums and settling claims is foremost an important area for achieving overall efficiency in operations. The quality of assessing the risk and estimation of losses has the largest claim on the performance of an insurance company. Well-trained, experienced and expert hands are needed for the operations according to (Birkmaier, 2002).

### **2.7.1. Some of the Factors Influencing the Performance of Insurance Industries: An Empirical Review**

#### **A. Risk Management**

Risk management is considered to be only applied by large companies because of being an expensive and complicated process. However, it is argued that risk management is a strategic tool which is not necessarily expensive to apply (El Baradei, 2006). Thus, all companies should be able to manage their risks, including small companies that are more vulnerable to risk (Sadgrove, 1996; El Baradei, 2006).

Organizational characteristics, such as size, type of business, strategic orientation, professional associations, corporate culture, and management competence (Hussain and Gunasekaran, 2002) can affect the processes applied within insurance companies as well

as the emergence and use of management control systems including ERM (Myers et al., 1991; Shields, 1995). Companies could reach their goals efficiently and quickly with the help of proactive risk management (Williams et al., 1998; Carey and Turnbull, 2001). Following (Mehr and Hedges', 1963), the process of risk management was summarized by (Dickson, 1989), (Sadgrove, 1996), (Williams et al., 1998) and (Harrington and Niehaus, 2003) into five elements: mission identification, risk assessment, risk control, risk financing, and program administration.

They viewed risk management key objectives as protecting the company from severe financial disruption due to accidental losses, and doing this at an affordable and non-fluctuating cost. Some scholars argue that risk culture was promoted as being important to make people think about risk and manage it efficiently (O'Rourke, 2005). (Duncan, 2004) presented an opposite view. He contended that it is easy for financial companies to quantify risks while there is a need for a more comprehensive approach to manage qualitative risks for non-financial companies. Excessive risk-taking could adversely affect the performance of insurance companies. (Malik, 2011) and (Ahmed et al., 2011) also found the same result.

Because of not addressing all the mentioned issues, it is strange how the extensive performance measurement in management accounting literature has been unaware of the risk notion, because it could be argued that performance and risk are two sides of one coin (Van der Stede, 2009). Considering that risk is the key function of insurance companies that are highly regulated, there is a need to gain understanding of the drivers behind risk management adoption in this industry. Hence, the insurance industry is based on managing various types of risks to make profit. Thus, risk management is considered a critical key factor for the success of any company, because risk management will enable the company to manage its risks more efficiently, and more effectively.

Risk management situation within the Ethiopia insurance sector is very poor and not utilized as it should be; because of the severe shortage of awareness about the importance of it and the scarcity of qualified insurance employees. For the purpose of this study, and based on the above discussion, the researcher defines risk management as an independent

process of identifying, analyzing and responding to pure loss exposures faced by an insurance companies that requires the cooperation of a firm's various levels: clients, employees and Intermediaries.

## **B. Premium Growth**

Premium growth measures the rate of market penetration. Empirical results showed that the rapid growth of premium volume is one of the causal factors of insurers' insolvency (Kim et al. 1995). Being too obsessed with growth can lead to self-destruction as other important objectives may be neglected. (Ahmed et al., 2011) also investigated the impact of firm level characteristics on the performance of the life insurance sector of Pakistan over the period of seven years from 2001 to 2007. The results of the OLS regression analysis revealed that growth of written premium and age of a firm has also negative relation to performance of life insurance companies but they are statistically insignificant

In addition, the formula for calculating the Premium Growth (PG): Proxy for Premium Growth is the percentage increase in Gross Written Premiums (GWP). The equation is expressed as follows:  $PG = (GWP(t) - GWP(t-1)) / GWP(t-1)$  In addition (Maria, 2014) argue that an excessive growth of underwritings generates a higher underwriting risk and the necessity to increase the volume of technical reserves and excessively increase the volume of the gross written premiums may lead to self-destruction, as other important objectives, such as selecting profitable investment portfolios could be neglected. Thus, the expected sign of the premium growth is unpredictable based on prior research. From the discussion above premium growths is considered to be as one of independent variable for this research

## **C. Claim Management**

The claims function plays an important strategic role in differentiating a company from its competitors. It not only has to monitor costs and provide claims services beyond the expectations of customers but also at the same time to operate within budget. The real credibility and trustworthiness of an insurance company is put to test when a claim actually arises. Emphasizing the importance of an effective claims management system

(Kishan, 2006) says the real credibility and trustworthiness of a general insurance company is put to test when a claim actually arises. In other words an insurance company's reputation is evaluated by its ability to fulfill its promise of being there when the customer needs them the most.

Moreover, an insurance company also has an arduous task to ensure an equitable and rational claims settlement. A sound claims settlement mechanism plays an intrinsic role in ensuring consumer centric insurance solutions. With the liberalization and entry of private companies in insurance, Indian insurance sector has started showing signs of significant change. The challenges faced by insurance sector pertaining to demand conditions are competition in the sector, product innovations, delivery and distribution systems, use of technology, and regulation. With the introduction of detarriffing in general insurance business the previously enjoyed pricing liberty by the public players has changed to a fiercely competitive environment (Krishnamurthy et al., 2005). Further (Rao, 2006) states that detarriffing in India will put further pressure on insurers since they will have to compete on price and service in the form of claims as well. In need to improve claims effectiveness if they are unable to cut their present costs, then it will put an upward pressure on volumes. Thus from discussion above claim handling management and processes are considered as one of independent variable for this research

#### **D. Customer Satisfaction**

Customer Satisfaction is a customer service metric and it measures how satisfied customers are with products and services. Customer service is particularly important during sensitive times such as when a customer is submitting a claim. If customers are unhappy with the way they are treated, they may start to look for a new coverage and compare with competitors offers. This is closely related to the customer retention. (Klipfolio, 2016) Insurance companies follow both internal and external customer ratings in order to increase their customer understanding. (If Annual Report, 2015.)

Especially in operation, Underwriting Speed is a number of business days within which the underwriting decision should be made as defined by the company. Speed of approval

is important for customer satisfaction, but also for agent and agency success. A faster approval time leads to more revenue coming in. (The Insurance Industry's...)

Customer and employee satisfaction are an important aspects to consider. Customers want companies to provide them with goods and services that match their expectations (Fornell, Johnson, Anderson, Cha, & Bryant, 1996). To do that, companies must understand their needs, avoid defects and improve the perceived quality and value added by their offerings. Customer satisfaction increases the willingness-to-pay and thus the value created by a company (Barney & Clark, 2007). Employees' satisfaction is related to investments in human resources practices. This group tends to value clearly defined job descriptions, investment in training, career plans and good bonus policies (Harter, Schmidt, & Hayes, 2002). The satisfaction of these stakeholders, according to (Chakravarthy, 1986), translates itself into a firm's ability to attract and retain employees and lower turnover rates. The discussion above shows that customer satisfaction and employees are considered as independent variable for this research

### **E. Liquidity**

**Liquidity** is the ability of company to meet its short-term obligations. Liquidity refers to the ability of a firm to meet its financial obligations in a timely manner. In principle, the assets owned by a company are liquid if they can quickly and cheaply be converted to cash (Brealey, et al., 2001). It shows the ability to convert an asset to cash quickly and reflects the ability of the firm to manage working capital when kept at normal levels. A firm can use liquid assets to finance its activities and investments when external finance is not available or it is too costly.

On the other hand, higher liquidity would allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings (Liargovas, and Skandalis, 2008) Maintaining high liquidity can reduce management's discipline as regards both underwriting and investment operations. Moreover, according to the theory of agency costs, high liquidity of assets could increase agency costs for owners because managers might take advantage of the benefits of liquid assets (Adams and Buckle, 2000).

In addition, liquid assets imply high reinvestment risk since the proceeds from liquid assets would have to be reinvested after a relatively short period of time. Undoubtedly, reinvestment risk would put a strain on the performance of a company. In this case, it is, therefore, likely that insurance companies with less liquid assets outperform those with more liquid assets. Nevertheless, agency costs and reinvestment risk can be effectively minimized if proper actions are taken. Thus, the expected sign of the profitability and asset liquidity ratio is unpredictable based on prior research.

Firm's liquidity according to the researcher knowledge apart from (Wang, 2002) there is no studies address this relationship. But, (Wang, 2002) and, who addresses the liquidity management. He investigates the liquidity management and its relationship with performance and corporate value using data of Taiwan and Japan. Furthermore, he observes that the cash conversion cycle (CCC) has a negative relationship with the financial performance measured by returns on assets (ROA) or returns on equity (ROE) and this relationship is sensitive to industry factors. Furthermore, he finds that aggressive liquidity management enhances operating performance.

Liquidity (LQ): The Liquidity Ratio measures the firm's ability to use its near cash or “quick” assets to retire its liabilities.

$$\text{Liquidity Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

It can be argued that changes in liquidity measures represent one aspect of organizational financial performance, since accounting-based liquidity measures ignore the organization's ready access to capital through established financing agreements, it can also be argued that accounting-based liquidity measures do not fully represent the organization's ability to meet its financial obligations in a timely manner (Caron, 2004). Thus from the discussion above liquidity is considered as one of independent variable for this research

## **F. Solvency**

Solvency is the ability of an insurance company to pay its debts from its own assets. Solvency ratio is the ability of a company to meet its long-term fixed expenses and to accomplish long-term expansion and growth. A solvency ratio of greater than 20% is considered financially healthy. The higher the ratio, the better equipped a company is to pay off its debts and survive in the long term. It has to be maintained by all the Insurance Companies in whether it is Private or Public sector. As per the IRDA (Assets, Liabilities, and Solvency Margin of Insurers) Rules 2000, both life and general insurance companies need to maintain solvency margins.

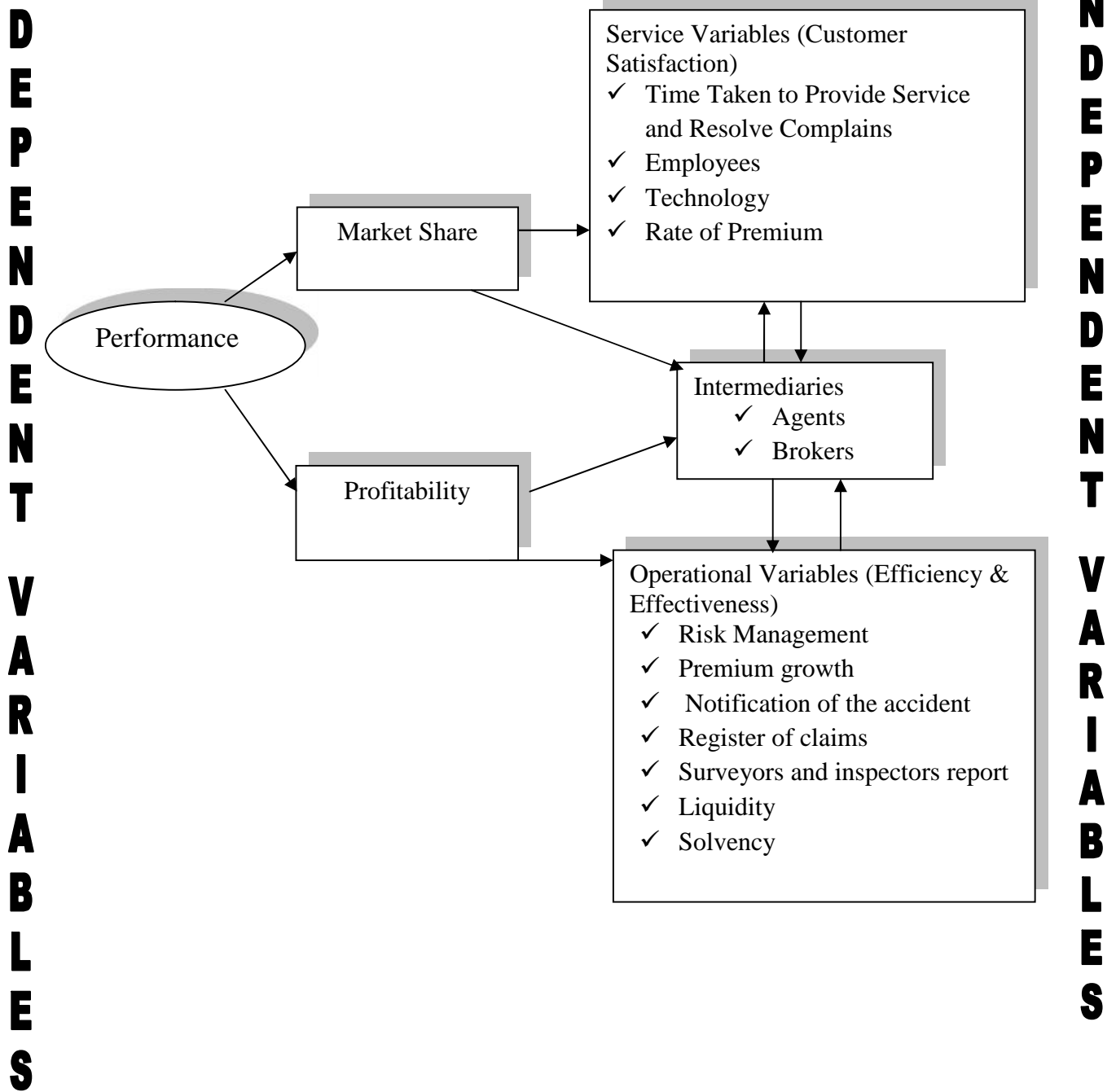
Available solvency ratio means the excess value of assets over the value of insurance liabilities and other liabilities of policyholders' and shareholders' funds (Charumathi 2013). The result in his study indicated that there is a significant positive relationship between profitability and solvency ratio. Solvency ratio is an important indicator of the financial health check of an insurance firm and denotes its ability to survive in the long run. Insurance companies with higher solvency margin are considered to be more sound financially. Financially sound insurance companies are better able to attract prospective policyholders and are better able to adhere to the specified underwriting guidelines.

Basically, Insurance companies with higher solvency margin outperform those with lower solvency margin (Shiu, 20114). On the other hand, assuming that the company is in its first stage, the manager will choose to invest using the retained earnings in order to increase profitability. This means that the internal financing will continue until the retained earnings reach the amount of zero. Furthermore, (Durinck et al., 1997) found that the faster the growth, the more external financing firms will use. However, this increase in external financing is mainly through an increase in the liabilities, as the increase in external equity financing was not found significant. Thus from the discussion above solvency is considered as one of independent variable for this research.

## **G. Technology**

(N. Kannan & N. Thangavelu, 2005) shown the significant milestones in terms of financial development (fire portfolio, marine portfolio and miscellaneous portfolio) and applications of information technology in Insurance sector in India since year 1912 till 2004 in his paper. (Ahmad Ali Foroughi Abari, Mohammad Hossein Yarmomadian & Mina Esteki, 2001) studied the difference in the expectations and perceptions of the students from and towards the quality of services to be provided by universities and other higher education institutes. Thus from the discussion above technology is considered as one of independent variable for this research

## 2.8. Conceptual Framework of the Paper



**Figure 2.1: Variables Influencing Performance of Nile Insurance Company S.C.**  
**Source: Adapted from Andy Neely (2007)**

## **CHAPTER THREE: Research Methodology**

### **3.1. Introduction**

This chapter presents the methodology that has been used for the research. The methodology of carrying out this research is based on the objectives of the paper i.e. factors influencing the performance of Nile Insurance Company S.C. and the availability of relevant information to comply with the objective of this research paper. It described the research purpose, research design, sampling techniques and sample size, data collection procedure, data analysis, presentation and descriptive analysis and regression analysis. In general, this chapter provides the methodological framework to collect data from various sources, sampling, data collection instruments, and approach to data analysis for achieving set objectives.

This research work included both qualitative and quantitative data and the work performed such as research document analysis, critical review of literature, questionnaire and interview are used.

### **3.2. Research Design**

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

It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders, Lewis and Thornhill, 2003). State that a descriptive method in data collection in qualitative research is central to open, unstructured qualitative research interview investigations (Streubert and Carpenter, 1999)

The research had been designed as a case study method that focused on Nile Insurance Company S.C. For this study, the data source was primary and secondary data. This helped to classify the understanding and responses of different types of respondent during data analysis. Cases studies can be exploratory, explanatory, causal or descriptive. The type used in this study is descriptive.

### **3.3. Population Enquiry**

Mugenda and Mugenda (2003) define population as the entire group of individual's, events or objects having a common observable characteristic. Mugenda and Mugenda (2003), defines target population as that population the study studies, and whose findings are used to generalize to the entire population. The target population for this study consisted of Clients (corporate clients and individual clients), Employees (management of NIC and staffs of NIC), and Intermediaries (insurance agents of NIC and insurance brokers) at a proportion is stated in the sample size. The study targeted specifically the Employees and Intermediaries due to their knowledge of insurance and the role they play in insurance industry.

### **3.4. Sampling Techniques and sample size**

Data collection tools are the instruments which are used to collect the necessary information needed to serve or prove some facts (Mugenda & Mugenda, 2003). The sampling techniques used for this study were simple random sampling and purposive sampling or judgmental sampling techniques in order to collected both primary and secondary data. The sampling methods were assists to identify management of NIC, staffs of NIC., corporate clients, individual clients, Agents of NIC, and brokers from insurance industry. These techniques, simple random sampling and purposive sampling or judgmental sampling techniques provide each possible combination of an equal probability of being chosen and own judgment used on the elements to be selected respectively.

In this study a preliminary focus group interview was conducted to clarify factors influencing the performance of Nile Insurance Company S.C. The focus group was used to discuss dimensions of factors influencing the performance of Nile Insurance Company S.C. The use of projective techniques, focus group, in-depth individual and group discussion, as well as observational techniques have been recommended for use in a descriptive study where researchers want to have more understanding of the key variables involved (Saunders et al., 2000; Cooper and Schindler, 2006; Malhotra & Birks, 2007).

A discussion guide was used to direct focus group discussion (Appendix II). According to (Cooper & Schindler , 2006) and (Malhotra & Birks , 2007), the appropriate number of a focus group should be between five and twelve people; the people should be purposefully selected, and the discussion or interview last for usually thirty up to forty minute. In view of this, 19 participants were selected using purposive sampling technique because the researchers wanted to make sure the participant had satisfied the criteria of eligibility before they could be selected. The criteria were that each participant must have knowledge in insurance business and their position. We invited eight managers from NIC, six managers from intermediaries and five corporate customers. An interview guide was developed and used to direct the focus group interview.

Table 3.1 Number of interviewed respondents

| <b>S/N</b> | <b>Category of respondents</b> | <b>Number of respondent</b> | <b>Their position</b> |
|------------|--------------------------------|-----------------------------|-----------------------|
| 1          | NIC Managers                   | 8                           | Managers              |
| 2          | Managers from intermediaries   | 6                           | Owners/Principals     |
| 3          | Clients(Corporate clients)     | 5                           | CEO/Senior Officers   |

Source: Data from field study (2017)

The target population for this study consists of Employees, Intermediaries and Clients. Once a sampling technique has been chosen the next step is to calculate the appropriate size of the sample. The minimum required sample size for this study is specified by using the Cochran (1977) sample size determination formula which would be used to calculate sample size for unknown population using proportion, alpha and confidence level:-

Formula  $n_o = \frac{z^2 pq}{e^2} \dots\dots\dots (1)$

- Where  $n_o$ - is the sample size
- $z - 1-\alpha$  the desired confidence level
- $e$  - The desired level of precision
- $p$  - Is variability of population
- $q - 1-p$

However, if the above mentioned sample size is exceeds 5% of the population. Cochran’s (1977) correction formula should be used to calculate the final sample size. The correction formula for calculations is as follows:-

$$n_1 = \frac{n_o}{1 + \left[ \frac{n_o-1}{N} \right]} \dots\dots\dots(2)$$

In this study, assume a researcher has set the alpha level a priori at 0.05 which indicates the level of risk the researcher is willing to take that true margin of error may exceed the acceptable margin of error ( $Z=1.96$ ), plans to use a proportional variable, has set the level of acceptable error at 5%, and has estimated the standard deviation of the scale as 0.5.

Hence,  $n_o = \frac{(1.96)^2(0.5)(0.5)}{(0.05)^2} = 384$

Therefore, the targeted populations are 360 (top managements, department managers, branch managers and staffs), 195 intermediaries (agents and brokers) and 38,000 clients (Corporate and Individual clients). From the total population size of 38,555 a total sample size of 384 is considered for this case study. Since the above mentioned sample size is not exceeds 5% of the population. Cochran’s (1977) correction formula is not used for this case study. And by utilizing the above formula, the minimum required sample size is to be 384 and also it was anticipated that 5% unreturned questionnaires through different reasons. Thus, the sample is distributed up to 365 respondents proportionally under the sample frame in the population. Questionnaires are distributed to those clients, employees

and intermediaries of the 384 questionnaires distributed 365 are collected for data analysis purpose.

In short, the following detailed sampling frame used to designate the subtotal of the population and the number of participants to be sampled proportionally from the total 384 sample of the study. The detail breakdown of the population size and sample size can be seen in the under listed table 3.2

**Table 3.2 Sampling frame used to designate the population size and sample size**

| S.NO                | Description    | Population          | Sample Size |
|---------------------|----------------|---------------------|-------------|
| 1                   | Clients        | Corporate client**  | 69          |
|                     |                | Individual Clients* | 120         |
| 2                   | Employees      | Managers            | 40          |
|                     |                | Staffs              | 90          |
| 3                   | Intermediaries | Brokers             | 20          |
|                     |                | Agents              | 45          |
| <b>Total Amount</b> |                | <b>38,555</b>       | <b>384</b>  |

\*\* Nile Insurance Company has 2,280 total numbers of corporate clients through out of the country out of this amount only 230 corporate clients are in Addis Ababa. Thus, due to financial and time constraints, the researcher is considered only 69.

\* Nile Insurance company has 35,720 total numbers of individual clients through out of the country out of this amount 25,000 individual clients are in Addis Ababa. Thus, due to financial and time constraints, the researcher is considered only 120 individual clients.

### **3.5. Data Collection procedure**

Data collection involved contacting the respondents in the sample in order to collect the required information about the study (Cooper & Schindler, 2003). For this particular case study the researcher used basically two types of questionnaires: interviews and questionnaires. Data collection for the study was involved a self-administered questionnaires and interviews. The study made use of face to face interviewed of 19 respondents' at their place of work and 365 respondents through self-administered questionnaires in Addis Ababa. The study provided guidance as necessary to facilitate the collection of more accurate data.

Both primary and secondary data were used. Primary data is collected by means of structured and unstructured questionnaires. And the secondary data sources for this study is obtained from Nile insurance company S.C. audited annual reports that contain detailed consolidated balance sheets and income statements and National Bank of Ethiopia various reports, which can provide comprehensive database for all insurance companies.

### **3.6. Data Analysis, Presentation and Descriptive Analysis**

The study generated both qualitative and quantitative data. Therefore, the aim of the study is to find out factors influencing the performance of Nile Insurance Company S.C. considering the aim and nature of the research problem, both descriptive and analytical approaches are applied. The descriptive part of the study are dealing with explaining the general aspects related to factors, which influence the performance of insurance services at Nile insurance company S.C. Descriptions of the experienced factors, which influence insurance services at Nile insurance company S.C. The analytical aspect is dealing with the analysis of the performance of Nile insurance company S.C. in terms of underwriting premium growths, services, number and quality of employees, the ability to settle claims, rate of premium, operations and marketing of brokers and agents, and awareness of insured about product. It also helped this study to produce accurate representation of the target population. The study administered through structured questionnaire and interview.

Descriptive statistics data analysis method was applied to analyze both qualitative and quantitative data. Data obtained from the questionnaires were processed through editing and coding and then entering the data into a computer for analysis using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 20.0, which offers extensive data handling capabilities and numerous statistical analysis procedures that analyses small to very large data statistics (Bell,2007). Qualitative data was analyzed using content analysis. The analyzed findings were then be presented inform of frequency and percentage tables, pie charts and bar charts since they are user friendly and gave a graphical representation of the different responses given by the respondents.

### **3.7. Regression Analysis**

This section presents a discussion of the results of inferential statistics. The study conducted a multiple regression analysis so as to identify and assess the factors influencing the performance of Nile Insurance Company S.C. The study applied regression analysis because it is less expensive in terms of time and the information to make the predictions was readily available. The study applied the statistical package Version 20 to code, enter and compute the measurements of the multiple regressions for the study. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable. Means and Standard deviations are used to interpret results of our findings.

## **CHAPTER FOUR: Data Presentation and Discussion of Findings**

### **4.1. Introduction**

The data presentation and discussion of findings from questionnaires, interviews and secondary data are treated with equal importance to explain factors influencing the performance of Nile Insurance Company S.C. This chapter contains five sections including; Demographic results, Mode of operation and Service rendered by Nile Insurance Company S.C., variables influencing mode of operation in underwriting, claim and finance departments, Extent of services rendered by Nile insurance company S.C. and its influence in performance delivery, and challenges facing Nile insurance company S.C in maximizing service delivery.

### **4.2. Demographical Results**

The general descriptions of the respondents, i.e., clients, employees and intermediaries are going to give us the overview of the people participating in this case study. Under this section respondents are asked about their educational background and age structure.

#### **4.2.1. Education level of the Respondents**

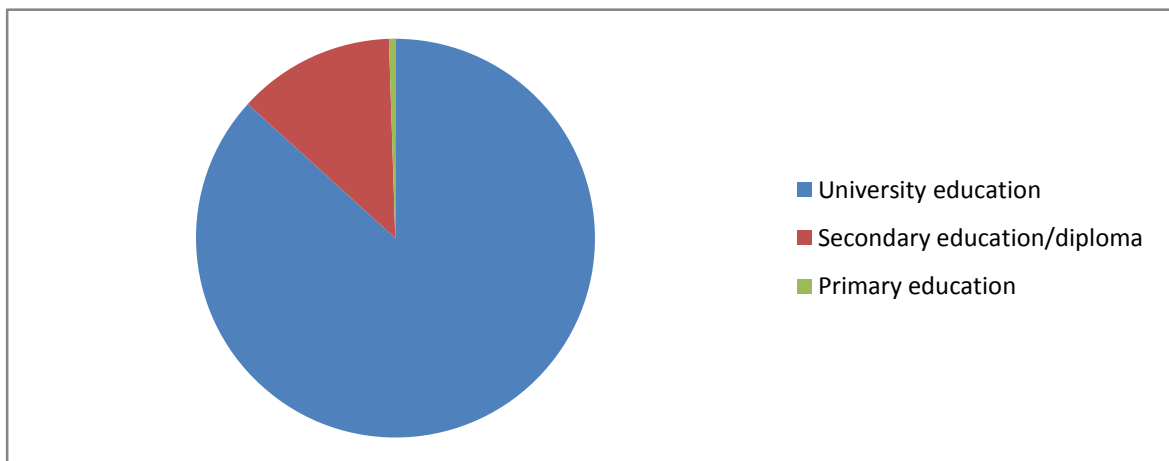
Data collected on the education level of the respondents from Table 4.1 indicates that out of 384 respondents 333 (86%) are university education, 49 (13%) of the respondents are secondary education/diploma and 2(1%) holder of primary education. Results imply that majority of the respondents in terms of educational background tended to be highly educated and the majority of the respondents 86% had either a first degree or high qualification. This in the long run will help transfer knowledge and ideas easily among customers, employees and intermediaries.

**Table 4.1: Distribution of the respondents by education**

| Level of education          | Frequency | Percentage |
|-----------------------------|-----------|------------|
| University education        | 333       | 86         |
| Secondary education/diploma | 49        | 13         |
| Primary education           | 2         | 1          |
| Total                       | 384       | 100        |

Source: Data from field study (2017)

Figure 4.1: Graphical Presentation of Respondents for educational level



Source: Data from field study (2017)

#### **4.2.2. Age structure of Respondents**

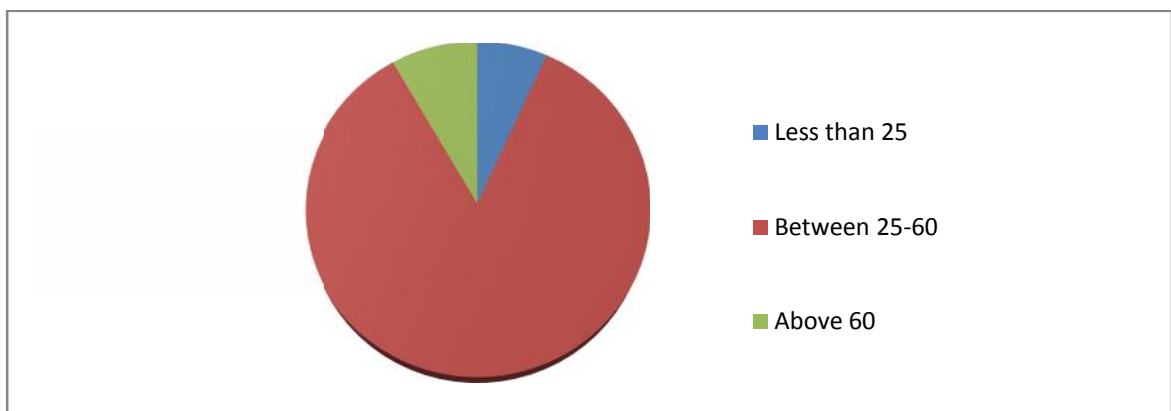
Data collected on the age of respondents from Table 4.2 revealed that out of 384 respondents 26 (7%) were less than 25 years old, 326 (85%) between 25 and 60 years old, 32 (8%) are above 60 years old. The results from Table 4.2 imply that majority of the respondents 85% fall at the age of 25 to 60 which imply that they are economically active population for this case study.

**Table 4.2: Age Distribution of the Respondents**

| Years         | Frequency | Percentage |
|---------------|-----------|------------|
| Less than 25  | 26        | 7          |
| Between 25-60 | 326       | 85         |
| Above 60      | 32        | 8          |
| Total         | 384       | 100        |

Source: Data from field study (2017)

Figure 4.2: Graphical Presentation of Respondents for age structure



Source: Data from field study (2017)

Furthermore, the pie chart above revealed that young, active, energetic people and cooperative clients at the age of 25 to 60 years engaged in business and employment activities to support their families or complement income from other sources. Mostly this age group needs to insure their property and business against risk. Beyond 60 years old comprised of retired. Those less than 25 years are found to be in school or do not have enough knowledge of doing business and majority is not employed. Generally, this group does not possess enough assets to insure against risk.

### **4.3. Mode of Operation and Services Rendered by NIC**

The study revealed that Nile Insurance Company S.C is providing insurance services to the clients, employees and Intermediaries. This section is divided into two parts which include; Mode of operation of NIC and Services rendered by NIC. These findings help to determine if the mode of operation and services rendered by NIC affect the performance of the insurance company.

#### **4.3.1. Mode of Operation of Nile Insurance Company S.C.**

Nile Insurance Company S.C. makes profit in two ways:-

##### **1. Underwriting risk**

Underwriting involves measuring risk exposure and determining the premium that needs to be charged to insure that risk. Insurers that undertake risky business and diversification of underwriting risk help to mitigate exposure to underwriting losses ex ante and improve operational profits. Lower anticipated losses may lead to better performance because the monitoring and claims handling costs are low (Chen and Wong, 2004).

##### **2. Return on investment**

High leverage, low return on investment and claims costs lead to high demands for reinsurance. This shows that investment returns have an impact on profitability of the company. This study refers to Chen and Wong to evaluate return on investment as investment income divided by average invested assets (Chen and Wong, 2004). Using a wide assortment of data, insurer predicts the likelihood that a claim will be made against their policies and price products accordingly. Upon termination of a given policy, the amount of premium collected and the investment gains thereon minus the amount paid out in claims is the insurer's underwriting profit on that policy.

Basically, insurance company seeks to balance the elements of customer satisfaction, administrative handling expenses, and claims overpayment leakages in managing the claims handling function. According to this mode of operation the findings are obtained

to determine mode of operating underwriting department, mode of operating claim department and mode of operating finance department at Nile Insurance Company S.C. These findings are divided into three parts as follows:-Mode of operating underwriting department, Mode of operating claim department and Mode of operating finance department.

#### **4.3.1.1. Variable Influencing Mode of Operation of Underwriting Department**

Data from Table 4.3 shows that for the main question “**Are you satisfied with the following mode of underwriting operation?** “ Out of 384 respondents 5(1%) said strongly disagreed and 6(2%) said disagreed that the company is not doing well in providing renewal notice to their clients, 41 (11%) are neutral to this question, 207(54%) agreed and 125(33%) strongly agreed on the company performance in providing renewal notice to their clients. Generally, it can be brightly seen from Table 4.3 below the results of variables mode of operation in underwriting department fall between Mean of 4.15 and 3.42 and this indicates that majority of the respondents agreed. Thus, providing renewal notice has scored the highest Mean = 4.15 with standard deviation = 0.789 and risk acceptance has scored the lowest rating Mean = 3.42 with standard deviation = 1.091 of all the variables of mode of operation in underwriting department.

The results revealed that out of 384 respondents 332(87%) are satisfied with the mode of sending renewal notice to insured. Because the company follow-up system for providing the renewal notice either notify through phone or SMS from the system automatically to clients. Respondents said that delaying or not sending renewal notice affected both clients and the company. Because if the company is not sending the renewal notice on time, clients fails to plan for insurance expenses in effect the company loss insurance business. It also helped the company to plan for the future, reduced risk, and manage cost and wastage of time because the existing businesses are already assessed.

The company must hardly work on number of expired policies and proper analysis to be made for analyzing the causes for expired policies. The company may formulate policies to allow the customers to integrate back into the stream and must gave attention for

customer retention. All in all the results implies that the company performance with regard to sending the renewal notice find out best from the data. This findings is in-line with Amartey-Vondee(2007) view, which maintain that customer expect prompt follow-up of renewal notice, payment, knowledgeable and serviceable frontline staffs that are ever prepared to assist their needs.

From Table 4.3 the results showed that out of 384 respondents 24 (6%) said that strongly disagree and 45(12%) disagree that NIC is performing well in risk management; 104(27%) are neutral to this question while out of 384 respondents 159(41%) said that agree, 52(14%) strongly agree with the company risk management. 69(18%) of the respondents is not satisfied by the performance of risk selection of the company because they underwrite all risks which come on their desk without properly assessing the nature of the risk and not charging commensurate premium.

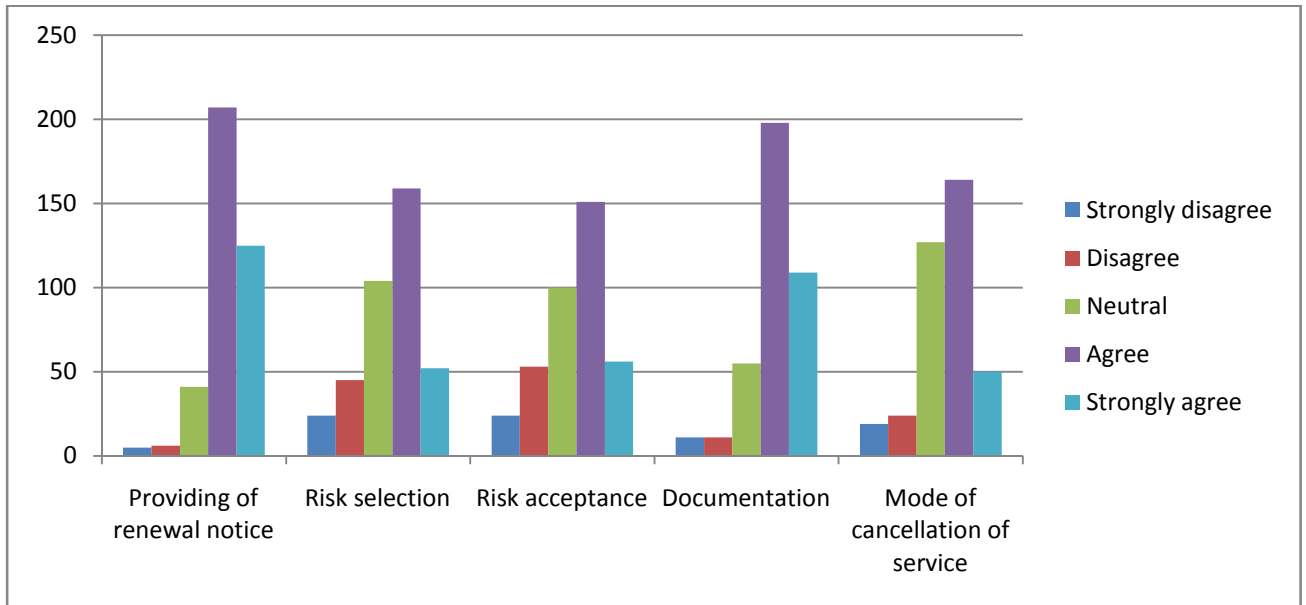
Findings showed that the current mindset of the company underwriter is to generate the maximum possible premium growth by underwrite all risks which come on their desk. Very good as target, but welcoming all requests without adequate risk assessment has its own danger. Hence, underwriters need to be encouraged in ensuring the acceptability of the proposed risk. The study shows that lack of qualified employees to undertake risk management is one of the factors of not performing well in risk management. Hence, if the company is not assessing the risk, it affects underwriting profit of the company due to set low rate of premium and increase of claims. This result concur with the findings of (Kasturi, 2006) who also found that, “The efficiency of actuaries and assessors of the insurance policies in fixing premiums and settling claims is foremost an important area for achieving overall efficiency in operations. The quality of assessing the risk and estimation of losses has the largest claim on the performance of an insurance company. Well-trained, experienced and expert hands are needed for the operations.”

**Table 4.3: Data of respondents in related with mode of operation in underwriting Department**

| Mode of operating               | Strongly disagree |    | Disagree |     | Neutral |     | Agree |     | Strongly agree |     | Mean | Standard deviation |
|---------------------------------|-------------------|----|----------|-----|---------|-----|-------|-----|----------------|-----|------|--------------------|
|                                 | No.               | %  | No.      | %   | No.     | %   | No.   | %   | No.            | %   |      |                    |
| Providing of renewal notice     | 5                 | 1% | 6        | 2%  | 41      | 11% | 207   | 54% | 125            | 33% | 4.15 | 0.789              |
| Risk selection                  | 24                | 6% | 45       | 12% | 104     | 27% | 159   | 41% | 52             | 14% | 3.44 | 1.063              |
| Risk acceptance                 | 24                | 6% | 53       | 14% | 100     | 26% | 151   | 39% | 56             | 15% | 3.42 | 1.091              |
| Documentation                   | 11                | 3% | 11       | 3%  | 55      | 14% | 198   | 52% | 109            | 28% | 4.00 | 0.895              |
| Mode of cancellation of service | 19                | 5% | 24       | 6%  | 127     | 33% | 164   | 43% | 50             | 13% | 3.53 | 0.966              |

Source: Data from field study (2017)

Figure 4.3: Graphical Presentation of Respondents for underwriting department



Source: Data from field study (2017)

Data from Table 4.3 revealed that out of 384 respondents 24(6%) said that strongly disagree and 53(14%) disagree with NIC is not performing well in risk acceptance, 100(26%) are neutral to this question while 151(39%) agree and 56(15%) strongly agree with the performance of the company in risk acceptance. A slight majority of 207(54%) are satisfied with the performance of risk acceptance of the company. Because, the company is performing well in providing offers, quotation and other documents on time. Underwriting premium also decreased due to increased competition of insurance companies in the market by undercut rate of premium. The study noted that the delay is done on the businesses which are not potential to the company due to the claim expectations. The findings tend to support earlier research, notably, (Hayer and Maclinnis, 2001). Who maintain that customers that are not satisfied may decide to stop patronizing a business to purchase insurance products and services, and they may also give negative word of mouth.

The result from Table 4.3 showed that majority of the respondents out of 384 respondents 198 (52%)said strongly agree and 109(28%) said agree that the company is performing best in documentation or processing of documents e.g. endorsement, policy documents,

certificates, invoice etc.55(14%) are neutral to this question While out of 384 respondents 11(3%)said strongly disagree,11(3%) said disagree to documentation of the company,307(80%) showed that the company is performing well in documentation for example, processing of policy documents and sends them to insured, sending renewal notes to their client to renew their policies, and sometimes to send quotation to intermediaries and clients.

As the result insured are aware with terms of contracts which are enclosed in policy documents. On the other side clients said that renewal notes helped them to plan about future premium payable to insurer and other disturbance to traffic police for expired insurance for those clients who have insured motor vehicle.

Data from Table 4.3 revealed that out of 384 respondents 19(5%) said that strongly disagreed and 24(6%) said disagree that cancellation of insurance policies by insured is done on time and also the company returned premium on time. 127(33%) are neutral to this question. Furthermore the study found that when cancellation is done, the policy cancelled either on pro-rata bases or short period bases. On the other hand more than half of respondents 164(43%) said agree and 50(13%) said strongly agree that the insurer is performing well in cancellation of policy. From the result it is implied that the company is good in cancellation of policy and return of premium.

Based on the information gathered from respondents through interview, Nile insurance company S.C. mode of operation of underwriting department has no clear compliant handling procedure but the insurance attempts to handle complaints of its customers through face to face communication in addition to that the company allows for its customers to provide their complaints in written document and the communicates freely and openly with customers to handle their complaints. Therefore it is possible to conclude that the company is responsive in solving the complaints of its customers and this is important for the insurance to build and develop strong relationship with its customers

Using the SPSS program kit in the case of multiple regressions we have come to the following results:

$$= 53.09 + 4.607x_1 + 3.87x_2 + 1.403x_3 + 3.9806x_4 + 3.45x_5$$

Where

53.09 = constant of mode of underwriting performance i.e. the intercept

$x_1$  = providing renewal notice,  $x_2$  = risk selection,  $x_3$  = risk acceptance,

$x_4$  = documentation,  $x_5$  = mode of cancellation i.e., the intercept

4.607, 3.87, 1.403, 3.9806, 3.45 = the coefficients of the explanatory variables

i.e.,  $x_1, x_2, x_3, x_4$  and  $x_5$

#### 4.3.1.1.1. SPSS Result of Underwriting Performance

##### ANOVA<sup>a</sup>

| Model |            | Sum of Squares | df  | Mean Square | F     | Sig.              |
|-------|------------|----------------|-----|-------------|-------|-------------------|
| 1     | Regression | 185.493        | 376 | .492        | 0.042 | .038 <sup>b</sup> |
|       | Residual   | 93.53          | 8   | 11.69       |       |                   |
|       | Total      | 293.023        | 383 |             |       |                   |

Multiple regressions are calculated using five independent variables (providing renewal notice, risk selection, risk acceptance, documentation, and mode of cancellation) and the dependent variable (mode of underwriting performance). The multiple regression outcomes indicates statistical significance exists between providing renewal notice, documentation and underwriting performance; thus, the analysis shows that these two independent variables are the best indicators of underwriting performance of the NIC. The other independent variable (risk acceptance) is not statistically significant. Additionally, risk selection and mode of cancellation are found to be close to statistical significance, but not to the extent that it could be regarded as indicators of underwriting performance of NIC.

#### **4.3.1.2. Variable Influencing Mode of Operation of Claim Department**

Insurance claims is when you have a loss or sustain damage that is caused by a peril insured by your insurance policy. Your insurance policy provides coverage and compensation to your for cover losses or the damages you sustain by way of you making a claim. Insurance claim is the actual application for the benefits provided by an insurance company. The insurance company may or may not approve the claim based on their own assessment of the circumstance individuals who take out home, life, health or automobile insurance policies must maintain regular payment called premiums to the insurers.

The following result from Table 4.4 are collected for the aim of investigating mode of operation in claim department and the outcome of this mode to the company performance.

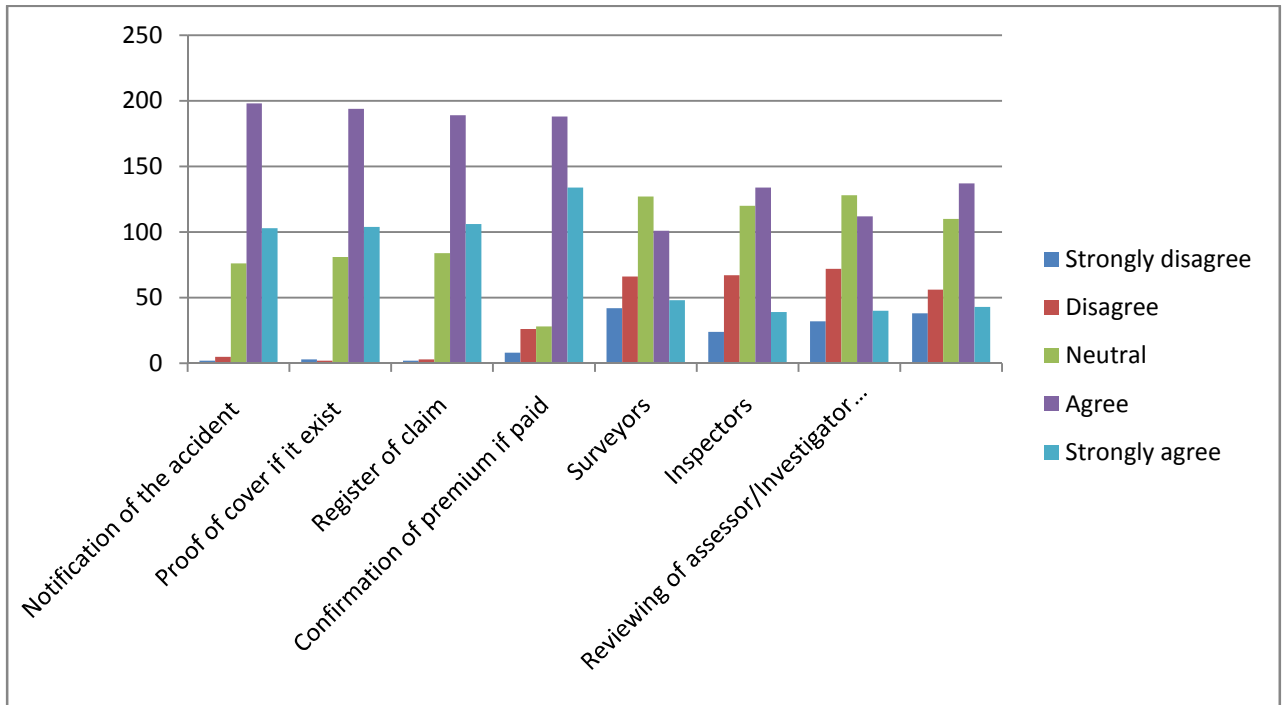
Table 4.4 present the findings related to the mode of operating claim department at NIC. The study revealed that there is no delaying in notification of the accident or claim, proof of cover if it exist and register of claim. According to the company policy “All new claims notified must be acknowledged within five working days for own damage policies holder and within ten working days for third party claimants as per proclamation no. 559/2008, vehicle and the action to be taken advised to the client or intermediary. New claims for own damage policies must be registered within five working days after receipt of notification”.

**Table 4.4: Data of respondents regarding mode of Operation in Claim Department**

| Stage in processing claim                                     | Strongly disagree |     | Disagree |     | Neutral |     | Agree |     | Strongly agree |     | Mean | Standard Deviation |
|---|-------------------|-----|----------|-----|---------|-----|-------|-----|----------------|-----|------|--------------------|
|   | No.               | %   | No.      | %   | No.     | %   | No.   | %   | No.            | %   |      |                    |
| Notification of the accident                                  | 2                 | 1%  | 5        | 1%  | 76      | 20% | 198   | 51% | 103            | 27% | 4.83 | 0.400              |
| Proof of cover if it exist                                    | 3                 | 1%  | 2        | 1%  | 81      | 21% | 194   | 50% | 104            | 27% | 4.49 | 0.501              |
| Register of claim   | 2                 | 1%  | 3        | 1%  | 84      | 22% | 189   | 49% | 106            | 27% | 4.47 | 0.510              |
| Confirmation of premium if paid                               | 8                 | 2%  | 26       | 7%  | 28      | 7%  | 188   | 49% | 134            | 35% | 4.08 | 0.936              |
| Surveyors   | 42                | 11% | 66       | 17% | 127     | 33% | 101   | 26% | 48             | 13% | 3.12 | 1.167              |
| Inspectors  | 24                | 6%  | 67       | 17% | 120     | 31% | 134   | 35% | 39             | 10% | 3.25 | 1.058              |
| Reviewing of assessor/Investigator report and decision making | 32                | 8%  | 72       | 19% | 128     | 33% | 112   | 29% | 40             | 10% | 3.15 | 1.100              |
| Preparing a cheque & release a cheque to insured              | 38                | 10% | 56       | 15% | 110     | 29% | 137   | 36% | 43             | 11% | 3.24 | 1.137              |

Source: Data from field study (2017)

**Figure 4.4: Graphical Presentation of Respondents for claim department**



Source: Data from field study (2017)

Data from Table 4.4 showed that, out of 384 respondents 8(2%) said that strongly disagree, 26(7%) said disagree there is delay in confirmation of premium, 28(7%) are neutral to this question while out of 384 respondents, very large 188(49%) said agree and 134(35%) said strongly agree that there is no delaying in confirmation of premium if paid or not. Because, as per NBE, the proclamation has prohibited insurance companies from providing policy coverage on partial or full credit basis (“No premium, No cover”) and the company employee also easily check whether the premium is paid or not in the system “PREMIA” which is networking 41 branch throughout the country is making sure that for any policy concerning premium is paid full information of what is paying for will be easily seen in the system. The study revealed that this policy “No premium, No cover” encouraged clients and intermediaries to pay premium on time and it reduced delay in settling of claim on time. The benefit to the company is reduced solvency and increase of liquidity.

Generally, it can be brightly seen from Table 4.4 above the results of variables mode of operation in claims department fall between Mean of 4.83 and 3.12 and this indicates that majority of the respondents were strongly agreed. Thus, Notification of the accident has scored the highest Mean = 4.83 with standard deviation = 0.400 and Surveyors has scored the lowest rating Mean =3.12 with standard deviation = 1.167 of all the variables of mode of operation in claims department.

The result from Table 4.4 showed that, out of 384 respondents 42 (11%) said strongly disagree and 66(17%) said disagree with surveyors works, 127(33%) are neutral to this question while out of 384 respondents 101 (26%) said agree and 48(13%) said strongly agree that with the performance of surveyors. However respondents said that the problem is to get surveyors inspection and report on time. Also the study revealed that sometimes company surveyors came up with unclear report in terms of amount of money and/or the extent of damage which is required to be compensated to the insured and repudiating of genuine claim. On the other side respondents said that these problems are caused by the company to appoint unqualified surveyors. Further the study noted that the complicated issue of assessing or investigating claim is caused by insured to report fake claims which were not open for assessment or investigation due to failure of insured to enclose all required information. Some times for genuine claim insured are not enclosing all document which are required by the company for example police report, to fill claim form, to submit repair estimation or replacement quotation which caused the company to delay in payment.

Data from Table 4.4 revealed that; out of 384 respondents 32 (8%) said strongly disagree and 72(19%) said disagree that management is not doing well in reviewing the inspectors and assessor report. 128(33%) are neutral to this question While out of 384respondents 112 (29%) said agree and 40(10%)said strongly agree with the time taken by the management to review assessor or investigator report and making decision which took long time, which is not fair for the person who got damage. The management showed that delaying decision-making is caused by lack of enough information from insured, assessors or investigators for decision making. The findings concur with Banker, at el,

(1997) who also found that. “To function successfully in a business environment, an organization depends upon the decision-making ability of its managers, who in turn, depend upon the availability of useable information. Information about performance is important in different ways to various stakeholders within a business”.

According to the data from Table 4.4 the study revealed that mode of operating claim department is not performing well in some areas for the insured and intermediaries delayed to pay premium on time, delayed or didn't submitted the required claim documents on time, reported fake claims and lack of enough knowledge about insurance which delayed settling of claims on time. This associated with increased expenses to the company, reduced underwriting profit and affected the operations of the company. The same findings were also reported by Temu,(1997) who found that the task of NIC to settle claims as faster as possible to enable its clients continue with their business was difficult where hostile business environment repudiated with fraudulent claimants. There came the need to thoroughly scrutinize each claims leading to delays.

People are employing a variety of tricks and dirty games that are designed to deprive NIC and the government of money. A-part from forging claims, some motor vehicle owners are forging motor insurance stickers by changing expiry dates instead of renewing their policies. Presumably, they did so in order to fool the traffic police, but the problem started when they are involved in accidents and claims submitted to insurance company.

The study shows that the variables notification of the accident, proof of existence of cover and register of claim are being delivered excellent, conversely, all variables pertaining to surveyors and inspectors are delivered very lesser that indicate the need of special measure by the management so that to increase the performance.

Based on the information gathered from respondents through interview the respondents indicates that the mode of operation of claims department shows encouraging results, but the company has to communicates with its customers to inform about any change in policy or any other issue through telephone, formal letter, fax, and sales agents to provide relevant information to customers about any change in the company.

This finding supports for the findings of Sin et al. (2002) which presented, effective and timely communication helps in formation of cooperation and trust in relationships and glues the customers to an organization. Therefore, the effectiveness of communication between service provider and customers are very essential in influencing the trust that customers develop in the firm, their satisfaction with that firm and subsequently loyalty to the firm.

Using the SPSS program kit in the case of multiple regressions we have come to the following results:

$$= 93.53 + 4.982x_1 + 4.856x_2 + 4.792x_3 + 4.7509x_4 + 2.910x_5 + 3.021x_6 + 2.908x_7 + 2.305x_8$$

Where

$x_1$  = notification claims,  $x_2$  = Proof of cover if it exist,  $x_3$  = Register of claim,  $x_4$  = Confirmation of premium if paid,  $x_5$  = Surveyors,  $x_6$  = Inspectors ,  $x_7$  = Reviewing of assessor/Investigator ,  $x_8$  = Preparing a cheque & release a cheque to insured

93.53 = constant of mode of Claims performance i.e., the intercept

4.982, 4.856, 4.792, 4.7509, 2.910, 3.021, 2.908, 2.305 = The coefficient of the explanatory variables i.e.,  $x_1$ ,  $x_2$ ,  $x_3$ ,  $x_4$ ,  $x_5$ ,  $x_6$ ,  $x_7$  and  $x_8$

#### 4.3.1.2.1. The SPSS results of Claims performance

##### ANOVA

| Model |            | Sum of Squares | df  | Mean Square | F     | Sig.              |
|-------|------------|----------------|-----|-------------|-------|-------------------|
| 1     | Regression | 175.537        | 373 | .470        | 0.048 | .032 <sup>b</sup> |
|       | Residual   | 96.203         | 10  | 9.6         |       |                   |
|       | Total      | 271.74         | 383 |             |       |                   |

Multiple regression is calculated using eight independent variables (notification claims, Proof of cover if it exist , Register of claim, Confirmation of premium if paid, Surveyors,

Inspectors, Reviewing of assessor/Investigator, Preparing a cheque & release a cheque to insured) and the dependent variable (Claims performance). The multiple regression outcome indicates statistical significance exists between notification claims, Proof of cover if it exist , Register of claim, Confirmation of premium if paid and Claims performance; thus, the analysis shows that these four independent variables are the best indictors of claims performance of the NIC. The others (four) independent variables are not statistically significant.

#### **4.3.1.3. Variables Influencing Mode of Operation in Finance Department**

It is important to know mode of operating finance department in order to find out the performance of finance department in insurance industry. The study showed that respondents agreed that the finance department is doing well in investment of premium collected from insured and intermediaries. Furthermore the study revealed that finance department was not doing well in liquidity ratio and solvency due to insurance market structure exists today have had unethical price war among industry players. The insurance rate is a factor used to determine the amount, called the premium, to be charged for a certain amount of insurance coverage. If the likelihood of an insured event is so high, or the cost of the event is so large, that the resulting premium is large relative to the amount of protection offered, it is not likely that anyone will buy insurance, even if an offer. Further, as the accounting profession formally recognizes in financial accounting standards, the premium cannot be so large that there is no reasonable chance of a significant loss to the insurer. If there is no such chance of loss, the transaction may have the form of insurance, but not the substance. (U.S. Financial Accounting Standards Board Standard Number).This study from Table 4.5 is conducted to see if NIC is providing affordable premium.

Also according to (Cambridge International Manual, 2004. pp .120), rate of premium should be related only to the actual risk to be undertaken. It should not be based on the principle that any losses on one class of risk may be offset against any profits from another type of risk. For example, losses on motor business should not be compensated

for by profits on fire business. The premium on one type of risk should not be increased because a loss made on another type. The ideal ‘premium rating for a particular type of risk should neither show an excessive loss nor an excessive profit.

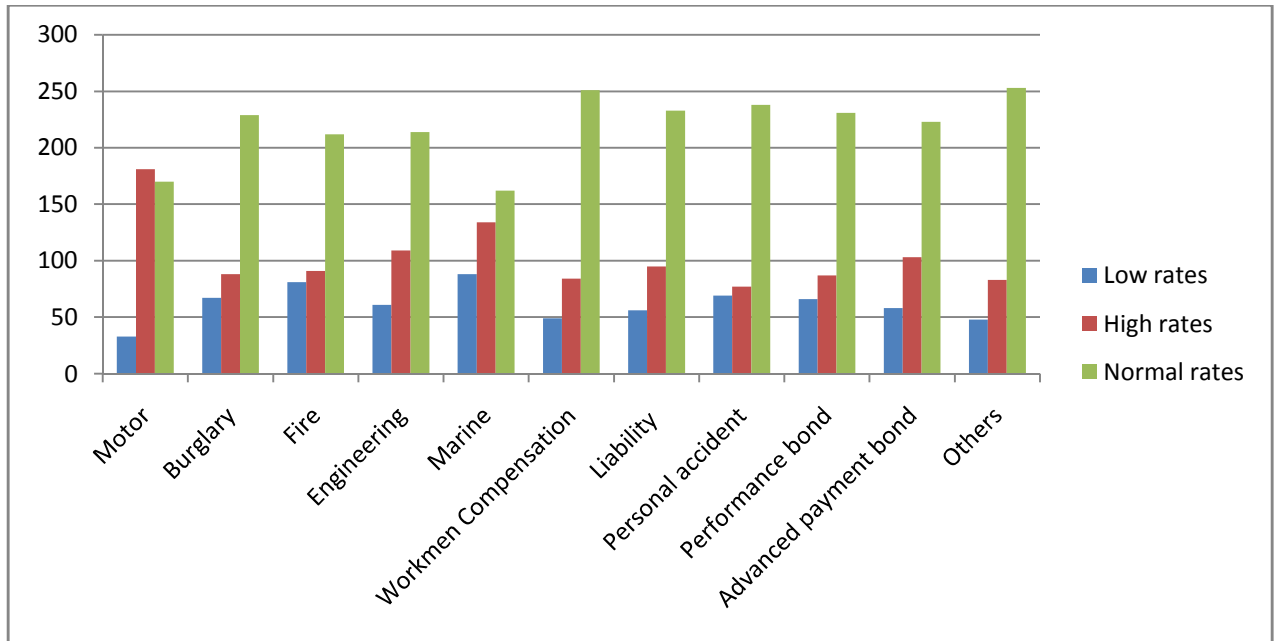
The study got the following results to see if the rates of premium which are charged by NIC are affordable compared to the other insurance companies.

**Table 4.5: Data of respondents regarding mode of Operation in Finance Department**

| Types of risk         | Low rates |     | High rates |     | Normal rates |     |
|-----------------------|-----------|-----|------------|-----|--------------|-----|
|                       | No.       | %   | No.        | %   | No.          | %   |
| Motor                 | 33        | 9%  | 181        | 47% | 170          | 44% |
| Burglary              | 67        | 17% | 88         | 23% | 229          | 60% |
| Fire                  | 81        | 21% | 91         | 24% | 212          | 55% |
| Engineering           | 61        | 16% | 109        | 28% | 214          | 56% |
| Marine                | 88        | 23% | 134        | 35% | 162          | 42% |
| Workmen Compensation  | 49        | 13% | 84         | 22% | 251          | 65% |
| Liability             | 56        | 14% | 95         | 25% | 233          | 61% |
| Personal accident     | 69        | 18% | 77         | 20% | 238          | 62% |
| Performance bond      | 66        | 17% | 87         | 23% | 231          | 60% |
| Advanced payment bond | 58        | 15% | 103        | 27% | 223          | 58% |
| Others                | 48        | 12% | 83         | 22% | 253          | 66% |

Source: Data from field study (2017)

**Figure 4.5: Graphical Presentation of Respondents for premium charged by NIC**



Source: Data from field study (2017)

Data from Table 4.5 showed that out of 384 respondents 33(9%) indicated that the rate which is charged on motor cover is low compared to those in other insurance companies in insurance market. 181(47%) of the respondents said that the rate which is charged on motor cover is high and 170(44%) of the respondents highlighted that it was normal. About Burglary out of 384 respondents 67(17%) said the rate is low, while 88(23%) of the respondents complained that the rate is high whereas 229(60%) of the respondents are satisfied that the rate is normal. For fire out of 384 respondents 81(21%) said the rate is low, while 91(24%) of the respondents complained that the rate is high whereas 212(55%) of the respondents are satisfied that the rate is normal. For engineering out of 384 respondents 61(16%) said the rate which is charged is low but 109(28%) of the respondents complained that the rate which is charged on engineering is high and 214(56%) of the respondents agreed that the rate which is charged on engineering is normal. Also about marine cover out of 384 respondents 88(23%) said that the rate is low, while 134(35%) complained that the rate charged is high where by 162(42%) of the respondents are satisfied with the rate by agreeing that it is normal. For workmen compensation out of 384 respondents 49(13%) said the rate is low, while 84(22%) of the

respondents complained that the rate is high whereas 251(65%) of the respondents are satisfied that the rate is normal. For liability out of 384 respondents 56(14%) said the rate is low, while 95(25%) of the respondents complained that the rate is high whereas 233(61%) of the respondents are satisfied that the rate is normal. For personal accident out of 384 respondents 69(18%) said the rate is low, while 77(20%) of the respondents complained that the rate is high whereas 238(62%) of the respondents are satisfied that the rate is normal. For performance bond out of 384 respondents 66(17%) said the rate is low, while 87(23%) of the respondents complained that the rate is high whereas 231(60%) of the respondents are satisfied that the rate is normal. For advance payment bond out of 384 respondents 58(15%) said the rate is low, while 103(27%) of the respondents complained that the rate is high whereas 223(58%) of the respondents are satisfied that the rate is normal. On others cover for example profession indemnity, aviation, car, ear, money in transit, good in transit, all risk... etc) the study revealed that out of 384 respondents 48(12%) agreed that the rate is low, 83(22%) of the respondents complained that the rate is high and 253(66%) of the respondents said that the rate is normal.

Generally rates charged by NIC seemed to be doing what is called cash flow underwriting. Some of the premium rates quoted is very low compared to market rates especially on marine, fire and personal accident. The study found that, majority of brokers responds the rate charged by NIC is low and those who said that the rate is high are insured. The finding indicates the low rate of premium charged in marine insurance while a high rate is absolutely charged in motor insurance and the rest of the variables premium charged is considerably normal in others insurance cover.

#### **4.3.2. Scope of Service Rendered by Nile Insurance Company S.C.**

Nile Insurance Company S.C. provides a wider range of insurance solutions both in general and long-term (life) insurance categories: Under general insurance the company provides Motor insurance, Cargo insurance (land, sea and air, transit covers), Property insurance, Engineering insurance, Pecuniary insurance, Bonds and other covers.

The following are variables tested in field to see if they are affecting insurance services at Nile Insurance Company S.C.

### **4.3.3. Variables Influencing Performance in Service Rendered by NIC**

Performance of an organization is the outcome of activities of individuals and units of the organization. Except for the external influences on individual behavior and personal traits, organizations can either influence or control all factors affecting the performance of individuals and units through formal and informal means. An effective control over the performance requires insurance companies to operate the organization divisions and subdivisions. Within each division or subdivision, there can be units responsible for separate activities. One satisfactory way of ensuring better performance of units is delegation of performance responsibility to units at the lowest possible level. Delegation of performance responsibility for a unit is possibility provided that the unit managers have information to discussion making.

Several variables are influencing the performance of company. Some of these are external to the organizations (referred to as environmental factors, and some are internal). Environmental factors are customers, competitors, regulatory and political condition. Front line management of insurance the company constantly updated its knowledge on the external environment to formulate strategies.

The potential market for insurance is to be identified and compared with the internal efficiency of the company so as to formulate a strategy. Due to these factors the study is conducted to investigate variables which are affecting the performance of NIC. The study found that the company's performance is affected by Variables influencing performance in underwriting department, in Claim department and in finance and administration department.

#### **4.3.3.1. Variables Influencing Service Rendered of NIC in Underwriting Department**

According to Roberts-Lombard (2009) customer satisfaction is defined as the degree to which a business product or service performance that meets the expectation of customers.

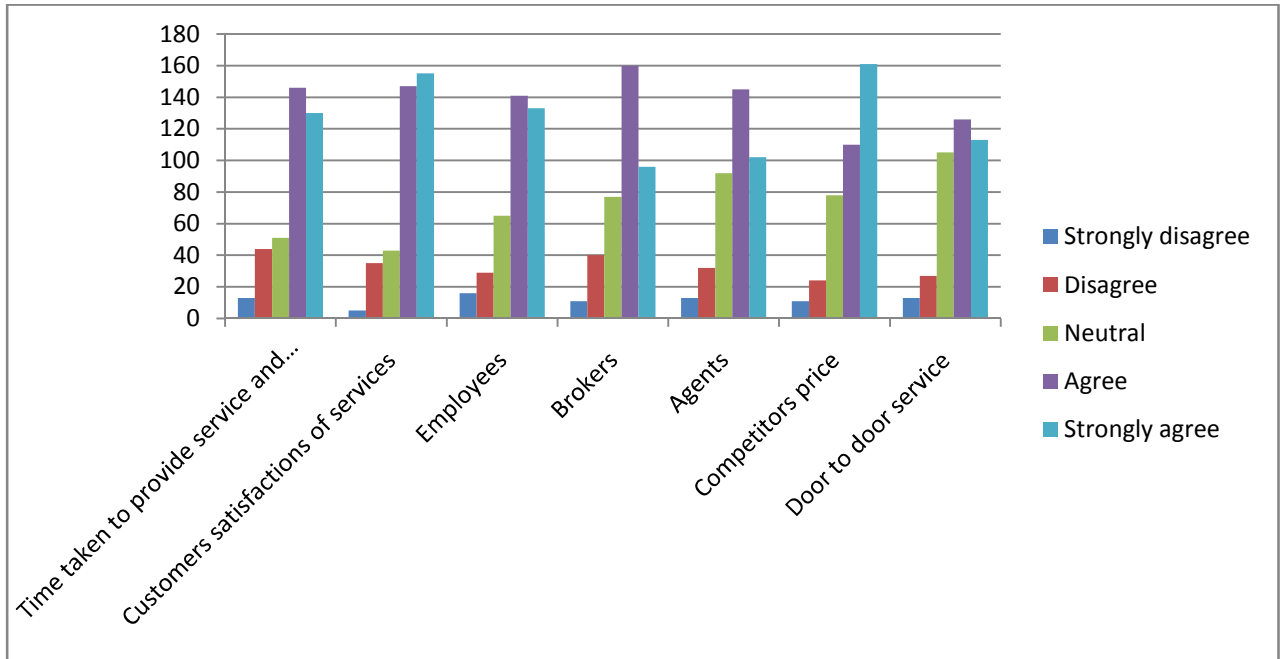
When the firm's product or service performance matches or exceeds the expectations, then the customer is satisfied or delighted, if not then the customer is dissatisfied. There are different factors that influence customer satisfaction such as expectations, perceived service and perceived quality (Hu, Kandampully and Juwaheer, 2009). Expectations influence the total satisfaction when the customer evaluates a product or service performance. Satisfaction is customer's emotional response when evaluating the difference between expectation of the service and the perception of actual performance. This perception of performance is obtained through physical interaction with the organization and the product and services of the organization (Salami, 2005). Due to customers' needs the following data are obtained to determine variables influencing performance of NIC in underwriting department.

**Table 4.6: Variable Influencing Underwriting Department**

| Variables  | Strongly disagree |    | Disagree |     | Neutral |     | Agree |     | Strongly agree |     | Mean | Standard deviation |
|--|-------------------|----|----------|-----|---------|-----|-------|-----|----------------|-----|------|--------------------|
|  | No.               | %  | No.      | %   | No.     | %   | No.   | %   | No.            | %   |      |                    |
| Time taken to provide service and to resolve complains | 13                | 4% | 44       | 11% | 51      | 13% | 146   | 38% | 130            | 34% | 4.65 | 0.425              |
| Customers satisfactions of services                    | 5                 | 1% | 35       | 9%  | 43      | 11% | 147   | 38% | 155            | 41% | 4.71 | 0.410              |
| Employees  | 16                | 4% | 29       | 7%  | 65      | 17% | 141   | 37% | 133            | 35% | 4.69 | 0.389              |
| Brokers  | 11                | 3% | 40       | 10% | 77      | 20% | 160   | 42% | 96             | 25% | 3.99 | 0.359              |
| Agents   | 13                | 3% | 32       | 8%  | 92      | 24% | 145   | 38% | 102            | 27% | 4.05 | 0.399              |
| Competitors price                                      | 11                | 3% | 24       | 6%  | 78      | 20% | 110   | 29% | 161            | 42% | 4.75 | 0.495              |
| Door to door service                                   | 13                | 3% | 27       | 7%  | 105     | 27% | 126   | 33% | 113            | 30% | 4.25 | 0.309              |

Source: Data from field study (2017)

Figure 4.6: Graphical Presentation of Respondents for variables influencing underwriting department



Source: Data from field study (2017)

The result from Table 4.6 showed that, out of 384 respondents 13(4%) said strongly disagree and 44(11%) said disagree indicated that time taken by NIC to provide service and to resolve complains to their clients in underwriting department is not affecting the performance of the company, because in most cases within 24 hours a client could be serviced and his or her complains resolved very excellently.51(13%) are neutral to this question While 146(38%) said agreed and 130(34%) said strongly agree that time taken to provide service and to resolve complains is affecting the performance of the company. As presented in the Table 4.6 above the results of variables influencing service rendered of underwriting department fall between Mean of 4.75 and 3.99 and this indicates that majority of the respondents strongly agreed. Thus, Competitors price has scored the highest Mean = 4.75 with standard deviation = 0.495 and Brokers has scored the lowest rating Mean =3.99 with standard deviation = 0.359 of all the variables of service rendered of underwriting department.

This is caused sometimes by a delay in issuing policy documents and delay of one to three weeks in sending renewal notes to their clients for renewing their policies which in turn caused the company to lose clients and underwriting premium.

Sometimes intermediaries are not satisfied by the response of underwriting to some queries and provision of quotation of business on time. Furthermore the study revealed that in a declining market, the end user of the insurance services determines the price the client is willing to pay. Brokers on the other hand, play a major role in the placement of a business. This may be based on genuine facts such as claims service; professionalism and financial strength exhibited by a particular underwriter. Whatever the reasoning, intermediaries are the key buying influences of the insuring public!

Hence to overcome these problems the company must measure average time taken for serving reminders to the customers and average speed in assessing the accounts that have fallen over due etc., need to be observed and controlled to maintain quick processing of the policies and settlements. Necessary steps must be taken for further improvement. Average period of clearance of checks and other modes of payment will be maintained at minimum. Electronic data processing and Internet and e-mail facilities may be utilized for supplying reminders to the customers for renewing their policies. Repeated reminder may be supplied at a cheaper cost to the customers. Causes for poor performance are analyzed and remedial measures must be taken.

The study also, found that difficulties existed in assessing the customer's satisfaction in insurance contracts. Unlike commodities and other services, such as transport and banking, customers do not consume the products or utilize the services at one point of time, rather they feel the satisfaction of assurance over a period of time, particularly when they give a thought about the risk they are exposed had they not insured. However, to some extent, customer satisfaction came from minimization of funds they had committed in insurance premium and possibility to maximize their benefits from a policy. Other facilities or services such as, door-to-door service, affordable premium are some of the means to make the customers satisfied. Any suffering due to delay in providing a

financial compensation to the victims will create a negative image of the company among customers.

Data from Table 4.6 showed that out of 384 respondents 5(1%) said strongly disagree and 35(9%) said disagree that with quality of services provided by underwriting department, for example getting renewal notice on time, risk acceptance, documentation, cancellation of policy, affordable premium, claim settling on time and customer care must be improved, 43(11%) said neutral to this question, while 147(38%) of the respondents said agree and 155(41%) said strongly agree with services rendered by underwriting department. This is caused by staffs are sending policy document to their clients on time, hence underwriting department needs to further promote prudent underwriting practices for documentation. Policies should be designed to be user friendly. If possible, documents should be both in English and Amharic language to reflect the reality of Ethiopian Insurance consumers. Most clients do not read the documents because they are written in an alien language printed in small font as they are still today. Other respondents said that, the company must customize the policy documentation to reflect and accommodate the expectations of an ordinary client as majority of them had no legal knowledge to interpret the documents.

Data from Table 4.6 revealed that out of 384 respondents 16(4%) said strongly disagree and 29(7%) said disagree that employees from NIC are not negatively affecting the underwriting performance. 65(17%) said neutral to this question, While 141(37%) said agree and 133(35%) said strongly agree that underwriting staffs are affecting the underwriting performance. This effect is caused by lack of motivation to their employees, upward and downward communication, and failure to visit brokers, absence of training for employees, agents and corporate clients. Furthermore, the study noted that underwriter insured what came from intermediaries and from direct client without selecting risk which at the end caused loss to the company in terms of claims (no selection of risk to insure). Also the study noted that underwriter are underwriting without selecting purposely to meet their given target and/or budget.

As a result they increased expenses to the company in terms of claims, operating expenses and also reduced an income to the company in terms of premium. The findings are in line with Bakuza(1998), who found that “in insurance selection relates to grading of risk to determine their acceptance and applicable rates. It is synonymous to underwriting because to underwrite basically is to select risks for insurance purpose”.

For brokers the study from Table 4.6 revealed that, out of 384 respondents 11(3%) said strongly disagree and 40(10%) said disagree that brokers does not have negative influence on the underwriting performance. 77(20%) said neutral to this question, On the other hand, very large 160(42%) said agree 96(25%) said strongly agree that brokers influenced underwriting performance. This is due to lack of well representation of the company to their insured. Some brokers had few insurance professional staffs. On the other side information from the Intermediaries is sometimes insufficient and took long time to reach the underwriters. This in turn made the underwriting work to delay and difficult due to lack of full underwriting information.

Also brokers had a tendency to meet the demands of insured than those of the insurers and that is why sometimes they provide underwriting documents after the clients have got claims. The above findings support (wikipedia.org.December15, 2008) which observed that, the Insurance broker represents buyer rather than insurance company and should find a best policy for buyer in comparison shopping.

But the study is noted that lack of training to intermediaries is also a source of poor performance in insurance industry. Hence it is better if insurance company will make contribution for the aim of providing training to employees and agents sometimes for corporate clients.

From Table 4.6 indicate that out of 384 respondents 13(3%) said strongly disagree and 32(8%) said disagree that that agents does not have negative influence on the underwriting performance, 92(24%) are neutral to this question, while 145(38%) said agree and 102(27%) said strongly agree that agents affect the underwriting performance. Employee and agent training must be among the essential activities of the company to

operate in a competitive and ever changing business environment. NIC must build institutional capacity and team management through allocating Budget Company wise for the required training.

Effectiveness of such expenses on training and development of the employees and agents should separately be assessed to measure the readiness and ability of the branches to adapt the changes in the environment. The company must recruit employees based on their IQ levels rather than their field of education. Such recruitment must base on the philosophy that intelligent people can be trained and developed in the manner the company desires. Each branch will assesses the skills and expertise required for its proposed programs and operations and makes necessary arrangement for training their employees. Agents are to be appointed based on their ability to obtain customers. Each agent must be offered a commission on the business she/he brings to the company at a fixed rate. Agents should be allowed to continue with the company as long as they meet the targets set by the insurance offices but this is not the current practice of NIC. This often discourages many prospective insurance agents. Agents will improve their performance over a period of time, when dealing with different individuals and institutions. Usually training is to be organized at departmental or company level from time to time, as it is economic to organize such programs centrally. Agents will be successfully promoted based on their performance of the company. This suggestion will help the company to improve performance.

From Table 4.6 indicate that out of 384 respondents 11(3%) said strongly disagree and 24(6%) said disagree that competitors price does not have negative influence on the underwriting performance, 78(20%) are neutral to this question, while 110(29%) said agree and 161(42%) said strongly agree that competitors price affect the underwriting performance. Due to unrefined premium rate structure, unfair competition, failure to observe premium rate principle, differences in the level of professionalism among insurance companies....etc. unfair premium rate practice has prevailed and deep rooted in Ethiopian insurance market. Consequently, premium rating is becoming one among the serious problems that the insurance industry is facing these days. Although this unfair practice drives many of the insurance company manager and professionals to seek tighter

control over premium rates by the regulatory body, the National Bank of Ethiopia (NBE). The result of this study is clearly shown that competitors price affect the underwriting performance.

From Table 4.6 indicate that out of 384 respondents 13(3%) said strongly disagree and 32(8%) said disagree that door-to-door service affect the underwriting performance, 98(26%) are neutral to this question, while 158(42%) said agree and 83(22%) said strongly agree that door-to-door service improve the underwriting performance and in effect increases underwriting revenue. Majority of the respondents agreed that designing of outward or customer focused system by giving more emphasis on fast, door-to-door, efficient and effective underwriting practice and customer service will result in increasing underwriting performance.

Based on the information gathered from respondents interviewed the majority of the respondents revealed that the claim service of the company has to improve from time to time. NIC communicates with its customers to inform about any change in claim handling procedure, policy or any other issue through telephone, formal letter, fax, and sales agents to provide relevant information to customers about any change in the company. Especially telephone is the most commonly used by the company to communicate with its customers.

This finding supports for the findings of Sin et al. (2002) which presented, effective and timely communication helps in formation of cooperation and trust in relationships and glues the customers to an organization. Therefore, the effectiveness of communication between service provider and customers are very essential in influencing the trust that customers develop in the firm, their satisfaction with that firm and subsequently loyalty to the firm.

Using the SPSS program kit in the case of multiple regressions we have come to the following results:

$$= 91.103 + 4.631x_1 + 3.9930x_2 + 3.792x_3 + 4.802109x_4 + 3.871x_5 + 3.665x_6 + 1.8708x_7$$

Where

$x_1$  = Time taken to provide service and to resolve complains,  $x_2$  = Customer satisfaction of Service,  $x_3$  = employees,  $x_4$  = Brokers,  $x_5$  = Agents,  $x_6$  = Competitors price,  $x_7$  = door-to-door service

91.103 = Constant of influencing underwriting service i.e., the intercept

4.631, 3.9930, 3.792, 4.802109, 3.871, 3.665, 1.8708 = The coefficient of the explanatory variables i.e.,  $x_1$ ,  $x_2$ ,  $x_3$ ,  $x_4$ ,  $x_5$ ,  $x_6$ , and  $x_7$

#### 4.3.3.2. SPSS Result of Variables Influencing Underwriting Service

##### ANOVA<sup>a</sup>

| Model |            | Sum of Squares | df  | Mean Square | F     | Sig. |
|-------|------------|----------------|-----|-------------|-------|------|
| 1     | Regression | 196.493        | 362 | .649        | 0.051 | .043 |
|       | Residual   | 11.634         | 21  | .554        |       |      |
|       | Total      | 208.127        | 383 |             |       |      |

Multiple regressions are calculated using seven independent variables (Time taken to provide service and to resolve complains, Customer satisfaction of Service, Employees, Brokers, Agents, Competitors price and door-to-door service) and the dependent variable is influencing underwriting service. The multiple regression outcomes indicates statistical significance exists between providing Time taken to provide service and to resolve complains, Customer satisfaction of Service, employees, Brokers, Agents, Competitors price and underwriting Service; thus, the analysis shows that these six independent variables are the best indicators that influence underwriting service of the NIC. The other independent variable which is Door to Door service is not statistically significant.

#### **4.3.3.3. Variables Influencing Service Rendered of NIC in Claim Department**

Claim settlement is an integral part of the insurance business which is a service industry and its growth is depends upon the service provided to its customers. It is inevitable for the insurance company to protect and guard the interests of the policyholders. The easy and timely settlement of valid claim is an important function of an insurance company and claims settlement is the integral part of claim management. It is yardstick to judge the insurance company efficiency. In Nile Insurance Company S.C insurance Surveyors, Inspectors, Insured/Clients, Underwriting, Agents, Brokers, Management, Authorization limit, Board involvement and Knowledge of the work plays important role in claim settlement.

There are cases of frauds in claim settlement that may happen but if the policyholder uses proper precautions he can prevent himself from fraud. Insurance claim is the only way to officially apply for benefits under an insurance policy, but until the insurance company has assessed the situation it will remain only a claim, not a pay-out. Hence, claim settlement is the payment of proceeds from an insurance contract.

Data from Table 4.7 showed that, out of 384 respondents 16(4%) said strongly disagree and 32(8%) said disagree that the operation of insurance company is not done well by the surveyors; 43(11%) are neutral to this question, while out of 384 respondents 129(34%) are agree and 164(43%) are strongly agree with their performance. As presented in the Table 4.7 below the results of variables influencing service rendered of claim department fall between Mean of 4.73 and 4.57 and this indicates that majority of the respondents strongly agreed. Thus, Knowledge of the work has scored the highest Mean = 4.73 with standard deviation = 0.451 and Inspectors has scored the lowest rating Mean = 4.57 with standard deviation = 0.516 of all the variables of service rendered of claim department.

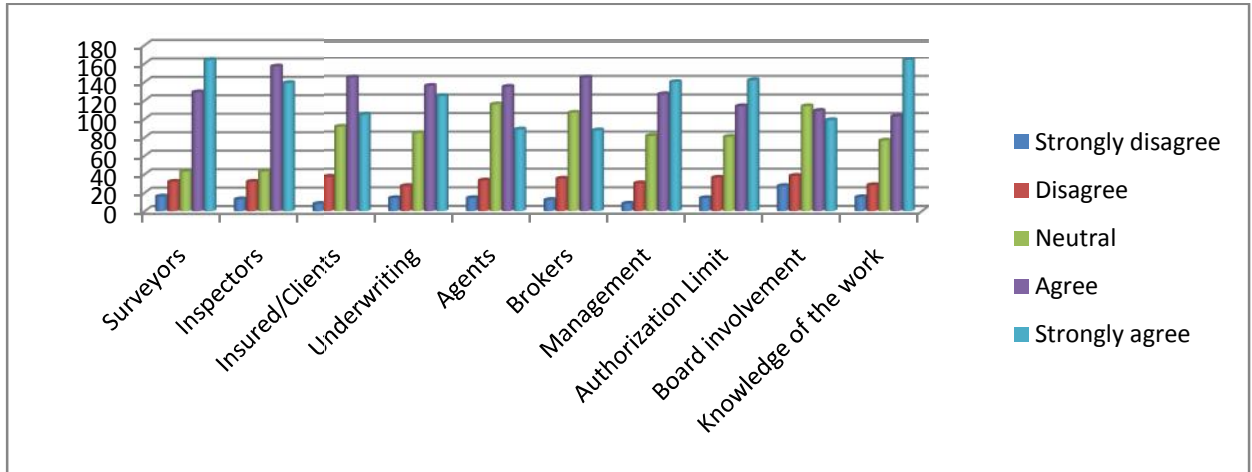
This is because surveyors delayed claim reports to the management for decision making. Also respondents said that sometimes surveyors came up with wrong reports which caused the company to repudiate claims which are not fair. To overcome this problems the management must encourage the surveyors to improve loyalty and professionalism through training.

**Table 4.7: Variable Influencing Claim Department**

| Variables             | Strongly disagree |    | Disagree |     | Neutral |     | Agree |     | Strongly agree |     | Mean | Standard Deviation |
|-----------------------|-------------------|----|----------|-----|---------|-----|-------|-----|----------------|-----|------|--------------------|
|                       | No.               | %  | No.      | %   | No.     | %   | No.   | %   | No.            | %   |      |                    |
| Surveyors             | 16                | 4% | 32       | 8%  | 43      | 11% | 129   | 34% | 164            | 43% | 4.65 | 0.499              |
| Inspectors            | 13                | 3% | 32       | 9%  | 43      | 11% | 157   | 41% | 139            | 36% | 4.57 | 0.516              |
| Insured/Clients       | 8                 | 2% | 37       | 10% | 91      | 24% | 144   | 37% | 104            | 27% | 4.62 | 0.497              |
| Underwriting          | 14                | 4% | 27       | 7%  | 84      | 22% | 135   | 35% | 124            | 32% | 4.64 | 0.485              |
| Agents                | 14                | 4% | 33       | 9%  | 115     | 29% | 134   | 35% | 88             | 23% | 4.61 | 0.538              |
| Brokers               | 12                | 3% | 35       | 9%  | 106     | 28% | 144   | 37% | 87             | 23% | 4.61 | 0.498              |
| Management            | 8                 | 2% | 30       | 8%  | 81      | 21% | 126   | 33% | 139            | 36% | 4.67 | 0.470              |
| Authorization Limit   | 14                | 4% | 36       | 9%  | 80      | 21% | 113   | 29% | 141            | 37% | 4.68 | 0.506              |
| Board involvement     | 27                | 7% | 38       | 10% | 113     | 29% | 108   | 28% | 98             | 26% | 4.69 | 0.489              |
| Knowledge of the work | 15                | 4% | 28       | 7%  | 76      | 20% | 102   | 27% | 163            | 42% | 4.73 | 0.451              |

Source: Data from field study (2017)

**Figure 4.7: Graphical Presentation of Respondents for variables influencing claim department**



Source: Data from field study (2017)

However the study realized that there is a delay in producing claim reports due to increased number of claims. The management noticed that increased infidelity by all stakeholders has caused significant increases in claims. In order to solve such problems the management is looking into the possibility of coming up with Motor service centre where all damaged vehicles will be towed after accident. Such centre will be managed by the motor assessment team which will immediately provide quotations to customer's damaged vehicles. Garages will then be requested to tender repairing these vehicles based on the company quotations. The motor service centre will not only be responsible for damaged vehicles, but also provide pre-insurance inspection services.

From Table 4.7 indicate that out of 384 respondents 13(3%) said strongly disagree and 32(8%) said disagree that inspectors affect the performance of claim department, 98(26%) are neutral to this question, while 158(42%) said agree and 83(22%) said strongly agree that inspectors report affect the performance of claim department. Inspectors are internal employee of the company and the one who first arrive and investigate when motor accident happen thought out the country. The study reveals the inspectors report must be properly investigated, because the loyalty and trustworthiness of the inspectors will have either positive or negative effect on claims management.

From Table 4.7 indicate that out of 384 respondents 13(3%) said strongly disagree and 32(8%) said disagree that insured or clients affect the performance of claim department. 98(26%) are neutral to this question, while 158(42%) said agree and 83(22%) said strongly agree that insured or clients affect the performance of claim department. This is the outcome of not paying premium on time.

The results from Table 4.7 showed that underwriting is affecting operation performance. Out of 384 respondents 14(4%) said strongly disagree and 27(7%) said disagree that this is caused by underwriting to underwrite everything which came on the desk without assessing the risk. 84(22%) are neutral to this question, 135(35%) said agree and 124(32%) said strongly agree. This lead the company to underwrite fake claims,or property with high risk at low rate while business with low rate at high rate. Failure to visit intermediaries regularly and medium corporate clients to building good relationship with external customers and for promoting the company services aggravated the severity of the problem to the company. To reduce fake and other claims there is a need by the company to build team work and provide training to intermediaries which will help intermediaries to be aware with risk management.

Data from Table 4.7 revealed that out of 384 respondents 12(3%) said strongly disagree and 35(9%) said disagree that brokers and agents has negative effect on the claim performance.106(28%) said neutral to this question, While 144(37%) said agree and 87(23%) said strongly agree that brokers and agents are affecting the claim performance. Through delaying premium collected from the insured and late submission of insurance premium collected from insured after accident, has negative effects on the operation of Nile insurance company. According to NBE regulation if premium are not paid there is no cover at all. This led the company to suffer liquidity and solvency problems.

Data from Table 4.7 revealed that out of 384 respondents 8(2%) said strongly disagree and 30(8%) said disagree that management of NIC are not negatively affecting the claim performance.81(21%) said neutral to this question, While 126(33%) said agree and 139(36%) said strongly agree that management of NIC are affecting the claim performance. This shows that the management of Nile insurance company need to come

up with various mechanisms to further ensure that the performance of claim department are being handled professionally to enhance growth and productivity of Nile insurance company business. Claim satisfaction should be a goal and a marketing tool.

Data from Table 4.7 revealed that out of 384 respondents 14(4%) said strongly disagree and 36(9%) said disagree that authorization limit is not negatively affecting the claim performance. 80(21%) said neutral to this question, While 113(29%) said agree and 141(37%) said strongly agree that authorization limit is affecting the claim performance. Currently, two out of the 41 branches do have authority limit to handle small claims up to birr 25,000.00. In as long as claims are not handled by branches, we can hardly say NIC has fully fledged branches, but underwriting offices only. Those with longer years of experience must be authorized for higher limits of claim handing. This shows as majority of the respondents are agree the performance of claim department is improved if the authorization limit has to exercised by all branches of the company through time.

Data from Table 4.7 revealed that out of 384 respondents 27(7%) said strongly disagree and 38(10%) said disagree that board involvement is not negatively affecting the claim performance. 113(29%) said neutral to this question, While 108(28%) said agree and 98(26%) said strongly agree that board involvement is affecting the claim performance. The boards of directors of Nile insurance company are designated to protect the interest of all stakeholders. It is obvious that competence, time and determination are demanded from board of directors to perform their duty. The result of the study shows that board involvement do not affects the performance of claim department.

Data from Table 4.7 revealed that out of 384 respondents 15(4%) said strongly disagree and 28(7%) said disagree that knowledge of the work is not negatively affecting the claim performance. 76(20%) said neutral to this question, While 102(27%) said agree and 163(42%) said strongly agree that knowledge of the work is affecting the claim performance. This suggests that a slight majority of the respondents has a common agreement that the lack of undertaking of professional staffs training affects the performance of claim department.

Using the SPSS program kit in the case of multiple regressions we have come to the following results:

$$= 151.36 + 3.731x_1 + 3.9330x_2 + 3.872x_3 + 4.02x_4 + 3.401x_5 + 4.665x_6 + 3.9870x_7 + 3.409x_8 + 1.956x_9 + 3.773x_{10}$$

Where

$x_1$  = surveyors,  $x_2$  = inspectors,  $x_3$  = insured,  $x_4$  = Underwriting,  $x_5$  = Agents,  $x_6$  = Brokers,  $x_7$  = Management,  $x_8$  = Authorization limit,  $x_9$  = Board involvement,  $x_{10}$  = Knowledge of the work

151.36 = Constant of influencing rendering claims service i.e., the intercept

3.731, 3.9330, 3.872, 4.02, 3.401, 4.665, 3.9870, 3.409, 1.956, 3.773 = The coefficient of the explanatory variables i.e.,  $x_1, x_2, x_3, x_4, x_5, x_6, x_7, x_8, x_9,$  and  $x_{10}$

#### 4.3.3.3.1. SPSS Result of Variables influencing Claims Service

##### ANOVA<sup>a</sup>

| Model |            | Sum of Squares | Df  | Mean Square | F    | Sig. |
|-------|------------|----------------|-----|-------------|------|------|
| 1     | Regression | 228.448        | 352 | .649        | 1.43 | .029 |
|       | Residual   | 14.074         | 31  | .454        |      |      |
|       | Total      | 242.522        | 383 |             |      |      |

Multiple regressions are calculated using ten independent variables (surveyors, inspectors, insured, underwriting, agents, brokers, management, authorization limit, board involvement and knowledge of the work) and the dependent variable is influencing rendering claims service. The multiple regression outcomes indicates statistical significance exists between surveyors, inspectors, insured, broker, underwriting, management and knowledge of the work)and claim Service; thus, the analysis shows that these seven independent variables are the best indicators that influence rendering claim service of the NIC. The other independent variable (Board Involvement) is not statistically significant. Additionally, Agents and Authorization limit are found to be close to statistical significance, but not to the extent that it could be regarded as an indicator of Claims service rendering.

#### 4.3.3.4. Variables Influencing Service Rendered of NIC in Finance Department

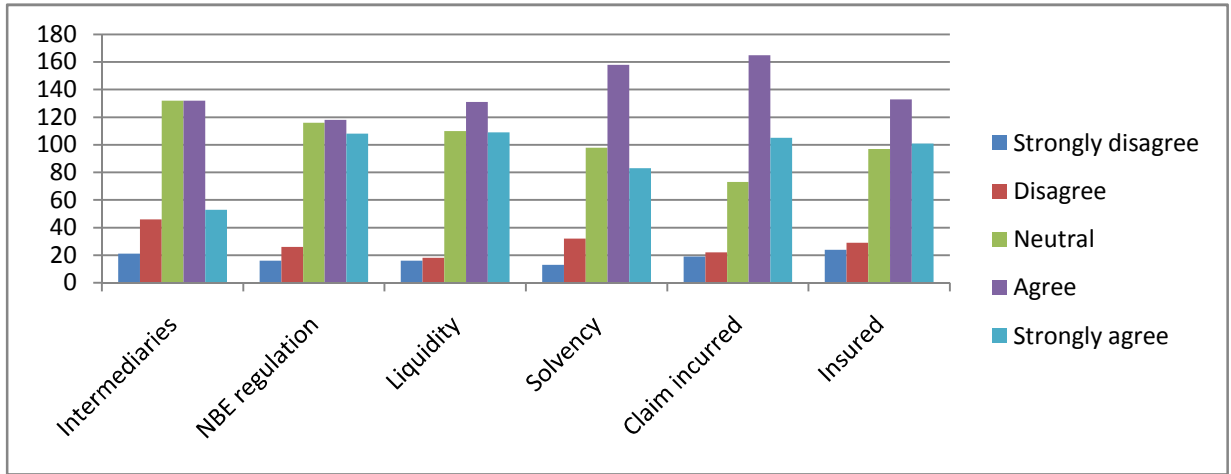
It is important to find out the variables influencing the performance of Nile Insurance Company in finance department. Data from Table 4.8 revealed that out of 384 respondents 21(6%) said strongly disagree and 46(12%) said disagreed that brokers, agents and insured are not affecting the performance of finance department. 132(34%) are neutral to this question, 132(34%) said agree and 53(14%) said strongly agree that intermediaries are influencing the performance of finance department. This shows that a slight majority of the respondents said the intermediaries affect the performance finance department because they are a bridge between the insured and the company. They can place the business with the company they have had good relationship, therefore, this affect the solvency ratio of the company. Hence the study found that the company must create better relationship with intermediaries in order to increase the revenue.

**Table 4.8 Variable Influencing Finance Department**

| Variables      | Strongly disagree |    | Disagree |     | Neutral |     | Agree |     | Strongly agree |     | Mean | Standard Deviation |
|----------------|-------------------|----|----------|-----|---------|-----|-------|-----|----------------|-----|------|--------------------|
|                | No.               | %  | No.      | %   | No.     | %   | No.   | %   | No.            | %   |      |                    |
| Intermediaries | 21                | 6% | 46       | 12% | 132     | 34% | 132   | 34% | 53             | 14% | 3.99 | 0.409              |
| NBE regulation | 16                | 4% | 26       | 7%  | 116     | 30% | 118   | 31% | 108            | 28% | 3.65 | 0.501              |
| Liquidity      | 16                | 4% | 18       | 5%  | 110     | 29% | 131   | 34% | 109            | 28% | 3.81 | 0.397              |
| Solvency       | 13                | 3% | 32       | 8%  | 98      | 26% | 158   | 41% | 83             | 22% | 4.35 | 0.195              |
| Claim incurred | 19                | 5% | 22       | 6%  | 73      | 19% | 165   | 43% | 105            | 27% | 4.52 | 0.258              |
| Insured        | 24                | 6% | 29       | 8%  | 97      | 25% | 133   | 35% | 101            | 26% | 4.01 | 0.398              |

Source: Data from field study (2017)

**Figure 4.8: Graphical Presentation of Respondents for variables influencing finance department**



**Source:** Data from field study (2017)

Data from Table 4.8 further showed that out of 384 respondents 16 (4%) said strongly disagree and 26(7%) said disagree that NBE regulations are influencing the performance of finance department in several areas. 116(30%) are neutral to this question. In addition, out of 384 respondents 118(31%) said agree and 108(28%) said strongly agree that NBE regulations are influencing the performance of finance department. The respondents feel that the body is not strong enough to impact on the rogues of the industry to provide a level ground. There is need to empower the body and rid it of corruption to aid the industry. The circumstances around the Ethiopia insurance market evidently show that unfair premium rate practices have prevailed. This necessitates controlling of the premium rate primarily aiming at the attainment of stable insurance market and protection of policyholders’ interest. Proclamation No. 86/1994 authorizes the NBE to formulate policy matters conducive to the attainment of sound and stable insurance market. NBE, in collaboration with insurance company managers and professionals of the industry, should play a leading role in each company financial performance. The findings align with Skipper (1997), his study found that “a strong insurance sector promoted financial stability of firms and individuals and reduced the anxiety of experiencing unexpected losses or harms, by indemnifying policy holders if hardships occur.”

The liquidity ratio indicator measures the amount of available cash to meet the “short term” obligations of the company. This is calculated as follows:  $\text{Liquidity Ratio} = \frac{\text{Available Cash or Cash Equivalents}}{\text{Short-term Payables (3 months)}}$ . Hence Liquidity affected the ability of the company to meet short-term obligations of the company. Data from Table 4.8 showed that out of 384 respondents 16(4%) said strongly disagreed and 18(5%) said disagree that liquidity ratio does not affected the performance of finance department. 110(29%) are neutral to this question, While 131(34%) said agree and 109(28%) said strongly agree that liquidity affect the performance of finance department.

Generally, it can be brightly seen from Table 4.8 above the results of service rendered in finance department fall between Mean of 4.52 and 3.65 and this indicates that majority of the respondents were agreed. Thus, claim incurred has scored the highest Mean = 4.52 with standard deviation = 0.258 and NBE regulations have scored the lowest rating Mean = 3.65 with standard deviation = 0.501 of all the variables of influencing service rendered in Finance department.

Especially in paying claims, premium ceded in and outside the country, operating expenses and investment on time. However the company can use cash call to meet short-term obligation.

From Table 4.8 indicated that out of 384 respondents 13(3%) said strongly disagree and 32(8%) said disagree that solvency does not affect the performance of finance department, 98(26%) are neutral to this question, while 158(41%) said agree and 83(22%) said strongly agree that solvency affect the performance of finance department. Solvency is the ability of an insurance company to pay its liabilities from its own assets. It is an important aspect for insurance company supervision and so of security for policyholders. Hence, the study shows that as majority of the respondents said solvency requires expert knowledge to regulation financial performance of NIC.

From Table 4.8 indicated that out of 384 respondents 19(5%) said strongly disagree and 22(6%) said disagree that claims did not affect the performance of finance department; Claims in any insurance company are used as advertisement. As much as claims are

settled on time, underwriting premium and underwriting profit increased. Always insured preferred to insure in companies which pay claims on time, 73(19%) are neutral to this question, while 165(43%) said agree and 105(27%) said strongly agree that claims are affecting the performance of finance department due to increased company expenses. When the company has many claims its profit decreased or incurred big loss for that specific financial year.

From Table 4.8 indicate that out of 384 respondents 24(6%) said strongly disagree and 29(8%) said disagree that clients affect the performance of finance department, 97(25%) are neutral to this question, while 133(35%) said agree and 101(26%) said strongly agree that clients affect the performance of finance department. The study also revealed that several market threats affected the bottom line performance of NIC. As indicated by data from Tables 4.6, 4.7 and 4.8, clients had a tendency to shop around in order to get the best deal. However this is successful due to the undercutting of rates and underwriting principles that did not add value to the industry as a whole. Managers from NIC agreed that, shortage of skilled manpower pushed most companies to rely on experienced employees who are but not necessarily qualified for the work they performed. This blocked the penetration of new ideas into the industry. Service standards remained inconsistent throughout the insurance sector. This is ironic due to the fact that the insurance industry is highly driven by service delivery. The insurance industry in Ethiopia needs to move together towards standardizing service delivery to promote a healthier competitive environment. Lack of public awareness caused many to question the integrity of the insurance industry as a whole, further coupled by the negative imprints left behind by the government monopoly before market liberalization.

#### **4.3.4. Awareness of Insurance Products**

There was also low awareness of the insurance products due to low level of education and economic activities among the public. Moreover, the importance of education cannot be over emphasized. The people need to be informed and made to understand the need for insurance products. There should be sensitization of the general public to create an increased level of awareness and participation in insurance products.

With regard to the awareness of the insurance products, during the survey, 384 questionnaires are distributed to the selected respondents. Unfortunately 86(22%) are not responded appropriately. So the analysis is made based on 298 responded questionnaires for this particular question. Out of 298 respondents 100(34%) said that clients or insured are aware of products provided by NIC. On the other side out of 298 respondents 198(66%) said that NIC products are not accessible and very few clients are aware of products provided by the company. The products are also known by few people and corporate clients especially those who are living in main city of the country.

#### **4.3.5. Technology Development and Technical Services**

Lack of technology in providing NIC insurance services in Ethiopia is mentioned also as another factor which affected the performance of the NIC. The managers from Nile insurance company said that during the financial year (2017) the company is planning to increase underwriting premium and product quality through using appropriate technology by upgrading the existing system from “PREMIA 9” to “PREMIA 11” within the country and commercializing the proven technologies. Another area of improved technology includes good infrastructure of technology development and technical services. Currently, all Nile insurance company branches are connected with insurance network the so called “PREMIA 9”. Promotion of Insurance employees and intermediaries in terms of training, technology acquisition, service excellence etc will be given priority.

Technology has the power to be a great enabler in business process. It can also transform NIC ability to assess risk. The study revealed that all 384 (100%) respondents agreed that technology is very important to use like e-mail and cell phones which reduced the cost and time involved in dealing with clients and collection premiums. Also majority agreed that e-mail and cell phones had met an unfilled need and, of course, that they are appropriate, affordable and accessible.

The findings revealed that most of respondents said that the company takes cognizance of the role of ICT in the execution of many of its activities. Thus, the company must exert at most effort to bring overall efficiency through upgrading the existing system.

#### **4.3.6. Insurance Business growth**

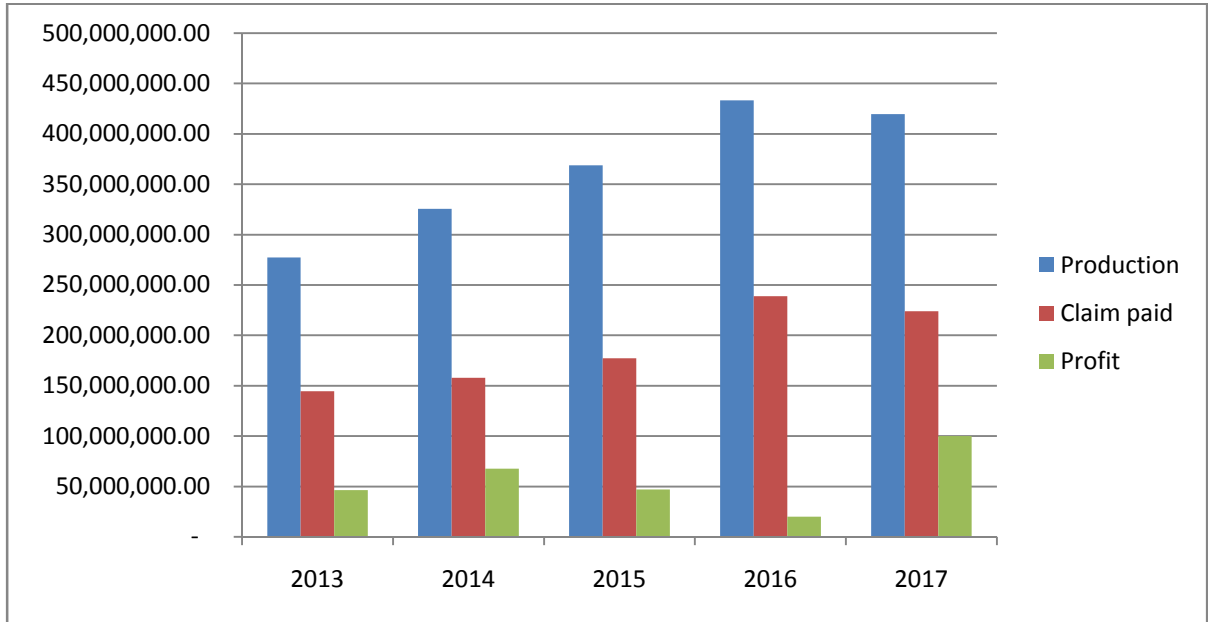
Insurance business growth is one of the factors that helped to determine the performance of the insurance services which are rendered by the company. Insurance business growths are measured in terms of qualitative and quantitative factors. The study revealed that Nile insurance company getting business from insurance brokers, Insurance agents, direct clients and reinsures. The continued growth of an insurance organization relied on its products and therefore, the company is investing in this area to ensure that the products remain competitive. The table below exhibits the five year status of the company using secondary data obtained from annual report of the company 2013 to 2017.

**Table 4.9 Performance of NIC for the period from 2013 to 2017**

| Variables  | Fiscal year |             |             |             |               |
|------------|-------------|-------------|-------------|-------------|---------------|
|            | 2013        | 2014        | 2015        | 2016        | 2017          |
| Production | 277,360,731 | 325,653,335 | 368,807,523 | 433,140,882 | 419,511,250   |
| Claim paid | 144,463,444 | 157,863,635 | 177,395,130 | 23,8931,388 | 224,032,574   |
| Profit     | 46,377,744  | 67,814,517  | 46,888,874  | 20,043,960  | 100,000,000.7 |

Source: Annual bulletin of the company

**Figure 4.9: Performance of NIC for the period from 2013 to 2017**



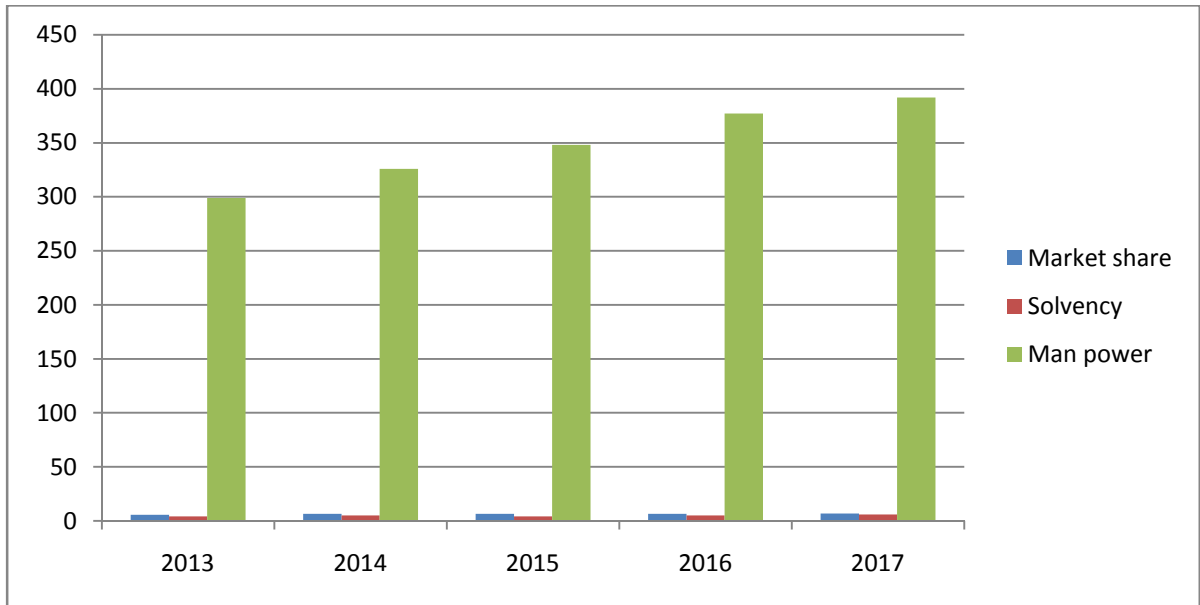
Source: Annual bulletin of the company

**Table 4.10 Market Share, solvency and manpower for the period from 2013 to 2017**

| Variables    | Fiscal year |      |      |      |      |
|--------------|-------------|------|------|------|------|
|              | 2013        | 2014 | 2015 | 2016 | 2017 |
| Market share | 5.67        | 6.38 | 6.54 | 6.64 | 6.95 |
| Solvency     | 4           | 5    | 4    | 5    | 6    |
| Man power    | 299         | 326  | 348  | 377  | 392  |

Source: Annual bulletin of the company

**Figure 4.10 Market share, solvency and man power for the period from 2013 to 2017**



Source: Annual bulletin of the company

From table 4.9 the data revealed that NIC underwriting premium level increased from year to year, the claim paid is also increased from year to year. However the profitability and the market share of the company is not consistently increased. As the volume of work increased, it is natural to increase the workforce so NIC is employee more staffs from year to year. This can easily revealed from the above table 4.10 and figure 4.10.

#### **4.4. Challenges Facing in Maximizing Delivering of Services in Sustainable Manner**

Insurance is a social device in which a group of individuals called insured's transfer risk to another party called insurers in order to combine loss experiences, which permits statistical prediction of losses and provides for payment of losses from fund contributed (premium) by all members who transfer risk (Pritchett,1996). However, there are a lot of contemporary challenges facing the Industry that the survival of insurance itself is threatened. During the survey, 384 questionnaires are distributed to the selected respondents. Unfortunately 77(20%) are not responded appropriately. So the analysis is made based on 307 responded questionnaires for this particular question “**what**

**challenges are facing NIC in providing insurance services?”** based on the majority of the respondents answered, the researcher evaluated and interpreted the implications of the findings as per the order stated below:-

#### **4.4.1. Lack of Enough Qualified Professionals**

Among the respondents majority of them believed lack of qualified insurance professionals is a challenge for the NIC. This lack of qualified professionals in the field makes NIC unable to compete in the market efficiently and give satisfactory insurance services to their clients. This is because insurance industry by its nature requires effective risk determination and risk identification by qualified professionals to collect commensurate premium for the risks.

In Ethiopia there is no institute giving specialized insurance courses. The only institute giving short term trainings is the Institute of Ethiopian financial studies. Training insurance professionals in Ethiopia, there is a need to develop homegrown talent to staff of the private sector, the public sector and the insurance regulators. Given the technical nature of the insurance sector in terms of calculating premiums, rate setting, underwriting etc. and given the fact that these components get more complex within specific sub-sectors, in specialized areas (like actuarial services, accountants, brokers/agents) and newly emerging areas training is essential. This could be achieved by setting up specialized schools for the training of insurance professionals, through the exchange of insurance professionals within the private sector domestically and internationally.

#### **4.4.2. Stiff Price Competition & Less Distribution Channels**

Regarding to the current challenges facing NIC slight majority respondents agreed there is a stiff price competition among insurance companies, and this stiff price competition is one of the major challenges of NIC in providing service. Respondents agreed that the existence of price war and unfair competition in the industry is becoming a big challenge. This price competition leads to a decrease in the amount of premium payments which eventually creates decrease in revenue of the firms. This will create a total negative impact on the insurance industry by reducing the share of the industry in the national

market. To overcome this challenge the government should set minimum premium for the industry players.

Moreover, the study found out that minority of the respondents indicated that NIC distribution channels were found only in city areas of the country. The reason probably is that these products are mostly accessible for people staying in the fast growing towns such as Addis Ababa, Adama, Hwassa, Bahirdar, and others city branches of the country and this affected service delivery levels of the company and that the insurance company should adopt internet marketing and distribution and recruit more agents respectively to improve its competitiveness through the distribution channels.

These findings are in line with the literature review where Trembly (2001) indicates that while the adoption rate of the internet as a distribution channel has been low, there is widespread adoption of the internet as a support channel. Insurers are using the internet to provide general information on insurance services, to provide administrative support to its policyholders, and to serve as a prospecting and communication tool for its agent-led channel.

#### **4.4.3. Lack of Enough Technological Advancement**

Today in the competitive market applying more technology plays a great role on communicating and delivering the required service on time to customers. But the analysis shows that the NIC doesn't apply more technology in meeting the customers need. This creates a problem on managing customers in the NIC. The implication is that NIC do not applies/uses better technology to become unique among competitors and this does not helps for the NIC to develop strong relationship, to satisfy and retain its profitable customers. Currently, NIC was introduced "PREMIA" soft ware by using technology so as to provide fast service to its internal and external customers.

Generally providing quality service helps for the NIC to compete over its competitors effectively. Based on this analysis the insurance does not provides quality products/services to meet the expectation of its customers. This finding supports for the findings of (Gronroos, 2000) indicates that high quality products and services can attract

and acquire new customers and builds brand loyalty. In order to retain loyal customer who will bring long-term profits to the firm, the key issue for service provider is developing long term relationship in the way of managing customers by providing the required quality products and services to them. The quality of the service is individually perceived by customers during the interactions with the service provider using appropriate technological advancement.

#### **4.4.4. Users' Have Low/Lacks of Technical Insurance Know How**

From the results it is implied that NIC clients lacked adequate understanding of the insurance contract, its terms and conditions, limitations, coverage's, exclusions and deductibles including the legal and regulatory framework. Since the marketing of insurance products required a thorough understood of the domestic market, including consumers' lifestyles and consumption patterns. Acquiring such knowledge requires partnerships with local firms in developing NIC. On other way side, public awareness enhancing consumer information as to insurers' prices, products and financial strength is essential to a well performing market, especially regarding to small value customers in areas like non-life insurance. Need for exchange of information and views between all stakeholders. This could include the private sector, supervisors, professional insurance and consumers. Generally developing countries' markets depend extensively (technically and financially) on international services. Reasons for this include (among others) structural, financial and technical constraints, including the small size of markets, under-capitalization of insurance companies, and insufficient experience and know-how.

Even though insurance industries have a shortage of skilled personnel, there is also a dependence on foreign re-insurance, which has implications for the contribution of the insurance industry to national development, in particular with respect to savings promotion and mobilization. Given that these constraints can significantly affect the shortage of insurance services, more research needs to be done on the supply side (including analyzing the managerial issues) and on the nature of appropriate regulatory frameworks. Prioritizing the strengthening of human capital is an important source of comparative advantage for insurance services and their export.

#### **4.4.5. Poor Customer Retention**

The study found out that NIC have got the challenge of retaining existing customers by insurance company. The respondents replied that retention of existing insurance clients is a challenge for NIC. They said as long as insurance companies deliver similar products and switching costs of those customers is low insurance clients go out of the one to the other and some times out of the industry totally. And also the respondent said price competition among insurance companies is the major reason for the existence of high customer turnover. The reason for their turnover is as long as insurance companies give prompt and reliable services for their clients retention of their existing clients will not be a challenge for them.

#### **4.6. Suggestions for Improvement of Performance of NIC**

During the survey, 384 questionnaires are distributed to the selected respondents. Unfortunately 30(8%) are not responded appropriately. So the analysis is made based on 354 responded questionnaires for this particular question. This section is including suggestion of respondents for operation, business growths and retention and earning capacity to improve the performance of NIC. Most of the respondents suggested as per the order stated below for improvement of the performance of NIC:-

1<sup>st</sup> Improving work flow management by including compilation and use of underwriting manual, random checks on claim handling, random checks on policy status, set strong follow-up for renewals, prioritize key resource areas and regularly assess performance, diarize and follow up on quotations. All these are to improve communication from the top management to the lower management and vice versa. The company must change the culture of increasing the rate of commission payable to intermediaries as motivation.

2<sup>nd</sup> Improve intermediary relationships which could be achieved through regular visits to corporate clients, brokers and re-insurers (at least once monthly), delivery of major new policies to corporate clients and brokers, assist in speedy settlement of claims, and giving corporate clients and intermediaries' queries first promptly.

3<sup>rd</sup> Promotion is a specialist area which needs guidance from the professionals who work hand in hand with the management to promote NIC. Promotion forms a very important

integral part of marketing strategy. NIC should be crafted in such a way that it brings the desired results at low costs. NIC's market share remained very low and to make a difference the management should be seriously to consider promotion in order to create and maintaining positive brand presence, increase market share, generate interest and awareness by the public so as to increase income.

4<sup>th</sup> The company undertake risk assessment to know if it is insurable or not, and if the particular risk is insurable according to the standard of the company. Also the respondents suggested that the company should train its staffs in risk management to improve quality of services and to reduce fake claims.

5<sup>th</sup> The company has to provide the claims service in the market beyond others, come up with cost saving initiatives, claims purification, and review of the garage's list and come up with service standards.

6<sup>th</sup> The industry is characterized by lack of innovation and attention to service quality. The company's is therefore not to compete with established companies on the basis of price but on differentiating its service delivery quality from those of its competitors. The most crucial area identified is shortening the processing time for claims which is more popular with clients and intermediaries. A Service standard needed constant reviews and monitoring. The company must solve the delaying issue to process claims and improving quality of services.

7<sup>th</sup> Enforcement of underwriting departments to meet all set service standards including quality of services which are provided by the company, enforcement of code of conduct, timely response to feed back from queries, conducting branches meetings every month with their minutes sent to the Managing Director, preparation e-mailed as agreed, to raising of claims service to intermediaries and policyholders through the use of competent assessors. Engaging competent staff and developing a continuous self-development training programmers, implementing the productivity performance programmers together with reviewing the performance appraisal system are also introduced to achieve quality service standards.

8<sup>th</sup> Customer relationship management of the company has long term strategies of establishing continuous nurturing of good relations with brokers, direct clients and other intermediaries who shall be pursued through visitations and entertainment. Furthermore the respondents said that the company already planned to provide reward for those who are given potential business.

9<sup>th</sup> Internal Corporate Culture Training is the key to instill a strong corporate culture which required the management to come up with a training calendar that which could take into consideration different training needs for the staff. The same findings were revealed in Zeithaml et al., (1990) who found that the quality of services must include the, Tangibles, Reliability, Responsiveness, Assurance and Empathy.

10<sup>th</sup> Increase in Distribution Channels, the management had faith with the company traditional suppliers of business; however the company has to identify and develop new customer segments. This intended not only to foster NIC grow faster, but also to ensure that NIC could enjoy adequate market share. The company is growing faster by increased speed of paying claims on time and improves quality of services.

11<sup>th</sup> The quality and level of the business retained has strong advantages' on the profitability of insurance business. Very low ratio of reinsurances, claims and operating expenses are crucial for the profitability of the business. A lower retention rate coupled with high claims and expense ratio meant that the company has to generate huge volumes of revenue in order to breakeven.

## **CHAPTER FIVE: Conclusion and Recommendations**

### **5.1. Introduction**

In the first part of this chapter summary of the main findings of the study was presented and followed by conclusions, recommendations and implication of the research that the researcher forwarded so as to enhance factors influencing the performance of NIC. Finally, the identified area for further research was presented. Therefore, the overall objective of the study was to examine factors influencing the performance of the Nile Insurance Company S.C. and mainly focused on clients, employees and intermediaries.

The specific objectives of the study are to determine mode of operation and services rendered by NIC variables influencing NIC performance and challenges facing NIC in maximizing delivering of services in sustainable manner that will enhance NIC performance.

### **5.2. Summary of the Main Findings**

The study found out that after testing five independent variables only two independent variables has shown the following results on mode of operation in underwriting department. The multiple regression outcomes indicate statistical significance exists between providing renewal notice, documentation and mode of underwriting performance. Hence, these two independent variables are the best indicators of underwriting performance. With regard to mode of claim performance out of eight independent variables the multiple regression outcomes indicates statistical significance exists between four independent variables, i.e. notification of claims, proof of cover if it exists, register of claim, and confirmation of premium if paid are the best indicators of mode of claims performance. Generally rate charged by NIC seemed to be doing what is called cash flow underwriting. The study found that low rate premium is charged in marine insurance while high rate is absolutely charged in motor insurance and the rest of the variables premium charged is considerably normal.

The study found out that using multiple regressions outcomes out of seven independent variables six independent variables indicates statistical significance exist between providing time taken to provide service and resolve complains, customer satisfaction of service, employees, brokers, agents, competitors price and underwriting service. Hence, these six independent variables are the best indicators that influence underwriting service of the NIC.

The study found that using multiple regressions outcomes of ten independent variables, six independent variable indicates statistical significance exist between surveyors & inspectors, insured, broker, underwriter, management, knowledge of the work and claim service. Hence, these six independent variables are the best indicators that influence rendering claim service of the NIC.

The study found that the variable which influencing performance of finance department at NIC is shown as per the order stated below:-

Firstly, claims incurred- claims in any insurance company are used as advertisement. As much as claims are settled on time, underwriting premium and underwriting profit increased. Always clients preferred to insure in companies which pay claim on time. Hence the study revealed that the NIC performance is highly influenced by claims incurred. Secondly, solvency- is the ability of insurance companies to pay its liability from its own assets. It is important aspect for insurance company supervision and security for policyholder. Hence, the study shows that as majority of the respondents said solvency requires expert knowledge to regulation of financial performance of NIC. And thirdly, liquidity- it affected the ability of the company to meet short-term obligations, especially in paying claims, premium ceded in and outside the country, operating expenses and investment on time.

The study noted that poor quality of surveyors and inspectors report is caused by the company sometimes to appoint unqualified surveyors and inspectors. Sometimes delay in processing of claim is caused by insured to delay submission of required information on time. The study also revealed that finance department is not doing well in liquidity and

solvency due to insurance market exists today have had unethical price war among industry players.

The study revealed that accessibility and awareness to the insurance services provided by NIC is not so difficult. Most clients and intermediaries are able to obtain and utilize the services. However NIC insurance services are not accessible to direct client except those who are near NIC branches allocated in different regions in the country. For growth of business, the company is growing very slowly due to lack of good marketing environment for instance, promotion and visiting of clients and intermediaries. Also the study revealed that the rates which charged by NIC are reasonable.

### **5.2.1. Variables Influencing Performance of NIC**

The finding shows that brokers and clients contributed a big amount of underwriting premium at NIC. The study noted that good communication and open systems in decision making from high levels are important for the performance of the company. In addition, lack of well organized human resources department, participation of employee in preparing the company plan and budgeting to develop team work and motivation of employees in terms of financial and non-financial motivation has negative influence to the company.

### **5.2.2. Challenges Facing NIC in Maximizing Delivering of Services**

The company is faced with the following challenges: lack of enough qualified professionals, Stiff price competition & Less Distribution Channels; Lack of enough technological advancement, users' have low/lacks of technical insurance know how and poor customer retention. The study further indicates that the insurance industry is in dire need of vocational training for its movers to enable them gain skills required to induce insurance uptake. Training is necessary so that those who are spear heading distribution are in a position to understand what they are recommending to customers. One cannot sell a good or a service that they do not have knowledge of as it will mislead and the

repercussion are huge. The industry may start a college as market- led initiative to foster professional growth.

The management said that business growth is important for NIC to adopt to build its own competitive advantage. Marketing short term new and renewable policies, increase in distribution channels, strengthening intermediaries' relationship, new products, promotion could help the implementation of company objective.

It is thus concluded that Insurance services are very important in several aspects for example increasing capital within companies (that can be used in the business, enterprises are encouraged to open other branches and sales offices expanding business in profitable manner), employees are kept in work, losses are reduced in size and number, the nation benefits from investments made by insurers, the national benefits from so-called invisible exports, reducing fear of the future, encouraging confidence to undertake new ventures, assisting people to save, investment, reducing demands on social services. Therefore insurance companies, intermediaries, insured and NBE should consider the above mentioned factors which influence insurance industry in Ethiopia for the benefit of the country rather than emphasizing in profit. Otherwise insurance industry will fail in future to perform well.

### **5.3. Conclusions**

The study investigates the factors influencing the performance of Nile insurance company S.C. For this purpose, the market share and profitability are the proxy of performance which is explanatory variable. While, the dependent variables consist of operational and service aspects as peroxide by efficiency and effectiveness in the former case and customer care for the latter are selected as dependent variables. Some of the results of regression analysis reveal that employees, customer satisfactions, Brokers, competitors prices and underwriting are most important determinant of performance of NIC whereas authorization limit, board involvement, door-to-door service, risk acceptance and preparing a cheque and released a cheque to the insured has statistically insignificant relationship with performance of NIC.

Generally, the study revealed that insurance services provided by Nile Insurance Company S.C. such as timely settling of claim, increase of retention and earning capacity, risk management and improvement of intermediaries' relation and awareness to increase quality of services has positive contribution towards the company performance.

#### **5.4. Recommendations**

Based on the major presentation and discussion of findings, conclusion and literatures, the following are recommended:-

NIC should properly identify, select and screen potential clients and intermediaries in order to discriminate them from others and taking incentive measures in favor of them such as providing insurance training, motivation, reducing time of processing claims and give them a reasonable rate of premium. This will not only encourage the potential customers but also will be a challenge to bad customers.

Policy documents should be user friendly and possible documents should printed in English and Amharic language because most clients do not read the documents as they are right now because they are written in an alien language besides containing too much small print. This will be useful even for those clients who are not conversant with English language.

The company must customize the policy documentation to reflect the expectations of an ordinary lay person. Most of clients are not lawyers so the documents should be aligned with the demographics of the intended consumers. The Company should increase distribution channels, promotion, creating good working environment for employees, creating good marketing environment, retaining earning and earning capacity in order to improve growth of premium and underwriting profit.

The industry requires a massive infusion of investment in the area of awareness and the value of insurance. This is not a task for anyone company to pursue but a task requiring co-operation between all stakeholders including the government. The insurance companies on the other hand need to put more focus on customer satisfaction than maximization of shareholders value. On the other hand, NIC has to develop strategies which will help the company to maximize underwriting premium and settling claim in

short time than other insurance companies. For starters, NIC should make itself the underwriter of choice by everyone. As a result of this, the company will be in a position to cherry-pick the best quality risks while politely refusing to book any that doesn't fit the expectation. When an underwriter enjoys the position, it can easily charge any rate of premium and customers will still pay instead of running off to competitors.

For Nile Insurance Company S.C to build future success on the simple premise of dealing with claims with minimum fuss. If a claim is reported today and NIC have facts indicating it is a payable claim, then pay it within short period of time and be fair in doing so! This should be the primary objective of the company. The rest of the activities must be adopted to support this objective.

The company must ensure that claims are settled fairly and quickly in accordance with the Company's contracts and standards while at the same time ensuring that the Company's financial interest is protected in as far as cost control, fraud detection and avoidance of claims leakage are concerned. Due to the nature of modern business today, time play a significant role in making the business successful. Always the Stakeholder is required to consider the competitive factors like cost, quality, price and dependability. Therefore, the insurance companies should decrease bureaucracy in providing insurance services.

The NBE must set minimum price floor for insurance companies in order to avoid price war across insurance companies. NIC has number of employee motivational packages but there is no written policy toward employee motivation, therefore, the company needs to specify their motivational packages in written form. The company should state the objective of such package and criteria to obtain such motivational packages. The packages should be clearly defined so that each employee could know the intention of such package.

Although NIC considered their salary increment is enough, is not true, employees had seen not competitive compare to other insurance company. According to the comments of interviewed respondents, money is ranked as the best important motivational factor.

Therefore the company could use money (such as sufficient loans) as their best motivator. Although this cannot be the sole motivator, failure to use money might decrease the employee performance.

Management by objectives should be used. This is a phrase used to describe a style of management which attempt to relate organizational goal to individual performance and development through the involvement of all level of management. Implementing the above recommendations can improve the effectiveness and efficiency of insurance industry to attain their objectives on the performance of insured, insurer and intermediaries in Ethiopia and hence attaining their sustainability.

## **5.5. Implication of the Research Findings**

The weakness of risk management, particularly, in underwriting department entail the shortage of risk expatriates who could well appraise and establish the likelihood of happening the event with utmost expectation. Intensity of competition in insurance industry necessitate the underwriter accepting whatever the level risk that come at the counter. Moreover, there is leeway that make the underwriter not fully disclosed all material facts by the insured which induce them to inceptiate.

Initially, claim notification is dealt very well due to highly apprehensive nature of insured that provide a convenience means of processing the claim, collectively with claim staff ensure the effectiveness in service delivery as finding indicate high customer satisfaction. Also, it implies that the staffs have well organized and deliver the service promptly. Unlike in subsequent stage that indicates delay in receiving assessors report which most of the time is deemed as poor, probably because there is short supplier of manpower with relevant knowledge and shortage of facilities to finish exercise within a reasonable time frame.

Furthermore, the assessor relationship with insured might be not good and detrimental to assessing assignment due to ambiguous information from insured. The management delay in issuing discharge voucher implies that the task is very sophisticated and cumbersome as it involves high degree of professional judgment and vast experience due

to nature of the decision. Any mess in this stage could account for greater loss of finance, hence forth the delay in decision making in this stage is due to the nature of circumstance in question.

Last but not least, the service accessibility and awareness is very good due to durable relationship between NIC and several intermediaries. It connote that, the company is closely working with intermediaries rather than itself, implying the indirect business model, the repercussion is that any conflict of interest between company and intermediaries could drastically reduce the volume of business, therefore, the company should attach its self especially to corporate client directly even via intermediaries. The poor marketing and promotion conducts implies lack of resources or company attitude in marketing investment. The durable relationship between intermediaries and NIC might be due to reasonable rates offered to them that attract more customers. The company growth rate is caused by lack of marketing and promotional strategies.

## **5.6. Area for Future Research**

This study was conducted to assess “What are the factors influencing the performance of Nile Insurance Company S.C.?” However, future research may investigate Performance management in sixteen private insurances and one government owned insurance company in Ethiopia. This is because performance management is the key for success of organization. For instance, when the insurance company grows larger, the degree of complexity increase, bureaucracy in decision-making and control become more appealing factors. Establishing a systematic and well-organized performance management system can enhance understanding and analyzing the key success factor.

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## Appendix I: Research Questionnaires

The objective of this study is to find out factors influencing performance of insurance industry in Ethiopia, particularly in Nile Insurance Company S.C. For this reason we request for your kind responses to the following questions. All information collected will be strictly confidential and exclusively be used for academic purposes only.

1. What is your level of education?

|   | Education                   | TICK |
|---|-----------------------------|------|
| a | Primary education           |      |
| b | Secondary education/diploma |      |
| c | University education        |      |

2. What is your age?

|   | Age           | TICK |
|---|---------------|------|
| a | Less than 25  |      |
| b | Between 25-60 |      |
| c | Above 60      |      |

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

|   | Mode of operating               | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---------------------------------|-------------------|----------|---------|-------|----------------|
| A | Providing of renewal notice     |                   |          |         |       |                |
| B | Risk selection                  |                   |          |         |       |                |
| C | Risk acceptance                 |                   |          |         |       |                |
| D | Documentation                   |                   |          |         |       |                |
| E | Mode of cancellation of service |                   |          |         |       |                |

4. What about rate of premium which are charged by N.I.C

|   | Types of risk        | Low rates | High rates | Normal rates |
|---|----------------------|-----------|------------|--------------|
| A | Motor                |           |            |              |
| B | Burglary             |           |            |              |
| C | Fire                 |           |            |              |
| D | Engineering          |           |            |              |
| E | Marine               |           |            |              |
| F | Workmen Compensation |           |            |              |
| G | Liability            |           |            |              |
| H | Personal accident    |           |            |              |
| I | Performance Bond     |           |            |              |
| J | Advanced Bond        |           |            |              |
| K | Others               |           |            |              |

5. In which stage of processing claim the company is doing well?

|   | Stage in processing claim                                     | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|-------------------|----------|---------|-------|----------------|
| A | Notification of the accident                                  |                   |          |         |       |                |
| B | Proof of cover if it exist                                    |                   |          |         |       |                |
| C | Register of claim   |                   |          |         |       |                |
| D | Confirmation of premium if paid                               |                   |          |         |       |                |
| E | Surveyors   |                   |          |         |       |                |
| F | Inspectors  |                   |          |         |       |                |
| G | Reviewing Assessors and inspectors report and decision making |                   |          |         |       |                |
| H | Preparing a cheque& release a cheque to insured               |                   |          |         |       |                |

6. Which variables are influencing underwriting performance?

|   | Variables  | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|--|-------------------|----------|---------|-------|----------------|
| A | Time taken to provide service & to resolve complains |                   |          |         |       |                |
| B | Customers satisfactions of services                  |                   |          |         |       |                |
| C | Employees  |                   |          |         |       |                |
| D | Brokers  |                   |          |         |       |                |
| E | Agents   |                   |          |         |       |                |
| F | Competitors Price                                    |                   |          |         |       |                |
| G | Door to Door Service                                 |                   |          |         |       |                |

7. Which variables are influencing performance of claim department?

|   | Variables             | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|-----------------------|-------------------|----------|---------|-------|----------------|
| A | Surveyors             |                   |          |         |       |                |
| B | Inspectors            |                   |          |         |       |                |
| c | Insured/Clients       |                   |          |         |       |                |
| d | Underwriting          |                   |          |         |       |                |
| e | Agents                |                   |          |         |       |                |
| f | Brokers               |                   |          |         |       |                |
| g | Management            |                   |          |         |       |                |
| h | Authorization Limit   |                   |          |         |       |                |
| i | Board involvement     |                   |          |         |       |                |
| j | Knowledge of the work |                   |          |         |       |                |

8. Which variables are influencing performance of finance department?

|   | Variables      | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|----------------|-------------------|----------|---------|-------|----------------|
| a | Intermediaries |                   |          |         |       |                |
| b | NBE regulation |                   |          |         |       |                |
| c | Liquidity      |                   |          |         |       |                |
| d | Solvency       |                   |          |         |       |                |
| e | Claim incurred |                   |          |         |       |                |
| f | Insured        |                   |          |         |       |                |

9. How technological help to facilitate operation and the process of providing insurance service to insured?

.....  
 .....  
 .....  
 .....

10. Do brokers and agents affect the operation of NIC? [Yes] or [No]

11. From question number 10 above if the answer is yes, explain how brokers & sales agents affect the operation of N.I.C?

.....  
 .....  
 .....  
 .....

12. What challenges are facing Nile Insurance Company in providing insurance services?

.....  
.....  
.....  
.....  
.....  
.....

13. For your experience in insurance industry insured and non-insured are aware with products which are provided by Nile Insurance Company S.C [Yes] or [No ]

14. What is your suggestion about improving the performance of Nile Insurance Company S.C?

.....  
.....  
.....

**THANK YOU**

**Appendix II: Research Questionnaires for Interview**

The objective of this study is to find out factors influencing performance of insurance industry in Ethiopia, particularly in Nile Insurance Company S.C. For this reason we request for your kind responses to the following questions. All information collected will be strictly confidential and exclusively be used for academic purposes only.

1. What is your name, and where are you working .....
2. How many insurance policies do you have with NIC? .....
3. Since when did you started to insured with Nile insurance company? .....
4. Do you have any cover with any insurance company in Ethiopia? .....
- If YES, are you satisfied with the services rendered by Nile insurance company? .....
5. Have you ever claimed anything from Nile insurance company due to the policies you possess in the last three years? ..... If YES, How much was the Total claim....., and How long it took for you to be paid the claim? .....
6. How many insurance products do you know and mention it.....
7. What is your suggestion about rate of premium against your risk insured? .....
8. What mode of communication you use to communicate with NIC in insurance services? .....

9. Do mode of communication mentioned above facilitates insurance operation? [ ]

.....

10. How long it takes for Nile insurance company to provide insurance service in the following area? Also comment if you are not satisfied.

- I. Underwriting.....
- II. Claim.....
- III. Finance.....
- IV. Marketing.....

11. If you have got complains from insured how long it takes for Nile insurance company to resolve this problem. ....

.....

12. Are you satisfied with services, which are offered by Nile insurance company in Claim, underwriting, employees, marketing, finance and top management? [Yes] or [No].....

.....

13. If the answer from question number 12 above is No or yes explain how

- I. Claim department.....
- II. Underwriting department.....
- III. Marketing department.....
- IV. Employees.....
- V. Top management.....
- VI. Finance department.....

14. What is your suggestion about improving the performance of insurance industry in Ethiopia?

.....

***THANK YOU***

### Appendix III: Branch Network & Capital of Insurance Companies

(Branch in Number & Capital in Millions of birr)

| S/N<br>o | Insurance Companies                            | Branch      |     |       |            |     |       |             |     |       | Capital         |                |                 |
|----------|--|-------------|-----|-------|------------|-----|-------|-------------|-----|-------|-----------------|----------------|-----------------|
|          |  | 2015/16     |     |       | 2016/17    |     |       |             |     |       | 2015/16         | 2016/17        |                 |
|          |  | Quarter III |     |       | Quarter II |     |       | Quarter III |     |       | Quarte<br>r III | Quar<br>ter II | Quar<br>ter III |
|          |  | A.A         | Reg | Total | A.A        | Reg | Total | A.A         | Reg | Total | Capital         | Capital        | Capital         |
| 1        | Ethiopian Insurance Corporation                | 18          | 48  | 66    | 18         | 52  | 70    | 18          | 52  | 70    | 692             | 946            | 977             |
| 2        | Awash Insurance Company S.C                    | 24          | 14  | 38    | 26         | 15  | 41    | 26          | 15  | 41    | 254             | 289            | 327             |
| 3        | Africa Insurance Company S.C                   | 10          | 11  | 21    | 14         | 11  | 25    | 14          | 12  | 26    | 209             | 256            | 243             |
| 4        | National Insurance Corporation of Ethiopia S.C | 15          | 14  | 29    | 18         | 15  | 33    | 19          | 15  | 34    | 93              | 108            | 93              |
| 5        | United Insurance Company S.C                   | 18          | 10  | 28    | 20         | 11  | 31    | 20          | 11  | 31    | 280             | 300            | 319             |
| 6        | Global Insurance Company S.C                   | 6           | 7   | 13    | 6          | 7   | 13    | 7           | 7   | 14    | 104             | 112            | 116             |
| 7        | Nile Insurance Company S.C                     | 17          | 18  | 35    | 19         | 20  | 39    | 19          | 20  | 39    | 220             | 261            | 266             |
| 8        | Nyala Insurance Company S.C                    | 13          | 10  | 23    | 15         | 11  | 26    | 15          | 14  | 29    | 306             | 416            | 401             |
| 9        | Nib Insurance Company S.C                      | 20          | 9   | 29    | 22         | 11  | 33    | 24          | 11  | 35    | 272             | 296            | 281             |
| 10       | Lion Insurance Company S.C                     | 15          | 12  | 27    | 16         | 14  | 30    | 16          | 15  | 31    | 98              | 97             | 77              |
| 11       | Ethio-Life Insurance Company S.C               | 11          | 4   | 15    | 15         | 4   | 19    | 15          | 4   | 19    | 76              | 90             | 94              |
| 12       | Oromia Insurance Company S.C                   | 17          | 15  | 32    | 18         | 18  | 36    | 18          | 19  | 37    | 76              | 164            | 191             |
| 13       | Abay Insurance Company S.C                     | 10          | 9   | 19    | 10         | 10  | 20    | 12          | 11  | 23    | 147             | 141            | 158             |
| 14       | Berhan Insurance Company S.C                   | 7           | 1   | 8     | 9          | 2   | 11    | 9           | 2   | 11    | 68              | 73             | 79              |
| 15       | Tsehay Insurance Company S.C                   | 8           | 3   | 11    | 10         | 4   | 14    | 10          | 5   | 15    | 77              | 94             | 98              |
| 16       | Lucy Insurance Company S.C                     | 6           | 2   | 8     | 6          | 2   | 8     | 7           | 4   | 11    | 87              | 102            | 107             |
| 17       | Bunna Insurance Company S.C                    | 10          | 2   | 12    | 11         | 5   | 16    | 11          | 5   | 16    | 59              | 66             | 69              |
|          | Total  | 225         | 189 | 414   | 253        | 212 | 465   | 260         | 222 | 482   | 3118            | 3811           | 3896            |