



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF RISK MANAGEMENT PRACTICE OF
INSURANCE COMPANIES IN ETHIOPIA**

**BY
HIWOT TEKA**

JUNE 2017
SMU
ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION IN ACCOUNTING AND FINANCE**

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SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS**

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Abebaw Kassie. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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June 2017

ENDORSEMENT

This thesis has been submitted to St. Mary's University School of Graduate Studies for examination with my approval as a university advisor.

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June 2017

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ACKNOWLEDGEMENTS

I thank the God Almighty for the precious gift of life, wisdom and health that he awarded me during my study period. I could not accomplish such success if God were not beside me.

I extend my sincere appreciation to my advisor Abebaw Kassie (PhD) for his professional guidance and for showing me the way.

I express the gratitude to the employees in insurances for cooperation they showed me during the process of data collection.

There are no words to express the debt of gratitude towards my families who always supported me since I was little. I want to thank all of my family Gashe especial dad, Daniel, Tekle, Zemach, Konjit, Behailu, my husband Biruk and my sweet angel mama and my friend Leaynet Assefa. My especial thanks goes to Sinidu you are always there for me. I have no word to thank you enough I love you so much may God give you everything you wish to have.

Finally, I thank St. Mary's University administrators. I thank all of them.

May God bless you all for having provided support towards the accomplishment of my studies.

LIST OF ACRONYMS

ASNZS:	Australia and Standards New Zealand states
COSO:	Committee of Sponsoring Organizations of the Tread way Commission
ERM:	Enterprise Risk Management
IAA:	International Actuarial Association
IAIS:	International Association of Insurance Supervision
ISO:	International Standard Organization
NBE:	National Bank of Ethiopia

ABSTRACT

This paper sought to assess the risk management practice of insurance companies in Ethiopia. The researcher used descriptive quantitative design. A purposive random sampling technique was used to select employees from risk management and underwriting departments. The total population of the study is 85. 85 questionnaires were distributed to the respondents. The main instrument for collecting primary data was questionnaire. The data was analyzed using both descriptive statistical like mean, standard deviation and narrative methods. Narrative analysis was used to explain the qualitative results of the survey. The findings of the study were that insurances has risk management practice in terms of the setting risk-related objective and risk identification, risk assessment, risk response and risk control, communication and monitoring. The insurances were in moderate extent practice of risk management which means the respondent was in neutral agreement about practice of risk management. The study point out the insurances should give attention on providing information to their employees as well as to their customers through different mechanism in order to maintain effective risk management practice.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The financial sector plays an important role in the development of the economy and growth in any country. Carey (2001) shows that risk management is more important in the financial sector than in the other parts of the economy. Risk is unavoidable like the common death and taxes. It is one of the few things in life that is inevitable. All businesses, whatever their size and shape, in whatever markets they operate and no matter what products and services they provide, are constantly faced with a multitude of risks, large and small. Indeed, businesses can only prosper by successful risk taking as argued by Osborne (2012).

Risk management is an important discipline in business especially for insurance because its central function is to distribute risk across different participant and cover various types of risks for individuals, businesses and companies. According to standard and poor's (2013), insurers as risk-bearing institutions can and do fail if risks are not managed adequately.

Risk management has the task of identifying risks, measuring the probability and the possible impact of events, and treating risk, reducing their effect with minimum investment of resources Waring & Glendon (2008).

According to Kadi (2003), most insurance companies in developing countries cover insurable risks without carrying out proper analysis of the expected claims from clients and without putting in place a mechanism of identifying appropriate risk reduction methods. Poor management of risk, by insurance companies, leads to accumulation of claims from the clients hence leading to increased losses Magezi (2003).

Meredith (2014) suggests that there should be careful judgment, by management of insurance companies, of insurable risks in order to avoid excessive losses in settling claims.

Insurance Supervision Directorate (NBE) has compiled the draft of the risk management guideline for eight commonly identified and known as inherent and significant risks of insurers. In the process of these risks management, the role to be played by the board of directors, management, internal control system and other concerned parties are clearly addressed. The need to formulate risk management philosophy, strategies, policies and procedures have also been given due coverage.

It is thus important to assess the risk management practice of insurance companies.

1.2 Statement of the Problem

Insurances today operate in an environment marked by globalization, increasing regulatory requirements, technological innovation, intensive competition and emergence of new risk Cummins et al., (2007). In Ethiopia, the increase in the insurance industry has generated a greater concern to manage the entire activities of insurances in order to avert any possible risks that may occur.

According to NBE risk management guideline the insurance system in Ethiopia has observed a significant expansion over the past few years based on increase in terms of number of insurance, products they are offering to the clients & etc. The regulatory body believes that such growth should be matched with strong risk management practices.

In Ethiopia a few research attempted on insurance risk management practice for instance kokeb and Gemechu (2016) conduct their research on risk management technique and financial performance of insurance companies. They aggressively investigate the existence of relationship between risk management technique and financial performance. The variables used are loss prevention and control, loss financing and risk avoidance. All this variables were correlated with financial performance ROE (Return on equity) in order to find the relationship between them. The finding of research indicate there exist a relationship and recommend the insurance companies to apply risk management techniques effectively so as to improve on their return on equity and reducing loss ratios.

Abraham Kassahun (2015) the assessment of enterprise level risk management practices of insurance companies. The study used 9 (nine) evaluative parameters which have direct linkages with insurance companies own enterprise level risk management functions such as board responsibility, structure and resources, strategies, policies and programs, communications, appraisal and reward, benefits and out comes, auditors view, risk identification and nature of risks facing insurance companies.

The previously conducted research assess practice of risk management at enterprise level that is including all units or department with mentioned nine variable, the other research focus on the existence of relationship between financial performance and risk management techniques the above two researches didn't address the assessment of risk management practice using the eight (8) component of ERM (Enterprise risk management) Framework. Therefore, the aim of this study is to assess the process by using the eight component of the framework.

1.3. Research Questions

The major research questions of the study are:

1. To what extent insurance companies in Ethiopia use component of objective setting and risk identification?
2. To what extent insurance companies in Ethiopia use component of risk assessment?
3. To what extent insurance companies in Ethiopia use component of risk response?
4. To what extent insurance companies in Ethiopia use component of risk control, information and communication and risk monitoring?

1.4 Objectives of the Study

Depending on the issue chosen for investigation, the study has both general and specific objectives.

1.4.1 General Objective

The general objective of this study is to assess the risk management practice of Insurance Companies in Ethiopia.

1.4.2 Specific Objectives

Specifically, the study has the following objectives:

- To assess practice of objective setting and risk identification
- To assess practice of risk assessment
- To assess practice of risk response
- To assess the approaches that insurance companies in Ethiopia use to control, inform and monitor risks

1.5 Significance of the Study

Since study is conducted on insurance companies which are found in Ethiopia it will bring the following benefits to the insurance sector

- It will provide valuable information for regulatory bodies especially NBE to see the actual practice maintained by insurance companies. The recommendation and the suggested possible solutions for the identified gaps can be used as an input for assessing the effectiveness of risk management practice.
- It can help insurance companies to identify their weaknesses on practice of risk management.
- It will give a general insight to the academic & professional society regarding risk management aspects of insurance companies.

1.6. The Scope of the Study

The study mainly focuses on assessing the process to manage risk that is objective setting, identifying, measuring, response activity, control, communication and monitoring risk on companies which are found in Ethiopia.

For the purpose of evaluating risk management practice (COSO) Enterprise Risk Management Integrated Framework, 2004 specify eight (8) components as evaluating criteria. The researcher used only this framework to assess the practice of insurance

companies in Ethiopia. The researcher chooses this framework because it provide detail information how companies manage their risk, it discuss in detail of risk appetite, provide assurance regarding the achievement of entity objectives, provide a basis for application across organizations, provide a basis for defining risk management effectiveness.

1.7 Limitations of the Study

The main limitation of the study is it only uses one framework that is (COSO) Enterprise Risk Management Integrated Framework, 2004 among many frameworks available to evaluate risk management practice. The study mainly focuses on the practice of risk management rather than different kind of risk faced by insurance companies.

The other limitation of the study is it only uses primary data rather than using secondary data which are company risk manual and also the research do not conduct interview in the process of collecting data.

1.8 Organization of the Study

The research paper is organized in five chapters, whereas the first chapter contains; background of the study, introduces statement of the problem and the research question, elaborates the objectives, indicates its scope and delimitations of the study.

The second chapter review relevant literature related to the concepts and theories of risk management that are appropriate to the study.

The third chapter present about the type of the research and the methods which are employed in the study. It discusses the sources of data, methods of data gatherings, techniques of data analyzing and presentation.

The fourth chapter offers the major findings about risk management practices of insurance companies and actual data which is gathered from the companies.

The last and the fifth chapter will give conclusions and recommendations on the topic which includes summary of findings, conclusions and possible recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

In this chapter different theoretical aspects of risk like its definition, types, management and others as well as empirical issues and works as to the risk management practice in the insurance industry discussed.

2.1 Defining Risk

Risk is an important concept in a number of fields, yet there is no agreement on how it is to be defined and interpreted Aven (2011). Some of the definitions are based on probabilities, others on expected values, some on uncertainty and others on objectives.

The term “risk” defined on Oxford dictionary as ‘: The possibility that something unpleasant or unwelcome will happen and also The possibility of financial loss. Similarly Sharma (2003) define Risk as possibility of loss, it may be financial loss or loss to the reputation.

Risk can be defined as the combination of the probability of an event and its consequences ISO/IEC (Guide 73). Risk is a combination of the probability and scope of the consequences ISO (2002). That is inability to precisely determine what will occur in the future, risk can have both an upside and a downside.

According to Renn (1992), a prerequisite for the existence of risk is uncertainty, i.e. that future is not predetermined but is dependent on present human activities. Risk is inherent in any walk of life and can be associated with every human decision- making action of which the consequences are uncertain.

ISO/Guide 73 (2009) defines risk as “effect of uncertainty on objectives” which means the likelihood of something occur could impacts the objectives, it is the possibility to either make a gain or a loss.

Risk refers to “a condition where there is a possibility of undesirable occurrence of a particular result, which is known or best quantifiable and therefore insurable” Periasamy (2008). If the risk occurred is quantifiable, then it can be insured.

Risk is an uncertain consequence of an event or activity related to something of human value IRGC (2005). According to the Institute of Actuaries of Australia (IAAust), “risk is inherent in all areas of human endeavor risk is present in everyday commercial and personal activities risk results from the presence of more than one potential outcome from a course of action” IAAust (2003).

2.2 Type of Risk Faced by Insurance Company

The possibility of risk occurring varies from industry to industry. Insurance companies usually referred to as ‘risk intermediaries’ transfer the risk of a loss arising from a contingent event, from the policyholder to the insurer, in exchange for premiums. In the process of providing services, insurances assume various kinds.

Based on the context in which risk is viewed, it is classified as speculative or hazard. Speculative risk has opportunity to gain from course of action but hazard risk has no opportunity for gain Young (2001).

Insurance companies face two types of risk those are financial risk and non-financial risk financial risk refers to risks involved with capital and financial market risk. Non-financial risks refer to Hazard risk, operational risk and strategic risk Ai&Brockett (2008).

Some risks are specific to the insurance sector, such as underwriting risks and risks related to the evaluation of technical provisions. Other risks are similar to those of other financial institutions. The National Bank of Ethiopia (NBE) identified eight kind of risk as inherent & significant risk on risk management guideline for insurance companies. Inherent risk is inherent to a business activity and arises from exposure and uncertainty from potential future events. Significant risk refers to activities that are material to operations and/or business strategies. The commonly identified risks are credit risk, market risk, liquidity

risk, underwriting risk, technical reserves risk, operational & technological risk, contagion & related party risk & reinsurance risk.

2.2.1 Credit Risk

The IAIS defines credit risk as “the risk that a counter party to the insurer is unable or unwilling to meet their obligations causing a financial loss to the insurer.

Credit risk can be defined as “the potential that a contractual party will fail to meet its obligations in accordance with the agreed terms”. Credit risk is also variously referred to as default risk, performance risk or counterparty risk Altman et al., (2003).

There are three characteristics that define credit risk those are Exposure to a party that may possibly default or suffer an adverse change in its ability to perform, the likelihood that this party will default on its obligations the default probability and the recovery rate that is, how much can be retrieved if a default takes place Altman et al., (2003).

The IAIS identified investment counterparties, policyholders (through outstanding premiums), reinsurers, and derivative counterparties as source of credit risk. According to NBE guideline Credit risk includes bonds and others fixed income default risk, derivatives counter party, loans and insured debts, and trade debtors are among others.

2.2.2 Market Risk

The business of insurance usually involves a mismatch, in timing between the receipt of premium income and the payment of expenses and policy benefits. IAA (2004) define market risk for insurer that it “relate to the volatility of the market values of assets and liabilities due to future changes of asset prices(/yields/returns).” This means it applies to all assets and liabilities and the management of market risk should focuses on the economic value of net asset and liability.

The IAIS define the above concepts in a briefer definition: “The risk to an institution’s financial condition resulting from adverse movements in the level or volatility of the market prices of interest rate instruments, equity-type instruments, currencies, or property.” IAIS (2004).

According to NBE guideline Market risk include Stocks and others variable income investments price volatility risk, real state, changes in interest rates and reinvestment risk. Interest rate risk is risk of exposure to losses resulting from fluctuations in interest rates.

2.2.3 Liquidity Risk

According to NBE Liquidity risk is Volatility and mismatch between the current resources and current obligation of the company. Similarly the FSA defines liquidity risk as “the risk that a firm, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost”. This means firm faces liquidity risk when, in spite of holding a higher level of assets than liabilities, these assets are ‘illiquid’, and not easily convertible to cash. This forces it to sell its assets at a discount to quickly raise the required cash resources. Alternatively, the firm may borrow funds, which will further require a payment of interest on the loan, therefore giving rise to the ‘excessive cost’.

Liquidity risk arises from a member institution's inability to provide cash or otherwise obtain the necessary funds, either by increasing liabilities or converting assets, to meet its on- and off-balance sheet obligations as they come due without incurring unacceptable losses or excess funding costs Ontario Risk assessment framework (2005)

Insurance companies usually referred to as ‘risk intermediaries’ transfer the risk of a loss arising from a contingent event, from the policyholder to the insurer, in exchange for premiums. Situations where the traditional insurance sector may be a source of financial instability are unlikely. These firms are financed by premiums that are paid in advance and the claim payments are only made on the occurrence of the pre-defined insured event.

2.2.4 Underwriting risk

Insurance companies assume risk through the insurance contracts they underwrite. Underwriting risks are those associated with both the perils covered by the specific line of insurance (fire, death, motor accident, windstorm, earthquake, etc.) and the risk mitigation processes used to manage the insurance business.

According to NBE Underwriting risk include underpriced products risk or insufficient premium and weakness in subscription process (risk acceptance). The development of new products is considered an increasing factor of this risk, but not a risk itself.

2.2.5 Technical Reserves risk

According to NBE guideline Technical Reserves risk is a risk of holding of insufficient technical reserves by the company such as unearned premium provision, outstanding claims.

2.2.6 Operational and Technological risk

According to NBE guideline Operational and Technological risk is risk of loss as a result of problems in systems, operational process and company management. It also includes IT system risks.

The IAIS Glossary defines operational risk as “the risk arising from failure of systems, internal procedures and controls leading to financial loss. Operational risk also includes custody risk.” Operational risk is defined as “the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.” This means inadequate processes, people, and systems can be a source of loss. Insurers and their supervisors should therefore proactively and comprehensively address weaknesses that may create operational risk.

2.2.7 Contagion and Related Party Risk

According to NBE guideline Contagion and Related Party Risk is risk of loss from contagion (group's problems) or transactions with related parties.

2.2.8 Reinsurance risk

IAIS (2006) defines a reinsurance contract as an “insurance contract between one insurer or pure re-insurer (the re-insurer) and another insurer or pure insurer (the cedant) to indemnify against losses on one or more contracts issued by the cedant in exchange for a consideration (the premium)”. Reinsurance is insurance for insurers. It is an agreement between an insurer and a reinsurer the reinsurer agrees to indemnify the cedent against all or part of a loss which the ceding company may incur under certain policies of insurance that it has issued. In turn, the cedent pays a premium, and discloses information needed to assess, price and manage the risks covered by the reinsurance contract.

Reinsurance also introduces several risks that could threaten financial stability it introduces credit risk for a primary insurer. Credit risk is the risk that a re-insurer is not willing or not able to pay the claim to the primary insurer. Failing reinsurance cover leaves the primary insurer with the obligation to fulfill the contract itself, possibly posing solvency and liquidity constraints Cole and McCullough (2006).

The NBE guideline specify factors to be considered in the management process of reinsurance risk those are capital management, the timing of payments of reinsurance premium, claims in liquidity management the relationship between the reinsurance program and pricing and underwriting management.

2.3 Risk Management

The IAIS Glossary defines risk management as “a scientific approach to the problem of dealing with the pure risks facing an individual or an organization, in which insurance is viewed as simply one of several approaches for dealing with such risks.” Insurance companies borrow heavily from the risk management process suggested by Kiochos(1997).

Rejda (2008) defines risk management as the process through which an organization identifies loss exposures, facing it and selects the most appropriate techniques for treating such exposures.

Risk Management is described as the performance of activities designed to minimize the negative impact(cost) of uncertainty (risk) regarding possible losses SchmidandRoth (1990).

ASNZS (1995) “risk management is as much about identifying opportunities as avoiding or mitigating losses.”

In Enterprise Risk Management (2003), “Risk management is not only about reducing downside potential or the probability of pain, but also about increasing upside opportunity or the prospects for gain.”Riskmanagementintroducestheideathatthelikelihoodofaneventhappeningcan be reduced. Effective risk management seeks to maximize the benefits of a risk while minimizing the risk itself.

According to Kiochos (1997), the risk management process involves four steps: identifying potential losses, evaluating potential losses, selecting appropriate risk management techniques for treating loss exposures and implementing and administering the risk management program.

According to Pyle (1997), risk management is the process, by which managers satisfy these needs by identifying key risks, obtaining consistent, understandable, operational risk measures, choosing which risks reducing, which to increase and by what means, and establishing procedures monitor resulting risk positions.

In risk management, a prioritization process must be followed whereby the risk with the greatest loss and greatest probability of occurrence is handled first and risks with lower loss are handled later (Kiochos, 1997, & Stulz, 2003). There is however, no specific model to determine the balance between risks with greatest probability and loss and those with lower loss, making risk management difficult.

Solvency Directive contains regulations concerning the amount of risk companies are allowed to take and financial buffers firms need to have to ensure their continuity. Definition by Williams et al., (2006) states the aim of risk management is to provide decision makers with a systematic approach to coping with risk and uncertainty. Risk Management is about ensuring that risks are taken consciously with full knowledge, clear purpose and understanding so that it can be measured and mitigated to prevent a firm from suffering unacceptable loss causing it to fail or materially damage its competitive position.

There are various definitions of ERM, Casualty Actuarial Society (2003) defines Enterprise Risk Management as disciplines by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purposes of increasing the organization's short and long term value to its stakeholders.

Makomaski (2008) defines Enterprise Risk Management as a decision-making discipline that addresses variation in company goals. Alviunessen and Jankensgård (2009) point out that Enterprise Risk Management is concerned about a holistic, company-wide approach in managing risks, and centralized the information according to the risk exposures.

From the above definition Enterprise Risk Management can be defined as a systematically integrated and discipline approach in managing risks within organizations to ensure firms achieves their objective which is to maximize and create value for their stakeholders.

According to (COSO) Enterprise Risk Management Integrated Framework, Enterprise Risk Management is a process, affected by an entity's board of directors, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, assessing the likelihood and impact to provide reasonable assurance regarding the achievement of entity objectives.

Some Benefits of Enterprise Risk Management are Organization desire to reduce potential financial losses, Organization desire to improve business performance, Due to the regulatory compliance requirements and Organization desire to increase risk accountability KPMG International (2006).

2.4 Risk Management Practices

Insurance companies are in the business of taking risks, underwrite policies that deal with specific risks. To make insurance company function well, insurance companies should be good at managing their own risks. As a result Risk management becomes one of the main functions of any insurance services and Risk management involves the identification, assessment, prioritization of the risks and the application of resources to minimize, monitor and control the probability and/or impact of the negative occurrences.

By risk management it also mean any kind of considerations which enable businesses to detect critical developments and to take countermeasures early enough Henschel (2007). Therefore risk management is the process of identification, analysis, assessment, control, elimination and evasion of unacceptable risks.

The insurance industry is a regulated sector as a result of the riskiness of its operation. The Solvency II Directive framework requires risk management integration in all insurance company's business processes. There is no single management system that would fit for all insurance companies. Therefore, NBE requires each insurance company to develop its own comprehensive risk management system fitted to its need and circumstances.

The NBE Licensing & Supervision directive (2014) specify the role & responsibility to ensure the risk management process that is identifying, measuring, monitoring & controlling risk is in place & functioning effectively.

There are three forms of assurance process that may be used in assessing a risk management process. Those are process element approach, key principles approach and maturity model approach. Process element approach checks whether each element of the risk management

process is in place, key principles approach checks whether risk management process satisfy a minimum set of principles and maturity model approach checks the quality of an organization risk management process and its improvement over time ISO 3100 (2010).

According to (COSO) Enterprise Risk Management Integrated Framework, (2004) Determining whether an entity's enterprise risk management is "effective" is a judgment resulting from an assessment of whether the eight components are present and functioning effectively. Thus, the components are also criteria for effective enterprise risk management.

2.5 Components of Enterprise Risk Management

Enterprise risk management consists of eight interrelated components. These components are:

- *Internal Environment – The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.*
- *Objective Setting – Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.*
- *Event Identification– Internal and external events affecting achievement of an entity's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channeled back to management's strategy or objective-setting processes.*
- *Risk Assessment – Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.*
- *Risk Response – Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the entity's risk tolerances and risk appetite.*
- *Control Activities– Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.*
- *Information and Communication – Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.*
- *Monitoring – The entirety of enterprise risk management is monitored and modifications made as necessary.*

2.6 Empirical Evidence

A number of studies have been conducted on risk management. This section will review the empirical studies in view of the study.

Njoroge (2013) studied the strategic risk management practices by AAR Insurance Identified reputation risk as the most significant risk facing the company. This study employed case study research design. The target population comprised of 40 senior management and middle level staff at AAR Insurance Kenya Limited drawn from the department of finance, underwriting and operation. The study recommended that the Board should continue taking ownership and driving the risk agenda across the business, the organization should focus on new emerging risk types such as reputation, operational risks and IT security while not losing focus on the traditional risks such as credit and market risks. AAR should also define Risk Management framework and program which enables effective reporting and consolidation of data.

Khalid and Amjad (2012) conducted a research on the risk management in Islamic banking in Pakistan. The results indicate that Islamic banks are somewhat reasonably efficient in managing risk where understanding risk and risk management risk monitoring and credit risk analysis, are the most influencing variables in risk management practices.

Yusuwan et al., (2008) focused on identifying the level of awareness of risk management in their study on the risk management practices on construction project companies in Klang Valley, Malaysia. They undertook to examine the policies undertaken when dealing with risks in a construction project and identifying the problems and challenges in risk management. For this study, they employed questionnaire survey and interviews to study 27 public and private companies operating in Klang Valley. The study found out that 44.4%, 29.6%, 14.8% and 11.1% had occasionally heard, heard and attended training, practiced risk management and never heard about risk management respectively. In addition, 51.9% of the respondents believed that risk management was capable of adding value to daily work, 33.4% believed that risk management was useful in times of crisis. Their studies concluded that risk management positively contributes to the productivity and financial performance.

Batsirai (2014) risk management practices for short-term insurance in Zimbabwe. The study investigated risk management practice by using risk management culture, risk control and extreme event management variable. A questionnaire used as a research instrument for data collection. Purposive sampling used to come up with research participants. The study reveal there is poor risk management culture in short-term insurance companies. The results show that the risk management practitioners in the Zimbabwean short-term insurance industry are not appropriately qualified and management does not view risk management as a tool that can provide their firms a competitive edge. Insurance companies have measures in place to manage high frequency low severity events, however have no measures in place to envision and manage low frequency high severity events. The implications of these findings are that, for a new approach like Enterprise Risk Management (ERM) to succeed there has to be a paradigm shift in the Zimbabwean short term insurers' approach to risk management the first being to strengthen their risk management culture. The efforts to adopt ERM must start in the board room and the short term insurance companies should integrate risk management into their organization's objectives, philosophy, practices, and strategic plans.

Muli(2003) conducted an investigative study on the management of property risks in Kenya using a case study of the insurance sector. Questionnaires were distributed to a sample of 18 insurance companies out of a total of 36. An interview was conducted with the Commissioner of Insurance and the Honorary Secretary to the Institute of Loss Adjusters and Risk Surveyors. Due to the exploratory nature of the study, a qualitative analysis of the available data was adopted. Data from questionnaires and interviews was coded and frequency tables in simple percentages used to analyze responses to each question. A descriptive approach was then adopted in communicating the results. In summary, the study found that although risk management is consciously present in Kenyan insurance business, there still lacks a clear understanding of the discipline in the industry. Where they were available, the involvement of risk surveyors/managers by insurers was found not comprehensive enough. They were not involved in risk control and evaluation even after they had recommended appropriate risk control measures. It was found that although insurers have adequate information for any risk management activity, there lacks an efficient means of storage and retrieval of the same. The study recommended computerization and general improvement of their information systems.

Kinyua (2010) conducted a study on the assessment of risks as a component of corporate strategy in selected life insurance firms in Kenya. The research employed a descriptive survey design. The population of the study consisted of only 23 insurance firms involved in life insurance. The findings of the study indicated that the top three risks faced by insurance firms were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation. Given the reality of risks to company strategy, this study recommended that insurance firms further enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process.

Hassan(2009) seeks to identify the risks posing the greatest exposure for Islamic banks in Brunei Darussalam and to examine the effectiveness of risk management techniques utilized in these banks. The results of the study reveal that the three major risks affecting the banks are foreign-exchange risk, credit risk and operational risk. Also, Islamic banks are reasonably efficient in managing risk; and risk identification, and risk assessment and analysis are the most influencing variables in risk management practices.

Abraham (2015) studied on the assessment of Enterprise level risk management practice. The objective of the study was to assess practices and identify the major strengths and weakness. For the study he used both primary and secondary sources of data. This study employed census and convenient sampling techniques. The target population comprised of 17 insurance companies and 119 management and senior officers. The study found that although there are some positive steps so far taken by insurance companies to strengthen their risk management practices there still weakness regarding on consideration of risk management as an essential component and integration of HR with risk management function. The study recommended that insurance companies should give great value and focus to the development of risk management functions awareness, HR management and policies has to be integrated with risk management units and NBE should review the existing risk management guidelines and evaluate each insurance company accordingly.

Kokobe&Gemechu (2016) conducted a study on Risk Management Techniques and financial performance of Insurance companies. The research tries to identify relationship between risk management techniques and insurers performance. The study used primary and secondary source of data. The results of the study reveal that low general increase ROE ratios, low return on shareholders' fund, low positive relationship between loss prevention, control technique & ROE, low positive relationship between loss financing & ROE. Positive & strong relation between risk avoidance technique & financial performance. The study recommended insurance companies should adopt enterprise risk management and also apply risk management technique effectively.

2.7 Summary and Knowledge gap

Most Studies focus on the risk management practice by using other frameworks, strategic risk management, management of property risk, relationship between risk management practice and financial performance on insurance companies. There are limited studies providing risk management practice of insurance companies. Even if the issue of risk management is equally important for all country, it is less focused and only few studies are conducted. However, as per the researcher's knowledge no study is conducted to assess the risk management practice of insurance companies in Ethiopia by using the eight component of ERM framework. Hence, this study aims to fill the gap in the literature by focusing on the components to assess the practice of insurance companies in Ethiopia to manage risk.

CHAPTER THREE

RESEARCH APPROACH AND METHODOLOGY

This chapter outlines the rationale of research approach and methodology used in this study. It includes research design, sampling design, data type, research method, unit of analysis, variables of the study, research instrument, data analysis methods, reliability and validity.

3.1 Research Design

The research design that was employed in this study is descriptive design. The quantitative approaches were employed based on the insurance company's staff drawn from different departments. The quantitative technique was used to collect and analyze data with the objective of describing about insurance companies practices on their risk management. This design was used because it brought out clearly the practice of risk management in insurances. The researcher intended to describe and make investigation of what the real results were for purposes of making recommendation based on the facts to improve the situation. The descriptive analysis approach was chosen for the present study, because it seeks to gain insight into a phenomenon as a means of providing basic information in an area of study.

3.2 Population and Sampling design

Census method of data collection used to select all the insurance companies which are found in the sector. With this method 1(one) public and 16 (sixteen) private insurance companies involved in the study.

Purposive sampling techniques applied in selecting different managers, and senior employees/supervisors of the company. Purposive sampling technique as Bhattacharjee (2012) defined, a technique in which a sample is drawn from that part of the population that is close to hand, readily available, or convenient, has been used to select employees.

A researcher selects the risk management and underwriting department staffs because those

individuals/staffs have in depth insight with regard to the study subject, and consequently will provide reliable information which could indicate the real situation.

The sample size differed per the structure of the risk management of the respective insurances. The minimum estimated sample size (n) of the risk management staffs is 85. That is it presumed that there is five staffs at each insurances risk management and underwriting department.

3.3 Data type, data source and instrument of Data Collection

In this study quantitative data for which its sources are primary was employed. In order to get primary data structured questionnaire was used.

The research instruments that were used in this study are questionnaire. A questionnaire is a list of carefully structured questions with a view to exploring a reliable response from a chosen sample Hussey and Hussey (1997). The questionnaire and an information sheet explaining the purpose of the study were distributed to all risk and underwriting department staff of insurance companies in Ethiopia. The questionnaire has carefully designed in such a way that the respondents would understand easily. Due care has also take in developing the questionnaire items. Accordingly, it has developed by taking in to account the following

- ✓ Using previous research questionnaire which have relation with the title. Omasete (2012).
- ✓ National Bank of Ethiopia's (NBE), Risk management guidelines for insurance companies.
- ✓ ERM-COSO Executive summary

The questionnaire has four parts, the first part focused on the objective setting and risk identification, the second part constitute risk assessment, the third part on risk response and the last part focused on risk control, communication and monitoring.

The questionnaires were arranged on the following range and the respondents were asked to indicate their level of agreement on a five point Likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (DA; or 2), and strongly disagree (SD; or 1). The numbers were indicated in the questionnaires to provide a feel of ordinal scale

measurement and to generate data suitable for quantitative analysis. The central issue to argue that Likert scales produce ordinal data is because of no way at all of knowing whether the differences between the different points on the scale are truly equivalent, and the points on an ordinal scale are not necessary equally spaced as they must be in order for it to be regarded as an interval scale Hole (2011).

3.4 Collection Method

Data was collected using primary data collection techniques. Primary data means to first hand data. It was gathered basically through structured questionnaires like objective-setting, risk identification, risk assessment, risk response, risk control, communication and monitoring. One: each of them have own details. Primary data was important in answering questions about practice of risk management.

3.5 Data Analysis

According to Mugenda (2003), data analyses were used to process of bringing order, structure and meaning to the mass of information collected. The collected data from questionnaires was adopted and coded for completeness and accuracy and the response on each item put into specific themes in scientific way for easy analysis. In order to drawn meaningful conclusion, data was summarized and presented using appropriate table format with frequencies, percentages for classifications of responses for easier understand and also for visual impression. The Statistical Package for Social Sciences (SPSS) was used for analysis of data. The findings of Likert scale measures were evaluated according to Best; the score from 1-1.80 is lowest, from 1.81- 2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered very well. And, a value of SD of 1 and less shows less variability in a five point Likert scale Best (1977).

3.6 Variables of the study

The variables of the study are objective setting, risk identification, risk assessment, risk response, risk control, risk communication and risk monitoring. According to (COSO) Enterprise Risk Management Integrated Framework, (2004) Determining whether an entity's enterprise risk

management is “effective” is a judgment resulting from an assessment of whether the eight components are present and functioning effectively. Thus, the components are also criteria for effective enterprise risk management.

3.7 Reliability and validity of the study variables

3.7.1 Reliability

As stated by Hair et al., (2007) reliability indicates the extents to which a variables or set of variables is consistent in what it is intended to measure” (Cited by Siddiqi; 2011:20). Reliability analysis used to measure the consistency of a questionnaire. There are different methods of reliability test, for this study Cronbach’s alpha is considered to be suitable. Cronbach’s alpha is the most common measure of reliability. For this study the Alpha coefficient for the overall scale calculated as a reliability indicator is 0.928. All the alpha coefficients for the scales were presented on the following table. As described by Andy (2006) the values of Cronbach’s alpha more than 0.7 is good. The alpha values in this study are far from 0.7 and which are; therefore it had very good reliability for the questioners.

Table 3.1 Reliability test

Indicators	Number of items	Cronbach Alpha
Setting objective and risk identification	9	0.810
Risk assessment and risk measurement	6	0.850
Plan strategies (risk mitigation)	5	0.770
Controlling, communication and monitoring	6	0.866
Overall	26	0.928

Source: Primary data

3.7.2 Validity

Conceptually, validity seeks to answer the following question: “Does the instrument or measurement approach measure what it is supposed to measure?” Similarly, as of Bhattacharjee (2012), **Validity**, often called construct validity, refers to the extent to which a measured equates represents the underlying construct that it is supposed to measure. Hence, to make measurement approach or instrument robust thorough analysis of both theoretical and empirical literatures were performed and consequently the study variables were developed.

With regard to **validity** its attributes/items are developed taking in to account international standards, previous studies and the regulatory guidelines of risk management of insurance companies

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

Introduction

This chapter discusses about the presentation, analysis and interpretation. These data are presented and analyzed based on data collected through structured questionnaires from seventeen insurance companies. For this purpose, questionnaires have been distributed to 85 staff members of risk management and underwriting department of the seventeen insurance companies, which are, Ethiopian Insurance Corporation, Awash Insurance, Nib Insurance, Oromia Insurance, Lion Insurance, United Insurance, Abbay Insurance, Brehan Insurance, Bunna Insurance, Ethio-Life Insurance, Nile Insurance, Lucy Insurance, Tsehay Insurance, Nyala Insurance, Global Insurance, NICE Insurance and Africa Insurance. The aim of the study is to assess risk management practices of insurance companies in Ethiopia. The researcher used tables to present information. The findings are intended to answer the study's research question. Data collected is combined and reports delivered in form of tables and qualitative analysis done in text.

4.1 RESPONSE RATE

The study takes all targeted population and from the size of 85 target population respondents the all questionnaire were filled in and returned the questionnaires which makes a response rate of 100%. This response rate was good enough to make conclusions for the study.

4.2. The General Background of the Respondents

The background information of respondents was deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depends on their background.

In the following table, the demographic information of respondents is presented. These include the level of education, work experience of respondents and duration of organization in operation. To get information on these issues the respondents were asked a structured question and their responses are presented and analyzed as follows. The results of this survey processed using the SPSS software.

Table 4.1 Background Information

Indicators	Values	Frequency	Percentage
Gender	Male	49	57.6
	Female	36	42.4
Level of Education	Diploma	1	1.2
	Bachelor Degree	68	81
	Master's Degree	15	18

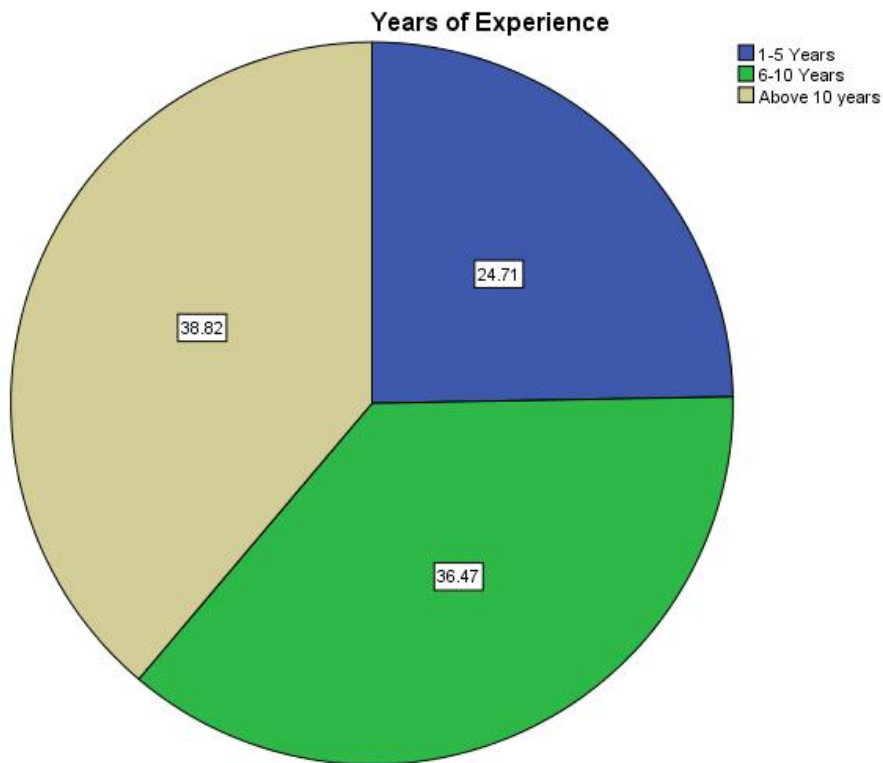
Source: Primary data

The study captured gender of the respondents in order to establish the most dominant working group of the employees with insurance companies. The respondents were asked to state their sex. There are a total of 85 respondents, of these, 49 are male and 36 are female. As shown on the table 1 above, the number of male and female respondents is almost proportional instead male covers the majority of the respondents. These findings represent the views of the two sex groups about risk management practice of insurances. This was necessary for the study to get a balanced picture of the respondents' views. The study sought to establish the background information of the respondents in terms of level of education the table 1 also indicates level of education and qualification of the respondents. Accordingly, out of 85 respondents, 81% have degree, 18% of the respondents have Master's degree and 1.2% have diploma in different educational qualifications. These results indicated majority of the respondents have a good level of educational qualification that is degree and Master's Degree and also they were equipped with the information concerning risk management practice and they were able to respond accurately on the questionnaire given to them by the researcher.

The other background information of the respondents is years of experience. As shown in the graph 4.1 below out of 85 respondents, 25% of total respondents represent a group that covers 1

to 5 years of experience, 36.47% of total respondents represent a group that covers 6-10 years of experience. The rest 38.82% of respondents were under the ranges of greater than 10 years of experience. One can understand 63 of the respondents have more than 6 year experience. It implies that most of the staffs acquired enough experience to perform risk management activities.

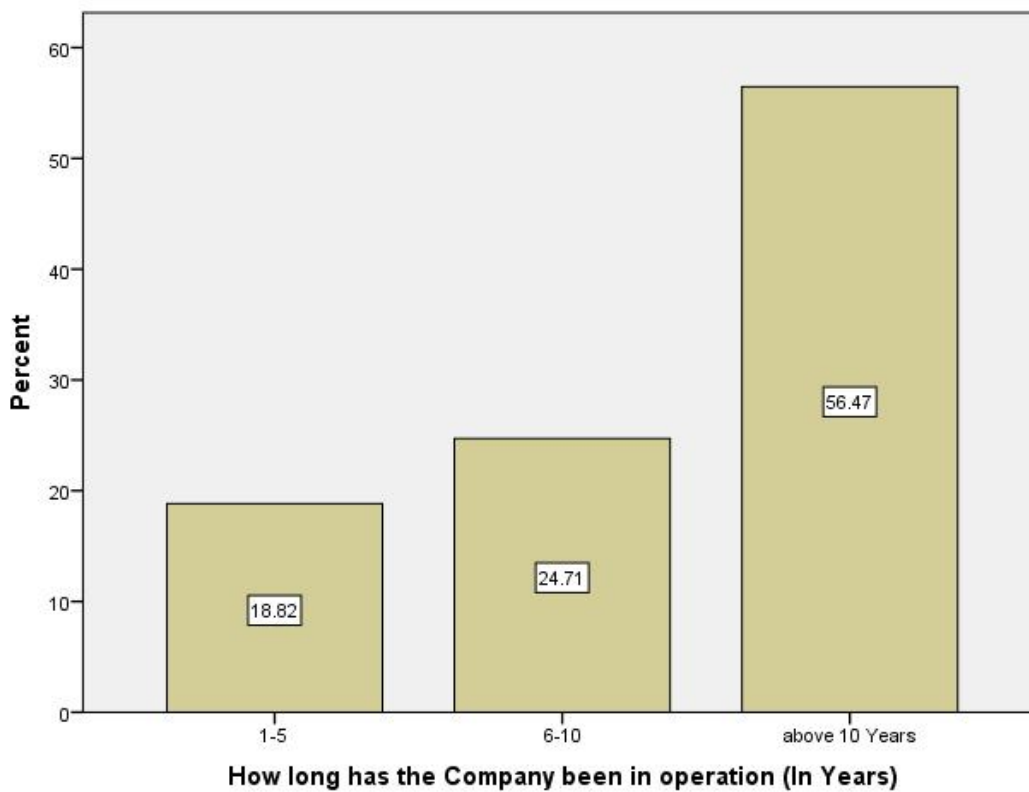
Graph 4.1: Years of Experience



The researcher asked the respondents to indicate the length of time that the insurance had been existence this is because to find out the insurance experience and knowhow on risk management. The results are shown in graph 4.2 below. The study showed, 56.47% of the respondents indicate their organization had been in existence for a period greater than 10 years, 24.71% of the respondents indicate their organization had been in existence for a period between 6 to 10 years

and 18.82% of the respondents indicate their organization had been in existence between 1 to 5 years. This implies that most insurance exist in operation greater than six year which show this companies are familiar with the term of risk management and also have the equipped information concerning risk.

Graph 4.2: How long has the Company been in operation (In Years)



4.3 Risk practice of insurance companies

4.3.1 Objective setting and risk identification

In the Table 4.2, the researcher set out to assess objective setting and risk identification process (another component of the ERM framework) as way of assessing the functionality of ERM

components. The assessment statements were ranked in terms of their mean and standard deviation as a way of interpreting the results. The findings of Likert scale measures were evaluated according to Best (1977). The details of the study in this regards are discussed as follows: According to the findings, it is clearly evident that respondent was in good agreement as to the development of risk-related objective by board & senior manager evidenced by the mean score of 3.6 according to Best (1977) from 3.42-4.21 is good/high. This shows that they generally agree about the development of risk-related objective by board and senior managers. However, the standard deviation value of 1.18 suggests varied responses from the respondents. The finding could be those who participate in the objective setting do have divergent views on their opinion of objective setting; this could indicate that the board members and senior managers might not be in equal status.

Table 4.2: Objective setting and risk identification

	Mean	Std. Deviation
Risk-related Objective are developed by Board & Senior Manager	3.60	1.18
Risks that are not acceptable by the organization are identified & Clearly Communicated to employees.	3.19	1.21
Risk Appetite (Capacity) of the insurance clearly communicated to the employees.	3.07	0.99
Risk Tolerance of the insurance clearly communicated to the employees.	3.02	0.93
Risk inspection (identification) is done by managers	3.34	1.05
Risk identification involve all level of staff	2.40	1.20
Roles and responsibilities for risk identification are clearly defined	3.14	1.25
All managers are aware of the risks inherent in the business	3.16	1.08
Workshop or panel discussion have been conducted to identify risk	2.40	1.36
Over all	3.10	0.69

Source: Primary data

This finding is in agreement with a study by Njoroge (2013), in AAR insurance Kenya limited the board of directors receives and review regular report on the risk management program and approves the ERM policy and framework. The board is also involved in approving risk appetite.

Those finding implies the board members and senior managers completely involved in the setting of risk-related objective which indicate there is supportive culture of risk management this in turn show the decision making take into consideration risk management and this will enable the insurances to create value because value is created or eroded by management decisions.

According to table 4.2 the respondents agreed that risks that are not acceptable by the organization are identified & Clearly Communicated to employees with a representative mean of 3.19. However, the standard deviation value of 1.21 suggests varied responses from the respondents. Respondents agreed that Risk Appetite (Capacity) of the insurance clearly communicated to the employees with a representative mean of 3.07. This study also discovered that the respondents agreed that Risk Tolerance of the insurance clearly communicated to the employees with a representative mean of 3.02. The corresponding standard deviation also revealed a value of 0.9 which is less dispersed result. According to the findings, it is clearly evident that respondent was in moderate agreement as to existence of clear communication of risk appetite and risk tolerance. This finding is in agreement with a study by Kevin et al, 2007 said that about half the firm sampled had not clearly defined their appetite for risk and also the one who defined it put it in terms of underwriting not in notions of ERM. The insurances need to consider on the communication of risk appetite and risk tolerance since it is one of the requirements by Risk and Insurance Management Society (2012), to be clearly communicated to all employees.

According to table 4.2, the respondents agreed that risk inspection was done by managers with a representative mean of 3.34. The respondents agreed that Risk identification involve all level of staff with a representative mean of 2.4. Respondents agreed that the roles and responsibilities for risk identification were clearly defined with a representative mean of 3.14. The respondents agreed that all managers are aware of the risks inherent in the business with a representative mean of 3.16. The respondents agreed that Workshop or panel discussion has been conducted to identify risk with a representative mean of 2.4. This implied that the two aspects were below moderate extent and thus the result show the performance of risk identification with respect to involvement

of all employees and conduction of workshop in insurances is low. From the finding it is clear that involvement of all staff in the process of risk identification and conduction of workshop to identify risk are not maintained by insurance companies. The findings did not agree with earlier findings by Kevin et al., (2007) the firm had a fairly common approach across the firm to the identification of risk and delegated responsibility for risk identification and process of risk identification redone on quarterly basis.

Though, the overall scores are about 3.01, according to Best (1977) from 2.62-3.41 is average/moderate which represent the moderate extent as per the likert scale, used in this study. This implied that most of the eight aspects were above moderate extent except the two aspects which represent low extent as discussed above and thus affected the performance of insurances in process of risk identification. The insurances need to consider involving all employees and also conducting workshop or panel discussion to identify risk. By clearly communicating employees about risk appetite, risk tolerance and also by participating all employees the insurances can increase broad understanding about risk management in consequence this will minimize the risk employee bring into the company with their action through reserving and underwriting.

4.3.2 Risk assessment

This section contains the findings in respect to objective two which sought to assess the risk in insurance companies. The respondents were asked to indicate their level of agreement with the following statements that relate to the assessment practice in insurance companies. To this they responded as provided in Table 4.3.

Assessment of risk is one of the main components of effective ERM. The assessment practice embraces many activities as shown in the below table 4.3.

Questions on these areas were put before the respondents and the results indicate regarding availability of sufficient assessment for risk management practice and whether it is in line with the regulatory body (NBE) and COSO framework.

From the information revealed by table 4.3, respondents believe that the insurances do have risk assessment in place. This is revealed by overall average mean value of 3.01 and a significant standard deviation of 0.77 is clearly a sign of common understanding on the issue of risk assessment practice. According to Best (1977) from 2.62-3.41 is average/moderate which represent the moderate extent as per the likert scale the findings show most of the respondents were in average (moderate) agreement with the existence of the components of risk assessment in practice.

Table 4.3 risk assessment activity

	Mean	Std. Deviation
Risks are evaluated with assumptions and uncertainties being clearly considered and presented.	3.25	1.10
Risk is evaluated in terms of both quantitative and qualitative value.	3.72	0.85
Measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the company	2.96	1.14
A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring	3.11	1.02
Tail Value at Risk (TVaR) used to measure risk	2.35	1.01
Overall Mean	3.01	0.77

Source: Primary data

The findings did not completely agree by earlier findings by Njeri (2016) all companies do not have the technical capacity to assess and measure risk, in order for the company to achieve significantly from its risk management endeavors, they need to measure and assess the impact of potential losses in advance. It is therefore important for the firms to embrace a comprehensive risk management framework in order to realize greater benefits from risk management. The study found also that companies with a more comprehensive risk management framework were more likely to continue performing well financially.

The findings in table 4.3 reveal that the respondents agreed that the Tail Value at Risk (TVaR) used to measure risk with a representative mean of 2.35 however the standard deviation of 1.01 is clearly a sign of varied responses from respondents. The result show the use of (TVaR) Tail Value at Risk as a risk measure is low. The findings concur by Kevin et al., only one firm included reports based on the (VaR) Value at Risk. They also assert it is important that insurance companies to choose a risk measure that are suitable to the problem they face. They should keep in mind that the (VaR) Value at Risk is increasingly discredited as a risk measure and in the recent years there is a trend towards (TVaR) Tail Value at Risk that have superior properties to the VaR (Value at Risk). Therefore the insurance companies shall take in to consideration in the usage of (TVaR) Tail Value at Risk because of its superior properties. The findings also concur by earlier findings by Njeri (2016) all companies do not have the technical capacity to assess and measure risk.

Though, the overall scores are above the midpoint mark of 3, which represent the moderate extent as per the likert scale, used in this study. This implied that most of the six aspects were above moderate extent except the use of TVaR (Tail Value at Risk) as a risk measure which represents low extent as discussed above. Thus shows the insurances use risk assessment to manage their risks. The insurances need to consider using TVaR (Tail Value at Risk) to measure risk in order to gain benefit by using it. Treating risk according to the impact and likelihood enable the insurances to respond in a manner that reduces the likelihood of downside outcomes and increase the upside.

4.3.3 Risk responses

This section contains the findings in respect to objective three which sought to assess the risk response in insurance companies. The respondents were asked to indicate their level of agreement with the following statements that relate to the assessment of risk response in insurance companies. To this they responded as provided in Table 4.4.

Assessment of risk response is one of the main components to maintain effective ERM. The risk response embraces many activities as shown in the below table. Questions on these areas were put

before the respondents and the results indicate regarding availability of risk response activity for risk management practice.

Table 4.4 risk response activity

	Mean	Std. Deviation
The company avoids risk by insuring different type of risks but not all risks	4.53	0.75
The company avoids risks by not insuring catastrophic risks	3.06	1.53
The organization use risk retention as risk response practice	3.41	1.19
The insurance train insured parties to reduce risk	2.85	1.21
The company has a mechanism for transferring certain risks to third parties e.g. through reinsurance/hedging.	4.27	0.86
Overall Mean	3.71	0.52

Source: Primary data

The findings show most of the respondents were in high agreement with the fact existence of the components of risk response. It means thus, that proper application of these components enhances overall effectiveness of risk management practice.

The insurances carried out risk avoidance, reduction, sharing and acceptance of risk practices as a risk response. This is revealed by overall mean value of 3.71 and a significant standard deviation of 0.5 is clearly a sign of common understanding. According to Best (1977) from 3.42-4.21 is good/high which represent the good extent.

The finding indicates risk response is actively maintained in the insurance companies as per the requirement of ISO 3100. The findings are in accordance with Flemings (2000) who argued that the insurance companies are in very need of risk management technique to guard against future possible insurance pay-outs. The scores are above the midpoint mark of 3, which represent the good extent as per the likert scale, used in this study. This implied that all the five aspects were above moderate extent and thus shows the insurances effectively use risk responses to manage their risks. By effectively applying risk response the insurances handle risk this in return helps them to minimize the consequence of losses and safeguard future payouts.

4.3.4 Control, Communication and monitoring

This section contains the findings in respect to objective four which sought to assess the influence of control, communication and monitoring in insurance companies. The respondents were asked to indicate their level of agreement with the following statements that relate to the assessment of communication and monitoring in insurance companies. To this they responded as provided in Table 4.5.

Assessment of control, communication and monitoring are one of the main components of effective ERM. The controlling, communication and monitoring embraces many activities as shown in the above table. Questions on these areas were put before the respondents and the results indicate regarding availability of sufficient communication activity and monitoring activity for risk management practice and whether it is in line with the regulatory body (NBE) and COSO framework.

Table 4.5: risk control, communication and monitoring activities

	Mean	Std. Deviation
Risk management program is well documented	3.87	1.00
Risk management efforts are supported by senior management.	3.47	1.27
Employees are properly trained on risk management policies of the firm.	2.42	1.32
The roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them.	2.32	1.25
Controls are in place to evaluate the efficiency of the risk management program.	2.86	1.18
Regular reviews of risk management efforts and reporting to senior management.	2.80	1.17
Overall Mean	2.98	0.87

Source: Primary data

The findings show most of the respondents were in agreement with the fact existence of the components of risk control, communication and monitoring positively affected the attainment of effective ERM. It means thus, that with proper application of these components enhance overall effectiveness of risk management practice. The insurances carried out regular review, document risk management program, support practice of risk management and place control mechanism.

The overall scores are about 2.98, according to Best (1977) from 2.62-3.41 is average/moderate which represent the moderate extent as per the likert scale, used in this study. From the information revealed by table 6, respondents believe that the insurances do have documented risk management program and the effort of risk management supported by senior managers that complies with regulatory body requirements. This is revealed by a mean value of 3.87 and 3.47 respectively however a significant standard deviation of 1.0 and 1.27 is clearly a sign of varied responses from respondents as far as risk management program are well documented and supported by senior managers. The findings concur by earlier findings by Njeri (2016), four risk management strategies adopted by the insurance companies were found to affect financial performance by stating the activity of applying control activity, communication and monitoring is high. It comprises this activity is effectively applied in Kenya insurance companies.

From the information collected from respondents according to table 4.5 respondents believe that there are moderate Controls on the efficiency of the risk management program and moderate regular reviews of risk management efforts and reporting to senior management. These are revealed by a mean value of 2.86 and 2.8 respectively however a significant standard deviation of 1.18 and 1.17 respectively is clearly a sign of varied responses from respondents. From the information collected from respondents according to table 4.5 respondents believe that there is low training on risk management policies of the firm and low communication of role and responsibility in the effort of risk management. These are revealed by a mean value of 2.42 and 2.32 respectively however a significant standard deviation of 1.32 and 1.25 respectively is clearly a sign of varied responses from respondents. The findings show most of the respondents were in not in agreement with the fact existence of the training and communication of role and responsibility. The overall scores are 2.98, which represent the moderate extent as per the likert scale, used in this study. This implied that all the six aspects were above moderate extent except

the two aspects that are training and clear communication of role and responsibility which represent low extent.

Thus show the insurances not fulfill the components those are communication, control and monitoring. As the framework of COSO asserted to ensure effective ERM all employees need to be communicated through policy or training to enable them to carry out their responsibility. Communicating risk to all employees enable them to carry out their responsibilities. By setting control and by reviewing regularly insurances can evaluate risk management practice maintained this in return will help for decision making to continue as it is or to take corrective action. Risk monitoring ensures that risk standard and limit are complied as intended and any deviation is duly approved.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMENDATIIONS

This chapter presents the summary of the findings, conclusions drawn from them and the recommendations. The implications of the research are discussed and suggestions made on areas of further study. Some useful recommendations for the insurances are proposed by this study at the end of the chapter to enable to see their performance according to the framework requirement with regard to the problem statement based on the research findings. The overall objective of this study was to assess the practice of risk management for insurances in Ethiopia.

5.1. Summary of findings

The summary of the findings is based on the four study objectives that included: to assess practice of objective setting and risk identification, to assess practice of risk assessment, to assess practice of risk response and to assess the approaches that insurance companies in Ethiopia use to control, inform and monitor risks.

5.1.1. Objective setting and risk identification

Findings revealed that objective setting and risk identification are in place. Objective setting showed that it is developed by senior managers and approved by board members. This proves that insurances set risk-related objective with caution. It can then be concluded that objective setting were practiced as per the requirement of regulatory body and framework. Those finding implies the board members and senior managers completely involved in the setting of risk-related objective which indicate there is supportive culture of risk management this in turn show the decision making take into consideration risk management and this will enable the insurances to create value because value is created or eroded by management decisions.

Practice of risk identification showed that it involved managers, practice on clearly defining role and responsibility of employees and the component of risk identification especially risk appetite and risk tolerance have been communicated in moderate extent. However, the study also found

out that in the practice of risk identification all level of staff were not included, workshops or panel discussion have not been conducted as part risk identification methodology. By clearly communicating employees about risk appetite, risk tolerance and also by participating all employees the insurances can increase broad understanding about risk management in consequence this will minimize the risk employee bring into the company with their action through reserving and underwriting.

5.1.2. Risk assessment practice

The study revealed that there are indicators that the insurances commonly uses various techniques to practice risk assessment; these are considering occurrence of potential loss, treating based on loss and likelihood, evaluate in terms of quantitative and qualitative value. Risk assessment is in place and practicing as laid down regulatory requirement and framework. However, the study also found out that in the practice of risk assessment (TVaR) were not used as a risk measure. Treating risk according to the impact and likelihood enable the insurances to respond in a manner that reduces the likelihood of downside outcomes and increase the upside.

5.1.3. Risk response

The study revealed that there are indicators that the insurances commonly use various techniques to practice risk response; these are considering risk avoidance, reduction, sharing and acceptance as a risk response. Risk response is in place and practicing as laid down regulatory requirement and framework. It can then be concluded that the insurances effectively use risk responses to manage their risks. By effectively applying risk response the insurances handle risk this in return helps them to minimize the consequence of losses and safeguard future payouts.

5.1.4. Risk control, communication and monitoring

The study revealed that there are indicators that the insurances commonly use various techniques to practice risk control, communication and monitoring; these are documenting risk management program, communicating each employee in the effort of risk management, evaluate efficiency of

risk management program and monitoring regularly. It can then be concluded that the insurances use in moderate extent the risk components in the practice of risk management. However, the study also found out that in the practice of controlling, communicating and monitoring risk employees were not trained and their role and responsibility were not communicated to them in the effort of risk management. By setting control and by reviewing regularly insurances can evaluate risk management practice maintained this in return will help for decision making to continue as it is or to take corrective action. Risk monitoring ensures that risk standard and limit are complied as intended and any deviation is duly approved.

5.2. Conclusion

Based on the study findings, it is concluded that the insurances has moderate risk management practice. Risk-related objective were developed by senior manager and approved by board members this lead to a well risk identification and communication of risk appetite and tolerance. However, the risk identification practice does not include all employees and workshop have not been conducted this lead the insurances not to perform risk identification in effective manner.

In regard to risk assessment practice risk treated based on their loss and probability of occurrence and also evaluated in terms of qualitative and quantitative value. However, the risk assessment practice does not include (TVaR) Tail Value at risk as a risk measure this lead the insurances not to benefit from using of it.

The research found that risk response practice have been conducted by insurances effectively. Risk avoidance, reduction, sharing and acceptance are practiced as per COSO framework requirement. Risk response ensures safeguarding insurances that will reduce vulnerability of insurances from loss.

The final conclusion of this indicate risk control, communication and monitoring, the insurances carried out regular review, document risk management program, support practice of risk management and place control mechanism.

The overall indication of the study point out most of the component of risk management practice are in moderate extent this indicate most of the respondent are in neutral agreement which shows they are not sure on the practice of risk management and the insurances need to give due attention and awareness about the practice of risk management.

5.3. Recommendation

To keep in the existence of regular and framework requirement:

- Regarding to the objective setting and risk identification: insurances sated risk-related objective and practice risk identification with respect to regulatory requirement. However there is need for improvement in the risk identification and management should ensure that involvement of all level employees in the practice of risk identification and conduction of workshop to identify risk.
- Regarding to the risk response practice: insurances effectively practice risk response with respect to regulatory requirement. However there is need for improvement in the risk reduction practice the insurances should grant training to their customer in doing so they will reduce loss caused by negligence.
- Regarding to the risk control, communication and monitoring practice: insurances practice risk control, communication and monitoring with respect to regulatory requirement. However there is need for improvement in the conduction of training to employee and communication of role and responsibility in the effort of risk management. The insurances should give training to its employees regarding risk policies so as to enable them to acquire knowledge required to execute their duties.
- Regarding to the risk communication, although risk management is the responsibility of all staff at all levels, there must be an explicit allocation of risk management responsibility to ensure employee accountability for risk practice.

5.4. Suggestion for further studies

The researcher suggests the following areas for further studies: Assess Risk Management Practice by using different frameworks and also Assess Risk Management Practice by considering every unit of department.

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Questionnaire

St. Mary's University

School of Graduate Studies

MBA in Finance and Accounting Program

This questionnaire is designed to collect information about the risk management practice in Ethiopian insurance Companies. The data or information collected in such a way shall be used as primary data in my thesis, which I am conducting as a partial fulfillment for the requirement of my study in **MBA in Accounting and Finance at ST. Mary's University School of Graduate Studies**. The researcher would like to thank you in advance for your kind response in giving your precious time infilling the questionnaire.

No need to mention your name and the information provided is to be used only for this study
And any information given will be kept confidential.

Thank you for your Co-operation!!

Background Information

Instructions:

Please use this mark for each question to indicate your response.

1. Gender: Male Female
2. Level of Education: Diploma Bachelor Degree
 Master's Degree PHD
3. Years of Experience: 1-5 6-10 above 10 Years
4. How long has the Company been in operation (In Years)?
 1-5 6-10 above 10 Years

PartII:Business information

5. Indicate your level of agreement with the following statements as regards setting objective and risk identification techniques used by your company. Use a scale of 1-5, where:

Strongly disagree	Disagree	Not sure	Agree	Strongly agree
1	2	3	4	5

NB: This scale should also be used for question number 5, 6 and 7.

SECTION I: SETTING OBJECTIVE AND RISK IDENTIFICATION

STATEMENT	1	2	3	4	5
Risk-related Objective are developed by Board & Senior Manager					
Risks that are not acceptable by the organization are identified & Clearly communicated to employees.					
Risk Appetite (Capacity) of the insurance clearly communicated to the employees.					
Risk Tolerance of the insurance clearly communicated to the employees.					
Risk inspection (identification) is done by managers					
Risk identification involve all level of staff					
Roles and responsibilities for risk identification are clearly defined					
All managers are aware of the risks inherent in the business					
Workshop or panel discussion have been conducted to identify risk					

SECTIONII:RISKASSESSMENT

6. Indicate your level of agreement with the following statements as regards risk assessment in the company. Use a scale of 1-5.

STATEMENT	1	2	3	4	5
Risks are evaluated with assumptions and uncertainties being clearly Considered and presented.					
Risk is evaluated in terms of both quantitative and qualitative value.					
Measurement of both of the quantities in which risk assessment is concerned-potential loss and probability of occurrence-is carried out by the company					
A risk with a large potential loss and a low probability of occurring is often Treated differently from one with a low potential loss and a high likelihood of occurring					
Tail Value at Risk(TVaR) used to measure risk					

SECTIONIII: RISK RESPONSE

7. To what extent does your company adopt the following risk response practices? Use a scale of 1 – 5.

STATEMENT	1	2	3	4	5
The company avoids risk by insuring different types of risks but not all risks					
The company avoids risks by not insuring catastrophic risks					
The organization use risk retention as risk response practice					
The insurance train insured parties to reduce risk					
The company has a mechanism for transferring certain risks to third parties Through reinsurance.					

SECTION IV: RISK CONTROL, COMMUNICATION AND MONITORING.

8. To what extent are the following facets of risk control, communication and monitoring applicable to your company? Use a scale of 1 – 5.

STATEMENT	1	2	3	4	5
Risk management program is well documented					
Risk management efforts are supported by senior management.					
Employees are properly trained on risk management policies of the firm.					
The roles and responsibilities of each employee in the risk management Efforts of the firm are well communicated to them.					
Controls are in place to evaluate the efficiency of the risk management program.					
Regular reviews of risk management efforts and reporting to senior management.					