ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

AN ASSESSMENT OF THE PERFORMANCE OF NILE INSURANCE COMPANY S.C.

BY

ANTENEH TADESSE

JUNE, 2017

ADDIS ABABA, ETHIOPIA

AN ASSESSMENT OF THE PERFORMANCE OF NILE INSURANCE COMPANY S.C.

BY

ANTENEH TADESSE

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (GENERAL MBA)

JUNE, 2017

ADDIS ABABA, ETHIOPIA

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACULTY OF BUSINESS

AN ASSESSMENT OF THE PERFORMANCE OF NILE INSURANCE COMPANY S.C.

BY

ANTENEH TADESSE

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate studies	Signature & Date
Advisor	Signature & Date
External Examiner	Signature & Date
Internal Examiner	Signature & Date

DECLARATION

I, the undersigned, declared this is my original work, prepared under the guidance of my advisor ***AFEWORK GETACHEW (PhD).*** 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.

_____________________ _____________________

Name Signature and date

St. Mary's University, Addis Ababa **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.

______________________________ __________________________

Name of Advisor   Date & Signature

St. Mary's University, Addis Ababa   **June, 2017**

ACKNOWLEDGEMENTS

I would like to thank my advisor, Afework Getachew (PhD) for his unreserved guidance through the whole period. This research paper would not have been possible without his technical input and support.

My deepest and heartfelt thanks go to my family, whose unconditional love and silent prayers encouraged and protect me throughout my life.

I would like to thank also my entire friend for their immeasurable assistance throughout my study.

For Him along deserve to be praise for how far He who follows me in all aspect of my life, my sincere and deepest gratitude goes to Father God Almighty. Amen!!

TABLE OF CONTENTS

Content

LIST OF TABLES

ABBREVIATIONS

AQ	Asset Quality
CA	Capital Adequacy
CID	Confidence interval of
CRAMEL	Capital adequacy, Asset quality, Reinsurance and Actuarial issues, Management soundness, Earnings and Profitability and Liquidity
EAP	Earning and profitability
LQ	Liquidity
MA	Management Soundness
NBE	National Bank of Ethiopia
NIC	Nile Insurance Company S.C.
RIA	Reinsurance and actuarial

ABSTRACT

The study was undertaken to assess performance of Nile Insurance Company S.C. using versatile combination of financial and non-financial soundness indicators for an insurance company. Financial soundness assessment has been made using CARAMEL frame work (Capital adequacy, Asset quality, Reinsurance and Actuarial issues, Management soundness, Earnings and Profitability and Liquidity); while market share, growth in number of branches, dealing with dropouts, market research, customer satisfaction and employee performance and satisfaction are used for non-financial soundness assessment. To this end the study employed documentary analysis which covered ten years period ending June 2016 (i.e. 2006 to 2016). The sample size was 115 customers and 45 employees, from 5 branches and claims department, for the survey and 3 senior managers for an interview. The findings of the study indicated that Nile Insurance Company used is capital to write more business, has good performance in receivable management but risk associated in equity investment is high, risks retained in-house found above statutory limit, loss ratio of the company is high and affecting operational profitability, and liquidity risk of the company is high. Market share of the company is improving but retention of existing business declining. The level of customer and employee satisfaction is slightly above average. Finally, the study recommended NIC to enforce risk management and underwriting practices, diversify its investments and enhance customer and employee retention and satisfaction.

Key words: Performance, financial soundness indicators, non-financial soundness indicators, Insurance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Performance of an organization is the outcome of activities of individuals and units of the organization. The firm's success is basically explained by its performance over a certain period of time. In today's complex and rapidly changing environment, Performance measurement is critical for effective management of any firm (Ramanadh, 2006); it is useful to obtain valuable information related to flow of fund, the use of fund, effectiveness, and efficiency and also motivates managers to make the best decisions. The performance of any firm not only plays the role to increase the market value of that specific firm but also leads towards the growth of the whole industry which ultimately leads towards the overall prosperity of the economy.

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. Insurance as part of financial sector is the backbone of a country's risk management system (Ramanadh, 2006). Insurance providers offer diversity of products to business and providing protection from risk thereby ensuring financial security (Bawa& Chattha, 2013). Successful operation of the industry sets impetus for other industries and development of an economy (Ramanadh, 2006).

By doing their core business, insurance companies are exposed to different types of risk, starting from underwriting risks that are accepted from insured, through investment risks to the non-technical risks such as management risk, business risk and legal risk (Smajla, 2014). Success of an insurance company depends on four important functions that are identification of markets, assessment of risks (of the insured and the insurance corporation) and estimation of losses, Penetration into and exploitation of markets; and control over investment and operating costs (Ramanadh, 2006).

The financial sector in Ethiopia is composed of the banking industry, insurance companies, microfinance institutions, saving and credit cooperatives (NBE, 2016). In Ethiopia's insurance history dates back 1920's (Hailu, 2007). Since then the insurance industry has undergone immense regulatory reforms and changes. With the liberalization of market in 1992, private Insurance companies enter the market based on Proclamation No. 86/1994, Nile Insurance Company S.C. (NIC) was established in April, 1994 as one of private insurance company in Ethiopia. The company has been showing signs of significant change.

Strong and competitive insurance industry is considered imperative for economic development and growth. However, the contribution of the insurance companies is also dependent on the fact that they are able to pool risks effectively. Only then would it be possible to cover these risks at an affordable and reasonable cost (Krishnamurthy et.al., 2005). Ethiopian Insurance companies have a pivotal role in offering insurance products which meet the requirements of the people at an affordable price. Some of the challenges faced by the insurance sector pertain to the low demand conditions, intense competition in the sector, low product innovations and use of technology, and poor delivery of service (University of Oslo, 2014; NIC Annual report, 2016; Hailu, 2007).

1.2 Statement of the Problem

Insurance sector plays a crucial role in economic development not just at a macroeconomic level but also in terms of the activities of individual and business (UNCTAD, 2007).

In Ethiopia, the insurance market is dominated by General Insurance business and share of Life Insurance is very low. It is also characterized by stiff competition; companies are ambitious to increase their sales volume and customer base, which often causes aggressive pricing policy that led to an unhealthy spiral of premium cutting. Despite the existence of high competition, the product range in the market is limited, premium setting is based on outdated methods and there is lack of risk assessment methodologies. Besides, very little effort has been made by companies towards technology supported and efficient service delivery methods (NIC Annual report, 2016; Hailu, 2007). Thus, managing the insurance cycle becomes challenge for Ethiopian insurance industry.

Similarly, Nile Insurance Company as an insurer faces mounting pressure to improve profitability, which is directly linked to its ability to accurately assess risk and manage relationships. For NIC, underwriting high degree risk profile is very susceptible to frequent and outflow of compensated fund consequently impair its performance. Likewise, handling customers with great care and keep on maintaining them increases its credibility and overall performance.

Although studies has been made as related to insurance sector in Ethiopia, the studies focused on different contexts. For instance Daniel & Tilahun (2013) focused on firm specific factors that determine insurance companies' profitability; Demis (2016) studied challenges and opportunities of Life Insurance business; Mohammed (2014) conducted a study on determinants of capital structure and its impact on the performance of Ethiopian insurance industry. Regarding performance assessment by applying both financial and non-financial soundness indicators models for Insurance Companies still remains unexplored.

Therefore, to the best of the researcher's knowledge, knowledge gap exists and this study sought to bridge this inherent knowledge gap by extending the issue to the specific context of the Nile Insurance Company.

1.3 Research Questions

The research study addresses the following questions.

- What is the level of NIC performance on financial soundness indicator CARAMEL frame work (Capital adequacy, Asset quality, Reinsurance and Actuarial issues, Management soundness, Earnings and Profitability, and Liquidity) parameters?

- What is the level of NIC performance on non-financial soundness indicators; market share, growth in number of branches, dealing with dropouts, market research, customer satisfaction and employee performance and satisfaction parameters?

- What measures should be taken to enhance NIC performance?

1.4 Objectives of the Study

General Objective

The general objective of the study is to assess the performance of Nile Insurance Company.

Specific Objectives

The specific objectives of the study are;

1. To find out the level of NIC performance in terms of financial soundness indicator parameters.
2. To find out the level NIC performance in terms of non-financial soundness indicators parameters.
3. To evaluate the trend of NIC performance during the period of the study.

1.5 Significance of the Study

The study is believed to have the following benefits, which are briefly presented here under;

- The study basically bring out dimension of performance that are vital which support management of the company in making strategic decision, sustainable business growth, in critical area of operation;
- The findings of the study benefit all stakeholders of the company.
- The study will also act as a spring board for further research on the same area.

1.6 Delimitations of the Study

Delimitations are boundaries a researcher imposes to limit the scope of research and can affect the transferability of research (Catherine & Rossman, 2015). The research study delimits itself to NIC. Again, secondary data of 10 years period, July 2006 to June 2016 has been collected from financial statements. Moreover, the sample of this study has been delimited to respondents in Addis Ababa; employees working and customers served in claims department and five branches. Finally, the sample for this study has been delimited to 45 employees and 115 customers of NIC.

1.7 Limitations of the Study

The main limitations of this study are constraints of resources, access to information, and time. The financial and material resources needed for a large sample size for this study is inadequate. It is obvious that researcher would not have access to every employees and customers of NIC, who are scattered all over the country, as respondents to fill questionnaire. The study is also challenged due to lack of adequate data for analysis as some of the data were not kept properly in a consumable manner. In addition, the study is constrained by time; it is conducted within an academic time range.

1.8 Organization of the Study

The organization of the study ranges from chapter one to chapter five, where in chapter one main theme of background and statement to the problem covered. Also the objectives, research questions, significance and scope of the study presented in this chapter. Chapter two consists of reviews of the literature relevant to the study, whereby chapter three covers is methods of data analysis. Last chapter covers conclusion and recommendations made by the researcher for the desired outcomes.

CHAPTER TWO

REVIEW OF RELATED LITERATURES

Information about performance is critical to the effective functioning of any business Performance measurement and performance management practices are common place in all sectors and there is an increasing interest in identifying the performance gaps and improvement opportunities (Kaplan & Norton, 1992). However, what constitutes good performance and what constitutes good measures of performance are continuously being debated (Ibrahim, 2013).

Defining performance for an individual company is highly dependent upon the company's business objective and strategy and is therefore quite unique. 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 or accounting-based and market-based indicators (Al-Matari, Al-Swidi, & Fadzil, 2014).

From financial statements we can learn about the financial structure, financial performance, liquidity and profitability of the companies. But, it cannot show about the company's coexistence with the local community and its wider environment, about the company's technological development, employee satisfaction, health and safety at work, etc. There is also any information on competitive advantages and company's weaknesses, its market share, customer satisfaction, new products, quality control expenses, branch development and the like. Financial statements do not show the value of investment in employees; neither do they show their knowledge and skills (Ersoy, Bora, & Karabiyik, 2014).

In a globalized, highly dynamic, market focused and stakeholder driven economy, non-financial performance measurements were born. It identifies a number of leading indicators, which lacked in financial measurements, that has paramount importance in performance measurement of an organization. Today, performance measurement literature emphasises the need for balanced approaches of organizational performance measurement (Yip, Divinney & Johnson, 2009).

2.1 Insurance

2.1.1 Meaning of Insurance

Insurance is a social device for spreading the chance of financial loss among a large number of people. Its primary function is to act as a risk transfer mechanism; that is, to transfer a risk from one person, the insured to the insurer. Transferring the risk, by smaller cost of premium, provides a form of financial security and peace of mind for the insured. Since insurance is based on the law of large number of homogeneous units; the insurer is able to make predictions of possible loss, calculate their probable losses and establish the rates for premiums. The premium collected must be large enough in total to meet losses in any pool, to cover operating expenses and provide an element of profit for the insurer (The CII, 2004; Ibrahim, 2013).

The term insurance could be defined in distinct dimension, one can define it in general context and the other might define in legal context.

According to Pitchett, et.al. (1996) and referred by Hailu (2007), insurance is a social device, in which a group of individuals (called “insured”) transfer risk to another party (called the “insurer”) in order to combine loss experiences, which permits statistical prediction of losses and provides for payment of losses from fund contributed (premiums) by all members who transferred risk.

In legal aspect, insurance is defines as "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 specific risk materialized” (The Commercial Code of Empire of Ethiopia, 1960).

2.1.2 Importance of Insurance

A number of studies show that there exists a robust casual relationship between insurance market activity and economic growth. As Ansari (2011) referred Skipper (1997) Insurance activity may contribute to economic growth by improving the financial system functions, both as a provider of risk transfer and indemnification and as institutional investor, in the following ways:

- Promoting financial stability,
- Minimize the risk of trading and investment
- Facilitating trade and commerce,
- Mobilize domestic savings,
- Allowing different risks to be managed more efficiently by encouraging the accumulation of new capital,
- Fostering more efficient allocation of domestic capital, and
- Helping to reduce or mitigate losses.

2.2 Management Performance in Insurance Company

By doing their core business, insurance companies are exposed to different types of risk, starting from underwriting risks that are accepted from insurers, through investment risks to the non-technical risks such as management risk, business risk and legal risk. The main task of evaluating soundness of insurance sector is therefore to explore risks to which insurers are exposed and to find a way to manage them (Smijla, 2014).

2.2.1 Financial Soundness Indicators for Insurance Companies –CARAMELS Model

In insurance companies' performance, quantitative soundness indicators are presented in CARAMELS framework (Capital adequacy, Asset quality, Reinsurance and Actuarial issues, Management soundness, Earnings and Profitability, Liquidity and Sensitivity to market risk) (Das et.al., 2003).

Table 2.1 Insurance Financial Soundness Indicators

Category	Indicator	Non-life	Life
Capital adequacy	Net premium/Capital	X	
	Capital/Total assets	X	X
	Capital/Technical reserves		X
Asset quality	(Real estate + unquoted equities + debtors)/ Total assets	X	X
	Debtors/(Gross premium + reinsurance recoveries)	X	X
	Equities/Total assets	X	X
	Nonperforming loans to total gross loans		X
Reinsurance and actuarial issues	Risk retention ratio (Net premium/Gross premium)	X	X
	Net technical reserves/Average of net claims paid in last 3 years (Survival ratio)	X	
	Net technical reserves/average of net premium received in last 3 years		X
Management Soundness	Gross premium/Number of employees	X	X
	Operating Expense/Gross premium	X	X
Earnings and Profitability	Loss Ratio (Net claims/ net premium)	X	
	Expense ratio (Expense/Net premium)	X	X
	Combined Ratio = Loss ratio + Expense ratio	X	
	Revisions to technical reserves/Technical reserves		X
	Investment income/Net premium	X	
	Investment income/Investment asset		X
	Return on equity (ROE)	X	X
Liquidity	Liquid assets/Current Liabilities	X	X
Sensitivity Market Risk	Net open foreign exchange position/ Capital	X	X
	Duration of assets and liabilities		X

Source: Financial Soundness Indicators Compilation Guide (IMF); Das et.al., (2003)

a. Capital Adequacy

The greatest risk to the financial stability of an insurer steams from writing business. However; Insurers' insolvency risk is determined not only by the risks that they face and the actions that they take to mitigate those risks, but also by the capital cushion available to absorb potential losses (Doron, 2010).

Capital adequacy is viewed as the key indicator of an insurer's financial soundness and is used to calculate insurer's risks arising from underwriting operations and asset risk. It is a prudential standard that recognize the importance of adequate capitalization with solvency as key focus area of insurance supervision. It promotes the stability and efficiency of financial system and indicates whether the insurance company has enough capital to absorb losses arising from claims. Higher capital adequacy ratio means capital is sufficient to the smooth run of the business (Das et.al., 2003). Insurers may reduce solvency risk by increasing capital or reducing the assets base or operations supported by existing capital (Doron, 2010).

Thus, analysis of capital adequacy depends critically on realistic valuation of both assets and liabilities of the insurance companies (Das et.al., 2003).

b. Asset Quality

Asset quality is one of the most critical areas in determining the overall financial health of an insurance company. The primary factor affecting overall asset quality is the quality of the real estate investment and the credit administration program. The other indicator, receivables (gross premium plus reinsurance recoveries) provides an additional insight in to the level of credit control. High receivables related to gross premium and reinsurance recoveries suggest that the credit policy of the insurer is weak. The third indicator, equities/ total asset reveals the degree of insurer's exposure to stock market risk and fluctuation of the economy The forth category includes the composition of investments in loans, mortgage loans, policy loans, and other for insurers (Nissim, 2010; Das et.al., 2003).

c. Reinsurance and Actuarial Issues

Reinsurance contracts are contracts of indemnity that indemnify the ceding enterprise against loss or liability relating to insurance risk. Reinsurance and Actuarial issues also known as the risk retention ratio reflects the overall underwriting strategy of the insurer and depicts what proportion of risk is passed onto the reinsurers (Nissim, 2010; Das et.al., 2003).

Among the set of indicators used in this category the first one is Risk retention ratio (net premium/gross premium), which used to measures how much of the risk is being carried by an insurer rather than being passed to reinsurers. At the industry level, this ratio indicates the risk bearing capacity of the country's insurance sector. The second indicator is the adequacy of technical reserves, also called survival ratio, shows the quality of company's estimate of the value of reported and outstanding claim. The core set includes one indicator for each non-life and life insurance companies. For non-life companies, it is the ratio of net technical reserves to the average of net claims paid in the last three years what is called the survival ratio. The indicators may be viewed as showing the quality of the company's estimate of the value of reported and outstanding claims (Das et.al., 2003).

d. Management Soundness

A particularly interesting form of financial performance analysis of insurance companies is the analysis of management efficiency. Sound management is crucial for financial stability of Insurers. According to Das et.al. (2003), sound management is vital in the assessment of the financial strength of an entity, though it is very difficult to find any direct quantitative measure of management soundness.

The two indicators of management soundness as Das et.al., (2003) proposed are gross premium per employee and operating expense to gross premium. Nissim (2010) stated that employee skills are particularly important source for service companies. Accordingly, the first indicator, Gross written premium in comparison to number of employees shows how much premium is collected per one employee in the company. It is a good indicator of management soundness because it is important to have appropriate number of employees who are able to collect big amount of premiums, in other words management efficiency and soundness is outcome of operational efficiency of the company. Operating expense by gross premium is another indicator which reflect the efficiency of management (Das et.al., 2003).

e. Earnings and Profitability

Earning are the key and arguably the only long term source of capital. Low profitability may signal fundamental problems of the insurer and may be considered a leading indicator for solvency problems. In this category, Das et.al., (2003) set seven indicators that show how profitable insurance companies are.

The loss ratio (net claims/ net premium) conceptually indicate the average cost of the insurance protection per each dollar of net premiums earned during the period. However, it reflect not only the cost of protection during the current year but also the adjustment to the previous year balance of the loss reserve (Nissim, 2010). For General Insurers, according to Das et.al. (2003) loss ratio is an important indicator of whether the pricing policy is correct. While the expense ratio (expense/ net premium) adds the aspect of operating costs in to the analysis and used to measure operational efficiency in underwriting (Nissim, 2010; Das et.al., 2003).

The combined ratio is a commonly used measure of profitability. It is defined as the sum of the loss and expense ratios, it reflects both the cost of protection and the cost of generating and maintaining the business. The underwriting results are considered profitable if only the combined ratio is below 100% (Nissim, 2010). This indicator measures the performance of the underwriting operations but does not take in to account the investment income (Nissim, 2010; Das et.al., 2003). Another indicator, investment income/net premium, focuses on this second major revenue source – investment income (Nissim, 2010; Das et.al., 2003).

For life insurers, the expense ratio (expense/net premium) can be used as well, with different benchmarks. Instead of loss ratio, it includes revision to prior year technical reserves/technical reserves for life insurers, effectively a charge to current profits due to deviations of reality from pas actuarial assumptions. This measures the extent to which the company or sector is able to measure output accurately. Also for life insurers, investment income to investment assets (as opposed to investment income/net premium for non-life insurers) is an indicator of the success of their investment policy. Since life companies function to a large extent as asset managers, both investment income and investment assets related to risk pass through products need to be analyzed separately. Therefore, Das et.al. (2003) chose return on equity as an indicator of the overall profitability of life insurers. Return on equity measures the return per dollar of equity investment. It is then indicates the summery of profitability from all business activities (Nissim, 2010; Das et.al., 2003). As Nissim (2010) stated, the income contribution of the float is measured by investment income ratio.

f. Liquidity

As Das et.al. (2003) described, since the frequency, severity and timing of insurance claims or benefits is uncertain, insurers need to plan their liquidity carefully. The indicator for life and non-life is the ratio of liquid asset to current liabilities. All liabilities with maturity shorter than one year, including insurance product liabilities under which policyholders are able to surrender the policy and receive cash payment (Das et.al., 2003).

g. Sensitivity to Market Risk

Insurers hold and manage significant portfolios of asset which are invested to cover future claims and returns to shareholders. Some of the products that insurance companies sell pass the risk on to policy holders; the characteristics of these products need to be rectified in considering market risk to which the insurer is exposed. Losses may result from a collapse in equity values, sudden changes in interest rates, a reduction in real estate values or in the case of multi-currency portfolios, currency depreciation (Das et.al., 2003).

The two indicators of sensitivity to market risk are foreign exchange and interest risks, which show net open foreign exchange position to capital and duration of assets and liabilities. Nevertheless, sensitivity to market risk can be best assessed by stress testing the relevant features of the company and sector balance sheet (Das et.al., 2003).

2.2.2 Non-Financial Soundness Indicators for Insurance Companies

There are a number of non-financial performance measures, however only the following parameters are addressed (Ramanadh, 2006).

a. Sales Related Performance Measures

- **Market Share:** The published data of various companies provide a means to compare the market share of branches or divisions of various insurance companies operating in the area. A basic comparison is made with the company's market share in total and taking it as an average market share (Kasturi, 2006).
- **The Policy Sales Growth** It measures how many new policies are sold over a defined period of time and usually compares this to a target value. The metric can be defined based on the number of new clients, a measure of number of new policies sold or a combination of the two. Also renewal policy growth can be distinguished and measured separately. The renewal ratio would measure the number of insured clients that stay after the initial coverage period expires (Kai et.al., 2016).

b. Other Measurement Parameters

Different scholars in their research works have developed various non financial measurement parameters such as Kai et.al. (2016) and Kasturi (2006) measurement parameters are discussed here under.

- **Customer Satisfaction**: The success of any organization depends upon the satisfaction of the consumers. Due to intense competition among the players in the insurance industry, more attention needs to be paid towards customer satisfaction and retention if the major players do not want to lose their existing customers.
- **Growth in Number of Branches**: It is a result of company's growth and the efforts in expanding services to different locations.
- **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.

- **Dealing with Dropouts:** Number of dropouts from the insurance contracts is observed from time to time and a proper analysis is to be made for analyzing the causes for drop out. Insurance companies may formulate polices to allow the customers to integrate back into the stream. Many insurance companies ignore the importance of tracing and customer retention.
- **Timely Reminders**: Average time taken for the 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 disposal of the policies and settlements.
- **Market Research**: One important consideration for the non-financial performance or effectiveness of a unit of insurance company is the research and development. Contribution of each unit in finding the markets and developing new products and product lines must be ensured through incentive packages to the managers of units. It is advisable to encourage the units to conduct surveys on various aspects from time to time that interest the insurance companies. The company, which reacts at the earliest for these changes, will have a competitive edge.
- **Employee and Agent Training:** Employee and agent training are among the essential activities of insurance companies. Operating in a competitive and ever changing business environment, mangers and staff of the units must be influenced and trained to adapt interactive control system in which they learn to change their behavior according to the changes in the environment. Effectiveness of such spending on training and development of the employees and agents is separately assessed to measure the readiness and ability of a branch to adapt the changes in the environment.
- **Employees Performance and Satisfaction:** human resource management practices create value by attracting and retaining employees, reinforcing employee behaviors and developing employee skills through selection and hiring, staffing, training, compensation, work organization and employee involvement. They affect both managerial and non-managerial employees and also affect efficiency to the extent that both groups play important roles in engaging or supporting profit-generating activities in firms.

2.3 Historical Development of Insurance in Ethiopia

The emergence of modern insurance in Ethiopia date back to 1905 when the first Bank established, Bank of Abyssinian, which has been acting as an agent for foreign insurance Companies (Hailu, 2007). According to Hailu (2007), during the period of 1920s till 1950s, foreign companies have been undertaking insurance business through agents in the country.

The first domestic insurance company in Ethiopia was established in 1951. Subsequently, the industry expanded with numerous entities operating in both life and general insurance segments till 1975. However, in 1975 all insurance companies under private ownership were nationalized by Proclamation issued under No. 26/1975 (Hailu, 2007).

With the end of government monopoly and passing of the Insurance Proclamation, Proclamation No. 86/1994 lifts entry restrictions for private players. However, there is still limitation as to form of ownership, foreign players are barred to enter the market and foreign national is restricted from acquiring share in a domestic Insurance company.

Following the opening up of the insurance sector domestic private insurance companies joined the market, currently the number of domestic insurance companies stood at 17 (1 public and 16 private) which are operating in both general and long-term insurance business (NBE, 2016).

2.3.1 Current Status of Insurance Sector in Ethiopia

In the context of the Ethiopian insurance industry the Licensing and Supervision of Insurance Proclamation, Proclamation No. 86/1994 that operated for almost two decades and the substitute Proclamation No.746/2012, stipulated the manner in which insurance and reinsurance business transacted in the country.

After the liberalization of the insurance sector, insurance companies in the private sector has continued to dominate the insurance market in terms branch expansions, capital and market share. According to NBE's 2015/16 annual report publication, the number of insurance branches operating in the country is 426, about 53.5 percent of insurance branches were in Addis Ababa and 83.6 percent of the total branches were private. At the same time, the total capital of insurance companies reached to Birr 3.6 billion of which the share of private insurance companies is 76.7 percent.

As published in the annual report of NIC (2016), which is based on the information obtained from NBE, the insurance sector in 2016 written gross premium of Birr 6.4 Billion from both general and long-term insurance business, which is 15.6 per cent higher than the previous year. In terms of market share, private sector as compared to the public owned insurance company, the private sector is enjoying about 67 percent of the market while the public insurance company, Ethiopian Insurance Company acquires 33 percent.

The industry claims incurred reached Birr 3.1 Billion, which shows 24 percent increase from the previous year. With regard to profit after tax, it stood slightly higher than last year's Birr 823 million, Birr 835 million. The industry shows significant improvement in terms of capital position; the asset base grew from Birr 9.7 billion in 2015 to birr 11.5 billion in 2016.

The major development in, 2016, the Ethiopian insurance industry was the establishment of Ethiopian Reinsurance Company S.C., which contributes for the retention of significant amount of premium locally and will enhance and stabilize the insurance industry.

Though there is growth, the contribution of the insurance industry to the overall GDP and per Capita premium is still very low. The sector's contribution to the over all GDP is about 1 percent and per Capita premium is below USD 3.

2.3.2 Characteristics of the Ethiopian Insurance Market

In Ethiopia, insurance has been practiced for over a century. Despite the fact, insurance uptake is still very low and relatively under developed in comparison to that of other African countries. The Ethiopian insurance market is characterized by small risks. Large commercial and industrial risks are rare and mostly transferred to foreign insurance companies. However as of July 1, 2016, it is presumed that the newly established Reinsurance Company will expands underwriting capacity of domestic insurance institutions; minimize their cost and dependence on foreign Reinsurance firms, and also save foreign currency.

Though Ethiopian insurance industry house 17 insurance companies, all of them are relatively weak and small-scale (Deloittee, 2016). In addition, far from expanding the market for the insurance sector, the business activities are limited in urban areas, especially in Addis Ababa (53.5%), of the private company account (83.6%), where a fairly good market network already exists (NBE Annual Report, 2016).

2.3.3 Nile Insurance Company

NIC, a private insurer, has a paid up capital of Birr 179,859.00 and has raised a number of its branches to 41. During 2015/2016 budget year, the company written gross premium of Birr 433,360,106.00 among which Birr 405,308,389.00 from general insurance business (increase of 18.3 %) and Birr 28,051,717.00 from long term business (increase 7.48 %) as compare to the previous year (NIC Annual report, 2016). With regard to the market share, the company share 7 percent of the market, which is second of the private sector.

The company's Net claims paid amount Birr 228,658,087.00 and claims incurred Birr 255,648,100.00 increased by 29.9 percent and 32.8 percent respectively as compared to previous year. The underwriting surplus for the year Birr 56,502, 869.00 is decreased by 25 percent from the previous year. Administrative and general expenses also increased by 7.5 percent as compared to previous year Birr 72,875,530.00.

Even though the company earned income from investment and other sources Birr 30,196,965; due to increase in Claims paid, claims incurred, administrative and general expense and decrease in underwriting surplus. The company registered profit before tax Birr 20,043,960.00, which is significantly decreased by 59 percent as compared to previous year performance.

However the company shows significant improvements in the company's asset base which grow from Birr 647 million to Birr 734 million. The company continues to maintain solvency margin ratio above the statutory requirement.

2.4 Performance Measurement Conclusions

Measurement of performance can offer significant invaluable information to allow management monitoring of performance, report progress, improve motivation and communication, and pinpoint problems. There is some general guidance, in the measures use to assess and compare the performance of a firm (Kasturi, 2006):

- Be balanced, including both financial and non financial measures.
- Be based on a time series (e.g. indicating how profitability of an organisation has changed over a period of time).
- Be sensitive to the contextual and environmental conditions the firms operate within and assess firms' performances within the market.

Therefore, a combination of financial soundness indicators as proposed by Das et.al., (2003) CARAMEL frame work (Capital adequacy, Asset quality, Reinsurance and Actuarial issues, Management soundness, Earnings and Profitability and Liquidity) and non-financial parameters (Kasturi, 2006) which comprises of market share, growth in number of branches, dealing with dropouts, market research, customer satisfaction and employee performance and satisfaction are applied in the study.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

This study assesses the current performance of Nile Insurance Company S.C focusing on General Insurance business only. It tries to explore the company's General Insurance business performance by applying financial and non financial parameters. Therefore, descriptive research design is utilized under this study (Saunder et.al., 2003).

The rational for descriptive research design is chosen because first it will allow the researcher to portray an accurate profile through observation and interpretation techniques. Second since the research contains quantitative aspect, this sort of research design is important to quantitatively analyze the study using descriptive and inferential statistics (Saunder et.al., 2003).

3.2 Population and Sampling

The study population is NIC, which undertakes General and Long Term Insurance businesses. As of June 30, 2016, NIC has 41 branches, 377 employees and over 28,000 customers. Due to constraint in resources, money and time, it is very difficult to accommodate both operations (General and Long Term), and all the employees and customers of the NIC in the study. Therefore, as a sample General insurance business, which NIC generates 90 percent of its premium income is chosen as a sample. Based on the level of premium income generated, above Birr 15 million, and claims handling; Claims department and two branches which handle claim, and three other branches, among branches located in Addis Ababa, were randomly selected. Thus, employees working and customers served in these branches and departments fall in the sample. In addition, Interview has been conducted with management team of the company.

Furthermore, the period of the study selected for financial analysis is 10 years data that is from July 1, 2007 to June 30, 2016 (Das et.al., 2003).

Table 3.1 Population and Sampling

Population	**Population**	**Sample Size**
NIC	General Insurance and Long Term Insurance	General Insurance
Financial Analysis	21 years	10 years data 2007 to 2016
Branches	41	5
Claims Department	1	1
Senior Management	12	3
Employees	377	45
Customers 28,000.00	Customers served, over 5000 in sample Branches	115

Source: Compiled (NIC Annual reports, reports)

After establishing appropriate sample size, as proposed by Gorard (2003), Das et.al. (2003), & SurveyMonkey Inc. (https://help.surveymonkey.com), the suitable technique to collect empirical data has been determined. The choice of sampling techniques is depending on the feasibility and sensibility of collecting data to answer the research question and to address the research objective (Saunder et.al., 2003). Accordingly, non-probability sampling technique is used in the research.

Non-probability sampling provides a range of alternative techniques based on researcher subjective judgment such as personal experience, convenience, and so on (Saunders et.al., 2003). Therefore, convenience sampling technique, which is a non-probability technique, has been used for two reasons. First the customer and employees are scattered throughout Addis Ababa, which makes it difficult to contact each individual. Second the researcher will work with in the demanding of academic time so very limited time and resource to conduct study.

3.3 Sources and Instruments of Data Collection

The present study covered both primary and secondary data. Primary data collected using structured and open ended questionnaire (Boadu et.al., 2014) and interview; while the main secondary data employed in this study are extracted from annual audited financial statements, published documents and other relevant materials like the companies' annual reports.

The first step was selecting audited financial statements for the year for the year 2007 to the year 2016 of the insurance company in question and the applicable ratios for monitoring performance of Ethiopian insurance industry. Then after, branches which fall under the study were identified.

3.4 Methods of Data Analysis

The researcher used SPSS software to do the detail analysis of performance using quantitative, descriptive and qualitative method. The findings of the study classified, tabulated and analyzed using percentage, weighted mean, graph, statistical tools as per the objectives of the study.

3.5 Validity and Reliability

3.5.1 Validity

Validity refers to the extent to which a test measure what we actually wish to measure. There are two major forms external and internal validity. The external validity of research finding refers to the data ability to be generalized across persons setting and time; while internal validity is the ability of a research instrument to measure what is purposed to measure (Asunder et.al., 2003).

Numbers of different steps were taken to ensure the validity of the study,

- Data was collected from the reliable source from Audited financial statement and respondent who are employees and customer of NIC.
- Data collection, Survey question were made based on literature review and frame of reference to insure the validity of the result.
- Data has been collected through two weak times in this short period of time no major event has been changed with related topics.

3.5.2 Reliability

Reliability demonstrates that the operation of the study such as the data collection procedure can be repeated with quality result. In order to obtain a high degree of reliability the researcher has carefully explained the procedure of the research. Moreover, the researcher had followed structured approaches in which every sequential chapter from introduction to conclusion is based on the presiding one. This is order to provide readers and other researchers with that flow a logical flow and thus is easy to read use in future research.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter consists of data presentation, analysis and also involves interpretation of the data collected from audited financial statements, annual reports and survey. The study applied financial and non-financial performance assessment parameters. Financial performance of NIC is assessed using CRAMEL model ratios; while market share, growth in number of branches, dealing with dropouts market research and customer and employee satisfaction are used for non-financial performance analysis.

4.1 Analysis of Performance based on Financial Parameters

4.1.1 Capital Adequacy Analysis

Capital adequacy (CA) becomes one of the prominent indicators of the financial health of the insurance industry and used to measure the overall financial strength of an Insurance company. It reflects the capacity of an insurance company to absorb loses relative to its risk exposures. In this study two ratios of capital adequacy are used to assess the financial strength of NIC.

a. Net Written Premium to Capital Ratio

For an insurance company, the growth in written premium is considered to be risky unless supported by optimal balance of capital. The first ratio is propounded to ensure that an Insurance company can take up reasonable level of losses arising from operational activities. To ensure safety against insolvency, the higher capital adequacy ratio is considered as good and desirable. However, to protect insurance companies from unexpected losses, the maximum allowable net premium to be written as prescribed by NBE is 2.5 times of capital.

Table 4.1 Capital Adequacy as Measured by Net Premium Written to Capital

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Net Premium Written/ Capital	2.47	2.42	2.18	2.81	2.53	3.27	2.51	3.03	2.11	2.20	2.55

Source: Computed from NIC audited financial statement

Capital is seen as a cushion that protects the insured and promotes financial stability. As shown in Table 4.1, during the period 2010 to 2014 NIC underwrites more business which was higher than maximum allowable statutory limit. This indicates that the business that NIC underwrites was not supported by optimal balance of capital and the company was not in financial position to absorb losses that arises from claims. However, NIC underwriting performed was within the standard for the other periods, which signifies adequate capitalization with solvency.

In Table 4.2, NIC performance has been checked against that of statutory maximum allowable underwriting limit (Max 2.5). On average, NIC collected premium 2.55 times of its capital, which the difference is 5% above the statutory limit. However, the observed difference between statutory limit and NIC performance is statistically not significant (t value = .45; Sig = .66 > .05). Thus, the result indicates that the business NIC generated was supported by its capital, which NIC utilized the available capital to write more premium is in a good position.

Table 4.2 Capital Adequacy - Net Premium Written to Capital

One - Sample Test								
			Test Value = 2.5					
							99.9% Confidence Interval of the Difference (CID)	
Net Premium Written / Capital	Mean	Std. Deviation	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
	2.55	.37	.45	9	.66	.05	-.52	.63

Source: Computed from NIC audited financial statement

b. Capital to Total Assets Ratio

The ratio capital to total assets indicates the growth in the assets of the business and how efficiently the capital has been invested to create assets. It also shows the proportion of capital in the total assets portfolio of the company. Although no benchmark has been prescribed by NBE, Lower ratio preferred on higher one, as higher ratio indicates total reliance on capital where as lower ratio indicate the greater assets base of the company.

Table 4.3 Capital Adequacy as Measured by Capital to Total Assets

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Capital/ Total Asset%	18.76	19.09	20.47	18.02	23.07	19.20	20.09	17.51	24.69	25.29	20.62

Source: Computed from NIC audited financial statement

As observed from Table 4.3, during the study period, the lowest 17.51% ratio was observed on 2014 and the highest 25.29% on 2016. Expect for the year 2010(18.02%), 2012(16.8%), 2014(17.51%), NIC capital dependency has been higher as compared to the respective preceding years performance. The ratio depicted an increasing trend because, as shown in Appendix A (g) there has been a major growth in shareholders fund, which make NIC reliance's on its capital higher.

4.1.2 Asset Quality Analysis

The quality of assets contributes to company's financial stability. Invested assets should be evaluated to assess the potential risk in investment or trade debtors' portfolio. Therefore, a review of a company invested assets should be performed, with particular attention paid to a large single investment. By taking this notion in to account, NBE set a statutory limit.

a. Real Estate, Unquoted Equities and Receivables to Total Assets Ratio

As per to NBE Directive No.SIB/25/2004 definition of real estate, NIC buildings does not qualify the status and as well unquoted equities are not applicable to the company. Therefore, only trade receivable in relation to total asset analysis has been made.

Table 4.4 Asset Quality as Measured by Debtors to Total Assets

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Debtors/ Total Asset %	18.74	19.23	15.90	17.85	20.28	19.27	5.86	4.87	11.31	9.68	14.3

Source: Computed from NIC audited financial statement

As presented in Table 4.4, during the period of the study the lowest trade debtors' ratio as compared to the respective year was observed in 2013; while the highest in 2011. Though there was fluctuation, NIC's trade debtors' ratio has been below the maximum allowable statutory standard (50%) throughout the period of study. The finding shows good receivable management.

In Table 4.5, NIC performance has been checked against that of statutory maximum allowable trade debtors limit (Max 50%) and the average trade debtor's ratio of NIC (14%), which the difference is found 36% below the maximum statuary limit. The observed difference between NBE standard and NIC's performance is statistically significant (t value = -19.23; Sig = 0.0 < 0.05), which shows considerable level of good performance in receivable management.

Table 4.5 Asset Quality - Debtors to Total Asset

One -Sample Test								
Debtors / Total Asset			Test Value = .5					
	Mean	Std. Deviation	t	df	Sig. (2-tailed)	Mean Difference	99.99% CID Lower	Upper
	0.14	0.06	-19.23	9	0	-0.36	-0.48	-0.23

Source: Computed from NIC audited financial statement

b. Debtors to Gross Premium plus Reinsurance Recoveries Ratio

The ratio is used to assess credit risk of a company in relation to policyholders' contractual obligations to pay premiums on time. However, pursuant to Proclamation No. 746/2012, provision of insurance policy on credit bases has been barred since 2012. Hence, the ratio is not applicable to NIC.

c. Investment in Equities to Total Assets

It is shown in Table 4.6 that NIC's investment in equities during the study period ranges between 10.25% and 26%. The lowest investment was observed in 2014 while the highest on 2008. Except for the years 2012 to 2015, NIC investment in equities has been above the maximum allowable standard (15%) set by NBE.

Table 4.6 Asset Quality as Measured Investment in Equities

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Investment in Equities / Total Assets %	18.81	26.00	25.17	21.87	18.39	13.53	11.63	10.25	10.75	15.34	17.18

Source: Computed from NIC audited financial statement

As shown Table 4.7, the average investment in equities (17.2%), which the difference found 2% higher than the statutory standard limit (15%). Since the difference between investment performance of NIC and that of the statutory limit is statistically not significant(t value = 1.18; Sig = .27 > .05), NIC's investment risk in equities is good.

Table 4.7 Asset Quality - Investment in Equities to Total Assets

One-Sample Test								
			Test Value = .15					
							99.99% CID	
Investment in Equities / Total Assets	Mean	Std. Deviation	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
	.17	.06	1.18	9	.27	.02	-.1	.14

Source: Computed from NIC audited financial statement

4.1.3 Reinsurance and Actuarial Issues Analysis

Reinsurance plays an essential role in the risk spreading process and provides insurers with varying degrees of financial stability. A company's reinsurance program should be appropriate relative to its policy limits and underwriting risks, catastrophe exposures, business, financial capacity and credit quality of the reinsurers involved.

a. Risk Retention Ratio

Risk retention is the gap between gross and net premium written, which indicate the transferred risk qualitatively. The analysis of risk retention ratio clearly indicates risk retention capacity of an insurance company.

Table 4. 8 Risk Retention Ratio as Measured Net Premium to Gross Premium

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Net premium / Gross Premium %	82.70	81.59	73.38	83.07	84.65	85.30	82.90	85.76	87.49	89.35	83.6

Source: Computed from NIC audited financial statement

As presented in Table 4.8, the retained risk by NIC has shown an increasing trend especially during the periods 2013 onwards. On the average during the study period NIC retains 83.62% of the risks it underwrites. However, as per NBE directive, the maximum allowable limit for risk retention ratio is 70%. Since risk retention ratio is high, NIC's risk bearing ability is moderate.

Table 4.9 Reinsurance and Actuarial - Risk Retention Ratio

One-Sample Test								
			Test Value = .7					
							99.99% CID	
Net premium / Gross Premium	Mean	Std. Deviation	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
	.84	.04	10	9	.00	.13	.05	.23

Source: Computed from NIC audited financial statement

In Table 4.9, NIC's risk retention ratio has been checked against national standard (Max 70%). NIC retained 83.6% of its risks on the average, which is 13.6% above the statutory limit. The observed difference found statistically significant (t value = 10; Sig = .0 < .05). Since NIC is shouldering most of the risks, this lead to majority of the claims to be covered in house which has an impact on the company's financial stability and profitability.

b. Survival Ratio

The ratio, net technical reserves to average of net claims paid in last three years highlights the sound quantification and assessment of insurance liabilities.

Table 4.10 Survival Ratio

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Survival Ratio	124	113	105	73.3	61.5	71.9	98.1	91.7	89.4	89.4	91.6

Source: Computed from NIC audited financial statement

Claim technical reserve as compared to average claims paid as shown in Table 4.10 has been higher between years 2007 to 2009, exceptionally low 26.73%, 38.53% and 28.08% during 2010, 2011 and 2012 respectively, and marginal gap (10.5%) onwards.

Technical reserves ratio during the period of the study on the average has been only 8.38% lower, which showed that NIC maintained adequate reserves to mitigate liabilities.

4.1.4 Management Soundness Analysis

The performance of management capacity is usually qualitative and can be understood through subjective evaluation of management systems, organization culture and control mechanisms and so on. However, the management efficiency and soundness can also be measured with the help of some ratios that used to indicate operational efficiency of the companies, such can include the ability of management in deploying its resources to maximize the income, utilize the facilities productively and reduce costs. The operating objectives of a company's management team play an important role in its qualitative evaluation of the current and future operating performance.

a. Gross Premium to Number of Employees Ratio

During the period of the study, gross premium written of NIC grow from Birr 107 million to Birr 405 million and company's human capital count increased from 183 to 368. The data presented under Appendix C shows that on average NIC written premium grew 16.7 % while average number of staff growth is 9.8%. Since premium growth over staff is positive, NIC is properly utilizing its human capital.

Table 4.11 Gross Premium Written to Number of Employees

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Premium Growth %	-0.67	11.04	15.72	34.33	44.86	-3.87	16.93	14.07	18.27	16.74
Employee Growth %	44.81	5.66	-2.86	-4.41	-1.15	13.23	9.28	6.92	8.24	8.86
Ratio%	-31.41	5.09	19.12	40.53	46.55	-15.10	7.00	6.69	9.27	9.75

Source: Computed (NIC Audited financial statement and annual report)

b. **Operating Expense to Gross Premium Ratio**

Management expense ratio, operating expense to gross premium, is another major indicator of management soundness. As presented under Appendix D an average growth of expense (16.7%) that NIC incurred to generate premium income is the same as gross written premium growth. This shows that NIC incurred expense in direct proportion to write a policy.

Table 4.12 Growth Expense Ratio - Premium Growth NIC

Paired Samples Test										
			Paired Differences							
						99.99% CID				
	Mean	Std. D	Mean	Std. D	Std. Error Mean	Lower	Upper	t	df	Sig. (2 tailed)
Growth Expense	.168	.124	.00	.156	.052	-.369	.370	.01	8.0	.993
Growth Premium	.167	.153								

Source: Computed from NIC audited financial statement

As shown in Table 4.12 the difference between average growth rate of expense and premium is statistically not significant (t value = .01; Sig = .993 > .05). During the study shown though NIC expand its geographical reach by opening new branches, its office business declined and commission payments increased. As depicted in Appendix B (ac) expenses incurred to acquire new customers in the insurance market and retain the existing one has been the growing challenge for NIC.

4.1.5 Earnings and Profitability Analysis

The future viability of an insurance company depends on its ability to generate sufficient level of return. Earning ability contributes to the long-term viability of an institution by supporting its ability to maintain sufficient capital in relation to risk profile. Earnings absorb normal and expected losses in a given period and provide a source of financial support by contributing to the institution’s generation of capital. It is a conventional parameter of measuring financial performance.

The five ratios comprising the indicator Earnings and Profitability analysis highlight the trend witnessed and the operational (underwriting) results and non operational (investment) performance during the study period.

a. Loss Ratio

The first ratio in the category of earnings and profitability is the ratio of net claims incurred to net premiums, termed as claim ratio or loss ratio. This ratio represents the proportion of net claims incurred out of the earned premiums.

Table 4.13 Loss Ratio as measured by Claims Incurred to Net Earned Premium

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Loss Ratio %	86.13	87.00	69.38	57.37	71.45	72.10	73.49	70.06	68.56	78.33	73.387

Source: Computed from NIC audited financial statement

It is presented under Table 4.13 that the highest loss ratio has been 87% (2008) while the lowest 57.37% (2010). Except for year 2009 (69.38%), 2010 (57.37%), and 2015 (68.56%), claim ratio of NIC has been higher than the standard set by the regulatory body (70%) which shows risk management exposure.

Table 4. 14 Earning and profitability-Loss Ratio

One-Sample Test								
			Test Value = .7					
	Mean	Std. Deviation	t	df	Sig. (2 tailed)	Mean Difference	99.99% CID	
							Lower	Upper
Claims Incurred / Net Earned Premium	.734	.087	1.23	9.0	.25	.034	-0.15	0.22

Source: Computed from NIC audited financial statement

The low loss incurring ratio is good for financial health of the insurers. As shown in Table 4.14 NIC's claim ratio has been checked against that of statutory limit (70%) and it is found that NIC's average claim ratio (73.4%) is 3.4% above national standard. NIC's loss ratio is at maximum limit, the observed difference is statistically not significant (t value = 1.23; Sig = .251 > .05), the result depicts that NIC lacks to put control on the loss rate because of poor risk management.

b. Expense Ratio

The expense ratio is the underwriting expenses incurred including commissions and general expenses in connection with underwriting activities during the period divided by the net earned premium for the same period.

As shown in Table 4.15, NIC's expense ratio decreased from 33.91% in year 2009 to 21.25% in the year 2013. However in the year 2014, dramatic increase in the ratio (29.55%) has been observed. In the year 2015 as well, NIC's expense ratio increased by 11.15% as compared to 2014 performance. However on 2016 expense ratio of NIC declined by 7.29. During majority of the study period, NIC's managed its expenses well which has a good gesture for improving financial strength.

Table 4.15 Expense Ratio Expense as Measured by Net Earned Premium

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expense Ratio %	27.8	33.91	31.48	30.79	28.18	24.41	21.25	27.53	30.6	28.37
Change %	-	21.98	-7.17	-2.19	-8.48	-13.38	-12.95	29.55	11.15	-7.29

Source: Computed from NIC audited financial statement

In Table 4.16, NIC's expense ratio has been checked against that of regulatory limit (Max 35%). It is found that the average expense ratio of NIC (28.43%) is 7% below maximum limit. Since the difference is statistically significant (t value = -5.72; Sig = .0 < .05), NIC's performance in controlling expenses which has positive impact on profitability of the company is good.

Table 4.15 Expense Ratio

One-Sample Test								
		Std. Deviation	Test Value = .35					
	Mean		t	df	Sig. (2-tailed)	Mean Difference	99.99% CID Lower	Upper
Expense Ratio	.28	.04	-5.72	9	.00	-.07	-.14	.01

Source: Computed from NIC audited financial statement

c. Combined Ratio

The combined ratio is the sum of two ratios: the expense ratio and claims ratio. It is used by an insurance company to indicate how well it is performing in its daily operations. A ratio below (100%) indicates that the company is making an underwriting profit, while as the ratio above (100%) means that it is utilizing more money in paying claims and expenses that it receives from premiums.

Table 4.16 Table Combined Ratio

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Combined Ratio	113.93	120.91	100.86	88.16	99.64	96.51	94.73	97.59	99.16	106.70	101.82

Source: Computed from NIC audited financial statement

As shown in Table 4.17 NIC's combined loss ratio has been above 100%, in year 2007 (114%), 2008 (121%), 2009 (101%) and 2006(107%), which indicates loss of profit from the underwriting operation and in 2011 at breakeven point. Except for the year 2010 (88%), during the study period NIC's combined loss ratio has been above 95% margin which is attributed by high loss ratio.

Table 4.17 Combined Ratio

One-Sample Test								
		Std. Deviation	Test Value = 1.05					
	Mean		t	df	Sig. (2-tailed)	Mean Difference	99.99% CID Lower	Upper
Combined Ratio	1.02	.1	-1.05	9	.32	-.032	-.23	.17

Source: Computed from NIC audited financial statement

During the period of study, as shown in Table 4.18, the average combined loss ratio of NIC 101.82% is found 3.18% below the standard set by NBE (Max 105%). However, the observed difference between statutory limit and NIC performance (t value = -1.05; Sig = .32 > .05) is not statistically significant, which the ratio is highest. Since the average combined loss ratio exceeded 100%, profit generated from operation found impaired, operational loss 1.82%. Therefore, NIC's profitability as shown in Appendix A (m) is the result of investment returns.

d. Investment Income to Net Earned premium

The ratio presented in Table 4.19 represents the investment income ratio of NIC.

Table 4.18 Investment Income to Net Earned Premium

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Investment Income / Net Earned Premium	17.62	9.54	2.73	12.96	13.72	14.09	14.73	18.43	15.72	12.38	13.19

Source: Computed from NIC audited financial statement

As indicated in 4.19, the ratio declined in the year 2008 and 2009. Exceptionally in 2009, the ratio (2.73%) has been below the minimum standard (10%). Furthermore, it is depicted that the ratio has been above the statutory standard limit and at increasing rate during the period 2010 to 2014. However, decline in the ratio has been observed in year 2015 (15.72%) and 2016 (12.38%). Since NIC's profitability dependent on income generated from its investments, NIC should generate stable and significantly higher income than the minimum standard.

During the period of the study, as shown in 4.20 the average ratio of NIC is 13%, which differ positively by 3% the regulatory standard (10%). The difference is found statistically not significant (t value = 2.25; Sig = .05 = .05) which signify investment income of NIC is good but at minimum. Therefore, NIC should maintain higher ratios to compensate the loss from its operation.

Table 4.19 Earning and Profitability

One-Sample Test								
			Test Value = .1					
	Mean	Std. Deviation	t	df	Sig. (2-tailed)	Mean Difference	99.99% CID Lower	99.99% CID Upper
Investment Income / Net Earned Premium	.13	.04	2.25	9	.05	.032	-.06	.13

Source: Computed from NIC audited financial statement

e. Return on Equity

Return on equity is an effective measure of both profitability and efficient capital utilization. ROE is the net income for the period divided by the average equity for the period.

Table 4. 20 ROE

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Return on Equity NIC %	12.1	-12.5	14.7	76.5	34.3	45	47.9	58.1	34.4	13
Return on Equity Market %	17	18	19	29	29	35	38	38	30	25

Source: Computed from NIC audited financial statement

Since ROE is the reward for the shareholders, the ratio seems to be fluctuating as shown Table 4.1.21 Decline in the ROE, as compared to the respective previous year performance has been observed in the year 2008 (12.5%), 2011(34.3%), 2015(34.4%) and 2016 (13%), NIC earned highest return in year 2009 and 2010. For the remaining periods, the growth rate range from 6% to 32.35%. The trend analysis shows that inconsistent returns were earned by NIC.

Table 4.21 Comparison of ROE NIC and Market

Paired Samples Test										
			Paired Differences							
						99.99% CID				
	Mean	Std. Deviation	Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2 tailed)
ROE NIC	.32	.26	.046	.21	.065	-.38	.48	.69	9.	.50
ROE Market	.28	.08								

Source: Computed from NIC audited financial statement

As shown in Table 4.22 though NIC's average ROE is higher than the market, the difference is statistically not significant (t value = .69; Sig = .50 > .05). Thus the result reveals that NIC effectively utilized the shareholders funds.

4.1.6 Liquidity Analysis

Liquidity risk is the possibility that an insurance company is unable to meet current financial obligations as they come due. The company may be solvent in the short, medium and long-term. However, it may simply have insufficient cash or not enough investments capable of being turned into cash in a timely way to pay policyholder claims or other creditors when they are due to be paid.

Table 4.22 Liquidity Ratios of Current Assets to Current Liabilities.

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Liquid Asset / Current Liability	89.3	68.43	73.4	92.7	96.4	259	111	109	115	84.9	110

Source: Computed from NIC audited financial statement

The rule of thumb for liquidity, it should be above 100%. NIC exhibited the ratio below 100% during the period 2007 till 2011 and 2016 as well. Liquidity ratio of NIC was above 100% for the period 2013 to 2015 and exceptionally favorable in 2012 (258.7%). Though there has been a fluctuation, the average ratio (110%) shows that, NIC is in a position to meet its current liabilities.

Table 4.23 Liquidity Ratios of Current Assets to Current Liabilities

One-Sample Test								
			Test Value = 1					
							99.99% CID	
	Mean	Std. Deviation	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Liquidity Liquid Asset / Current Liability	1.09	.545	.58	9	.58	.09	-1.04	1.24

Source: Computed from NIC audited financial statement

As observed in Table 4.24, though the average liquidity ratio of NIC during the period of the study is 10% above the standard ratio (100%) the observed difference is statistically not significant (t value = .58; Sig = .58 > .05). To continue its solvent state, NIC require more liquid funds and unforeseen claims call for the better liquidity position of the company, which NIC should maintain high liquidity ratio as per the general requirements.

NBE, the regulatory body of Insurance Company adopted inverse approach. It measures Liquidity by applying the ratio of current liability to current assets.

Table 4.24 Liquidity Current Liability to Liquid Asset

One-Sample Test								
			Test Value = 1.05					
							99.99% CID	
	Mean	Std. Deviation	t	df	Sig. (2-tailed)	Mean Diff.	Lower	Upper
Current Liability to Liquid Asset	1.03	.29	-.20	9	.84	-.02	-.64	.60

Source: Computed from NIC audited financial statement

As In Table 4.25, NIC's liquidity ratio has been checked against that of statutory maximum allowable ratio (Max 105%). The average liquidity ratio (103%) has been below the maximum limit only by 2% and the observed difference is statistically not significant (t = -.20; Sig = .84 > .05). Therefore, to meet its current liabilities effectively, NIC should be efficient in terms of liquid fund management as the ratio of the company is on maximum limit.

4.2 Analysis of Performance based on Non-Financial Parameters

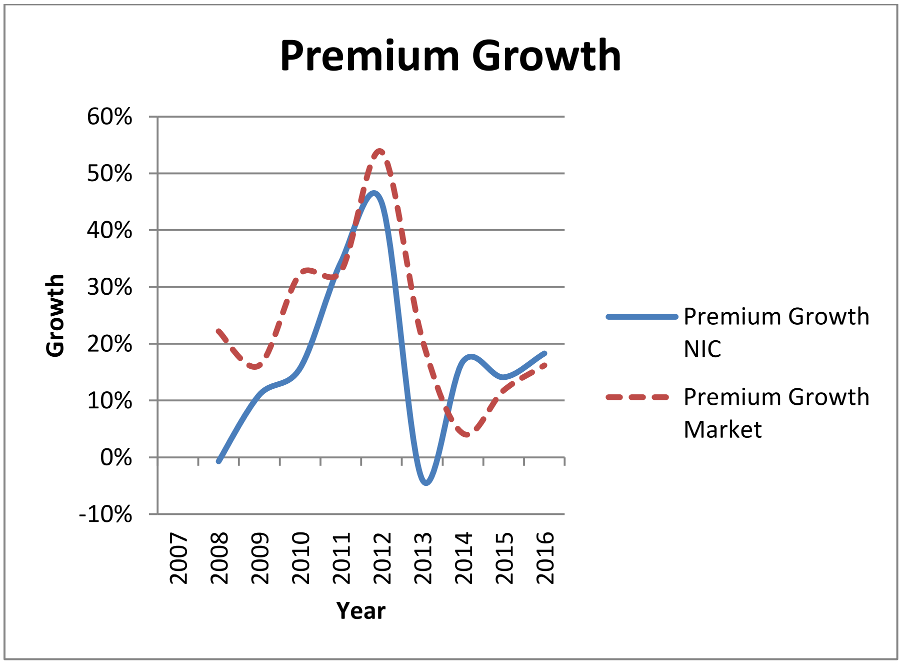
4.2.1 Premium Growth and Market Share

During the period of the study, being premium the main input, gross premium written by the market is taken as a base for analyzing NIC performance in terms of premium growth and market share.

As illustrate in Figure 4.1 Ethiopian Insurance industry growth trend reviles fluctuation pattern. There has been a sharp decline (33%) in growth during the period 2013 as compared to 2012 performance and the lowest during the period of the study. In the same period, NIC performance also declined by 41% which is even below the market.

However, in year 2014 onwards the insurance industry shows revival and robust growth of premium written and in these periods NIC improved its competitiveness and gained market share of 6.41% (2014), 6.54% (2015) and 6.65% (2016).

Figure 1 Premium Growth



Source: Compiled (NIC Audited financial statement & market data)

As presented under Table 4.26, the average market share of NIC has been below the market and the difference is statistically significant (t value = -1.56; Sig = -1.57 < 0.05). Thus, NIC should match its growth in line with the market growth.

Table 4.25 Premium Growth NIC –Premium Growth Market

Paired Samples Test										
	Mean	Std. Deviation	Paired Differences					t	df	Sig. (2-tailed)
			Mean	Std. Deviation	Std. Error Mean	99.99% CID				
						Lower	Upper			
Premium Growth NIC	.17	.15	-.07	.13	.04	-.37	.24	-1.56	8	.16
Premium Growth Market	.23	.14								

Source: Computed (NIC Audited financial statement)

4.2.2 Growth in Number of Branches

The primary purpose of branches is to extend the geographic reach of the insurance legal entity. Firms expand their branch network to either gain market power or informational advantage (Nissim, 2010). As presented in Appendix C during the period of the study, number braches NIC grew from 18(2007) to 44 (2016) which make the company second in number of branches in the market (NBE, 2016). Though associated increase in NIC’s expense observed, growth in production and market share has been exhibited.

4.2.3 Dealing with Dropouts

Insurance company success is affected by number of customers lost or a policy lapsed. To measure underwriting performance, retention ratio is used as other parameter. Retention ratio measures an insurer’s success in retaining existing insurance policies for renewal, or a ratio of the number of policies renewed to the number of policies subject to renewal. The higher the ratio, the better the insurer is at retaining existing customers. However, prevailing economic conditions, market environment and the underwriting policy of the insurer can affect this ratio.

Due to data constraints, only five year data has been used to analyze dropout customers. As presented under Appendix A (u) from those renewable insurance policies, percentage of dropouts is within the range of 41.6 to 49.69 percent. The lowest 41.6 % and the highest 48.69% dropouts has been observed during 2013 and 2014 respectively. as Interview made with senior management member of NIC, company believes that cost of retaining existing customer is lesser than the cost of acquiring new customer, furthermore, it will have an impact on company performance. Though NIC made through follow up made to retain existing customers, stiff competition in the market, price sensitivity of customer and the gap in claim service are among major attributes for the increased number dropout percent.

4.2.4 Market Research

As per the information obtained from an interview, during the period of 2012 to 2016 except one there has been no new product developed in general insurance stream. Most of the product policy and policy wordings dates back more than twenty years. In this regard, NIC is lagging behind the market requirement.

4.2.5 Customer Satisfaction

Customer satisfaction is one of the most important factors for firm's financial success. In a competitive market, the need is to deliver high quality service it is because increased in customer satisfaction increases the loyalty for current customers, lowers the cost of attracting new ones and enhance reputation and profitability (Shaheen, 2015).

Therefore taking this concept in notion, customer satisfaction assessment survey has been made and among the total of 107 questionnaires were collected and analyzed. Based on to the overall customer satisfaction assessment as shown in Table 4.27, Only 52.34%, slightly above average, of the customers are satisfied with NIC overall service provision. The researcher is of the view that dissatisfied customers may start to look for a new coverage and might compare NIC's with competitor's offer, which has close relation with customer retention (dropout). Therefore, it is important for NIC to improve its service and provide its customers with good service.

Table 4.27 Customer Overall Satisfactions

Variable	Number	Percent of Total
Disagree	29	27.1
Neutral	22	20.56
Agree	56	52.34
Total	107	100

Source: (Survey Data)

Regarding other assessment parameters as shown in Table 4.28, 67% of the respondents agreed that NIC provides adequate variety of insurance policies. The other parameters, designing insurance policy as per the customer's requirement, 29% of the respondents disagreed, 33% were neutral and 38% agreed with the statement. The finding shows that majority of insurance policy it provides are standardized. However to increase its market base and premium income, the company should design policy based on customers need.

Table 4.28 Insurance Policy Provision

Variables		Disagree	Neutral	Agree	Total
NIC provides adequate variety of insurance policies.	N	17	18	72	107
	%	15.89	16.82	67.29	100
NIC provides insurance policies as per your requirement	N	31	35	41	107
	%	28.97	32.71	38.32	100

Source: (Survey Data)

Speedy customer service is another area which needs attention, in this regard as shown in Table 4.29, only few of the respondents 36% agreed with NIC claims service level, in relation NIC informing customer service delivery time 43% of the respondents disagreed. Service issues; staff responsiveness to wards customers complain and prior notification of documents required are areas in which 40% and 31% of the respondents disagreed respectively. Since customers assess NIC based on approval speed, if claim settlement and decisions not made promptly, it affects customer's expectation which in turn negatively affect NIC's customer retention and market.

Table 4.29 Customer Service Provision

Variables		Disagree	Neutral	Agree	Total
NIC claims service is swift and efficient	N	47	22	38	107
	%	43.93	20.56	35.51	100
NIC tell customers exactly when the service will be performed	N	46	21	40	107
	%	42.99	19.63	37.38	100
NIC receive complaints from customers and respond as soon as possible	N	43	16	48	107
	%	40.19	14.95	44.86	100
NIC inform customers what it requires in case of any Underwriting and Claims services	N	33	24	50	107
	%	30.84	22.43	46.73	100

Source: (Survey Data)

NIC's customers' agreement level, as shown Appendix E, is above 70% in relation to work atmosphere which is conducive, simplified underwriting processing procedures and staffs concern in assisting customers. In the remaining parameters as well, customers' level of agreement ranges 50% to 70%. Which shows NIC is providing good service. Finally most of the customers forwarded that NIC should assign adequate and motivated staff that match customer size especially in claims department, training should be given to the customers and public. Furthermore, they recommended that customer should be primary focus of NIC.

4.2.6 Employee Performance and Satisfaction

Employees of the organization are very important; organization success relies on performance and satisfaction level of its employees as these are the employees who create good or bad impression about the organization (Kahan &Haseeb, 2015).

Employee satisfaction survey has been made and based on the feedback obtained from 44 employees, as shown in Table 4.28 employee overall satisfaction level is 55%, which is slightly above average.

Table 4.30 Employee Overall Satisfactions

Variable	Number	Percent of Total
Disagree	11	25
Neutral	9	20
Agree	24	55
Total	44	100

Source: (Survey Data)

As shown under Appendix F, Employee agreement level is above 70% exhibited on awareness and performance expectations of their post and team spirit respectively. Among the respondents 64% and 52% agreed having clearly defined roles and responsibilities and training they have taken contributed for their development and organizational performance as well. However, except intention to say at NIC 50%, respondent's agreement level is below 50% in the majority of assessment parameters, which shows employees' disagreement level is high. Since NIC's service provision to the customers relay on motivated and satisfied employees which directly affect customer satisfaction, NIC should motivate its employee and equal attention should be given to all.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS & RECOMMENDATIONS

On the basis of analysis made on the previous chapter major findings are summarized, conclusions have been drawn and recommendations to enhance NIC performance has been made.

5.1 Summary of Major Findings

It has been discussed in the previous chapter, based on financial soundness indicator, CARAMEL analysis and non-financial soundness indicters;

- Capital Adequacy
  - The ratio of net premium written to capital is above statutory limit that signify better position to write business. Capital to total asset ratio shows an increasing trend, which indicates NIC's reliance on its capital.
- Asset quality
  - Debtors to total asset ratio is below the maximum statutory limit and the difference is statistically significant, which shows significant level of good performance in receivable management.
  - The ratio investment in equities to total asset exceeds the statutory maximum standard. Since observed difference is statistically not significant, investment risk in equities is good.
- Reinsurance and Actuarial Issues
  - NIC's risk retention ratio is higher than the statutory limit and the difference is significant, the company's risk bearing ability is moderate.
  - NIC maintains good amount technical reserves which signify good survival ratio.
- Management Soundness
  - The relationship between the growth of gross premium and number of employees is statistically significant, which shows NIC's efficiency utilizing its human capital.

- The ratio operating expense to premium growth is statistically not significant that proportionately increase in relation to premium growth.

➢ Earning and profitability analysis

- Loss ratio of NIC is high which is affecting operational profitability.
- NIC expense management is good; it is observed that the difference between the standard and NIC performance is significant.
- Combined ratio of NIC is above the 100%, which shows operating loss from general insurance business.
- NIC's investment income to net earned premium ratio is slightly higher than the minimum threshold and the difference is not significant, which shows low investment management.
- NIC's ROE is in line with the market growth.

➢ Liquidity

- To continue its solvent state, NIC should be efficient in terms of liquid fund management as the ratio of the company is on maximum limit.

➢ Though NIC is regaining its market share at the end of the study period, the average premium growth of the company is below the market growth rate.

➢ NIC has good branch expansions which make the company second in number of branches in the market.

➢ The ratio of lapsed policies (dropouts) is above shows that the company is losing its renewal policy.

➢ NIC's business has been increasing but in terms of products /Insurance policy developments, it is lagging behind the market requirement.

➢ the levels of overall customer and employee satisfaction are slightly above average

5.2 Conclusions

Insurance of any type is all about managing risk. It is essential in the insurance business to have a balance between short term risks and long term rewards. Therefore measuring performance is necessary in order to understand administer and enhance the business activities. Taking this notion in to account, the study assessed performance of NIC using financial and non-financial soundness indicators of firm’s performance parameters.

The analysis under the CRAMEL parameters addressed the following issues and it is concluded that Capital base of NIC has been good and it is used to write more business. Receivable and investment management of the company shows good asset quality of the company. NIC’s operational efficiency is reflected on the sound management. Though the company has low investment income and underwriting profitability has been under strain, the underwriting losses meet out of the investment income and NIC registered profit. As to the other assessment parameter, Liquidity ratio, NIC should be efficient in terms of liquid fund management to continue its solvent state.

Based on the analysis made under non-financial soundness indicator the following conclusions are also drawn. The overall market share of the company has fluctuation pattern but showing improvements. It has been observed that there have been improvements in NIC’s gross premium written and number of branches. However, the ratio of lapsed policies (dropouts) and new product development needs for management attention. Finally, the overall customer and employee satisfaction assessment showed that the satisfaction level is slightly above average.

5.3 Recommendations

The research recommends the following points to be addressed by NIC to overcome the current challenges and enhance its performance.

- NIC’s capital adequacy ratio in terms of net written premium to capital is on the maximum percentage stipulated by NBE, though the company is utilizing its capital properly. Though NIC’s performance has been good, its potential exposure to unforeseen risks is high. Therefore, NIC should reduce the impact of underwriting risk (amount of losses) by improving its underwriting performance through techniques like product selections, gathering sufficient information or detail about subject matter of insurance before agreement with the insured/issuing insurance policy and increase claims handling practice.

- Performance of NIC is good in terms of debt management. However, its investment in equities should be limited within the statuary standard.
- Based on reinsurance and actuarial issues calculated here, NIC retains more risks, which has an impact on its profitability as well as future survival. Therefore NIC should review its reinsurance arrangements.
- Operating expense is another issue that needs the management attention which has been increasing over the period.
- NIC's Loss ratio which has a contributing effect on earning and profitability of the company is high. Therefore NIC should enforce risk management practices and proper valuation of risks it underwrites in order to minimize losses leading to payment of claims.
- NIC should encourage more innovativeness in product development and marketing. Continuous innovation is required in areas of product/insurance policy development, design new products to suit customers'; while effective distribution channels and service delivery platforms required providing effective service delivery.
- Customer and employee satisfaction has long term impact on market reputation and financial performance. NIC performance relies on its customers and employee satisfaction. Therefore, NIC must take paradigm shift and strategically plan to enhance its employees and customer retention and satisfaction.

REFERENCES

Al-Matari, E.M., Al-Swidi, A.K. & Fadzil, F.H. (2014). The Measurements of Firm Performance's Dimensions: *Asian Journal of Finance & Accounting*, 6(1).

Boadu, F., Dwomo-Fokuo, E., Boakye, J.K. & Frimpong, A.O. (2014). Assessing the life Insurance industry in Ghana: *European Journal of Business and Management*, 6(21).

Catherine, M. & Rossman, G.B. (2015). *Designing Qualitative Research;* 6^{th} edition. USA: SAGE Publications.

Das, U.S., Davies, N. & Podpiera, R. (2003). Insurance and Issues in Financial Soundness: *IMF Working Paper*, WP/03/138.

Deloitte Touche Tohmatsu Limited (2016). *Ethiopia Economic Review: Ethiopia Economic Outlook, the Story Behind the Numbers*. Addis Ababa: Unpublished.

Ethiopian House of Representatives (1994). *Proclamation No.86/1994: Licensing and Supervision of Insurance Business. Addis Ababa*: Berhanena Selam Printing Press, 53(46), 275-291.

Ethiopian House of Representatives (2012). *Proclamation No.746/2012: Licensing and Supervision of Insurance Business*. Addis Ababa: Berhanena Selam Printing Press, 18(57), 6462-6496.

Emperor of Ethiopian Government (1960). *Proclamation No.166/1960: Commercial Code of the Empire of Ethiopia*. Addis Ababa: Berhanena Selam Printing Press.

Ersoy, A.P., Bora, T. & Karabiyik, L. (2014). Effect of Non-financial Information on Financial Performance. Evidence from Turkey: *International Review of Economics and Management*, 2, 1-18.

Freeman, R. E. (1984). *Strategic Management: a Stakeholders Approach*. Boston: Pitman.

Gorard, S. (2003). What is Multiple Level Modeling for? *British journal of educational study*, 51(1), 46-63.

Hailu, Z. (2007). *Insurance in Ethiopia: Historical Development, Present Status and Future Challenges*. Addis Ababa: Master Printing Press.

Ibrahim, A.M. (2013). *Factors Influencing Performance of the Insurance Industry in Tanzania: The Case of Zanzibar Insurance Corporation*. Open University of Tanzania

Kai, B., Anu, S., Amir, W. & Eeva-Liisa, W. (2016). *Performance measurement in banks and insurance companies*: Aalto University.

Kaplan, R.S. & Norton, D.P. (1992). The Balanced Scorecard: The Measures that Drive Performance: *Harvard Business Review*, Jan-Feb, 71-79.

Kasturi, K. (2006). Performance Management in Insurance Corporation: *Journal of Business Administration Online*, 5(1).

Khan, M.N. & Haseeb, S. (2015). Impact of Employee Motivation and Satisfaction on Customer Satisfaction and Organizational Performance: A Theoretical Framework: *International Journal of Business Management*, 3(1).

Kombo, D. K. & Tromp, D. L. (2006). *Proposal and thesis writing: An introduction*. Nairobi: Paulines Publications Africa.

Krishnamurthy, S., Mony, S.V., Jhaveri, N., Bakhshi, S., Bhat, R., Dixit, M.R, & Maheshwari, S. (2005). Insurance Industry in India: Structure, Performance, and Future Challenges: *VIKALPA* 30(3), 93-119.

Mohammed, G. (2014). *Determinants of Capital structure and its Impact on the Performance of Ethiopian Insurance Industry*: Jimma University.

Nissim, D. (2010). *Analysis and Evaluation of Insurance Companies: Industry Study Number Two*: Columbia Business School.

National Bank of Ethiopia . (2015/2016). *Annual Report* for Year Ended 30 Jun, 2016.

Nile Insurance Company S.C. (2016). *Annual Report* for Year Ended 30 Jun, 2016.

Saunder, M., Lewis, P. & Thornhill, A. (2003). *Researcher methodology for business student*; 3rd edition, Harlow: Pearson education Ltd.

Shaheen, I. (2015). A Review of Customer Satisfaction, Employee Satisfaction and their Impact on Firm Performance: *International Journal of Management and Organizational Studies*, 4(1).

Smajla, N. (2014). *Measuring Financial Soundness of Insurance Company by Using CARAMELS Model-Case of Croatia*. Polytechnic of Karlovac.

University of OSLO (2014). *he Impact of Ethiopian Accession to the WTO on its Financial Service Sector*. Oslo: Unpublished.

UNCTAD (2007). *Trade and development aspects of insurance services and regulatory frameworks*: UN Conference on Trade and Development, New York and Geneva.

Yip, G.S., Devinney, T.M. & Johnson, G. (2009). Measuring Long Term Superior Performance: The UK's Long-Term Superior Performers 1984–2003. *Journal of Strategy and Management* 42, 390-413.

APPENDIX

APPENDIX A: NIC Financial Data "000"

	a	b	c	d	e	f	g	h	i	j	k	l	m
Year	**Gross Premium Written**	**Net Premium Written**	**Net Earned Premium**	**Claims Incurred**	**Expense**	**Total Assets**	**Capital**	**Unearned Premium**	**Technical Reserve Claims**		**Investment Income**	**Investment Asset**	**Profit After Tax**
2007	107,630.14	89,012.78	85,941.01	74,020.04	21,637.42	191,909.09	36,000.00	39,540.51	65,215.76		15,141.80	79,949.71	4,363.14
2008	106,909.29	87,222.27	82,494.04	71,772.75	26,146.81	188,611.06	36,000.00	44,268.74	65,685.21		7,873.61	83,971.91	-5,003.49
2009	118,707.15	87,111.78	90,060.35	62,482.89	28,150.90	194,820.63	39,882.00	41,320.18	66,827.28		2,456.01	92,372.89	5,874.79
2010	137,362.99	114,112.77	98,052.71	56,249.56	29,602.80	225,030.51	40,547.00	57,380.23	49,896.79		12,705.92	121,875.39	31,038.17
2011	184,513.76	156,193.30	135,876.65	97,087.91	35,458.64	267,594.85	61,747.00	77,696.89	47,316.74		18,644.80	138,204.43	21,173.81
2012	267,280.67	227,995.59	189,066.19	136,314.86	44,434.57	363,734.98	69,828.00	116,626.30	64,699.27		26,639.31	212,610.11	30,074.68
2013	256,943.70	213,018.23	227,529.09	167,206.20	42,738.97	423,111.33	85,000.00	102,115.44	112,714.28		33,516.80	304,478.94	37,551.21
2014	300,433.89	257,650.05	232,004.17	162,539.54	53,496.44	485,322.50	85,000.00	127,761.31	122,714.47		42,768.63	358,167.72	48,158.45
2015	342,707.58	299,846.19	280,698.19	192,455.14	72,875.53	574,291.09	141,779.00	146,909.31	139,113.33		44,117.20	381,707.02	42,199.99
2016	405,308.39	362,141.80	326,377.35	255,648.10	78,354.15	651,853.94	164,859.00	182,673.76	166,103.34		40,393.19	375,082.62	20,043.96

APPENDIX B: NIC Financial Data "000"

	n	o	p	q	r	s	t	u
Year	**Average Shareholders' Equity**	**Liquid Asset**	**Current Liabilities**	**Debtors**	**Industry Gross Premium**	**Industry Gross Premium**	**Total Liability**	**Investment in Equity**
2007	36,000.00	115,876.70	129,810.86	35,963.42	971,513.00	971,513.00	143,129.44	36,098.45
2008	39,882.00	90,359.04	132,049.53	36,268.36	1,187,030.00	1,187,030.00	144,691.63	49,032.72
2009	39,882.00	96,878.63	131,970.34	30,978.31	1,379,321.00	1,379,321.00	144,401.20	49,042.72
2010	40,547.00	124,207.32	133,921.98	40,169.45	1,824,893.00	1,824,893.00	133,921.98	49,217.60
2011	61,747.00	156,895.14	162,715.25	54,274.05	2,422,415.00	2,422,415.00	162,715.25	49,217.60
2012	66,843.94	253,667.54	98,053.74	70,092.05	3,724,760.00	3,724,760.00	233,586.66	49,217.60
2013	78,377.31	295,633.01	266,137.58	24,773.36	4,497,666.00	4,497,666.00	275,185.99	49,217.60
2014	82,886.05	340,975.08	312,828.64	23,654.83	4,687,657.00	4,687,657.00	321,200.57	49,763.62
2015	122,742.98	406,221.35	352,191.08	64,980.00	5,242,085.00	5,242,085.00	359,886.51	61,723.26
2016	154,348.33	362,539.19	427,096.48	63,087.69	6,093,677.00	6,093,677.00	427,096.48	100,000.00

APPENDIX C: Gross premium to Number of Employees Ratio,

Year	Gross Premium Written "000"	Premium Growth %	Number of Employees	Employee Growth %	Gross Premium/ Number of Employees	%	No. of Branches General Insurance
2007	107,630.14		183		588,142.82		18
2008	106,909.29	-0.67	265	44.81	403,431.28	-31.406	19
2009	118,707.15	11.04	280	5.66	423,954.09	5.087	20
2010	137,362.99	15.72	272	-2.86	505,010.97	19.119	20
2011	184,513.76	34.33	260	-4.41	709,668.31	40.525	21
2012	267,280.67	44.86	257	-1.15	1,040,002.59	46.548	21
2013	256,943.70	-3.87	291	13.23	882,968.03	-15.099	23
2014	300,433.89	16.93	318	9.28	944,760.65	6.998	29
2015	342,707.58	14.07	340	6.92	1,007,963.47	6.69	35
2016	405,308.39	18.27	368	8.24	1,101,381.49	9.268	40

APPENDIX D: Expense plus Insurance Commission to Gross premium Ratio

Year	Gross Premium Written	%	Expense Plus Insurance Commission		(Expense + Insurance Commission) / Gross Premium
2007	107,630,136.00		23,890,439.00		22
2008	106,909,290.00	-0.67	27,972,656.00	17.09%	26.16
2009	118,707,146.00	11.04	28,348,705.00	1.34%	23.88
2010	137,362,985.00	15.72	30,190,831.00	6.50%	21.98
2011	184,513,760.00	34.33	38,293,862.00	26.84%	20.75
2012	267,280,665.00	44.86	46,159,400.00	20.54%	17.27
2013	256,943,696.52	-3.87	48,340,003.00	4.72%	18.81
2014	300,433,888.00	16.93	63,873,678.00	32.13%	21.26
2015	342,707,580.00	14.07	85,896,752.00	34.48%	25.06
2016	405,308,389.00	18.27	92,580,530.00	7.78%	22.84

APPENDIX E: Customer Satisfaction Survey Data

General Characteristics of the Respondents

		Male	Female	Total
Gender Respondent Gender	N	78	29	107
	%	72.6	27.4	100

		Less than 30	31 - 40	41 - 50	Above 50	Total
Age category	N	34	47	14	12	107
	%	31.78	43.93	13.08	11.21	100

		Less than 4 years	4 - 7 years	8 - 11 years	12 or more years	Total
Experience Service year	N	33	46	16	12	107
	%	30.84	42.99	14.95	11.21	100

	Variables		Disagree	Neutral	Agree	Total
	NIC provides adequate variety of insurance policies.	N	17	18	72	107
		%	15.89	16.82	67.29	100
	NIC provides insurance policies as per your requirement	N	31	35	41	107
		%	28.97	32.71	38.32	100
	Employees' of NIC have technical knowledge and skill in solving customer problems	N	16	17	74	107
		%	14.95	15.89	69.16	100
	NIC use modern working tools/ technology to provide service to its customers	N	19	29	59	107
		%	17.76	27.10	55.14	100
	Premium charged by NIC is competitive/ fair as compared to other Insurance companies	N	31	21	55	107
		%	28.97	19.63	51.40	100
	NIC provides clear information or clarification about insurance policy terms, conditions and exceptions	N	36	17	54	107
		%	33.64	15.89	50.47	100
	NIC notify me in advance my insurance policy status	N	17	16	74	107
		%	15.89	14.95	69.16	100
	NIC has work atmosphere conducive to customers	N	15	16	76	107
		%	14.02	14.95	71.03	100
	NIC inform customers what it requires in case of any Underwriting and Claims services	N	33	24	50	107
		%	30.84	22.43	46.73	100

	Variables		Disagree	Neutral	Agree	Total
	NIC has simplified underwriting processing procedures	N	10	19	78	107
		%	9.35	17.76	72.90	100
	NIC claims service is swift and efficient	N	47	22	38	107
		%	43.93	20.56	35.51	100
	NIC receive complaints from customers and respond as soon as possible	N	43	16	48	107
		%	40.19	14.95	44.86	100
	Staffs' of NIC show concern and interests to help customers as much as possible	N	14	15	78	107
		%	13.08	14.02	72.90	100
	NIC tell customers exactly when the service will be performed	N	46	21	40	107
		%	42.99	19.63	37.38	100
	Service provided by NIC meet my expectation	N	17	24	66	107
		%	15.89	22.43	61.68	100
	If I had to choose a service provider all over again, I would make NIC my choice	N	21	24	62	107
		%	19.63	22.43	57.94	100
	I will recommend NIC to someone who seeks insurance service	N	26	26	55	107
		%	24.30	24.30	51.40	100
	Overall, I am satisfied with NIC service provision	N	29	22	56	107
		%	27.10	20.56	52.34	100

Source: (Survey Data)

APPENDIX F: Employee Satisfaction Survey Data

General Characteristics of the Respondents

		Valid				
		Male	Female	Total		
Gender Respondent Gender	N	25	19	44		
	%	56.8	43.2	100.0		
		18 - 25	26 - 30	3 31 - 40	41 - 50	Total
Age Respondent Age	N	9	15	14	6	44
	%	20.5	34.1	31.8	13.6	100.0
		Secondary education/Diploma	First Degree	Second Degree	Total	
Education Academic Qualification	N	3	40	1	44	
	%	6.8	90.9	2.3	100.0	

Variables		Disagree	Neutral	Agree	Total
The roles and responsibilities in my job category are clearly defined	N	8	8	28	44
	%	18	18.2	64	100.0
NIC use modern working tools/ technology which support employee's performance	N	17	7	20	44
	%	39	15.9	45	100.0
I receive the right amount of recognition for my work	N	13	13	18	44
	%	30	29.5	41	100.0
My skills and experience are being fully utilized	N	11	8	25	44
	%	25	18.2	57	100.0
I earn satisfactory basic pay	N	20	13	11	44
	%	45	29.5	25	100.0
The benefit package provided by the company is competitive as compared to that provided in the insurance industry	N	21	9	14	44
	%	48	20.5	32	100.0
Training organized in such a way that it contribute to employee development and attainment of NIC objectives	N	11	10	23	44
	%	25	22.7	52	100.0
Top management of NIC receives complaints from Staffs and responds as soon as possible	N	21	17	6	44
	%	48	38.6	14	100.0
I am able to participate in decisions that affect me	N	16	15	13	44
	%	36	34.1	30	100.0

Variables		Disagree	Neutral	Agree	Total
I am aware of career advancement opportunity that exists in NIC	N	13	12	19	44
	%	30	27.3	43	100.0
Staff selection and promotion is done on merits	N	17	10	17	44
	%	39	22.7	39	100.0
NIC provides satisfactory work condition	N	20	9	15	44
	%	45	20.5	34	100.0
I will recommend NIC to someone who seeks my advice as a good place to work	N	14	13	17	44
	%	32	29.5	39	100.0
I am satisfied with my career progression at NIC so far	N	14	13	17	44
	%	32	29.5	39	100.0
Team spirit in my branch/department is high	N	4	7	33	44
	%	9	15.9	75	100.0
I would be happy to stay with NIC for foreseeable future	N	12	10	22	44
	%	27	22.7	50	100.0
Overall, I am satisfied working in NIC	N	11	9	24	44
	%	25	20.5	55	100.0

Source: (Survey Data)

APPENDIX G: Questionnaire for Customer

St. Mary's University

School of Graduate Studies

Department of Business Administration

Questionnaire: Questionnaire on Assessing Performance of an Insurance Sector: The Case of Nile Insurance Company S.C.

The purpose of this questionnaire is to collect primary data on performance of Nile Insurance Company S.C. (NIC) as part of fulfillment of Master's Degree program.

I with due respect and gratitude request for your kindness in filling out this questionnaire.

Please be informed that all information provided will strictly remain confidential and will be exclusively used for academic purpose only.

You are therefore kindly requested to put (√) mark on your choice and provide short answer to the open ended questions where necessary.

Part A:

1. Gender
   A. Male ☐ B. Female ☐
2. Please select you age group.
   A. 18-25 years ☐ B. 26-30 years ☐ C. 31-40 years ☐
   D. 41-50 years ☐ E. Above 50 years ☐
3. Select your highest academic or professional qualification? Please select only one.
   A. Secondary education /Diploma ☐ B. First Degree ☐
   C. Second Degree ☐ D. Doctorate ☐
4. How long have you been a customer with NIC?
   Please state in terms of years ____________________

Part B:

No.	Please mark on the scale provided how strongly you agree or disagree with each statement.	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	NIC provides adequate variety of insurance policies.					
2	Employees' of NIC have technical knowledge and skill in solving customer problems.					
3	NIC provides insurance policies as per your requirement.					
4	Premium charged by NIC is competitive/ fair as compared to other Insurance companies.					
5	NIC use modern working tools/ technology to provide service to its customers.					
6	NIC provides clear information or clarification about insurance policy terms, conditions and exceptions.					
7	NIC notify me in advance my insurance policy status.					
8	NIC receive complaints from customers and respond as soon as possible.					
9	NIC provides consistent quality customer service.					
10	NIC has work atmosphere conducive to customers.					
11	Staffs' of NIC show concern and interests to help customers as much as possible.					
12	NIC tell customers exactly when the service will be performed.					
13	NIC inform customers what it requires in case of any Underwriting and Claims services					
14	NIC has simplified underwriting processing procedures.					
15	NIC claims service is swift and efficient.					
16	Service provided by NIC meet my expectation.					
17	If I had to choose a service provider all over again, I would make NIC my choice.					
18	I will recommend NIC to someone who seeks insurance service.					
19	Overall, I am satisfied with NIC service provision.					

Part C:

I. Please use the space below for any additional information or suggestions on how NIC serve you better?

____

____

THANKS FOR YOUR COOPERATION!

APPENDIX H: Questionnaire for Staff

St. Mary's University

School of Graduate Studies

Department of Business Administration

Questionnaire on Assessing Performance of an Insurance Sector: The Case of Nile Insurance Company S.C.

The purpose of this questionnaire is to collect primary data on performance of Nile Insurance Company S.C. (NIC) as part of fulfillment of Master's Degree program.

I with due respect and gratitude request for your kindness in filling out this questionnaire.

Please be informed that all information provided will strictly remain confidential and will be exclusively used for academic purpose only.

You are therefore kindly requested to put (√) mark on your choice and provide short answer to the open ended questions where necessary.

Questionnaire to be filled by the Staff's of NIC

Part A:

1. Gender
   A. Male ☐ B. Female ☐

2. Please select you age group.
   A. 18-25 years ☐ B. 26-30 years ☐ C. 31-40 years ☐
   D. 41-50 years ☐ E. Above 50 years ☐

3. Select your highest academic or professional qualification? Please select only one.
   A. Secondary education /Diploma ☐ B. First Degree ☐
   C. Second Degree ☐ D. ACII/FCII/LOMA ☐
   E. Other (Please specify) ___________

4. How long have you been in employment with NIC?
   A. Less than 12 months ☐ B. 1 to 5 years ☐
   C. 5 to 10 Years ☐ D. Above 10 years ☐

Part B:

No.	Please mark on the scale provided how strongly you agree or disagree with each statement.	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	The roles and responsibilities in my job category are clearly defined.					
2	I receive the right amount of recognition for my work.					
3	My skills and experience are being fully utilized.					
4	I earn satisfactory basic pay.					
5	The benefit package provided by the company is competitive as compared to that provided in the insurance industry.					
6	NIC use modern working tools/ technology which support employee's performance.					
7	Training organized in such a way that it contribute to employee development and attainment of NIC objectives.					
8	Top management of NIC receives complaints from Staffs and responds as soon as possible.					
9	I am able to participate in decisions that affect me.					
10	NIC provides satisfactory work condition.					
11	I am aware of career advancement opportunity that exists in NIC.					
12	Staff selection and promotion is done on merits.					
13	I will recommend NIC to someone who seeks my advice as a good place to work.					
14	I am satisfied with my career progression at NIC so far.					
15	Team spirit in my branch/department is high.					
16	I would be happy to stay with NIC for foreseeable future.					
17	Overall, I am satisfied working in NIC.					

Part C:

1. How employee performance and motivation affects the performance of NIC?

2. What operational issues/challenges need attention in your Branch/Department? If so Why?

3. Please state your opinion about the overall performance of NIC?

THANKS FOR YOUR COOPERATION!

APPENDIX I: Interview Questions

The purpose of this interview is to collect primary data on performance of Nile Insurance Company S.C. as part of fulfillment of Master's Degree program.

I with due respect and gratitude request for your kind responses to the following questions.

Please be informed that all information provided will strictly remain confidential and will be exclusively used for academic purpose only.

1. How do you evaluate NIC performance so far? What would you say are the reasons?
2. What are the most serious challenges NIC faces in attempting to enhance its performance? In your opinion, what steps can be taken to overcome those challenges?
3. How would you associate the customer demand for insurance and the quality of insurance product and service NIC supply with the growth rate of insurance business in Ethiopia?
4. How customer, and employee satisfaction and performance are important to NIC performance? In what ways it has impact on the company's performance?
5. How NIC get feedback from customers, employees and other stake holders? How do you deal with the issues raised?
6. How training conducted to employees and intermediaries contributed to NIC performance?

Thank you, I appreciate the time you took for this interview!