



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

**PRACTICES AND CHALLENGES IN IMPLEMENTING  
COMPULSORY MOTOR THIRD PARTY LIABILITY (MTPL)  
INSURANCE IN ETHIOPIA**

**BY:**

**TEFERI GASHEWBEZA SAHLE**

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**June, 2016**

**ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY  
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## **DEDICATION**

“I dedicate this work to my mother W/ro Eshete Meshesha Z. and my late father Ato Gashewbeza Sahle D. for showing me the path of life with unreserved love and affection”

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## LIST OF ACRONYMS / ABBREVIATIONS

AA	Addis Ababa
ADR	Alternative Dispute Resolution
AEI	Association of Ethiopian Insurers
ANF	Accident Notification Form
BS	Bandits and Shifta
BSG	Bandits and Shifta and Guerrillas
CEO	Chief Executive Officer
CII	Chartered Insurance Institute
CNF	Claims Notification Form
COMESA	Common Market for Eastern and South Africa
EIC	Ethiopian Insurance Corporation
EIFS	Ethiopian Institute of Financial Services
EMT	Emergency Medical Treatment
FDRE	Federal Democratic Republic of Ethiopia
FTA	Federal Transport Authority
GDP	Gross Domestic Product
GNP	Gross National Product
IFAA	Insurance Fund Administration Agency
IFO	Insurance Fund Office
KNK	Polish Insurance Supervisory Authority
MoD	Ministry of Defense
MoT	Ministry of Transport
MOU	Memorandum of Understanding
MTPL	Motor Third Party Liability
NBE	National Bank of Ethiopia
NRSCO	National Road Safety Council
PAB	Personal Accident Benefit
PAMB	Personal Accident Medical Benefit
PLL	Passenger Legal Liability
PPD	Permanent Partial Disablement
PTD	Permanent Total Disablement
RSA	Republic of South Africa
RTA	Road Traffic Act of UK
TRL	Transport Research Laboratory
TTD	Temporary Total Disablement
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development

VIATPR  
WB  
WHO

Vehicle Insurance Against Third Party Risks  
World Bank  
World Health Organization

# TABLE OF CONTENTS

	Page
Acknowledgement	iv
List of Acronyms'	v
Table of Contents	vii
List of Tables	x
List of Figures	xi
Abstract	xii
<b>CHAPTER ONE: INTRODUCTION</b>	
1.1. Background of the Study	1
1.2. Statement of the Problem	4
1.3. Basic Research Questions	5
1.4. Objectives of the Study	6
1.4.1. General Objective	6
1.4.2. Specific Objectives	6
1.5. Significance of the Study	7
1.6. Scope of the Study	7
1.7. Limitation of the Study	8
1.8. Organization of the Study	8
<b>CHAPTER TWO: REVIEW OF RELATED LITERATURE</b>	
2.1. Theoretical Literature Review	9
2.1.1. Background of Insurance Business in Ethiopia	9
2.1.2. Motor Vehicles and the Surrounding Environment	10
2.1.3. Importance of Motor Insurance	10
2.1.4. Motor Vehicle Accident Compulsory MTPL Insurance	11
2.1.5. Introduction of Compulsory Insurance in Ethiopia	14
2.1.6. VIATPR Proclamation No 559/2008 and 799/2013	15
2.1.7. Modes and Extent of Compensation	18
2.1.8. Claims Handling Process and Management	19
2.2. Empirical Literature Review	26



2.2.1. Insurance System in Creating ‘ <a href="#">Common</a> Pool’	26
2.2.2. Type of Legal System and Associated Problems	26
2.2.3. Claims Problems and Claims Management Guidelines	27
2.2.4. Importance of Motor and MTPL Insurance	29
2.2.5. Problems in Claims Handling and Market Growth	30
2.2.6. The Need for Strict Regulation and Supervision	30
<b>CHAPTER THREE:- RESEARCH DESIGN AND METHODOLOGY</b>	
3.1. Research Design and Methodology	33
3.1.1. Research Design and Method	33
3.1.2. Data Sources	33
3.1.3. Data Gathering Instruments	34
3.1.4. Sampling	35
3.1.5. Data Analysis Procedures / Tools	37
<b>CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION</b>	
4.1. Demographic Presentation of Respondents	39
4.1.1. Demographic Profile Customers	39
4.1.2. Demographic Profile of Insurance Staff and IFAA Management	40
4.2. Data Presentation and Interpretation	41
4.2.1. Pre-VIATPR Implementation Insurance Experience Customer	41
4.2.2. Clarity of Liability Laws Related to Motor Vehicles	43
4.2.3. Customers Post-VIATPR Insurance Service Experience	44
4.2.4. Customers Post-VIATPR Claims Service Experience	45
4.2.5. Offer and Negotiation by Insurer	57
4.2.6. Functional Customer Service and Complaint Handling	58
4.2.7. Competency of Claims Officer	59
4.2.8. Approval and Payment	60
4.2.9. Impact / Implication of Service Standard	61
4.2.10. Drawbacks Encountered by Customers in Claims Handling	62
4.3. Interview Responses From Concerned Parties	65
4.3.1. Senior Operational Staff of Insurance Companies	66
4.3.2. Management Members of IFAA	67

4.3.3. Discussions on Findings	69
<b>CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS</b>	
5.1. Summary of Major Findings	73
5.1.1. Lack of Clarity and Sketchiness of Respective Laws	73
5.1.2. Lack of Transparency and Fairness	73
5.1.3. Lack of Service Standard and Defined Processing Time	74
5.1.4. Inefficient Claims Handling Process and Claims Department	75
5.1.5. Lack of Proper Competency and Standard Training	75
5.1.7. Lack of Adequate Supervision and Complaint Management	76
5.2. Conclusions	76
5.3. Recommendations	78
References	81
Appendices	
Annexes	
Declaration	84
Endorsement	85

## LIST OF TABLES

No	Name	Page
Table 4.1.:	Demographic Profile of Respondents	39
Table 4.2.:	Demographic Profile of Interview Respondents of Senior Insurance Operational Staff (Position and Work Experience)	40
Table 4.3.-:	Demographic Profile of IFAA Respondents (Position & Work Experience)	41
Table 4.4.:	Pre-VIATPR Implementation Insurance Experience of Customers	42
Table 4.5. :	Clarity of Main Provisions of Ethiopian Liability related to Motor Vehicles	43
Table 4.6.:	Customers Insurance Service Experience after implementing VIATPR law	44
Table 4.7.:	Promptitude and Responsiveness of Insurers on Intimation of Accidents	47
Table 4.8.:	Transparency and Assignment of Assessor of Loss and Creditability of Estimate	50
Table 4.9.:	Bidding garages	52
Table 4.10.:	Tender / Bid Process	53
Table 4.11.:	Bodily Injury and Death compensation assessment and determination	56
Table 4.12.:	Negotiability of the Claims Handler or Insurer	57
Table 4.13.:	Customer Service / Compliant Handling	59
Table 4.14.:	Claims Handler Competency	60
Table 4.15.:	Approval and Payment Process of the Insurer	61
Table 4.16.:	Implication of Satisfaction and Trust on Insurance Product and Provider	62
Table 4.17. (a)	Compensation Payment Covered by Customer in Excess of Liability Limit	63
Table 4.17. (b)	Declinature of Third Party Claim by Insurers	64
Table 4.17. (c)	Changing of Insurer	65
Table 4.18	Difference in Third Party Compensation Payment (2005 -2008)	68
Table 4.19	Summary of Customers Response on Main Activities of the Claims Work Process	71

## **ABSTRACT**

*In Ethiopia Proclamation no 559/2008 (repealed by no 799/2013) was enacted with primary objective of providing limited but guaranteed compensation and providing emergency medical treatment to all victims of vehicle accident in Ethiopia. The purpose of this study is to assess the Practices and Challenges in Implementing Compulsory Motor Third Party Liability Insurance (MTPL) in Ethiopia; with special reference to relevant liability laws of Ethiopia and claims handling procedure and practices in the market. Exploratory and qualitative research was employed. The methodology employed for undertaking this research includes comprehensive literature review, questionnaires, interviews etc in order to receive sufficient information. Accordingly, the research is based on self-administered questionnaires to 200 targeted customers who are members of owners of public transport vehicles associations, by using multi stage sampling technique. Fifteen additional respondents were selected for interview; from insurance companies and Insurance Fund Administration Agency (IFAA) management members; through purposive non-random sampling technique to obtain expert opinions. The data obtained from customers were analyzed by using SPSS Ver. 20 and Excel. Main queries forwarded to respondents to receive agreement or otherwise were: the existing provisions of respective liability laws of Ethiopia are comprehensible and detailed to ensure fair and equitable compensation; there is transparent and fair claims handling process or procedure; there is defined service standard and processing time in delivering insurance service; employees delivering the service are competent and adequate supervision and complaint management system is in place; all intended to ensure effective and efficient implementation of Vehicle Insurance Against Third Party Risks Proclamation and achievement of its objective. Accordingly seven out of ten respondents disagreed to these statements; with only about two agreeing and rest one out of ten being indifferent. Since this law has a total marking of social insurance scheme, recommendable solution to this magnitude of discontented and disfranchised customers who lacked to receive at least minimum standard service call for radical change by issuing detailed legal framework with optional structured compensation settlement plan; claims management guideline with minimum service standard and processing time for each activity; and compulsory introduction of effective customer service and independent referee or ombudsman.*

**KEY WORDS:** *vehicle, third party liability compulsory MTPL, Vehicle Insurance Against Third Party Risks (VIATPR), insurance service, claims management, structured compensation, service standard*

# **CHAPTER ONE**

## **INTRODUCTION**

This chapter presents an overview of the theoretical justification and the rationale for studying the “Practices and Challenges in Implementing Compulsory Motor Third Party Liability Insurance (MTPL) in Ethiopia” with special reference to the relevant liability laws of Ethiopia and Claims handling procedure and practices in the market. The chapter starts by dealing with the background of the study, statement of the problem and outlining research questions, and proceeds with objective of the study, significance, scope, limitation of the study and organisation of the overall study.

### **1.1. Background of the Study**

According to a report by World Health Organization (WHO, 2013) about 1.24 million people were killed on the world’s roads in 2010. Yet more than 3000 deaths each day; and more than half of these people are not travelling in a car. Twenty to fifty million more people sustain non-fatal injuries from a collision, and these injuries are an important cause of disability worldwide. The economic consequences of motor vehicle crashes have been estimated between 1% and 3% of the respective GNP of the world countries, reaching a total over \$500 billion (WHO, 2011).

The risk of dying as a result of a road traffic injury is highest in the African Region (24.1 per 100,000 population), and lowest in the European Region (10.3 per 100,000) (WHO, 2011). Traffic Accident is considered as the second leading cause of death for ages 15-44 and costing the continent US\$10 billion per year (African Road Safety Conference, 2011). Therefore, from the above and WHO report, road traffic injuries take an enormous toll on individuals and communities as well as on national economies. Middle-income countries, which are motorizing rapidly, are the hardest hit (WHO, 2013).

Ethiopia is among the countries motorizing rapidly, (Annex 1) showing at least a 15% per annum increase (IFAA, 2014). Such an increase is not without implication and cost both to the individual and his/her family and the society in general. On the other hand, a report compiled by IFAA reveals that about 19,000 (not adjusted for unreported vehicle accidents) and about 23,000 (if adjusted) vehicle accidents occur in the country every year of which not less than 40% cause bodily injury and death whereas the rest 60% in property damage. From vehicle accidents

resulting bodily injury about 13,000 persons receive bodily injury (light or heavy bodily injury) and death (IFAA, 2014). Besides, the economical and social burden of such vehicle accidents result to the individual about 0.8-1% of the country's estimated GDP in 2010 is lost; a result that has been registered through hard sacrifice. This is a heavy price to pay for a country like Ethiopia that is striving its level best and succeed by doing away the past and exerting every effort in eradicating poverty from its root and install sustainable economic growth in place.

Though other mechanisms are available, enactment of compulsory MTPL (Its equivalent in Ethiopia: Vehicle Insurance Against Third Party Risks - VIATPR) insurance in one country is government response to ever increasing economical and social problem created by motor vehicle accident. Similarly, in Ethiopia VIATPR Proclamation no 559/2008 (repealed by no 799/2013) was enacted with primary objective of providing limited but guaranteed 'compensation' and providing 'Emergency Medical Treatment' to all victims of vehicle accident in Ethiopia.

However, the guaranteed compensation need be assessed, amount determined and paid to victims based on relevant provisions of the Civil Code of Ethiopia 1960 and by passing through the insurance service delivery system; particularly the claims work process. First of all the Civil Code of Ethiopia is mainly based on French Civil Code, providing only general principles and lacking detailed guidelines. This situation resulted in subjective assessment and determination of compensation amount payable to vehicle accident victims. Moreover, provisions related to insurance business and civil liability laws in Ethiopia are ascribed to be favorable to insurers; and even worse customer protection law(s) to financial products is yet to come. Secondly, the claims' handling process or procedure of insurer's is mostly portrayed with outdatedness and ineffectiveness with long and complicated procedures.

Regardless of IFAA effort to achieve the objective of this law, a concise but effective assessment conducted by World Bank Group, FIRST Initiative funded project under the title "Developing and Structuring MTPL Insurance in Ethiopia" issued two reports; "Market Assessment Report" (2014) and later "Ethiopian MTPL Road Map to a Safer Future" (2015).

The later clearly pointed out a number of limitations and drawbacks on the implemented compulsory MTPL insurance in Ethiopia. These shortcomings considerably affect effective and efficient implementation of the law and most of all undermine the rights of vehicle owners or

road users (i.e., customers) and third party claimants protected by law, not to forget its implication on the growth of the insurance market. Among the shortcomings and problems brought to light: lack of data and discipline in collecting data because of mainly of not having central database and information system; lack of actuarial skill, claims problem, lack of having proper fraud risk management system and Fraud Prevention Unit, lack of accesses to police accident, vehicle or driver data by insurers, the market price structure which lacks in general innovation and scientific approach, and lack of sufficient coverage of limit or liability limit, rank top of list.

The insurance service highly depends on its claims handling process. As can be noted from the World Bank report the claims problem associated with compulsory MTPL insurance generally consist of (1) the involvement of many unclear laws paving way to disability assessment and compensation scheme for injury (bodily injury and death) which is not transparent thereby affecting consumers and claimants rights and even insurers responsibility; and (2) unfair claims handling procedure in place without the presence of independent referee to ensure compliance and fair treatment of customers.

Accordingly, this study thoroughly examines the lack of clarity of provisions of relevant laws and market insurance service delivery system in general and claims handling practice (i.e., claims handling procedure, disability assessment, compensation provided and other related matters) in particular, and other associated problems that have hampered achievement of the objective of compulsory MTPL insurance law in Ethiopia. Through this process sufficient information is provided about the intention of the legislator as expressed by IFAA; a government agency empowered by law to implement this social insurance law.

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

As indicated above, among various schemes available and invariable practiced worldwide used in alleviating the financial burden of victims of vehicle accident, the insurance scheme was the one preferred in Ethiopia by the legislator.

Being a preferred means of delivering this social scheme has amplified the importance of motor insurance for any insurer in the Ethiopian market. From the total national gross premium generated in the country about 92% is derived from general insurance business and the rest 8%

from long term insurance business. From the 92% gross premium income of the market motor insurance constitute about 45-50% (NBE, 2014/15) thereby dominating every insurer's fortune in the short and long run. From experience of other countries any malpractice in this class highly attracts public attention and negatively affects market performance.

Delivery of insurance services as a business primarily and distinctively is dependent on the underwriting and claims core units. The primary emphasis in this study is mainly on the claims activity and procedures in place which is usually carried out within the claims department of an insurance company, which is regarded as the "Shop window of Insurance Institutions" (Wedge and Handly, 2000) that provides compensation. That is to say, the overall image of the insurance company is judged by its performance when a claim arises. The way in which the claim is handled will have important marketing repercussion for insurers. Therefore, it is important that the claim operation is adequately managed. The secondary but equally important emphasis made is on relevant provisions of Ethiopian laws pertinent to compensation of damage sustained to victims of vehicle accidents. The compensation made available to victims by claims department has to be equitable to the damage sustained; otherwise efficient and effective management of claims is not attainable.

Very few studies have been conducted in connection with this subject in Ethiopia. From the statement made by IFAA these study reports, which are produced and made available by various parties for public scrutiny, fall short of providing full and accurate account of the implementation process of this law and overall challenges encountered. Moreover, most study outputs base their analysis on theoretical background on similar MTPL laws enacted in other foreign countries (i.e., India, Kenya, UK, USA and etc.) but under different legal system than is the case in Ethiopia. Accordingly, conclusions arrived at and recommendations forwarded in majority of cases do not provide accurate reflection of the reality or robust to established practices in Ethiopia.

However, this study is confined to Management members of IFAA and Insurance companies and associations of owners of public transport vehicles operating from Addis Ababa City Administration; with the aim of: -

- ✓ contrasting between insurance business products and social protection schemes;
- ✓ reviewing insurance practice and corresponding legal framework relevant to MTPL law;



- ✓ recounting overall implementation of MTPL law in Ethiopia from enactment to present to show progress and identify challenges encountered;
- ✓ making critically concise analysis of liability and insurance laws pertinent to MTPL law;
- ✓ highlighting main provisions of VIATPR Proclamation no 799/2013 and Regulation no 300/2013; and also
- ✓ making a critical evaluation of prevailing claims handling practice, process or procedure and its appropriateness for MTPL insurance (i.e., VIATPR) law implemented in Ethiopia.

### **1.3. Research Questions**

The general research question attended is: “what are the practices and challenges encountered by IFAA in effective and efficient implementation of compulsory MTPL insurance (VIATPR) law in Ethiopia, undermining achievement of its primary objective?”

The specific research questions answered are the following:-

- ✓ What are the practice and legal foundation surrounding enactment and implementation of compulsory MTPL insurance (VIATPR) law in Ethiopia?
- ✓ How clear are relevant provisions of insurance and civil liability laws related to vehicles?
- ✓ How intelligibly aligned with provisions of relevant law(s) are the types of benefits covered by MTPL insurance (VIATPR) policy offered by Ethiopian insurers?
- ✓ What are the challenges associated with insurance delivery system in accomplishing objectives of MTPL insurance (VIATPR) law?
- ✓ What measures are taken to protect legal rights and interests of customers and claimants?
- ✓ How does MTPL insurance customers view the prevailing market claims handling practice?

### **1.4. Objectives of the Study**

#### **1.4.1. General Objective**

The general objective of this study is to assess the practices and identify challenges encountered by IFAA in the effective and efficient implementation of compulsory MTPL insurance (VIATPR) law in Ethiopia, undermining achievement of its primary objective.

### **1.4.2. Specific Objectives**

The specific objectives are to: -

- ✓ identify the insurance practice and legal principles surrounding enactment and implementation of MTPL insurance (VIATPR) law;
- ✓ assess clarity of main provisions of civil liability and related laws in connection with motor vehicles affecting implementation and claims handling practice;
- ✓ identify intelligible alignment of MTPL insurance (VIATPR) policy with relevant provisions of relevant laws enacted in Ethiopia;
- ✓ identify problems in prevailing insurance service delivery system negatively affecting compensation and achievement of objective of the law;
- ✓ identify institutional and legal framework in place to protect customers and claimants legal rights and interests; and
- ✓ assess customers view towards the implemented MTPL insurance law and insurance practice of the market.

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

More specifically the study outcome is believed to assist IFAA, insurance companies and NBE devise and put in place effective and efficient claims management system in place. The assessment made by the study adds value to IFAA and insurance company competency in this area. Furthermore the outcome also help the legislator to issue detailed laws by streamline and integrating provisions of various related and relevant laws that can ensure effective and efficient implementation of compulsory MTPL insurance law. The same approach can be used as a template to other types of social insurance schemes that may be made compulsory in the future.

Furthermore the following are other significances of this study:

- ✓ provides valuable, refined and accurate information about compulsory MTPL insurance law (VIATPR Proclamation), which is the first compulsory insurance law of its type in Ethiopia;
- ✓ assists other scholars and academicians as additional source for future studies; and
- ✓ provides reference to different organizations engaged in road transport, road traffic accident, road safety and insurance and training facilities and educational centers.

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

In order to meet the aforementioned objective qualitative data collection and analysis techniques is used. Moreover, this research is conducted based on the provisions of Commercial and Civil Codes of Ethiopia, Vehicle Insurance against Third Party Risks (VIATPR) Proclamation No 799/2013, Regulation No 300/2013 and other relevant laws. The information is gathered by appropriate questionnaires, interview questions and specially designed data collection formats developed to IFAA, NBE, insurance companies and selected group of MTPL insurance business customers.

Though pre and post implementation of compulsory MTPL insurance law in Ethiopia is highlighted the main purpose of this study is devoted to investigate the principles, practices and challenges in implementing MTPL insurance (VIATPR) law with high emphasis given to clarity of relevant laws and peculiar claims handling problems mainly from the experience of owners of public transport vehicles operating from Addis Ababa City Administration. Among other things, the main reason for selecting such a targeted group of customers' for the study who are owners of public transport vehicles is because of ease of access to this customer base through their Associations and these risks are usually closely associated with insurance service even before the implementation of VIATPR Proclamation law.

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

As indicated above the study is limited to specific group or classification of compulsory MTPL insurance customer's base that operate within Addis Ababa City Administration. The major limitation encountered while conducting this study is inability to target and include wide group in the representative sample from the whole spectrum of this customer base due to lack of resource such as time, money, access and etc to cover a sample. Though the findings are based on sampled population of this customer base it is an acceptable and cost-effective practice in research.

Another limitation of the study is research's conducted by Ethiopian academicians, scholars and professionals on compulsory MTPL insurance law and various bodies involved in this scheme are limited and if there exists are not mostly accessible for public scrutiny.

### **1.8. Organization of the Study**

This study consists of five chapters. The introductory part contains background of the study, statement of problems, objectives of the research paper, significance, scope and limitation of the study, definition of key terms and the part on organization of the thesis itself. The second chapter is the literature review having conceptual and practical framework of the study. The third chapter is devoted to the research design and methodology. Under this topic, the method of research, sources and data gathering instruments, the sampled population and the sampling techniques and data analysis methods are discussed. The fourth chapter focuses on the important part of the study. It presents the analysis and interpretation of data collected during the study. The study is concluded with chapter five that comprises summary of the major findings, conclusions and recommendations. References and the appendixes appear at last after chapter five.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

The purpose of this chapter is to present the interrelation between motor vehicles, traffic accidents, road safety and motor insurance with special reference to compulsory MTPL and the related legal framework. Accordingly, first of all this chapter attempts to highlight the difference between insurance business, with especial reference to compulsory motor third party liability (MTPL) insurance, and social insurance scheme, based on historical background. Secondly it give you an idea about the problems associated with the Ethiopian liability law in determining compensation of vehicle accident victims; and thirdly bring in to light the problem associated with claims handling process in which compensation of victims' shall pass through.

Therefore, the chapter starts by highlighting basic concepts and facts about insurance, motor insurance, traffic accident and evolvment of compulsory insurance including MTPL; then enactment throughout implementation of MTPL law in Ethiopia, with brief description of its objective and analysis; the corresponding provisions of civil liability law, including assessment and determination of compensation. Finally it provides critical evaluation of the claims handling policy and procedure prevailing in Ethiopian insurance market.

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

##### **2.1.1. Background of Insurance Business in Ethiopia**

From the dawn of civilization man has been engaged in an unending pursuit of security. Whether in battling the elements of nature or developing social formations, the need to control human destiny and reduce uncertainty has been as the core of human endeavour (Kutty, 2008). In pursuit of this security insurance has served its role as one of the tools of risk management as a risk transfer mechanism. Risk transfer implies giving the financial consequences to another person or organization, and it is possible to do this by way of a term in a contract (Jones, 2008). The roots of insurance might be traced to Babylonia (in Iraq), where in 18th Century BC; but in its present modern form has evolved in the UK.

Regardless of the scant documentary evidence to substantiate historical facts, the introduction of insurance in 1905 during the reign of Menelik II, left its birth-mark of modern insurance service

in Ethiopia. Sources indicate that it was the Habesha Bank (Bank of Abyssinia) (Tsegaye, 2007) a branch of the Bank of Egypt, began to transact fire and marine insurance acting as an agent of a foreign insurance company. ( Eyessuswork, 2007).

Four periods of demarcation have been identified in the history of the development of insurance in Ethiopia. The first is the “Period of Agents” that started in the early 1900 and run up to the early 1950’s, which is characterized by operation of insurance in a laissez-faire environment on loss agency agreement. The second, the Middle Period, run from the early 1950’ to 1974, is characterized by the end of the period of agents and emergency of indigenous companies and also the coming of the Codes. The third period is the Period of Monopoly that covered the years between 1974 and 1994, where EIC alone had an insurance monopoly for almost two decades. The last is, the Current Period that defines the time from 1994 onwards (Getensh, 2007). The second period is more relevant to our study as market practice was totally influenced by UK insurance practice which still prevails, which is based on common law.

Between February 1994 & June 2015, including the government owned EIC, the total number of insurance companies operating in Ethiopia as at June 30, 2015 is seventeen (17) with annual gross premium income of Birr 5,557,129. (Annex 1).

### **2.1.2. Motor Vehicles and the Surrounding Environment**

The history of modern road transport in Ethiopia began at the closing of 1907, during the region of Emperor Menilk II, with the coming of the first four wheeled Siddeley motor car by the British expedition leader, Bed Bentley, and followed by the German rival, Arnold Holtz who brought, a few weeks later, a powerful and faster vehicle than Siddeley: a Nacke car. (Selamta, 2001). Ever since the number of road vehicles imported to the country has been constantly increasing, numbering to about 553,978 in 2013/14 (IFAA, 2014) and is projected to increase by 11% per annum. (Annex 2). These vehicles, which vary in size and function, are used to transport people or goods from place to place for social, domestic, professional or business purposes or to perform specific activities. (Annex 3).

At this juncture it is informative to state that the first to issue Motor insurance policy in Ethiopia was issued by South British Insurance Company in 1950 (AEI, 1998). At present, motor

insurance accounts as the largest source of revenue of premium for all insurance companies in Ethiopia, constituting about 45-50% of the industry premium (NBE, 2014). (Annex 1).

### **2.1.3. Importance of Motor Insurance**

Teferra (2009) attests that despite the difference in legal system, Ethiopian insurance practice relies heavily on UK practice. In UK the minimum requirement by law (Road Traffic Act 1988) (which is akin in purpose only with VIATPR Proclamation no 799/2013 in Ethiopia) is to provide insurance in respect of legal liability to pay damages arising out of injury caused to any person, unlimited in amount, and damage to the property of other people subject to certain limits and exceptions. Policies with various levels of cover are available: - the first being an Act only policy which in effect, are the same as third party only policies; the second being a third party fire and theft policy; and finally the most common form of cover is the comprehensive policy, a package which adds accidental loss of, or damage to, the vehicle to the third party, fire and theft cover (Atkins and Bates, 2007). With the exception of Act only (RTA) policy, in Ethiopia the same practice used to prevail before enactment and implementation of VIATPR law on 11/09/2011.

Moreover, extensions provided to the main covers stated above before implementation of VIATPR law (i.e., Pre-Proclamation) in Ethiopia include: - Personal Accident Benefit (PAB); Personal Accident Medical Benefit (PAMB); Passenger Legal Liability (PLL); Bandits and Shifta or Bandits, Shifta and Guerillas (BS or BSG); increase over the minimum third party liability limits set by insurers; compulsory MTPL insurance in COMESA member countries with certain extras (Yellow Card); and territorial extensions for own damage section of motor comprehensive cover.

Compiled data in this regard, to show all cyclic trends in motor insurance during the periods still unachievable due to lack of information. However, motor insurance business takes about 44/51% of general insurance business total gross premium, and registering a loss ratio of 81/95%; while the general insurance business only showed a loss ratio of 63/74% during the period running from 2006/07 to 2014/15. (Annex 1). According to IFAA (2014) Study Report VIATPR show a claim ratio of about 36%. Moreover, on effective implementation of the Proclamation, the VIATPR insurance premium is estimated to constitute about fifth of the total gross premium

(IFAA, 2014). The importance of motor insurance to the industry and insurance companies cannot be overemphasized than this fact.

#### **2.1.4. Motor Vehicle Accident Compulsory MTPL Insurance**

##### **2.1.4.1. Frequency and Magnitude of Traffic Accidents**

Road traffic injuries are a growing public health and development problem (Mohan, Tiwari, Khayesi and Nafukhu, 2006). Road traffic injuries cause emotional, physical and economic harm. There is a moral imperative to minimize such losses. A case can also be made for reducing road crash deaths on economic grounds, as they consume massive financial resources that countries can ill afford to loss (Aeron and Astrop 2000).

According to NRSCO, Ethiopia is one of these countries with the least registered vehicle ownership, but the country has faced high traffic accident. In the last Ethiopian fiscal year 2004 E.C (2011/12) police reported 21,668 accidents that caused the loss of 3,132 lives and over 4,333 serious injuries. Currently, the death rate in Ethiopia stands near 70 per 10,000 vehicles; of those killed over half are pedestrians. Of which 20% are children under the age of 18. Due to this the social and economic problem of road traffic accident is bound to become more and more serious as the number of vehicles increased. However, WHO estimates the number of road traffic fatalities to be on the average about 23,837 (with 95% Confidence Interval: ranging from 18,528– to 29,146); and with an estimated mortality rate of 25.3 per 100 000 population (Aeron and et al, 2000).

The driver is a very important element in the occurrence of a motor accident. Although some accidents are due to negligence, a large number of them are not due to blameworthy conduct. The main human factor in the causation of accidents is mere error rather than fault. Mr. Amerasinghe cites the works of Professor Andre Tunic in the International Encyclopedia of Comparative Law who in turn quotes ‘a study by WHO which estimated that a driver commits at least one error every three kilometers.’(UNCTAD, 1982). Therefore, road accidents are often the result of split-second lapses of care and momentary errors of judgment, of human frailty and fallibility and, as such, are statistically unavoidable. Acknowledging the fact that even under the best of conditions, motor accidents will continue to occur. It has, therefore, been deemed



important to have a compensation system for innocent victims of motor accidents (UNCTAD, 1982).

However, in most developing countries losses arising from motor accidents are settled according to the liability system (UNCTAD, 1982). In countries that follow the British Common Law the victim is required to prove the fault of the tortfeasor in order to be entitled for compensation; whereas those countries where their legal system is influenced by the French Civil Code, a motor vehicle is presumed to be a dangerous object and if causes injury, a presumption of liability attaches to the operator and proof of negligence is not required. The operator may, however, overcome the legal presumption by proving that he or she was not at fault (UNCTAD, 1982). Anyway the making of motor liability insurance compulsory is deemed to be a sensible way of ensuring compensation to those who are harmed by motor vehicle accident, which has nowadays become the norm rather than an exception.

The need to install such compensation schemes and achieve its intended objective is the primary target of every compulsory law enacted by concerned government designed to mitigate the social problem arising from motor vehicle accidents. As a form of social scheme Compulsory MTPL law (i.e., VIATPR Proclamation 559/2008 and the repealing 799/2013) in Ethiopia is no exception. If such targets are missed and objectives frustrated as a result of various reasons and causes, not only brought into from the legal provisions relevant to the MTPL insurance but inherent to the claims handling procedure, then, besides other serious consequences to the insurer concerned and the market in general, the very purpose of enacting the compulsory law becomes debatable.

#### **2.1.4.2. Reason and Purpose of Compulsory Insurance**

The purpose and scope of compulsory forms of insurance is mainly determined by government of that particular country. Thus, one important aspect of government involvement in insurance is where it has made certain classes of insurance compulsory. This is the case 'mainly' for: certain types of injury and damage following road accidents; certain injuries at work; riding establishments; nuclear risks; oil pollution; solicitors' professional indemnity; and certain other instances (Atkins and Bates, 2007). Therefore, some of the potential reasons for certain forms of

insurance compulsory include: the provision of funds; eases the State's burden; national concern; and access to risk control (Atkins and Ian Bates, 2007).

Although there are countries that opted to other forms of arrangement than insurance in this regard, one of insurance types which have been made compulsory almost throughout the world is Motor Third Party Liability (MTPL) insurance with the main object of protecting the public.

#### **2.1.4.3. Compulsory MTPL Insurance and Social Scheme**

As per the joint report of WHO and WB (2009) with the increase in motorization it has been realized that, 'road traffic injuries are a huge public health and development problem' requiring legislative measure in almost throughout the world. Eyessuswork (2004) brings in to light the varied approaches towards its solution, but the enormous risk which motor traffic posed to road users led many countries to make laws compelling owners/drivers/users of motor vehicles either to insure themselves or provide security against third party liabilities. By citing works of Adeyemi F. (1992), Eyessuswork (2004) further pointed out that Denmark was the first to introduce compulsory motor third party liability insurance in 1918 followed by Norway in 1927.

On the other hand motor vehicles first appeared on UK roads the 1880s, and the first motor insurance policies were issued during the 1890s (The CII, 1986). The first type of insurance policies was motor insurance covering liability for bodily injury and death of third parties. However an increase in road traffic after First World War together with a sharp increase in the number of instances where innocent members of the public were injured without being able to obtain financial compensation from a negligent motorist who may have been uninsured (Pellatt, 1991), and, almost invariably, proved to be a man of straw, someone without financial resources, (Eysesuswork, 1996), led to the introduction of Road Traffic Act 1930 (RTA 1930) in the UK. It is to be noted that RTA 1930 deal not only with insurance but with also with many aspects of road laws (The CII, 1986).

Gönülal (2011) further confirms that "compulsory MTPL insurance is a financial protection system built, to prevent any grievance that third parties could face, due to lack of solvency of first party who caused bodily injury or property damage following any event related to a car Accident." In most countries, motor third-party liability (MTPL) insurance is compulsory in

order to protect the public. (Gönülal., 2009). However, the compulsory scheme coverage varies from country to country (Eysesuswork, 1996).

### **2.1.5. Introduction of Compulsory Insurance in Ethiopia**

According to Eyobed (2010) the sowing of the seed in introducing compulsory MTPL insurance in Ethiopia dates back to 1971, where UNCTAD provided one of its insurance experts, K. Friedman, an American national, who started drafting the instrument while working on other insurance related matters. Friedman was replaced by a Swedish insurance expert, C. O. Enhagen, who largely finalized the work. He recommended a scheme based on the principle of a “no-fault” system based on a similar scheme practiced in Sweden for 20 years.

Furthermore Teferra (2009) further asserts the same that foreign experts sowed the first idea of introducing compulsory insurance in Ethiopia by preparing the draft law approximately 45 years ago which failed to obtain endorsement by the then government. This followed until the enactment of VIATPR proclamation no 559/2008, which deserves to be considered as a landmark and development of our time in this regard. (Teferra, 2009). Hailemichael (2012/13) argues that apart from MTPL, marine insurance on import of goods has been compulsory since 1997, through NBE Directive no FXD/07/1998 Article 5(D), ranking it to be the first compulsory insurance in the country.

Whatever be the background, VIATPR Proclamation no 559/2008 which has been repealed and replaced by VIATPR Proclamation no 799/2013 is the first compulsory insurance law in Ethiopia enacted to ensure and guarantee limited compensation to innocent victims (third party) of vehicle accident. In Ethiopia the necessity to enact this law received government attention after TRL of UK report in 2000 that installed road safety program to staggeringly high traffic accident with 152 deaths/10,000 vehicles. Acknowledging this fact official response to the social problem resulting from vehicle accidents has been given by the government through Article 7(2)(p) of Transport Proclamation no. 468/2005. The second compulsory insurance in the country is Social Health insurance introduced by Proclamation no 690/2010, with a different setting than VIATPR and totally administered and managed by Ethiopian Health Agency established by Council of Ministers Regulations no 191/2010.

### **2.1.5.1. Enactment and Implementation of MTPL/VIATPR Law in Ethiopia**

As has been cited on previous sections a study conducted by TRL of UK in 2000 pointed out that motor vehicle accidents in Ethiopia is killing more peoples than anywhere in the world requiring introduction of Road Safety and installation of other pillars in order to avert this situation and alleviating the resulting economical and social problems. Accordingly VIATPR 559/2008 has been enacted and become effective on 9<sup>th</sup> of January 2008. However, it has not been implemented until 11<sup>th</sup> of September 2011. The then IFO was established in 2010 at the MoT and started organisation and preparation to implement this law.

IFO tendered the study work to fix the insurance premium and fund tariff rate that will be required for payment of compulsory VIATPR cover, to SAB Management and Development. After the study result received the Council of Ministers approval on May 2011 (28/08/2003) due implementation of VIATPR Proclamation 559/2008 become operational on 11/09/201 (11/01/2004) throughout the country. At the same time based on study and recommendation presented by IFO and its Board six Directives were issued by MoT that can facilitate due implementation.

The Directives issued were: - (1) Certificate of Insurance and Insurance Sticker Administration Directive no 1/2004; (2) Underwriting and Insurance Premium and Fund Tariff Rate Application Directive no 2/2004; (3) Insurance Fund Income Administration Directive no 3/2004; (4) Insurance Fund Claims (Disbursement) Handling Directive no 4/2004; (5) Claims Handling Policy and Procedure Directive 5/2005; (6) Cooperation with Medical Institutes Directive no 6/2004. However, Directive no 5 designed to bring harmony and third party claimants' rights remain unimplemented because of lack of acceptance.

However, during the implementation period there arose various problems affecting third party claimants' rights due to misinterpretation of terms and provisions of the law. Among such problems were (1) narrowly defining 'road' different from what has been understood and considered during the study of premium and fund tariff study; (2) mixing of EMT with medical expense incurred as an outpatient and inpatient; (3) interpretation of bodily injury as only permanent physical bodily injury and denial of other claims related bodily injury and death, (4) treating passengers in the traditional way.

Based on the investigation and findings of IFO and Ombudsman Office of the House of Representatives (Report issued and made public on February 2014 (Yekatit, 2006) in connection with the above a recommendation has been put forward by then IFO for amendment of the law by clearing debatable issues and asserting the intention of the legislator. Accordingly, VIATPR 799/2013 was enacted on 23/07/2013 repealing and replacing VIATPR 559/2008; and subsequently Council of Ministers IFAA Establishment Regulation no 300/2013 was enacted. Both laws were destined to lay foundation in effective and efficient implementation of this law and ensure guaranteed compensation and EMT to vehicle accident victims.

However, despite of all these efforts the same problem still persist affecting rights and interests of victims of vehicle accidents; and also due attainment of objective of the law.

#### **2.1.6. VIATPR Proclamation No 559/2008 and 799/2013**

##### **2.1.6.1. Brief Review of VIATPR Proc No 559/2008 and 799/2013**

An inclusive analysis and review of VIATPR Proclamation no 559/2008 and 799/2013 and Regulation No 300/2013 is not purpose of this section, but to give a brief overview on main issues relevant to the study at hand.

As affirmed by the preamble of VIATPR Proclamation, the main objective of issuing same is to alleviate economical problems of victims and resulting social problem created by vehicle accident in Ethiopia; by providing EMT to all and limited compensation to third party victims. The fund or pool required to meet these costs and expenses and achieve the objective of the law is obtained by requiring vehicle owners to compulsorily procure the minimum vehicle insurance against third party risks (VIATPR or MTPL) before using or driving or letting others to drive or use the vehicle on Ethiopian roads. However, provisions or terms such as vehicle and motor vehicle, road, third party, bodily injury, death, property damage, VITAPR policy, persons or classes of persons entitled to drive have in one way or another affected compensation under the law.

##### **2.1.6.2. Compulsory Requirement to Insurance “Article 3 (1)”**

Article 3: Sub-article (1) of Proclamation no 799/2013 makes it a requirement on all persons to compulsorily insure a vehicle (not the person or classes of persons authorized to drive) against third party risks before driving, using or causing or permitting any other person to drive or use a

vehicle on a road. Any person acting in contravention of this provision shall be held liable for civil as well as criminal offense and shall be punished with a fine from Birr 3,000 to 5,000 or with imprisonment from one year up to two years.

According to the Civil Code of Ethiopia 1960, which is the legal foundation for any civil liability, ‘ownership’ and ‘possession of machine or motor vehicle triggers legal responsibility irrespective of fault on the owner [Article 2081(1)], keeper [Article 2082 (1)] and agent [Article 2082 (2)] for any damage to another person caused by a machine or vehicle. Ultimately the owner of the vehicle can be required to pay compensation, but is allowed to recover the amount from the person legally liable for damage [Article 2083 (1) & (2)]. In Ethiopia the vehicle is the subject of insurance (AEI,1998); moreover the above provisions necessarily required the standard method of providing MTPL/VIATPR policy cover to be on “all drivers driving” basis, unless insured elects a named or restricted drivers driving basis. The same consideration shall be taken while issuing Certificate of Insurance to be issued as per Article 9 of VIATPR Law.

#### **2.1.6.3. Exemptions From the Requirement to Insure: Article 3(2)**

The parties who were exempt as provided by Article 3 sub-article (2) by FDRE Ministry of Transport, from compulsorily insuring their vehicles are (1) FDRE President’s Office; (2) FDRE Prime Minister’s Office; and (3) FDRE Ministry of Defense (MoD) (only for those vehicles played and used for the defense purposes of the country). However, governmental bodies stated under Item (1) and (2) opted to voluntarily insure all vehicles under their ownership, custody and control; and presented the insurance evidence to the IFAA, authorized to oversee the implementation of the law (by Article 5 (10) of Regulation no 300/2006). On the other hand, the FDRE MoD signed a Memorandum of Understanding with IFAA in accordance with the issued directive by FDRE Ministry of Transport to implement compensation to victims.

Accordingly, FDRE MoD appointed IFAA as official claims handling body where compensation is paid out of a deposit made by MoD which is constantly replenished upon depletion to a fixed point. The ‘defense force vehicles’ falling under the above category are described by Article 2 (13) of “Transport Proclamation no. 468/2005” and Article 2 (15) of “Vehicles Identification, Inspection and Registration Proclamation no. 681/2010”.

#### **2.1.6.4. Contingencies and Extent of Liability Compulsorily Covered**

By the provisions of Article 15 (1), (2) and (3) of the VIATPR Proclamation the insured among other things is required to arrange insurance to cover his liabilities arising from specified and general eventualities. However, the stated contingencies far exceedingly cover the strict legal liability specified under Article 2081, 2082, 2084 and 2086 of Civil Code of Ethiopia 1960.

According to Article 16 (1) the extent or minimum liability limits required to be covered by VIATPR policy are (a)/ in respect of death an amount not less than Birr 5,000 and not exceeding Birr 40,000 per person; (b)/ in respect of bodily injury an amount not exceeding Birr 40,000 per person; or (c)/ in respect of damage to property an amount not exceeding Birr 100,000”; and also Emergency Medical Treatment [EMT] as specified under Article 27 sub-article (1) of the Proclamation.

Though, the Proclamation requires the insured or any other person legally liable to obtain these minimum liability limits, is not released of his liabilities for the amount exceeding the above [Article 16(3)] as provided by Article 2090, 2091 (unlimited liability) and other provisions of the Civil Code of Ethiopia 1960; which he is required to cover out of his own resources or can opt to procure extended limits from his insurance company.

#### **2.1.6.5. Uninsured and Untraced Vehicles and IFAA**

In addition to VIATPR premium to be set by the government Article 19 provides the establishment of an Insurance Fund as a permanent financial source to meet the objectives of the Fund which are: - to provide emergency medical treatment and to provide compensation to a third party victim of vehicle an accident inflicted by Uninsured or unidentified vehicle [Article 20(1)]. As per Article 20(2) the IFAA have the powers and duties to pay compensation to Uninsured or unidentified vehicle accident victims in accordance with Article 16 (1) (a), (b) and Article 27(1) of this Proclamation; with a right of recovery from those legally responsible for the damage.

Uninsured Vehicles: - In the case of accidents caused by ‘Uninsured Vehicles’ the Fund may be called to cover for cases that can arise as result of: (1) There is an insurance policy but insurance company having legitimate grounds to decline a claim [*e.g. Article 2081(2), 2086(2)*]. (2) There is an insurance policy but the insurance company has gone in to liquidation / bankruptcy. (3) No insurance policy at all.

Untraced Vehicles: - In case of accidents caused by ‘Untraced Vehicles’ the fund may be called to cover compensation of personal injury of victim in a situation where the identity of the vehicle, its driver or owner have not be identified. In other words the contingences covered in this regard are usually referred as Hit and Run cases.

### **2.1.7. Modes and Extent of Compensation**

In Latin Compensation means the “weighing together” (in our case, of the harm against its equivalent in money or kind) (Jeerzy, 1977). Compensation in general terms therefore, can be defined as the making good of the damage caused to another by one’s act or where the law imposes such liability for one reason or another.

Articles 2090(1) of the Civil Code set the governing rule that the normal and usual mode of compensation for material damage is monetary. So, in the absence of any strong reason to deviate from the rule, the material damage suffered by the victim has to be compensated by monetary equivalence (Abdulmalik A. and Desta G., 2009). The compensatory damages that are awarded are of two types, general (moral) and special (material) damage.

However, Article 2090(2) provides the exception to the general rule of monetary compensation, that, the court may order in lieu of or in addition to damages any appropriate measures to make good or limit the damage; provided that it gives its reasons (Jerzy, 1977).

In Article 2105 of the civil code, the principle related to the mode of compensation for moral damage is clearly stated. The court is required to order other appropriate non-pecuniary redresses where the law provides adequate procedure for redressing moral damage. Hence, non-pecuniary compensation is the ordinary rule for redressing moral harm under the Ethiopian Extra-Contractual liability law (Abdulmalik and Desta, 2009).

Ethiopian law simply put the general principle of equivalency between compensation and material damage as a requirement and left the detail regarding the assessment of the extent of damage to the discretion of the judge; who shall consider all the components of damage: material or moral, present or future and etc.

Article 2091 of the Code sets the rule of equivalency of damage to compensation by providing as follows: - “The extent of liability by the person legally declared liable shall be equal to the



damage caused to the victim by the act giving rise to the liability. Further to the actual present damage this law has also put a provision to determine compensation for future damage, which is 'certain' without waiting for it to materialize [Article 2092]. However, departing from this rule of equivalence there are situations where compensation that is less than the damage incurred by the victim may be awarded.

However, in the case of moral damage the principle of equivalence between damage and compensation envisaged in Article 2090(1) cum 2091 is practically impossible. The Civil Code uses the word "equitable" rather than equivalent as a standard for fixing the quantum of compensation for moral damage. (Abdulmalik and Desta, 2009)

The Civil Code puts a ceiling amount of compensation equitable for a given moral harm which is one thousand Ethiopian Birr (Article 2116(3)). Concerning the inadequacy of this set amount Abdulmalik and Desta, (2009) further express the general consensus reached among the general public, the legislature and the judiciary under at least two circumstances. Under Article 34(4) of the Copy Rights and Neighbouring Rights Proclamation (proclamation no. 410/2004), the House of Peoples' Representatives fixed a minimum of Birr 100,000 compensation for moral injury caused due to the infringement of the copy rights laws. The second one is the Cassation Bench of the Federal Supreme Court in one case (civil cassation file no. 11042) awarded Birr 10,000 in the form of moral compensation to a woman whose marriage is terminated due to an act of adultery committed by her husband during marriage.

## **2.1.8. Claims Handling Process and Claims Management**

### **2.1.8.1. Claims Handling Process - Procedure**

The actual procedure in handling claims (i.e. the claims process) varies according to the class of business, type of cover, amount of the claim and, whether it is a personal or commercial risk that is insured (Wedge and Handley, 2004). However, whether VIATPR or any other class of insurance, the process (in theory) will have the following steps in common: -

- ✓ The claim is initiated by the happening of an 'event' and reporting of incident or accidents; and if the 'event' gives rise to a 'claim' filling of 'accident notification form' (ANF) or 'claim notification form' (CNF) may usually be required by the insured or driver or legal

representative, together with verification for validity of the driving license to drive the vehicle involved in the accident;

- ✓ the claim is ‘registered’ and ‘documents requested’, followed by conducting a ‘claim review’ or cursory investigation on validity of claim, policy cover and etc (in Ethiopian market ‘Underwriting and Accounts Verification Form’ is usually used and maintained);
- ✓ thereafter a ‘response to claimant’ shall be made on the position of his claim, meaning either ‘settlement’ (if the case is simple and direct or settlement is the viable and less costly than to fight) or ‘declinature’ (if by any means the policy doesn’t cover or not valid or other valid reasons);
- ✓ if amount or circumstances or both requires special attention a ‘claim investigation’ will be conducted (either by ‘internal engineers’ or external ‘loss assessors’ and ‘surveyors’), on the cause or extent or both; if the claim proves to be admissible and the amount ascertained ‘claim negotiation’ and, if agreed, ‘settlement’ follows;
- ✓ ‘claim recoveries’ if any shall be made from the concerned parties, such as liable third parties for the loss, reinsurers and etc; and last but not least,
- ✓ the claims department conducts ‘review of performance’ or audit on its performance (Wedge and Handley, 2004).

Accordingly, claims handling is the original or traditional terms for handling the claim process with emphasis upon claim review, claims investigation and claim negotiation, but excluding risk management issues.

Claims management is defined as the carrying out of the entire claims handling process from notification to review of performance with a particular emphasis upon the monitoring and lowering of claims costs (Wedge and Handley, 2004). As noted ‘claims management’ encompasses ‘claims handling’ and the ‘claims department’ has a vital and crucial responsibility and role to play in the whole claim process in assuring satisfaction of customers at the same time tap leakage of cost to put the portfolio in question in sound and profitable position by putting in place sound and achievable claims management policy and claims philosophy.

Therefore, in order to have effective and efficient claims handling procedure, the parties involved in the process shall be identified and their roles defined before discussing the problems

and deficiencies noted in the handling of MTPL / VIATPR claims. Accordingly the claims department and claims handler role in the process need to be appreciated.

The Claims Department: - Every type of claim whether it is for loss or damage of insured's property or those arising from third party claimants who have sustained damage are handled by the claims technical staff found usually at the claims department of the insurer concerned. The claims department is one of key departments of any insurance company where one of the two core business processes, claims handling process is conducted.

In general the main functions of the claims department are to: deal quickly and fairly with all claims submitted; and be able to distinguish between valid and invalid claims; and to operate at minimum expense. The claims department has many roles: firstly of all 'strategic role': to provide the insurer with a high quality of service so that it can differentiate itself from its competitors; secondly, 'cost-monitoring role': to ensure that claim payments are contained within the parameters of the policy; thirdly 'service role': to meet or exceed customers' expectations regarding the quality of service, with particular regard to the speed, manner and economic efficiency of service; and the fourth one is 'management role': to meet or exceed the standards of service set and to operate within budget. For this reason it is a well-worn cliché to say that the claims department is the shop window of an insurance company. The claims department can best achieve its role if its activity is well aligned with the corporate strategic objective of the company and is endowed with competent claims handlers in the field ((Wedge and Handley, 2004).

Claims Handler(s): - Any person, who handles and processes, claims of any class of insurance business, must master and have a thorough knowledge of proposal and policy forms to varying degrees. The conditions under which a claim should be made and the control of and rights of insurer in the conduct of the claim are incorporated in the policy of insurance (Susman, 2005). He / She must be conversant with the basic requirements of claims practices and procedures, including the applicable laws governing the conduct of claims, in all or the specific class of insurance one handles.

#### **2.1.8.1.1. MTPL (VIATPR) Claims Handling and Management**

It is said that the Claims Department is the "Shop window of Insurance Institutions".

That is to say, the overall image of Company is judged by its performance when a claim arises. The claims handling is sometimes called the "acid test", that is to say, possibly the greatest single future of an insurer's reputation is the prompt and effective claim services it provides (Mulugeta, 1978). It is therefore, essential to thoroughly go through the typical claims policy procedure of the insurer and review and update the same in the light of perceived customer expectation and control of costs in the claims handling process through a defined claims philosophy. To achieve this objective it is essential to first of all make a brief highlight on the entire motor claims handling process and procedure in order to identify and bring in to light the slack areas of performance creating dissatisfaction of customers and third party claimants to the detriment of the VIATPR/MTPL insurance contribution aimed at alleviating social problems and growth of the insurance industry.

It is necessary to have a brief discussion on 'claims management' in general and motor and specially VIATPR / MTPL insurance in particular to identify and assess the existing claims handling and management practices and its drawback in Ethiopian market. Accordingly, the reasons for such assessment are based on the following reasons: (Peter and Handly, 2004).

- ✓ Claims are a function which guarantees the renewal of policies. Dissatisfied customer turn sides while satisfied customers go along. It is far easier and profitable to do businesses with loyal satisfied customers that to relentlessly pursue new ones.
- ✓ Claims promptitude and fairness to a large degree determines the image of an insurance company in the eye of the public.
- ✓ Many new customers come by reference from existing satisfied customers.
- ✓ Current customers are far more demanding than before. They weigh many inputs before making buying decisions.
- ✓ Efficient and effective management of claims spells the degree to which we make profit or loss. A significant amount of claims payments is brought about by inefficient administration and inability in preventing fraud and exaggerated claims.
- ✓ Claims activity is a learning ground for staff as it is the practical manifestation of underwriting.

Motor insurance being the dominant class that generates about 46% of the annual premium income of the insurance industry of which about 40% of it is derived from VIATPR /MTPL

insurance for any insurance company in the industry, the emphasis on the assessment of claims handling process and management in motor (i.e., MTPL) insurance is critical not only for any particular insurer but mainly for the development and growth of the market (IFAA, 2014).

This is mostly evident by the fact that VIATPR / MTPL insurance is compulsory by law for almost all vehicle unless exempted on its implementation it has brought quite a significant number of new motor insurance customers (i.e. about 67% new customers were introduced to the industry from the 33% of all vehicle owners who had voluntarily insured their vehicle before the compulsory law was implemented in 2011) to the insurance industry who may not have thought of buying an insurance product. These new customers and third party claimants, who came along with it, if properly served even with the minimum standard of service and prudence will definitely have an appetite to buy other non-compulsory motor and other non-motor insurance products. Moreover, besides the above will definitely serve as an excellent public relation officer(s) to the insurance company in question. This will assist not only in the growth of revenue of that insurer but also further smoothness the progress and growth of the market with marginal or even without any additional cost on the insurer part. On the contrary any misdeed to this vast customer base definitely acts as a deterrent for growth of any insurance company in particular and the industry at large.

#### **2.1.8.1.2. General Motor Claims Handling Policy**

Any typical Motor claims policy in respect of damage to the insured vehicle consists of the following items briefly describing principles and policy (mainly items covered by existing laws) of the insurer in question on how claims shall be handled. It includes items such as “Notification and verification of a claim; towing and guarding; investigation and assessment of damaged vehicles; tender handling; approval of claims; rejection of claims; settlement; ex-gratia payments; excess; salvage collection; and third party recoveries”.

On the other hand VIATPR /MTPL insurance claims policy also cover almost all the above items, with certain variations; that arose as a result of lack of contractual relationship between the third party claimant and the insurer in question; for the later to strictly apply the policy condition in the claims handling process.

### **2.1.8.1.3. General Motor Claims Handling Procedures**

Motor claims procedure consists of the following items and describes the way in which they shall be executed by the claims handler:- “Claim Notification; Underwriting Verification; Entry In Records; Claim Processing; Tender Handling (Invitation for Body Work, Claims Approval, Repair Follow Up, Mechanical Repairs, Contribution); payment to garages; excess recoveries; total loss; third party claim handling (Third Party Property, Third Party Bodily Injury); personal accident benefit (P.A.B); preparation of vouchers for payments and recoveries; third party claims follow-up; compiling of statistics; co-operation with the underwriting section”.

### **2.1.8.1.4 Third Party Claims Handling Policy and Procedure**

In motor insurance, besides own damage to an insured vehicle, claims from third party victims can be received by the insurer for bodily injury, fatal or otherwise, or minor or serious injury, as the case may be, and for property damage (Annex 4). Claims handling procedures naturally vary among companies and underwriters and also the type of claim, although the broad principles are the same (Collins, 1995).

According to a sample representative of TP Claims Policy and Procedure of Ethiopian insurance market, (extracted from Ex-Lion, Policy, Procedure Manual - General Insurance Service Core Process) third party claims are categorized under property damage (which again is further placed in to third party motor vehicle and other property damage); bodily injury and death claims. In the case of TP vehicle damage the recommendation is to pay in cash (against signature fully discharging the insurer from further liability) but the procedure further permits the claims handler to carry out repair work in line with the tender procedure after receiving a written statement from the third party claimant relieving of the insurer from liability for any delay in repair and other costs. However, in all cases property damages shall first be investigated and assessed by an investigator and close follow up of the Team leader / Branch manager / Claims manager.

However, the procedure in the case of third party bodily injury clearly admits the precarious nature of the provisions of the relevant law by the following statement: - “The law is not clear on the subject of assessing third party’s claim for bodily injuries. Customs equity and common sense play, therefore, a very important part in dealing with these kinds of claims”. Moreover it

goes on to depict the relevant provisions of the law in assessing third party bodily injuries which are Article 2090 to 2123 of the Ethiopian Civil Code. However Branches may consult the Legal service process regarding the compensation in connection with permanent total disablement and total injury claims whenever the need arises.

Compensation for permanent disability shall be supported by: ·Medical Board's Certificate (whenever possible) and Police or equivalent report. Moreover, according to this procedure temporary disability benefits shall be paid on receipt of a medical certificate ascertaining the period of incapacity to work as a result of the injury suffered in the accident and the amount (benefit) is calculated on the basis of the earnings foregone of the injured person.

On the other hand, the procedure further specifies that compensation payable in respect of fatal injury shall be supported by Post-mortem certificate (whenever possible); Police or equivalent report; Court certificate of legal heirs. (If the heirs of deceased person of less than 18 years is (are) the mother and/or the father, their identity confirmation from kebele or Farmers Association may suffice). (Cessation Bench decision in connection with age: File No 50225.)

#### **2.1.8.1.5. Ethiopian Insurers Market Agreement**

In an effort to provide timely compensation to victims of vehicle accidents, show insurers commitment to the effective implementation of the Proclamation and create smooth relations in between, Insurance Companies who are member of the Ethiopian Insurers Association (AEI) issued a Memorandum of Understanding (MOU) on claims of VIATPR to be applied on claims incurred after January 18<sup>th</sup> 2012. Besides other things it highlighted. the agreed procedure the processing time for the settlement process of third party claims: VIZ: EMT cost reimbursement within ten working days from the receipt of the claim statement; bodily injury and death claim within five working days from the date of agreement on amount; and property damage claim within seven days from the date of agreement.

However, processing time in respect of responding to insured and claimants, investigation of the claim by claims handler and the surveyor or other investigator and etc are not part of the signed MOU. Furthermore the MOU shows clear intention and concern of insurers but is voluntary and not obligatory for enforcement and control. On the other hand it also specifies the possibility of denying third party claim after investigation by the insurer concerned.

According to Wedge and Handly (2003) “The existence of a detailed claims procedures manual and the adoption of a quality assurance standard will go towards demonstrating the insurer's commitment to creating this spirit of co-operation, so long as it is put into practice.”

## **2.2. Empirical Literature Review**

### **2.2.1. Insurance System in Creating ‘Common Pool’**

With the exception of few countries throughout the globe the real desire and commitment in alleviating the economic and social problem arising from motor vehicle accidents has been realized by the actions taken by respective governments and sometimes with close technical assistance and capacity development provided by international organizations such as the WB, WHO and etc. Though other approaches, have been used by some countries, such as imposing levy on fuel (RSA), payment on Driving License or Title Book or Road Fund License (States in Canada), (Palmer & Stinson, 1994) the approach and mechanism employed in creating the fund required to compensate victims by most countries legislations is implemented by requiring owners to compulsorily procure vehicle insurance against third party risk insurance cover. The source of the fund in this particular method is premium received from policyholders by insurance companies. The compensation to victims of insured vehicle accident is made either by a government agency or mostly by insurance company transacting motor insurance business in the concerned country.

### **2.2.2. Type of Legal System and Associated Problems**

First of all third party compensation payment can be made available by assessing and determining the degree of damage sustained by the victim based on the legal system adopted in that country. Most developing countries have laws similar to or a revised version of the colonizers. In most developing countries losses (or liabilities) arising from motor accidents are settled according to the liability system (UNCTAD, 1982). Some (in Africa and Asia) follow the British Common Law, where the victim must prove the fault of the opposing party; and others are influenced by the French Civil Code, where, a presumption of liability attaches to the operator and proof of negligence is not required (UNCTAD, 1982).

Accordingly, four possible legal systems exist for the compensation of road accident victims. They are: (a) the fault system; (b) the presumption of fault system; (c) the no-fault system; (d) a



mixed system of basic no-fault compensation and full fault compensation (UNCTAD, 1984). Whatever, the legal system is adopted the inherent difficulty found either in establishing liability (though partly solved by the French Law) and ensuring equity and fairness of compensation available to victims is an enduring challenge and obstacle, even to exceptionally planned, crafted, and decisively implemented compulsory MTPL insurance laws.

### **2.2.3. Claims Problems and Claims Management Guidelines**

The Polish Financial Supervision Authority (2014.) described the irregularities revealed in the course of supervision and reported by other insurance market institutions, including the Insurance Ombudsman, found on motor vehicle insurance claims settlement, that required it to take a stance in issuing ‘Guidelines on Motor Vehicle Insurance Claims Settlement’ for the whole insurance market. Among the reasons cited were: untimely payment of insurance benefits; payment of insurance benefits in violation of the full compensation principle; violation of disclosure obligations while processing motor vehicle insurance claims; defective organization of insurance claims settlement process, in particular insufficient transparency of this process; unclear, incomplete, outdated internal procedures regarding insurance claims settlement in insurance undertakings; insufficient internal control of insurance claim settlement process; inadequate supervision and control by insurance undertakings over the external entities that perform insurance claims settlement activities for them; inadequate supervision and control by the governing bodies of insurance undertakings over the insurance claims settlement process. This situation is more profound and critically by insurance companies in developing countries, which mostly operate by a system that is usually associated by poor or lack of proper claims management with defined philosophy.

Unfair and inequitable compensation awards and settlements, delay in settlement, confrontational approach in claims negotiation, declinature of claims, lengthy and costly litigation process, lack of independent referee to handle compliant on compensation provided for settlement or delay or unsatisfactory service provided by an insurer and etc., are endemic and standard practice in developing countries (WB, 2015). This situation is highly aggravated, in most developing countries, by lack of legal framework to hasten the drawbacks and ensure customers and claimants confidence and satisfaction on financial, more specifically, insurance services and products.

The Insurance Regulatory Authority of Kenya issued 'Guidelines on Claims Management' for the Insurance Industry, in June, 2012. As a background it specified that 'The insurance industry has been faced with challenges in claims management which has contributed to poor image of the industry and low penetration of the insurance services. Most insurance complaints relate to claims management suggesting room for improvement in this area of client service. This set of claims management guidelines were developed according to the Authority, in order to enhance efficiency, transparency, disclosure of information to policyholders during the claims processing, and increase consumer satisfaction.

An efficient claims management process will result to improved service delivery to the public which will in turn create confidence hence improving the image of the industry and eventually lead to a deeper penetration level of insurance service. It places the ultimate accountability and responsibility of compliance to the Guideline on the Board of Directors; where any delegation to any party does not mitigate or dissipate such responsibility (IRA, 2012).

As regards the situation in Ethiopia in general Teferra (2009) highlighted the problem by affirming that in a majority of cases claims that end up in courts are liability claims arising from motor accidents from which escape from liability is remote and therefore, litigations mainly boil down on quantum to damages. (Tefera, 2009). He clearly emphasized that pushing of claims to courts apparently seems favorable to insurance companies as the law on damages in Ethiopia is not particularly generous because it is characterized by subjectivity which makes assessment difficult. He further underpinned that the predicament on assessment of damage is further aggravated by the absence of compiled statistics on life expectancy and income of the population and current price index. He stressed the need to move away from litigation and resort to more often to Alternative Dispute Resolution (ADR) mechanisms in the interest of efficiency and professionalism in order to avoid the effect on profitability and insurers image. (Tefera, 2009).

According to Teferra (2009) delays in payment of claims for whatever reason, assuming the claim is regular is not uncommon. The main critical problem left unattended up to present is the inconsistency between the origins of the law that governs insurance transactions in Ethiopia; where the source being the civil law legal system as against the actual insurance documents which have their origin in common law legal system.

Another prominent craft work in this regard is that of Temesgen (2004) where he elaborated the need for insurers to a decisive constructive stance to resolve the problems associated with motor insurance and make it profitable. He earmarked the dominance of motor class of business in taking about 60% of the total industry earnings and the Ethiopian insurance industry in all values, surmounting the problems of this class of business alone is, therefore, believed to bring about 50% solution to the insurance industry problems (Temesgen, 2004).

#### **2.2.4. Importance of Motor and MTPL Insurance**

The importance of motor insurance in developing countries insurance account cannot be underestimated, in most constitute about half of the whole industry income from all other classes. It is also growing at alarming degree mainly as a result of increase in income per capital and economic development of those countries. Its importance to insurers include among other things: as a major source of premium income; major source of insurer's cash flow, to meet normal obligations and finance expansions in new fields of activities; low reinsurance expense; high level of growth rate (than any other class in continuous manner); premium generated is from voluntary as well as compulsory; price of compulsory insurance has a decisive effect on the ability of insured's to purchase other covers (UNCTAD, 1982). Furthermore, it has been highlighted that 'the creation (and maintenance) of a strong domestic industry is a prerequisite for economic development'.

Various studies suggest high degree of correlation between claims and customer service in motor and MTPL insurance and insurance growth as measured by its penetration. High standards of service provided to policyholders lodging motor vehicle insurance claims, following from the applicable law, Supreme Court judgments based on the applicable law, and established judgments of common courts not only do not restrict the development of the insurance market, but also ensure its safe and stable operation. In turn, irregularities regarding motor vehicle insurance claims settlement affect the perception of the entire insurance market (KNF, 2014). In particular, it is impossible not to notice the correlation between difficulties in obtaining motor vehicle insurance benefits and reluctance to buy insurance in the future" (IRA, 2012).

#### **2.2.5. Problems in Claims Handling and Market Growth**

Further showing the gravity of the problem and indicating main causes for the irregularities so noted in handling of claims and management thereof, most regulatory authorities didn't shy off

from expressing lack of competency of the Claims handlers' contribution as an alarming one. It is even more alarming, as insurance undertakings employ highly qualified employees, while the observed irregularities regarding motor vehicle insurance claims settlement result from the lack of knowledge or the lack of compliance with the basic rules of insurance law. Therefore, particular attention should be given to ensuring professional conduct and compliance with the professional ethics standards among the employees involved in motor vehicle insurance claims settlement, from the entry level employees to the members of insurance undertakings' governing bodies. Financial results cannot be more important than the principles of honesty, loyalty, and respect for the interests of beneficiaries under insurance contracts (KNF, 2014).

In similar manner it has also expressed its concern about the outcome of current decisions and awards made by Court of laws further affecting insurance growth by dissipating the growth of insurance by eroding public trust and confidence. Insurance undertaking, as a public trust institution, should operate in compliance with the law and with due diligence. Therefore claim settlement practices that are inconsistent with the applicable law, the Supreme Court judgments based on the applicable law and on established judgments of common courts, in particular with regard to the method for calculating the amount of motor vehicle insurance benefits; to third party victims has a negative repercussion on the market (KNF, 2014).

#### **2.2.6. The Need for Strict Regulation and Supervision**

An empirical study conducted under the title: 'Attitudes of Nigerians Towards Insurance Services' **confirmed negative attitudes to be true** and further highlighted the peculiar feature of most financial transactions in the developing world has been weak contract certainty which in turn, erodes the trust of the insuring public. (Yusuf, Gbadamosi, & Hamadu, 2009)

Furthermore, the researchers indicated that, at the moment, where impunity in the insurance industry from government (i.e., Nigeria's) cardinal programme of strict adherence to the rule of law, seems to be holding sway, the regulatory authority shall wade into strengthening regulation and supervision that would further boost the public confidence and trust in the insurance industry.

They further went on to say that when the public realizes the availability of seeking redress in case of insurance disputes that is when they can repose confidence and positive attitude to the

industry. Their study has clearly shown not only the need of enacted regulatory laws directed in protecting insurance customers' legitimate rights and also strict supervision by the regulatory authority of compliance by insurers to this effect but also an independent establishment that can look into grievances of customers and redress the wrong done (Yusuf, Gbadamosi, & Hamadu, 2009).

## **CHAPTER THREE:-**

### **RESEARCH DESIGN AND METHODOLOGY**

This Chapter was concerned with details about study methods of the thesis. It starts by presenting research design, the methodology that was used to select the sample, collect the data and analyze the data according to the objectives of the study. This chapter covers and concisely discusses research design and methodology, sources of data, sampling techniques and data analysis procedures.

#### **3.1. Research Design and Methodology**

##### **3.1.1. Research Design and Method**

The research method is conducted by collecting secondary data from various sources and review of related literatures and also by collecting primary data - through self-developed questionnaires and interview questions. This research is a kind of exploratory research to get an insight into the Practices and Challenges of Implementing compulsory MTPL insurance law in Ethiopia. However, the Research will be restricted to claims problems as perceived and experienced by owners of public transport vehicles both operating from Addis Ababa City Administration.

A descriptive survey method will be used as a dominant research approach as it is quite widely preferred for predominantly for qualitative part of this research. This was chosen because of its relevance to describe the problem and the subject matter under consideration. The description will be based on the primary data gathered and the opinions forwarded by the subjects of the study and through the secondary sources reviewed.

##### **3.1.2. Data Sources**

In this study both secondary and primary data will be gathered. The secondary data is collected from published and unpublished sources. Secondary data will be collected by conducting desk reviews of various source documents at the custody of IFAA, NBE, FTA, and various other international bodies. Various data are also collected from various stakeholders by predesigned formats, such as number of vehicles, number of traffic accidents and etc. Appropriate text books by authorities in the field of Motor and compulsory MTPL insurance as well as available journal

articles and researched papers are consulted for use in the research. Furthermore documents and policy and procedure of Insurance companies shall are examined.

The primary data will be collected through questionnaires filled up by targeted group for this study. The primary data is collected via questionnaire from targeted users of the compulsory MTPL insurance product provides data used to ascertain and point out the extent of claims problem on the implemented compulsory MTPL insurance.

Another source of the primary data is collected through key informant interview. Properly crafted and structured interview has been conducted with Managers (CEO's and operation managers and etc) of insurance companies, NBE, and etc; and industry and association leaders such as AEI, SIP and etc. The main emphasis was on those parties who are in one way or another were and/or are highly involved in motor particularly compulsory MTPL insurance and claims handling. Besides depicting the market practice and factors for the problems in this regard, data that has been obtained through key informant interviews substantiates and solidifies or refute the quantitative data gathered through questionnaires.

### **3.1.3. Data Gathering Instruments –Tools**

#### **A. Questionnaire**

One of the major tools employed to collect data from its source are questionnaires filled up by targeted group of compulsory MTPL insurance product users. The design of structured mainly with closed-ended questionnaires and Likert's five-point scale has been put in to use. The validity of the Questionnaires were checked and proved through pilot test about the suitability of the same for this study before putting it into use for the main study.

#### **B. Interview**

Interviewing of key informants is used as the instrument to collect crucial, but procedural, pertinent and adequate data for the study. Mainly Semi-structured interview design was adopted and used to extract the particulars used as basis of qualifying the quantitative data.

#### **C. Analysis of Documents**

Referring and examining the IFAA and insurers' operations policy and procedures manual for motor and compulsory MTPL insurance, Inspection and other reports during the implementation period and etc were used to obtain first-hand information in connection with the whole

performance of the implementation process and the recorded result together with the drawbacks and responsible factors for the claims problems.

### **3.1.4. Sampling**

Sampling refers to the process whereby we study a "few" in order to learn about the "many." The success we have with this plan depends on how good a job we do at selecting a sample that accurately represents the larger group. Samples that do a good job at conveying accurate information about the whole are referred to as representative samples. Representative samples allow the researcher to take the information obtained from the small sample and generalize it back to the entire population (Ruana, 2005).

#### **3.1.4.1. Population**

The correct sample size depends on the purpose of the study and the nature of the population under scrutiny (Cohen, 2005). There are about 656, 363 vehicles in the country and about 23,000 traffic accidents are recorded per annum (IFAA, 2014). From these figure about 20% were recorded by public transport vehicles. Therefore, the targeted population represented by their respective Associations attending individual members' affairs including insurance matters has enabled and facilitated contact with subjects of the study in order to collect data through questionnaires.

#### **3.1.4.2. The Sampling Technique**

The sampling technique that is used in this study is multi stage sampling technique for customers of MTPL. Moreover, this study shall also cover about ten (10) senior managers from seventeen insurance companies operating in the market through purposive non-random sampling technique for interview to seek expert opinions from these professionals in the field and five (5) IFAA management members.

#### **3.1.4.3. Sample Size**

The ease of access to reach Associations of owners of public transport vehicles has enabled taking of manageable and representative sample of from the population through structured questionnaires prepared to collect primary data.

**Key Informant Interviews:** Key informants interview involves a face to face meeting with individuals. Key informants were managers of insurance companies, who are highly involved in



the implementation process and decision making and etc. Accordingly out of seventeen CEO's or Operation Managers ten insurance professionals were selected.

### **A. Sample Size of Customers**

The total number of vehicle in the country is about 656,363 in 2014/15 (2007) out of which 28,215 are public transport mini bus and the like and 21,943 public transport buses making the total targeted population 50,158. The vehicles under these categories are owned either by an individual person or private firms. Getting access to this customer base can be easily facilitated through Owners Association which each operator or carrier is required by law to compulsorily be a member through a Directive issued by the Federal Transport Authority and regional transport offices / bureaus. On the other hand the total number of motor vehicle accident during the year 2014/15 was about 23,000; out of which about 19.39 to 20% or 4,600 of the accidents happened by involvement of these vehicles; of which 2,760 causing property damage and the rest 1,840 in bodily injury. As a result of 1,840 accidents 2,944 persons have received bodily injury, which can be classified as light or serious injury or death.

Therefore in order to determine the sample size (n) the following formula is used to estimate the sample size: -

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N - 1) + z^2 \cdot p \cdot q}$$

Source: C.R. Kothari: Research Methodology, Methods and Techniques

where: z is equal to 1.81, in the absence of any previous estimate of p is equal to 0.5, and q is equal to 1 – p, N = 50,158 and e = 7%; the sample size will be 196; which is approximated to 200 for practical purposes. Though the vehicles are classified as such for the purposes of fixing the insurance premium, are by no means homogeneous risks in every aspect. Accordingly, it is found logical to allocate 50% or 100 members to each of the public transport vehicles categorized as mini buses or buses of every description falling under our sample size.

### **B. Sample Size of Senior Insurance Operational Staffs for Interview**

The VIATPR service is delivered by employees of 17 insurance companies' stationed at various positions. With the exception of few and invariably granted limited authority limit to process approval of claims in almost all cases the claims handling of all insurance companies are

conducted at the head quarters of the 17 insurance companies. Accordingly, 17 (+5) claims managers or deputy managers or operational managers are located in Addis Ababa. Either found within AA or its environs were the target of survey in order to obtain a professional opinion about liability laws of Ethiopia and motor vehicle insurance (VIATPR), and claims handling and claims management existing within their respective companies.

### **C. Sample Size of IFAA Senior Management Members for Interview**

Moreover, as provided by Regulation no 300/2013 Article 5(10) IFAA is authorized to implement VIATPR in Ethiopia. Its authority of IFAA in this regard is not directed to the supervision and regulation of insurance but to ensure effective and efficient delivery of VIATPR service and equitable compensation to victims of vehicle accidents in Ethiopia. Accordingly conducting interview of the management members is sought. Therefore, five of the management members were included in the interview.

#### **3.1.5. Data Analysis Procedure / Tools**

The data supplied by the questionnaires were analyzed using descriptive statistical techniques which include tables, which are converted into percentages. Statistical Package for Social Sciences (SPSS) but predominately Excel has been employed to help yield essential results and draw conclusions. Data gathered from interview were analyzed and narrated using portrayal of findings in elicited manner.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATION**

This chapter contains presentation of data and analysis of information obtained from various sources mainly from three respondents groups. Analysis of the results provides answers to research questions in chapter one concerning “Practices and Challenges in Implementing Compulsory Motor Third Party Liability Insurance (MTPL) in Ethiopia” with special reference to the relevant liability laws of Ethiopia and Claims handling procedure and practices in the market. The impact and implications of the findings in this regard are presented and contrasted with best practices in this chapter.

The data used in this chapter is obtained through survey questionnaire to customers, interview made with randomly selected senior operational staffs of insurance companies and management members of IFAA. The questionnaire and interview questions and statements were designed to uncover prevailing practices and challenges in implementing MTPL (VIATPR) insurance and claims handling procedure in place affecting adequate and equitable compensation payment to victims of motor vehicle accidents.

This chapter amply describes significant findings on present practices and challenges of VIATPR law implementation and the respective claims policy and procedure in place to handle and process third party compensation claims arising from the motor vehicle accident in Ethiopia. It also highlights the clarity and how detailed are related civil liability laws as perceived by the three target group respondents.

#### **4.1. Demographic Profile of Respondents**

This section presents background information of respondents.

##### **4.1.1. Demographic Profile Customers**

Out of 200 questionnaires distributed to respondents 162 were completed and returned, making the rate of return to 81%. Out of which 5 questionnaires were incomplete and were accordingly discarded thus making the response rate to 78.5%. Questionnaires distributed and returned by respondents are summarized in Table 4.1.a. 4.1.b. and 4.1.c. below.

Table 4.1.a : Gender

		Frequency	Percent	Valid Percent	Cum Percent
Valid	Male		150	92.6	95.5
	Female	7	4.3	4.5	100.0
	Total	157	96.9	100.0	
Missing	3 (Missing)	5	3.1		
Total		162	100.0		

Table 4.1.b. : Educational Background

		Frequency	Percent	Valid Percent	Cum Percent
Valid	Certificate	59	36.4	37.6	37.6
	Diploma	74	45.7	47.1	84.7
	1st Degree and above	21	13.0	13.4	98.1
	2nd Degree and above	3	1.9	1.9	100.0
	Total	157	96.9	100.0	
Missing	5 (Missing)	5	3.1		
Total		162	100.0		

Table 4.1.c. Position and Work Experience

		Frequency	Percent	Valid Percent	Cum Percent
Valid	Board Member	13	8.0	8.3	8.3
	Management	23	14.2	14.6	22.9
	Owner	111	68.5	70.7	93.6
	Driver	10	6.2	6.4	100.0
	Total	157	96.9	100.0	
Missing	5 (Missing)	5	3.1		
Total		162	100.0		

Table 4.1.c. Work experience

Year		Frequency	Percent	Valid Percent	Cum Percent
Valid	1 to 5	21	13.0	13.4	13.4
	6 to 10	35	21.6	22.3	35.7
	10 to 15	88	54.3	56.1	91.7
	>16	13	8.0	8.3	100.0
	Total	157	96.9	100.0	
Missing	5 (Missing)	5	3.1		
Total		162	100.0		

Source: primary data (2016)

Table 4.1.a: shows the gender and age composition of respondents. Though not relevant for the study it has been presented for the sake of completeness. Accordingly, in this sector male respondents dominate with over 92%. On the other hand over 94% were over the age of 25. Table 4.1.b.: shows educational background of respondents. Accordingly, over 60% of respondents hold a minimum of diploma in various disciplines; whereas the rest 36.73% hold a certificate. Table 4.1.c: above show positions and work experience of respondents. Positions refer to the respondents' relation with the 'Associations'. Accordingly over 22% are board and management members and over 68% are owners with other 6% being drivers of vehicles. On the

other hand only 13.26% have less than 5 years of experience whereas the rest about 83% possess over 6 years of experience. From the above presented data in Table 4.1.c., about 88% of respondents are either owners of vehicles or board and management members; and about 84% of respondents have over 5 years of experience. As a result most respondents have an intimate knowledge and experience about the implementation and progress of VIATPR Proclamation no 559/2008 in Ethiopia.

#### 4.1.2. Demographic Profile of Insurance Staff and IFAA Management

Out of seventeen plus five (17) ten were targeted and only ten of the senior operations staff of insurance companies responded to the interview questions sent to them. On the other hand five of the IFAA management approached all became part of our interviewee subjects.

Table 4.2. : Demographic Profile of Interview Respondents of Senior Insurance Operational Staff (Position and Work Experience)

1	Position /status			
		DGM	1	10%
		Operation Manager	4	40%
		Claims Department Heads	3	30%
		Customer Service Department Heads	1	10%
			10	100
2	Work Experience			
		6 to 10	2	20%
		10 to 15	7	70%
		Over 16	1	10%
			10	100%

Source: primary data (2016)

Table 4.3:-Demographic Profile of IFAA Respondents (Position & Work Experience)

1	Position /status			
		Director General	1	20%
		Operation Directorate Director	1	20%
		Public Relations Directorate Director	1	20%
		Legal Service Directorate Director	1	20%
		Support Services Directorate Director	1	20%
			5	100%
2	Work Experience			
		6 to 10	2	40%
		10 to 15	2	40%
		Over 16	1	20%
			5	100

Source: primary data (2016)

## **4.2. Data Presentation and Interpretation**

This section highlights the overall respondents profile and data gathered from customers presented and interpreted. The main emphasis is made on customers pre-VIATPR implementation on the insurance service, the clarity of main provisions of civil liability laws including VIATPR law, the service standard of post-VIATPR law implementation in underwriting and claims work process, transparency, equitability and fairness of the assessment and determination of bodily, death and property damage compensation claim amounts, the prevailing customer service and complaint management system to redress victims and insured's grievances.

### **4.2.1. Pre-VIATPR Implementation Insurance Experience Customers**

Table 4.4: presents data collected to know customers Pre-VIATPR Proclamation no 799/2013 experience of on the delivery of insurance service by the market. The insurance delivery consists of two core business processes; namely the underwriting and the claims work process.

In the underwriting work process the insurer is mainly engaged in assessing, evaluating and deciding whether to provide cover or not and the terms and conditions of the policy cover. If cover is accepted the issuance and delivery of the policy will be conducted after completing all other routine formalities in the process. This is a fundamental step in the delivery system where the insurer at least in theory is required to provide clear and adequate information about the policy cover, their rights and duties including the service standard of the insurer they are entitled to receive in the delivery process. If the cover is correctly explained to the client future disappointments at the time of claim will be avoided.

Claim work process is another area where the insurer is required to promptly investigate, assist the client and conduct other claims activities until payment of the loss amount if the contingency is the one covered by the insurance policy. This is the shop-window and litmus paper of insurance institutions; where test of whether the insurer will honor or not the pledge made at the selling of the product is made. This core business process is critical in assessing customers' present or future attitude towards the insurance product and the institute providing it.

Table 4.4.: Pre-VIATPR Implementation Insurance Experience of Customers

		<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>				
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>1.1.</b>	The underwriting staffs provide adequate and clear information about the terms and conditions of the policy and service standard.	5	14	23	66	49
<b>Percent (%)</b>		3.2	8.9	14.6	42.0	31.2
<b>1.2.</b>	The claims work process is executed in a transparent manner with in processing time or/and as per service standard.	2	5	16	76	58
<b>Percent (%)</b>		1.3	3.2	10.2	48.4	36.9
<b>Total Percent (%)</b>		2.2	6.1	12.4	45.2	34.1

Source: primary data (2016)

As indicated in Table 4.4., item 1.1., over 73% of respondents are of the opinion that the underwriter is failing them his duty of providing adequate and correct information about the product or service standard; whereas only about 12% believe to the contrary and the rest 14% are indifferent. The result clearly depicts the substandard underwriting practice even before the implementation of VIATPR law on the ground.

Similarly the same on Table 4.4., item 1.2., show customers recollection of their experience about the claim service before the implementation of VIATPR law. Accordingly, about 85% of the respondents say that the claims work process is not executed in a transparent manner, or within processing time or to service standard they have anticipated and been promised. However, only 4 to 5% of respondents are comfortable of the claims service they have received with the rest 10% being indifferent. This means that the claims service has been a point of dismay and frustration even before the VIATPR law is implemented.

In general from the total respondents about 8% are content of the insurance service, 12% are indifferent and the rest 79% are discontented by the level of service they were receiving.

#### **4.2.2. Clarity of Ethiopian Liability Laws Related to Motor Vehicles by Customers**

It has been provided in Ethiopian law that being unaware of the provisions of the law doesn't provide a ground to be excused from liability; civil or criminal. Though it may not be possible for everybody to have a thorough understanding of the law, it is essential to have a general overview of main provisions, and one is actively engaged with.

Accordingly as the respondents are engaged in the business of transport operation as carriers of passengers, they were asked if they are aware of the main provisions of Ethiopian civil liability laws in connection with vehicle; and if so clarity of the same. However, the insurance contract is assumed to be performed between an insurance officer who is conversant of the technicalities of insurance and relevant laws and a layman on the subject, or a man on the street. Therefore, it is a fundamental task of the officer to aware customers in this regard, whatever, their level of awareness. Here follow customers awareness to only major items of respective laws.

Table 4.5. : Clarity of Main Provisions of Ethiopian Liability related to Motor Vehicles

<i>(1) Very Clear (2) Clear (3) Moderate (4) Unclear (5) Very Unclear</i>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
2.1.	The Civil Code of Ethiopia 1960					
a.	Liability attaches without committing any fault.	20	33	31	47	26
b.	Provides unlimited liability limit.	25	38	25	45	24
2.2.	The Commercial Code also hold the carrier liable for injury, death or damage to property including loss by delay to a passenger; unless force majeure	35	45	2	44	31
2.3.	VIATPR Proclamation no 799/2013 covers only part of the unlimited liability limit imposed by the Code.	28	27	19	35	48
2.4.	Compensation payment to vehicle accident victim shall only be determined as per the Code.	16	28	22	64	27
	<b>Percent (%)</b>	<b>15.8</b>	<b>21.8</b>	<b>12.6</b>	<b>29.9</b>	<b>19.9</b>

Source: primary data (2016)

As per Table 4.5., about 37.6% respondents say that the main provisions of at least the three laws in connection with motor vehicles and passengers and carriers liability is clear; and for over 12% of respondents it is moderately clear and for the balance of over 49% of respondents it is either not clear or totally unclear. The most critical point at this juncture is customers' acknowledgment of lack of clarity of relevant provisions (*Table 4.5., item no 2.4*) which are the basis of assessment of damage and determination of compensation to victims; in this case motor vehicle accident victim. Accordingly, this revelation suggests that lack of clarity of the laws in these respect are even known to customers, who are usually presumed to be ignorant, under normal circumstances.



### 4.2.3. Customers Post-VIATPR Implementation Insurance Service Experience

Table 4.6.: Customers Underwriting Service Experience after implementing VIATPR law

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
3.1.	VIATPR policy is prepared in plane languages and as provided in the Proclamation.	2	15	25	89	26
3.2.	Provide clear and adequate explanation about terms and conditions, service standard and obligations of insured.	5	8	21	35	88
3.3.	Provides renewal advice before expiry of policy	21	32	21	57	26
<b>Percent (%)</b>		<b>5.9</b>	<b>11.7</b>	<b>14.2</b>	<b>38.4</b>	<b>29.7</b>

Source: primary data (2016)

As per the data in Table 4.6., above, near to 18% of respondents agree that the policy document provided is understandable and is prepared in line with the provisions of the VIATPR Proclamation, and have been provided with clear and adequate explanation about the product on offer, service standard and their rights and duties also obligations at the time of claim; and also have been timely advised to renew the insurance policy before natural expiry of same. On the other hand about 14% are indifferent and the rest over 68% disagree, totally or otherwise, as to the quality of underwriting service they have received and insurer's honesty and adherence to the laws issued in this regard. The fact that more than half of the respondents still doubt about the transparency and standard of insurers underwriting work process calls for an alarm, because of nature of the insurance cover provided to the public; which has a form of social insurance.

At present, there seems to be an improvement on insurers' performance in this regard, in which about 68% disagreed, during the 'post' as compared to pre-VIATPR law implementation period, in which a staggering 79% disagreed on the standard of the underwriting service then provided. The respondents' response suggests insurers are far behind what customers regard as a minimum service in this connection.

### 4.2.4. Customers Post-VIATPR Implementation Claims Service Experience

As has been explained above the claims work process incept with an intimation of accidents by the insured. In the case of VIATPR any claimant can directly report such occurrences, which under normal circumstances, may result or not in to claims, which may also be valid or otherwise. Making a visiting to the scene of accident by claims handler or investigator, as soon as practically possible; timely providing adequate and correct claims information and documents

required in support of the claim, including advising the concerned their rights and duties; timely conducting cursory investigation of policy cover; timely advising insured acceptance or rejection of the claim in writing; timely assigning assessor of the damage or loss; conducting of assessment and determination of the loss amount and compensation thereof; making of an offer and conducting negotiations; timely approval of claim at various stages, depending upon limits of authorities given by the insurer concerned; and issuance of the agreed compensation are among the main claims activities.

Important questions to raise at this point are: - whether the complete processes and individual activities are conducted in transparent manner; whether the insurer has in place pre-defined processing time for each activity and are strictly observed, meaning there is no delay; whether there is transparent and fair system in place to ensure assessment and determination of adequate and equitable compensation to the loss sustained by third party claimant; whether insurers play fairly and respect rights and benefits of third party claimants; and etc.

Accordingly in order to investigate customers experience in this regard at the various stages of the claims work process various statements were raised to gather their opinion.

#### **4.2.4.1. Promptitude and Responsiveness of Insurers**

The initial contact with the insured or third party claimant by the insurer through his claims handler creates the overall impression which claimants reserve throughout the claims process. A good relation created at this initial contact lasts long. Accordingly on intimation or notification or advice of incidents or accidents claims officers or assigned investigators prompt action in attending reported incidents in order to investigate and assist the client at the time of need and desperate times creates a good impression on the insured or third party claimant and creates reliance on the insurer and claims service.

Besides creating a good image, timely accident investigation allows the insurer to know real facts before value of evidences and witnesses as to the cause or responsible party are lost forever. Even worse in most cases of third party bodily injury and death claims, as time passes away, witnesses might change their testimony, mostly on pure humanitarian grounds and testify contrary to the actual fact; which would have been obtained at the time of accident where the accidents are still fresh on their mind and the filling of guilt at later stages minimized.

Moreover, if not already communicated, timely and accurately advising claimants as to their rights and duties, the documents they are required to produce to substantiate their claim and the standard of the claim service to expect in a transparent manner certainly avoids future disagreements and misunderstanding. Therefore, promptitude and responsiveness of insurer in attending accidents and showing empathy by assisting the client/customer/claimant during accident evidences the insurers clear intention to pay a valid claim and counter acts against the popular public opinion that insurers always are destined to avoid insured claims or at least to reduce it by sheltering themselves behind the intricate legal provisions.

Table 4.7.: Promptitude and Responsiveness of Insurers on Intimation of Accidents

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
4.1.	On notification insurers make prompt investigation and provide assistance to the insured.	12	20	25	57	43
4.2.	Provides clear claim information, obligations of claimants and timely response	2	5	10	74	66
<b>Percent (%)</b>		<b>4.5</b>	<b>8.0</b>	<b>11.1</b>	<b>41.7</b>	<b>34.7</b>

Source: primary data (2016)

As per the data gathered in this respect (Table 4.7.) over 86% of respondents disagree (total or otherwise) to the statement that insurers' take prompt action in attending reported accidents and their responsiveness; and about 11% are indifferent and the rest 12.5% are in agreement to the statements forwarded. From the respondents response at this starting point of contact delay in its crude form start biting into the claim work process; further reinforcing the general popular opinion of the public which presumes that insurers detest claims. The most critical issue at this point is insurer's lack of providing clear and timely claim information, making aware of obligation of insures or claimants and timely providing response as to the receipt of notification or acceptance or rejection of claims in writing, which has received the lowest points.

#### **4.2.4.2. Assessment and Determination of Loss in Property Damage Claims**

As has been discussed in literature review the Ethiopian law, pertinent to civil cases, only provides general principles and lacks detailed guideline and therefore clarity in assessing damage and equivalent determination of compensation. Thereby leaving the details to authorized competent courts of law and discretionary power to judges to decide the venue for each particular case presented to them. This has further been reinforced by the decision of courts at

various occasions by clinging to unintended provisions acting contrary to common belief and justice. The problem prevalently evident in civil liability laws also lends its legacy to the claims process and claims handler of insurance companies to decide compensation amounts unchallenged according to what has been perceived not to what the person has sustained in terms of damage.

Further to the cited problem of the law, transparency and fairness of the claims process, equitable or adequate determination of compensation amount falls short between consecutive and prolonged claims activities which the insured has necessary to pass through. Among such activities include assignment of loss assessor, selection of garages or others who shall necessarily participate in the insurers' claims process, the tender or bid process, despite considerable external and internal factors affecting it, which as a principle abides to the least price. The result is conclusive evidence as to the adequacy of the loss estimate as far legality is concerned.

Therefore, the test posed at this point is to what extent clients/customers / claimants would agree or disagree to the transparency and fairness of each activity in the claims process and finally the adequacy and equitability of the compensation amount determined as an output from these sub-processes. The discussion starts with the assignment of assessor of loss, selection of bidder garages and finally the tender/bid process conducted to determine the loss amount.

#### **A). Assessor of Loss**

Assessors of damages are invariably assigned by the insurer to assess damage to property of insured persons or third party. The intention of delegating own surveyors (is a misnomer to own engineers) or independent external loss assessors or surveyors to assess the loss is not to reduce the amount of claim or deny legitimate claims but to provide adequate indemnity, by eliminating or reducing leakages in claims and unnecessary disputes with claimants. Accordingly there are at least four parties in which insurers may seek their professional service in this regard.

Besides "company surveyors" the Insurance Business Proclamation no 746/2012 provides the definition of insurance surveyors, loss adjustors and loss assessors as follows: -

- "insurance surveyor" means a person who engages in surveying risk and in advising on the rate of premium and terms and conditions of policies of general insurance business including recommendation for the improvement of risks; [Article 2(21)]

- “loss adjustor” means a person who undertakes the investigation, negotiation, adjustment and conclusion of agreement on insurance claims on the basis of relevant laws and insurance policy; [Article 2(25)], and
- “loss assessor” means a person who, in the case of a claim under a policy of general insurance business, undertakes to investigate and assess the cause and extent of loss on behalf of the insurer of the insured; [Article 2(26)].

A “loss assessor” and “insurance surveyor” are among “insurance auxiliary” as defined by Article 2(18) of the same Proclamation no 746/2012. However, as can be noted from the above none of the definitions’ fit to company surveyors. Accordingly, employing and using own engineers as any employee to investigate loss or damage is the prerogative and discretionary right of the respective insurer. Customary usage of the name ‘surveyor’ instead of ‘own engineers’ for quite a considerable period of time by the market has led to legitimization of this misnomer as if it is legally correct, thereby creating confusion and wrong impression to insured persons and other third party claimants. Without proper explanation of this issue and their respective rights and course of actions they can optionally take in to consideration; and even if inadvertently let claimants believe that ‘company engineers’ are the same as ‘surveyors’ is again the starting point of lack of transparency triggering mistrust on the claim process as far as claimants are concerned.

Again in most cases the main purpose of selecting and appointing independent loss assessors and surveyors by insurers is to facilitate speed and amicable settlement of claims and not as a prelude for future litigation process. The same objective must be passed and communicated to the assigned professional. The selection and appointment of the same shall be done as per defined detailed and defined guideline and must not be left to anyone, even to so called ‘trusted employee(s)’ of an insurer to handpick and assign such type of sacred tasks, where the insurers name and reputation is at stake. The assignment must also be communicated to the claimant.

Moreover whoever is assigned the assessment and determination of damage must have standard with defined processing time of completion. The fixation of depreciation percentage for use of age of the property shall have to be standardized like other countries and must not be left for the individual assigned professional. There has to be a system of internal and/or external and/or both

control system in place. Otherwise, it will be a breeding ground of claimants' frustration and leakage of claim costs.

The survey questions forwarded to the clients/customers/claimants were framed to investigate their opinion about how transparent and fair the selection appointment process is and the creditability of the repair estimate provided by any of these bodies.

Table 4.8.: Transparency and Assignment of Assessor of Loss and Creditability of Estimate

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
5.1.	Assignment of loss assessor is standard, transparent and fair.	8	15	31	67	36
5.2.	The assessor provides unbiased and impartial assessment.	10	23	13	61	50
5.3.	Issues post risk survey report within the allotted timeframe	8	18	15	68	48
5.4	Copy of loss assessment report is provided to customers	2	3	8	78	66
<b>Percent (%)</b>		<b>4.5</b>	<b>9.4</b>	<b>10.7</b>	<b>43.6</b>	<b>31.8</b>

Source: primary data (2016)

As per the data of Table 4.8, over 75% of respondents disagree as to the transparency of the selection and appointment of assessors of the loss or damage, the neutrality of their assessment and service standard they have received. Moreover almost majority of respondents (i.e., about 92%) say that claimants are deprived of looking their assessment report, let alone has the pleasure of getting a copy of the same, as it is only intended for concerned insurer's eyes only.

On the other hand about 14% of respondents are agree, whether total or not, as to the transparency and assignment process and the creditability of the loss estimate provided by these professionals; with the rest of about 11% are indifferent to the questions raised in this regard.

### **B). Bidding Garages or Other Bidders**

Whenever repair cost estimation to damage vehicle is required, two from the client or third party claimant and two garages from the insurer side are selected to provide repair estimate. This is standard practice which is found clearly stated on claims policy and procedure manual of almost all insurers in the market. After opening of bids / tender process the bidder garage estimate of repair cost who have submitted to the insurer is compared with post risk survey estimate provided by own engineers or independent external loss assessor or surveyor as a reference, the least estimate is declared as the bid winner and negotiations on the quantum are carried out when

necessary. If agreement is reached, it is a standard practice and apparently acceptable and justifiable decision on the part of the insurer to award work order or pay compensation based on the least bidder price method.

Almost all customers are aware of this procedure and its inheritance from the era where insurance delivery was confined to one insurer in the market and command economy at its background. During that time the main objective was to compile as far as possible all available documentary evidences, which seemingly prove the legitimacy of the claim and amount of compensation. Therefore, literal compliance with rules and regulations including procedures laid down by the same was the order of the day. Other than this, care to customers and satisfaction thereof is not a critical issue or concern of the claims handler.

This process which is part of the claims procedure gives the impression that it is water-tight and flawless from the outside and is also an established practice. It is also believed to provide legitimacy and equitability and fairness of compensation amount in the claim handling process.

As indicated above in any third party vehicle or even own damage claim four bidder garages, out of which two of them are to be selected from the insurer approved list of repairers. The garages are considered anonymous as far as third party claimant or insured is concerned. However, the purpose of clandestine nature of selection of bidder garages is questionable. In practice, it may tempt either third party claimant or insured as the case may be and the claims handler to share this information, which the company considers as secret, and in addition to other drawback spoils the later. Moreover tempted by some ulterior personal motive claimants or customers might also tend to go extra mile to find out the garages chosen by the insurer from other sources other than the claims handler.

The compounded problem of the tender procedure does not end at this point. The selection of approved repairers though done based on seemingly defined criteria; those which are selected cannot be by any means equal or comparable, rather vary in the quality of workmanship, tidiness, garaging arrangements and other matters. Those garages with inferior workmanship, and who like to grab a job to fill their empty schedule might be inclined to provide lower estimate. Moreover, in the case of third party where the probability of being awarded the repair work is practically remote might definitely be tempted to under estimate the cost of repair.

Lowering the cost of the claim is an acceptable and beneficial result to the insurer but at the cost of dissatisfaction of claimants and customers and image of insurer. However, third party claimants and clients might be inclined to uphold the general wrong belief of the public which is “the prime objective of insurer is to deny if not reduce the claim” which is not at all true in principle and practice. Contrary to the above, it has to be underscored again that the prime motive of the insurer is to provide actual indemnity or equitable compensation amount. The spirit of indemnity will be compromised by forcing legitimate claimants to share the cost of an indemnity claim out of their resource in order to avoid going to a repairer with undesired and unacceptable appearance and unknown skill of workmanship.

The tender / bid process on the other hand, places the fate of the claim at the hand of “bidder garages” that mostly gang-up and consequently inflate the claim amount. The true intention of the insurer is somewhat defeated, which is minimization of claim cost. Therefore, in addition to creating mistrust, frustration, dispute and delay this approach most of the time substantially increases third party or own damage claim costs.

Accordingly, the survey questions were framed with the intention of uproot and find customers and claimants experience and opinion as to the appropriateness, transparency and fairness of the process, the credibility, adequacy or equitableness of the loss estimate, and also service standard including processing time of the process.

Table 4.9.: Bidding garages

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		1	2	3	4	5
6.1.	Selection of garages on the insurer’s part is transparent.	11	21	32	73	20
6.2	Bidder garages provide their bid within defined timeframe.	17	20	18	77	25
6.3	Bidder garages provide impartial, adequate or equitable repair estimate	12	21	18	58	48
6.4	Garages have equal or comparable workmanship and organization	13	19	37	67	21
<b>Percent (%)</b>		<b>8.4</b>	<b>12.9</b>	<b>16.7</b>	<b>43.8</b>	<b>18.2</b>

Source: primary data (2016)

As per the data of **Table 4.9:** 62% respondents disagree, totally or otherwise, about the transparency of the selection of bidder garages by the insurer; compliance of those selected to the



processing time set for this job; the impartiality, adequacy or equitability of the repair estimate and equivalency of standard of workmanship of bidding garages.

On the other hand over 21% of respondents either, totally or otherwise agree as to the fairness and transparency of the process, with an additional of about 17% of respondents being indifferent.

**C). Repairing Garages or Others Bidding or Tender Process**

It has been explained above (i.e., item B) about selection of four garages that will participate in the tender or bid process, by the insured or third party claimant and insurer in order to establish the repair estimate which is mainly based on the least bidder price. Drawbacks, flaws and inefficiency of this process also been indicated. Moreover, least bidder price neither proves the exact cost of repair or indemnity amount or standard of workmanship.

The above being the whole scenario in selection of garages and bidding process, questions framed to uncover clients / customers / claimants’ opinion in connection with transparency and direct involvement of claimants including insured persons, and equity or fairness of the process were forwarded. The result has been tabulated in the following Table 4.10.

Table 4.10.: Tender / Bid Process

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
7.1	Is transparent and involves the claimant	3	8	20	71	55
7.2.	The least bid price ensures equity of compensation.	12	15	18	64	48
	<b>Percent (%)</b>	<b>4.8</b>	<b>7.3</b>	<b>12.1</b>	<b>43.0</b>	<b>32.8</b>

Source: primary data (2016)

As per the data of Table 4.10: almost 76% of respondents disagree, totally or otherwise, about the transparency of insurers’ tender process and involvement of claimants, insured or third party, in this process. Similarly they also disagree to the notion that the least bid price which most of the time considered invariably as true or equitable cost of repair for the damage sustained by insurers. On the other hand over 12% of respondents either, totally or otherwise agree as to the transparency of the bid process and involvement of claimants in the process; with another 12% of respondents being indifferent.

As a result the amount of loss determined by this complicated and long process only shelters insurers right and completely undermines claimants right, leaving them to take the amount offered as compensation or resort to litigation the outcome, cost and complicated process is too cumbersome and complicated for an insured person with at least some financial resource at his disposal let alone to a third party claimant with insufficient capacity in this regard. On the other hand the compensation amount so arrived and made available for payment don't include other costs and expenses which the third party may have incurred or is lost or to be lost during the period of damage to his property until its reinstatement or repair.

#### **4.2.4.3. Assessment and Determination of Bodily Injury and Death Compensation Claims**

The civil liability law is mainly provided under the Civil Code of Ethiopia 1960. The mode and extent of damage is also provided from Article 2090 to 2123 of the same. Like any other laws the compensable damage are of two types; namely material or pecuniary and moral or non-pecuniary damage. The material damage also has two components, namely present damage and future damage. As can be noted and been discussed under literature review section of the study in theory it may seem easy and straight forward to assess and determine present damage. However, the law only provides general principles leaving the details to the judge who have discretionary right within the bounds of civil rights of other persons and third parties. As has been explained again the devil is within the details in the assessment of damage and determination of damages. Further to this limitation it is practically difficult to assess and determine future damage, but again only reasonably assume what would be the damage to the victim in the future and determine subjective damages.

On the other hand moral damage consisting of sorrow, grief, loss of amenity, friendship, companionship is not a major concern of Ethiopian civil liability law as it is fixed by law to lump sum of only Birr 1,000 for the injured person or whole family member. If adultery of a person can receive courts attention with an award of Birr 10,000; it seems unorthodox and ethical if a death of a beloved under age or a breadwinner of the family to receive less attention.

This being the overall situation motor vehicle accident can result bodily injury to a various extent or death or property damage or the combination of any or all of them. Bodily injury to a person on the other hand can be of a minor one, which may require first hand attention on the accident

site or emergency ward, or it may result to a physical disability either partial or disability to the injured person.

#### **A) Bodily Injury Compensation Assessment and Determination**

As has been discussed bodily injury is a term denoting various types of costs or expenses lost or to be lost incurred or to be incurred during the disability period and if permanent loss of earning or income to be lost in the future as a result of the disability. Therefore, the compensation amount should include the present damage until the assessment date of damage by courts and the future damage which can reasonably be determined.

The types of benefits available under this term, bodily injury, are not available or specified in the respective law. But the insurance practice (domestic once, before enactment of VIATPR law as well as international) and ruling of courts of law indicate that compensation for third party bodily injury claims include among other things emergency medical treatment (even in countries where social health insurance is readily available; medical, surgical, orthopedics and etc costs and expenses; rehabilitation cost; lost income (TTD) for income earners as employee or self-employed; rehabilitation payment for non-employed; physical disability as a measurement for future revenue (PPD and PTD) which shall be calculated based on ( as far as the Ethiopian experience is concerned) physical disability percentage (to be evidenced whenever possible by a medical board certificate), which will be applied on the ‘remaining age’ (the difference between the age of person on the date of assessment of damage up to the retirement age of the injured person) and income (daily, weekly, fortnightly, monthly or yearly income of the injured person before the happening of injury) during the age (which has been calculated as ‘remaining age’); or GDP per capital income ( at least one court has currently applied GDP per capital income as measurement of income if the person does not have proven gainful employment) any other future costs and expenses to be incurred.

#### **B) Death Compensation Assessment and Determination**

Again compensation payment for death claim can only be made available to those specified by the Civil Code of Ethiopia 1960 and the amount shall be determined as maintenance allowance of right full claimants. The general rule and practice is lump sum payment of the amount so determined rather than installment payments by way of annuity. Besides other limitations of the provisions in this regard the difficulty here again is the calculation of death compensation

payment by way of compensable maintenance allowance. In the absence of any clear legal instruction or detailed guidelines compensation payments are assessed and determined mostly upon the understanding and perception of the individual claims handler or his boss.

However, third party death compensation claim are assessed and determined by considering among other things all costs and expenses necessarily incurred and payment amount including: emergency medical treatment, if incurred before death; medical, surgical, orthopedics and etc costs and expenses, again if incurred before death; rehabilitation costs, again if incurred before death; lost income (TTD) for income earners as employee or self-employed, again if lost before death; maintenance allowance (as a measure of future damage) to be calculated based on ‘remaining age’ (i.e., the difference between the age of deceased at death up to the retirement age), multiplying it with income (i.e., income received before death of the deceased and calculated for the age difference calculated as ‘remaining’); and deducting the amount of money which the deceased is expected to necessarily use for his own self or maintenance, if he was alive; to be paid to deceased’s family members named / specified by law (children’s – not necessarily under the age of 18 – but economically dependent on the deceased; spouse; deceased father and mother – dependent on the deceased); and also funeral and related expenses

The questions raised to respondents were aimed at uncovering the fact that they or third party claimants are required to produce documents which can be easily be obtainable or not, whether or not there is a fair and transparent compensation assessment and determination by insurers in the market and if such process is performed within a defined time frame or processing time acceptable to claimants. The findings are tabulated and presented in **Table 4.11** here below.

Table 4.11.: Bodily Injury and Death compensation assessment and determination

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		1	2	3	4	5
8.1.	Required documents are easily obtainable	30	35	12	51	29
8.2.	Is transparent and done with participation of claimant	12	18	35	53	39
8.3.	Is the compensation amount fair and equitable or equivalent to the damage sustained	13	20	23	61	40
8.4.	Conducted within standard timeframe	10	23	25	64	35
	<b>Percent (%)</b>	<b>10.4</b>	<b>15.3</b>	<b>15.1</b>	<b>36.5</b>	<b>22.8</b>

Source: primary data (2016)

As per the data of Table 4.11, nearly 60% of respondents of the survey either totally or not disagree as to appropriateness of the documents required by insurers to substantiate various types of third party compensation claims; and also disagree about the transparency of the process which is usually done and decided unilaterally by the insurer's claims handler without close participation of insured or third party claimant. The respondents also noticeably disagree about fairness of the compensation amount so determined on the insurer's part and highly question its equivalence or at least equitableness to the damage the third party claimant is demanding to be compensated. Moreover the respondents also disagree to compliance to processing time of this activity within acceptable timeframe.

Other respondents of about 25.5%, however, totally or not agree on appropriateness of the documents requested, fairness and transparency of the process, equitableness of the amount of compensation and the time span in which the assessment and determination and also compensation payment to third party claimants have been made; where the rest of respondents of about 15% are indifferent.

#### **4.2.5. Offer and Negotiation by Insurer**

In insurance is negotiation, arbitrations and other forms of ADR are mostly used to contain client/customer/claimant dissatisfaction arising from mainly from amount of claim settlement. However, it doesn't mean that it would not be used in other cases during the claims handling process; such as when liability is in contention, or the way the claim is handled or it is progressing.

Besides keeping insurers good name from bad publicity such course of action relieves the insurer from unnecessarily being involved in lengthy and costly litigation process which the outcome cannot be anticipated beforehand. The more the litigation process continues it is not only the insurers name on the line but also the unpaid outstanding claims amounts continue to increase as a result of inflation and other costs including court fees.

However, in a situation where the law is highly inclined to protect insurers (with the notion of protecting the public; because they are handling public fund) and evades to protect the general consumer of the financial product by enacting proper customer protection laws, as the case of developing countries, resorting to such course of action by insurers seems unlikely. Strong

instances and approach or confrontational approach in claims handling usually result in litigation with an end result of customer dissatisfaction and unpopular opinion of insurance products and institutions delivering them.

Accordingly, respondents were presented with questions to uncover their experience in connection with claims handler or insurer desire to resolve issues by negotiations; the result of which is compiled and presented in Table 4.12, below.

Table 4.12: Negotiability of the Claims Handler or Insurer

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		1	2	3	4	5
9.1	Always advises the offer on the amount of compensation in writing	5	21	19	69	43
9.2	Is always open for negotiation in order to arrive at amicable settlement	7	18	31	62	39
<b>Percent (%)</b>		3.8	12.4	15.9	41.7	26.1

Source: primary data (2016)

As per the data of Table 4.12, nearly 68% of respondents of the survey either totally or not disagree as to the readiness and negotiability of the insurer; whereas about 16 either totally or not agree to this fact, with the rest of about 16% of respondents being indifferent. As can be noted from the respondents' response, in a majority of cases, the compensation offer of the insurer is not made official in writing and negotiation for amicable settlement is not often practiced.

#### **4.2.6. Functional Customer Service and Complaint Handling System**

Customer service is concerned with the building of relationships with customers and other markets or segments to ensure long-term relationships which are mutually trusting and profitable, and which reinforce the other elements of the marketing mix. In insurance as in all services, it is the five elements of the service mix which govern our marketing efforts. It is at the time of the interaction point with the customer where they have to come together, and it will be useful to see this interaction (the meeting between the consumer and the organisation whether face-to-face, by mail, by telephone or through a terminal) as the true focus of marketing in a service organisation and an insurance, and as part of a relationship between those involved (Irons, 1991).

Therefore, considering the transient nature of an insurance product as a soft service rather than hard the need to address long term relationship can be achieved by understanding and addressing clients need and addressing them in a professional manner. As a result a standard, permanent and workable or functional customer service in place to ensure maintenance of a sound relationship with it's or would be customer base, is a requirement rather than an exception.

On the other hand addressing customers' complaints and grievances that can arise from inability or unwillingness of the service provider to meet its commitments or promised service has to be addressed either internally or externally. Special as in the case of insurance service delivery which is more technical and complicated for almost all customers to comprehend the product or service delivered to them the existence of such a unit is essential.

Accordingly the question raised to survey participants was aimed uncovering whether is a customer service and/or compliant management in place where their complaints are addressed. The result found from the respondents is tabulated in Table 4.11., below.

Table 4.13.: Customer Service / Compliant Handling

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>	1	2	3	4	5
There is active and functional customers service and complaint management	18	26	26	68	19
<b>Percent (%)</b>	<b>11.5</b>	<b>16.6</b>	<b>16.6</b>	<b>43.3</b>	<b>12.1</b>

Source: primary data (2016)

As per the data of Table 4.13, over 55% of respondents totally or not disagree the existence of active and functional customer service or complaint management system in place with their insurer; another 28% respondents totally or not agree and the rest over 16% of respondents are indifferent.

#### **4.2.7. Competency of Claims Officer**

According to Concise Oxford University Dictionary 'competent' means having the necessary ability or knowledge to do something successfully; (of a person) efficient and capable; (of a court or other body) having legal authority to deal with a particular matter. Generally in the process of determining occupational standard, the main elements of competency of a certain

occupation is determined if that person for the occupation under considerations exhibit the standard knowledge, skill and attitude.

In our case we want to discover if the claims handler who is handling third party compensation claim arising from motor vehicle accident has the proper competency to execute his assigned task. The requirement to execute this task exceed far beyond the standard knowledge in insurance matters, policy and procedure manual issued by the respective company, the insurance product one handles and etc., for the job; but also includes sound knowledge of respective laws in this regard. Moreover, his behavior, curtsey, empathy, overall attitude meets expectation of customers and insured person. Accordingly the question forwarded to the survey participants was whether they consider the claims handler who attended claims exhibits the right mixture of knowledge, skill and attitude or not. The respondents answer is tabulated in Table 4.14, here below.

Table 4.14.: Claims Handler Competency

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>	1	2	3	4	5
Claims officer exhibits standard Knowledge skill and attitude for the assigned job as claims handler.	18	25	13	56	45
<b>Percent (%)</b>	11.5	15.9	8.3	35.7	28.7

Source: primary data (2016)

As per the data of Table 4.14, a little bit higher than 64% of respondents disagree, in total or not, that the assigned claims handler is competent enough for his assigned task, whereas over 27% of respondents agree as to the competency and the rest over 8% being indifferent to the question raised in this regard.

#### **4.2.8. Approval and Payment**

Most insurance companies handle all types and amount of claims at the head office level and some with limited delegation to branch or regional level offices and a few with seemingly relaxed delegation authority. Moreover, in most cases at the head office level of insurers there is a limit of approval increasing in ascending order the claims handler is posted in the department or division or etc. Even few who have audaciously decentralized the claims handling process from the head office to branch offices didn't stand long but retract their decision.



In situations where delegation of the claims processes to branches and outlying branches is rare munificence and bold effort of officials and limit of authority is still hierarchical in most cases, no matter trivial third party claim is paid instantaneously on demand customers always remember their long experience with the prevailing claims process they have been endured to pass through in processing other claims.

Therefore, questions targeted to uncover how respondents experience the efficiency of approval process of insurers and issuance of the settlement cheque in due course, and response compiled in Table 4.15 below.

Table 4.15: Approval and Payment Process of the Insurer

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		1	2	3	4	5
12.1	There is a predefined processing time for approval and payment.	1	12	21	81	42
12.2.	Always advices the due date of collection of the cheque.	2	10	18	79	48
12.3.	The cheque for the compensation payment is ready on the due date.	2	11	23	81	40
<b>Percent (%)</b>		<b>1.1</b>	<b>7.0</b>	<b>13.2</b>	<b>51.2</b>	<b>27.6</b>

Source: primary data (2016)

As per the data of Table 4.15, about 79% of respondents disagree, in total or not, about the insurers processing time set for approval process or insurers' advice if settlement cheque is due for collection or settlement cheque is issued and handed over to the claimant in time; whereas only about 8% of respondents agree as to the diligence and efficiency of insurers in this regard, with the rest of over 13% being indifferent.

#### **4.2.9. Implication of Lack of Service Standard**

The number of motor insurance customers before the implementation of VIATPR was about 33% of the total vehicle owners at that time. However, after the implementation of this compulsory law theoretically all 100% of vehicle owners are insured. In reality according to IFAA recent report in 2014 about 90% and as per World Bank about 70% are insured at least for the compulsory cover. The increase in number of customers which are brought not by any costly marketing ploy but by sheer compulsory nature of the product is considered in almost most countries as blessing in disguise. Considering the important nature of motor insurance in

developing countries and with the number of vehicles increasing each year at a considerable percentage, this coupled with coming of a number of claimants to claim compensation from insurance companies, due implementation, honesty, commitment to respect others benefit, abiding with the provisions of the law in conducting this social insurance business may have ramification which may affect the fortune of the company in question or the industry at large.

Due implementation, respect for the law, due consideration of other persons rights and economic interests, promptness, transparency of the work, adequate and equitable compensation payment of each insurer positively affects the insurance company by increasing its customer base income and possibly profitability. However, failing to do these, contrarily affects the market share of the insurer and growth of the industry as can be measured by insurance density.

The question posed to respondents were aimed to investigate due positive performance of insurance inducing them to buy out other motor or non-motor insurance products or made a referral of the insurance company concerned to other friends. The respondents answer is tabulated in Table 4.16 here below.

Table 4.16.: Implication of Satisfaction and Trust on Insurance Product and Provider

<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>		1	2	3	4	5
13.1.	Increased your trust and convinced you to buy additional insurance products	12	21	32	52	40
13.2.	Referred the insurance company to other peoples	11	19	43	45	39
	<b>Percent (%)</b>	<b>7.3</b>	<b>12.7</b>	<b>23.9</b>	<b>30.9</b>	<b>25.2</b>

Source: primary data (2016)

As per data of Table 4.16, over 56% of respondents are not satisfied with the standard of service provided and as result haven't bought any other insurance product nor have referred their insurer to others. However, about 20% were satisfied to buy other products and make referral to others to buy insurance products from the insurer concerned. On the other hand about 26% are indifferent to the standard of service and haven't either bought other products nor have made referral to others to buy insurance products.

#### 4.2.10. Drawbacks Encountered by Customers in Claims Handling

Questions have been raised targeted to uncover problems encountered by customers in the claims work process during the implementation of this law.

The first question forwarded to respondents is aimed to investigate whether the customer has been obliged to cover third party compensation claim out of own resources because compensation claim lodged by the third party for bodily injury, death or property damage and emergency medical treatment (EMT) covered by VIATPR policy (policy issued as per limit of liability provided by Proclamation no 799/2013) has been exceeded at any time or for any other reason.

The second question aims at uncovering of declinature of a legitimate third party claim, types and reasons for declinature. The third question raised to respondents on the other hand aims at uncovering if they have changed an insurance company and their respective grounds for such change of insurer.

Accordingly the data collected in this regard has been compiled and presented in the following sections.

#### A) Compensation Payment Covered by Customer in Excess of Liability Limit

Table 4.17. (a).: Compensation Payment Covered by Customer in Excess of Liability Limit

		<b>Yes</b>	<b>No</b>			
14.1	Have you been required to pay to a third party compensation claim in excess of the minimum liability limit provided by VIATPR Proclamation no 799/2013 and paid by your insurer?	42	115			
	<b>Percent (%)</b>	<b>26.8</b>	<b>73.2</b>			
14.2	If so please state the types of third party compensation claim you have covered from your own resources.					
	<b>Death</b>	<b>Bodily Injury</b>	<b>Property Damage</b>	<b>EMT</b>	<b>Medical Expense or Other Claims</b>	<b>No</b>
	4	7	10	5	16	115
%	9.5	16.7	23.8	11.9	38.1	-
%	2.5	4.5	6.4	3.2	10.2	73.2

Source: primary data (2016)

As can be noted from the data of Table 4.17(a), 73.2% of respondents affirmed that the third party claim lodged have been totally absorbed by the insurer within the policy limit; whereas the

rest 26.8% of respondents were required to cover out of their own resources. Respondents who were required to cover excess third party claim compensation amounts over the liability limits of their policy out of their own resources and the type of benefits consist: 9.5% of them covered death, 16.7% of them covered bodily injury, and other 23.8% of them covered property damage, with 11.9% covering EMT cost and the rest 38.1% cover medical expense and or other expenses claimed by insured/claimant.

However, as provided in the Proclamation medical expense benefit is part of either bodily injury or death compensation claim payments and a separate limit has not been stated on the law. It is also completely distinct from EMT expenses. The reason for customers required to pay an excess amount of medical expense payment required further investigation. As a result on enquiry respondents from management team asserted that EMT and medical expense are considered the same and sometimes medical expense claims are only covered by most insurers if the claimant third party at the same time claims compensation for physical bodily injury sustained and attested by a medical board certificate.

## **B) Declinature of Third Party Claim by Insurers**

Table 4.17. (b).: Declinature of Third Party Claim by Insurers

						<b>Yes</b>	<b>No</b>
15.1	Have your insurer ever declined a third party (VIATPR) claim?					26	131
	<b>Percent (%)</b>					<b>16.6</b>	<b>83.4</b>
15.2	If so please state the type of compensation and the reason given for the declinature.						
	<b>Death</b>	<b>Bodily Injury</b>	<b>Property Damage</b>	<b>EMT</b>	<b>Medical Expense or Other Claims</b>	<b>No</b>	
	2	4	4	-	16	131	
%	7.7.	15.4	15.4	-	61.5	-	
%	1.3	2.5	2.5.	-	10.2	83.4	

Source: primary data (2016)

As can be noted from the data of Table 4.17(b), 83.4% of respondents affirmed that the third party claim lodged have been made good by the insurer; whereas in the rest of 16.6% cases respondents claims were declined by insurers. Respondents whom a third party claim has been rejected and the type of benefits consist of: 7.7% were deaths, 15.4% of were bodily injury claims, and other 15.4% of were property damage claims, with no one being declined of EMT cost and the rest 61.5% were medical expense and/or reimbursement claims for other expenses.

Among the main reasons for insurers to decline third party compensation claims by their rank were: invalidity of driving license of drivers for the vehicle in question; late reporting of incident by the insured within 10 days limit as provided by the Proclamation; and loss of income and loss of revenue not considered as part of the claim amount to be included with benefits such as bodily injury or property damage compensation claims, and in some cases where incidents occurring ‘off-road’ and etc. However, declining any third party compensation claim is strictly prohibited, and the insurer in question is required to pay the amount claimed to a third party, as insurer concerned, and is entitled to collect claims outlay from the concerned insurer; as provided by Article 6(1)and (2) of VIATPR Proclamation no 799/2013.

**C) Changing of Insurer**

Table 4.17. (c).: Changing of Insurer

		<b>Yes</b>	<b>No</b>
16.1	Have you changed insurance company since the implementation of VIATPR 799/2013?	41	116
	<b>Percent (%)</b>	<b>26.1</b>	<b>73.9</b>
16.2	If so please state the reason for changing the insurance company.		

Source: primary data (2016)

From the data of Table 4.17(c) about 74% of respondents remained with their insurers whereas 26% respondents left their previous insurer to another company. This means at least 3 out of 10 clients/customers leave their insurer for another. Among main reason for customers to leave their insurer in the order of rank are found to be: convenience, dispute with claim handling and price of package cover in addition to VIATPR premium tariff.

**4.3. Interview Questions Responses From Concerned Parties**

In this section interview questions forwarded to senior operational staff of insurance companies and management members of IFAA and relevant data gathered in this respect is analyzed.

**4.3.1. Senior Operational Staff of Insurance Companies**

For interview purposes ten senior-operational staffs from insurance companies were targeted. Since the insurance practice in the market is almost similar the number of interviewees is considered to be adequate.

The first question that was raised was about the clarity of the Civil Code of Ethiopia 1960 provisions in connection with motor vehicles and machines. With the exception of establishing liable person or persons and identifying the persons entitled for compensation, in which the provisions are clear in these respect, almost all senior operational staff are totally aware of the difficulties involved in deciding the mode of compensation; assessment of damage and determination of the extent of compensation. From most respondents point of view despite lack of clarity and sketchiness of the relevant provisions of civil liability laws the solution is only discussion and negotiation with third party claimants.

Moreover, all are of the opinion that the repealed VIATPR Proclamation no 559/2008 and its amendment no 799/2013 have provisions and terms which are unclear and disputable. Among these are Article 15, Article 16 Article 27, and terms such as road, insured person, third party, family, emergency medical treatment, medical expense, bodily injury, death, property damage, certificate of insurance and insurance policy. The assessment and determination of damage problem found within the provisions of the Civil Code of Ethiopia could have been resolved by introducing properly worded VIATPR law, according to most opinion. Practically all are of opinion that the current VIATPR policy in use (drafted and introduced by EIA) is clear and in line with the provisions of the law. Most also believe that third party liability cover, which is part of comprehensive motor policy, as different from VIATPR cover.

Some companies have set up a separate unit to handle all VIATPR underwriting and claims cases in their organization and others are conducting it as any of their other insurance products by using the existing organizational setups. However, all believe that their claim work process is in line with international standard and as far as possible are working very hard to satisfy every customer or any legitimate claimant. Accordingly there is no problem with the claims handling process either for VIATPR or other claimants. Most do not believe VIATPR business portfolio to have any significant impact on their premium income as it's very small. Rather they fear the possible loss that VIATPR might bring to their account and existence. It is considered by most as a threat rather than an opportunity.

#### **4.3.2. Management Members of IFAA**

From IFAA five management members were approached for interview and all were willing to be the subject of the study. Accordingly similar types of interview questions were forwarded to

management members of IFAA. IFAA is a governmental organization which is authorized to ensure the implementation of VIATR law by Proclamation no 799/2013 and Council of Ministers Regulation no 300/2013.

The IFAA management members' response was different from senior operational staffs of insurance companies. They are aware of the problems found with relevant provisions of the Civil Code of Ethiopia related with vehicles and machines. In order to resolve the problem and curtail the difficulties the Agency has revised VIATPR law and have prepared Underwriting and Claims Policy and Procedure which has market wide application, and destined to protect third party victims interest as provided in the Proclamation. They are also optimistic that on effective implementation of this procedure it would be possible to streamline the underwriting practices and harmonizes the claims process throughout the market. However, without granting regulatory power to IFAA its strict application still requires kind consideration and willingness of insurers.

IFAA believes and have projected the premium reaching one fifth of the total general insurance business and it has implication on the overall fortune or loss of an insurer. According to management members view and documentary presentation IFAA has managed to effect payment of 123 victims of Uninsured and Untraced vehicles accidents with a maximum processing time of six days and at the same time ensuring one hundred percent satisfaction rate of claimants. This achievement was made possible by preparing and issuing a claims policy and procedure in line with the wishes of respective laws and respecting the rights and interests of other persons.

However, management members are aware of the problems in the issuance of VIATPR policy and compensation payment prevailing in the market. Double premium request for the same third party cover without the voluntary request and consent of insured; issuance of unclear and intelligible VIAPR policy cover; assignment of employees with little or no competency to do this work; lack or inability of providing adequate information; delay in handling claims; declination of third party claims; inadequate and unfair compensation payment; and etc are among the problems noted by IFAA management team. Main cause attributable to the irregularities observed is associated with 'interpretation' of various terms used and provisions of VIATPR Proclamation no 799/2013 in the way that fit perception and understanding of insurers. The same misunderstanding and misconception is passed on to operational staff down the line of hierarchy. In order to show the extent of variation in assessment and determination of compensation amount

for damage sustained by third party victims between insurance companies and IFAA resulting from misinterpretation and misconception of VIATPR law the following information was made available by IFAA.

#### 4.3.2.1. VIATPR Compensation Payment by Insurance Companies and IFAA

From the data compiled and presented by IFAA (2016) the compensation assessment and determination difference between the two main parties responsible in VIATPR claims payment have been presented. Insurance companies (seventeen in number) are required to compensate all third party victims that sustained injury or damage as a result of insured motor vehicle accidents in Ethiopia by mere fact of VIATPR policy issued by the same. IFAA on the other hand is required to make compensation to victims that have sustained bodily injury or death by uninsured and untraced vehicle accidents within Ethiopia. The compensation payment made by both for the last four years as compiled by IFAA is attached as Annex 5.

However, the compensation assessment and determination difference is visible noticeable when comparing the average payments made between Insurance companies and IFAA as compiled and presented in the following Table 4.18.

Table 4.18. : Difference In Third Party Compensation Payment (2005 -2008)

#	Type of Benefits	Average compensation per victim (2005-2008)		Average compensation per victim (2008)		Proclamation Limit	
		Insurance Companies	IFAA	Insurance Companies	IFAA	559/2008	799/2013
1	Death	23,481	34,199	21,128	40,000	40,000	40,000
2	Bodily Injury	8,393	16,123	11,201	15,500	15,000	40,000
3	EMT	1,976		2,110		1,000	2,000
4	Medical Expense	6,411	5,998	4,602	7,000	#1 &2	#1 &2
5	Property	8,383	23,418	10,280	23,418	100,000	100,000
NB: Property damage by IFAA is paid on behalf of FDRE Ministry of Defence							

Source : IFAA (2016)

As can be noted from data presented in Table 4.18, a considerable difference is observable on payments made by both parties showing a variance of 32%, 48% and 64% in death, bodily injury and property damage respectively. Though no two victims may in any way be equal and this finding may not serve as conclusive evidence for deliberate mishandling or foul play on the part



of anyone but can indicate to the irregularities prevalent in assessment and determination of third party compensation payments by different parties.

When compensation payments made to third party claimants is compared to limits set by the Proclamations which were in effect at different times (559/2008 as of 11/09/2011 and 799/2013 as of 23/07/2013; the difference in excessive payment than provided by law is unlikely be made inadvertently by insurance companies. It is either an indication of extension of covers than limits set for this purpose or further evidences the disparity in perception or interpretation of terms including benefits included in VIATPR Proclamation no 799/2013.

### **4.3.3. Discussions on Findings**

Based on the analysis and interpretation made above further discussions on each issue is presented here below.

#### **4.3.3.1. Lack of Clarity and Sketchiness of Respective Laws**

Ethiopian insurance and civil liability law related specially with vehicles are less sympathetic to customers and third party claimants. All the brunt of restrictions, duties and responsibilities rests mostly on the insured and claimants. The laws are more favorable to the insurer. Moreover with regard to assessment and determination of compensations to victims of vehicle accidents, provisions of these laws lack clarity and details and only provide general provisions. In addition to the clarity problem on the main civil liability law the presence of ambiguous provisions requiring explicit description and or definition in VIATPR law, inherited from the primary laws, such as Civil and Commercial Code of Ethiopia, is another challenge to ensure adequate and equitable compensation to victims of accidents.

Despite of all efforts lack of adequate and harmonized preparation and lack of transparency in the overall implementation and progress of this social insurance is still clearly visible from respondents answer. VIATPR Proclamation 559/2008 or 799/2013 are vague in identifying the supervisory and / or regulatory body in the implementation of the law; besides ensuring solvency of insurance companies has to ensure that the public is protected and adequate compensations are made available to victims as per the wishes of this law which has a form of social insurance. Lack of attaching clearly this dual responsibility on any authority in particular has created a legal

crack deterring imposition of strict compliance measures by installing effective and efficient system in the implementation process and protection of victim's rights.

#### **4.3.3.2. Market Practice and the Underwriting Work Process**

The underwriting works in insurance is the starting place of almost all problems at the time of claim. That is why it is commonly said that there are no bad claims but bad underwriting. It is common to find a properly worded and refined policy and procedure manual in almost all insurance companies. Disclosure of information about the product or insurance policy, creating awareness on the rights and duties of insured at the time of accidents, timely renewal advice, and service standard to be expected and etc., is not imposed compulsorily on the insurer. The main reason for this is lack of having legal provision that will dictate insurers to disclose clear, accurate and complete information about insurance product offered to the public. From documents investigated all these items are properly defined and stated on most operations manuals. But having the will to implement and properly maintain it at all times is the one that matters.

Creation of awareness about product policy and underwriting standard is a luxury rather than a right for most clients and rare practice by insurers. The insurance policy made available for the public is not clear and also said to somehow not in line with provisions of VIATPR 79/2013. Therefore, unclear policy of insurance as regards to benefits and limitations also created problem at the time of compensation assessment and determination.

The limitation of knowledge of customers to the legal and technical aspect of insurance business makes them difficult to deal with at the time of the claim. Insurance transactions are carried out between layman and professional in insurance matters. In carrying out this task the insurance professional must take in to consideration the limited knowledge of the customer in technical and legal matters of insurance and must make the habit of explaining the terms and conditions of the product he is selling. It is equally important to aware customers at inception the necessary documents he is required to produce to substantiate his claim and also his obligation.

Accordingly respondents have made their verdict in connection with the market practice in this regard. At present some improvements are is noted on insurers' performance, if we compare post with pre implementation of VIATPR law in this regard. However, 68% disagreement, total or

otherwise, of respondents' response suggest that the market is still lagging far behind what customers regard as a minimum or threshold service they expect from their insurer.

#### 4.3.3.3. Market Practice and the Claims Work Process

Each of the insurance activities specially all the claims work process relevant to motor third party liability claims have individually been discussed based on data obtained from respondents. The summary of data collected from respondents only on major activities of the claims work process is compiled and presented in Table 4.19, here below.

Table 4.19 : Summary of Customers Response on Main Activities of the Claims Work Process

Table	Insurance Service	Totally or Agree	Neither	Totally or Disagree	Rank
Table 4.7	Promptitude and Responsiveness of Insurers	12.5	11.1	76.4	2
	Property damage _ Transparency and Assignment / Equity, Adequacy, Equitability and Credibility of				
Table 4.8	<i>Assessor of Loss</i>	13.9	10.7	75.4	4
Table 4.9	<i>Bidding garages</i>	21.3	16.7	62	7
Table 4.10	<i>Tender / Bid Process</i>	12.1	12.1	75.8	3
Table 4.11	Bodily Injury and Death compensation assessment and determination	25.7	15	59.3	8
Table 4.12	Negotiability of the Claims Handler / Insurer	16.2	15.9	67.9	5
Table 4.14	Claims Handler Competency	27.4	8.3	64.3	6
Table 4.15	Approval and Payment Process of the Insurer	8.1	13.2	78.7	1
	<b>Percent (%)</b>	<b>17.2</b>	<b>12.9</b>	<b>70.0</b>	

Source: primary data (2016)

As can be noted from data presented in Table 4.19, of respondents problematic processes in the insurance service delivery system, especially in claims work process, are: approval and payment process; promptitude and responsiveness on notification of accident; tender / bid process; selection or assignment of assessor of loss or damage and equitability and credibility of assessment of damage by the same; offer and negotiation; claims handler competency; transparency of bidding process; transparency, equitability and credibility of repair estimate provided by bidding garages; assessment and determination of bodily injury and death compensation claims by insurers. In general respondents verdict reveal that 70% of the time disagree to lack of service standard, processing time, transparency and fairness of the whole

process, timeliness, adequacy and equitableness of the compensation payment offered and paid by way of settlement.

In addition to these work processes in the insurance service delivery system there are other main items also affecting the claims process. Among these are customer service; complaint handling system and clarity of the law. The order of rank shown in Table 4.19 above doesn't be an evidence for the gravity of each on the work process; but show the opinion of respondents how they view each activity from the stand point of their experience. It has to be noted that public transport owners and their respective "Associations" have a long track of experience in insurance as it was made obligatory to insure such vehicles and passengers in order to ply the same for operation long before the implementation of VIATPR Proclamation 799/2013 or its predecessor.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS**

This chapter presents summary of major findings, conclusions and recommendations derived from the analysis, discussion and interpretations of the data collected through questionnaires, interview and documents on VIATPR performance, policy and procedure and related from the concerned parties, IFAA and insurance companies.

#### **5.1. Summary of Major Findings**

Based on the analysis and interpretation made in the previous chapter the major findings of the research are summarized here below.

##### **5.1.1. Pre-enactment Assessment and Preparations of Prevailing Insurance Practice**

From the review of literature and interview findings pre-enactment or pre-implementation of MTPL law on prevailing insurance and corresponding legal practice by the drafters appears to inadequate. The insurance practices and legal principles surrounding enactment and implementation of MTPL insurance (VIATPR) slowing achievement of its objective is the first item this study identified. As identified from facts on the ground insurance business in Ethiopia is still very backward and underdeveloped. As a result underwriting and claims core work processes and practices adopted are archaic and still similar to pre 1974 era; making them disagreeable to most contemporary customers and claimants.

Most of all the insurance practice is based on the UK common law, whereas Ethiopian civil liability law is based on French Civil Code. On the other hand the law governing contracts has hallmarks of UK contract law. The fundamental principles of insurance contract are provided by the Commercial Code of Ethiopia for risks on land, river and air. Being the first compulsory insurance law designed to alleviate economic and social problems arising from motor vehicle accidents in Ethiopia, the drafter of MTPL law haven't anticipated the problems and attempted to align as well as streamline various often conflicting laws to ensure smooth implementation and operation of the same.

### **5.1.2. Clarity and Sketchiness of Respective Laws**

Secondly the study have brought in to light lack of clarity of main provisions of civil liability and other related laws negatively affecting sound implementation of MTPL (VIATPR) law, corresponding claims handling practice and compensation amount of third party claims.

Among other limitations the relevant provisions of Ethiopian Civil Code related to motor vehicles, the Commercial Code of Ethiopia related with insurance laws and carriers of passengers and VIATPR Proclamation 799/2013 do not provide clear and detailed guideline on how to assess damage and determine compensation. Besides being unclear and very sketchy are portrayed to be favorable to insurers and unfavorable to insured person. It imposes duties and responsibility on the insured person and lacks to place reciprocal duty on the insurer.

### **5.1.3. MTPL Insurance Policy and its Clarity and Alignment with Relevant Laws**

The third item which this study has identified is incomprehensibleness and defectiveness of presently used MTPL insurance policy. The MTPL insurance policy introduced by AEI is found to be grossly worded and in line with the drafter's perception and understanding of the various provisions of MTPL (VIATPR) law. Accordingly, the policy terms and conditions of this policy appear to misalign from cardinal provisions of MTPL (VIATPR) law which are introduced by the legislator to guarantee interests and rights of victims of motor vehicle accident. The study result suggests that MTPL policy currently in use by insurers is not aligned with the law and is incomprehensibly unclear to majority of insured persons.

### **5.1.4. The Insurance Delivery System and Associated Problems**

The fourth item this study has attended is identification of problems found within the insurance delivery system negatively affecting compensation and achievement of the objectives of the law. Underwriting and claims settlement are the two most important aspect of the functioning of an insurance company which were found to be problematic.

#### **5.1.4.1. Underwriting Process and Related Problems**

The findings suggest that the current underwriting process is only concerned in the selling of policies and not in delivering solutions to customers' problems by providing comprehensible and appropriate product at commensurate premium. It is not designed and placed to compulsorily

provide accurate and complete information about policy terms, service standard and etc at the time of contract to the insured.

#### **5.1.4.2. Claims Process and Related Problems**

The findings of this study suggest that the insurance companies have hitherto been handling claim rather than managing them. Accordingly the claims handling process found to be unfriendly to customers, lacks transparency and fairness, also lacks service standard and defined processing time, delivers unfair and inequitable compensations and etc. The study finding has specifically identified problems of the claims work process, among which are: delay and unresponsiveness of insurer on notification of accident; lack of transparency of selection or assignment of assessor of loss and equitability of assessment of damage and credibility of assessment made by the same; transparency of tender / bid process; transparency of bidding process; transparency, equitability and credibility of repair estimate provided by bidding garages; assessment and determination of bodily injury and death compensation claims by insurers; lack of competent claims handlers; lack or inadequate authority of claims handlers to offer and negotiate on the insurer behalf; procrastination and uncontrolled delay in compensation and approval and payment process.

The findings suggest that claims decisions are made at will without any consequence even though the decision harms the right and interest of other peoples; such as unfair declination of claims or made at will; and / or insufficient transparency leading to costly and lengthy litigation process. Moreover, ineffective organization of the claims department with defective organization of insurance claims settlement process and procedure is found to be another challenge deterring achievement of objectives of VIATPR law. As a result the claims process is found to be ineffective, incomplete and outdated to serve such type of insurance designed to provide some form of social protection.

The comments and remarks made from the survey participants indicate that there is delay in the overall claim process even by their own standards. From the gatherings of respondents' questions this delay as a result of most of the claims activities. The claims handler inability to follow the particular claim when it is processed through hierarchy of the claims approving bodies and internal and external bodies such as professional loss assessors and surveyors whose expertise may be required as an input in handling of the claims lodged with the company; thereby delay in

receiving documents and reports, particularly post risk survey reports and bid; is critical problem in the claims handling process.

#### **5.1.4.3. Competency of Service Provider and Standard Training**

Lack of proper **competency** and experience on the part of the claims handler, is a critical problem in insurance business especially in third party liability motor claims handling. Adequate knowledge on the legal aspects of insurance and especially civil liability is a fundamental requirement for claims officers to effectively handle such delicate cases. The skill component in insurance is acquired through years of experience and outflow of trained staff from insurance companies is another challenge hindering provision of efficient service which is most often raised by senior management members of every company.

Training seems to lack standard; it is more of title and structure of the training that makes it appealing and necessary for officers, senior or other staff members; whereas it is the standard and content that fits the employee for the job in question that should matter.

Another problem often noticeable is also the attitude component of competency, such as belief, ethics, moral, etc., which have a great bearing on behavior. The presence of unfriendly and unsympathetic approach, confrontational or take it or live it approach rather than solving the difference amicably is also the issue respondents addressed.

#### **5.1.5. Supervision and Complaint Management**

The fifth item this study identified is absence of proper law protecting interests and rights of insurance customers and claimants'. Confrontational approach is generally a favored root in handling of insurance cases; paving the way for most claims to end up in courts for litigation. According to study findings the approach in claims handling most often avoids use of ADR leaves the customers with the option of litigation, which takes time and money.

Insufficient internal control; lack of adequate supervision and control on implementing insurance companies by governing bodies of insurance due to existing legal crack between two laws (i.e., insurance and VITPR); inadequate supervision and control over external entities providing services to insurance companies such as loss assessors and surveyors and garages are also findings of this study.



Nonexistence of adequate legal protection to insurance product consumers or lack of independent referee to handle complaint and redress grievances in timely manner deterring claimants to demand their rights is another finding of his study.

#### **5.1.6. Customers Confidence and Trust on the Product and Insurer**

Finally the study unrevealed customers observation about the implemented law and prevailing insurance practice. According to customers observation implementing MTPL insurance law in Ethiopia has benefited not only third party victims but also vehicle owners. However, in light of preexisting and inherent problems of the insurance practice in which this law is designed to be delivered and benefits are processed, majority of customers are found to be disfranchised of the protection this law purports to provide. As a result customers are found to be more reluctant to buy other insurance product or to refer their insurer to other persons.

### **5.2. Conclusion**

The following conclusions are drawn based on the analysis and interpretation of the findings:

Primarily the analysis and finding has enabled the researcher to conclude that the insurance business in Ethiopia, including the underwriting and claims core work processes and practices adopted are very backward and underdeveloped to handle compulsory insurance with objective of providing some form of social protection. In addition to the revision of this law within two years of implementation and other evidences suggest us to conclude sufficient assessment and preparation haven't been conducted to align and streamline various often conflicting insurance and related laws to ensure smooth implementation and operation of the same.

Secondly it is possible to conclude that main provisions of civil liability and other related laws don't provide detailed guideline but only general principles in assessment and compensation of damage sustained by third party victims.

Thirdly the study result enables us to conclude that MTPL policy currently used is not aligned with provisions of respective laws and is incomprehensibly unclear to majority of insured persons.

The fourth item this study has attended is identification of problems found within the insurance delivery system negatively affecting compensation and achievement of the objectives of the law. The findings tends us to conclude that the prevailing underwriting and claims core work

processes are not designed and organized to serve effectively and efficiently the compulsory insurance intended to provide protection to social problem arising from motor vehicle accidents.

As per the findings of this study the claims process is organized and directed only to protect insurers' interest. The revelation of findings allows as concluding that the claims process lacks transparency and fairness, also lacks service standard and defined processing time.

The fifth item this study identified is absence of proper law protecting interests and rights of insurance customers and claimants'. Therefore as per this finding we can conclude that there is no customer protection law; ADR is not commonly used by insurers, and there isn't independent body to handle complaints and grievances of customers.

Finally the study findings unrevealed that customers neither relay upon an insurance product nor trust the service provider. In light of preexisting and inherent problems of the insurance practice in which this law is designed to be delivered and benefits are processed, we can reasonably conclude that great majority of customers have been disfranchised of the protection it purports to provide. As a result are reluctant to buy insurance product to other property or to refer their insurer to other persons.

Therefore, for an insurance product which the public consider as part of domestic consumption because of the compulsorily nature and social problem it attempts to resolve concerted effort is required to get public trust and confidence by resolving the cited problems.

### **5.3. Recommendations**

In light of the above conclusions the following recommendations are forwarded: -

#### **5.3.1. Resolve overdue problems Existing on the Insurance and Legal Practice**

Consolidating all insurance laws under one book of law by convincing the legislature seems a viable and workable option for a long term and to all insurance services. The insurance practice shall be laid to be founded on Ethiopian law and jurisdiction only.

#### **5.3.2. Lack of Clarity of Relevant Provisions of Civil Liability Laws**

##### **5.3.2.1. Enactment of Detailed Legal Framework**

Clarity of respective provisions of relevant laws shall be made detailed avoiding creeping in any of personal judgment and opinion. The provisions describing the benefits available to the victim

have to be explicitly stated. It is also necessary to make amendments on the provisions of VIATPR Proclamation 799/2013.

### **5.3.2.2. Introduction of Optional Structured compensation Settlement**

A two-tier compensation settlement shall be introduced. The first tier is to guaranty known compensation settlement to victims within a defined short period of time.

The structure of compensation to be framed based on capital per income and age of victim or claimant, and to be reviewed annually or as would be prescribed by legal professionals or other relevant government authority. Whereas the second tier only applies if the claimant opts to follow the ordinary route of establishing damage and even when necessary to take the matter to appropriate court of law.

### **5.3.3. MTPL Insurance Policy**

Introduce a guideline that ensures that insurance products sold by insurance companies are suitable to consumers, fairly priced and function as intended. It shall also offer guidance on principles to be adhered to in product design, pricing, marketing, disclosures and how applications for issuance of new and repackaged insurance products should be made to the ISD for other products and IFAA for MTPL insurance product.

### **5.3.4. Overhauling Insurance Delivery System**

#### **5.3.4.1. Introduction of Directive on Minimum Standard of Service and Processing Time**

Each and every activity in insurance service delivery system shall be identified and a minimum standard be set accordingly together with an indicative of minimum processing time and a duty on insurer to disclose all information at every stage of the process. Setting of minimum service standard and processing time shall be a requirement rather than an option. This approach ensure market standard that will install confidence and satisfaction. Customers and claimants shall also be provided with correct information about their rights and duties and the law is there to protect it; and shall also know the threshold service they should expect from the insurer.

#### **5.3.4.2. Introduction of Underwriting Guideline**

The underwriting guideline to be issued ensures harmonized practices in this regard besides the obligation it imposes on the insurer to design and introduce a system with primary objective of educating and satisfying customers.

### **5.3.4.3. Introduction of Claims Management Guideline**

The current reactive approach to claims by insurers because of the ineffective claims handling procedure shall be replaced by proactive claims management guideline with nationwide application and with legal consequences for deviations than provided. The current approach of claims handling shall be replaced by a claims management and must be entrusted of its implementation to only on the Board of Directors of Insurance companies and not on executives. Other items to be included in the claims guideline are the following:

#### **A. Transparency of Claim Settlement Process.**

The need to make a case management in front of the client transpires the transparency of claims handling procedure. Unless the information contained in the document is an internal one (internal memo) or sensitive issue or case under investigation the insurer must make the habit of being transparent at all stages of claim process and show documents whenever requested by concerned.

#### **B. Introduce Proactive Claims investigation**

The older style approach which takes tough instances in investigating or defending claims or refusing to deal with claims shall be replaced by the new and modern proactive approach by avoiding procrastination in order to achieve best results in the claims handling process.

#### **C. Restrict Rejection of Claims**

An insurer must disallowed rejection of claims unnecessarily, such as late reporting, grounds of suspected misrepresentation and concealment and etc. An insurer should only be allowed to decline claim on sufficient grounds and in writing with sufficient grounds for rejection and copy to IFAA and NBE. Declinature shall only be made with consent and approval of the CEO.

### **5.3.5. Customer Service and Protection**

#### **5.3.5.1. Compulsory Introduction of Effective Customer Service Desk**

Clients and claimants must follow the progress of claim even without coming to the office of the insurer. Permanently assigned and deputed customer desk to handle customer's requests and etc., must be installed at all insurance companies. Online service to customers shall not be ruled out from the compulsory lists in this regard.

### **5.3.5.2. Alternative Dispute Resolution and Case Management**

There is complete lack of clear guideline and proper training in dispute resolutions and transparency of the claim settlement process. Dispute resolution is not an easy task. Besides requiring personal qualities to handle disagreement with customers, especially at the time of claims negotiation it is fundamental to give a touch of the principles and practices of dispute resolution to the claims personal in the form of training. It is equally important to include the underlying principles in the claims policy and procedure manual.

### **5.3.5.3. Introduction of Independent Referee or Ombudsman**

The compliance of the service standard, offer of fair and equitable settlement, timely settlement and etc can be assured of their compliance if an independent referee or ombudsman for insurance or if possible for financial services is installed. Supervision and regulation is directed to ensure stability of insurance company and thereby protecting the general and insuring public who has insured his interest with the companies. There shall also be a customer protection act and ombudsman to ensure and guaranty consumers of insurance and other financial products.

### **5.3.6. Build Customers Confidence and Trust on the Product and Insurer**

Ensure strict adherence to the standard of service and product which an insurer provides to the insuring public. Create forums and other engagements in which insurer's can show their true desire is to provide dependable service and product in order to resolve individual and social problems of society. Voluntary introduction of peer review between insurance companies every year and awarding the best performer will ignite the competitive atmosphere and delivery of best service to customers; which can help as ground for building relationships and trust.

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# St Mary University

## School of Graduates Study

### This Questionnaire is to be filled by Customers / Claimants of VIATPR Cover

#### Dear Respondents

It is with due respect and gratitude that I extend my appreciation and thanks for your kindness in filling out this questionnaire.

The purpose of this questionnaire is to collect primary data on “Practices and Challenges in Implementing Compulsory Motor Third Party Liability Insurance (MTPL / VIATPR) in Ethiopia” with special reference to the relevant liability laws of Ethiopia and Claims handling procedure and practices in the market; for partial fulfillment of the requirements for the award of Masters of Business Administration (MBA) Degree.

#### General Instructions:

- Any information provided with care and honesty by you will be given the highest recognition, value and shall be kept strictly confidential.
- Please do not write your name or sign anywhere in the questionnaire.

**However, while completing this questionnaire if you have any queries or doubt please contact me at the following:**

**Teferi Gashewbeza : email address :- [teferigashewbeza@gmail.com](mailto:teferigashewbeza@gmail.com) ;  
mobile no: - 0911-219967**

#### PART I: Back Ground / Personal Information of Respondents

1. Gender    A. Male        B. Female
2. Age        A. 21-25        B. 26-35        C. 36-45        D. above 45 Years
3. Level of Education  
A. certificate     B. Diploma     C. 1<sup>st</sup> Degree.     D. 2<sup>nd</sup> Degree and above
4. Your Position in the Organisation: -  
A. Board Member     B. Management     C. Owner     D. Driver
5. Work Experience in the field  
A. 1-5        B. 6- 10        C. 11-15        D. 16 and above

**Your cooperation in filling this questionnaire is highly appreciated**

## PART II: - General Questions

<b>1</b>	Your <b>experience</b> on the service of the insurer <b>before the implementation</b> of VIATPR Proclamation no 559/2008 on September 11, 2011					
	<b>Please mark (✓) the one that fits the best</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>					
<b>1.1.</b>	The underwriting staffs provide adequate and clear information about the terms and conditions of the policy and service standard.					
<b>1.2.</b>	The claims work process is executed in a transparent manner with in processing time or/and as per service standard.					

<b>2</b>	Clarity / awareness of the <b>main provisions</b> of Ethiopian <b>liability</b> laws in relation to <b>motor vehicles</b> .					
	<b>Please mark (✓) the one that fits the best</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	<i>(1) Very Clear (2) Clear (3) Moderate (4) Unclear (5) Very Unclear</i>					
<b>2.1.</b>	Is it clear / are you aware of the <b>civil liability arising from motor vehicles as provided in the Civil Code in connection to the ff.</b>					
<b>a.</b>	Liability attaches without committing any fault.					
<b>b.</b>	Provides unlimited liability limit.					
<b>2.2.</b>	VIATPR Proclamation no 799/2013 covers only part of the unlimited liability limit imposed by the Code.					
<b>2.3.</b>	Compensation payment to vehicle accident victim shall only be determined as per the Code.					

**PART III: - Specific Questions**

<b>3</b>	<b>Your insurance service experience after implementing VIATPR law</b>					
	<b>Please mark (✓) the one that fits the best</b>					
	<i>(1) Fully agree (2) Agree (3) Neither Agree nor Disagree (4) Disagree (5) Totally Disagree</i>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>3.1.</b>	<b>Underwriting service after implementing VIATPR law.</b>					
<b>3.1.1</b>	VIATPR policy is prepared in plane languages and as provided in the Proclamation.					
<b>3.1.2</b>	Provide clear and adequate explanation about terms and conditions, service standard and obligations of insured.					
<b>3.1.3</b>	Provides renewal advice before expiry of policy					

<b>3.2.</b>	<b>Claims work process.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>3.2.1</b>	<b>Promptitude and Responsiveness</b>					
<b>a)</b>	On notification insurers make prompt investigation and provide assistance to the insured.					
<b>b)</b>	Provides clear claim information, obligations of claimants and timely response					
<b>3.2.2</b>	<b>Property damage assessment and determination</b>					
<b>3.2.2.1</b>	<b>Loss assessor</b>					
<b>a)</b>	Assignment of loss assessor is standard, transparent and fair.					
<b>b)</b>	The assessor provides unbiased and impartial assessment.					
<b>c)</b>	Issues post risk survey report within the allotted timeframe					
<b>d)</b>	Copy of loss assessment reports are provided to customers					
<b>3.2.2.2</b>	<b>Bidding garages</b>					
<b>a)</b>	Selection of garages on the insurer's part is transparent.					
<b>b)</b>	Bidder garages provide their bid within defined timeframe.					
<b>c)</b>	Bidder garages provide impartial, adequate or equitable repair estimate					
<b>d)</b>	Garages have equal or comparable workmanship and organization					
<b>3.2.2.3</b>	<b>Tender opening process</b>					
<b>a)</b>	Is transparent and involves the claimant					
<b>b)</b>	The least bid price ensures equity of compensation.					

<b>3.3.</b>	<b>Bodily Injury and Death compensation assessment and determination</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>a)</b>	Required documents are easily obtainable					
<b>b)</b>	Is transparent and done with participation of claimant					
<b>c)</b>	Is fair and equitable or equivalent to the damage sustained					
<b>d)</b>	Conducted within standard timeframe					
<b>3.4.</b>	Negotiation					
<b>a)</b>	Always advises the offer on the amount of compensation in writing					
<b>b)</b>	Is always open for negotiation to arrive at amicable settlement					

<b>4</b>	Has functional customers service and complaint management					
<b>5</b>	<b>Claims officers</b> exhibits standard Knowledge skill and attitude					
<b>6</b>	Approval and Payment Process					
<b>a)</b>	There is a predefined processing time for approval and payment					
<b>b)</b>	Always advises the due date of collection of the cheque					
<b>c)</b>	The cheque for the compensation payment is ready on the due date					
<b>7</b>	The satisfaction gained from service standard of your insurer:					
<b>a).</b>	Increased your trust and convinced you to buy additional insurance products					
<b>b).</b>	Referred the insurance company to other peoples					

<b>8. Drawbacks Encountered During VIATPR claims handling</b>
<b>8.1.</b> Have you been required to pay in excess of the minimum liability limit to a third party? If so please state the type of compensation.
<b>8.2.</b> Have your insurer ever declined a third party (VIATPR) claim? If so please state the type of compensation and the reason given for the declination.
<b>8.3.</b> Have you changed insurance company since the implementation of VIATPR 799/2013?
<b>8.4.</b> Any other limitation noted on the claims handling service

<b>9.</b> Do you have any recommendation on the provisions of VIATPR Proclamation no 799/2013 or Regulation no 300/2013 or any insurance or related law
<b>10.</b> Any suggestion?

**I personally thank you for your humbleness and kind cooperation**

# ቅደስት ሚያም ዩኒቨርሲቲ የደህረ ምረቃ ትምህርት ክፍል

## ለተከበሩ የዚህ ማዘቅ ተሳታፊ

የዚህ የኢንተርሼዩ መረጃ ዓላማ በተግባር ላይ ያለውን “የተሸከርካሪ አደጋ የሶስተኛ ወገን ሚን አዋጅ ቁጥር 799/2006 ለማስፈጸም የገጠሙ ማከናወኛ እና የተለምዶ አሰሪዎች” በተለይም በተገኝዎት የጉዳት ካሳ አተሞችና የሚኒስቴር ኮሚሽን የካሳ ስራ አፈጻጸም ላይ ‘**የቅደስት ሚያም ዩኒቨርሲቲ የደህረ ምረቃ ሚህ ግብር ለማስጠው የቢዝነስ አድሚኒስትሬሽን የማስተርስ ዲግሪ የሚከተሉት መዘዎች ለማግኘት**’ የሚሳተፉ ጥናት ነው። ጥናቱም የሚከናወነው እርሶና ሌሎች ጉዳዩ የሚጠይቁት ደንቦችና የሚኒስቴር ስራ ተጠቃሚዎች በነፃነትና ግልጽ አድርገው በሚከተሉት አስተያየትና ተያያዥነት ያላቸውን ሚሳሪዎች በመግለጫ ነው።

## አጠቃላይ ማሳሰቢያ

- ✓ እርሶ የሚከተሉት አስተያየት በጥናቱ ውስጥ ከፍተኛ ቦታ የሚከተሉ እና ውሳኔ ነው ማስጠቀሚያም የተጠበቀ ይሆናል፤
- ✓ ስጥፍንም ሆነ አደራሽንም ማግለጽ አያስፈልገውም፤

## በዚህ ማዘቅ ላይም ይህን በተያያዙ ጉዳዮች ላይ ማህረሪያ ካስፈለግዎት፤

- ✓ በመገኛውም የሚጠየቁት ማስተላለፊያ ማገደች ጥሪ ቢያቀርቡ፤ በግምገማር በማኘት፤ በተጨማሪ በግጥም ቁጥር 0911-219967 በሚከተለው ጥያቄዎችን ቢያቀርቡ፤ ወይም
- ✓ በኢሜል [teferigashewbeza@gmail.com](mailto:teferigashewbeza@gmail.com) ማዕከላዊ በልኩ አስፈላጊውን ማህረሪያ ለማስጠቀም የሚችሉ ማህረሪያውን በአክብሮት እንገልጻለሁ፤
- ✓ **ተፈሪ ጋሻወዳዝ**

**ለሚደረጉት ማከናወኛ ቀና ትብብር በቅድሚያ ማስገናኘትን እናቀርባለን፡፡**

## ተሸከርካሪ እና የኃላፊነት ሕግ

- 1) ከተሸከርካሪ ጋር ተያይዞ የሚከተሉት ሕግ ኃላፊነት፤
- 2) የኃላፊነት ማከናወኛ፤
- 3) የጉዳት አይነት፤ አተሞች እና ማከናወኛ፤
- 4) ካሳ የሚከፈለቸው ሰዎችን ማለፍ፤
- 5) በግጥም ላይ የካሳ ጥያቄ ላይ ከላይ የተጠቀሱትን ሁኔታዎች እንዴት ተወጥዷል፤
- 6) የሕግ ደንጋጌዎች ለተገኝዎት ሳይሆን ለሚኒስቴር ሰጪዎች ያደላል ይባላል፤ እርሶ እንዴት ያደላል?

## የተሸከርካሪ አደጋ የሶስተኛ ወገን ሚን አዋጅ ቁጥር 799/2005

- 1) የተሸከርካሪ አደጋ የሶስተኛ ወገን ሚን አዋጅ ቁጥር 799/2005 ግልጽ እና ያለውን ነባር ሕግ ደንጋጌዎች ላይ ተጠቃሚ በጥንቃቄ የተሰራ ነው?

- 2) አከራካሪ እና ያለመግባባት ያመጡ ቃላቶች እና አንቀጾች ካሉ ቢገልጹልኝ፤ በሶስተኛ ወገን ተጎጂ የካሳ ክፍያ ላይ የሚመጡ ችግር አለ? ይህን ሁኔታ ለመቀነስ የተደረገ ጥናት ወይም ለሚሞ የተደረገ ማራከር ካለ?
- 3) በአዋጅ አተገባበር ሂደት ላይ ድርጅቱ ያስመዘገበው ወጭ እና የገጠሞች ችግር ካለ ቢገልጹልኝ፤
- 4) በአዋጅ የተደነገገው የኃላፊነት ማጠናከር ከአለው የኑሮ ደረጃ እድገት ጋር ተመዝኖ ነው ብለው ያገኛሉ? በቂ ካልሆነ እንዴት እና በማን ይስተካከል ይላሉ?
- 5)

**አጠቃላይ ጥያቄዎች**

- 1) የኤጀንሲው ካሳ የሚገኝ ተግባር ለመጠናከር የተደረገው ዝግጅት እና የተገኘው ወጭ ምን ይመስላል? የሚኖሩ ከገንዘብ የካሳ ስራ ተግባር እንድት ወጥ ለሚደረግ የተደረገ ጥረት ካለ ቢገልጹልኝ፤
- 2) በአሁኑ ወቅት ለተጠቃሚው እየተሰጠ ያለው የተሸከርካሪ አደጋ የሶስተኛ ወገን ሚና ወል ግልጽ እና በሀገሪቱ በሌሎች ደንጋጌዎች ማረት በጥንቃቄ የተዘገጁ ናቸው ብለው ያገኛሉ? ማን ወሳኝ ጋጅና ተግባራዊ ሚና ያለበት?
- 3) በሚኖሩ ኢንዱስትሪው ውስጥ በተግባር ላይ ያለ አንድ ወጥ አሰራርን ለመስፈን የሚስችል እና የሚኖሩ ተጠቃሚዎችን ማጠናከር የሚስችል የሚኖሩ ወል ስራ አፈጻጸም መሆኑ አለ ብለው ያገኛሉ? ከሌላ ለምን እንዲሁም ወይሬት ምን ለሚደረግ ታስቧል?
- 4) የሚኖሩ ከገንዘብ የካሳ አፈጻጸም በህግ ማረት ነው ይላሉ?
- 5) የአካል ጉዳት፣ የጥፋት፣ የንብረት ካሳ አከፋፈል በአግባቡ ነው ብለው ያገኛሉ?
- 6) በተመሳሳይ ሁኔታ በሚኖሩ ኢንዱስትሪው ውስጥ በተግባር ላይ ያለ አንድ ወጥ አሰራርን ለመስፈን የሚስችል እና የሚኖሩ ተጠቃሚዎችን እና የተጎጂ ካሳ ጠቅላይ ማጠናከር የሚስችል የሚኖሩ ካሳ ስራ አፈጻጸም መሆኑ አለ ብለው ያገኛሉ? ከሌላ ለምን? እንዲሁም ወይሬት ምን ለሚደረግ ታስቧል?
- 7) አዋጁን በአግባቡ ተግባራዊ ለሚደረግ የአገልግሎት ደረጃ እና ብቃት ማገገሚያ እና ተግባራዊ ሚና ያስፈልጋል ይላሉ? በማን ማገገሚያ አለበት?
- 8) የተጎጂዎችን ቅሬታ ለመጠናከር የሚችል በተግባር ሥራ ላይ ያለ የቅሬታ ሰሚአካል አለ? ከሌላ ለምን? ወይሬት ምን ለሚደረግ ታስቧል?
- 9) በአዋጁ ደንጋጌ ማረት እየተሰጠ ያለው የሚጠበሰበሰ ሚና ባህሪ ያለው የተሸከርካሪ አደጋ የሶስተኛ ወገን ሚና ለህብረተሰቡ የሚጠበቅ ሥራ ላይ የተሰማሩት የሚኖሩ ሰራተኞች ሊኖራቸው የሚገባው የሚጠቃ ብቃት ደረጃ እና የስልጠና ደረጃ ምን ማጠናከር አለበት ብለው ያገኛሉ?
- 10) በአዋጁ ደንጋጌ ማረት እየተሰጠ ያለው የሚጠበሰበሰ ሚና ባህሪ ያለው የተሸከርካሪ አደጋ የሶስተኛ ወገን ሚና አሰጣጥ ላይ በሚጠበቅ ግድገድ እና ስህተት የሚኖሩ ከገንዘብ የወይሬት የገበያ ድርሻ እና እድገት ላይ የሚስተካከሉ ወጭ አለ ብለው ያገኛሉ? ካለ ቢገልጹልኝ፤
- 11) በካሳ ክፍያ ወቅት የሚጠበቅበትና ብክነትን እንዳይከሰት ለመቀነስ ለሚጠበቅ የተደረገ ምን ተጠቃሚዎች አለ?
- 12) የተሸከርካሪ አደጋ የሶስተኛ ወገን ሚና ስራ በቅርቡ ይህን ወይሬት በሚኖሩ ከገንዘብ የካሳ ስራ ሊያስከትል ይችላል ብለው ያገኛሉ?



# St Mary University

## School of Graduates Study

### Interview Guide to Senior Insurance Professionals

**Dear Respondents,**

It is with due respect and gratitude that I extend my sincere appreciation and thanks for your kindness in giving me your valuable time from your overstretched work schedule by providing a qualified view to questions contained herein.

The purpose of this interview guideline is to collect primary data on “Practices and Challenges in Implementing Compulsory Motor Third Party Liability Insurance (MTPL) in Ethiopia” with special reference to the relevant liability laws of Ethiopia and Claims handling procedure and practices in the market; for partial fulfillment of the requirements for the award of Masters of Business Administration (MBA) Degree.

#### **General Instructions:**

- Any information provided is strictly confidential and only be used for academic purposes.
- Yours or your esteemed office name will not be mentioned in any form.
- The researcher guarantees protection of any information you might share for the success of this study.

**However, if you have any queries or doubt, while reading the questions contained herein, please contact me at the following:**

- ✓ **Teferi Gashewbeza**
- ✓ **Email address :- [teferigashewbeza@gmail.com](mailto:teferigashewbeza@gmail.com) ;**
- ✓ **Mobile no: - 0911-219967;**
- ✓ **I can also avail myself at any time of your convenience**

**I appreciate and thank you again for your valuable contribution.**

**Thank you very much!**

## **The Civil Code of Ethiopia 1960**

1. In your opinion what are the main problems on the relevant provisions of the Civil Code of Ethiopia 1960 specifying liability in connection with vehicles and machines in respect of the following items in:
  - a. establishing liable person or persons;
  - b. deciding the mode of compensation;
  - c. assessing the damage;
  - d. determining the extent of compensation; and
  - e. identifying the persons entitled for compensation?
2. If there are problems and are persistent, how did your company attempted to resolve the same – especially in compensating VIATPR claimants?
3. In your opinion, do the relevant provisions of the Civil Code of Ethiopia 1960 and other insurance laws favor either the insured in general or third party claimant requesting compensation for bodily injury, death and property damage?
4. In Ethiopia most scholars assert that the insurance practice is profoundly based on the UK practice and the civil liability in which most liability insurance policies are founded is based on the French Civil law. Does it have any bearing on the delivery of insurance service especially VIATPR in Ethiopia?

## **Vehicle Insurance Against Third Party Risks (VIATPR) Proclamation no 799/2013**

1. Do you believe that the Proclamation is clearly and adequately drafted and worded in line with the relevant laws of Ethiopia in this respect?
2. In your opinion are there any provisions or terms that are ambiguous, affecting assessment and determination of compensation to third party victims?
3. Do you believe that the benefits specified are clear and the respective liability limit set at present adequate? If not, how and by whom shall it be reviewed?

## **General questions**

1. Do you believe that the VIATPR policy currently in use is clear and drafted in line with the relevant provisions of Ethiopian laws, including VIATPR proclamation 799? If not how and by whom shall it be drafted?

2. Is there a separate unit set to handle and manage VIATPR claims? Is it supported with proper and adequate policy and procedure?
3. Is there any identified problem on the claim service? If there is/are - what are they? And, if there are none - are you of the opinion that customers acknowledge its standard?
4. Do you believe that there is a standard Underwriting and Claims guideline or policy and procedure in connection with VIATPR, which is rigorously implemented throughout the market?
5. Is there a proper functional complaint management system in your company and in the industry, where grieved third party claimants can lodge their complaint to get redressed?
6. What is your opinion about the standard of competency and training to employees who are engaged in the delivery of this social insurance to the general public - especially in insurance and liability laws of the country?
7. Do you believe that the standard of service provided by the insurance market matches with customers / clients / claimants expectations? How and by whom is/shall the standard of service determined?
8. Does the standard of service in connection with this social insurance scheme, which insurers are delivering at present, will in the near future have any impact on respective insurers' market share and the market growth?
9. How do you control and supervise internal and external fraud and standard of conduct?
10. Is / Will VIATPR business undermine the very existence of Insurers by way of insolvency due to payment of claims? If the threat is imminent what shall be done?

**Annex 1: Highlights Of Ethiopian Insurance Industry Performance  
(2009/10 - 2014/15)**

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
<b>GWP</b>						
Non-Life	1,824,893	2,422,415	3,724,760	4,497,666	4,687,657	5,242,085
Life	114,739	160,596	271,523	299,514	273,871	315,044
<b>Total</b>	<b>1,939,632</b>	<b>2,583,011</b>	<b>3,996,283</b>	<b>4,797,180</b>	<b>4,961,528</b>	<b>5,557,129</b>
<b>Growth in %</b>	<b>31.35%</b>	<b>33.17%</b>	<b>54.71%</b>	<b>20.04%</b>	<b>3.43%</b>	<b>12.00%</b>
<b>Net Premium</b>						
Non-Life	1,222,457	1,675,966	2,730,502	3,011,319	3,423,050	4,037,932
Life	98,467	140,015	248,701	272,022	242,130	283,435
<b>Total</b>	<b>1,320,924</b>	<b>1,815,981</b>	<b>2,979,203</b>	<b>3,283,341</b>	<b>3,665,180</b>	<b>4,321,367</b>
<b>Retention Ratio in %</b>						
Non-Life	66.99%	69.19%	73.31%	66.95%	73.02%	77.03%
Life	85.82%	87.18%	91.59%	90.82%	88.41%	89.97%
<b>Total</b>	<b>68.10%</b>	<b>70.30%</b>	<b>74.55%</b>	<b>68.44%</b>	<b>73.87%</b>	<b>77.76%</b>
<b>Net Earned Premium</b>						
Non-Life	1,050,753	1,405,854	2,203,847	2,763,032	3,176,163	3,681,072
Life	98,467	140,015	248,701	272,022	242,130	283,435
<b>Total</b>	<b>1,149,220</b>	<b>1,545,869</b>	<b>2,452,548</b>	<b>3,035,054</b>	<b>3,418,293</b>	<b>3,964,507</b>
<b>Net Claim Incurred</b>						
Non-Life	674,449	1,037,250	1,483,053	1,803,288	2,060,835	2,313,130
Life	37,733	54,843	58,839	90,072	96,168	157,627
<b>Total</b>	<b>712,182</b>	<b>1,092,093</b>	<b>1,541,892</b>	<b>1,893,360</b>	<b>2,157,003</b>	<b>2,470,757</b>
<b>Loss Ratio in %</b>						
Non-Life	64.19%	73.78%	67.29%	65.26%	64.88%	62.84%
Life	38.32%	39.17%	23.66%	33.11%	39.72%	55.61%
<b>Total</b>	<b>61.97%</b>	<b>70.65%</b>	<b>62.87%</b>	<b>62.38%</b>	<b>63.10%</b>	<b>62.32%</b>

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Total Asset	3,275,953	4,010,390	5,605,594	6,844,352	8,147,585	9,720,722
Total Liabilities	2,393,576	3,095,446	4,421,962	5,284,245	6,113,475	6,855,712
Total Capital	882,377	914,944	1,183,632	1,560,107	2,034,110	2,865,010
Profit after tax	235,183	250,155	407,112	576,943	739,339	823,591
Number of branches	207	221	243	273	332	377
Number of brokers				46	47	49
Number of sales agents				1,340	1,649	1,750
Number of loss assessors				78	84	89
Insurance surveyors				2	2	2

#### Industry Premium by Class of Business

Class of Business	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Aviation	65,983	64,279	62,787	16,524	69,262	103,521	188,637	237,746	231,630	245,484	220,740
Engineering	24,687	50,031	96,795	152,293	167,466	233,764	190,728	243,699	733,469	431,989	430,400
Fire	56,483	62,735	68,865	78,711	91,722	108,772	136,017	197,422	229,701	280,738	308,990
Liability	6,122	8,997	12,620	12,463	15,474	33,170	50,468	99,123	117,025	163,821	189,801
Marine	111,338	137,977	159,135	212,336	224,172	284,459	390,581	577,344	531,721	536,721	490,450
Motor	279,985	350,323	431,478	507,565	581,641	770,778	1,082,113	1,861,172	2,101,661	2,421,725	2,830,635
Accident	28,723	49,489	61,041	69,689	82,783	105,069	104,035	117,078	147,137	169,551	192,002
Pecuniary	34,576	45,627	46,647	95,296	98,838	126,840	205,918	308,477	329,351	352,796	416,304
WC's	21,177	25,436	29,320	37,884	41,748	49,603	57,262	65,409	53,175	58,256	69,454
Others	11,154	1,973	33,991	4,269	6,215	8,917	16,656	17,290	22,796	26,576	93,309
<b>Sub Total</b>	<b>640,228</b>	<b>796,867</b>	<b>1,002,679</b>	<b>1,187,030</b>	<b>1,379,321</b>	<b>1,824,893</b>	<b>2,422,415</b>	<b>3,724,760</b>	<b>4,497,666</b>	<b>4,687,657</b>	<b>5,242,085</b>
Life	36,088	45,911	51,900	78,600	97,400	114,739	160,596	271,523	299,514	273,871	315,044
<b>G. Total</b>	<b>676,316</b>	<b>842,778</b>	<b>1,054,579</b>	<b>1,265,630</b>	<b>1,476,721</b>	<b>1,939,632</b>	<b>2,583,011</b>	<b>3,996,283</b>	<b>4,797,180</b>	<b>4,961,528</b>	<b>5,557,129</b>
<b>Growth Rate</b>		25%	25%	20%	17%	31%	33%	55%	20%	3%	12%

Source:NBE

<b>Premium Structure of the Insurance Industry</b>											
Class of Business	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Aviation	10%	8%	6%	1%	5%	6%	8%	6%	5%	5%	4%
Eng	4%	6%	10%	13%	12%	13%	8%	7%	16%	9%	8%
Fire	9%	8%	7%	7%	7%	6%	6%	5%	5%	6%	6%
Liability	1%	1%	1%	1%	1%	2%	2%	3%	3%	3%	3%
Marine	17%	17%	16%	18%	16%	16%	16%	16%	12%	11%	9%
Motor	44%	44%	43%	43%	42%	42%	45%	50%	47%	49%	51%
Accident	5%	6%	6%	6%	6%	6%	4%	3%	3%	3%	3%
Pecuniary	5%	6%	5%	8%	7%	7%	9%	8%	7%	7%	7%
WC's	3%	3%	3%	3%	3%	3%	2%	2%	1%	1%	1%
Others	2%	0%	3%	0%	1%	1%	1%	1%	1%	1%	2%
<b>General</b>	<b>95%</b>	<b>95%</b>	<b>95%</b>	<b>94%</b>	<b>93%</b>	<b>94%</b>	<b>94%</b>	<b>93%</b>	<b>94%</b>	<b>94%</b>	<b>94%</b>
<b>Life</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>6%</b>	<b>7%</b>	<b>6%</b>	<b>6%</b>	<b>7%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>
<b>Source:NBE</b>											

<b>Premium Loss ratio</b>									
Class of Business	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Aviation	180%	-2139%	-438%	-697%	211%	64%	-19%	1178%	-254%
Eng	21%	29%	36%	23%	35%	17%	3%	30%	31%
Fire	46%	32%	40%	10%	14%	1%	25%	22%	17%
Liability	41%	39%	62%	60%	98%	77%	44%	46%	45%
Marine	32%	36%	47%	15%	66%	23%	16%	14%	3%
Motor	87%	85%	90%	95%	93%	87%	82%	81%	83%
Accident	79%	64%	42%	78%	55%	42%	53%	45%	39%
Pecuniary	-56%	87%	36%	-103%	2%	42%	33%	15%	7%
WC's	61%	63%	55%	56%	59%	47%	46%	52%	38%
Others	-843%	-675%	8%	2%	-10%	31%	71%	120%	14%
<b>General</b>	<b>71%</b>	<b>69%</b>	<b>73%</b>	<b>64%</b>	<b>74%</b>	<b>67%</b>	<b>65%</b>	<b>65%</b>	<b>63%</b>
<b>Life</b>				<b>38%</b>	<b>39%</b>	<b>24%</b>	<b>33%</b>	<b>40%</b>	<b>56%</b>
<b>Source: NBE</b>									

**Curtsey of Nyala Insurance Company**

**Annex 2: Road Densities, Number of Vehicles, Traffic Accidents, Casualties, Fatality Risk and Rate**

No	Year		Road					Population in Millions	Motorization	Estimated # of vehicles	Reported # of Vehicle Accidents	Number of Injured persons	Type of Injury or Loss				Fatality		Accident Rate
	GC	EC	Length of Road	Density /1000 person	Density /1000 sq. km	Accessibility From all-weather road							Light bodily	Heavy bodily	Death	Property	RISK: road deaths /100,0000 population	RATE: road deaths/10,000 motor vehicles	
						>5KM <sup>1</sup>	AVG <sup>2</sup>												
1.	1999/00	1992						60											
2.	2000/01	1993	32,871	0.5	29.9			61.6											
3.	2001/02	1994	33,297	0.5	30.3			63.2											
4.	2002/03	1995	33,856	0.5	30.8			64.8											
5.	2003/04	1996	36,496	0.5	33.2			66.5											
6.	2004/05	1997	37,018	0.5	33.7			68.3	5.1	189,682	17,722	11,073	4,917	3,968	2,188	10,822	5.9	115.4	9
7.	2005/06	1998	39,477	0.5	35.9			70	5.3	210,538	18,911	11,913	5,035	4,356	2,522	11,608	6.4	119.8	9
8.	2006/07	1999	42,429	0.6	38.6			72.4	5.8	245,000	17,147	12,070	5,129	4,424	2,517	10,170	5.9	102.7	7
9.	2007/08	2000	44,359	0.6	40.3			74.9	6.1	270,000	15,086	9,301	3,773	3,367	2,161	9,005	4.9	80.0	6
10.	2008/09	2001	46,812	0.6	42.6			76.8	6.6	309,361	15,695	11,102	4,312	4,177	2,613	8,987	5.6	84.5	5
11.	2009/10	2002	48,793	0.6	44.4			78.8	7.0	340,000	13,677	8,565	3,655	2,789	2,121	7,098	4.3	62.4	4
12.	2010/11	2003	53,997	0.7	48.3			80.7	7.0	376,000	18,469	10,656	4,570	3,545	2,541	10,844	4.7	67.6	5
13.	2011/12	2004	63,083	0.8	57.3			82.7	6.7	423,000	21,668	12,397	4,932	4,333	3,132	13,179	5.0	74.0	5
14.	2012/13	2005	85,966	1	78.2	46	6	84.8	5.6	482,220	24,987	13,874	6,010	4,749	3,115	16,622	3.6	64.6	5
15.	2013/14	2006	99,522	1.1	90.5	40.5	5.5	87	5.6	553,978	28,146	14,805	5,621	5,897	3,287	18,678	3.3	59.3	5
16.	2014/15	2007	110,414	1.2	100.4	36.6	5	89	5.9	656,364	31,861	16,068	6,396	5,855	3,817	21,217	3.5	58.2	5
17.	2015/16	2008																	

**Source:** Ethiopian Roads Authority and NBE Annual Report and Federal Police Commission :

<sup>\*1</sup> Proportion of area more than 5Km from all-weather road

<sup>\*2</sup> Average distance from all-weather roads

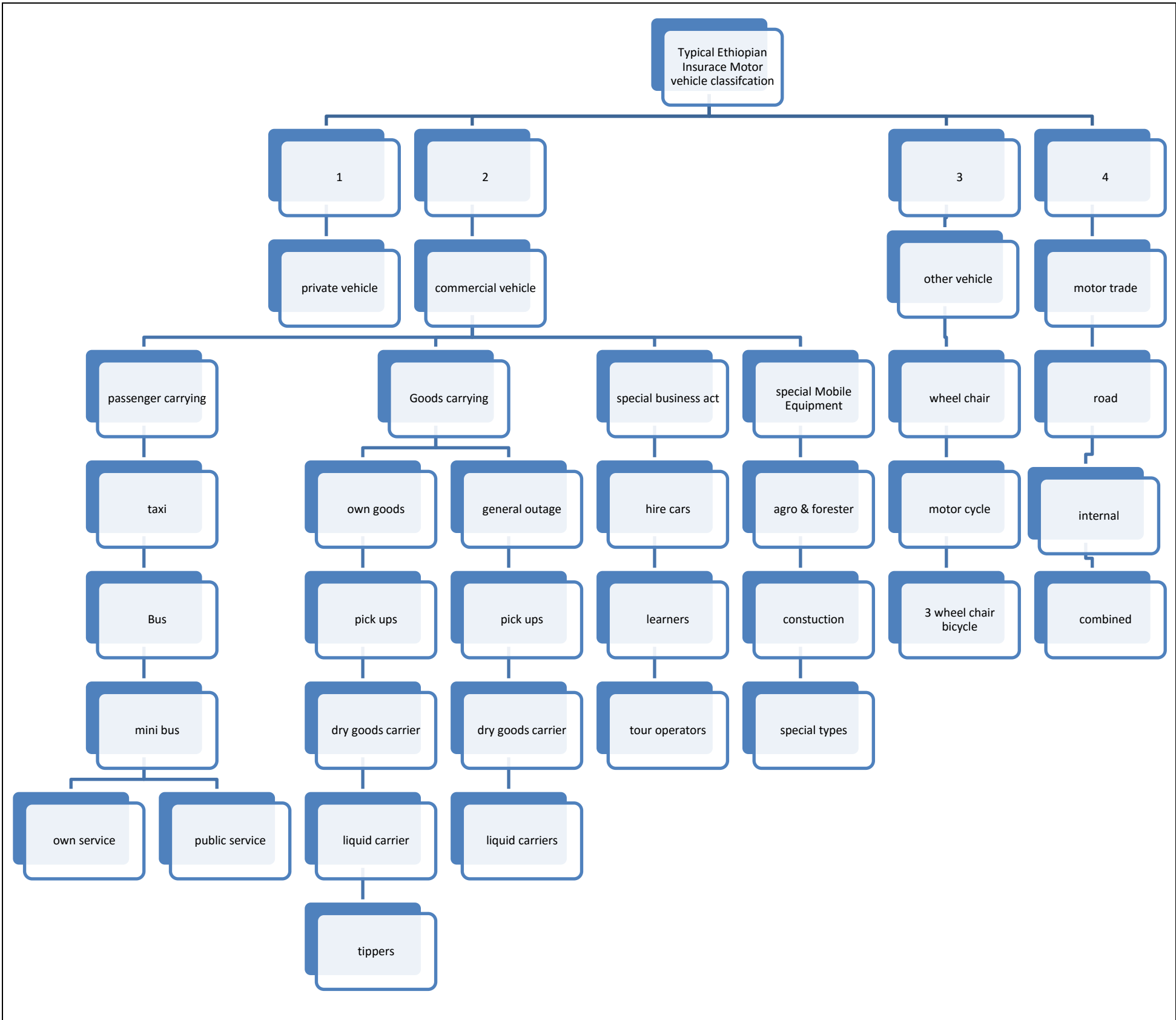
**Fatality risk:** road deaths per 100,000 population

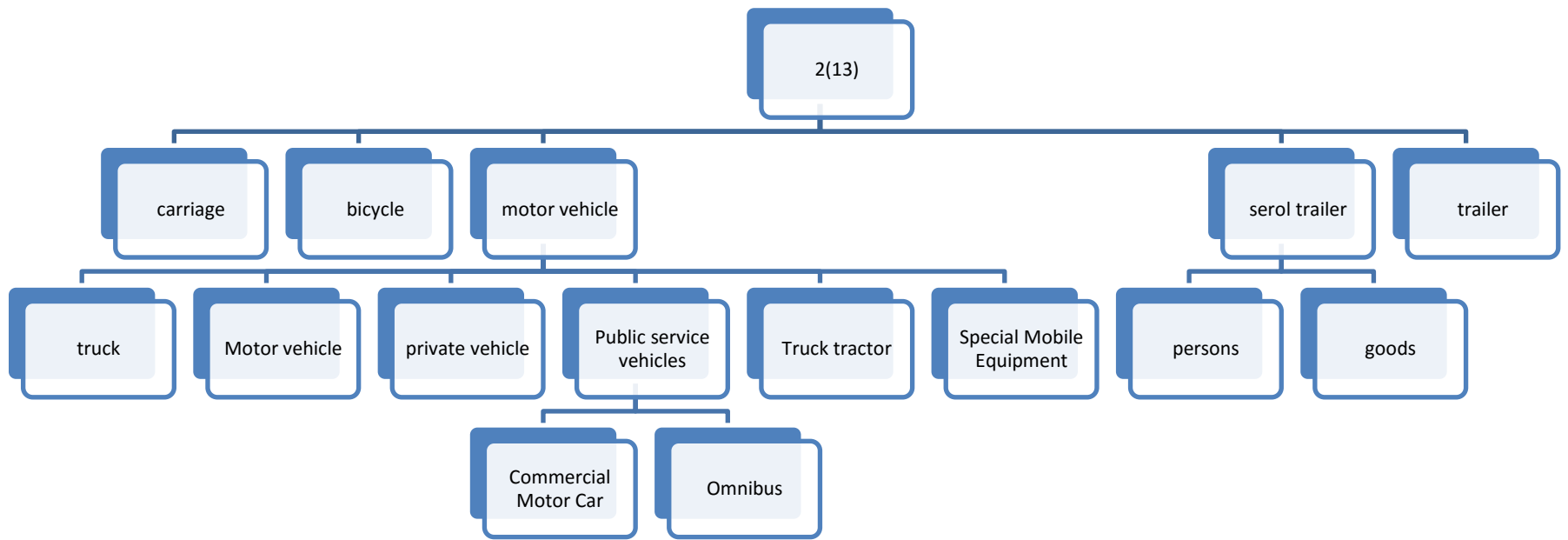
**Fatality rate:** road deaths per 10,000 motor vehicles

**Motorization level:** motor vehicles per 1,000 population









Annex 4: Type of Losses and Claims In Motor Insurance

<b>Motor Claims</b>					
<b>1. Own Damage (OD)</b>		<b>2. Third Party (TP or MTPL/VIA TPR)</b>			<b>3. or</b>
<b>1.1. Ethiopia</b>	<b>1.2. COMESA</b>	<b>2.1. Personal Injury</b>	<b>2.2. Property Damage</b>	<b>2.3. EMT</b>	<b>2.4. Extensions</b>
Item 1.1. & 1.2.	Territorial Extension Item 1.1. & 1.2.	A. Bodily Injury Disability Compensation (PPD & PTD)	A. Repairable	(To all	A. PAB
A. Repairable A.1. Body A.2. Mechanical A.3. Specialist	B. Total Loss B.1. Actual B.2. Constructive	B. Death Compensation C. Medical Expense D. Loss of Income (TTD) E. Funeral	B. Total Loss? B.1. Actual B.2. Constructive	persons	B. PAMB
		F. Moral	C. Loss of Market Value	involved in motor	C. PLL D. BS/BSG
Towing and Guarding Expense		G. Rehabilitation	D. Consequential Loss	vehicle accident)	E. Yellow Card (YC)
			E. Loss of Use		
		All Other Costs & Expenses & Losses			
<b>Indemnity amount and Costs &amp; Expenses incurred with insurer's consent and approval</b>		<b>Any Present and Future Damage</b>		<b>Birr 2, 000</b>	<b>Up to the insured amount – except YC</b>

**Annex 5. IFAA and Insurance Companies Third Party Compensation Payment (2005 -2008)**

<b>A: Victims of Uninsured and Untraced Vehicles Accident</b>								<b>B: Victims of Ministry of Defense Vehicles</b>					
		<b>Death</b>		<b>Bodily Injury</b>		<b>Medical Expense</b>		<b>Death</b>		<b>Bodily Injury</b>		<b>Property Damage</b>	
#	YEAR	#	AMOUNT	#	AMOUNT	#	AMOUNT	#	AMOUNT	#	AMOUNT	#	AMOUNT
1	2004 (2011/12)												
2	2005 (2012/13)	9	248,558	5	64,470								
3	2006 (2013/14)	24	714,840	6	134,981							1	37,500
4	2007 (2014/15)	37	1,303,000	17	261,318	14	64,924					7	133,923
5	2008 (2015/16)	22	880,000	15	232,500	19	133,000	2	80,000	4	58,962	1	39,340
	<b>Total</b>	<b>92</b>	<b>3,146,398</b>	<b>43</b>	<b>693,269</b>	<b>33</b>	<b>197,924</b>	<b>2</b>	<b>80,000</b>	<b>4</b>	<b>58,962</b>	<b>9</b>	<b>210,763</b>
<b>NB:</b>	<b>2008 data is only for half year</b>												
	<b>Total Number of Victims (Claims)Compensated : 174</b>												
	<b>Total Amount of Compensation : 4,176,553</b>												
	<b>Average Compensation per victim (2005 - 2007)</b>						<b>Average Compensation per victim (2008 - Half Year)</b>						
	Death : 34,199						Death : 40,000						
	Bodily Injury : 16,123						Bodily Injury : 15,500						
	Medical Expense : 5,998						Medical Expense : 7,000						
	<b>SOURCE: IFAA (2016)</b>												

**C: Victims of Insured Vehicles**

#	Year	Death		Bodily Injury		Emergency Medical Treatment		Medical Expense		Property		Total	
		# of Claims	Amount (Birr)	# of Claims	Amount (Birr)	# of Claims	Amount (Birr)	# of Claims	Amount (Birr)	# of Claims	Amount (Birr)	# of Claims	Amount (Birr)
1	<b>2004 (2011/12)</b>												
2	<b>2005 (2012/13)</b>	469	10,594,749	307	1,793,096	426	513,685	90	402,094	3,347	64,354,762	4,639	77,658,386
3	<b>2006 (2013/14)</b>	744	18,373,452	589	4,161,637	391	622,650	304	1,189,076	22,707	85,075,207	24,735	109,422,022
4	<b>2007 (2014/15)</b>	825	20,209,889	657	5,774,441	165	779,757	304	3,437,637	5,525	108,923,387	7,476	139,125,111
5	<b>2008 (2015/16)</b>	92	2,226,511	70	550,434	12	19,390	6	113,979	426	7,121,845	606	10,032,159
	<b>Total</b>	2130	51,404,601	1623	12,279,608	994	1,935,482	704	5,142,786	32,005	265,475,201	37,456	336,237,678
	<b>Average / Annum</b>	533	12,851,150	406	3,069,902	249	483,871	176	1,285,697	8,001	66,368,800	9,364	84,059,420
	<b>Average / Claim</b>		<b>24,134</b>		<b>7,566</b>		<b>1,947</b>		<b>7,305</b>		<b>8,295</b>		<b>8,977</b>
<b>SOURCE: IFAA (2016)</b>													

## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **Dr Tilaye Kassahun (Phd)**. All sources of material 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 institutions for the purpose of earning any degree.

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Name

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

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Signature

**June, 2016**

## **ENDORSEMENT**

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

Tilaye Kassahun (Phd)

\_\_\_\_\_

Advisor

Signature

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

**June, 2016**

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**June, 2016**

**Annex 6:- Third Party Liability Limits \_ The Ethiopian Practice**

Type of Damage	Any One Person / Any One Event	As per Civil Code of Ethiopia  Equal to Damage	Minimum Policy Liability Limit <sup>1</sup>		VIATPR Proclamation	
			Private Vehicles	Commercial Vehicles	No 599/2008	No 799/2013
<b>Injury</b>	Any one person	Unlimited	30,000.00	30,000.00	15,000 /person	40,000/person
<b>Death</b>	Any one person	Unlimited	30,000.00	30,000.00	40,000/person	Min 5,000 Max 40,000
	Any one event/ aggregate	Unlimited	150,000.00	200,000.00	No limit	No limit
<b>Property</b>	Any one event	Unlimited	75,000.00	100,000.00	100,000.00	100,000.00
<b>EMT<sup>2</sup></b>	Per Event	Unlimited	500.00	1000.00	1000/Person	2000/Person

**Note<sup>1</sup>**: This was the minimum limit provided before the implementation of Proclamation No 559/2008.

**Note<sup>2</sup>**: This cover is available for the driver, insured and occupant of the vehicle, in the case of pre-proclamation policies. In the post-proclamation policies the cover is available for all road accident victims.

Source: Adopted and Modified From IFAA Report (2014)