



ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACTORS INFLUENCING HOUSEHOLD'S LONG-TERM ASSURANCE CONSUMPTION IN ADDIS ABABA CITY THE CASE OF ETHIOPIAN INSURANCE CORPORATION

BY

YIBELTAL BIRHANU AREGA

ID. NO: SGS/0062/2008B

MAY, 2018

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE
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DEDICATION

This work is dedicated to my graceful wife, Hammer Teshome for her care and support throughout the two year Masters in General Business Administration program at St. Mary's university. It is also dedicated to my father Birhanu Arega and my elder brother Getachew W/tsadik, for the investment made in my education and for their encouragement and advice in my life.

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ACRONYMS AND ABBREVIATIONS

CII	Certified Insurance Institute
CSA	Central Statistical Agency
EIC	Ethiopian Insurance Corporation
ETB	Ethiopian Birr
GDP	Gross Domestic Product
LOMA	Life Office Management Association
NBE	National Bank Of Ethiopia
SPSS	Statistical Package for Social Science
STATA	Statistical data analysis
USD	United States Dollar (\$)

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ABSTRACT

Long-term assurance plays an important role to insure against lifetime uncertainty resulting for various types of risks of individual and providing financial and mental security and it can also broaden for countries economic growth. However, the long-term assurance business has been experienced very low level of development in Ethiopia. This research is conducted in order to examine demographics, economic, social-cultural, psychological, institutional and legal and regulatory factors which are influencing household's long-term assurance consumption in Addis Ababa city. The study employed explanatory research design. Primary data were collected using self structured interview and questioners from randomly selected 378 household respondents. Collected data were first carefully edited, coded, encoded using Microsoft Excel and analyzed by using latest SPSS and STATA. In addition, an econometric model of Binary Logit was employed in order to identify major factors which influence household's long-term assurance consumption. The findings revealed that sex, age, income, social security's, consumption need (attitude), premium and product fitness (match) with customer need had a positive statistical significant effect on the other hand marital status, education, culture, easy accessibilities and prompt service, negligence, NBE and other concerned government stakeholders role and support had a negative statistical significant influence on household's long-term assurance consumption in Addis Ababa. This study suggest that insurer should do massive and continuous public awareness towards insurance and high consideration of revising insurance price decisions and policy makers of the National bank of Ethiopia should support the development of insurance industry and concerned government officials should also implement compulsory regulatory measure to protect their citizen.

CHAPTER ONE

1. INTRODUCTION

This chapter presents Background of the Study, Statement of the Problem, Basic Research Questions, Objectives of the study, Definitions of Terms, Significance of the Study, Scope of the Study and Organization of the Study.

1.1 Background of the Study

It is obvious that the world is surrounded by risk and uncertainties in the 21st century of modernization and globalization. Especially, in the developing country like Ethiopia, poverty and security are one of the key issues that should be addressed. One way of mitigating these issues is insurance, (Mekonnen, 2015). The fundamental purpose of insurance, whether of people or of property, is protection against possible economic loss, economic loss being simply defined as the unintentional and permanent loss of something which has monetary value.

Insurance is one of the key tools in modern life which has a great role in reducing risks and providing financial and mental security and finally it can broaden for countries economic development (Derakhshideh & Jalae, 2014). Thus, insurance firms as financial intermediaries play a significant role within a nation's financial system by mobilizing funds from the surplus economic unit and channeling it to the deficit investment unit of the economy (Suleiman, 2015).

Obviously as it is, unlike the value of property, the value of a human being cannot be measured in terms of money. But as far as insurance is concerned, the economic value of a person is basically represented by his income. The total or partial, temporary or permanent loss of this income represents an economic loss to all those who are dependent on that income for their livelihood. The loss of such income can come about through a variety of causes; but not all such causes are necessarily insurable because an insurable risk must (among other things) involve a loss that is unexpected and, so far as the individual insured is concerned, unpredictable. Therefore, Life Insurance (in its widest sense) is concerned only with those economic losses caused by death, disability and old age, all of which substantially meet the qualification of an insurable risk (Orsina & Stone, 2005).

As per the 2015 global insurance review and 2016/17 outlook report of Swiss Re, the global economic outlook for the 2016 and 2017 is more positive. Global life insurance premiums are estimated to have risen by 3.3% in 2015 in real terms. In the advanced markets real premium income forecast to rise by about 2.5% in 2016 and 2017, up from about 2% this year. In emerging markets, long-term premiums are forecast to grow by 10.7% in both 2016 and 2017. Life and health premiums are projected to see stable and robust growth of nearly 11% in the next two years. Again, emerging Asia will have the most robust growth of about 13%. Sub-Saharan Africa will have the weakest (about 3%) due to the difficulties of increasing long-term assurance penetration on the continent (EIC, Annual Report 2014/15).

The financial sector in Africa has for decades lagged behind the rest of the world in assurance development. In 2013, Africa accounted for only 1.9% of global long-term assurance premium. This figure reduces to 0.3% of global life assurance premium when excluding South Africa, the largest long-term assurance market in Africa. In addition, long-term assurance contributes a small portion to Africa's economy, with long-term assurance premium making up 2.52% of GDP in Africa in 2013. The African insurance market has strong growth potential. Even South Africa, where penetration is high, has a large insurance gap. Premium growth is likely to be sustained by increases in annuity sales. In the rest of sub-Saharan African, very low insurance penetration, strong economic growth, increasing disposable incomes and favorable demographics will continue to boost the consumption. In addition, the rising awareness of the usefulness of insurance and the broader use of micro insurance in combination with innovative distribution models will support insurance growth (Judith, 2015).

As per the data obtained from the Ethiopian Reporter Newspaper Amharic version, premiums of the insurance industry, including long-term and general insurance, reached ETB 7.5 billion in the year 2016/17 which represents merely 0.81% of GDP. General insurance premium dominates the sector with Birr 7.1 Billion or 94.67% premium market share leaving the balance of Birr 400 Million or 5.33% to long-term assurance business. Among the existing insurance companies, EIC is commanding a 36% of the market share in Ethiopian insurance industry.

Ethiopia's insurance industry is relatively underdeveloped which is exemplified by the sector low penetration (percentage of insurance premium to GDP in Birr) levels, which is 0.0081 due to faster GDP growth, low insurance density (which reflects average per capita spend on insurance)

which is ETB 62.4, identical product, low level of public awareness, cognitive failure, price based competition, urban centered service, and scarce man power are the major, among others. Given Ethiopia's enormous population and huge potential upside, the insurance industry is relatively underdeveloped compared to African peers such as South Africa, Kenya and Nigeria which had registered a better penetration performance (EIC, Annual Report 2014/15).

Currently, 17 insurance companies are operating in the country among these 9 insurers have both long-term and general insurance the rest have general insurance only with a total of 428 branches throughout the country. The low penetration highlights the significant opportunities that exist in the Ethiopian insurance market especially in Micro insurance, life insurance and agriculture insurances which are in the early stages of development and they will be the key in increasing insurance penetration (EIC, annual report 2014/15).

1.2 Statement of the Problem

Ethiopian insurance industry has passed through different economic stages in its history. During the Imperial era (1914 up to 1974), long-term assurance growth declined at a declining rate from 15.1 percent to 7.9 percent and the average percentage of long-term assurance premium to the total gross written premiums during the years 1979/80 – 1993/94 was 4.5 percent. A similar trend continued after 1994. For example, during the period 2000/01–2004/05 the gross written premiums of the long-term insurance industry (dominated by life insurance policies) were fluctuating within the range of 4 percent to 5 percent. Recently as per the data obtained from National Bank of Ethiopia, premiums of the insurance industry, including Life and General insurance, reached ETB 5.6 Billion in the year 2014/15 which represents merely 0.81% of GDP. General insurance premium dominates the sector with birr 5.2 Billion or 94.3% premium market share leaving the balance of birr 314 million or 5.7% to long-term insurance business (EIC, 2014/15).

Table 1.1: Penetration and Density of long-term Assurance

Items	Life insurance Penetration (premium/GDP per-capita)	Life insurance Density (premium/population)
Worldwide	Around 6%	more than \$ 100
Africa	Around 3%	About \$ 60
Ethiopia	Less than 1%	Less than \$ 3

Source: Ethiopian Amharic Newspaper Reporter, (19/11/2017)

There has been little research on understanding to explore factors that influence household’s consumption of long-term assurance markets for developing countries. Further, exploration into factors that drive long-term assurance consumption is important for understanding the differences in stages of market development and growth opportunities for long-term assurance in Ethiopia in general and Addis Ababa in particular is essential. So far, studies on insurance in Ethiopia have more focused on General insurance.

Little effort was made by the corporation to find out factors that could influence long-term assurance consumption. This explains why this study was concerned with identification of the key factors that inhibit the consumption of long-term assurance. It was within this context that this study attempted to find out the factors that influence the consumption long-term assurance at the corporation.

The low contribution of long-term assurance business to the economy in Ethiopia, the absence of empirical studies concerning factors influencing long-term assurance policy consumption and some methodological gaps on some research previously conducted are somewhat motivated the researcher to put his own contribution on what factors are influencing household’s consumption of long-term assurance in the city. Different authors like; Roman Gebreye (2011), Ayaliew (2013), Getahun Kibret (2016); have emphasized that are economic and demographic side of demand inflator with little or no emphasis on social, psychological, institutional and legal and regulatory factors which highly influences long-term assurance consumption.

In addition those empirical studies conducted on, most of them were focused on country level.

This implies that as there is no that much extensive empirical research conducted on those factors that are influencing long-term assurance consumption at city wise. Therefore, this study was trying to emphasize on social, institutional, psychological and legal and regulatory factors for the analysis of influences on long-term assurance consumption and further to complement the existing knowledge gap in the research about the long-term assurance consumption and to initiate a further study on the topic of factors influencing household's long-term assurance consumption. Generally, the following research question is addressed in this study: What are the economic, social, psychological, institutional, and regulation factors dominantly and significantly influence the consumption of household's long-term assurance policies in Addis Ababa city.

1.3 Basic Research Questions

This study was designed to provide answers to the following research questions:

- ✚ What are the factors that influence household's long-term insurance consumption in Addis Ababa city the case of Ethiopian Insurance Corporation?
- ✚ What does the household long-term insurance consumption pattern looks like in Addis Ababa?

1.4 Objective of the Study

1.4.1 General Objective

The general objective of this study was to identify and examine factors influencing household's long-term insurance consumption in Addis Ababa city the case of Ethiopian Insurance Corporation.

1.4.2 Specific Objectives

In order to achieve the general objective of the study, the researcher was framing the following specific objective;

- ✚ To assess household's long-term assurance consumption in Addis Ababa City.

1.5 Definition of Terms

Assured “is the households whose life or health is insured under the policy”. (LOMA, 2011).

Premium “is the specified amount of money an insurer charges in exchange for agreeing to pay a policy benefit when a specified loss occurs” (LOMA, 2011).

Long-term assurance- is an agreement in which the assured transfers, and the assurers assumes, the risk of death, retirement and disability for a specified period of time (Zietz, 2003).

Insurance penetration- is measured as the percentage of insured premium to GDP per capita.

Insurance density- is calculated as the ratio of premium to total population.

Market share – an insurer’s sales of insurance within the entire market which it operates.

1.6 Significance of the Study

Long-term assurance plays an important role in the financial planning of a households and family since it can be used as a threshold against financial uncertainty resulting from the mortality and disability risks faced by households. By identifying the factors influencing household’s long-term assurance consumption in the study area will help Ethiopian Insurance Corporation to make relevant decisions to intervene in the development of appropriate policies. The findings of this study will also expect to put long-term assurance in proper perspective in the minds of the public by providing a much needed exposure. Moreover, the research even has significance to the understanding of the household long-term assurance consumption decision and the result of this research will enable insurers to better understand household’s consumption behavior and thus be better equipped to motivate households to consume appropriate long-term assurance policies. It is also hoped that this research will form a basis for further research in this area among academics, whereby other researchers in this field who may use this report as a basis for further studies.

1.7 Scope / Delimitation of the Study

Though, it’s very important to cover the insurance industry as a whole, because of the limitations of resources like finance and most importantly time, this study considered household’s live in

Addis Ababa city the case of the Ethiopian Insurance Corporation. Even though, the corporation faced many problems, it is too difficult to incorporate and discuss all the problems of the corporation in this study. Therefore, considering the nature of sensitivity this research study is delimited to the problems that the corporation faces specifically in connection with its consumption performance of long-term assurance.

The study is based on cross-sectional data which makes it difficult to capture the dynamic aspects of household's long-term assurance consumption. The study focuses on analyzing the demographic, socio-cultural, economic and psychological characteristics of households that influences the consumption of long-term assurance. The study is based on relatively small number of households and also difficult to address the whole aspects of factors influencing household's long-term assurance consumption due to time and other resource constraints.

1.8 Limitations of the Study

No study is without limitation (Berg, 2001). Accordingly, this study is subject to the following limitations that future studies should address to shed more light on the subject of factors influencing household long-term assurance consumption in the city.

Even though it's very important to cover the insurance industry as a whole, because of the limitation of resources like finance, data and most importantly time, this study only considered the case of Ethiopian Insurance Corporation especially long-term assurance consumption. The researcher couldn't include all involved parties opinion on this study; like NBE and government financial agency.

All the findings were based on data gathered by the respondents. The respondents, sometimes, fill the questionnaire irresponsibly, and thought it is unnecessary. Thus, it subjected to the potential bias and prejudice of the people involve.

The absence of similar studies on this specific field in the country is another limitation to this study, because if it was to the contrary, the researcher would have use it to substantiate its findings and also use it as a base for the study. Unfortunately, enough official papers related for household's long-term assurance consumption are not conducted to date locally. This has

hampered the theoretical knowledge of the researcher to some unrelated studies conducted in Ethiopia.

1.9 Organization of the Study

The rest of this thesis is organized as follows: The next chapter discusses the theoretical and empirical findings on factors influencing household's long-term assurance consumption. Chapter three illustrates the research design, data collection, sampling design, research instrument, constructs measurement, data processing, and method of data analysis. Chapter four basically presents results and discussions that are findings of data from sample survey. Furthermore, it presents the main data findings and research results. The last chapter of this study presents summary, recommendations and conclusions.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 What is Insurance?

According to CII, insurance practice and regulation P01, Insurance is unlike most other products: it is a conditional promise. In return for a fee (the premium), the insurer promises to make a payment (referred to as the claim) if an event of a specified nature occurs (usually referred to as an insured peril) and the insured consequently suffers loss or damage. As such insurance is risk transfer mechanism; the basic proposition is that the insured exchanges the uncertainty of low frequency, high severity risk (such as a house fire) for the certainty of a lower cost premium.

2.2 Main Categories of Insurance

A. Life assurance

This is known as long-term assurance due to the extended period of many of the contracts. It includes life, pensions and permanent health policies.

B. Non-life insurance

This may called general insurance, (CII, insurance practice and regulation P01).

2.3 The Concept of Life Insurance

The most common motive for the consumption for long-term assurance product is safeguarding the economic interest of the insured when he/she dies. The accumulated cash value is used to cover funeral and other expenses. It is also invested to offer returns in replacement of the lost earnings (Hakansson, 2009). Additional purposes for taking out a life policy include real estate planning (mortgage protection) and planning for retirement, since the death of the insured can be monetary advantage to the buyer of the product; the policyholder must legally be interested in the insured's life. The "insurable interest" simply means the legitimate reason for insuring the other person's life (Frederick, 1999). Just like other insurance businesses, policyholders shift the risk to the insurance company, and in return obtain policy document upon payment of the initial sum agreed upon.

Apart from the insured and the insurer, there is usually a beneficiary who has been named to collect the policy income should the insured event (death) occurs within the policy period (Hakansson, 2009). One could also purchase a life insurance policy on the life of someone else. For instance, if a husband buys a life policy on behalf of his wife, he is the owner of the policy but she is the insured. It should be noted that the beneficiary of a life policy is not a co-signer to the contract. He is only chosen as such by policyholder. The owner could even change the beneficiary if he wishes, except for policies that have irrevocable beneficiary clauses. In an irrevocable insurance contract, the recipient is obliged to consent to any alterations in provisions of the receiver's contract terms such as the assignment clause or borrowing of cash value before such changes can be effected.

2.4 Special Features of Life Assurance

2.4.1 Premium Payments

Life assurance premiums are usually payable by level amounts through the period of the policy. This means that each person pays the same (i.e. level) amount though, that amount being determined by their age at the time of arranging the policy. Premiums can be paid annually, half-year, quarterly or (more likely) monthly.

2.4.2 Participation in Profits

Life insurance companies value their assets and liabilities at regular intervals, some every year, and others every three years. This evaluation of their operation allows them to determine if any surplus exists after calculating all future liabilities and other contingencies. Should such a surplus exist it is distributed among other those policyholders who have with-profit or participating policies.

2.4.3 Surrender Values

When a person no longer wants their policy, for some reasons cannot continue the premiums, they can ask for the surrender value. They cease payment and receive, not a proportion of the sum assured, but a proportion of the premium paid. Not all policies have a surrender value. Surrender within the first few years of the inception of a policy will not usually produce any

amount for the policyholder. Significant expenses will have been incurred in issuing a renewing the policy and in paying commissions to the broker.

2.4.4 Paid-up Policies

Some policies provide for the policy to become paid-up, rather than for the surrender value to be available. In this case the premiums cease and the policy continues, but on maturity a smaller sum than would originally have been paid will be due to the policy holder.

2.4.5 Investments

Vast amounts of money are held by the companies to meet future liabilities. The funds do not lay dormant waiting for claims in; they are invested to provide income for the companies' policyholders and shareholders, and make a substantial contribution to the national economy, (CII, insurance practice and regulation P01).

2.5 Basic types of policy

According to CII, insurance practice and regulation P01, there are three basic types of life insurance policy.

A. Term assurance

Term assurance is the most basic form of life assurance. It will pay out only if the life assured dies during the term of the policy. If the assured survives, no payment is made and the policy expires. There are different forms of term assurance. Term assurance policies just provide cover against death within a specified period. The cover is pure protection with no investment element. A payout is possible but certain, i.e. the life assured may not die during the term of the policy.

B. Whole life assurance

A whole life policy is a very simple policy which pays out a sum assured wherever the life assured dies. Unlike term assurance, it is a permanent policy, not limited to an expiry date. Because a claim is certain, premiums will be more expensive than for a term assurance, where a claim is merely possible or at worst probable. Whole life policies are substantive policies and can often be used as security for a loan either from the life office or from another lender.

A) Non-profit whole life policies

A non-profit whole life policy has a level premium, payable through life. It pays on a fixed sum assured, whenever death occurs.

There are also policies which offer a cessation of premiums on attainment of a certain age, often 80 or 85. These contracts are slightly more expensive because premium will be payable on average for a short period. The sum assured is a fixed sum with no bonus or unit linking. However, it is common for the sum assured only to be payable if the death occurs more than two years after the start of the policy, with only a refund of premiums payable on death within that period. There will usually be no surrender value.

B) With-profits whole life policies

These policies are almost the same as non-profit whole life assurances, the only differences being that the amount payable on death is sum assured plus whatever profits have been allotted up to the date of death. Again, premium can be payable through life or can cease at, for example, 80 or 85. They are used for family protection and for inherent income tax funding.

Whole life and endowment policies are different in that a payout is certain. Thus, there is an investment element in these policies and most have a surrender (cash-in) value. For this reason, they are sometimes called substantive policies. A whole life policy pays out on the death of the life assured, whenever that occurs. An endowment policy will pay out on the maturity date, or earlier death. Endowment policies are rarely sold now.

C) Endowment assurance

Here, the sum assured is payable on fixed date- the maturity date- or on the life assured's earlier death. The standard non-profit endowment assurance provides a level guaranteed sum assured on death or maturity. Because there will be a payout at some stage, endowment assurances are substantive contracts and can be used as security for loans either from the life office itself or from other lenders.

Level premiums are payable for the duration of the contract. Premiums for endowments are generally more expensive than for whole life assurance because claim payments are generally

made earlier. The shorter the term of the endowment, the higher will be the premium for a given sum assured because it will be payable for a smaller period.

Bolt-on options

Many life offices have a number of bolt-on options which can be added to their standard policies. Often they are available on whole life or endowment policies only. All these options involve an increase in premium over the standard premium and many will be available only for ordinary rated lives.

1. Waiver of premium option

This is the provision which states that if the life assured is unable to follow their normal occupation due to illness or injury the premiums on the policy will be waived. This, in effect, means that the life office will pay the premiums for the life assured in order to maintain the policy benefit.

2. Disability option

This is a benefit whereby the sum assured is payable on permanent disability as well as on death. The office will need evidence that the life assured is permanently unable to follow their normal occupation due to illness or injury. Naturally, if payment of the sum assured is made due to permanent disablement there will be no further payment on subsequent death.

3. Double accident benefit

This benefit provides that if the life assured dies as result of an accident additional payment will be made equal to the death sum assured. The policy will thus pay out twice the ordinary sum assured if the death is by accident.

Annuities

An annuity is a contract to pay asset amount (the annuity) every year while the annuitant (the person whose life the contract depends) is still alive. Annuities are usually expressed in terms of the annual amount payable although in practice they can be payable monthly, quarterly, half-years or yearly. An annuity can be payable in advance or in arrears.

Where an annuity is payable in arrears, it can either be with proportion or without proportion. This is because each payment is made at the end of the period to which it relates. Thus, when the annuitant dies there will be a period since the last installment date for which no payment has been made. Under, a with proportion annuity, a proportionate payment will be made to cover this period. This is not the case for without proportion annuity, where no payment is made.

Most annuities are paid for by a single premium which is often called the consideration for the annuity. However, deferred annuities are often purchased by regular premiums. Annuity rates have reduced substantially over the last few years due to declining gilt yields and improving life expectancy. Annuities are commonly used by retired people to provide an income that is guaranteed to last for life.

a. Immediate Annuity

An immediate annuity contract provides, in return for a single premium, an annual premium starting immediately and continuing for the rest of the annuitant's life.

b. Deferred Annuity

A deferred annuity is a contract which provides for an annuity to be payable commencing at some future date. The period between the date of the contract and the date the annuity is to commence- often called the vesting date or the maturity date- is the deferred period. Often, regular premiums are payable through the deferred period. If the annuitant dies during the deferred period, the office will usually return the premiums paid, with or without interest. Once the vesting date reached, the annuity becomes payable and will continue for the rest of the annuitant's life.

2.6 The History of Insurance in Ethiopia

According to various sources, the emergence of modern insurance in Ethiopia is traced back to the Bank of Abyssinia which was established in 1905 as the first Ethiopian Bank. The emergence was closely linked to expatriates and foreign insurance companies operating in Ethiopia. This bank, which was established under a fifty year concession granted by Emperor Menelik II to the National Bank of Egypt in March, 1905, was inaugurated in February 1906. From the available

source, the Bank had been acting as an agent for a foreign insurance company to underwrite fire and marine policies (Hailu, 2007).

Thereafter, there were many foreign insurance companies transacting insurance business in Ethiopia through agents. The agents were placed in Addis Ababa while their Head Office was located abroad (From 1920 to 1950). The first modern domestic insurance company was established in Ethiopia in 1951. This was called Imperial Insurance Company of Ethiopia LTD. Ethiopian Individuals and a British group formed the Imperial Insurance Company of Ethiopia which commenced operations in 1951 with a share capital of Birr 1,000,000.00 (FAIR, 1992).

Prior to October 1975, there were 13 insurance companies operating in Ethiopia. In November 1975, all the thirteen were consolidated into one corporation under the name of 'Ethiopian Insurance Corporation (EIC)'. Currently, however, there are 16 private and one public insurance companies operating in the country (CSA, 2011; NBE, 2012).

Since 1991, the Ethiopian government has liberalized the economy from the previous command economy of Dreg regime. The government has opened its insurance market for Ethiopians to operate the industry in the private sector as far as they are complying with the financial policies of the country. The industry is closed for foreign operators; however, then after, the government has issued various directives to enhance the competitiveness of the private sector in the global insurance market (Hailu, 2007).

Insurance is a risk transfer mechanism whereby losses of a few are met by the fund created by the contribution of many, It is a contract between one party called the insured and another party called the Insurer whereby in consideration of payment of premium by the Insured, the Insurer agrees to make good any financial loss the insured may suffer due to operation of an Insured peril (Principles & Practice (P01), CII, 2010).

2.7 Ethiopian Insurance Industry Analysis

Given Ethiopia's enormous population and huge potential upside, the insurance industry is relatively underdeveloped compared to Africa peers such as South Africa, Kenya and Nigeria which had a registered a better penetration performance. The low penetration highlights the significant opportunities that exist in the Ethiopian insurance market especially in Life

insurance, Micro insurance and agriculture insurance which are in the early stages of development and they will be the key in increasing insurance penetration (Akinlo et al., 2014).

Currently, 17 insurance companies are operating in the country with a total of 428 branches, 50 local brokers, 1980 active sales agents and 44 loss assessors throughout the country. As per the data obtained from National Bank of Ethiopia, premiums of the insurance industry, including Life and General insurance, reached ETB 5.6 Billion in the year 2014/15 which represents merely 0.81% of GDP. General insurance premium dominates the sector with birr 5.2 Billion or 94.3% premium market share leaving the balance of birr 314 million or 5.7% to long-term insurance business (EIC, 2014/15a).

2.8 Review of Empirical Study

There is no unique and integrated theory for life insurance demand. According to Outreville (1996), almost all the theoretical works on the demand for life insurance have related their work to the study of Yari (1965) which considered the demand for life insurance within the lifetime allocation process of an individual. In his life-cycle approach, Yaari (1965) explicitly considers the uncertainty about lifetimes. He shows that, given the uncertainty about the time of the individual's death and the desire to leave an adequate income for dependants (spouse or children), buying a life insurance policy enhances the lifetime utility.

Breadwinner demand for life insurance depends on the number of family members. Lewis has considered this relation by expanding theoretical construction of Yari life insurance and also by considering other members of family's preferences. In this mode, the life insurance is demanded by members who are under dependent person that bread winner is facing to income non-confidence lifetime. His demand for life insurance based on the lifetime of breadwinner of the family, is based on the life cycle model in which income is non-confidence (Frank D Lewis 1989). Most of new theoretical studies on the life insurance demand have chosen Yari studies as a starting point (Hakansson (1969) and Fischer (1973)). In the meaning of life cycle model with non-confidence lifetime, Yari shows that a person increases his expected utility by purchasing life insurance and receiving annual. Lewis method is distinctive because he considers the life insurance demand from heir's point of view. In order word, life insurance is demanded for maximizing expectation utility of heirs. In Yari's model structure one consumer buys life

insurance to increase the expected utility of own lifetime.

A number of different models on life insurance demand have been developed and tested empirically in the past with different countries. Browne and Kim (1993) examine the factors that influence the demand for life insurance across 45 countries spread throughout the world which include the under-developed and developed nations. Outreville, 1996 has studied 48 developing countries to investigate empirically the relationships between the development of life insurance sector and the level of financial development and market structure of insurance institutions. In a comparative study, Truett and Truett (1990) examine the factors affecting life insurance demand in Mexico and the US. Other related studies on life insurance demand on a single country basis comprise those that relate life insurance demand with financial development and market structure (Headen and Lee, 1974), household characteristics (Anderson and Nevin, 1975; Cargill and Troxel, 1979; Lewis 1989; Hau, 2000), price expectations (Cargill and Troxel, 1979; Babbel, 1985). A study directly associated the macroeconomic variables with the demand for life insurance has been conducted by Rubayah and Zaidi (2000).

Kjosevski (2012) tried to identify determinant s of the demand of life insurance in 14 countries in Central and South- Eastern Europe (CSEE). Results of this study show that higher, GDP per capita, inflation, health expenditure, level of education and rule of law are the most robust predictors of the use of life insurance. Real interest rates, ratio of quasi-money, young dependency ratio, and old dependency ratio control of corruption and government effectiveness do not appear to be robustly associated with life insurance demand. Celik & Kayali (2009) investigated the determinants of demand for life insurance in cross section of 31 European countries and they found that income is the central variable which affects life insurance consumption. In addition, while the impact of population and income on demand for life insurance is positive, education level and inflation affect life insurance consumption.

Dragos (2014) concluded that Urbanization, incomes and their distributions, and the population degree of education are relevant factors for the development of insurance sector. This study estimates the different effects of the previously mentioned factors for life and non-life sector. We used the econometrics of panel data on 17 emerging economies from Asia and Europe over a 10-year period. We showed that urbanization influenced significantly the life insurance demand

in Asia, but not in Europe. Also, education was found to be significant only for the non-life sector in both regions and income was insignificant in Asia for non-life sector. The study of Nesterova (2008) identify and investigate the impact of the determinants of life insurance demand in Ukraine and several other countries of the region, both CEE and CIS. Using panel data analysis techniques for 14 countries over the period 1996-2006, found that countries with higher life expectancy at birth, income level, old dependency ratio and countries-members of the European Union have higher levels of life insurance consumption, while financial development indicator, inflation and real interest rate reduce the demand for life insurance across countries.

The major macroeconomic and demographic factors investigated in many previous studies are highlighted and discussed in brief below.

2.8.1 Financial Development

Outreville (1996) tested the relationship between financial development (certain scholars describe as financial depth) and the life insurance market in developing countries. Two different proxies have been used as a measurement for financial development. The first one is the ratio of quasi-money (M2-M1) to broad money (M2). This is an indicator for the complexity of financial structure. The second one is the broad definition of money (M2). It is an average value over four years. M2 is regarded as an adequate measure for the financial development in developing countries because banking is the predominant sector in the financial market of developing countries. The findings of Outreville (1996) indicate that the level of financial development directly affects the development of life insurance sector. However, the findings are not statistically significant. Similarly, Lim and Haberman (2004) did an assessment of the impact of a set of the demographic and economic parameters on the purchase of a life insurance in Malaysia. They found that financial growth (depth) has a direct influence on the performance of life insurance market.

2.8.2 Income Per Capita

The income variable in the study of Cargill and Troxel (1979) refers to the normalized disposable personal income. It is the disposable personal income divided by the total household net worth. Rubayah and Zaidi (2000) examine two types of income variable in their study, namely GDP and

income per capita. Income per capita is defined as the GDP divided by the size of the population. A number of studies have confirmed that income level has positive and significant influence on the demand for life insurance. This includes: Ayaliew (2013), Lim and Moshirian (2007), Beck and Webb (2003), Rubayah and Zaidi (2000), Outreville (1996), Babbel (1985), and Truett and Truett (1990). In addition, the findings of Cargill and Troxel (1979), Fortune (1973), Campbell (1980), Beenstock, Dickinson, Khajuria (1986), Mantis and Farmer, 1968; Browne and Kim, 1993; Lewis (1989), Outreville (1996), Derakhshideh & Jalae, 2014 & Ward and Zurbruegg (2000). However, Lim and Haberman (2004), based on the study conducted in Malaysia, suggested that income was not a key factor in explaining the demand in life insurance market.

2.8.3 Inflation

The findings of Browne and Kim (1993) and Outreville (1996) reveal that inflation has a significant negative relationship with life insurance demand. Inflation has a dampening effect on the demand for life insurance. High inflation tends to cause the purchasing of life insurance to be less attractive because of the rising cost of living. The negative impact of inflation had also been widely documented in previous researchers (Beck and Webb, 2002; Ward and Zurbruegg, 2002; Li et al., 2007; Ayaliew, 2013; Li and Moshirian, 2007; Babbel, 1981; Derakhshideh & Jalae, 2014). However, the findings of Cargill and Troxel (1979) and Rubayah and Zaidi (2000) are not in line with the findings of Browne and Kim (1993) and Outreville (1996). Further, the findings of Rubayah and Zaidi (2000) show an insignificant positive relationship between inflation rates and the demand for life insurance.

2.8.4 Price of Insurance

The previous findings reported with respect to the effect of price on the demand for life insurance are indicated that the price of insurance is significantly and inversely related to the demand for life insurance (Babbel, 1985 and Browne and Kim, 1993). A high insurance cost tends to discourage the purchasing of life insurance. The various insurance price indices in the study of Babbel (1985) are the net present cost per 1000 present-valued unit of insurance expected to be in force over any arbitrary time horizon selected based on the published policy values for a male of age 35. Specifically, the price index refers to the ratio of the present value of expected premium cost, net of dividends and accumulations of cash

values, per 1000 present-valued unit of indemnification benefits expected to be received, in excess of the actuarially fair cost. Two different discount rates, namely the yields of 10-year prime grade municipal bonds and double-A-rated corporate bonds, are used to discount the expected future cash flows from the policies. Browne and Kim (1993) use the policy loading charge as the price measure. It is the ratio of the life insurance premiums to the amount of insurance in force. In fact, it is the cost per dollar of life insurance coverage. This finding of Outreville (1996) indirectly verifies the finding of Browne and Kim (1993) that the price of insurance is inversely related to the demand for life insurance.

2.8.5 Adult Literacy Rate

Better literacy and educational level definitely have a positive impact on the health parameters. Literacy rate is given its due importance in this paper as a key to prosperity (Desai, 2012). A study of Derakhshideh & Jalaei (2014), to estimate the demanding life insurance and analysis effective factors on it results there is insignificant relationship between the variable of literacy rate and the life insurance demand. However, other previous studies found that there is statistically significant and positive relationship between literacy rate and demand for life insurance (Burnett and Palmer, 1984; Truett and Truett, 1990). The literacy rate as a proxy of education positively affects the demand for life insurance for several reasons and argues that a higher level of ability to write, read and understanding is associated with a stronger desire to protect dependents and safeguard their standard of living. Browne and Kim (1993) explain that a higher level of education is a good proxy to measure the risk aversion. Outreville (1996) also supports the view expressed by Browne and Kim (1993). To better understand insurance consumption, the degree of risk aversion is an important determinant (Zietz, 2003). The reasoning for such a statement is that higher level of education increases the ability of a person to understand the importance and benefits of savings through life insurance and protection against mortality risk (Beck and Webb, 2002).

2.8.6 Age Dependency Ratio

Age dependency ratio is the ratio of dependents--people younger than 15 or older than 64--to the working-age population--those ages 15-64 (World Bank, 2015). Most studies use this definition of dependency ratio (Truett et al., 1990, Browne and Kim, 1993; Li and Moshirian, 2007). Dependency ratio shows the structure of the household in terms of a number of people,

dependent on the main source of income. A direct relationship exists between life insurance consumption and dependants' life time. Hence, the life policy is required to provide for the survivors at the death of the policy holders (Beck and Webb, 2003). A statistically significant direct association exists between age dependency ratio and life insurance demand (Browne and Kim, 1993; Li and Moshirian, 2007). However, age dependency ratio had an insignificant impact on life insurance purchasing demand (Sen, 2008). Lewis (1989), who developed the life-time utility framework including the preferences of the dependent members of family, found a positive relationship between life insurance demand and dependency ratio. Truett and Truett (1990) confirm the positive impact of age dependency ratio, while Beck and Webb (2002) do not find age dependency to be a robust determinant of life insurance demand. Campbell (1980) and Burnett and Palmer (1984) argue that the protection of dependents against financial hardships is the major force driving life insurance consumption.

2.9 Conceptual Framework of the Study

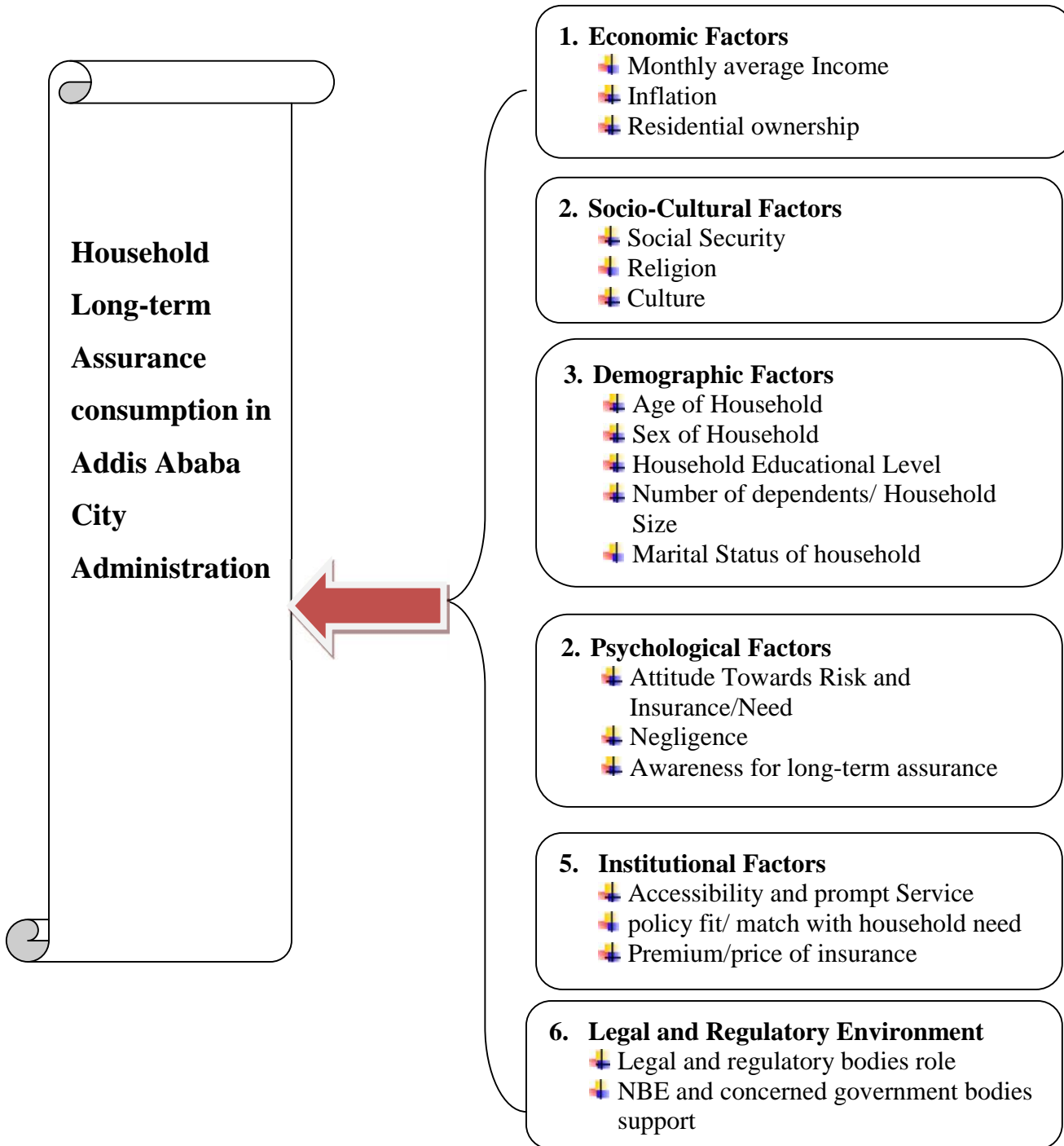
Some factors influencing the demand for life insurance have been extensively studied, while some have not. Many studies reach conflicting conclusions on how various factors affect the demand for life insurance such as age, education, family size, and employment. Those contradictory conclusions may result from different data sets, variable measurement and methodology used. Thus, the relationships between a comprehensive list of factors and the demand for life insurance still need to be examined further.

Hence, this conceptual paper seeks to test the proposed framework of life insurance in the context of Gondar Households. It is worthwhile to do empirical studies to examine whether these factors are considered important and significant as mentioned in the proposed framework. However due to constraints of data, I selected some of determinants to test empirically in Ethiopian context

Based on the pertinent literature discussed earlier, a conceptual framework for the determinant of life insurance is developed (see Figure 1). This study suggests that several factors such as income, sex, price of insurance, education, age, marital status, religion, household size, employment status, home ownership, inflation and savings are considered important factors that determine life insurance.

Therefore the researcher developed the following conceptual framework.

Figure 2.1: Conceptual Framework of the Study



Source: Researcher's own construction 2018.

CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter presents the methodological concerns used in conducting the research and provides a detail justification for each step taken and it has nine sections. The first section describes the study area, the second section depicts the target population, the third section tells about the research design, the fourth section shows the sampling methods and techniques utilized in determining sample size, type and source of data are explained on section fifth, the sixth section discusses on methods used for data collection, the seventh section portray the analytical techniques used for analyze the data collected, the eighth section illustrates specified model, the last section presents definition and measurements of the study variables.

3.1 Description of Study Area

3.1.1 Location of the Study Area

Addis Ababa City Administration (AACCA) is the capital and largest city of Ethiopia. It has a population of 3,384,569 according to the 2007 population census, with annual growth rate of 3.8%. This number has been increased from the originally published 2,738,248 figure and appears to be still largely underestimated.

Addis Ababa is located at an elevation of 2,300 meters (7,500 ft) and is a grassland biome, located at 9°1 48 N 38°44 24 E Coordinates: 9°1 48 N 38°44 24 E. The city lies at the foot of Mount Entoto and forms part of the watershed for the Awash. From its lowest point, around Bole International Airport, at 2,326 meters (7,631 ft) above sea level in the southern periphery, the city rises to over 3,000 meters (9,800 ft) in the Entoto Mountains to the north (CSA, 2007).

3.1.2 Population

Based on the 2007 census conducted by the Ethiopian national statistics authorities the population of Addis Ababa is 3,384,569 million; all of the populations are urban inhabitants. For the capital city 662,728 households were counted living in 628,984 housing units, which results in an average of 5.3 persons to a household. The religion with the most believers in Addis Ababa is Ethiopian Orthodox with 74.7% of the population, while 16.2% are Muslim, 7.77% Protestant,

and 0.48% Catholic. The city is divided into 10 boroughs, called sub cities (*Amharic: ክፍለ ከተማ, kifle ketema*), and 99 wards (*Amharic: ቀበሌ, kebele*), (CSA, 2007).

3.1.3 Target Population

The ultimate aim of this study is to identify and evaluate the factors influencing household's long-term assurance consumption in Addis Ababa City Administration, the case of Ethiopian Insurance Corporation. Therefore, the target population of this study were those household's who are living in Addis Ababa city administration with having a total number of 1,036,820.47. The target populations for the explanatory were randomly selected from the total population of 1,036,820.47 based on the data from Central Statics Agency.

3.2 Research Design

Burns and Bush (2006) defined research design as the master plan specifying the methods and procedures for collecting and analyzing the needed information make up by a set of predicted decisions. Hence, in other to gain accurate and reliable result, it is vital to illustrate a clearer depiction to show the progression of carrying out the research in an appropriate and systematic mode.

According to purpose, research could be broadly divided into descriptive, exploratory and explanatory (Mark, Philip, & Adrian, 2009). An exploratory research is where a study is conducted to explore and find out what is happening or to seek new insights about a phenomenon in a new light" (Robson, 2002 in (Mark, Philip, & Adrian, 2009). Mostly, it is used when a researcher wants to have a deeper understanding of a situation or a problem, or where the area of study is so new or vague that it becomes critically important to examine unknown variable that may affect a particular phenomenon. It, therefore, involves the use of methods like searching for library materials, asking for expert's opinion, and conducting a focus group.

Research may also be explanatory which tries to establish relationship that exists between variables. It aims at identifying how one variable affects the other; it seeks to provide an empirical explanation to the causes and effects relationship between one or more variables (Mark, Philip, & Adrian, 2009). They are also used when the purpose of the study is to answer 'why' in a given context.

Since, the purpose of this study was to identify the factors behind low consumption of long-term assurance and to analyze their relationship with low growth. The study employed explanatory and in this part, the study applied structured questionnaires to collect explanatory data and analyze the cause and effect between the earlier identified factors to low level of consumption.

3.3 Sampling Method and Sample Size Determination

The study was employed random sampling method in order to categorize and select the sample sub cities and *woredas* in the study area. Two stages of simple random sampling procedure were applied to select the survey areas of the sample sub cities and *woredas*, the sampling unit frame household's. At the first stage, five sub cities and 45 *woredas* were selected randomly by simple lottery method of sampling from the total of ten sub cities and 99 *woredas*. In the second stage, households were selected conveniently from the selected five sample sub cities and 45 *woredas* in the study area. Finally, the study conducted based on probability proportional to size (PPS) sampling method with a sample size of 387 randomly selected household's from the total population through simple random and convenient sampling method.

The sample size was determined based on formula provided by Israel and Glenn (1992) to determine the required sample size at 90% confidence level, 0.5 degree of variability and 7% level of precision.

$$n = \frac{Z^2 P (1-p)}{E^2} \quad (1)$$

Where; n = Sample size; Z= confidence level (=0.05) for this survey; p = proportion of the households in the study area, q = 1-p, E= allowable error. p= 0.50, q= 1-0.5 =0.5, Z= 1.96 and E = 0.05. This resulted to a sample of approximately 384.16 the sample survey was increased from 384 respondents to 388 by adding 10% of the result.

3.4 Type and Source of Data

Both qualitative and quantitative data were collected using different methods of data collection such as semi-structured interview and self-administered questionnaires. Both primary and secondary data were also used. Primary data and secondary resources were used in this research to get a more consistent result.

3.4.1 Primary Data

Primary data were first hand data collected to find the explanation for the problem being studied (Zikmund, 2003, pp. 63). In this research, survey questionnaire will be used as data collection method. Questionnaire is the first choice of data collection method due to response on questionnaire is quick, cost saving and efficient if compare to collect the data by interviewing despondence one by one. It is chosen to be the measurement tools in this study to collect data from a large number of respondents. The questionnaire comprises close ended questions in which a respondent can easily answers questions provided in the questionnaires. Furthermore, to avoid communication barriers, the questionnaire was translated to *Amharic* language to minimize miscommunication and misunderstanding.

The face-to-face conversation explaining the purpose of the study and answering questions provided the opportunity to assure the respondents of the need for their input. The response rates were good and all respondents were cooperating. The collected data were arranged into the coding sheet and inserted into computer statistical software SPSS and STATA and analyzed using appropriate statistical techniques.

3.4.2 Secondary Data

Secondary data were gathered from the findings stated in published and unpublished documents and literatures related to the research problem. These were based from the recent literatures such as; articles, journals, reports, working papers, books, and internet sources related to the consumption of long-term assurance. Information related to factors influencing the consumption households long-term assurances were collected from secondary sources of data. The secondary data was collected from the corporation, the National Bank of Ethiopia, the Central statistics agency and the internet.

3.5 Data Analysis

Computer programs used to analyze the data are Microsoft excel, SPSS and STATA software's. This software was assisting in data management and calculates the statistics on the data been collected from questionnaires done by the respondents. Descriptive statistic and inferential statistic were also applied.

3.5.1 Descriptive Analysis

Descriptive analysis mean raw data are arranged in a form for easy to understanding or to be easy interpretation and ordering, rearranging and manipulating data to provide descriptive information (Zikmund, 2003, pp. 55). As a result, descriptive analysis role is to classify the relationship between every variable, for example the data from demographic factors consists in the questionnaire. The result of these data will be converted into graph format, chart or table form, this shall allow the researcher to interpret, read and understand the data easily on the factors that influencing the life insurance consumption.

3.5.2 Inferential Analysis

Inferential analysis is the statistical analyses used to draw the inferences and conclusion about a population based on the sample (Zikmund, 2003, pp. 738).

3.6 Model Estimation

3.6.1 The Logit Regression Model

The reason behind choosing Logit regression model is that it has several advantages over other models like: the model works more with binary choices, it is more robust: the independent variables don't have to be normally distributed, or have equal variance in each group, it does not assume a linear relationship between the independent variables and dependent variable, it handles nonlinear effects, the dependent variable need not be normally distributed, there is no homogeneity of variance assumption, normally distributed error terms are not assumed, it does not require that the independents be interval and also it does not require that the independents be unbounded.

Consumption of long-term assurance policy is determined through ownership of a long-term assurance policy and its consumption becomes a binary choice variable. Assuming i , (Binary Dependent Variable) is the observed reaction of each sample population (i^{th} observation). Hence, $i = 1$ represents the consumption of long-term assurance policy (CLTAP); and $i = 0$ for non-consumption of the policy. Thus, the dependent variable used in probing the drivers of the long-term assurance consumption is considered a binary dummy variable having a value of one (1) if the individual household possesses a long-term assurance policy and having a value

of zero (0) if the individual household does not have a long-term assurance policy. The logistic regression model used is stated as below:

$$\text{Prob} (= 1/X) = f(X,)$$

$$\text{Prob} (= 0/X) = \{1- f(X,) \}$$

$$f (X,) = X'$$

In which X is the significant impact and represents the parameters.

i, the Consumption of long-term assurance policies are the dependent variable in the model. The Consumption of long-term assurance policies depends on the following variables (Choice of variables was informed by literature). **X1** = Sex of household head; **X2** = marital status of the household's; **X3** = Level of education of household's; **X4** = age of the household's; **X5** = religion of the household's; **X6** = Dependent/Family size of the household's; **X7** = Income level of households; **X8** = Residential ownership; **X9** = Expansion of commercial banking and micro finance sector; **X10** = availability of other social security systems; **X11**= long-term assurance consumption need; **X12** = Cultural influence; **X13** = Easily accessing long-term assurance service; **X14** = Premium /Price of long-term assurance; **X15** = Awareness about long-term assurance; **X16** = expected inflation rate on the market trend; **X17** = long-term assurance fit with household need; **X18** = effects of legal and regulatory bodies on long-term assurance growth; **X19** = negligence or carelessness of the household's.

Then, from the above assumption this study derives the underlying latent variable model that satisfies the classical linear model assumptions. In this thesis, the household's long-term assurance consumption will be modeled as a latent or unobservable variable Y_i^* determined by:

$$Y_i^* = \beta_0 + \beta X_i + \varepsilon_i \quad (2)$$

Where; β_0 is the intercept,

β is the coefficient estimated

X_i is a matrix of independent variables determining household long-term assurance consumption

ε_i is the error terms, with zero mean and constant variance.

$$Y_i = \begin{cases} 1 & \text{if the } i^{\text{th}} \text{ household is consuming life insurance} \\ 0 & \text{otherwise} \end{cases}$$

3.6.2 Definitions of Variables and Working Hypothesis

In this study the variables representing households long-term insurance consumption is taken as the dependent variables. The potential explanatory variables that would influence household's long-term assurance consumption were selected from field survey observations and based on review of literature on related studies. A total of nineteen explanatory variables were hypothesized to explain the dependent variable in this study.

Household's Long-term insurance consumption: this is the dependent variable representing household's long-term assurance consumption. Each and every household is assumed to make their own preference of long-term assurance consumption in their day to day life in order to maximize utility subject to their given budget constraints. The binary dependent variable is a dummy variable which equals to one (1), if households consume long-term assurance policies takes the level YES and zero (0) otherwise.

Household's monthly income: a household's long-term assurance consumption depends crucially on the household's monthly average income level. In this case households' income is considered to include income of other members of the family in the household. It is a continuous variable, measured in Ethiopian birr, and it is expected that will have a significant positive effect on long-term assurance consumption. Income is the most frequently tested factor and consistently found to be of significant influence. Thereby, income itself is a relevant factor regarding the demand for life insurance: firstly, a certain minimum level of income is required to make life insurance affordable and, secondly, income determines the level of a household's total consumption and, therefore, the rational amount of life insurance according to theoretical models (Yaari, 1965; Lewis, 1989).

Age of household head: age is a continuous variable and expected to have inverse relationship. Age captures household's life cycle and its association with long-term assurance consumption. Based on theoretical considerations age is expected to be an influential variable on long-term assurance consumption since it influences the expected probability of death and the amount of future earnings an individual is expected to accumulate (Campbell, 1980; Lewis, 1989). Empirical tests suggest that the influence of age depends on income class and type of insurance (Hammond et al., 1967; Ferber & Lee, 1980). While people on lower income classes seem to

find less value in life insurance as they age, more affluent households perhaps consider it as an appropriate tool for retirement savings. Controlling for a life-cycle effect, age is found to be of positive but diminishing influence as the household matures (Showers & Shotick, 1994). On a country level, the positive effect of population age might be related to higher economic development and increased need for retirement savings (Truett & Truett, 1990).

Household dependent/family size: refers to the number of persons who live in a given house. Long-term assurance consumption is related with number of household's dependent size. The number of dependents is thought to increase the financial protection requirements of a household throughout the literature. A review of the empirical literature demonstrates a predominantly positive influence of dependents on regular long-term assurance consumption. However, in some cases a high number of dependents lead to lower long-term assurance consumption, possibly due to budget constraints (Ferber & Lee, 1980). Also demand elasticity is decreasing in the number of children suggesting economies of scale in long-term assurance consumption (Showers & Shotick, 1994). Browne and Kim (1993) found a strong positive influence of national dependency ratios, that is children below age 15 over population between 15 and 64, for long-term assurance uptake and even stronger for the amounts insured.

Educational level of households head: is a categorical variable with various alternatives such as; 1 for those who are illiterate, 2 elementary, 3 high schools, 4 college diploma, and 5 university degrees and above. It is expected that educational level of the household believed to improve knowledge of long-term assurance consumption, and also the higher the educational level, the larger the probability long-term assurance consumption. Education is intuitively associated with increased long-term assurance spending. Higher formal education is thought to foster need awareness and enable more objective analysis for the long-term assurance consumption decision (Hammond et al., 1967). Moreover, higher educated individuals are hypothesized to have a stronger inclination to protect their dependents by means of long-term assurance (Truett & Truett, 1990). Generally, education correlates with higher consumption for long-term assurance in empirical investigations (Hammond et al., 1967; Burnett & Palmer, 1984).

Sex of the households head: is a dummy variable with a value of 0 for female headed household and 1 for male headed household. The study expects that male headed households tend to use

long-term assurance consumption. Gandolfi and Miners (1996) investigate influence of sex on long-term assurance consumption. Namely, consumption for insurance could vary among men and women based on difference in lifetime. Following the assumption that the insurance consumption is increasing with probability of death and the fact that men live shorter than women, they will demand insurance more. Gandolfi and Miners (1996) showed that there are meaningful differences between husbands and wives in their demand for life insurance.

Residential ownership: is a dummy variable with a value of 1 if the household owns the house, 0 if the household lives in rented house. It is expected that the dwelling status of a respondent household is considered to be a major determinant of the long-term assurance consumption. It is widely believed that homeownership is positively related to the amount of life insurance held (Anderson and Nevin (1975)).

Current saving interest rate: is a dummy variable equal's one (1) if existing saving rate paid by commercial banks influences the consumption of long-term assurance CLTAP, and zero (0) otherwise. Savings is likely to have negative impact on long-term assurance consumption. As long-term assurance policies often contain elements of voluntary savings for investments, Fortune (1973) argues that long-term assurance policies are substitutes for other forms of savings and financial assets, e.g., bonds. Headen and Lee (1974) also argues that long-term assurance consumption may be determined, at least partially, by household financial asset portfolio decisions. Empirical findings are mixed. Beck and Webb (2003) found a positive relationship between long-term assurance penetration and private saving. In contrast, Wasow (1986) report negative and significant impact of gross domestic saving on long-term assurance premiums.

Expected inflation rate on the market trend: is a dummy variable equal's one (1) if inflation influences the consumption of long-term assurance CLTAP and zero (0) otherwise; The magnitude and volatility of inflation disrupts financial market operations, may deter long-term savings and erodes the value of assurance policies with fixed monetary benefits, thereby making them less attractive (Kjosevski, 2012). As long-term assurance policies usually provide cash benefits over a long time horizon, high inflation rates can erode the real value of this monetary amount, making policy benefits particularly sensitive to the effects of inflation (Li et al., 2007). In addition, inflation volatility affects economic and monetary stability, and this is detrimental

to the profitability and efficiency of long-term assurance firms in general (Feyen, Lester & Rocha, 2013). As such, price stability is considered one of the major determinants for long-term assurance market development (Beck & Webb, 2003). These findings are supported by the majority of other research studies, which show that inflation has a negative effect on long-term assurance consumption (Beck & Webb, 2003; Brown & Kim, 1993; Fortune, 1973; Hwang & Gao, 2003; Outreville, 1996; Ward & Zurbruegg, 2002).

Availability of other Social Security Systems: is a dummy variable equal's one (1), if the availability of social security's influences his decision to consumption of long-term assurance CLTAP, and zero (0) otherwise. Social security programmes provide basic protection benefits to the citizens of a country, thus displacing household's long-term assurance (Brown & Kim, 1993). Generally, there is a disagreement on the effect of social security on long-term assurance consumption. Research studies show that the extent to which social security influences life assurance consumption differs across countries. Early research indicated that an increase in social security expenditure decreased long-term assurance provided by private long-term assurance assurers (Lewis, 1989; Beenstock, Dickinson & Khajuria, 1986; Li et al., 2007; Skipper & Klein, 2000). However, other studies showed little effect of social security on long-term assurance consumption (Fitzgerald, 1987) and contrasting results on the effect of social security on long-term assurance consumption (Lorent, unpublished; Feyen, Lester & Rocha 2013; Ward & Zurbruegg, 2002).

Easy Access to get services: is a dummy variable equal's one (1) if the Easy access to household's claims influences his consumption of long-term assurance CLTAP and zero (0) otherwise.

Premium Level/ Price of Insurance: equals one (1) if households consider the premium they pay before consuming of long-term assurance CLTAP and zero (0) if they do not. Browne and Kim (1993) report negative and significant relationship between the consumption for long-term assurance and its price. Outreville (1996) Suggested that life expectancy at birth reflects the actuarially fair price of long-term assurance in a country and hypothesized a positive relationship between life expectancy and long-term assurance consumption. It is likely that the actuarial price of long-term assurance decreases with increase in life expectancy as noted by Outreville (1996). Ward and Zurbruegg (2002) also hypothesized a positive relationship

between long-term assurance consumption and life expectancy.

Marital status of households head: is a categorical variable with various alternatives such as; 1 for those who are Single, 2 Married, 3 Divorced, and Widowed/ Widower. Marital status has also been found to strongly affect both household and individual long-term assurance consumption in previous studies Hammond, Houston, and Melander (1967); Mantis and Farmer (1968)). Mantis and Farmer (1968) were among the first to examine how marital status influences long-term assurance consumption of households. Premium expenditures were used as the dependent variable to see if there was an association with six demographic independent variables. They expected that married men would spend more money on long-term assurance than single men.

Religion of households head: is a categorical variable with various alternatives such as; 1 for those who are Muslim, 2 Orthodox, 3 Catholic, 4 Protestant and Other (specifies). Primarily on Islamic countries, as long-term assurance is frequently disapproved of in some countries on the grounds that it is non-compliant with Shariah law (insurance is considered by some to be a hedge against the will of God). Outreville, (1996) does not find a significant effect, but Browne and Kim (1993) and Beck and Webb (2003) find a negative and significant coefficient for this variable. The low consumption for long-term assurance in many Muslim countries has prompted the emergence of Takaful insurance, which is structured in compliance with Shariah law (see e.g.Redzuan, Hendon, Rahman, and Aidid (2009)).

Negligence: is a dummy variable equal's one (1), if the negligence behavior of the household influences his decision to consumption of long-term assurance CLTAP, and zero (0) otherwise. Using consumer panel data from a mid-sized southwestern city, Burnett and Palmer (1984) explored 14 psychographic factors, such as work ethic, self-esteem, community involvement, fatalism, socialization preference, religious salience, and so on, as influential in determining long-term assurance consumption. They found that long-term assurance is related with personality traits of individuals. The results showed that if people are self-sufficient and believe that they are in control of their own wellbeing, they will buy more life insurance. Other interesting results include: people who are more likely to own life insurance purchase are individuals who are not opinion leaders, are not price conscious, are not information seekers, and are low in self-esteem.

Legal and regulatory environment: Institutional structures are formal and informal mechanisms which govern human behavior in a country (Elango & Jones, 2011) and include the legal and judicial systems in place to protect consumers and private firms. All these aspects are important for financial market development (Kaufmann, Kraay & Mastruzzi, 2010; Ward & Zurbruegg, 2002). Few studies have tested the effect of legal and regulatory environments on long-term assurance consumption due to a lack of good indicators to measure these variables. The quality of the assurance regulatory system is particularly important for the development of the life assurance market, especially within developing countries. A good and well-functioning assurance regulatory framework provides a platform for long-term assurance markets to flourish (Hussels, Ward & Zurbruegg, 2005; Feyen, Lester & Rocha, 2013; Kjosevski, 2012; Ward & Zurbruegg, 2002). A sound regulatory framework promotes confidence in the long-term assurance industry. Conversely, a poor assurance regulatory framework may hinder the development of the long-term assurance sector (Lester, unpublished). A lack of regulatory oversight, corruption, fragmented business environments, unstable political systems and other poor institutional measures are key structural failures reducing long-term assurance consumption in developing economies (Lester, unpublished).

Attitude toward risk: In the SCF, respondents' attitudes toward risk are measured by the question. The household with greater risk aversion is expected to own more life insurance a protection against future financial risk. The average risk group is the control group in the model and the other two groups are measured as categorical variables. An attitude is defined as 'a predisposition to respond' by many theorists. Widespread view is that attitudes are complex systems made up of three components. These are; cognitive component referring to the person's thoughts, affective component referring to person's feelings, and the cognitive component referring to the person's behavioral tendencies (Ajzen and Fishbein, 1980). By defining attitudes as predispositions to respond, Ajzen and Fishbein, expected attitudes to predict and explain human behavior. The empirical studies measuring the attitude toward a specific behavior are found to predict actual behavior much better than the studies measuring the attitudes toward the target at which the behavior is directed (Ajzen, 1991).

The Error-term that represent the other influencers of consumption of long-term assurance CLTAP in Addis Ababa city but were not captured in the modeling of the regression equation.

CHAPTER FOUR

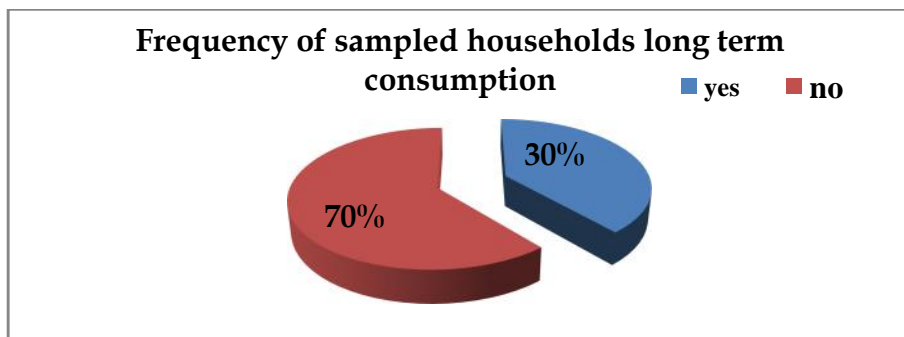
4. RESULT AND DISCUSSION

This chapter presents and discusses on analysis results on factors influencing household's long-term assurance consumption in Addis Ababa city the case of EIC. Descriptive statistics used to summarize the data. The description was made using frequency distribution, percentage, mean and standard deviation. Statistical tests like; heteroskedasticity, multicollinearity test were employed to see the association between the dependent and independent variables and t-test were also employed to identify differences between dependent and independent variables. In addition, an econometric model of Binary Logit was applied using STATA to identify major factors that influence household's long term assurance consumption.

4.1 Response Rate

During data collection stage, the researcher distributed 423 questionnaires by himself across the city to sampled household population and out of the 423 questionnaires the researcher collected 387, so the response rate is about 91.5%.

Figure 4.1: Long-term Assurance consumption of sampled households



Source: Researcher's survey data (2018)

The above figure shows that long-term assurance consumption of households by the respondents from sampled survey. The study revealed that out of 378 sampled respondents, at that time 69.8% (270 respondents) of the households were not consuming and the remaining 30.2% (117 respondents) households were consuming different types of long-term assurance policies. The result reveals that households found in the city who are not consuming long-term assurance are greater than that of the consuming households. This result shows that there is low level of long-term assurance consumption in Addis Ababa city Administration.

4.2 Demographic Characteristics of Sample Household's

As per table 4.1 the characteristics of respondents from household's perspective were presented. Sex of respondents household 60.2% of them was female and 39.8% were male. This indicates that more or less the sexes compositions of the respondents were fair and indicate that majority of the city sample were consisting of female.

Table 4.1: Demographic Characteristics of Sample Households

Descriptions	Sub-divisions	Households=387	Percentage
Sex of Household	Male	154	39.8%
	Female	233	60.2%
Age of Household	<26	35	9.0%
	26-36	141	36.4%
	37-40	72	18.6%
	41-50	108	27.9%
	>51	31	8.0%
Educational level of the Household	Illiterate	17	4.4%
	Primary School	53	13.7%
	Secondary School	68	17.6%
	Certificate	76	19.6%
	College Diploma	23	5.9%
	First Degree	102	26.4%
	Second Degree and Above	48	12.4%
Religion	Islam	95	24.5%
	Orthodox	207	53.5%
	Protestant	51	13.2%
	Catholic	20	5.2%
	Other, Specified	14	3.6%
Number of Dependent	<3	162	41.9%
	3-6	159	41.1%
	>6	66	17.1%
Marital Status	Single	130	33.6%
	Married	220	56.8%
	Divorced	15	3.9%
	Widowed/Widower	22	5.7%
Home Ownership	Own Residence	104	26.9%
	Rented House	283	73.1%

Source: Own survey, 2018.

The survey result shows that most of the respondent household's ages were range from 26 up to 36 years old which counts 36.4%, from 41 up to 50 years old it accounts 27.9%, from 37 up to 40 years old it accounts 18.6%, below 26 years old and above and from 51 years old 9% and 8% respectively. It points out that large numbers of the city households were consisting of young's and adult age groups in the sampled population.

In terms of educational qualification 26.4% had first degree holders, 19.6% had different certificates, 17.6% were completed secondary schools, 13.7% were completed primary schools, 12.4% had second degree and above, 5.9% had college diplomas and the remaining 4.4% household respondents were illiterates. This implies that majority of the respondent household's were literate and most had degree holders. Literature has once again indicated that increase in the level of education plays a critical role in increasing the insurance mindedness of individuals which helps them patronize long term assurance policies with high level of impartiality.

In terms of number of dependents or family size of the respondent households 41.9%, 41.1% and 17.1% of the respondent households had minimum of three dependents, three up to six family dependents and more than six dependents correspondingly. It clearly indicates that almost all of the respondent households had more than three family members. It may be anticipated that as the number of children increases the need for long-term assurance also falls all else remaining constant. For this reason, this study suggests a negative relationship between household size and long term assurance consumption.

The majority of the respondent households in terms of religious composition the survey result showed that 53.5% were Orthodox, and Islam (Muslim) were 24.5%, Protestant were 13.2%, the remaining 5.2% were Catholic and the rest 6.7% were others. This denotes that most of the respondents were Orthodox.

The finding on the above table indicates that most of the respondent households marital status 56.8%, 32.3%, 5.7% and 3.9% were married, divorced, widowed/r respectively. It points out that majority respondent households were married and fewer respondents were divorced with their spouses. Among the respondents 73.1% households does not own a residence and the remaining 26.9% of the respondents have their own residence in Addis city. This indicates that most of the respondent household's were living in rented houses.

Table 4.2: Socio-economic and Cultural Characteristics of Sample Households

Descriptions	Sub-divisions	Households=387	Percentage
Average monthly income	<3,000.00	44	11.4%
	3,001-6,000	83	21.4%
	6,001-9000	117	30.2%
	9001-12,000	82	21.2%
	12,001-15,000	55	14.2%
	>15,001	6	1.6%
Commercial Banks & Micro Finances	No	65	16.8%
	Yes	332	83.2%
Social Securities	No	62	16%
	Yes	325	84%
Need for long-term assurance polices	No	212	54.8%
	Yes	175	45.2%
Cultural	No	228	58.9%
	Yes	159	41.1%
Easily accessibility of long-term assurance service	No	288	74.4%
	Yes	99	25.6%
Insurance premium	No	145	37.5%
	Yes	242	62.5%
Awareness	No	126	32.6%
	Yes	261	67.4%
Inflation	No	125	32.3%
	Yes	262	67.7%
Corporations policies not fit with household need	No	186	48.1%
	Yes	201	59.1%
NBE & concerned government support	No	83	21.4%
	Yes	304	78.6%
Negligence	No	214	55.3%
	Yes	173	44.7%

Source: Own survey, 2018.

In respect of monthly average income, majority of the respondent households earn greater than birr 6,001.00 but less than birr 9,000.00 and accounts 30.2%, 21.4% received between birr 3,000.00 to birr 6,000.00, 21.2% made between birr 9,001.00 to birr 12,000.00, 14.2% were got

birr 12,001.00 to 15,000.00, 11.4% were earn less than birr 3,000.00 and 1.6% were got greater than birr 15,000.00 monthly income. It implies that as the majority of the respondent's monthly average income was below birr 9,000.00

Majority of the respondent households 83.2% had saving accounts on either in government and private commercial banks and/or from various micro finance institutions but the remaining 16.8% of the respondents had no such saving account at all. This indicates that most of the householder's were using saving account to keep their idle money either of the two organizations.

Nearly all household respondents 84.00% had using different types of social security systems like idir, ikub, social health, retirement benefit packages and so on but only 16.0% of the respondents had no such social security packages. This indicates that majority of the respondent households were using different social security benefit packages widely.

Most the respondents 54.8 % at that time didn't need to have long-term assurance consumption with many factors and the remaining 45.2 % of the respondents had the need to consume long term assurance and their reasons. This indicates that most of the sampled households had no the need to consume long term assurance policies.

Most respondents 58.9% had affected by culture influences and the remaining 41.1% of the respondents had no such cultural effect to consume long-term assurance consumptions. This indicates that majority of the respondent households were in cultural influence to consume long term assurance polices.

Nearly 74.4% of the respondents had no easily access long-term assurance service in the city and only 25.6% of the respondents had easily obtained the service. This indicates that majority of the respondent households were unable to access easily long-term assurance branch offices in the city of Addis Ababa.

Most respondent's 62.5% long-term assurance consumption were affected by premium and the remaining 37.5% of the respondents had no such insurance price effect to consume long-term assurance consumptions. This indicates that majority of the respondent households were in affected by expensive insurance premium to consume long-term assurance polices.

Nearly 67.4% of the respondents had awareness about long-term assurance policies benefits and type and only 32.6% of the respondents had no consciousness about long-term assurance. This indicates that majority of the respondent households in the city of Addis Ababa had consciousness about long-term assurance.

Most respondent's 67.7% long-term assurance consumption were affected by inflation and the remaining 32.3% of the respondents had no inflation on consumable goods and services and also to consume long-term assurance consumptions. This indicates that majority of the respondent households were affected by highly volatile and continuous inflation to consume long-term assurance policies.

Nearly 59.1% of the respondents the corporation product didn't match with household's existing need and 48.1% of the respondents fit with the sampled household's need of long-term assurance. This indicates that majority of the respondent households need were not match with the available corporation long-term assurance policies.

Most of the respondents 78.6% believed that NBE and other concerned government bodies didn't give the necessary support for long-term assurance growth but only 21.4% of the respondents didn't agreed with. This indicates that majority of the respondent households thought that NBE and other concerned government bodies didn't do their home work for long-term assurance growth with the city.

Most respondents 44.7% had no consumption of long-term assurance because of their carelessness behavior and the remaining 55.3% of the respondents had no negligence to consume long-term assurance policies. This indicates that majority of the respondent households were not in inattentive to consume long-term assurance products.

4.3 Factors Influencing Household's Long-term Assurance Consumption

Table 4.3 below represents the regression results as estimated in the Logit model and the parametric singe of the variable's coefficient were taken for analysis of the relationship between dependent and independent variables. The dependent variable, life insurance demand depends on the explanatory variables (sex, marital status, education level, age, income, ease of use social security systems, current households need, culture, ease of accessibility, premium (price of

insurance), existing long term product doesn't fit with potential customer need, government and other concerned stakeholders support and negligence or carelessness). A positive coefficient means the probability for the dependent variable increasing is high when the attributes of independent variable increases. A negative coefficient decreases the chance that the dependent variable will raise when the attributes of independent variable has risen.

Table 4.3: Logit Regression Results of Factors Influencing Long Term Assurance Consumption

Insurance Consumption	ITcons	Coefficient	Std. Err.	Z	P> z	dy /dx
	Sex	1.0653**	0.4327	2.46	0.014	0.211
	Mrsta	-1.2573***	0.3154	-3.99	0.000	-0.264
	Educ	-0.4240**	0.1508	-2.81	-0.005	-0.089
	Age	1.1387***	0.2372	4.80	0.000	0.239
	Relig	-0.1776	0.1976	-0.90	0.369	-0.037
	Nodep	-0.1723	0.2703	-0.64	0.524	-0.036
	Income	1.6995***	0.2885	5.89	0.000	0.357
	Howner	-0.6527	0.5339	-1.22	0.221	-0.128
	Bnkmicro	-0.9585	0.8067	-1.19	0.235	-0.220
	Social	-2.6440***	0.9165	-2.88	0.004	0.351
	Cneed	1.1811*	0.6991	1.69	0.091	0.249
	Cult	-3.3312***	0.6013	-5.45	0.000	-0.571
	Access	-3.9474***	0.6998	-5.64	0.000	-0.518
	Prem	-1.2507***	0.4846	-2.58	0.010	0.242
	Aware	1.2458**	0.5667	2.20	0.028	0.235
	Infla	0.3230	0.4913	0.66	0.511	0.066
	Nfit	-1.8714***	0.5250	-3.56	0.000	0.373
	govothersupr	-0.6043	0.5229	-1.16	0.248	-0.134
	negcarel	-1.6563***	0.4931	-3.36	0.001	-0.327
	_cons	-6.2540***	2.1672	-2.89	0.004	

***, **and* indicates that level of significant at 1%, 5% and 10% level respectively.

Source: Own survey, 2018.

Overall, the tests of significance of the model implied that it was statistically significant as the p-value exceeding the chi-square statistics is highly significant at 1%, 5% and 10% level of significance (at 1% margin of error) where p-value exceeding the probability of the χ^2 statistics = 0.000. Furthermore; all of the anticipated magnitudes of the coefficients of the variables in the logit model of this study were satisfied and detailed analyses are presented on table 4.3.

The coefficient of β_1 (1.0653) was anticipated that male household head tend to have more long-term assurance consumption than their counter part female and likely to have a positive relationship, this anticipation is fulfilled. A positive relation means from table 4.3 above Marginal effect (dy/dx) value, an individual household's sex becomes male in sample observation the probability of long term assurance consumption will rise by 21.1% assuming the effect of all other factors remains constant. The coefficient is statistically significant at 5% level of significance. Since one of the key reason is that the duty to take care for their livelihood of dependents fall on males, this implies that male headed households tend to consume long-term assurance is to provide cover and financial security for one's offspring against financial loss because of premature death of the bread winner than female in order to protect the entire family or economic dependants against possible loss of income resulting from his premature death. This finding is consistent with the finding of Gandolfi & Miners (1996).

The coefficient of β_2 (-1.2573) was assumed to have a negative relationship that single households will tend to have less long-term assurance consumption than married person. Thus, the result of the regression coefficient made this assumption sound. A negative relation means from the table 4.3 above Marginal effect (dy/dx) value, in the case of Addis Ababa city when an individual before got married the probability of consuming long-term assurance will decrease by 26.4% assuming the effect of all other factors held constant. In other way around as the household got married the probability of consuming long-term assurance will increase. The coefficient is statistically significant at 1% level of significance. This implies that married person long-term assurance consumption was better than single person. However, this finding contradicts with the finding of Mantise & Famer (1968) who investigate a negative insignificant relationship between life insurance demand and household marital status. Their explanation was unmarried individuals have more disposable income and thus more resource to buy life insurance than those married.

The coefficient of β_3 , (-0.4240) was asserted that as the level of education decreases the household long-term assurance consumption will tend to decrease. A negative relationship between long-term assurance consumption and low level of education would mean from table 4.3 above Marginal effect (dy/dx) value, in the case of Addis Ababa city will decrease by 8.9% assuming the effect of all other factors remains constant. Moreover, when an individual household education level advances the likelihoods of long-term assurance consumption will increase. The coefficient is statistically significant at 5% level of significance. Literature also suggests that higher education increases the consumption of long-term assurance since individuals can better discover the types of life insurance products obtainable on the market. Again, higher education may enable people to have the aspiration to offer security for dependants against risks and safeguard their standard of living. This finding is also the same with many of the previous studies like Li et al. (2007), Beck and Webb (2003).

The coefficient of β_4 , (1.1387) it was expected that as a household head age get higher there would exist a positive relationship between long-term assurance consumption and age. This expectation is satisfied, the logit result of this study suggests a positive relationship between long-term assurance consumption and age would mean from table 4.3 above. Marginal effect (dy/dx) value, in the case of Addis Ababa city when household respondent's age increases the probability of long term assurance consumption will rise by 23.9% assuming the effect of all other factors held constant. The coefficient is statistically significant at 1% level of significance. This may be as a result of the need for the household to secure his future with life insurance and to accumulate income for retirement purpose. The finding is also consistent with previous study of Truett & Truett (1990) and Showers & Shotick (1994).

The coefficient of β_7 , (1.6995) was projected that a household's monthly average income is one of the prominent economic factor to influence and determine long-term assurance consumption positively. Which means as income increase households would be more confident in paying long-term assurance premium or price and thus the relationship between household long-term assurance and income tends to be positive. The logit result shows a positive relationship between long-term assurance consumption and income. The marginal effect (dy/dx) value shows that when a household's income increases by 1 birr, the probability for long-term assurance will increase by 35.7% assuming all other factors remains constant. The coefficient is statistically

significant at 1% level of significance. This result is consistent with many of the previous related works like Roman (2011), Ayaliw(2013), Amerot (2014) who were able to find positive significant relationship between income and life insurance demand.

The projected coefficient of β_{10} , (-2.644) was negative. This projection was satisfied at a statistically significant error level of 1% and a P-value of 0.004. This implies that the likelihood that the consumption of long-term assurance policies may increase when there is low availability of social security packages. The marginal effect in this case shows that an increase in number of social security's in the city by 1% will leads to a decrease in long-term assurance consumption by 35.1%. Social security's systems are the new variable that this study introduced in the model. Specifically, it tested the influence of being easily available of social security's, in terms of time, culture and cheapness that hinders the consumption decision of long-term assurance policies.

The coefficient of β_{11} , (1.1811) was predictable to be positive and this prediction was satisfied at a statistically significant error level of 10% and a P-value of 0.091. This implies that there is the likelihood for the long-term assurance consumption to increase as the need to have long-term assurance of the households improves. This is due to the fact that proper appreciation of the significance of assurance policy for better life in future. Specifically, it tested the influence of being eager to have long-term assurance policies highly affects the consumption decision.

The coefficient of β_{12} (-3.3312) was projected to be negative, which means that the possibility for the consumption of long-term assurance falls if cultural influence of the society is high. This expectation was met. The expected coefficient in the regression equation was statistically significant at 1% level; given that P-value of 0.000. Consumption for long-term assurance polices falls as cultural influence becomes high.

The coefficient of β_{13} (-3.9474) was projected as negative. This means that there is a lower dissemination of long-term assurance branch offices of the corporation in Addis Ababa city. As the number of the corporation branches dissemination found to be lower, then the consumption of long-term assurance policy tends to decrease. The coefficient is statistically significant at 1% level of significance with a P-value of 0.000. Here, households will increase their consumption of long-term assurance policies, when underwriting and claims processing working units were become more assessable and easily reachable.

The coefficient of β_{14} , (-1.2507) was likely to have a negative sign. This anticipation was fulfilled at a statistically significant level of 1% with the P-value of 0.010. This implies that there is likelihood for the consumption of long-term assurance policies to enhance if the premium payment amount becomes less and rational. A decrease in price or premium of insurance by one birr tends to increase the consumption of long-term assurance by 24.2%. Therefore, the probability of long-term assurance consumption increases as premium payment decreases. The reduction in premium payment, other things being constant, and long-term assurance policies incurred thereby having positive association with consumption. This result is in agreement with some previous studies that suggest that the lower the price of insurance the higher the expectation of consumption (Hwang and Greenford, 2005).

The coefficient of β_{15} , (1.2458) was predictable to be positive and this anticipation was satisfied. This anticipation was fulfilled at a statistically significant level of 5% with the P-value of 0.028. This reveals that there is the likelihood for the consumption of long-term assurance policies as awareness creation through different mechanisms improves. An increase in awareness creation of long-term assurance policies tends to increase the consumption of long-term assurance. Therefore, the probability of long-term assurance consumption increases as people get aware about the policies and its benefit.

The coefficient of β_{17} (-1.8714) was likely to be negative. This anticipation was fulfilled at a statistically significant level of 1% with a P-value of 0.000. Negative relationship means that the when households believe that the policies benefits of the assurance service providers does meet or fit with their needs then the probability of consuming long-term assurance increases; in this case by 37.3%. Therefore; if the corporation works on policies development in order to meet household's expectation then the long-term assurance consumption will grow.

The coefficient of β_{19} , (-1.6563) was predictable to be negative and this anticipation was satisfied. This anticipation was fulfilled at a statistically significant level of 1% with the P-value of 0.001. This result shows that as the households are becoming negligent; the probability of having life insurance decreases by 32.7%. This entails that there is the likelihood for the consumption of long-term assurance policies as the households avoid carelessness and give more attention to their life style.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

This chapter gives summary, conclusions, limitation and recommendations based on the findings discussed in the previous sections. The main objective of the study was to understand and explain factors influencing household's long-term assurance consumption in Addis Ababa city the case of Ethiopian Insurance Corporation. The specific objectives were: to assess household's long-term assurance consumption in Addis Ababa City.

The data were collected using semi structured questionnaire from 387 simple randomly and conveniently selected households through. Both quantitative and qualitative research techniques were employed. The qualitative research technique was added partly to fill some gaps that are more pronounced in quantitative methods. As a result, the quantitative data collected were analyzed using both descriptive and inferential statistics and the qualitative data using narrations and direct quotations, which combined, have enabled to answer the research questions of the study.

Different characteristics of the households were analyzed among long-term assurance consumer and non-consumers. These characteristics were categorized as demographic (age, sex, marital status, education level, number of dependants, income), socio-cultural (religion, culture, social security's), economic (residential ownership, monthly average income, saving and inflation), psychological (attitude towards risk and insurance, need and negligence), institutional (premium, accessibility, policies fit with customers need and awareness creation works done by the corporation), legal and regulatory body (banking and micro finance sector development, NBE and other concerned government body support). Moreover, the econometric analysis binary logistic model was used to determine the relationship between the explanatory variables and the consumption of long-term assurance.

From the households' demographic variables sex, marital status, education and age of the household head were hypothesized to affect household's long-term consumption significantly. The descriptive result showed that number of dependents had no significant association with

household's life insurance demand status. The socio-cultural variables such as availability of social security's like idir, ikub, social health assurance and retirement packages, cultural influences were hypothesized to have significant association with households' long-term assurance status. Religion had no association with households' long-term assurance consumption status. The psychological variables such as attitude towards insurance and negligence were hypothesized to have strong significant association with households' long-term assurance status.

Economic variables such as monthly average income were hypothesized to have significant association with households' long-term assurance consumption. Inflation and residential ownership had no association with households' long-term assurance consumption status.

In line with this, from institutional variables like easily service accessibility, existing long-term policies offered by the corporation doesn't fit/match with customer's need, awareness and premium/price of insurance were hypothesized to have significant association with household's long-term assurance consumption status. From legal and regulatory bodies related variables like NBE and other concerned government bodies role and support were hypothesized to have significant association with households' long-term assurance consumption status.

5.2 RECOMMENDATIONS

Based on the objectives and outcomes of the study, long-term assurance consumption in the study area is very low. Therefore, emphasis has to be given in designing strategies aimed at improving long-term assurance consumption of the households. Furthermore, the corporation must introduce practical procedures and action plans that will increase the need and consumption for their policies so as to expand their market shares and premium income. In view of this, the following recommendations are put forwarded for consideration.

- ❖ Premium should be reduced to attract customers and also, market segmentation by age, income level, educational level and employment status.
- ❖ New policies should be redesigned by insurance service providers with more attractive benefit features to in order to attract potential households.
- ❖ Insurance service providers should work together on continuous bases to improve public

awareness towards to insurance.

- ❖ Insurance service providers should work together with commercial and national banks on mortgage protection assurance like developed countries do.
- ❖ Government and other concerned stake holders should play their role and support to increase long-term assurance consumption in particular and insurance in general.
- ❖ Government should give due emphasis to long-term assurance sectors since the sector has a great importance for the economy growth just like that of general insurance by letting them those pension program should be held by long-term assurance companies and setting compulsory health insurance for the societies.
- ❖ Due to limited time and resource, there were relevant issues that remained untouched. Therefore, the researcher also recommends further study to be conducted in the future to investigate the factors influencing long-term assurance consumption in Addis Ababa City Administration.

5.3 CONCLUSIONS

Life insurance penetration in Ethiopia is very low as compared to developed nation where almost all the lives are covered. Customers are the real pillar of the success of long-term assurance business and thus it's important for insurers to get new business out of it by offering need based innovative products and also keep their existing policyholders satisfied and retained as long as possible.

This study evaluates the factors that influence long-term assurance consumption in Addis Ababa city as the case of Ethiopian Insurance Corporation and found that the variables that influencing the consumption are level of demographic, socio-cultural, economic, psychological, institutional and legal and regulatory bodies related with.

Generally, the results of the Binary logistic model indicated that sex, age, income, consumption need and awareness had positive and statistical significant effect on households' long-term assurance consumption status; marital status, education, social security's, culture, easily accessibilities and prompt service, premium, policies fitness with household need and negligence

had negative and statistical significant effect on households' long term assurance consumption status.

Finally it is able to observe that majority of households in Addis Ababa city administration were able to affirm that their decision to long-term assurance consumption was related and understandably had higher level of perception to agree decision to life insurance is determined with their demographic and socioeconomic settings . Therefore an individual decision to life insurance demand is mostly related and determined with his/her demographic, socioeconomic, socio-cultural and legal factors.

In conclusion, this study has identified the factors that influencing long-term assurance consumption such as; sex, age, income, consumption need, awareness, marital status, level of education, social security's, culture, easily accessibilities and prompt service, premium, policies fitness with household need and negligence.

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7 APPENDICX

Appendix 1: Logit Regression Results of Life Insurance Consumption

```

Logistic regression                               Number of obs   =       387
                                                Wald chi2(19)   =       107.24
                                                Prob > chi2     =       0.0000
Log pseudolikelihood = -118.42249                Pseudo R2      =       0.5417
  
```

	Robust					
ltcons	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
sex	1.065313	.4326639	2.46	0.014	.2173076	1.913319
mrsta	-1.257321	.3154581	-3.99	0.000	-1.875607	-.6390345
educ	-.4240606	.1508581	-2.81	0.005	-.719737	-.1283842
age	1.138705	.2372097	4.80	0.000	.6737827	1.603628
relig	-.1776028	.1976159	-0.90	0.369	-.5649229	.2097174
nodep	-.1723535	.2703825	-0.64	0.524	-.7022934	.3575865
income	1.699513	.2885636	5.89	0.000	1.133939	2.265087
howner	-.6527816	.533935	-1.22	0.221	-1.699275	.3937119
bnkmicro	-.9585835	.8067264	-1.19	0.235	-2.539738	.6225712
social	-2.644055	.9165504	-2.88	-0.004	.8476495	4.440461
cneed	1.181126	.6991432	1.69	0.091	-.1891695	2.551422
cult	-3.331245	.6013765	-5.54	0.000	-4.509921	-2.152569
access	-3.94742	.6998835	-5.64	0.000	-5.319166	-2.575673
prem	-1.250777	.4846596	-2.58	-0.010	.3008616	2.200692
aware	1.245898	.5667408	2.20	0.028	.1351062	2.356689
infla	.3230282	.491329	0.66	0.511	-.6399589	1.286015
nfit	-1.87147	-.525067	-3.56	0.000	-.8423577	-2.900583
govothersupr	-.6043104	.5229614	-1.16	0.248	-1.629296	.4206751
negcarel	-1.656361	.4931762	-3.36	0.001	-2.622969	-.6897536
_cons	-6.254013	2.167259	-2.89	0.004	-10.50176	-2.006263

Appendix 2: Marginal Effects Result after Logit

. mfx

Marginal effects after logit

y = Pr(ltcons) (predict)
= .30051649

variable	dy/dx	Std. Err.	z	P> z	[95% C.I.]	X
sex*	.2118092	.07243	2.92	0.003	.069842 .353776	.602067
mrsta	-.2642968	.06585	-4.01	0.000	-.393369 -.135225	1.80362
educ	-.0891402	.03538	-2.52	0.012	-.158492 -.019789	4.37726
age	.239363	.04963	4.82	0.000	.142097 .336629	2.89406
relig	-.0373332	.03782	-0.99	0.324	-.111461 .036795	2.09819
nodep	-.0362298	.05864	-0.62	0.537	-.15117 .07871	1.75194
income	.3572484	.05705	6.26	0.000	.245434 .469063	3.10078
howner*	-.1281748	.0974	-1.32	0.188	-.319074 .062725	.268734
bnkmicro*	-.2203932	.22137	-1.00	0.319	-.65427 .213483	.832041
social*	-.3516575	.06423	-5.48	0.000	-.477539 -.225776	.839793
cneed*	.2495278	.12675	1.97	0.049	.0011 .497956	.452196
cult*	-.5711148	.08386	-6.81	0.000	-.73548 -.40675	.410853
access*	-.5188881	.06375	-8.14	0.000	-.643842 -.393934	.255814
prem*	-.2427986	.09947	-2.44	0.015	-.437753 -.047844	.625323
aware*	.2355101	.09527	2.47	0.013	.048787 .422234	.674419
infla*	.066259	.11319	0.59	0.558	-.155582 .2881	.677003
nfit*	-.3738402	.10045	-3.72	0.000	-.570713 -.176967	.51938
govoth~r*	-.134513	.11407	-1.18	0.238	-.358089 .089063	.78553
negcarel*	-.3272288	.0852	-3.84	0.000	-.494209 -.160248	.447028

(*) dy/dx is for discrete change of dummy variable from 0 to 1

Appendix 3: Econometric Model Test

7.1 Heteroskedasticity Test

```
. hettest
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
      Ho: Constant variance
      Variables: fitted values of ltcons
      chi2(1)      =      0.02
      Prob > chi2  =      0.8920
```

7.2 Variance Inflation Factor

```
. vif
```

Variable	VIF	1/VIF
bnkmicro	2.54	0.394162
cneed	2.37	0.422599
educ	2.33	0.429661
cult	2.11	0.474413
infla	2.04	0.489969
aware	1.95	0.511562
prem	1.91	0.524436
nfit	1.87	0.533632
howner	1.83	0.545065
age	1.77	0.563977
access	1.74	0.574998
income	1.62	0.619093
negcarel	1.60	0.625767
social	1.56	0.639219
govothersupr	1.50	0.668807
mrsta	1.49	0.671464
nodep	1.31	0.760708
sex	1.25	0.797783
relig	1.14	0.875171
Mean VIF	1.79	

7.3 Omitted Variables Test

. ovtest

Ramsey RESET test using powers of the fitted values of ltcons

Ho: model has no omitted variables

F(3, 364) = 18.90

Prob > F = 0.0000

7.4 Link Test for Specification Error.

. linktest

Source	SS	df	MS	Number of obs =	387
-----+-----				F(2, 384) =	198.27
Model	46.6675847	2	23.3337923	Prob > F =	0.0000
Residual	45.1928804	384	.117689793	R-squared =	0.5080
-----+-----				Adj R-squared =	0.5055
Total	91.8604651	386	.23798048	Root MSE =	.34306

ltcons	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
-----+-----					
_hat	.7931197	.1055061	7.52	0.000	.5856777 1.000562
_hatsq	.2331482	.1043744	2.23	0.026	.0279314 .438365
_cons	.0173989	.0273582	0.64	0.525	-.0363917 .0711895

Appendix 4 Questionnaire

Appendix A

Self structured Interview Questions prepared for middle and front line Management staffs of the corporation and broker's

SECTION 2. Self- Structured Interview Questions for Brokers and Management staffs of the corporation

1. Where do you categorize your company's long term assurance consumption overall performance,

Very high	High	fair	Low	Very low

2. What do you think that the influencing factors that contribute to the low level of growth of long term assurance in the corporation if the level is fair and below that?
3. Do you believe that, the corporation fulfills the existing and potential customer's expectation and need with regards to the long term assurance?
4. What do you think are the opportunity and challenges of long term assurance market in the corporation in particular and in the industry level in general?

If there is anything more you want to discuss regarding the growth of long term assurances please explain below.

Appendix B

Questionnaire to be filled by the corporation employees and management staffs who are currently working on long term assurance working units found in Addis Ababa city.

ID.number:_____



ST. MARY'S UNIVERSITY

School of Graduate Studies

Post Graduate Program in General Business Administration

Dear, all respondent;

My name is Yibeltal Birhanu and Currently, I am conducting a thesis work entitled **factors influencing householder's long term assurance consumption in Addis Ababa city** in partial fulfillment of the requirements for the award of Master of General Business Administration (MBA) at St. Marry University. This thesis work will help me to understand householders on their reasons for the minimal consumption of long term assurance and the result will be used as vital information to understand how to increase their needs on life insurance.

Therefore, I kindly request your at most attention to respond to all questions which are included in this survey questionnaire by giving your honest view and answers. On top of that, I once again, would like to assure you that, all those information received from you would be used only for academic purpose as indicated above hence would be kept confidential.

Your enthusiastic support in this regard is highly appreciated in advance. If you have any query that needs my further explanation related on this questioner questions, please reach me at my personal email address www.yihana08@gmail.com or you can call/ text on phone number 0911812080.

SECTION I: - DEMOGRAPHIC INFORMATION

Please indicate a tick mark () in the box for the following information in which your answer corresponds to.

1) Please indicate range of your age ?

- A. less than 26 B. 26-35 C. 36-40 D. 41-50 E. above 50

2) Specify your sex ? A. Male

B. Female

3) your work experianice in EIC?

A. Bellow one year

B. Above 1-5 years

C. 6 – 10 years

D. Above than 10 years

4) What is your Educational Level?

A. Primary school level

B. Secondary high school level

C. Certificate

D. Diploma

E. First degree

F. Post graduate and above

5) Please indicate Your Status in the corporation?

A. Management staff

B. Non- managerial staff

SECTION II: - FACTORS INFLUENCING HOUSEHOLDER’S LIFE INSURANCE CONSUMPTION IN ADDIS ABABA IN CASE OF EIC.

This section tries to evaluate the reasons which are influencing the minimum performance of householder’s consumption on long term assurance in Addis Ababa, taking the Ethiopian Insurance Corporation as a case. Therefore, please indicate the degree/your level of agreement with the following statements by ticking () on the appropriate box against each question specified under each five point likert Scales in the table below.

N.B:- Strongly Agree = 5, Agree = 4, Neutral = 3, Disagree = 2, and strongly Disagree =1

S.No	Items	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
	<i>factors related with Institutional/corporation</i>					
6	Awareness creation made by the corporation is <i>NOT</i> adequate.					
7	The corporation management doesn't works actively on professional development on the sector.					
8	Does the corporation delayed and bureaucratically underwriting and claims procedure affect the consumption?					
9	Long term product varieties and benefits are <i>NOT</i> suitable and also not continuously updated to meet customer need.					
10	The corporation's life insurance premium is more expensive than other private insurer companies.					
11	The corporation has no enough experts in the sector.					
12	Inadequacy of life insurance outlet branches available in Addis Ababa.					
13	The top management of the corporation doesn't give necessary attention for long term business.					
	<i>factors related with Legal and regulatory</i>					
14	Does the growth of commercial banking sector and small micro finance enterprises affect householder's long term consumption?					

15	Does accessibility of other social security system like pension, idir and health insurance influence long term consumption?					
16	Does National bank of Ethiopia restrict/limit on investment of long term assurance reserve pressure premium determination of long term assurance consumption of life insurance?					
17	Have current adjustment made by National bank of Ethiopia on saving interest and exchange rate revision pressure householder's long term consumption?					
18	National bank of Ethiopia and other stakeholders doesn't give the necessary attention for growth life insurance in the corporation?					
19	National bank of Ethiopia doesn't give the necessary support for insurance growth in general.					

20) If you have any additional comments or suggestion, please?

I thank you again for you cooperation!!!

8 DECLARATION

I the undersigned, declared that this thesis is my original work, prepared under the guidance of Simon Tarekegn (Ass. professor). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any higher learning institutions for the purpose of earning any degree.

Name

St. Mary's university, Addis Ababa

Signature

May, 2018

9 ENDORSEMENT

This thesis has been submitted to St. Mary's university, school of graduate studies for examination with my approval as university advisor.

Advisor

St. Mary's university, Addis Ababa

Signature

May, 2018