ASSESSMENT OF ENTERPRISE LEVEL RISK MANAGEMENT PRACTICES OF INSURANCE COMPANIES

BY:

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June, 2015

Addis Ababa, Ethiopia

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A Thesis Submitted To St. Mary's University, School Of Graduate Studies In Partial Fulfillment of the Requirements for the Degree of Master of Accounting and Finance

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ST.MARY UNIVERSITY

SCHOOL OF GRADUATE STUDIES

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

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

____________________________ ______________________

Abraham Kassahun Signature

St. Mary's University, Addis Ababa June, 2015

ENDORSEMENT

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

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Abstract

Enterprise risk management is a process affected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, manage risk to be within its risk appetite and to provide reasonable assurance regarding the achievement of entity objectives. Regarding insurance companies operation there are inherent and significant risks which affect their performance. As an objective all insurance companies require effective and efficient performance to provide competent, consistent and quality insurance services. To achieve this objective insurance company need to have proper enterprise level risk management practices which mitigate possible risks and ensure their sustainability in the sector through maintaining to increase shareholder's value, companies' profitability and insurance sector growth. The objective of this study is to assess and identify the major strengths and weakness of insurance companies own enterprise level risk management practices and to forward some remedial recommendation to strengthen their effort on their functions. In order to collect the required data, the study used both primary and secondary data sources. Mainly the primary data is collected using questionnaires formulated and it was also used interview technique with insurance company's risk management unit/department managers to collect additional data. Moreover, the study used document survey to prepare literature and to analyze the findings. To make the study effective and complete, the researcher is used census and convenient sampling techniques. With these techniques 17 insurance companies and 119 management and senior officers were taken as sample. The study identified that there are some positive steps so far taken by insurance companies to strengthen their risk management practices. These include board's members are aware of risk management requirements expected from them by the NBE, in most companies risk management is delegated and relatively qualified personnel's are assigned, existence of risk management policies and procedures. On the other hand, the study observed a number of risk management weaknesses. Significant proportion of insurance companies' lack consideration of risk management as an essential component to their business, great effort is made for insurance risks other than relevant risks, strategy and program for risk management functions, internal capacity building, up-to-date and relevant data for informed decisions making and monitoring and evaluation. In addition to the above, companies also has limitations on integration with HR management and policies, capability to optimize the full benefits of risk management functions, and benchmarking experience, documented business continuity/contingency plans, companies failed to test risk management tools, relevant risks will future risks and lack of commitment from management and board as well as shortage of recourses are the main problems for risk management functions. Based on the above conclusion drawn, some recommendations are forwarded by the study. These includes that insurance companies should work hard to give great value and focus to the development of risk management functions awareness, build their internal capacity in relation to risk management functions to achieve the objectives of risk management, risk management units functions has to be monitored and evaluated regularly, HR management and policies has to be integrated with risk management units and NBE should review the existing risk management guidelines within the context of insurance companies' capacity and evaluate their effectiveness.

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List of Abbreviations

CAS:	Casualty Actuarial Society
ERM:	Enterprise Risk Mismanagement
NBE:	National Bank of Ethiopia
TRM:	Traditional Risk Management

CAPTER ONE

INTRODUCTION

1.1. Background of the Study

In the recent years, Enterprise risk management (ERM) has become increasingly relevant for managing corporate risk. In contrast to the traditional based risk management, enterprise risk management (ERM) considers the company's entire risks portfolio in an integrated and holistic manner. It further constitutes part of the overall business strategy and is intended to contribute to protecting and enhancing shareholders value (Meulbroek, 2002; Hoyt and Liebenerg, 2011). The need and demand for ERM as a holistic and company -wide risk management framework is a result of several changing internal and external factors in the corporate environment, which involve a broaden risk scope, a higher risk complexity and increasing interactions and dependencies between risk sources.

Relevant external factors include e.g globalization, industry consolidation and deregulation as well as regulatory pressure (Pagach and war 2011).

Furthermore, rating agencies have started to incorporate companies' internal risk management systems in their rating processes (Hoyt and liebenberg 2011).

In general the internal factors can reduce the objective of risk management which is to enhance the firm's shareholder value (Meulbroek, 2002). Overall, an ERM system thus enables the board and senior management to better monitor the company's risk portfolio as a whole (Beasley, Clune , and Hermanson, 2005).

The benefits implementing ERM are comprehensively discussed in the literature. The consideration of the company's entire risk Portfolio in a holistic process is said to contribute to reduce the company volatility, stock price volatility and external capital costs as well as a higher capital efficiency, where the consideration of risk dependencies further allow companies to exploit synergy effects in the others the risk management process (Liebenerg and Hort, 2003). However, the necessary financial and human recourse, as well as the required IT systems, constitute an obstacle for ERM (Mcshane, Nair and Rustambekov, 2011).

In addition, establishing a strong risk management culture and the development of adequate (compensation) system are needed for the successful implementation of ERM (Rochette, 2009). Furthermore, ERM shifts risk management to a more offensive function that also accounts for emerging and strategic opportunities and involves a better decision process with respect to operational and strategic decisions in order to eventually increase share holder value (Liebenerg and Hoyt, 2003: Rochette, 2009).

To ensure the appropriate to coordination and functionality of the ERM system, a senior executive such as a chief risk officer or a committee of experts should direct the risk management process. Despite of the growing importance of holistic risk management systems, however, ERM has only been adopted by companies.

The practice of insurance service in its modern sense is a recent phenomenon in Ethiopia which is said only to have been started in the early 1920s. Pursuant to Proclamation No. 83/1994 and Proclamation on the Licensing and Supervision of Banking and Insurance many insurance companies were established. These insurance companies provide different insurance services to the nation such as fire, motor, marine, engineering, health; personal accident and life insurances services are the common one.

As the economy is growing fast, the demand for insurance service is increasing rapidly as well. In Relation to insurance companies operation there are inherent and significant risks which affect their performance. Therefore, insurance companies require effective and efficient performance to provide competent, consistent and quality insurance services. To achieve this main objective, insurance companies need to have proper enterprise level risk management strategies and policies that ensure their sustainability in the sector. Here question arises that how insurance companies manage their inherent and significant risks which arises from their operational activities to contribute to increasing shareholder's value, profitability of companies, sector development and regulatory compliance.

Thus, the main purpose of this study is to assess and identify the major strengths and weaknesses of insurance companies' enterprise level risk management practices. The study is used 9 (nine) parameters to evaluate their practices in relation to enterprise risk management. These parameters are board responsibility, structure and resources, strategic, policies and procedures, communication, appraisal and reward, benefits and outcomes, auditor view, risk identification and preparedness and nature of risk facing insurance companies.

1.2. Statement of the Problem

Now a day, the insurance sector in Ethiopia is growing faster with the economic growth of the country. As a result of this, the demand for insurance service is growing rapidly along with insurance companies' sell of different insurance policies.

Before 1993 there is only one public insurance company which is the Ethiopian Insurance Corporation (EIC) that provides insurance service to the country as a monopoly. However with the new economic policy reform since 1994 several private insurance companies have been established and provide insurance service to the nation. By the end of year 2014, there is one (1) public and 16(sixteen) private owned insurance companies are operating in the country.

With these companies, inherent and significant risks are a major issue as they mobilizes public fund in a common pool system and transfer this fund to insured's to recover from their suffering of loss.

The major operational, liquidity and credit risks in relation to the insurance companies' operational activities should be identified and managed properly at enterprise level in order to increase shareholder's value, companies' profitability and insurance sector growth. If the insurance companies do not address and manage their own enterprise level risks, it will result to reduce shareholders value, profitability of the company and growth of the sector.

However, from different reports which were revealed by the NBE in relation to insurance companies enterprise level risk management practices, it is recognized that most insurance companies do not have adequate awareness about enterprise level risk management practices. Based on this fact, this paper has an aim to take corrective measures by insurance companies to strengthen their enterprise level risk management practices.

Therefore, this study is assessed and identified the major strengths and weaknesses of insurance companies own enterprise level risk management practices and to forward some remedial recommendations to strength their effort on their functions.

1.3. Research Questions

The major research questions of the study are:-

1. What are the major enterprise level risks associated with the insurance companies operations?
2. How insurance companies manage their own enterprise level risks?
3. What are the major problems that insurance companies face to manage their enterprise risks?
4. What are the major steps to be taken by insurance companies to strengthen their effort on their enterprise risk management functions?

1.4. Objective of the Study:

1.4.1. General Objective of the Study:

The general objective of the study is to assess and identify the major strengths and weakness of insurance companies own enterprise level risk management practices.

1.4.2. Specific Objectives of the Study:

The specific objectives of the study are:

1. To identify the major enterprise level risks affecting insurance companies operations.
2. To identify insurance companies experience and focus to their enterprise level risk management functions.
3. To identify the major problems facing insurance companies to manage their enterprise level risks.
4. To identify the measures taken by insurance companies to strengthen their effort on their enterprise risk management functions.

1.5. Significance of the Study

This study conducted on insurance companies which are found in Ethiopia and it brings the following benefits to insurance sector development. These are

1. It help insurance companies to identify their weaknesses on their enterprise risk management process and it will creates an opportunity to them to take the appropriate measures to strengthen their effort based on the findings.
2. It helps as an input for regulatory bodies especially NBE to control insurance companies' riskiness and to develop up to date directives and policies to mitigate possible operational related enterprise risks.
3. It creates an opportunity as a benchmark for other researchers' who wants to make detail investigation on the topic.

1.6. The Scope and Delimitation of the Study

Scope of the Study

The study mainly focuses to assess enterprise level risk management practices of insurance companies which are found in Ethiopia.

In order to assess insurance companies capability in their risk management practices, the study is used 9 (nine) evaluative parameters which have direct linkages with insurance companies own enterprise level risk management functions such as board responsibility, structure and resources, strategies, policies and programs, communications, appraisal and reward, benefits and out comes, auditors view, risk identification and nature of risks facing insurance companies.

Delimitation of the Study

The following were the delimitations while conducting the study. These are

1. There was shortage of time with all activities of the research according to researcher's full time work.
2. There was high cost, as it is fully covered by the researcher.
3. There were challenges form respondents to fill the questionnaire properly and to return it on time.
4. And also there was a challenge from respondents to give their honest opinion about the issue due to confidentiality issues.
5. Respondents were biased of telling their company's weakness.

1.7. Organization of the Study

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

The second chapter reviews relevant literatures related to the concepts and theories of enterprise risk management that are appropriate to the study.

The third chapter is presented about the type of the research and the methods which is employed in the study. It discussed about sources of data, methods of data gatherings, techniques of data analyzing and presenting.

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

The last and the fifth chapter is about conclusions and recommendations on the topic which includes summary of findings, conclusions and possible recommended course of actions.

CAHAPTER TWO

REIVEW OF LITERATURE

2. 1.Definition of Enterprise Risk Management

The word enterprise for Enterprise Risk Management (ERM) itself shows a different meaning than Traditional Risk Management (TRM). Enterprise means to integrate or aggregate all types of risks; using integrated tools and techniques to mitigate the risks and to communicate across business lines or level compared to Traditional Risk Management. Integration refers to both combination of modifying the firm's operations, adjusting its capital structure and employing targeted financial instruments (Meulbroek, 2002).

It was argued that the term ERM has quite similar meaning with Enterprise-Wide Risk Management (EWRM), Holistic Risk Management (HRM), Corporate Risk Management (CRM), Business Risk Management (BRM), Integrated Risk Management (IRM) and Strategic Risk Management (SRM) (D'Arcy, 2001; Liebenberg and Hoyt, 2003; Kleffner et al., 2003; Hoyt and Liebenberg, 2006; Manab et al., 2007; and Yazid et al., 2009).

There are various definitions of ERM. For example, in the middle of 2004, the Committee of Sponsoring Organization of the Tread way Commission (COSO) released the Enterprise Risk Management Integrated Framework. COSO defines Enterprise Risk Management as a process, affected by an entity's board of directors, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

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

Lam (2000) on the other hand, defines Enterprise Risk Management as an integrated framework for managing credit risk, market risk, operational risk, economic capital, and risk transfer in order to maximize firm value. Makomaski (2008) defines Enterprise Risk Management as a decision making discipline that addresses variation in company goals.

Makomaski (2008) defines Enterprise Risk Management as a decision-making discipline that addresses variation in company goals. Alviunessen and Jankensgård (2009) point out that Enterprise Risk Management is concerned about a holistic, company-wide approach in managing risks, and centralized the information according to the risk exposures. They use the term Risk Universe, which is the risk that might impact on the future cash flow, profitability and continued existence of a company. In other words, risk universe is risk that could affect the entity of the company. If risk universe can be identified, the next step is to take an appropriate action such as risk mapping process, accessing the likelihood and impact and curb the risk based on the organizations' objective.

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

There are two key points that must be highlighted according to the definitions given above. The first key point is the main role of ERM itself it integrates and coordinates all types of risks across the entire organization. It means that risks cannot be managed in silo approach. All risks occurred in the entity must be combined and managed in enterprise approach. The second key point is by using ERM, users are able to identify any potential incidents that may affect the organization and know their risk appetite. If the risk appetite is specifically known, any decision made by the organization to curb risks may be parallel with the firm's objective (Walker et al., 2003).

2.2. Development of Enterprise Risk Management

This section will discuss briefly the development of ERM especially on the emerging factors that influence companies to shift from risk management practices (Traditional Risk Management) to Enterprise Risk Management. The discussions will focus from the theoretical perspectives; academic and professional bodies.

D'Arcy (2001) has postulated that the origin of risk management was developed by group of innovative insurance professors i.e. Robert I. Mehr and Bob Hedges in 1950s. In the 1963s, the first risk management text entitled "Risk Management and the Business Enterprise" was published. The objective of risk management at that time was to maximize the productive efficiency of the enterprise. At that time, risk management was specifically focused on pure risks and speculative risks.

In the 1970s, when Organization of Petroleum Exporting Countries (OPEC) decided to reduce production in order to increase the price, financial risk management became an interesting issue highlighted by firms because the increment in oil price has affected the instability in exchange rates and inflation rate (D'Arcy, 2001; Skipper and Kwon, 2007).

Later in 1980s, political risks attracted more attention from multinational corporations as a result of different political regimes in different countries. For example, when the government announced a new policy, investors and corporations must make decision to reduce risk (Skipper and Kwon, 2007). According to D'Arcy (2001), during this era, organizations did not properly apply risk management because they did not apply the risk management tools and technique such as options. Therefore, it had increased the cost of operations of the organizations. During this era, the silo mentality still remains (Skipper and Kwon, 2007).

In the 1990s, the use of financial tools such as forwards and futures are widely practiced in the United States. In addition, pressure from shareholders and stakeholders to take more action rather than buying insurance to fight against uncertain loss or financial crisis, influenced managers to mitigate risks more proactively.

It demanded managers to retrieve better risk information and risk management techniques. During this time, risk management was closely related to financial, operational and strategic risks, not only hazard risks (Skipper and Kwon, 2007).

Hazard risk refers to any source that may cause harm or adverse effects such as equipment lose due to natural disasters for example, the Hurricane Katrina that happened in United States in 2005. There are various risks that can occur. These include financial risk, strategic risk and operational risk. Financial risk refers to any loss due to economic conditions such as foreign exchange rates, derivatives, liquidity risks and credit risks. Apart from the corporate scandals in Enron, WorldCom, Polly Peck and Parmalat, the last decade showed how serious the financial scandal was to corporations and banks (Jones, 2006; Benston et al., 2003). Another example was in 1994, the Orange County's Investment Pool lost USD1.7 billion from structured notes and leveraged repo positions, while in 1995, Barings Bank and Daiwa Bank lost USD1.5 billion and USD1.1 billion respectively due to losses in futures and options trading and unauthorized derivatives trading. The same financial disaster occurred in 1996 when Sumitomo Corp. lost USD1.8 billion as a result of the actions of its head copper trader, Yasuo Hamanaka who secreted his activities in unauthorized copper trading on the London Metal Exchange (Holton, 1996; D'Arcy, 2001).

Li and Liu (2002) define strategic risk as the uncertainty of loss of a whole organization and the loss may be profit or non-profit, while Mango (2007) points out that there is no specific definition of strategic risk due to the inability to well-define and understand it. Strategic risk may arise from regulatory, political impediments or technological innovation. For example a specific guide entitled the Basel Committee (2001) define operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk is more related to internal problems, such as employee fraud, corporate leadership, segregation of duties, information risk and product flaws. For example, Marc Dreier was found guilty and charged for 20 years of imprisonment due to fraud of fictitious promissory notes, which is valued at approximately USD700 million (Weiser, 2009).

As the results that risks might occur in multiple perspectives, it can be concluded that risk management (Traditional Risk Management) could not be managed separately. It has to be integrated in a holistic manner. These factors are among the main cause of the emergence of Enterprise Risk Management in late 1990s. Organizations face risks and the risks depend on many factors. For example operational risk, strategic risk, political risk, technology risk, legal risk, financial risk, reputational risk and human capital risk. Most of the literature mainly concern on four types of risk i.e. financial risk, hazard risk, operational risk and strategic risk (D' Arcy, 2001; CAS, 2003; Cassidy, 2005). Cassidy (2005) found that Enterprise Risk Management existed in planning, organizing, and leading and controlling organizations activities in order to minimize firms' major risks such as financial, strategic and operational risks.

The professional bodies such as Casualty Actuarial Society (CAS, 2003) have reported six factors that force organization to practice Enterprise Risk Management. The first factor is related to complicated risks. Organization not only faced four basic types of risks such as hazard, financial, operational and strategic risk, but there were other risks such as the risks in advance technology, the accelerating pace of business, globalization, increasing financial sophistication and the uncertainty of irrational terrorist activity. These risks did not occur by themselves. It might be happened because of the combination of both types of risks (for example combination of globalization factors and advance in technology). The second factor came from external pressures such as regulators, rating agencies, stock exchanges, institutional investors and corporate governance bodies. The Australia/New Zealand Risk Management standard released in 1995 was an example of a formalized system of risk management and report the organization's management pertaining to the performance of the risk management system.

The third factor is related to a sense of portfolio point of view which refers to an increasing tendency towards integrating the risks, which previously have been managed in silo. The fourth factor is that risk need to be quantified even if it is impossible to quantify all risks. By quantifying risks, management will be able to estimate the magnitude of risk or degree of dependency with other risks efficiently in making decision process. The fifth factor is the Boundary-less Benchmarking factor. The implementation of risk management now is not only limited to the insurance or financial services, but is now common to other organizations. In addition, rapid changes in technology allow related information on risks to be transferable easily across the organizations. The final factor is related to risk can be treated as opportunity. Previously, any risk that arises has been treated in defensive approach to be minimized or avoided. Now, risk must be understood as the value-creating potential of risk. As a result of past experience in mitigating risk, organizations may develop expertise in managing those risks and may be able to transfer their expertise to other organizations. Lam (2000) as cited in Wolf (2008), have stressed that risks may arise from multiple perceptions in daily business operations. For example, Mercer Management Consulting showed that most Fortune 1000 companies suffered declining in stock due to failure in decisions in terms of strategic (58 percent), operational (31 percent) and financial (6 percent).

Therefore, firms need to integrate all risks in their daily operations, in order to mitigate any probabilities on risks in the systematic manner. In addition, by using Enterprise Risk Management, it helps firms to manage better financial results (Jablonowski, 2006). As argued by Lam (2000), practicing Enterprise Risk Management should be observed upon three perspectives: globalization; changes in the role of risk managers; and regulatory. From the globalization perspective, it created multiple risks perceptions, fast growing technologies and interdependency of risks. From the role of risk manager, risks should not be treated as a trouble, but also as an opportunity. Finally from the regulatory oversight factors perspective, appointing Chief Risk Officer (CRO) and the establishing Risk Management Committee (RMC), the adoption of ERM will become a reality.

2.3. Benefits of Enterprise Risk Management

ERM is important in many perspectives which have four main reasons (KPMG International, 2006)

(I) Organization desire to reduce potential financial losses;

(II) Organization desire to improve business performance;

(III) Due to the regulatory compliance requirements; and

(IV) Organization desire to increase risk accountability.

On the other hand, (PricewaterhouseCoopers, 2008) found that firms in are motivated to implement
ERM because of the following reasons:

(I). To adopt good business practice;

(II). To corporate governance pressure;

(III). It gives firms a competitive advantage; and

(IV). It comes from regulatory pressure and also investment community pressure.

2.4. Types of Inherent and Significant Risks

Each insurer is unique in terms of size, complexity and risk characteristics. Specific minimum standards for inherent and significant risks have been identified by the National Bank of Ethiopia (NBE) are the following:

Credit risk: Includes bonds and others fixed income default risk, derivatives counter party, loans and insured debts, and trade debtors are among others.

Market risk: Stocks and others variable income investments price volatility risk, real state, changes in interest rates and reinvestment risk.

Liquidity risk: Volatility and mismatch between the current resources and current obligation of the company.

Underwriting risk: Under priced products risk or insufficient premium and weakness in subscription process (risk acceptance). The development of new products is considered an increasing factor of this risk, but not a risk itself.

Technical Reserves risk: Risk of holding of insufficient technical reserves by the company such as unearned premium provision, outstanding claims etc.

Operational and Technological risk: Risk of loss as a result of problems in systems, operational process and company management. It includes IT system risks.

Contagion and Related Party Risk: Risk of loss from contagion (group's problems) or transactions with related parties.

Reinsurance risk: Insurers, especially general insurers, often rely heavily on their reinsurers for claim reimbursement. Among others, the credit risk arising in the reinsurance area can be very significant, making it critically important for insurers to establish formal policies with regard to the selection of reinsurers. The use of reinsurance in capital management, the timing of payments of reinsurance premiums and claims in liquidity management the relationship between the reinsurance program and pricing and underwriting management, are among the factor to be considered in the reinsurance risk management process.

CHAPTER THREE

RESEARCH DESIGHN AND METHODOLOGY

3.1. Research Design and Method

The study has the purpose to assess and identify the major strengths and weakness of insurance companies own enterprise level risk management practices. Hence, the study employed a descriptive research design with the objective of describing about insurance companies practices on their enterprise risk management. In order to get the first hand information, and to get a depth contextual analysis of the subject all insurance companies which are found in the country were included in the study.

3.2. Data sources

Data for the research was collected from both primary and secondary data sources. The primary data were obtained from insurance company's CEOs, managers and senior employees who have adequate awareness about enterprise level risk management concepts and experience. In line with this, secondary data such as, NBE guideline, policies, procedures, reports and other materials which have linkage with the issue on the respective sector were referred.

3.3. Technique of Data Collection

The data for the study was gathered using both primary and secondary data collection techniques. The primary data was collected using questionnaires formulated in closed and open-ended questions based on all the research objectives for target groups and document survey. It was also used interview technique with insurance companies' risk management unit /department managers. The secondary data was obtained by referring various enterprise risk management publications in the insurance sector such as NBE directives, reports, policies and relevant online sources.

3.4. Sampling Techniques

To make the study effective and complete, the researcher used two types of sampling techniques. Which are convenient sampling techniques was applied in selecting different CEOs, managers, and senior employees/supervisors of the company and census technique is used to select all the insurance companies which are found in the sector. With this technique 1(one) public and 16 (sixteen) private insurance companies were involved in the study.

3.5. Population and Sample Size

By the end of year 2014, 17 insurance companies are operating in the Ethiopia which have stayed for at least two years in the service in the sector and which have relatively better experience on enterprise level risk management function .These companies were included in the study which allow adequate representation of the various views.

The study was take sample from insurance company's CEO, risk, finance, operation, audit managers and supervisors/ senior officers of insurance companies. The detail sample size is shown in the table below;

Table 1.1.1: Total Population and Sample Size

No.	Targets	Sample population	Total size	Remark
1	CEOs	17	17	
2	Risk Management Managers	17	17	
3	Finance Mangers	17	17	
4	Operation Mangers	17	17	
5	Audit Managers	17	17	
5	Two Supervisors/senior staffs of risk and audit	34	34	
	Total	**119**	**119**	

3.6. Method of Data Analysis

The data gathered in the manner described above is analysed through statistical measures such as averages, percentages and trends. Data interpretation is supported by tables and the analyzed data is presented in descriptive statements (narrations), descriptive statistics, graphs and charts.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Personal Information of Respondents

1. Age of Respondents

As presented in table 4.1, 22 respondents fall under the age category of 21-31 representing 20% of the total respondents which implies that they are young to do a lot for the organization. 16 respondents were between 32 and 42 years of age representing 15 % of the respondents. The third group of the respondents was between the age of 43 and 53 representing 35% and they were 39 in number. 32 respondents were between 54 and 64 years of age representing 29% of the respondents' .One respondent aged greater than 65 representing 1% which indicates that they are in a position to retire in the near future.

S/N	Item	Age	Management Members		Senior Officers		Total	
			No.	%	No.	%	No.	%
1	Age of Respondents	21-31	0	0%	22	69%	22	20%
		32-42	8	10%	8	25%	16	15%
		43-53	37	47%	2	6%	39	35%
		54-64	32	41%	0	0%	32	29%
		>65	1	1%	0	0%	1	1%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
2	Gender	Male	67	86%	26	81%	93	78%
		Female	11	14%	6	19%	17	22%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table 4.1.1: Distribution of Age and Gender

2. Gender of Respondents

In regards to gender of respondents, the table 4.1 indicates that 93 of the respondents among the target population were male representing 78%, while 17 respondents were female representing 22%.

3. Educational Level and Work Experience of Respondent

No.	Item	Category	Management Members		Senior Officers		Total	
			No.	%	No.	%	No.	%
1	Level of Education	Diploma	6	8%	4	13%	10	9%
		BA Degree	62	79%	28	88%	90	82%
		Master's Degree	10	13%	0	0%	10	9%
		Phd	0	0%	0	0%	0	0%
		Others	0	0%	0	0%	0	0%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
2	Work Experience	1-6 Years	0	0%	2	6%	2	2%
		7-13 years	13	17%	26	81%	39	35%
		14-20 years	55	71%	4	13%	59	54%
		Above 20 years	10	13%	0	0%	10	9%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table 4.1.2: Respondents Educational Background and Work Experience

Educational background and years of experience of respondents is shown in table 4.2, the educational status of the respondents under study showed that a higher percentage of respondents had BA degree which accounted for 90 of the respondents' i.e. 82%. Ten of the respondents had diploma level education representing 9% out of the total respondents. Moreover, ten or 9% of the respondents were second degree holders. This suggests that people of different educational qualifications are present in the insurance companies.
Also table 4.2 shows the number of years' service of the sample respondents of the insurance companies. As the result shows 59 or 54% of the respondents have an experience of 14-20 years; whereas, 35% of the respondents which is 39 in number have an experience of 7-13 years in the insurance companies; and respondents who have been working in this sector more than 20 years are 10 or 9%. The remaining 2 respondents which count 2% of the total sample worked in the companies for 2years. To this end, almost to full of the respondents have been working for more than seven years in the insurance companies which indicates that they have long period of

experience in the sector which contributes to both the quality and quantity of the information they provide.

4.2. Insurance Companies Information

As presented in table 4.2.1, 6 companies fall under the age category of 1-5 years representing 35% of the total insurance companies. 2 companies were between 6 and 10 years of age representing 12 % of the companies. The third group of the companies was between the age of 11 and 15 years representing 12% and they were 2 in number. And also 6 companies were between 16 and 20 years of age representing 35% of the companies' .One company aged greater than 20 years representing 6% which indicates that insurance companies are in a position to have some risk management practices.

No	Item	Category	No.	%
1	Insurance Companies Age	≤ 5 Years	6	35%
		6-10 Years	2	12%
		11-15 years	2	12%
		16-20 years	6	35%
		> 20 years	1	6%
		Total	**17**	**100%**
2	Type of Ownership	Public Insurance Co.	1	1%
		Private Insurance Co.	16	99%
		Total	**17**	**100%**

4.2.1. Insurance Companies Age and Type of Ownership

In regards to ownership of companies, the table 4.2 indicates that 16 of the insurance companies among the total companies are privately owned representing 99%, while 1 insurance company are publicly owned.

4.3. Insurance Companies Enterprise Level Risk Management Practices

Enterprise risk management (ERM) has become increasingly relevant for managing corporate risk and it considers the company's entire risks portfolio in an integrated and holistic manner**.** The major operational, liquidity and credit risks in relation to the insurance companies' operational activities should be identified and managed properly at enterprise level in order to mitigate and increase shareholder's value, companies' profitability and insurance sector growth.

Under this section the responses of both management members and senior officers group regarding enterprise level risk management practices of insurance companies is analyzed.

4.3.1. Board Responsibility

In any business oriented company the role of board members are crucial for the success of the company. An insurance company board member also has a leadership responsibility to identify potential events that may affect the entity, manage risks to be within its risk appetite and to provide reasonable assurance regarding the achievement of entity objectiveness.

According to an insurance company's board members responsibility in relation to enterprise risk management functions, key management members who have linkage with enterprise risk management process were asked in the company.

When analyzing the responses according to insurance companies board members responsibility, on average 64% of management respondents replied that their board members did not have formal terms of reference for risk management functions, did not sit for training on risk management, did not took risk management as a standing agenda, did not make decisions based on relevant and up to date data ,whereas, 36% respondents revealed that their board members either fully or partially have formal terms of reference, trained in risk management area , taken risk management issues as standing agenda and have made decisions with provision of relevant data.

S.N	Evaluative Parameters	Responses	Management Members	
			No.	%
1	Board Formal Terms of Reference for Risk Management Functions	Yes	16	21%
		Somehow	20	26%
		No	42	54%
		Total	**78**	100%
2	Board Awareness Level of Risk Management Requirements Expected from Insurance by the NBE.	Yes	53	68%
		Somehow	18	23%
		No	7	9%
		Total	**78**	100%
3	Boards Members Training Opportunity in Risk Management areas.	Fully	6	8%
		Partially	12	15%
		Not at All	60	77%
		Total	**78**	**100%**
4	Risk Management As Standing Board Agenda.	Yes	18	23%
		Somehow	20	26%
		No	40	51%
		Total	**78**	**100%**

Table 4.3.1: The Characteristics of Board Members in Relation to Risk Management Functions

The results obtained show that 68% of management respondents expressed that their board members have some awareness about risk management requirements expected from their company by the NBE and they have some evidences which show their involvement in risk management activities through meetings, whereas, the remaining 32% of management respondents replied that their board members either partly or not at all having awareness about risk management requirements expected from their company by the NBE and these board members have formal reports which show their engagements in risk management issues.

S.N	Evaluative Parameters	Responses	Management Members	
			No.	%
5	On Average Board Allocation of Time (%) for Risk Management Issues Over The Last One Year.	0-10%	52	67%
		11-20%	12	15%
		21-30%	8	10%
		31-40%	6	8%
		>51%	0	0%
		Total	**78**	**100%**
6	Degree of Risk Management as Board's Agenda	High	20	26%
		Medium	25	32%
		Low	42	54%
		Total	**78**	**100%**
7	Demonstrates and Evidences which show Board Engagement in Risk Management Issues.	Meetings	53	68%
		Formal reports	25	32%
		Total	**78**	**100%**
8	Access to Relevant and Up to date Economic, Business and Market data for Decisions	Yes	11	14%
		Somehow	10	13%
		No	57	73%
		Total	**78**	**100%**

Table 4.3.2.: The Board Members Focus in Relation to Risk Management Functions

4.3.2 Structure and Resources

In order to accomplish risk management objectives efficiently and effectively, insurance companies need to have adequate structure and resources .Allocation of human and financial resources are very important to facilitate risk management units operations.

When analyzing the responses in relation to insurance companies organizational structure and allocation of resources to risk management functions, on average 84.5% of respondents expressed that their company organized risk management function at unit/department level and assigned responsible person to perform risk management functions, whereas, 15.5% of respondents replied that their company did not organized risk management function at unit/department level and assigned responsible person who perform risk management functions.

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
9	Delegation of Risk Management Functions at the unit Level	Yes	67	86%	25	78%	92	84%
		No	11	14%	7	22%	18	16%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
10	Delegation of Responsible Person's for Risk Management Functions.	Yes	69	88%	24	75%	93	85%
		No	9	12%	8	12%	17	15%
		Total	**78**	**100%**	**32**	**87%**	**110**	**100%**
11	Adequate of Company's Organizational Structure for Effective Risk Management Function.	Yes	52	67%	24	75%	76	69%
		Somehow	19	24%	6	19%	25	23%
		No	7	9%	2	6%	9	8%
		Total	**78**	**100%**	**32**	**100%**	**110**	100%
12	Allocation of Human and Financial Resources to Risk Management Function.	Yes	47	60%	14	44%	61	55%
		Somehow	23	29%	10	31%	33	30%
		No	8	10%	8	25%	16	15%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table 4.3.2.1. Risk Management Units Organization and Resources

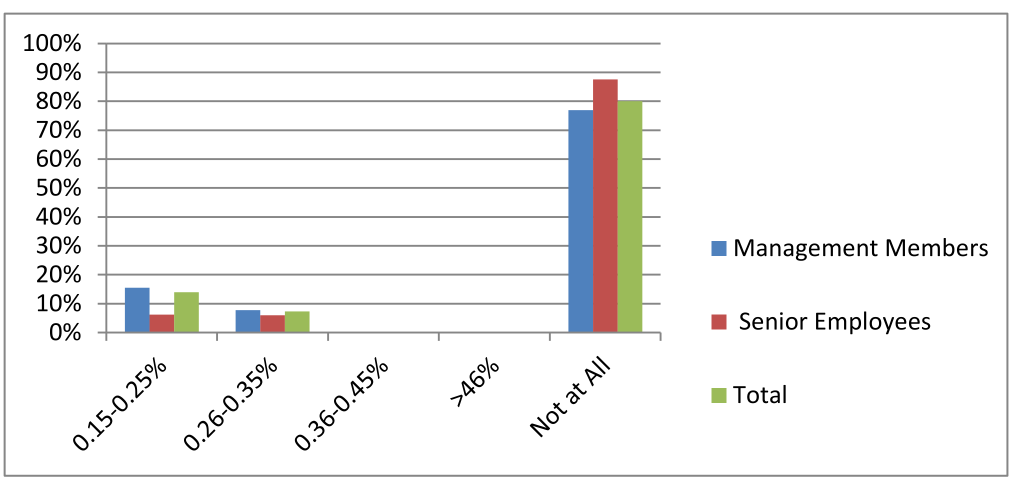
With regard to organizational structure adequacy and resources allocation, 69% and 55% of respondents replied that their company's organizational structure is somehow effective for risk management functions and has assigned relatively adequate resources to this function respectively, whereas, the remaining 31% and 45% of respondents expressed that their organizational structure either partly or not at all effective for risk management functions and assigned relatively low resources to this function respectively.

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
13	Quality and Quantity of Financial and Human Resources	High	24	31%	4	13%	28	25%
		Moderate	19	24%	3	9%	60	55%
		Low	35	45%	25	78%	22	20%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
15	Staffs Extent of Training Opportunity to Risk Management	Fully	21	45%	4	13%	25	23%
		Partially	13	17%	8	25%	21	19%
		Not at All	44	56%	20	63%	64	58%
		Total	**78**		**32**	**100%**	**110**	

Table. 4.3.2.2 Risk Management Units Human Resources Quality and Access to Training

And 77% of respondents revealed that their company's risk management staffs either partly/not at all sit for risk management training, whereas, 24% respondents replied that risk management staffs were trained and have good quality.

When asked about allocation of budget to risk management functions, it is observed that 14% of respondents replied that their company has allocated 0.15%-0.25% of their budget for risk management functions, whereas, 7 % expressed that their company has allocated 0.26%-0.35% of their budget for risk management and the remaining 80% of respondents revealed that their company did not assigned budget for risk management functions at all.



Graph 1. Budget Allocation to Risk Management Units/Functions

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
16	Submission of Periodic Risk Management Reports to Board and Management	Yes	18	23%	6	19%	24	22%
		Somehow	13	17%	8	25%	21	19%
		No	47	60%	18	56%	65	59%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
17	Periods of Reports Submission	Monthly	0	0%	0	0%	0	0%
		Quarterly	12	15%	10	31%	22	20%
		As Required	10	13%	3	9%	13	12%
		Semi Annually	21	27%	6	19%	27	25%
		Annually	35	45%	13	41%	48	44%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
18	Risk Management Report coverage's	Exception to policies, limits, Compliance	72	92%	27	84%	99	90%
		Risk Level	69	88%	25	78%	94	85%
		Risk Trend	70	90%	28	87%	98	89%
		Risk Management Weaknesses	62	79%	23	72%	85	77%
		Others	0	0%	0	0%	0	0%
		Recommendations	0	0%	0	0%	0	100%
		Total	**78**	**100%**	**103**	**100%**	**376**	**441%**
19	Risk Considerations	Board Committee	23	29%	12	38%	35	32%
		Management Committee	55	71%	20	63%	75	68%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table. 4.3.2.3. Risk Consideration and Characteristics of Reporting

From the analysis of responses concerning about risk consideration and report, on the average 68% of respondents replied that most of the time risks are considered at the management level, whereas, the remaining 32% of respondents expressed that their company's some risks were identified by the management.

With regard to report submission, the result shows that 59% of respondents expressed that their risk management unit did not submitted reports to the management and board, whereas, 41% of respondents replied that their risk management unit reports.

From the analysis of responses concerning reports coverage's , 90% of respondents replied that their risk management unit reports have covered exception to polices, limits and compliance ,whereas, 85 % of the respondents expressed that their report have covered risk level of the company ,89% respondents replied that their report were focused on risk trend of the company and the remaining 77% of respondents expressed that the report also covered risk management weakness .

4.3.3. Strategies Policies and Programs

Formulation of strategy, policy and program for risk management functions are very important to mitigate risks effectively and efficiently in proactive way. Such documents are necessary for insurance companies to manage and coordinate their efforts towards the accomplishment risk management goals.

From the analysis of responses weather there are approved strategy, policy, program and procedures or not for risk management process, on average 77% of respondents replied that their company's has approved policy and procedures for risk management functions, whereas, 23% of the respondents expressed that their company do not has approved policy and procedure .

The result obtained shows that 67% of respondents expressed that their company do not has strategy and program for risk management process, whereas, 33% of the respondents revealed that their company's has approved strategy and program for risk management process.

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
20	Key Risk Management Documents	Yes	23	29%	9	28%	32	29%
	1. Strategy	No	55	71%	23	72%	78	71%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	2. Policy	Yes	57	73%	25	78%	82	75%
		No	21	27%	7	22%	28	25%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	3.Program	Yes	28	36%	13	41%	41	37%
		No	50	64%	19	59%	69	63%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	4.Procedures or Guidelines	Yes	60	77%	26	81%	86	78%
		No	18	23%	6	19%	24	22%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
21	Approval of Risk Management Documents	Yes	23	29%	9	28%	32	29%
	1. Strategy by Board	No	55	71%	23	72%	78	71%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	2. Policy by Board	Yes	57	73%	25	78%	82	75%
		No	21	27%	7	22%	28	25%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	3.Program by the NBE	Yes	28	36%	13	41%	41	37%
		No	50	64%	19	59%	69	63%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	4.Procedures or Guidelines by Board/CEO	Yes	60	77%	26	81%	86	78%
		No	18	23%	6	19%	24	22%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table. 4.3.3.1 Risk Managements Units Relevant Documents

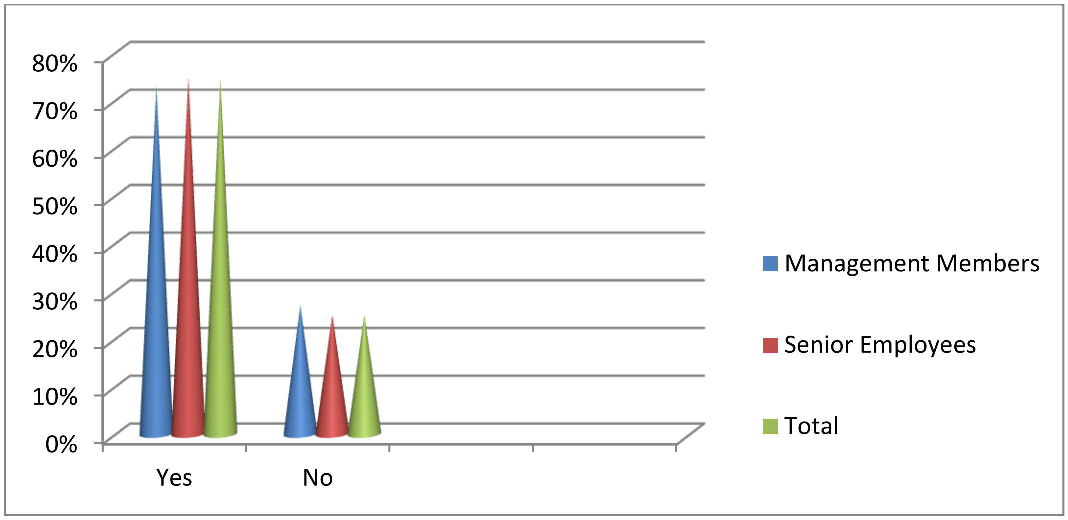
The result obtained shows that on average 53 % of respondents replied that their company did not revised its policy, program and procedures annually, whereas, 47% of respondents expressed that their company has revised its policy, program and procedures annually. And 57% of respondents replied that their company did not revise its strategy, policy and programs in every 2 and 5, whereas, 43 % of respondents expressed that their company has revised these key documents.

Moreover, the result shows that 68% of respondents replied that their company has revised its strategy, policy, program and procedures as required and the remaining 32% did not revised as required.

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
23	Revision of Risk Management Documents							
	Strategy	Every 2&5 years	9	39%	4	44%	13	41%
		As Required	14	61%	5	56%	19	59%
		Total	**23**	**100%**	9	**100%**	32	**100%**
	Policy	Annually	16	28%	6	24%	22	27%
		Every 2&5 years	23	40%	12	48%	35	43%
		As Required	18	32%	7	28%	25	30%
		Total	**57**	**100%**	25	**100%**	82	**100%**
	Program	Annually	7	25%	8	62%	15	37%
		Every 2&5 years	14	50%	5	38%	19	46%
		As Required	7	25%	0	0%	7	17%
		Total	**28**	**100%**	13	**100%**	**41**	**100%**
	Procedures/Guidelines	Annually	45	75%	21	81%	66	77%
		As Required	15	25%	5	19%	20	23%
		Total	60	**100%**	26	**100%**	86	**100%**

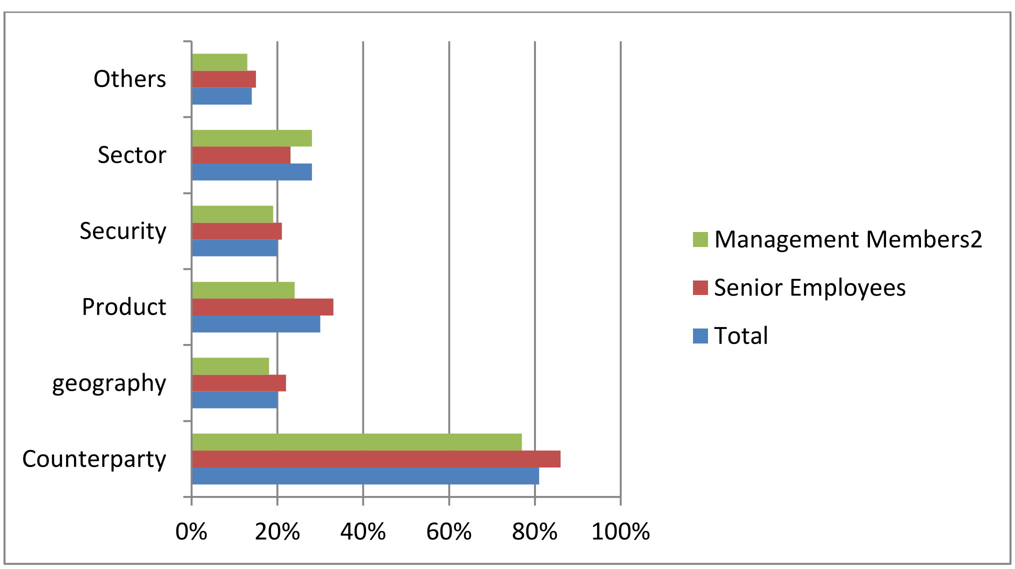
Table. 4.3.3.2. Reviewing of Risk Management Documents

When analyzing the responses weather the policy quantify and define appetite for risk, 75% of respondents replied that their risk management policy quantify and define appetite for risk , whereas, 25% of the respondents expressed that their policy did not quantify and define appetite for risk .



Graph 2. Risk Management Policy Risk Quantification and Appetite

When asked about to policy risk limits/tolerances, 81% of respondents replied that their risk management policy has risk tolerance for counter party, 20% of respondents expressed for geography,30% of respondents replied for product , 20% of respondents expressed for security ,28% of respondents revealed for sector and 14% of respondents replied risk tolerance for others.



Graph 3. Risk Management Policy Limits/Tolerance

4.3.4. Communication

Effective communication system is highly important to implement strategies, programs and policies in proper way. Insurance companies risk management units need to have effective communications with management and other staffs to crate awareness about risk management functions objectives. Such communications enable companies to use collective efforts for the accomplishment of risk management objectives.

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
25	Creation of Common Language Through Risk Management Policy	Yes	15	19%	5	16%	20	18%
		Somehow	16	21%	6	19%	22	19%
		No	47	60%	21	66%	71	63%
		Total	**78**	**100%**	**32**	**100%**	**113**	**100%**
26	Internal Communication of Risk Management Policy	Fully	12	15%	7	22%	19	17%
		Partially	16	21%	6	19%	22	20%
		Not at All	50	64%	19	59%	69	63%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
27	Experience of Sharing Reports and Findings Across Staffs	Yes	12	15%	4	13%	16	15%
		Somehow	16	21%	6	19%	18	16%
		No	50	64%	22	69%	76	69%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

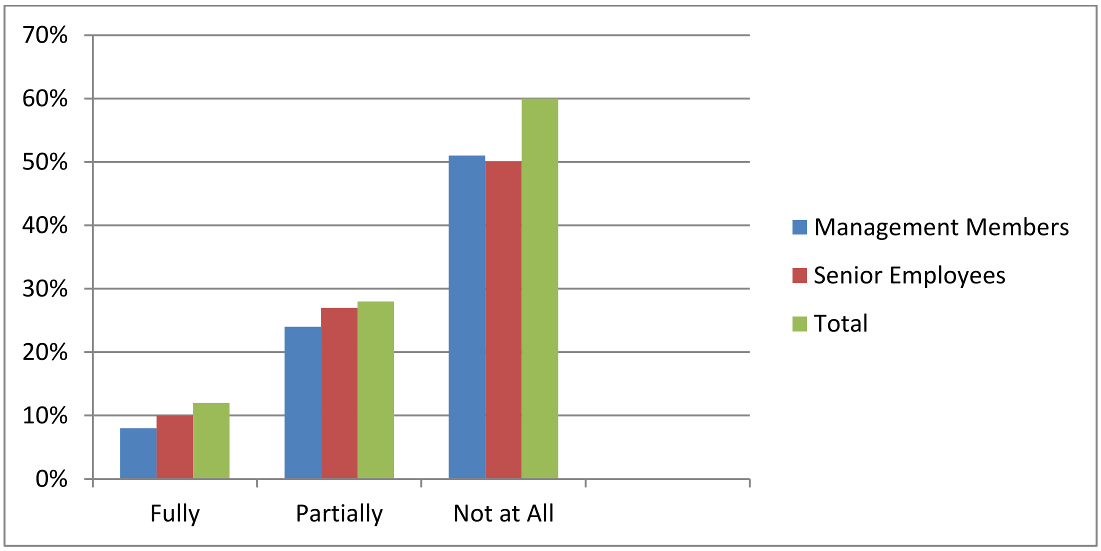
Table. 4.3.4.1 Characteristics of Sharing Risk Management Documents

When asked about sharing of risk management policy and findings, on average 65% of respondents expressed that their company risk management unit did introduced and share its policy and findings across staffs, whereas, 35% of the respondents replied that their risk management unit either partially of fully introduced its policy and findings to company employees.

4.3.5 Appraisal and Reward

Effective HR management policy enables companies to have qualified and satisfied human resources who can achieve objectives of the company. Insurance companies should developed effective HR management policy which evaluates employees' performance accurately and rewards appropriate benefit which can motivate and retain highly qualified employees.

From the analysis of responses concerning the integration of HR management with risk management functions , 60% of respondents replied that their HR management functions did not integrated with risk management functions ,whereas, 40% of the respondents which expressed that their HR management functions partially or fully integrated with risk management functions.



Graph 4. Level of Risk Management Functions Integration with HR System

4.3.6. Benefit and out comes

Effective risk management practices enable insurance companies to reduce their financial losses, improve their business performance, and meet their regulatory compliance requirements and increased risk accountability.

When analyzing the responses concerning the benefit and outcome of risk management functions , on average 72% of respondents replied that their company poorly/averagely has got benefits from risk management function ,whereas, 28 % of the respondents replied that their company has got high benefit from risk management functions which improved their capabilities on strategic planning , meeting of regulatory compliance requirements, internal control and risk impact likelihood.

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
29	Benefits and Out com of Risk management function	Highly	18	23%	5	16%	23	21%
	Improve Strategic Planning	Averagely	37	47%	15	47%	52	47%
		Poorly	23	29%	12	38%	35	32%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	Better Business Performance	Highly	20	26%	5	16%	25	23%
		Averagely	40	51%	17	53%	57	52%
		Poorly	18	23%	10	31%	28	25%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	Increased Regulatory Compliance	Highly	42	54%	18	56%	60	55%
		Averagely	22	28%	8	25%	30	27%
		Poorly	14	18%	6	19%	20	18%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	Improved Internal Control	Highly	17	22%	8	25%	25	23%
		Averagely	14	18%	6	19%	20	18%
		Poorly	47	60%	18	56%	65	59%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	Improved Risk Impact likelihood	Highly	17	22%	5	16%	22	20%
		Averagely	36	46%	20	63%	56	51%
		Poorly	25	32%	7	22%	32	29%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table 4.3.5. Risk Management Functions Benefits and Out comes

When analyzing the responses according to benchmarking of risk management practices, 85% of respondents expressed that their company fully / partially did not benchmarked risk management practice , whereas, 15% of the respondents replied that their company have benchmarked risk management practices with other companies and external standards.

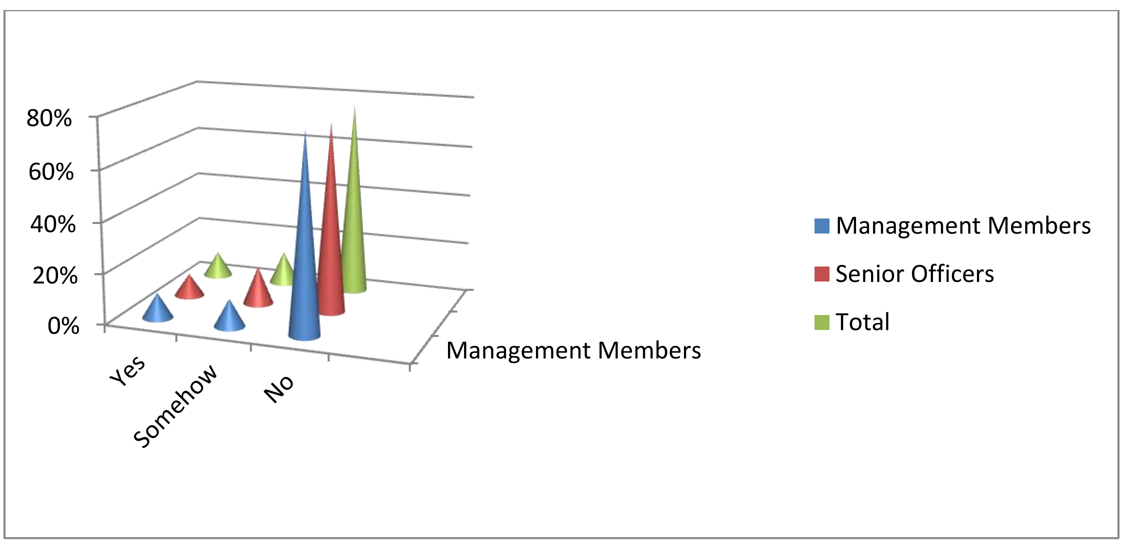
S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No	%	No	%	No	%
30	Benchmarking of risk management practices.	Yes	13	17%	4	13%	17	15%
		Somehow	17	22%	5	16%	22	20%
		No	48	62%	23	72%	71	65%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table. 4.3.6.. Benchmarking of Risk Management Practices

4.3.7. Auditors View.

Auditors review and comments on risk management functions are very important to take possible corrective measures in advance through evaluation of risk management unit performance.

When asked about how internal and external auditors involvement in risk management practices of the company , on average 77% of respondents expressed that both internal and external auditors fully/partially did not involve in the evaluation risk management functions ,whereas, 7% of respondents replied that the auditors had some observations and comments for risk management functions.



Graph5. Level of Auditors Involvement in Risk Management Process

4.3.8 Risk Identification and Preparedness

When analyzing the responses according to risk identification on companies services, on the average ,90% of respondents replied that their risk management unit fully/ partially did not identify risks related to companies major services , whereas,10 % of the respondents expressed that their company risk management functions has identified risks in relation to companies major services.

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
33	Risk Management unit Risk Identification	Yes	15	19%	5	16%	20	18%
	Underwriting	Somehow	40	51%	17	53%	57	52%
		No	23	29%	10	31%	33	30%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	Claim Settlement	Yes	18	23%	5	16%	23	21%
		Somehow	42	54%	19	59%	61	55%
		No	18	23%	8	25%	26	24%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	Legal Issues	Yes	12	15%	9	28%	21	19%
		Somehow	22	28%	8	25%	30	27%
		No	44	56%	15	47%	59	54%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	Investment	Yes	11	14%	6	19%	17	15%
		Somehow	24	31%	6	19%	30	27%
		No	43	55%	20	63%	63	57%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	IT	Yes	12	15%	5	16%	17	15%
		Somehow	25	32%	4	13%	29	26%
		No	41	53%	23	72%	64	58%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	Others(Procurement and HR)	Yes	8	10%	0	0%	8	7%
		Somehow	10	13%	5	16%	15	14%
		No	60	77%	27	84%	87	79%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table 4.3.8.1 Risk Identification and Preparedness

When analyzing the responses in relation to conduction of work shop or panel discussion for risk management functions , 76% of respondents expressed that their risk management unit did not organized any workshop/ panel discussions for risk management in order to improve their performance, whereas, 24% replied that their risk management unit have organized some workshops on risk management functions.

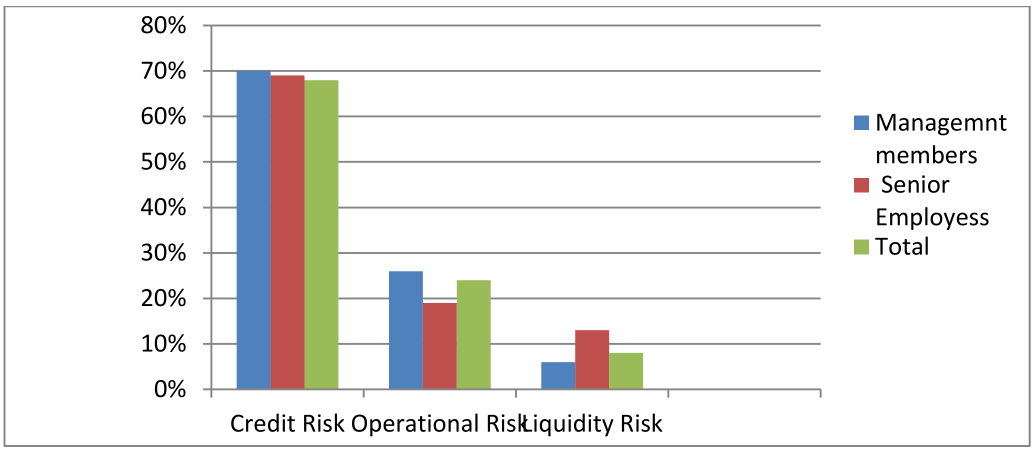
When asked about creation of risk register and testing of risk management tools, on the average, 70% of respondents replied that their risk management unit did not create risk register and test its tools of risk management, whereas, 30 % of the respondents expressed that their company risk management unit has created risk register and test its tools of risk management either fully or partially

S/N	Evaluative Parameters	Responses	Management Members		Senior Employees		Total	
			No.	%	No.	%	No.	%
34	Work shop or Panel Discussion for Risk management	Yes	12	15%	0	0%	12	11%
		Somehow	8	10%	6	19%	14	13%
		No	58	74%	26	81%	84	76%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
35	Creation of Risk Register	Yes	30	38%	9	28%	39	35%
		No	48	62%	23	72%	71	65%
		Total	**78**	**100%**	**32**	**100%**	**110**	**0%**
36	Testing of Risk Management Tools	Yes	11	14%	4	12%	15	14%
		Somehow	7	9%	6	18%	13	12%
		No	60	77%	24	71%	82	75%
		Total	**78**	**100%**	**34**	**100%**	**110**	**100%**
37	Having of Continuity/Disaster Recovery/Contingency Plan							
	For Operational Risks	Yes	16	21%	6	19%	22	20%
		No	62	79%	26	81%	88	80%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	For liquidity Risks	Yes	18	23%	7	22%	25	23%
		No	60	77%	25	78%	85	77%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**
	For Other Risks(credit , Market & Regulation)	Yes	16	21%	6	19%	22	20%
		No	62	79%	26	81%	88	80%
		Total	**78**	**100%**	**32**	**100%**	**110**	**100%**

Table 4.3.8.2. Risk Management Tools and Insurance Risks

When analyzing the responses in relation to having contingency /disaster recovery plan, on average 79% of respondents replied that their risk management unit did not have a contingency plan for operational, liquidity and credit risks, whereas, 21 % of respondents expressed that their company has plan for operational, liquidity and credit risks.

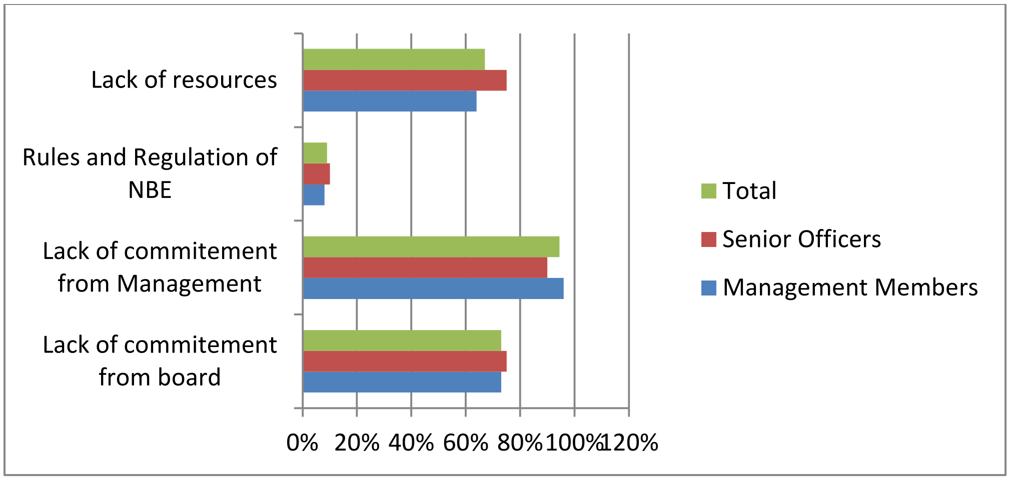
When analyzing the responses according to level of affection by relevant risks, on average 44 % of respondents replied that their company is highly affected by credit risks, whereas, 31 % of the respondents expressed that their company affected liquidity risks and remaining 25% of respondents revealed that their company has slightly affected by operational risks.



Graph 6. Relevant Risks Affecting Insurance Companies

When analyzing the responses concerning to future relevant risks, 54.54% of respondents expressed that their company might be affect by liquidity risks, whereas, 25.45 % of the respondents replied that their company also may affect by operational risks and remaining 20 % of respondents expressed that their company also might be affected by credit risks.

When analyzing the responses in relation to challenges for risk management functions, on average 78% of respondents replied that lack of commitments from board, management and shortage of resources are the main challenges for risk management functions whereas, 22 % respondents expressed that such factors are not challenge for their company.



Graph 7. Challenges for Risk Management Function

4.4. Interview Questions Analysis

In order make the study accurate and realistic, the study has made interview with risk management units/ department managers. These managers were asked five technical questions regarding risk management. The detail analysis is presented below.

After being asked about the importance assigned to the different types of risks, it can be observed that most companies agree that the market considers operational, liquidity and credit risks as the most important one, since 65.8% of companies believe it is the most important risk for the sector. It implied that most insurance companies know that market considers three risks as important one even if they did not considered by themselves as important element.

Based on the responses resulting from the interview, a vast majority of the insurance companies in the sector don't consider risk management as an essential component to the business due to lack of great awareness, with 87% of the companies do not consider risk management as part of their strategic goals. This indicates that insurance companies did not get any benefit in relation to improve their business performance, increased their risk accountability, deal corporate governance pressure and having of competitive advantages.

Most companies consider that there is asymmetric knowledge among the different types of risk in the sector. The interviewed companies consider that the highest knowledge corresponds to insurance risk, followed by market risk, while the lowest knowledge corresponds to operational, liquidity and credit risks. From the analysis, it can be observed that insurance company's board, management and employees do not have clear knowledge about operational, credit and liquidity risks and do not properly manage these risks. They give attention and focus to development of insurance risks knowledge.

When asked about their opinion on the effort made by the sector as regards follow-up and supervision of the different type of risks, (80%) of effort is made for insurance risks while the remaining (20%) for operational, liquidity and credit risks. This implied that due to low efforts to operational, liquidity and credit risks the company is not in a position to manage its enterprise risks effectively and efficiently to achieve its objectives.

The majority of insurance companies (100%) consider reinsurance and investments as a risk management tool to manage any difficulties in relation to operational, liquidity and other risks.
This implied that most insurance companies do not have their own risk management tool that is developed for their operational, liquidity and credit risks.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

After analyzing and interpreting the data, certain findings have come up to show the assessment of enterprise level risk management practices of insurance companies. These are summarized as follows.

I. Board Responsibility

- Most of insurance companies' board's members are aware of risk management requirements expected from them by the NBE.
- Majority of insurance companies' board of directors did not have defined terms of reference for risk management and they did not take risk management as a standing agenda item and spend very low time which shows they engage insufficiently with issues related to risk management.
- Nevertheless, on average 64% of board members did not sit for training on risk management, suggesting an urgent need for risk management capacity building of board members.
- Similarly, 62% of insurance companies' boards were not provided with relevant and up-to-date economic, business and market data for wise decision-making.

II. Structure and Resources

- Majority of insurance companies responded that they have delegated risk management function, assigned relatively qualified risk management staffs to the function, and exercise very weak risk reporting and deliberations.
- Most insurance companies has allocated budget for risk management practices is either relatively insignificant or the amount set aside is entirely unknown.
- Meanwhile, in 76% of insurance companies, either partly risk management staffs were trained in risk management areas, or no staff was trained at all.

III. Strategies, Policies and Programs

- Majority of insurance companies having policies and procedures related to risk management and also secured approvals on the documents from relevant authorities. But some insurance companies having strategies and programs don't have approvals from concerned authorities.
- 67% of insurance companies have not yet documented risk management strategy and program.
- Most of insurance companies responded that they did not review their risk management strategy, policies, program and procedures annually and every 2 or 5 years. Nevertheless, 68 % of insurance companies responded that they review risk management strategy, program and procedure, "as required".
- Fortunately, (75%) of insurance companies responded that their risk management policies define and quantify the appetite for risk, but those (25%) of insurance companies who claimed to have policies with defined risk limits/tolerances, just use NBE limits for counterparties (single, related, etc) without having their own and failed to define limits for geography, product, security, sector and others.

IV. Communications

- Results indicated that as high as 65% of insurance companies' internal communication of risk appetite and findings is low.

V. Appraisal and Reward

- Unfortunately, survey results show that risk management process, in the vast majority (60%) of insurance companies, is either partly or fully not integrated with HR management and policies for motivated behavioral change.

VI. Benefits and Outcomes

- The majority (72%) of insurance companies either averagely or poorly benefited from their risk management functions to their operation.
- The majority of insurance companies do not have benchmarking of practices in relation to risk management practices.

VII. Auditors

- Majority of insurance companies (93%) partially or not at all reviewed and commented on the effectiveness of their risk management process by external and internal auditors

VIII. Risk Identification and Preparedness

- Majority of insurance companies either averagely or poorly risks in all activities/services are captured by risk management function.
- Results of study show that reinsurance and share investments are effectively used by majority of insurance companies as a risk management tool; although 76% of insurance companies do not conduct workshop to identify risks in each activity, 60% of them did not create risk register and do not exercise stress testing as a risk management tool.
- The majority of (79%) of insurance companies do not have documented continuity/disaster recovery/contingency plan in place for operational, liquidity risks and other risks like credit and market.

IX. Nature of Risks Facing Insurance Companies

- The majority of aged insurance companies affected by credit risks and have created significant impact on their profitability, and also operational and liquidity risks have been dominant risks over the last two years, and will continue to be key risks over the next five years.
- In most insurance companies the major challenges are lack of commitment from management and board as well as shortage of recourses.

5.2 Conclusions

In this paper, the research has attempted to critically evaluate the insurance companies' enterprise level risk management practices. Subsequently, the primary data obtained through interviews and questionnaires distributed to key management members and senior officers of the company were employed. Accordantly, with some risk management manager was contacted and information was gathered through interviews. Hence, the following conclusions are inferred from the study.

Results of the research suggest existence of some positive steps so far taken by insurance companies to strengthen their risk management practices. These include:

- Most companies agree that the market considers operational, liquidity and credit risks as the most important risks.
- Most of insurance companies' board's members are aware of risk management requirements expected from them by the NBE.
- In large proportion of insurance companies risk management is delegated and relatively qualified personnel's are assigned.
- Risk management policies and procedures are developed and approved by the majority of insurance companies.
- Many of insurance company's policies are quantify and define appetite for risks.
- Many insurance companies highly used risk management functions for regulatory compliance purposes.

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On the other hand, this study revealed a number of risk management weaknesses. These include

- Vast majority of the insurance companies in the sector don't consider risk management as an essential component to their business.
- Most companies consider that there is asymmetric knowledge among the different types of risk in the sector.
- Majority of insurance companies' effort is made for insurance risks (80%) while the remaining (20%) for operational, liquidity and credit risks.
- The majorities of insurance companies (100%) consider a strategy of reinsurance and share investment to manage any difficulties in relation to operational, liquidity and other risks.

- Lack of effort by insurance companies to prepare terms of reference for risk management and creation of adequate risk management awareness.
- Lack of consideration by insurance companies to risk management as an agenda item and allotting adequate time for its deliberations.
- Lack of capacity building trainings to insurance companies' board and risk management staff.
- Inaccessibility of up-to-date and relevant data in most insurance companies for informed decisions making process.
- Most insurance companies allocated inadequate budget to risk management functions.
- Lack of regular reporting and deliberation by insurance companies to communicate findings.
- Most insurance companies do not have effective integration between risk management and HR management and policies.
- Many insurance companies do not devote their time to prepare risk management strategy and program and also to review risk management documents properly.
- Lack of capacity by insurance companies to optimize the full benefits of risk management functions.
- Lack of involvement of both internal and external auditors in the evaluation of companies risk management functions.
- Experience lacked by insurance companies to benchmark risk management practices against each other and external standards.
- Many risks which are related to insurance companies' ordinary services are not identified/ captured by risk management unit.
- Insurance companies' relevant and continuing risks (operational, liquidity and credit risks) lack documented business continuity/contingency plans.
- Many insurance companies failed to test risk management tools.
- Relevant risks such as operational, liquidity and credit risks had some effects on insurance companies and will have future impact.
- In most insurance companies the major challenges for risk management functions are lack of commitment from management and board as well as shortage of recourses.

5.3 Recommendation

Based on the above conclusion drawn, the following recommendations are forwarded to the insurance companies' to improve their enterprise level risk management practices.

1. Insurance companies should work hard to give value and focus to the development of enterprise risk management awareness across board, management and employees in order to optimize the full benefits through organizing seminars, workshops and training. These enable insurance companies to manage their operational, liquidity and credit risks effectively and efficiently by gaining commitment from board, management and employees.
2. It is also very important for insurance companies to develop their internal capacity in relation to risk management functions to achieve their objectives. They should develop up to date strategies, polices, programs and procedures along with adequate financial and human resources in order to be competent in this dynamics business environment.
3. Insurance companies risk management functions has to be monitored and evaluated regularly to identify the major problems and gaps in its operation and to take corrective actions at a time. This enables the company to be proactive and sensitive to mitigate risks which are arises in relation to insurance operations.
4. Insurance companies HR management and policies has to be integrated with risk management units to identify the possible gapes in relation to trainings for board, management and employees. Moreover, this integration creates an opportunity to retain and satisfy highly qualified employees through proper reward systems.
5. NBE should review the existing risk management guidelines within the context of insurance companies' capacity, issue them to all companies and should enforce insurance companies to produce their own risk management programs acceptable to the NBE by giving due attention to credit, operational and liquidity risks.

   Moreover the NBE should design and implement short-term training programs to insurance companies' board, management and staffs to enhance their performance on risk management functions and should evaluate and monitor their performance in order to develop the sector.

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Appendex

St.Mary's University

School of Graduate Studies

MBA in Finance and Accounting Program

This study is the partial fulfillment of the requirement of my master's degree MBA in Finance and Accounting program in St. Mary's University School of Graduate Studies.

Your participation in this study is greatly appreciated and valuable to reach on concert findings with the issue.

The study mainly concerned to assess and identify the major strengths and weakness of insurance companies own enterprise level risk management practices.

This questionnaire has a total of 41 questions which are designed to get the appropriate information regarding the topic. With providing of the information, you are not required to identify yourself and I give an assurance that your responses will be confidential and it will be used only for thesis purpose.

With this in mind, please take 20 minutes to provide your honest opinion about each statement and complete all the questions based on the direction given. After publication of the final document it will be send to insurance companies who provide the necessary information to the study.

Finally, if u have any further questions with this questionnaire, please contact me at any time.

Sincerely,

Abraham Kassahun, (Researcher)   Mob 0920 19 12 40

E-mail: Kassahunabraham@yahoo.com

Thank you for your valuable time and careful consideration!!

Research Questionnaire for Management Members

Title: Assessment of Enterprise Level Risk Management Practices of Insurance Companies

Part I: Demographic Information

Direction: kindly place a mark "√" in the provided boxes and fill the blank spaces.

1. Name of Insurance Company ___________________________________
2. Type of Ownership Public Insurance Company ☐
   Private Insurance Company ☐
3. Insurance Company Year of Establishment ______________________
4. Gender Male ☐ Female ☐
5. Age 21 to 31 ☐
   32 to 42 ☐ 43 to 53 ☐ 54 to 64 ☐ 65 or above ☐
6. Level of Education
   College Diploma ☐ Phd ☐
   Bachelor's Degree ☐ Others ☐
   Master's Degree ☐
7. Work Experience
   1 – 6 Years ☐ 14 – 20 Years ☐
   7 – 13 Years ☐ Above 20 Years ☐
8. Work Position: __________________________

Part II: Conceptual Questions

Directions: Using the options provided on each statement given below you are kindly required to place "√" mark in the provided boxes.

Please note that there is no right or wrong answers and your are expected to answer all the questions.

i. Board Responsibility

1. Does your Board have formal terms of reference for enterprise risk management?

   Yes ☐ Somehow ☐ No ☐

2. Is your board aware of enterprise risk management requirements expected from your insurance by the NBE?

   Yes ☐ Somehow ☐ No ☐

3. To what extent are boards members are trained in enterprise risk management area?

   Fully ☐ Partial ☐ Not at all ☐

4. Is enterprise risk management standing board agenda item?

   Yes ☐ Somehow ☐ No ☐

5. In your thinking, how much time does the board spend on overage over the last one year on enterprise risk management issues in terms of percentage?

   0-10% ☐ 11-20% ☐ 21-30% ☐

   31-40% ☐ 41-50% ☐ >51% ☐

6. How do you rate degree of enterprise risk management on board's agenda?

   High ☐ Medium ☐ Low ☐

7. Does the board demonstrates and evidences that show its engagement with the enterprise risk management process in any of the following ways?

   Meetings ☐ Formal reports ☐

8. Is your board provided with relevant and up-to-date economic, business and market data for decision?

   Yes ☐ Somehow ☐ No ☐

ii. Structure and Resources

9. Is risk management delegated to a sub group? For example a risk management unit?

   Yes ☐ No ☐

10. If your response to question no 9 is yes, is one key person responsible for risk management?

    Yes ☐ No ☐

11. Is the organizational structure of your company adequate for effective risk management function?

    Yes ☐ Somehow ☐ No ☐

12. Are human and financial resources allocated to risk management function?

Yes ☐ Somehow ☐ No ☐

13. If your response to question no 12 is yes, what is the quality and quantity of these resources?

High ☐ Moderate ☐ Low ☐

14. How much Percentage of risk management budget is out of the total budget?

0.15 – 0.25% ☐ 0.26 – 0.35% ☐ 0.36 – 0.45% ☐ >46% ☐

Not at all ☐

15. To what extent are risk management staffs trained in risk management areas?

Fully ☐ Partially ☐ Not at all ☐

16. Does risk management unit submit periodic reports to management and board?

Yes ☐ Somehow ☐ No ☐

17. If your response to question no – 16 Yes, how often?

Monthly ☐ Quarterly ☐ As required ☐

Semi annually ☐ Annually ☐

18. If your response to question No 16 yes, what does the report cover/covers)

Exceptions to policies, limits, Compliance ☐

Risk level ☐

Risk trend ☐

Risk management weaknesses ☐

Others ☐

Recommendations ☐

19. In which committee enterprise risks are considered?

Board Committee ☐ Management Committee ☐

iii. Strategies Policies and Programs

20. Does your company has the following key enterprise risk management documents?

Strategy	Yes	☐	No	☐
Policy	Yes	☐	No	☐
Program	Yes	☐	No	☐
Procedures / guidelines	Yes	☐	No	☐

21. If your response to question no. 20 is yes, are the documents approved?

Strategy by board	Yes	☐	No	☐
Policy by board	Yes	☐	No	☐
Program by the NBE	Yes	☐	No	☐
Procedure, guideline by board/CEO	Yes	☐	No	☐

22. How often are these documents under question no 21 reviewed?

Strategy:	Every 2 & 5 Years	☐	As Required	☐		
Policy:	Annually	☐	Every 2 & 5 Years	☐	As Required	☐
Program:	Annually	☐	Every 5 Years	☐	As Required	☐
Procedures, guidelines	Annually	☐	As Required	☐		

23. Does the policy quantify and define the appetite for risk?

Yes ☐ No ☐

24. If your response to question no 23 is yes, which areas have limits/ risk tolerances?
    a) Counterparty (single, related. etc) keep limits as set by the NBE ☐
    b) Geography ☐
    c) Product ☐
    d) Security ☐
        - Type ☐
        - Margin ☐
    E) Sector ☐
    f) Others ☐

iv. Communication

25. Does the Insurance share a common language that defines its appetite for risk?

    Yes ☐ somehow ☐ No ☐

26. To what extent is risk management policy communicates internally?

    Fully ☐ Partially ☐ Not at all ☐

27. Are risk management reports and findings shared across staffs?

    Yes ☐ somehow ☐ No ☐

v. Appraisal and Reward

28. To what extent is enterprise risk management process integrates with HR management policies including appraisal and reward system?

    Fully ☐ Partially ☐ Not at all ☐

vi. Benefit and Outcome

29. To what extent does enterprise risk management benefit your business in the following area?

Improved Strategic planning	highly ☐	averagely ☐	poorly ☐
Better business performance	highly ☐	averagely ☐	poorly ☐
Increased regulatory compliance	highly ☐	averagely ☐	poorly ☐
Improved internal control	highly ☐	averagely ☐	poorly ☐
Improved risk impact likelihood	highly ☐	averagely ☐	poorly ☐

30. Have you benchmarked your enterprise risk management process against other insurance or external standards?

    Yes ☐ Somehow ☐ No ☐

vii. Auditor View

31. Have your internal auditors given their views on the effectiveness of your enterprise risk management process?

    Yes ☐ Somehow ☐ No ☐

32. Have your external auditors given their views on the effectiveness of your enterprise risk management process?

    Yes ☐ Somehow ☐ No ☐

viii. Risk identification and preparedness

33. Are risks in each of the following areas captured by risk management function?

Underwriting	Yes	☐	Somehow	☐	No	☐
Claims Settlement	Yes	☐	Somehow	☐	No	☐
Legal Issues	Yes	☐	Somehow	☐	No	☐
Investment	Yes	☐	Somehow	☐	No	☐
IT	Yes	☐	Somehow	☐	No	☐
Others (Procurement & HR)	Yes	☐	Somehow	☐	No	☐

34. Have you ever conducted workshop or panel discussion to identify enterprise level risks in each activity?

Yes ☐ Somehow ☐ No ☐

35. Have you created risk registers documents?

Yes ☐ No ☐

36. Do you exercise stress testing on enterprise risk management tools?

Yes ☐ Somehow ☐ No ☐

37. Do you have business continuity/disaster recovery/ contingency plan?

For Operational Risk (including IT)	Yes	☐	No	☐
For Liquidity Risk	Yes	☐	No	☐
For Other Risk (Credit, Market & Regulation)	Yes	☐	No	☐

ix. Nature of risks facing Insurances

38. Which three risks, had most affected your insurance company for the last two years?

- Credit Risk ☐
- Operational Risk ☐
- Liquidity Risk ☐

39. Which three risks, do you think, will be key (most relevant) to your insurance company over the next five year?

- Credit Risk ☐
- Operational Risk ☐
- Liquidity Risk ☐

40. In your thinking, what are the possible challenges not to achieve enterprise risk management functions goals and objectives?

- Lack of Commitment from board ☐
- Lack of commitment form management ☐
- Rules and Regulation of NBE ☐
- Lack of resources (budget and human) ☐
- Others ☐

41. If you select a challenge/ challenges for questions no 40, what measures have you taken to achieve enterprise risk management goals and objectives?

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St.Mary's University

School of Graduate Studies

MBA in Finance and Accounting Program

Interview Questions

1. Is the insurance company considers risks as important factor?
2. Is the insurance company considers risk management /control as a strategic objective?
3. Is the insurance company board and management members have asymmetric knowledge about different types of risks related to insurance business?
4. What efforts do the insurance company made to identify, follow up and supervise each type of risks?
5. What are the most common strategies used by insurance company to manage risks?