Assessment of Financial Performance Analysis in the Case of Awash, Nile and Nyala Insurance Companies

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Abstract

This study was conducted under the title "Assessment of Financial Performance Analysis in the Case of Awash, Nile and Nyala Insurance Companies". Its main objective was to analyze and to compare the performance of Awash, Nile and Nyala Insurance Companies of with industry average with respect to liquidity, Asset efficiency, profitability and long term solvency for the period 2011-2016. This study employed ratios (10 in total) such as Current Ratio (CR), Asset Utilization (AU), Income to Expense Ratio (IER) and Operating Efficiency (OE), Return on Asset (ROA), Return on Equity (ROE), Debt to Equity Ratio (DER), and Debt to Total Asset Ratio (DTAR), and Equity Multiplier (EM). The liquidity measurement showed Nyala had shown better performance while Nile performance was slightly better than the industry average. On the other hand, Awash had shown lower performance, as compared to the industry average. Awash and Nile asset management efficiency had shown to be lower as compared to the industry average. Meanwhile, Nyala had shown an extraordinary performance as compared to the industry average. This study also found that all results of profitability measures went in favor of industry average except as compared to Nyala. The results indicated that Awash and Nile were less profitable than industry average. However, Nyala and Nile had shown an outstanding performance of solvency through the five consecutive years while Awash performance was as equivalent to the industry average. The study also indicated that Awash and Nile should have to hold high quality liquid asset and converted them in the event of liquidity shortage and should improve their asset management efficiency by in generating revenue or disposing unutilized asset, if any. They must also considering improvement in their profitability ratio by reducing their operating expenses. On the other hand, Awash should improve its debt management ratio. This can be achieved by increasing asset while keeping liabilities constant.

1. Introduction

1.1 Background of the Study

Financial statements are the principal means through which a company communicates its financial information to those who use it. These statements provide a company's history quantified in money terms. The financial statements, most frequently provided, are (1) the balance sheet, (2) the income statement, (3) the statement of cash flows, and (4) the statement of owners or "stockholders" equity (Keiso &Weygandt; 1998:4).

Financial statements report both a firm's position at a point in time and on its operations over some past period. However, the real value of financial statements lies in the fact that they can be used to help predict future earnings, dividends, and free cash flow (Eugene F; 2004:372).

Financial performance is a measure of an organization's earnings, profits, appreciations in value as evidenced by the rise in the entity's share price. In insurance, performance is normally expressed in net premiums earned, profitability from underwriting activities, annual turnover, returns on investment and return on equity. These measures can be classified as profit performance measures and investment performance measures. Profit performance includes the profits measured in monetary terms. Simply, it is the difference between the revenues and expenses. These two factors, revenue and expenses are in turn influenced by firm-specific characteristics, industry features and macroeconomic variables. Investment performance can take two different forms. One the return on assets employed in the business other than cash, and two, the return on the investment operations of the surplus of cash at various levels earned on operations (Chen & Wong; 2004: 469).

According to Iswatia & Anshoria (2007), Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage. According to Walker (2001), there are two kinds of performance: financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Company's performance is evaluated in three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs. The third dimension is market premium, or the level of which company's market value is exceeding its book value.

Financial analysis is the process of evaluating finance related entities to determine their performance and stability. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid or profitable enough warrant a monetary investment. According to I.M Pandey (1999), financial statement analysis is an attempt to work with the reported financial figure in order to assess the entity financial strength and weakness. Financial statements contain wealth of information if properly analyzed and interpreted. It can provide valuable insight in to firm performance and position. Analysis of financial statement is interested to several groups in a variety of purpose; users of financial statement can get further insight about financial strength and weakness of the firm if they properly analyze the information reported in the statement.

Insurance companies provide unique financial services to the growth and development of every economy. Such specialized financial services range from the underwriting of risks inherent in economic entities and the mobilization of large amount of funds through premiums for long term investments. The risk absorption role of insurers promotes financial stability in the financial markets and provides a sense of peace to economic entities the insurance companies‟ ability to cover risk in the economy hinges on their capacity to create profit or value for their shareholders. A well developed and evolved insurance industry is a boon for economic development as it provides long- term funds for development (Charumathi, B; 2012: 978). Therefore, this study was conducted in order to assess the financial performance of Awash, Nile and Nyala Insurance companies.

1.1 Background of the Company

Nile Insurance Company S.C was established on 11th of April 1995 with a subscribed capital of Birr 12 million and currently the capital of the Company is raised to Birr 200 million. It is a legal entity registered with the licensing and supervising body of the National Bank of Ethiopia in accordance with Proclamation No. 86/1994 and licenses No 006/95. It is one of the first private insurance companies entering into the industry serving more than 20 years with diligent and professional experience committing itself to excellence (Nile;2016).

Nyala Insurance Share Company (NISCO) was founded in July 1995 following the liberalization of the insurance business to the private sector in 1994 with the Licensing and Supervision of Insurance Business Proclamation No. 85/1994. Over the years Nyala Insurance become one of the leading private insurance companies in Ethiopia with strong financial capacity of Birr 300 million subscribed capital, professional workforce, over 20 years of experience in insurance operations, large and increasing customer base, annual turnover and amount of risk covered. Currently, NISCO guarantees protection with care to its customers through three pronged services – General, Life and Micro-insurance solutions with a network of 43 service outlets (28 Service Centers and 15 Contact Offices) distributed all over the country. NISCO has profoundly revised its previous course of business situation. And keenly formulated a forward-looking Strategic Plan that would help the Company streamline its resources towards achieving higher growth (Nyala; 2016).

Awash Insurance Company S.C. (AIC) is one of the first few pioneer private insurance companies in Ethiopia launched following the liberalization of the financial sector in 1994. Founded on a solid base and uniquely on a cross-sectional composition, AIC is progressing in renewing its commitment to excellence (Awash; 2016).

1.2 Statement of the Problem

Financial statements report both a firm’s position at a point in time and on its operations over some past period. However, the real value of financial statements lies in the fact that they can be used to help predict future earnings, dividends, and free cash flow (Eugene F; 2004:372).

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the item of the balance sheet and the profit and loss account. Financial analysis can be undertaken by the management of the firm or by other outside the firm (Pandey; 1999: 108).

Analysis of financial statement is of interest of lenders (short-term as well as long-term), investors, security analysts, managers and others. Financial statement analysis may be done for variety of purposes, which may range from simple analysis of short term liquidity position of the firm to a comprehensive assessment of the strength and weakness of the firm in various areas (Chandra; 2004: 73).

According to Abate and Yuvaraj (2013), Insurance Industry assists the development process of an economy in several ways. Primarily, it acts as mobilizer of savings, financial intermediary promoter of investment activity, stabilizer of financial market, risk manager and an agent to allocate capital resources efficiently. Although the insurance industry has grown rapidly in the industrialized countries, its growth in developing countries like Ethiopia has neither been satisfactory nor in tandem with the growth of other sectors of the economy.

At present, there are about 17 insurance companies including the state owned EIC, operating in the country after acquiring licenses from the National Bank of Ethiopia to offer insurance services as per the Insurance Business Proclamation No. 86/ 1994 (NBE, 2016).

If properly analyzed and interpreted, financial statement can provide valuable insights in to firm's performance. Financial statement analysis has various functions to different firms, for instance, it can be used to identify trends by comparing ratios across multiple time periods and statement types. A ratio like return on asset (ROA) and return on equity (ROE) compare company net income found on the income statement with asset and stockholders' equity as found on the balance sheet. Also Financial statement analysis can help in discovering possible weakness and any problem areas. Despite its functions, according to the researcher's knowledge the insurance companies do not exercise all analysis methods, except some ratio analysis techniques like ROA, ROE, EPS and loss ratio. In addition to this, they do not also compare their financial performance with the industry average, due to this, the research concern on methods that are not performed by the insurance companies through comparing their financial performance with the industry average. Moreover, some empirical literatures show that some researches have conducted on different aspect of insurance in foreign countries like Anila (2015) Albania, B.Nigraja (2015) India, Amal (2012) Jordan, Mirie & Jane (2015) Kenya and Joseph, Frank, Lordin and Richard (2011) Ghana. However, as per researcher's knowledge there are no sufficient researches which are prepared in Ethiopia; even though the researches are prepared most of them are concerned on profitability of insurance companies. And also they emphasize on one variable in evaluating the performance of the companies rather than comparing with the industry average. Therefore, this study was conducted in order to assess the financial performance of Awash, Nile and Nyala Insurance companies.

1.3 Basic Questions

The researchers tend to answer the following question at the end of the research.

1. What is the ability of the Awash, Nile and Nyala insurance companies in meeting their current liability as compared to the industry average?
2. How Awash, Nile and Nyala insurance company manage their asset efficiently to generate revenue as compared to the industry average?
3. What is profitability trend of Awash, Nile and Nyala insurance companies as compared to the industry average?
4. To what extent Awash, Nile and Nyala insurance companies survives over a period of time (i.e. capital structure) as compared to the industry average?

1.4 Objectives of the Study

The study contain general and specific objective of the research as follows:

1.4.1 General Objective

The general objective of the study was to analyze the financial performance of Awash, Nile , and Nyala insurance companies.

1.4.2 Specific Objective

Specific objectives of this research were as follows:

- To analyze liquidity of Awash, Nile, and Nyala insurance companies by comparing with the industry average
- To evaluate the asset management or efficiency of Awash, Nile and Nyala insurance companies by comparing with the industry average
- To evaluate the profitability of Awash, Nile and Nyala insurance companies by comparing with the industry average.
- To analyze the solvency of Awash, Nile and Nyala insurance companies by comparing with the industry average

1.5 Scope of the Study

There are around 17 insurance companies in Ethiopia, but due to time and resource constraint and the insufficient life insurance financial statement, the researchers has decided to analyze non-life insurance to assess the audited financial statement of Awash, Nile and Nyala insurance companies by comparing their financial performance with the industry average, which cover six consecutive years from 2011-2016.

1.6 Significance of the Study

The significance of the study includes:

- To enhance experience and knowledge on the area (i.e. insurance companies) for researchers.
- To enable the organization to make some adjustment based on suggestions given and to evaluate the financial performance to take a corrective action in the future performance.
- To provide useful information for external (creditors, investor) user's for financing and investing.
- It can be used as an input for further study

5. Research Design and Methodology

2.1 Research Design

According to the objective of the study, most of the data gathered were quantitative data in order to enable the researchers to describe the performance of Awash, Nile and Nyala insurance companies using different measures. The researchers have used a descriptive research design.

2.2 Sampling and Sampling Technique

In Ethiopia there are around 17 insurance companies which are the population for this research. Among these insurance companies, the researcher has selected Awash, Nile and Nyala; because they are contemporary companies in their establishment. In addition, they are private companies. Due to the basic objective of the study, the researchers has found that it's appropriate to use purposive type of sampling technique in the selecting the companies for this research.

2.3 Data Type & Source

Due to the basic objective of the study, the researchers have used secondary and quantitative data as a source and type of input to the study.

2.4 Method of Data Collection

The data gathering method that has been used in this research was document analysis. The six years (i.e.2011-2016) balance sheet and income statement reports have been used in the study. In Ethiopia, it is a must for insurance to report and submit their annual report to the controlling body in this case NBE. As a result, it made life easy for the researchers to get annual reports of selected insurance from the NBE central data base and the financial statements from the annual audited report of NBE.

2.5 Data Analysis & Presentation Methods

The collected data were analyzed using ratios and trend analysis. For better understanding of the result, the researchers have used some convenient methods like table and graphs.

2.6 Limitation of the Study

This study was not without its limitations like any other study. During the research period the researchers has faced the following obstacles:

- As intended in the scope of the research the study aimed to analyse the financial statement from the year 2011 to 2016, however, the financial statement of 2016 was not available during the time of data collection.
- Shortage of time and lack of capacity of the researchers were among the limitation that faced the researchers.

2.7 Organization of the Paper

The study has been organized under the following four chapters: the first part has dealt with the introduction which includes background of the study, statement of the problem, objective of the study, significant of the study, scope of the study, research methodology and limitation of the study. The second chapter has dealt with review of literature which includes theoretical and empirical literatures that are related to financial performance analysis and the third chapter has been focused on data analysis, presentation and interpretation of Awash, Nyala and Nile insurance company and the final and the fourth chapter has dealt with summary, conclusion and recommendation.

6. Data Presentation, Analysis and Interpretation

In this part of the paper, detail discussions and analysis of the study findings were presented. The financial performance evaluation obtained by thoroughly analyzing the company's financial statements. Each financial performance indicator (financial ratio) was presented independently in a graph or a table. The analysis was presented in the following sequence: first the financial highlights of the company's followed by the ratios.

3.1. Liquidity Ratios

Liquidity from the context of insurance companies is the probability of an insurer to pay liabilities which includes operating expenses and payments for losses or benefits under insurance policies, when due and , therefore, measured by total current assets to total current liabilities.

3.1.1 Current Ratio

The current ratio is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. The current ratio is an important measure of liquidity because short- term liabilities are due within the next year (Gupta, 2014).

Current ratio= ____________

Table 3.1 Current Ratio of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	Nile	Nyala	Industry Average
2011	0.784643088	0.964231282	1.017629664	0.972870388
2012	0.8507148	1.089121802	1.099538725	0.96415707
2013	0.889014803	1.110827758	1.142285013	0.993894558
2014	0.860946641	1.08997399	1.217588871	0.993894558
2-015	0.832183792	1.153411804	1.24456421	0.993894558

Source: Annual Report (2011-2015) and Own Computation

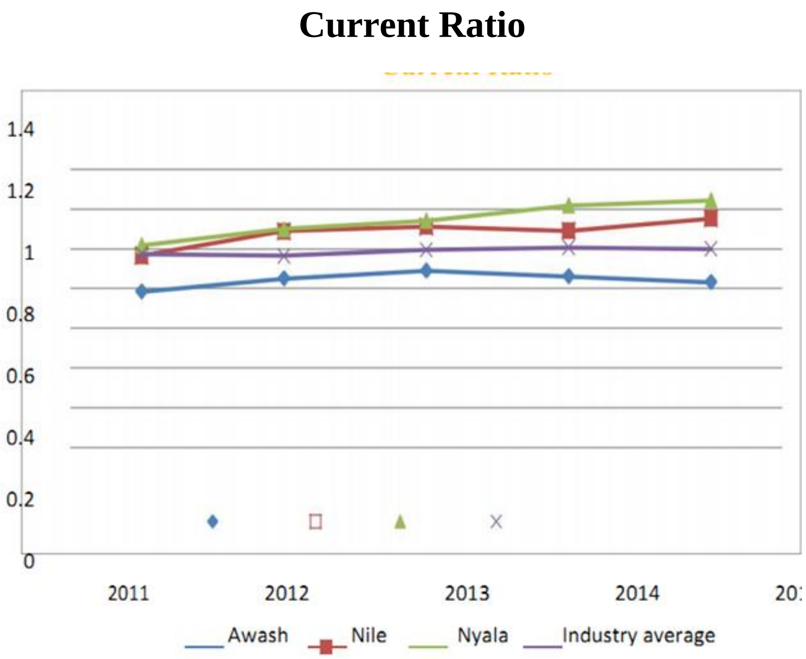
During the year 2011-2015, Awash had a current ratio of 0.7846, 0.851, 0.889, 0.861 and 0.832 respectively. However, the current ratio performance of Awash was below the industry average in all the consecutive five years. Even though, its current ratio was below the industry average, it showed increasing in the year between 2012 and 2013, the current ratio growth percentage was 7.7% and 4.3% respectively, This incremental in the current ratio was due the growth of the current asset from 168,785,040 -292,073,419 and 292,073,419 - 365,042,825 in the year 2012 and 2013 respectively.

However, in the next two-succeeding years Awash's current ratio begin to decline, This was due to the decrement of current asset in the year 2014 and the high incremental of current liability in the year 2015.

In the year 2011-2015, Nile had a current ratio of 0.964, 1.089, 1.11, 1.0899 and 1.1534 respectively. Nile current ratio performance in the five-consecutive years was higher except in the year 2011 as compared with the industry average. In 2012, 2013 and 2015 Nile's current ratio has shown growth by the rate of 11.4%, 1.95%, and 5.5% respectively. This was due to the growth of current asset 96,772,406, 41,965,464 and 65,246,267 in 2012, 2013 and 2015 respectively. In 2014, Nile current ratio showed decrement this was due to the growth of current liability.

Nyala's ratio during 2011-2015 was 1.0176, 1.0995, 1.1422, 1.2175 and 1.2445 respectively. Nasal's ratio performance throughout the five-consecutives year was above the industry average. In addition, Nyala's ratio shows growth in the years between 2012-2015. The growth rates were as follow: from 2012-2015, 7.4%, 3.7%, 6.1%, and 2.1% respectively. The increment in the current ratio was caused due to the high increment of current asset in the company.

Graph 3.1 Current Ratio of Awash, Nile and Nyala



Source: Annual Report (2011-2015) and Own Computation

3.1.2 Cash Ratio

The cash ratio is an indicator of the firm's ability to pay off its current obligation. The some reason immediate payments were demanded.

Cash ratio=

Table 3.2 cash ratio of Awash, Nile and Nyala

Year	**Name of insurance companies**			
	Awash	**Nile**	**Nyala**	**Industry Average**
2011	0.14	0.07	0.56	0.25
2012	0.13	0.10	0.54	0.23
2013	0.12	0.06	0.58	0.15
2014	0.09	0.04	0.43	0.18
2015	0.10	0.06	0.26	0.03

Source: Annual Report (2011-2015) and Own Computation

As listed in the above table 3.2, between the years 2011-2015 Awash had cash ratio of 0.14, 0.13, 0.12, 0.09 and 0.10 respectively. Awash's cash ratio performance was below the industry average, except in the year 2015. In 2012, 2013 and 2014 Awash's ratio showed decrement. The decrement rate was 7.6%, 8.3% and 33.3% respectively. The cash ratio showed detrimental due to the high increment of current liability in 2012 and 2013 and high detrimental of cash and cash equivalent was in 2014. In 2015 Awash's cash ratio showed some incremental. The incremental rate was 10%, the reason behind the incremental of the cash ratio was the incremental in the cash and cash equivalent.

During the year 2011-2015, Nile cash ratio was 0.07, 0.10, 0.06, 0.04 and 0.06 respectively. Nile's cash ratio performance was below the industry average except 2015. In the year 2012 and 2015 Nile's cash ratio shows increment rate of 30% and 33% respectively. The incremental was due to the high incremental of cash and cash equivalent. However, in 2013 and 2014 Nile's cash ratio shows detrimental because of the decrement of cash and cash equivalent. The decrement rate was 67% and 50% in 2013 and 2014 respectively.

In the year from 2011 to 2015, Nyala's cash ratio was 0.56, 0.54, 0.58, 0.43 and 0.26 respectively. Nyala's cash ratio performance was above the industry average from 2011 to 2015- five consecutive years. Even though its cash ratio was above the industry average Nyala's cash ratio showed some decrement in the year 2012, 2014 and 2015. The decrement rate was 3.7%, 34.8% and 65.38%. This decrement was caused by the decrement of cash and cash equivalent. But, however in 2013 the cash ratio was increased by 6.89%. This was due to the increment of cash and cash equivalent.

3.2. Asset Efficiency Ratios

3.2.1. Asset utilization

This ratio measures capability of firm to generate revenue with its asset. The high value of this ratio indicated the high productivity of firm's asset.

AU = Total Revenue/Total Asset

Table 3.3: Asset Utilization of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	**Nile**	**Nyala**	**INDUSTRY AVERAGE**
2011	0.17132085	0.230459608	0.249554095	0.174345004
2012	0.150088767	0.223969802	0.28705746	0.20016883
2013	0.210865388	0.210622388	0.471293818	0.238805826
2014	0.207272154	0.22893793	0.143369328	0.224405264
2015	0.211617971	0.212004877	0.122722151	0.215236844

Source: Annual Report (2011-2015) and Own Computation

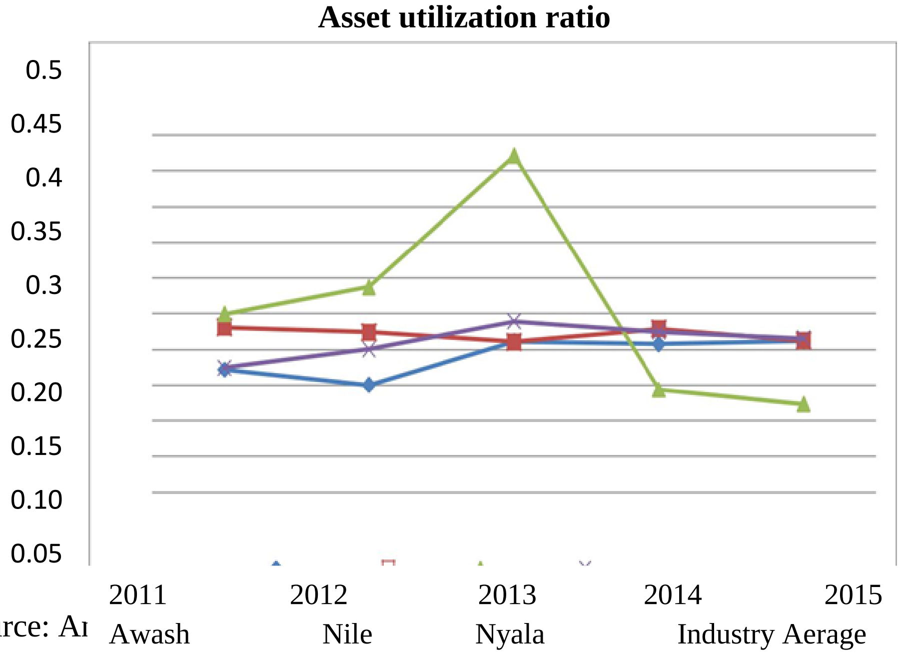
As seen in the above Table 3.3, during the year 2011-2015, Awash had asset utilization ratio of 0.1713, 0.150, 0.2108, 0.207 and 0.2116 respectively. As compared to the industry asset utilization ratio, Awash had nearly equivalent performance in the year 2011 and 2015. However, on the rest of the years (i.e. 2012, 2013 &2014), Awash's asset utilization ratio performance was below the industry average. This was because of the high increment of total asset. Due to this, there were some parts of total asset which were not utilized in or throughout generating revenue. Due to this, the asset utilization ratio showed decrement of 14.1% and 1.73% in 2012 and 2014 respectively. However, in 2013 and 2015 Awash's asset utilization ratio showed increment. Even though, it was below the industry average, in 2013 the asset utilization ratio had some increment. This is due to the high increment of total revenue.

Nile's asset utilization ratio in the year 2011-2015 was 0.2304, 0.2239, 0.2106, 0.2289 and 0.2120 respectively. Nile's asset utilization was above the industry average in the year 2011 & 2012. Even though in the year 2012, the ratio shows some decrement, it was still above the industry average. The decrement was due to the high increment of total asset by 96,580,648 and showed decline in 2013 by 6.3% lying below the industry average. This was due to the high increment of total asset. However, in the year 2014 and 2015 Nile's Asset utilization was nearly equivalent to the industry average. In 2014 the ratio showed growth by 8%. This was because of increasing of the total revenue by 19.8%. Despite the decline in 2015 by 7.9%, Nile asset utilization ratio was equivalent to the industry average in both years (i.e. 2014 and 2015).

In the year 2011-2015, Nyala Asset utilization ratio was, 0.2495, 0.2870, 0.4712, 0.1433 and 0.1227 respectively. The asset utilization ratio performance of Nyala was above the industry average during the year 2011-

2013. Between the year 2012 and 2013 the asset utilization ratio shows an increment rate of 13.06% and 39.09% respectively. The reason behind the increment of the ratio was the increment in total revenue in 2012. Also the same was true for 2013. However, in the year 2014 and 2015, it was below the industry average, showing a decrement rate of 228.72% and 16.82% in 2014 and 2015 respectively. This was due to the high decrement of total revenue by 158.3% in 2014 and the high increment of total asset by 204,013,487 in 2015.

Graph 3.2: Asset utilization of Awash, Nile and Nyala



Source: A

3.2.2. Income to Expense Ratio

Income to expense is the ratio that measures amount of income earned per dollar of operating expense. High IER is preferred over lower one as this indicates the ability and efficiency of the insurance in generating more total income in comparison to its total operating expenses. IER = Total income / Total Operating Expenses

Table 3.4 Income expense ratio of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	**Nile**	**Nyala**	**Industry Average**
2011	0.714736269	0.650996589	1.428800529	0.871268158
2012	1.120169518	0.835604849	1.333829757	0.919454978
2013	2.379791701	0.976241615	0.437650716	1.248310454
2014	1.049825581	1.021432026		1.26649705
2015	1.039952898	0.643410401		1.403494804

Source: Annual Report (2011-2015) and Own Computation

During the year 2011-2015, Awash had an income expense ratio of 0.7147, 1.120, 2.3798, 1.04982 and 1.0399 respectively. Awash's income expense ratio was below the industry average except in the year 2012 and 2013.The income expense ratio of Awash showed growth in 2012 and 2013 by 36.19% & 52.92%.The increment was due to the high increment of total income. However, in 2014 and 2015 it showed detrimental by 126.62% & 0.95%. This was due to the high increment of total operating expense.

In the year 2011- 2015, Nile's income expense ratio was 0.6509, 0.8356, 0.9762, 1.0214 and 0.6434 respectively. The ratio was below the industry average throughout the five consecutive years. However, the Nile income expense ratio showed growth in the year 2012, 2013 and 2014 by the rate 28.35%, 16.83% and 4.629%. The increment in total income caused the increment in the ratio. Moreover, in the year 2013 the decrements in the total operating expense assisted the increment in the ratio. However, the ratio began to decline in 2015 by 37%. This caused by the high increment in the total operating expense.

Nyala's income expense ratio during year 2011 to 2015 was 1.4288, 1.3338, 0.4376, 0 and 0 respectively. Income expense ratio performance of Nyala was below the industry average except in the year 2011 and 2012. However, between the year 2012 and 2013 the ratio has shown decrement by 6.64% and 67.18 respectively; the decrement was due to the high increment of the total operating expense. However, the ratio was above the industry average till the year 2012, but in the year 2015 it showed 100% decrement.

3.2.3. Operating Efficiency

Operating Efficiency measures the amount of income earned per dollar of operating expense, Operating efficiency is the ratio that measures the amount of operating expense per dollar of operating revenue. Lower OE is preferred over higher OE as lower OE indicates that operating expenses are lower than operating revenues.

OE=Total Operating Expenses / Total Operating Revenue.

Table 3.5 Operating Efficiency of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	**Nile**	**Nyala**	**Industry Average**
2011	0.535688089	0.574975753	0.362486427	0.481046286
2012	0.471660399	0.544779559	0.365891038	0.450355769
2013	0.295876222	0.479584246	0.650539243	0.398331012
2014	0.461376984	0.481478246	0	0.388539157
2015	0.451303274	0.598554636	0	0.371683211

Source: Annual Report (2011-2015) and Own Computation

In the year 2011-2015, Awash had an operating efficiency of 0.5356, 0.4716, 0.2958, 0.4613 and 0.4513 respectively. The operating efficiency of Awash was above the industry average except in the year 2013. Moreover, the ratio had shown decrement in the year 2012, 2013 and 2015 by 12%, 37.3% and 2.23% respectively. The reason behind the decrement was the high increment in the total operating expense. However, in 2014 the ratio was increased by 60% which was caused by the high increment in the total operating revenue, nevertheless the ratio declined in 2015.

As listed in the above Table 3.5, between the years 2011-2015, Nile has operating efficiency of 0.5749, 0.5447, 0.4795, 0.4814 and 0.5985 respectively. Nile’s operating efficiency was above the industry average throughout the five years. In 2012 and 2013 the ratio had declined by 5.25% and 12%, which was caused by the high increment of total operating revenue and the decrement in the total operating expense, nevertheless of the decrement the ratio was still above the industry average in both years. However, in 2014 the ratio had shown slightly increment as compared to the preceding year by 0.39%. In the succeeding year the ratio continued its increment by 19.55%. Both increments were caused by the high increment in the total operating expense.

As seen in the above Table 3.5 during the year 2011-2015, Nyala has operating efficiency of 0.3624, 0.3658, 0.6505, 0 and 0 respectively. The operation efficiency of Nyala was below the industry average except in the year 2013. Even if, the ratio was below the industry average, it has shown increment in 2012 and 2013 by 0.93% and 77.79%. In 2014 and 2015, the ratio was declined by 100% which was caused by the high reduction in the total operating expense.

3.3. Profitability Ratios

Is the basic insurance financial ratio in order to evaluate how well insurance is performing in terms of profit? For the most part, if a profitability ratio is relatively higher as compared to the competitor(s), industry averages, guidelines, or previous year’s same ratios, then it is taken as indicator of better performance of the insurance.

3.3.1. Return on Asset

Return on Asset measures how much the firm is earning after tax for each dollar invested in the assets of the firm. That is, it measures net earnings per unit of a given asset, moreover, how insurance can convert its assets into earnings. Generally, a higher ratio means better managerial performance and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets. ROA is calculated as under: ROA = Net Profit after Tax / Total Asset

Table 3.6 Return on asset of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	Nile	Nyala	Industry Average
2011	0.065594591	0.086262703	0.129249256	0.073071533
2012	0.079297839	0.101955632	0.140094476	0.08288628
2013	0.148475334	0.098611317	0.134181575	0.118743992
2014	0.100395452	0.112591056	0.121748723	0.110426172
2015	0.09931954	0.081646529	0.106530742	0.112279474

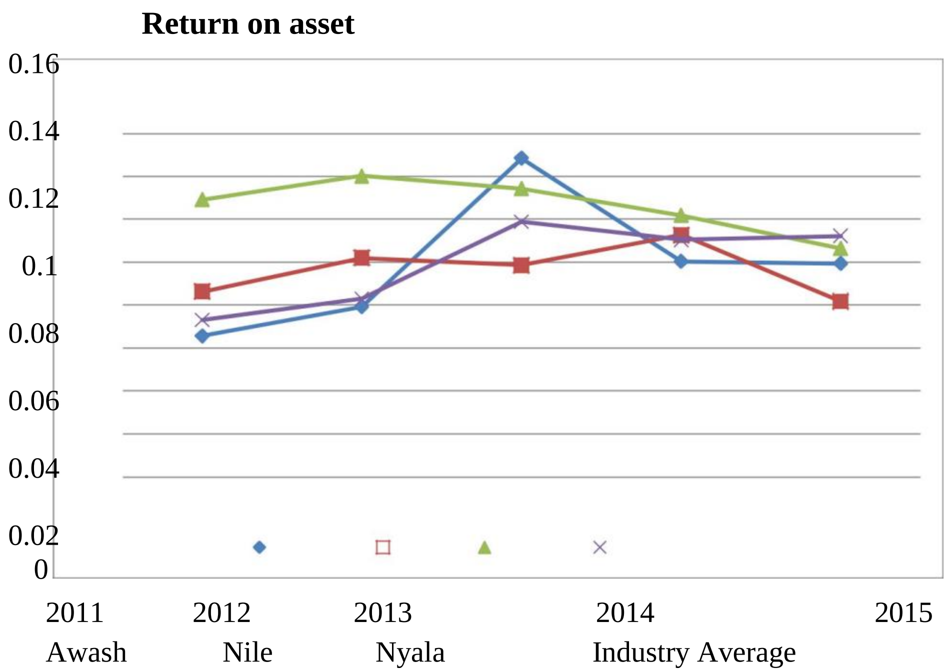
Source: Annual Report (2011-2015) and Own Computation

During the year 2011-2015, Awash has a return on asset of 0.0655, 0.0793, 0.1484, 0.10 and 0.0993 respectively. Return on asset performance of Awash was below the industry average except in the year 2013. Even though the ratio was below the industry average, it had shown some growth till the year 2012 by 20.89% and 87.23% in 2013 respectively. The increment was due to the increment in the net profit after tax in both years. However, it began to decline from the year 2014 by 32.38%. Following the preceding year in 2015 the decline further continued by 1.07%, which caused by high increment of total asset and the decrement in net profit after tax.

Nile's Return on asset in the year 2011-2015 was, 0.0862, 0.1019, 0.0986, 0.1125 and 0.0816 respectively. Nile's return on asset ratio was above the industry average except in the year 2013 and 2015. The ratio had shown a growth rate of 18.19% and 14.17% in the year 2012 and 2014. This was due to the high increment of net profit after tax. Unlikely, in the year 2013 and 2015 the ratio showed some decrement by 3.28% and 27.48%. This was mainly caused by the high increment of the total asset and the decrement of net profit after tax in 2013 and 2015 respectively.

As listed in the above table 3.6, between the years 2011-2015, Nyala has Return on asset of 0.1292, 0.140, 0.1341, 0.1217 and 0.1065 respectively. The return on asset ratio performance of Nyala was above the industry average except in the year 2015. In the year 2012, it showed increase by 8.39% ensuing the increment in the total net profit after tax. However, the ratio decreased in 2013 and 2014 by 4.22% and 9.26% respectively, which was caused by the high increment in the total asset, but still making it above the industry average.

Graph 3.3 Returns on Asset of Awash, Nile and Nyala



3.3.2. Return on Equity

Return on Equity measures how much the firm is earning after tax for each dollar invested in the firm. In other words, ROE is net earnings per dollar equity capital. It is also an indicator of measuring managerial efficiency. Higher ROE means better managerial performance. ROE is calculated as under:

ROE = Net profit after tax / Shareholders' Equity

Table 3.7 Return on equity of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	Nile	Nyala	Industry Average
2011	0.251030773	0.244325725	0.304816835	0.286675799
2012	0.342254385	0.284325551	0.346111665	0.352148612
2013	0.560145861	0.282058274	0.351159157	0.468528951
2014	0.326405033	0.332941308	0.306570522	0.397774085
2015	0.325713221	0.218693443	0.28416579	0.367605507

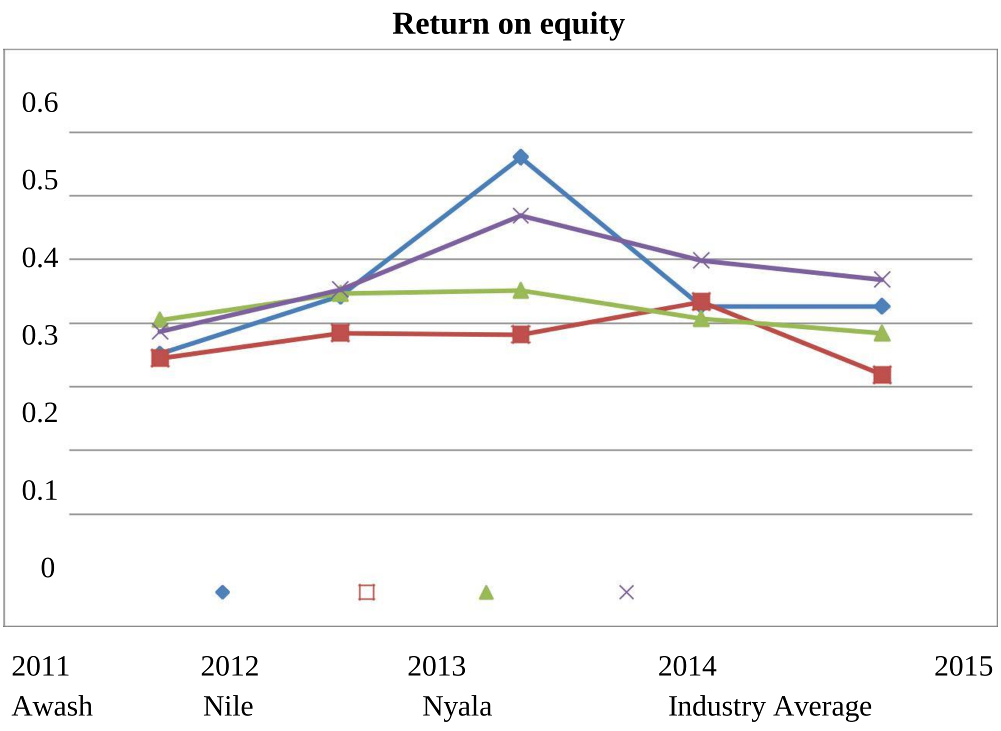
Source: Annual Report (2011-2015) and Own Computation

During the year 2011-2015, Awash had a return on equity ratio of 0.2510, 0.3422, 0.5601,1 0.3264 and 0.3257 respectively. The return on equity performance of Awash was below the industry average except in the year 2013. Even if, the ratio was below the industry average, it was showing some increment until the year 2014. In 2012, the ratio had shown increment by 36.33%, this was due to the increment in the net profit after tax. Following 2012, the ratio reached its climax in the year 2013 resulting rate of 63.66% increment in the ratio, which was also caused by the increment in the net profit after tax. Nevertheless, after this year, the ratio had shown high and slight decrement in the year 2014 and 2015 respectively. The decrement rate was 41.72% and 0.21% in 2014 and 2015 respectively. The reason for the decrement of the ratio was high increment and decrement of the shareholders' equity and net profit after tax respectively.

In the year from 2011 to 2015, Nile's return on equity ratio was 0.2443, 0.2843, 0.2820, 0.3329 and 0.2186 respectively. Return on equity ratio performance was under the industry average throughout the five years. The ratio had shown increment in 2012 by 0.0399 (i.e. 14.03%) as compared to the year 2011. However, in 2013 the ratio showed slightly decrement by rate of

0.79%. Following this year, the ratio showed high increment by 18.03% in 2014. Nevertheless; in 2015, the ratio showed a very high decrement by 34.31%. As listed in the above table 3.7, between the years 2011-2015, Nyala had return on equity ratio of 0.3048, 0.3461, 0.3511, 0.3065 and 0.2841 respectively. Nyala's return on equity performance was lower as compared to the industry average except in 2011. However, the ratio had shown some increment in 2012 and 2013 by 13.54% and 1.45% respectively. Both increments were caused by the increment in the net profit after tax. Nevertheless, the ratio had shown decrement in the next two-successive years by 12.69% and 7.3% in 2014 and 2015 respectively. The reason behind the decrement was the decrement of net profit after tax in 2014 and the high increment of the shareholders' equity in 2015.

Graph 3.4 Return on Equity Ratio of Awash, Nile and Nyala



Source: Annual Report (2011-2015) and Own Computation

3.4. Solvency Ratios

Solvency ratio expresses the relationship between the amount of the total assets of the company financed by the creditors (debt) and owners (equity).

The more the debt a firm has the higher the chance that firm become unable to fulfill its contractual obligations. The following ratio measures of solvency were used for the study.

3.4.1. Debt Equity Ratio

This ratio indicates the proportion of assets financed with debt. A high value of this ratio provides indication that firm invest in more risky business.

DER = Total Debt / Shareholders' Equity

Table 3.8 Debt Equity Ratio of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	**Nile**	**Nyala**	**Industry Average**
2011	2.82700417	1.832344881	1.358364334	2.923221395
2012	3.316061925	1.788718434	1.470558966	3.248575411
2013	2.772652652	1.860303295	1.617044355	2.945705016
2014	2.251193423	1.957084878	1.518059578	2.602172234
2015	2.279447523	1.678539364	1.667453402	2.274122181

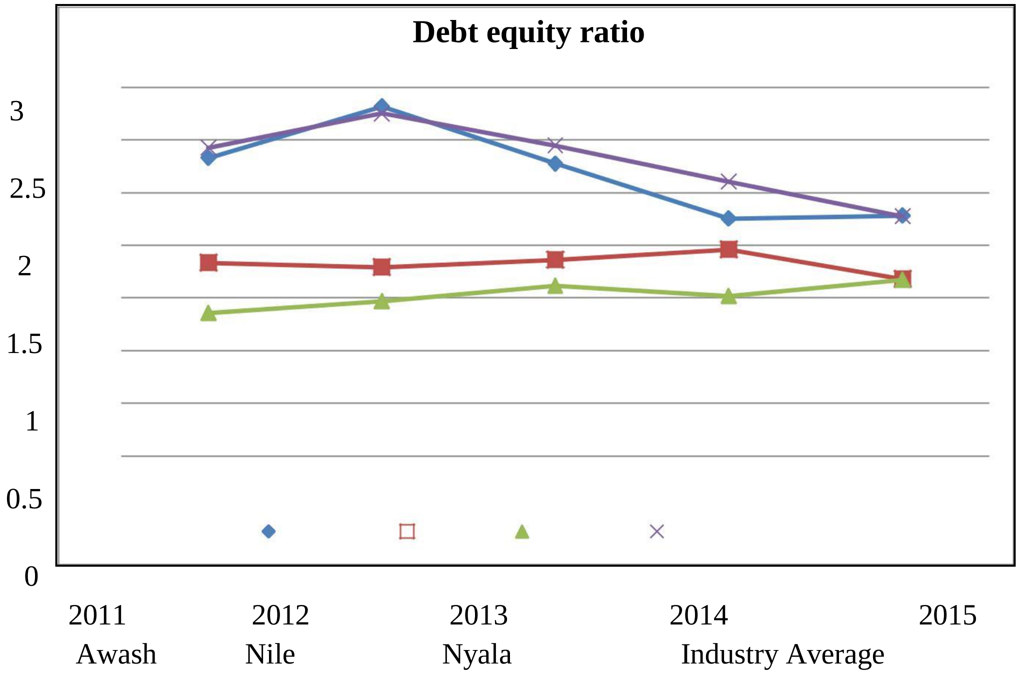
Source: Annual Report (2011-2015) and Own Computation

As seen in the above table 3.8, during the year 2011-2015, Awash had debt to equity ratio of 2.8270, 3.3160, 2.7726, 2.2511 and 2.2794 respectively. The ratio performance was lower as compared to the industry average except in the year 2012 and 2015. The ratio had shown decrement in 2013 and 2014 by 16.38% and 18.80% respectively. However, the ratio also showed increment in 2012 and 2015 by 17.29% and 1.25% respectively. The increment and the decrement of the ratio were caused by the fluctuation in the total debt.

Nile's debt to equity ratio in the year 2011-2015 was, 1.8323, 1.7887, 1.8603, 1.9570 and 1.6785 respectively. Nile's debt to equity performance was under the industry average throughout the five years. Even if, the ratio was lower than the industry average, it showed some increment in the year 2013 and 2014 by 4% and 5.2% respectively. It was due to that the total debt increased by 60,470,012. Nevertheless, the ratio had decreased the next two years (i.e.2012 and 2015) by 2.38% and 14.38%. The reason behind the decrement was the high increment of the shareholders' equity by 36,110,636 and 50,282,633 in 2012 and 2015 respectively.

In the year, 2011-2015, Nyala had a debt to equity ratio of 1.3583, 1.4705, 1.6170, 1.5180 and 1.6674 respectively. The debt to equity ratio performance of Nyala was below the industry average throughout the five consecutive years. Nevertheless of being lower the industry average the ratio had shown some increment in 2012, 2013 and 2015. The ratio of growth by 8.25%, 9.96% and 9.84% compared to their preceding year in 2012, 2013 and 2015 respectively. In the year 2014 the ratio decreased by -0.0989 (6.12%). This was caused by the high increment in the shareholders' equity.

Graph 3.5 Debt to equity ratio of Awash, Nile and Nyala



Source: Annual Report (2011-2015) and Own Computation

3.4.2. Debt to Total Asset Ratio

Debt to Total Asset Ratio is an indicator of financial strength of the insurance. It provides information about the solvency and the ability of the firm to obtain additional financing for potentially attractive investment opportunities.

DTAR = Total Debt / Total Assets

Table 3.8 Debt to total asset ratio of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	Nile	Nyala	Industry Average
2011	0.738699009	0.646935652	0.575977305	0.745107427
2012	0.768307308	0.641412346	0.5952333	0.764626989
2013	0.734934516	0.650386726	0.617889508	0.74655957
2014	0.692420636	0.66182912	0.602868841	0.722389742
2015	0.695070589	0.626662196	0.625110602	0.694595803

Source: Annual Report (2011-2015) and Own Computation

During the year 2011-2015, Awash had a debt to total asset ratio of 0.7386, 0.7683, 0.7349, 0.6924 and 0.6950 respectively. The debt to total asset ratio of Awash was lower than the industry average except in the year 2012 and 2015. The ratio was slightly higher than the industry. In 2012 the ratio had shown growth by 4% which was caused by the increment in the total debt. Following this year, the three succeeding year were periods which the ratio showed decrement in 2013 and 2014 the ratio was declined by 4.34% and 5.78% respectively. In the next year (i.e. 2015) the ratio showed a slightly decrement by 0.38%. All the decrement was caused by the high increment in the total asset.

In the year 2011-2015, Nile had a debt to total asset ratio of 0.6469, 0.6414, 0.6503, 0.6618 and 0.6266 respectively. Nile debt to total asset ratio performance in the five-consecutive years was under the industry average. However, the ratio had shown increment in the year 2013 and 2014 by 1.4% and 1.76% respectively. The reason behind the increment was the high increment of the total debt. Nevertheless, the increment, the ratio declined in the year 2012 and 2015 by 0.85% and 5.31% respectively. Both decrement were caused by the decrement of the total debt.

Nyala's debt to total asset ratio during 2011-2015 was 0.5759, 0.5952, 0.6178, 0.6028 and 0.6251 respectively. The debt to total asset ratio performance of Nyala was below the industry average throughout all five years. However, the ratio shown increment in the year 2012, 2013 and 2015 by 3.34%, 3.80% and 3.69% respectively. This was caused by the high increment of the total debt. In 2014, the ratio has shown some decrement by 3.80%. This was due to the high increment of the total asset.

3.4.3. Equity Multiplier

This ratio shows how many dollars of assets must be supported by each dollars of equity capital. The higher value of this ratio indicates signal for risk failure.

EM =Total Asset / Total Shareholders‟ Equity

Table 3.10 Equity multiplier of Awash, Nile and Nyala

Year	Name of insurance companies			
	Awash	Nile	Nyla	Industry Average
2011	3.827004146	2.832344881	2.358364334	3.923221392
2012	4.316061934	2.788718434	2.470558966	4.248575393
2013	3.772652652	2.860303295	2.617044527	3.94570659
2014	3.251193429	2.957084872	2.518059443	3.602172183
2015	3.279447523	2.678539369	2.667453402	3.274022346

Source: Annual Report (2011-2015) and Own Computation

In the year 2011-2015, Awash had equity multiplier ratio of 3.827, 4.316, 3.7726, 3.2511 and 3.2794 respectively. The ratio performance was lower as compared to the industry average except in the year 2012 and 2015. The ratio showed as shown decrement in 2013 and 2014 by 12.59% and 13.82% respectively. However, the ratio also showed increment in 2012 and 2015 by 12.77% and 0.87% respectively. The increment and the decrement of the ratio were caused by the fluctuation in the total debt.

As listed in the above table 3.10, between the years 2011-2015 Nile had equity multiplier ratio of 2.8323, 2.7887, 2.8603, 2.9570 and 2.6785 respectively. Nile’s debt to equity performance was under the industry average throughout the five years. Even if, the ratio was lower than the industry average it had shown some increment in the year 2013 and 2014 by 2.56% and 3.38% respectively. It was due to the total asset increased by 58,935,829 and 62,211,177 respectively. Nevertheless, the ratio had decreased the next two years (i.e.2012 and 2015) by 1.54% and 9.41%. The reason behind the decrement was the high increment of the shareholders’ equity by 36,110,636 and 50,282,633 in 2012 and 2015 respectively.

As seen in the above table 3.10 during the year 2011-2015, Nyala had equity multiplier ratio of 2.3583, 2.4705, 2.6170, 2.5180 and 2.6674 respectively. The debt to equity ratio performance of Nyala was below the industry average throughout the five consecutive years. Nevertheless of being lower the industry average the ratio showed some increment in 2012, 2013 and 2015. The ratio growth by 4.75%, 5.92% and 5.83% as compared to their preceding year in 2012, 2013 and 2015 respectively. In the 2014 in the ratio showed decrement by -0.0989 (3.78%), this was caused by the high increment in the shareholders' equity.

4. Summary, Conclusions and Recommendations

In chapter three, the actual performance of the company has been evaluated. Here are the researcher conclusions and recommendations based on the analysis of the previous chapter.

4.1. Summary

- The five years average current ratio performance of Awash, Nile and Nyala Insurance companies during the study period (i.e., between 2011 and 2015) was 0.843, 1.081 and 1.144 respectively while the five years average of the industry average during these period was 0.987. Similarly, the average cash ratio during these periods was 0.116, 0.066 and 0.474 respectively for Awash, Nile and Nyala Insurance companies while 0.168 was the cash ratio of the industry average.
- The five years average asset utilization ratio of Awash, Nile and Nyala Insurance companies was 0.19, 0.221 and 0.254 respectively while the five years average value of the industry average was 0.21. The five years average operation efficiency of the industry average and Awash, Nile, and Nyala Insurance companies' was 0.4179, 0.443, 0.5358 and 0.2757 respectively. On the other hand, the five years average income expense ratio of Awash, Nile and Nyala Insurance companies was 1.2608, 0.8255 and 0.64 respectively while 1.1418 was the value of the industry average.
- The respective five years average value of return on asset ratio and return on equity ratio were 0.098 and 0.361 for Awash; 0.096 and 0.272 for Nile; and 0.126 and 0.318 for Nyala insurance companies. On the other hand, 0.099 and 0.374 were the five years average values of the industry average respectively.
- The five years average debt to equity ratio was 2.6892, 1.8233 and 1.5262 respectively, for Awash, Nile and Nyala Insurance companies while 2.798 was the value of this ratio for the industry average. On the other hand, 0.7258, 0.6454 and 0.6034 was the respective five years average debt to

total asset ratio of Awash, Nile and Nyala Insurance companies while the five years average debt to total asset ratio of the industry average was 0.7346. The equity multiplier ratio of Awash, Nile and Nyala Insurance companies, on the basis of five years average were 3.6892, 2.8233 and 2.5262 respectively while the value of this ratio was 3.7987 for the five years average of the industry average.

4.2. Conclusions

At this point, the financial analysis has been made in an attempt to draw some rough conclusions on the performance of the three insurance companies. One of the main points to understand about the financial analysis was that all the information that would be conclusive judgment about what was going on in the company was found in the financial statements.

- The five years average current ratio of Nile and Nyala insurance companies exceeded the five years average of the industry average by 9.5 % and 16% respectively while the ratio of Awash insurance company was below the industry average by 14.4 percent. On the other hand, the average cash ratio of Awash and Nile insurance companies was below the five years average of the industry average by 31 % and 60.7 % respectively. Whereas the average cash ratio of Nyala insurance company was above that of the industry average by 182 %. Therefore, researchers had concluded that Awash was less liquid than industry average in all liquidity measurements. On the other hand, Nile was less liquid in terms of cash ratio performance measure, but more liquid in terms of current ration performance measure and Nyala had a better liquidity.
- The five years average (2011-2015) asset utilization ratio of Awash insurance company was below the five years average asset utilization ratio of the industry average while the ratio value of Nile and Nyala insurance companies was above the industry average by 5.03 % and 20.99% respectively. On the other hand, the average operation efficiency ratio of Awash and Nile insurance companies was above the five years average of the industry average by 6 and 28 percent while the Nyala insurance company's operation efficiency ratio was below that of the industry average by 34 percent. However, it was only the Awash insurance company that register high average income expense

ratio that exceeded the industry average. Therefore, the researchers have concluded that Awash was more efficient in terms of income expense ratio measures of efficiency but low efficient in terms of operating ratio and asset utilization ratio efficiency measures. On the other hand, the efficiency of Nile Insurance Company was better in terms of asset utilization but low in terms of operating ratio and income expense ratio measures of efficiency. Similarly, Nyala insurance company had a better efficiency in terms of asset utilization and operation ratio measured of efficiency, but low efficient in income expense measures of efficiency.

- It was only Nyala insurance company whose average return on asset ratio was above the five years average of the industry average. The other two insurance companies, namely Awash and Nile, have registered an average return on asset ratio value which was less than the industry average by 1 and 3 percent respectively. On the other hand, the five years average return on equity ratio of all the three insurance companies was below the five years average of the industry average. Therefore, laying on the above fact the researchers have concluded that Awash and Nile were less profitable than industry average during the period under the study Meanwhile, Nayal performance on ROA was beyond the industry average however, it had poor performance in ROE as compared to the industry average.

- The five years average debt to equity ratio and debt to total asset ratio of all the three insurance companies were below the five years average of the industry average. Similarly, the five years average equity multiplier ratio of Awash, Nile and Nyala insurance companies was below the five years average of the industry average by 2.88, 25.67 and 33.49 percent respectively. Therefore, the researchers have made conclusion after the analysis of the results of all the risk and solvency measures. This indicated Awash to be as equivalent as industry average in the contrary Nile and Nyala have a less risk, and more solvent performance

4.3. Recommendations

Based on the above research findings, the following recommendations were forwarded in order to enhance the financial performance of Awash, Nile and Nyala insurance companies.

- To improve liquidity performance, the researchers would like to indicate that Awash and Nile to hold high quality liquid asset and convert them in the event of liquidity shortage. Even if, liquid asset often lower returns, holding more liquid asset and better matching cash flows of asset and liability will reduce the liquidity risk of the insurance and protect it from insolvency.
- The researchers would like to suggest, Awash and Nile to improve their asset management efficiency by improving their asset performance as much as possible in generating revenue or disposing unutilized asset, if any.
- Awash and Nile need to improve their profitability by reducing its operating expense. The operating expense can be reduced by controlling and discouraging expenses that do not generate revenue.
- One of the most important issues that needs a due attention is the clam of creditors is greater than the owners. This means Awash has to improve its debt management ratio this can be achieved by increasing asset while keeping liabilities constant and reducing debt while keeping asset constant.

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