

# Tsehay Insurance S.C.



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## ANNUAL REPORT

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**2016/17 FY**

**August 2017**

**ADDIS ABABA, ETHIOPIA**

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## EXECUTIVE SUMMARY

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Global output growth has jumped up to 3.5 percent in 2017 as compared to last year's 3.1 percent growth rate, with a long-awaited cyclical recovery in investment, manufacturing, and trade. The African economy has grown by 2.2%. East Africa remained the fastest growing region in the continent, with 5.3% real GDP growth. Particularly, Ethiopia has continued to register a real output growth of 8%, with the real GDP reaching Birr 810.2 billion. (*IMF, World Economic Outlook, April 2017*).

The insurance industry has registered GWP of Birr 7.5 billion, which shows a 16% growth from last year's production, out of which 95% is from non-life business. The net paid out claims for the last year also reached Birr 3.1 billion, out of which Birr 2.94 billion is paid out to non-life insurances, while the remaining balance went out to life insurance.

Tsehay Insurance S.C. has recorded an enormous achievement during the just ended budget year. The Company has been able to produce a total premium of Birr 225.7 million, which is 47% higher than last year's production and 12% more of the annual production target. Similarly, the net paid out claim during the year has amounted Birr 118.7 million indicating a 43% growth than last year's figure. Currently, the Company's market share has clinched to 3.1%. Apart from these, the Company's net profit before tax equaled Birr 21.8 million, which entails a 43% increment from last year's profit.

This report presents the major achievements and activities of the company accomplished during the reporting period. The report is organized under seven sections. Section one discusses the global and national economy performance, while section two presents the performance of the industry. Sections from 3 to 5 discuss the main accomplishment of the Company. Section six presents lessons learnt during the budget year. The last section puts the way forward.

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## **1. OVERVIEW OF THE GLOBAL AND NATIONAL ECONOMY**

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### **1.1. PERFORMANCE OF THE GLOBAL ECONOMY**

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The world economy gained speed during the year 2016/17 and the momentum is expected to persist in the forthcoming budget year. Global output growth has risen up to 3.5 percent in 2017 as compared to last year's 3.1 percent growth rate, with a long-awaited cyclical recovery in investment, manufacturing, and trade. Activity picked up remarkably in emerging market and developing economies because conditions in commodity exporters experiencing macroeconomic strains are gradually improving, supported by the partial recovery in commodity prices. The African economy has grown by 2.2%. East Africa remained the fastest growing region in the continent, with 5.3% real GDP growth. *(IMF, World Economic Outlook, April 2017).*

In 2016, global flows of foreign direct investment fell by about 2 percent, to \$1.75 trillion, despite the increase in FDI flows to developed economies by 5%, reaching \$1 trillion (59% of the global FDI). Investment in developing countries declined even more, by 14 percent, and flows to LDCs and structurally weak economies remain volatile and low. FDI flows to Africa continued to slide down to 3% (reaching \$59 billion), which shows a very low share to the global FDI. Ethiopia's share to the continent's total FDI projects is about 4%, which shows a 16% decline from last year. *(UNCTAD, World Investment Report, 2017).*

The negotiation of preferential trade agreements (PTAs) all around the world continued to grow amid the current global economic slowdown and the stagnation of multilateral trade negotiations. While the dollar values traded internationally continued to be higher than in the years preceding, the growth of trade not only slowed down from a historical perspective and relative to economic growth, but turned negative in 2016. World exports recorded a fall of 13.2% in nominal terms, after a meager increase of 0.6% in 2015.

The price for oil has increased by some 20 percent between August 2016 and February 2017, in part due to the agreement by the Organization of the Petroleum Exporting Countries (OPEC) and other producers to cut oil production. Among nonfuel commodities, metal prices have increased by 23.6 percent and agricultural commodity prices by 4.3 percent.

With the uptick in commodity prices, a broad-based increase in headline inflation rates is expected in both advanced and developing economies. In nearly all advanced economies, inflation rates are expected to be higher (and to reach to 2.0%, up from 0.8%) by the end of the year 2017. Inflation in emerging market and developing economies is also rising as compared to the previous year.

## **1.2. THE NATIONAL ECONOMY PERFORMANCE**

Ethiopia has continued to register a real output growth of 8%, with the real GDP reaching Birr 810.2 billion. Along with this, the agriculture sector has grown by 9%, while the industry and service sectors grew by 21% and 9%, respectively. Though the share of the agriculture sector declined slightly over the years, it still remains the major source of the national output (with 36.7% share to GDP). The industry and service sectors have percentage share of 16.3% and 47% to the GDP, respectively. Furthermore, the real per-capita income of the nation has reached Birr 8,864 which shows a 3.4% increment than the previous fiscal year.

The total private investment projects operational during the fiscal year 2016 were 852 with a total capital of Birr 6.7 billion. Out of these projects, 755 (87%) with a total capital of Birr 6.1 billion (92%) were settled in Addis Ababa. Tigray and Oromia regional states follow the lead with 45 and 26 projects, respectively. The sectoral distribution of these investment projects indicate that real estate, renting and business activities take the lion share with 53%, while manufacturing takes the second share with 38%. Furthermore, the source of

these investment projects shows that 772 (91%) of these projects were domestic investments with a total capital of Birr 5.5 billion, while the remaining 80 projects were foreign investors' with a total capital of Birr 1.2 billion.(NBE 2015/16 Annual Report).

The total public expenditure for the fiscal year 2015/16 has reached Birr 272.9 billion, which shows an 18.4% rise as compared to last year's expenditure. Of the total expenditure, capital expenditure stood at birr 141 billion (52%), while the remaining balance was covered by recurrent expenditure.

Furthermore, the financial sector has also seen significant growth. Commercial Banks have increased their capital accumulation to Birr 46.4 billion, a 26.4% annual expansion, out of which private banks took a 49.3% share. Apart from these, the Treasury bills and loan performances have shown improvements. The total amount of Treasury bill supplied has reached Birr 147.6 billion while the demand surged to Birr 161.6 billion. However, the total Treasury bill sold in the market equaled Birr 161.5 billion, which shows oversubscription. Regarding the total loans disbursed during the fiscal year, a total of Birr 88.0 billion has been distributed to different economic actors.

During the year under review, average headline inflation soared up to 9.7 percent from previous year's 7.7%, with a 49% and 3% increment in food and non-food inflation, respectively.

Regarding the external sector, Ethiopia has earned birr 122.4 billion from exports of different items while spending birr 424.5 billion on major imports, showing a resource gap/trade balance of birr 302.2 billion, which is 20% of the GDP. Coffee has continued to be the major source of the country's export earnings (26%), followed by oilseeds (17%) and gold (10%). The major import items for the fiscal year include machinery and aircraft (16%), followed by metal and metal manufactures (13%), and electrical materials (11%). Petroleum import amounts only 1.3% of the total import during the fiscal year. Though

the country's export improved by some birr 833 million, the resource gap has been worsened by 11% as compared to last year's performance.

The foreign exchange market shows that the weighted average exchange rate of Birr has seen an annual depreciation of 5.0% against the USD. During the year under review, a total of USD 12.7 million was traded in the inter-bank foreign exchange market, which is 13% lower than last year's. The total foreign exchange reserve of the country has drawn down to USD 830.9 million, which only covers 2.6 months of imports of goods and non-factor services. (*NBE, Annual Report, 2015/16*).

## **2. PERFORMANCE OF THE INSURANCE INDUSTRY**

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The last two years can be considered as years of good performance for the insurance industry. The overall (life and non-life) premium production during the year 2016/17 reached Birr 7.5 billion, which indicates a 16% growth as compared to last year's production. Out of the total premium production, non-life insurance premium accounts for Birr 7.15 billion (95%), while the remaining balance is for life insurance premium. Regarding the private-public distribution of the non-life premium production, private insurers took 64% share, while the publically owned EIC takes the remaining 36%. This shows that the share of private insurers has not been improved as compared to last year's performance.

According to data obtained from NBE, the industry incurred a total net claim of Birr 3.1 billion for the year 2015/2016, out of which Birr 2.94 billion and 149 million was for non-life & life insurances, respectively. Of the total net claim that the industry incurred, about 79% is contributed by Motor class of business. Even though Motor insurance business has the highest loss ratio, the premium collected from it can contribute significantly to the volume of profit by supporting companies in generating income in the form of interest and dividend.

On average, the annual loss ratio for the non-life business is found to be 69% across the previous five consecutive years (2012-16). On the other hand, life insurance registered an annual average loss ratio of 51% on the same period.

In addition to the unhealthy competition prevailing in the insurance industry, the soaring of claims ratio to the net premium earned is the biggest challenge for the industry.

The following table summarizes the premium production performance of the insurance industry during past five consecutive years.



**Table 2.1: Performance of The Industry during the past five years (2013-17)**

Type of Insurance	GWP (in Million Birr)				
	2012/13	2013/14	2014/15	2015/16	2016/17
Non-Life	4497.7	4687.6	5257.2	6,112.0	7,149.5
Life	299.5	273.9	315.0	333.01	348.0
<b>Total</b>	<b>4,797.2</b>	<b>4,961.5</b>	<b>5,572.2</b>	<b>6,445.01</b>	<b>7,497.5</b>
<b>Annual growth</b>	-	<b>3%</b>	<b>12%</b>	<b>16%</b>	<b>16%</b>

(Source: Staff Compilation and NBE Report, various years).

As the table above indicates the insurance industry has seen steady growth, with life insurance remaining stagnant, with 3% average growth rate over the past five years. This entails the fact that life insurance is still at its infancy stage. The following table presents the details of the production performance of the various insurance companies during the last three years.

**Table 2.2: Non-Life GWP by Insurance Companies (2014/2015-2016/17FY)**

S.N	Companies	Production in Million Birr			Market Share (in %)			Growth Rate (In %)
		2014/15	2015/16	2016/17	2014/15	2015/16	2016/17	
1	Abay Ins. S.C.	150.8	197	202	2.9	3.2	2.8	2.5
2	Africa Ins. S.C.	328	371	494.2	6.2	6.0	6.9	33.2
3	Anbessa Ins. S.C.	217	285	354.3	4.1	4.7	4.9	24.3
4	Awash Ins. S.C.	403	478	544	7.7	7.8	7.6	13.8
5	Berhan Ins. S.C.	62	84	100	1.2	1.4	1.4	19.0
6	EIC	1,966.5	2,193	2,601.5	37.4	35.7	36.2	18.6
7	Global Ins. S.C.	85	83	85	1.6	1.4	1.2	2.4
8	Nib Ins. S.C.	360	376	390	6.8	6.1	5.4	3.7
9	NICE Ins.	165	206	238	3.1	3.4	3.3	15.5
10	Nile Ins. S.C.	344.2	408	420	6.5	6.7	5.8	2.9
11	Nyala Ins. S.C.	293	353	388	5.6	5.8	5.4	9.9
12	Oromia Ins. S.C.	297	342	360	5.6	5.6	5.0	5.3
13	Tsehay Ins. S.C.	122.5	154	226	2.3	2.5	3.1	46.8
14	United Ins. S.C.	295	314	387.5	5.6	5.1	5.4	23.4
15	Ethio-Life & General	60	85	113	1.1	1.4	1.6	32.9
16	Lucy Ins. S.C.	58	81	112	1.1	1.3	1.6	38.3
17	Bunna Ins. S.C.	50.7	102	134	1.0	1.7	1.9	31.4
	<b>Total</b>	<b>5,257.2</b>	<b>6,112.0</b>	<b>7,185</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>17.0</b>

(Source: Staff Compilation and NBE Report, various years).

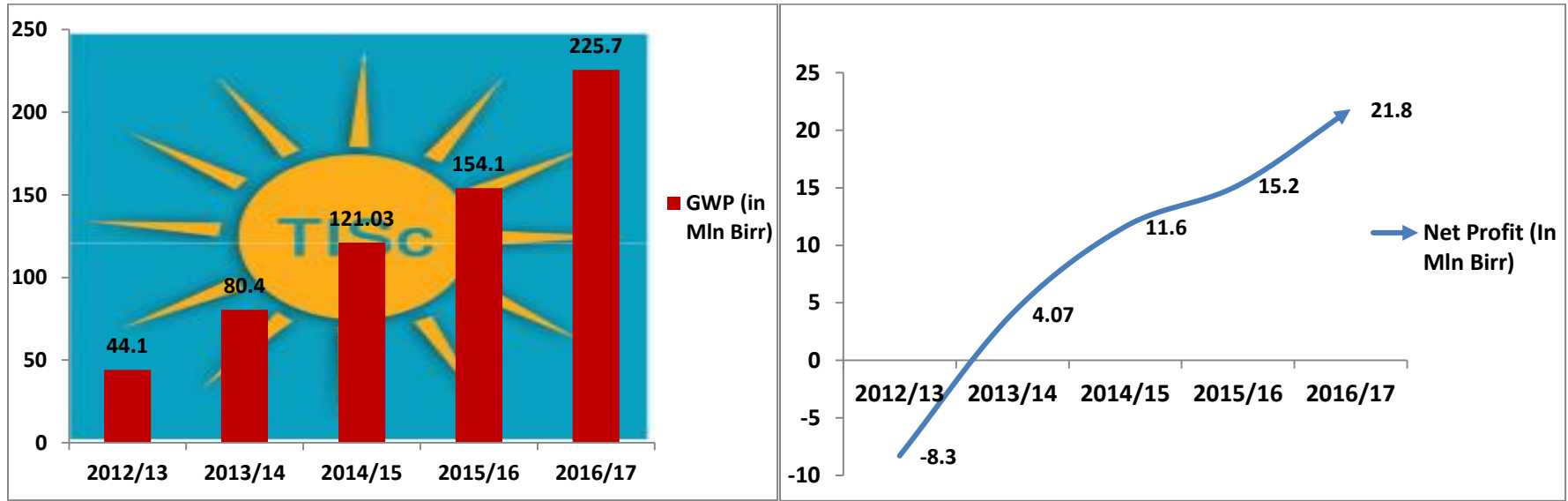
As the table above indicates, the state owned Ethiopian Insurance Corporation takes the largest share (36.2%) of total premium production during the year, while Awash and Africa Insurance Companies follow with 7.6% and 6.9%, respectively. Regarding the growth rate of these individual companies, Tsehay Insurance S.C. leads the industry with 47% growth for the year 2016/17.

### **3. PERFORMANCE OF THE COMPANY**

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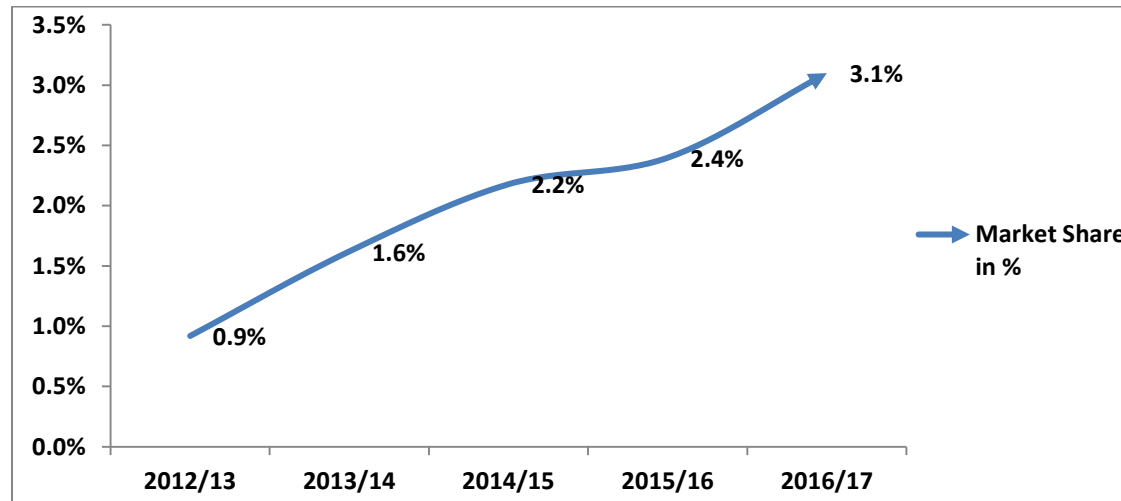
The just ended budget year marked the completion of the fifth operational year of Tsehay Insurance S.C. Though the company is among the newly established insurers in the Ethiopian Insurance Industry, it has registered an extraordinary growth for the last five years. The company's market share has grown by 29%, while its production climbed to Birr 225.7 million showing a 47% growth as compared to previous year's performance. The total claims paid out during the year amounted to be Birr 118.7, which shows a growth of 43% as compared to last year's paid claim, while Birr 80.1 million was held aside as an outstanding claims. Moreover, the company's profitability has grown by 43% as compared to last year's performance.

But all these achievements did not come out of nothing. They are the results of the summative efforts exerted by the different stakeholders of the company ranging from shareholders to each employee. Among the internal factors that contributed to the ever growing business of the company includes the commitment and dedication of the shareholders, board of directors, and executive management members, the presence of young, skilled, and committed staff, various cost minimization strategies/efficient resource utilization, better customer-focused claims handling, prudent underwriting practices, and effective marketing activities.



**Diagram 2.1: GWP in million birr (2013-17)**

**Diagram 2.2: Net Profit in million birr (2013-17)**



**Diagram 2.3: Market share in % (2013-17)**

### 3.1. PRODUCTION PERFORMANCE FOR THE BUDGET YEAR

As it has been tried to indicate above, Tsehay Insurance S.C. has managed to produce total premium of Birr 225.7 million during the year 2016/17, surpassing the annual target by 12%. The production has also shown a 47% growth than last year's production. Hence, the company's market share has climbed up to 3.1%, enabling it to be ranked 11<sup>th</sup> in terms of market share. As it was in the past couple of years, Motor insurance takes the lion share (68%) in terms of portfolio mix, followed by Liability (15%), and Pecuniary (5%) classes of business.

The following table shows, the production summary of the Company for the reporting year.

**Table 3.1: Production Performance Summary of Tsehay Insurance S.C. for 2016/17.**

Annual Production Performance By Class of Business and Branches													
S. N	Branches	Motor	Marine	Engineering	Fire and Allied Perils	General Accident	Pecuniary	Workmen's Compensation	Liability	Others	%Share of Motor Business	Total Production	% Share Of Branches' Production
1	Theodros	36,045,767	2,068,107	1,363,734	967,123	1,698	840,756	741,848	6,885,871	-	74%	48,914,903	22%
2	Hayahulet	7,953,187	1,007,016	1,604,964	351,958	97,658	1,836,455	350,012	416,935	-	58%	13,618,185	6%
3	Merkato	11,550,441	728,183	687,665	567,935	4,377	2,069,309	356,086	7,435,990	69,340	49%	23,469,325	10%
4	Kera	29,443,323	769,275	1,651,281	591,476	52,350	1,788,883	1,118,253	6,314,321	98,600	70%	41,827,762	19%
5	Beklobet	11,912,355	339,494	1,178,142	295,923	42,791	1,580,994	343,568	7,853,342	-	51%	23,546,609	10%
6	Main	13,717,752	849,134	1,112,641	216,909	66,859	1,450,313	542,001	1,583,498	141,339	70%	19,680,446	9%
7	Legehar	12,489,009	559,832	972,985	610,636	3,706	686,525	384,699	1,358,228	-	73%	17,065,620	8%
8	Bahir Dar	3,657,724	2,628	195,975	96,737	3,700	537,133	97,369	103,406	5,907	78%	4,700,579	2%
9	Adama	4,255,552	12,979	26,748	40,619	-	78,906	49,916	243,995	5,000	90%	4,713,716	2%
10	Bole	7,517,706	433,793	351,426	201,325	125,005	1,136,037	186,937	845,840	-	70%	10,798,069	5%
11	Dessie	3,434,947	-	-	25,220	502	50,584	54,033	197,856	-	91%	3,763,141	2%
12	Hawassa	2,217,729	1,875	-	11,707	-	99,745	18,578	-	-	94%	2,349,635	1%
13	Kality	4,433,011	35,564	11,567	60,040	11,175	36,538	114,066	576,511	-	84%	5,278,471	2%
14	Lideta	3,547,752	220,841	8,050	41,950	508	98,655	76,327	115,435	10,000	86%	4,119,517	2%
15	Goffa	1,156,666	7,780	5,708	19,931	4,746	8,786	29,607	116,792	-	86%	1,350,018	1%
16	D/Markos	416,980	-	-	2,837	-	32,972	10,354	7,725	-	89%	470,869	0%
	Total	153,749,901	7,036,501	9,170,887	4,102,326	415,074	12,332,590	4,473,653	34,055,745	330,186	68%	225,666,864	100%
	Portfolio Mix	68%	3%	4%	2%	0.2%	5%	2%	15%	0.1%	-	100%	100%

The table indicates that motor class of business takes the lead in terms of portfolio mix, with 68% of the total production.

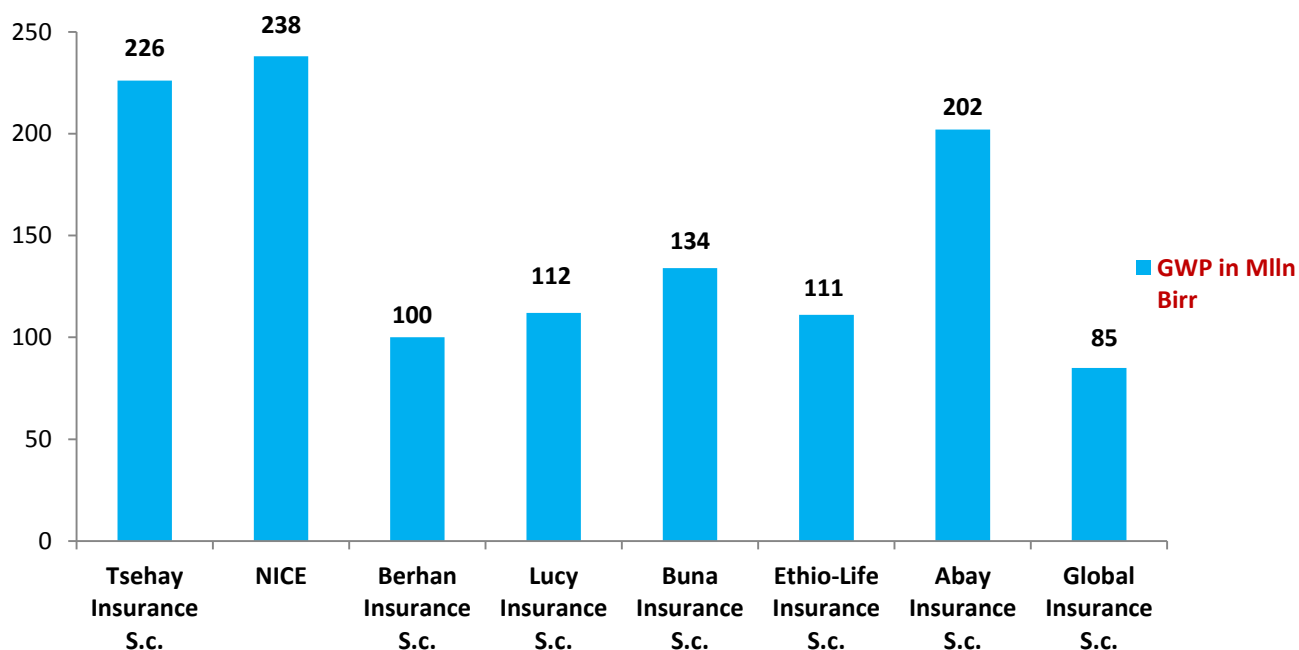
When we compare the company's performance to its peers', the year to date performance of the company is by far better than the average performance of its peers. The following table summarizes performance of Tsehay Insurance Company in comparison with its peers. The comparison is made based upon GWP, market share, and number of branches during the year.

**Table 3.2: The Company's current performance evaluation with its peers**

S.N.	Name of The Company	GWP for the year(in Birr)	Growth from Last year (%)	% age share to the Total Peer GWP	Current Market share (%)	Number of Branches
1	Tsehay Insurance S.c.	226	46.8	19%	3.1	16
2	Berhan Insurance S.c.	100	19	8%	1.4	11
3	Lucy Insurance S.c.	112	38.3	9%	1.6	11
4	Buna Insurance S.c.	134	31.4	11%	1.9	17
5	Ethio-Life Insurance S.c.	111	30.6	9%	1.5	18
6	Abay Insurance S.c.	202	2.5	17%	2.8	22
7	Global Insurance S.c.	85	6.3	7%	1.2	14
8	NICE	238	21.4	20%	3.3	35
	<b>Total</b>	<b>1,208</b>	<b>23%</b>	<b>100</b>	<b>17%</b>	<b>144</b>

As the table above indicates, Tsehay insurance has performed much better than its peers. The company took a share of 19% out of the total annual peer GWP, which is slightly lower than that of National Insurance Company of Ethiopia (NICE). This share is even greater than the average peers GWP share, which is 13%. This means that only NICE, Tsehay, and Abay Insurance companies performed above the peer average. Furthermore, Tsehay Insurance S.C. is leading the insurance industry in terms of GWP growth, with 47% annual growth during the year.

The following diagram depicts the graphical presentation of the gross written premium for the peer companies.

**Diagram 3.1: Graphical Presentation of Peer GWP (2016/17)**

### 3.1.1. Production Performance By Branches

The yearly production performance by branches shows that out of the 16 branches, 10 of them have achieved their annual target. While Lideta, Beklobet, and Main branch showed extraordinary achievement (with 206%, 180%, and 134%, respectively), Debre Markos (with 52%) and Goffa branch (with 75%) have registered the lowest performance. In terms of contribution/percentage share to the total production, however, Theodros branch takes the lead with 22%, followed by Kera branch (19%), and Beklobet branch (14%). These three branches alone accounts for more than half of the Company's production.

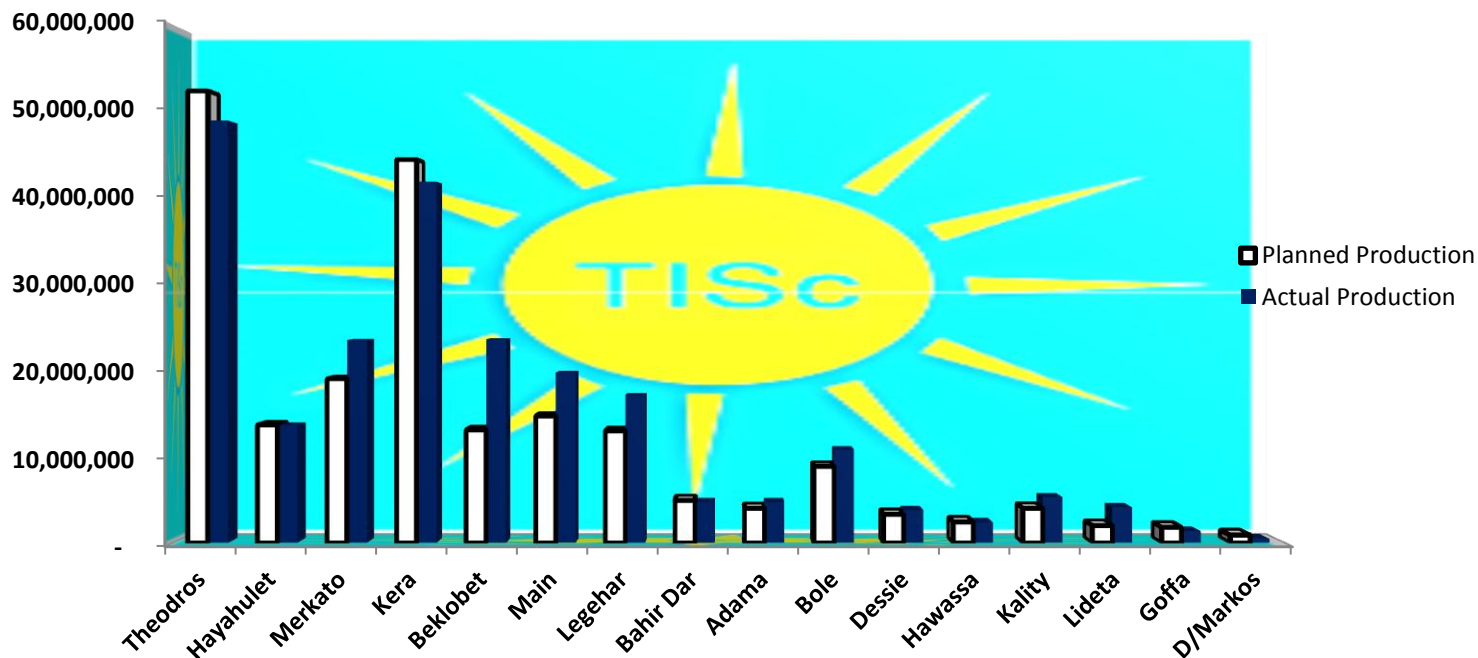
The following table summarizes the production performance of the branches for the year 2016/17.

**Table 3.3: Quarterly and Annual Production Performance by Branches (2016/17).**

4 <sup>th</sup> Quarter and Annual Premium Production Performance By Branches (In Birr)							
S. N.	Branches	4th Quarter Performance			Year To Date Performance		
		Planned Production	Actual Production	Performance (in %)	Planned Production	Actual Production	Performance (in %)
1	Theodros	14,901,752	13,249,877	89%	52,322,186	48,914,903	93%
2	Hayahulet	3,028,622	3,251,798	107%	13,625,858	13,618,185	100%
3	Merkato	5,371,146	6,960,065	130%	18,948,243	23,469,325	124%
4	Kera	8,422,796	8,495,977	101%	44,370,449	41,827,762	94%
5	Beklobet	3,503,407	4,848,433	138%	13,051,544	23,546,609	180%
6	Main	3,887,094	3,839,794	99%	14,636,211	19,680,446	134%
7	Legehar	3,461,136	4,386,110	127%	12,928,951	17,065,620	132%
8	Bahir Dar	951,183	1,737,960	183%	4,903,005	4,700,579	96%
9	Adama	914,773	1,782,655	195%	3,980,710	4,713,716	118%
10	Bole	3,182,315	3,702,562	116%	8,839,761	10,798,069	122%
11	Dessie	723,785	972,329	134%	3,293,082	3,763,141	114%
12	Hawassa	840,000	676,298	81%	2,400,000	2,349,635	98%
13	Kality	943,269	1,219,162	129%	4,000,000	5,278,471	132%
14	Lideta	780,000	1,348,746	173%	2,000,000	4,119,517	206%
15	Goffa	738,000	697,291	94%	1,800,000	1,350,018	75%
16	D/Markos	567,000	433,549	76%	900,000	470,869	52%
	<b>Total</b>	<b>52,216,279</b>	<b>57,602,607</b>	<b>110%</b>	<b>202,000,000</b>	<b>225,666,864</b>	<b>112%</b>

The following diagram shows the percentage performance of branches during the year.

**Diagram 3.2: Planned vs. Actual Premium Production By Branches (2016/17)**



**3.1.2. Production Performance By Class of Business.**

As it was in the past couple of years and, of course, like the industry itself, the company’s largest premium is generated by Motor insurance, which accounts for 68% of the total Gross Written Premium. Though this is partly due to the presence of ample motor insurance market, the low level of premium rate for other business classes like marine and bond insurances has hampered the production from these classes of business. However, it should be noted that this percentage share of motor insurance is not greater than that of the industry average, which ranges between 65%-75%.

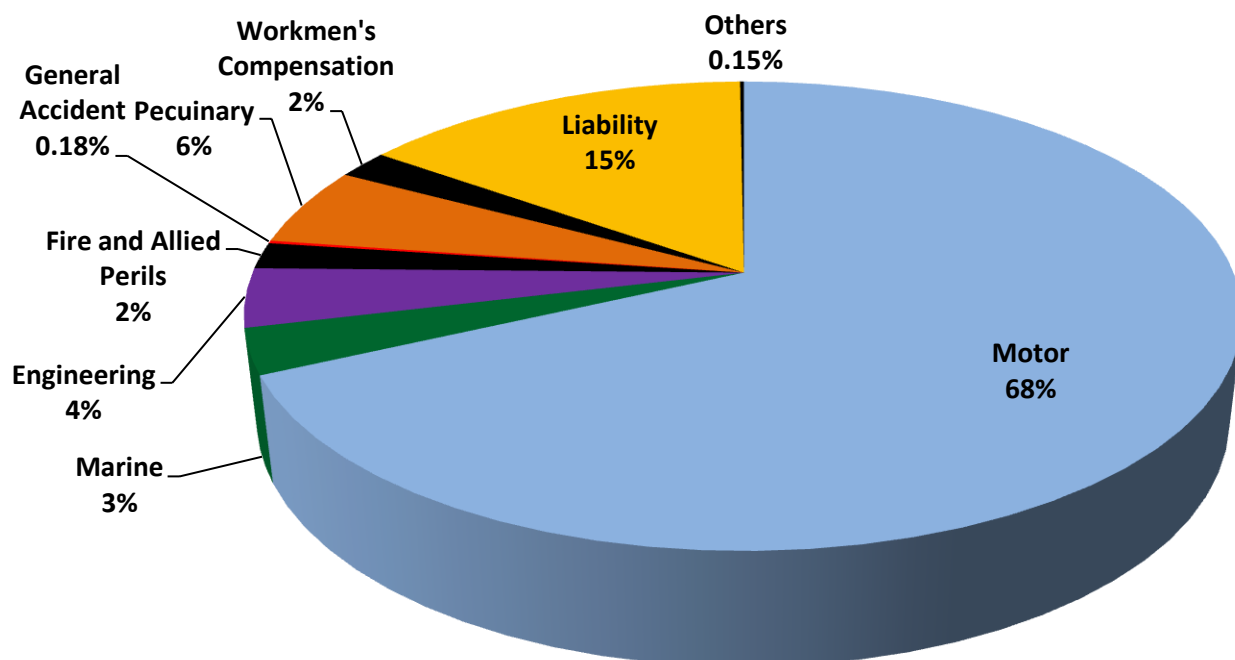
The following table and diagram depict the Company’s production performance by class of business and the portfolio mix for the year.



**Table 3.4: Production Performance by CoB and Portfolio Mix**

S.N	Class of Business	Premium Production By Class of Business (In Birr)			Portfolio mix (%) (2016/17)	
		Actual Production (2015/16)	Actual Production (2016/17)	Growth Rate (in %)	Target (In %)	Actual (In %)
1.	Motor	103,830,021	153,749,901	45	60	68
2.	Marine	6,713,718	7,036,501	5	4	3
3.	Engineering	7,556,413	9,170,887	21	8	4
4.	Fire and Allied Perils	3,263,775	4,102,326	26	2	1
5.	General Accident	519,481	415,074	(20)	1	0.2
6.	Pecuniary	14,323,113	12,332,590	(12)	12	5
	Performance Bond	4,848,630	5,876,376	21		3
	Advance Bond	6,061,495	5,024,123	(17)		2
	Bid Bond	179,276	295,584	65		0
	Customs Bond	3,038,240	926,948	(69)		0
	Money	129,163	106,827	(17)		0
	Fidelity	66,311	102,732	55		0
7.	Workmen's Compensation	2,980,699	4,473,653	50	2	2
8.	Liability	14,582,630	34,055,745	134	9	15
9.	Others	303,101	330,186	9	1	0.1
	<b>Total</b>	<b>154,072,953</b>	<b>225,666,864</b>	<b>47</b>	<b>100</b>	<b>100</b>

As the table above indicates, the second largest premium is generated by liability insurance (15%), followed by Pecuniary insurance (5%). General accident and “Others” classes of business contribute the least with 0.2% and 0.1% share, respectively. Regarding the annual growth of each class of business, Liability and Workmen’s Compensation classes of business grew by higher percentage, while General Accident and Pecuniary classes of business slipped down by 20% and 12%, respectively. Among the reasons for lower bond insurance production can be the decline in the country’s foreign trade due to foreign exchange shortage and the change in Ethiopia’s Road Authority regulation which temporarily halted bond insurance.

**Diagram 3.3: Portfolio mix (in %) for the just ended budget year**

### 3.1.3. Production Performance by Acquisition channel and Source of Business

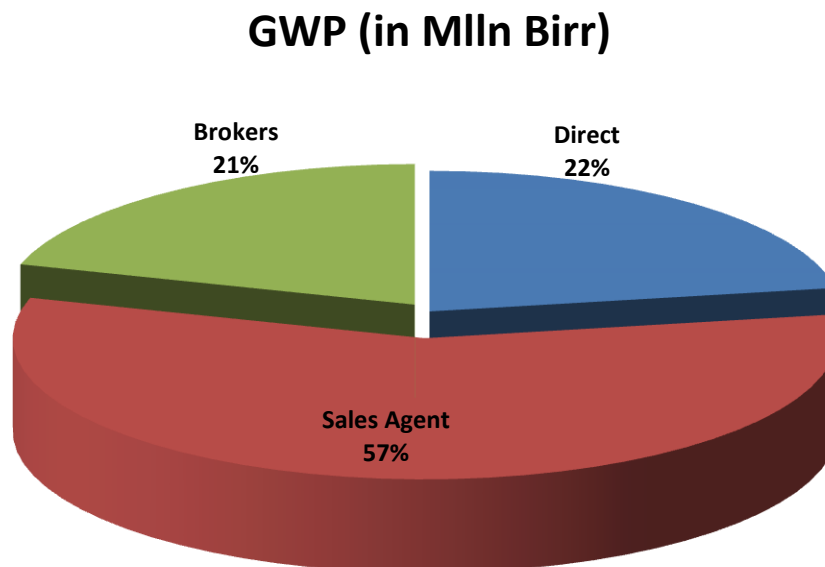
As shown in the table below, of the total premium written during the year, Birr 50.4 million (22%) was direct business, while the remaining Birr 175.3 million was collected by intermediaries. The share of sales agents alone accounted for 57% of the total premium collected during year, which is more than the share of brokers' & direct businesses combined together. This is mainly due to recruitment of potential & efficient sales agents along with a rise in their number. Of the total premium produced, Birr 17,339,996 (8% of the annual production) was paid as a commission to different intermediaries, out of which 69% was due to sales agents.

The following table and diagram show more about the performance in acquisition channels & sources of business.

**Table 3.5: Production Performance via Acquisition Channels & Sources of Business (2016/17)**

S.N	Class of Business	Gross Premium By Acquisition Channels											Commission Paid		
		Total Production Actual	Direct Production	Production Via Brokers	Production Via Agents	Percentage of Total Production			Shareholders	Non-shareholder	Percentage of Total Production		A	B	Total
						D	A	B			SH	NSH			
1	Motor	153,749,901	37,718,541	25,592,014	90,439,345	25	59	17	23,034,220	130,715,683	15	85	6,966,990	2,384,376	9,351,372
2	Marine	7,036,234	3,384,066	653,669	2,998,498	48	43	9	1,718,171	5,318,063	24	76	380,614	98,050	478,664
3	Engineering	9,170,886	1,691,828	2,252,781	5,226,277	18	57	25	1,359,894	7,810,992	15	85	660,302	333,930	994,232
4	Fire and Allied Perils	4,102,593	802,862	639,231	2,660,500	20	65	16	789,623	3,312,970	19	81	383,747	111,825	495,572
5	General Accident	415,075	111,601	123,017	180,456	27	43	30	2,823	412,252	1	99	34,799	18,453	53,251
6	Pecuniary	12,332,591	2,588,808	2,514,015	7,229,767	21	59	20	898,980	11,433,610	7	93	888,779	378,547	1,674,205
	Performance Bond	5,866,897	1,312,679	1,191,586	3,362,632	22	57	20	6,254	5,862,899	0	100	421,847	178,940	673,293
	Advance Bond	5,033,602	1,046,638	1,230,101	2,756,863	21	55	24	576,763	4,454,584	11	88	342,198	185,757	709,228
	Bid Bond	295,584	90,532	4,576	200,476	31	68	2	-	295,584	0	100	25,675	686	47,687
	Customs Bond	926,948	27,625	77,103	822,220	3	89	8	313,129	613,819	34	66	103,152	11,565	121,265
	Money	106,827	50,411	9,232	47,185	47	44	9	1,594	105,234	1	99	5,898	1,385	207,723
	Fidelity	102,732	60,923	1,418	40,391	59	39	1	1,242	101,490	1	99	5,049	213	154,093
7	Workmen's Compensation	4,473,653	552,307	1,206,662	2,714,684	12	61	27	527,136	3,946,516	12	88	341,119	194,411	584,270
8	Liability	34,055,745	3,311,624	12,323,002	18,421,119	10	54	36	5,151,273	28,904,473	15	85	2,216,562	1,939,393	4,157,321
9	Others	330,186	256,186	68,095	5,909	78	2	21	10,000	278,446	3	84	7,983	117	9,603
	Total	225,666,865	50,386,965	45,956,075	129,323,821	22	57	20	33,504,240	192,162,624	15	85	11,880,893	5,459,103	17,339,996

**Diagram 3.4: Production distribution through acquisition channels**



## **3.2. CLAIMS HANDLING**

### **3.2.1. Paid and Outstanding Claims During The Year**

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The total claims paid during the year have seen a surge by 43% than last year to reach Birr 118.7 million. This is mainly due to the growth of the company's premium production. However, it entails that the company needs to be sensitive and analytical towards claim handling. Among the efforts that need to be fortified is diversifying the portfolio mix, controlling claims leakage, and practicing more prudent underwriting. Furthermore, the Company needs to launch life business in the near future.

Regarding the outstanding claims, the year to date figure indicates birr 80.12 million, which is also higher by 18% than last year's figure.

The share of branches to the total claims paid indicates that Theodros branch takes the lead with birr 28.9 million (24%), followed by Kera and Main branches with birr 25.7 million (22%), and birr 13.9 million (12%), respectively. Motor business takes the lion share with 87% of the total claims paid, while Liability and Marine classes of business follow the lead with 7% and 4%, respectively.

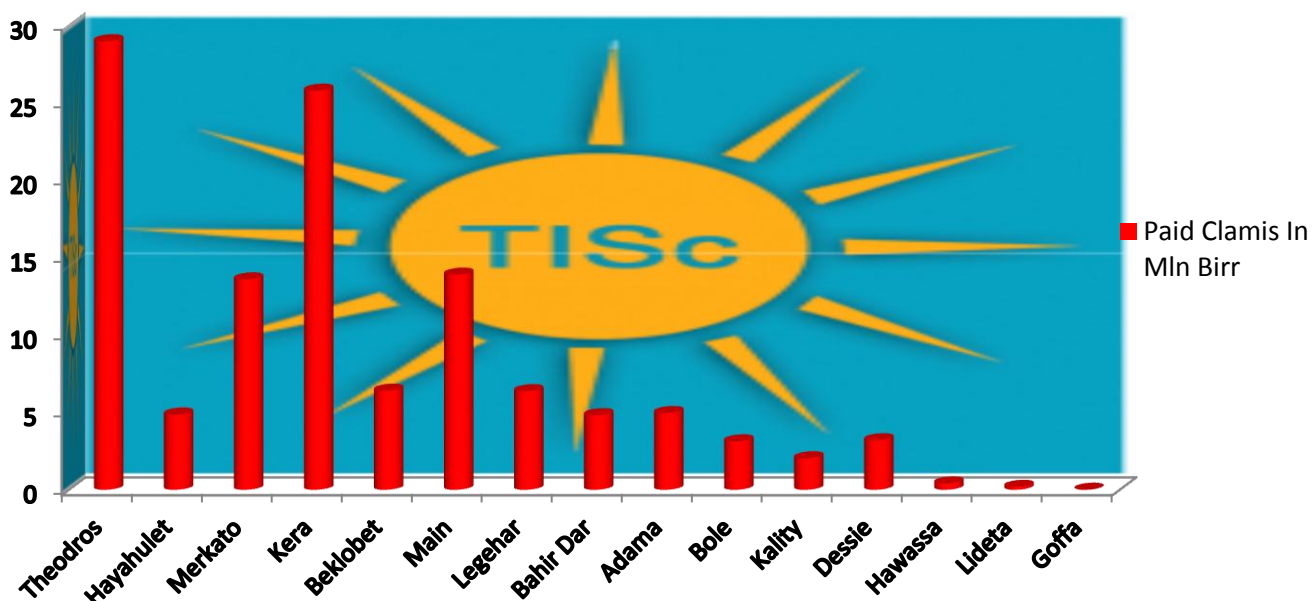
The following tables show the year to date paid out and outstanding claims by classes of business and branches.

**Table 3.6: Paid and Outstanding claims by Class of Business and branches (2016/17)**

<i>S. N.</i>	<i>Branches</i>	<i>Paid Out Claims By Branches and Classes of Business</i>								<i>Total</i>
		<i>Motor</i>	<i>Marine</i>	<i>Engineering</i>	<i>Fire and Allied</i>	<i>Liability</i>	<i>Workmen's Comp.</i>	<i>GPA</i>	<i>Pecuniary</i>	
1	Theodros	26,838,509	32,228	380,656	-	1,255,016	369,254	-	-	<b>28,875,663</b>
2	Hayahulet	4,151,892	11,792	198,842	91,813	-	369,515	19,323	41,753	<b>4,884,929</b>
3	Merkato	10,090,462	770,965	299,145	-	2,099,782	347,700	-	-	<b>13,608,055</b>
4	Kera	21,036,191	3,542,091	73,061	-	944,847	86,390	15,163	-	<b>25,697,743</b>
5	Beklobet	4,993,286	61,592	-	-	1,375,757	5,071	3,549	(12,434)	<b>6,426,821</b>
6	Main	13,115,328	-	368,950	-	366,922	2,000	17,773	-	<b>13,870,974</b>
7	Legehar	4,809,136	-	43,001	-	1,305,288	238,509	-	-	<b>6,395,934</b>
8	Bole	3,060,894	-	25,294	-	-	-	96,528	-	<b>3,182,715</b>
9	Kality	1,953,987	-	-	-	96,085	-	737	-	<b>2,050,809</b>
10	Bahirdar	4,701,103	38,198	-	-	-	40,296	-	62,045	<b>4,841,642</b>
11	Adama	4,442,492	-	10,200	-	526,436	-	-	988	<b>4,980,117</b>
12	Dessie	3,213,943	-	440	-	140	2,743	-	-	<b>3,217,266</b>
13	Hawassa	423,151	-	-	-	-	-	-	-	<b>423,151</b>
14	Lideta	194,610	6,201	-	-	-	-	-	-	<b>200,810</b>
15	Goffa	10,234	-	-	-	-	-	-	-	<b>10,234</b>
<b>Total O/S</b>		<b>103,035,219</b>	<b>4,463,068</b>	<b>1,399,589</b>	<b>91,813</b>	<b>7,970,274</b>	<b>1,461,477</b>	<b>153,073</b>	<b>92,352</b>	<b>118,666,864</b>
<b>% of Claims incurred by Classes of Business</b>		<b>87%</b>	<b>4%</b>	<b>1%</b>	<b>0.1%</b>	<b>7%</b>	<b>1%</b>	<b>0.1%</b>	<b>0.05%</b>	<b>100%</b>

**Table 3.7: Paid and Outstanding claims by branches (2016/17)**

S.N	Branches	Year to Date Claims (in Birr)		
		Gross Claims Paid	Gross O/S Claim	% share to YTD Paid Claim
1.	Theodros	28,909,640	13,746,164	24
2.	Hayahulet	4,879,104	10,671,174	4
3.	Merkato	13,602,231	10,500,898	11
4.	Kera	25,731,720	12,991,141	22
5.	Beklobet	6,420,996	5,415,623	5
6.	Main	13,904,951	7,608,919	12
7.	Legehar	6,390,110	8,411,672	5
8.	Bahir Dar	4,835,819	4,492,318	4
9.	Adama	4,974,292	1,570,776	4
10.	Bole	3,139,029	1,644,114	3
11.	Kality	2,044,984	660,000	2
12.	Dessie	3,211,441	1,057,125	3
13.	Hawassa	417,327	157,330	0.4
14.	Lideta	194,985	972,108	0.2
15.	Goffa	10,234	223,766	0.1
16.	Debre Markos	0.0	0.0	0.0
	<b>Total</b>	<b>118,666,864</b>	<b>80,123,437</b>	<b>100</b>

**Diagram 3.4: Graphical presentation of paid out claim by branches (2016/17)**

### **3.3. Salvage Sales & Third Party Recovery**

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The company has recovered Birr 6,271,548 from third parties while making Birr 21,891,151 out of salvage sales during the just ended budget year.

### **3.4. Engineering Services**

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During the budget year 2016/17, the following activities were undertaken by the engineering service division:

- Pre-Acceptance Survey for back log of Fire Risks was undertaken and the survey report has been finalized.
- Garage selection criteria have been designed, distributed, commented, and the selection committee has undertaken its preliminary discussion.
- Document preparation on Indicative Current Market Value of Vehicles has been finalized,
- Preparation of a guideline for how to make a Pre-Acceptance Motor Risk Survey, which is designed for underwriters, has been finalized.
- Revision of a Pre-Acceptance Motor Risk Survey Form has been prepared.



## **4. FINANCE AND HUMAN RESOURCE**

### **4.1. Financial Performance**

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During the just ended budget year, the company has gained a total income of Birr 37,184,566, out of which Birr 18.7 million (50%) is underwriting surplus. The total expense for general and administrative costs accounted for Birr 15,356,257, out of which 47% is for salary and employee benefits. Profit before tax for the period, thus, stands to be Birr 21.83 million. This figure shows a 43% growth than last year's annual profit.

The different financial ratios show the healthy performance of the company. The current liquidity ratio of the company is 89.7%, which is far below than the NBE's maximum acceptable limit (105%). The expense ratio, which is 28.5%, is also below the NBE's maximum acceptable limit (35%). On the other hand, the equity to liability (E/L) ratio of the company is 47%, far above NBE's minimum acceptable ratio. Only Claims Ratio for Motor insurance (76%) is slightly greater than the NBE's maximum acceptable limit (70%). The various financial statements and ratios have been annexed with this report.

### **4.2. Human Resources**

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During the just ended budget year, a total of 44 new employees joined the company while 20 resignations were registered. Thus, at the end of the period, the total number of employees of the Company reached 150, of which 81 are males and the rest 69 are females. This shows that the Company's labor force is almost equally composed of both genders. Furthermore, the number of employees grew by 28% during the year under review.

The following table indicates the Company's human resource data for the budget year under review.

**Table 4.1: Human Resource Data (2016/17)**

Work Unit	No. of Employees			Percentage distribution by Gender	
	Male	Female	Total	Male	Female
Head Office	42	17	59	71%	29%
Branches	37	51	88	42%	58%
Contract employment	2	1	3	67%	33%
<b>Total</b>	<b>81</b>	<b>69</b>	<b>150</b>	<b>54%</b>	<b>46%</b>

Regarding human resource capacity development, 68 employees have taken different local and overseas trainings mainly focused on risk assessment, re-insurance, underwriting, claims handling & customer service. The total budget spent on human resource development (trainings and education) equaled Birr 637,901.

## 5. OTHER ACTIVITIES

### 5.1. Marketing & Business Development Activities

Major marketing & planning activities performed during the budget year have been presented as follows:

#### 5.1.1. Marketing Activities

##### A) Promotion

- Company documentary record has been undertaken with major company initiators and organizers.
- Company agenda (diary), table calendars & New Year Greeting cards have been prepared and distributed.
- The company is being advertised on different mass media and newspapers.

- Annual Magazine, which portrays 2015/16 general performance, was printed and distributed to shareholders and competitive companies.
- Light boxes & Mesh printings were prepared for newly opened branches,
- Bolo & large size sticker is being prepared and distributed to all branches.
- Fliers, which shows actions to be taken by customers during accident are being printed and distributed to all branches,
- Promotional give-away materials (car shade, mug & drip mat) were prepared and distributed to customers,

#### **B) Service Distributions and Related Activities.**

- Four new branches ( Lideta, Goffa, Debre Markos and Dire Dawa) have been opened,
- Customer Service Guideline has been prepared.
- Compliant Handling Procedure has been prepared and communicated with all staffs.
- Competitors' performance data is being periodically collected and analyzed.
- 20 new sales agents have been trained by National bank of Ethiopia and screening of additional potential sales agents is underway.
- Former branch managers of other companies were recruited as well as training was provided to work as sales agents for the company.
- Refreshment Training has been given for existing sales agents.

#### **5.1.2. Planning Activities**

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- 2015/16 F.Y. annual performance report of the company was prepared and submitted to the BoD,
- 2016/17 F.Y. budget & functional plan was prepared and approved,
- Quarterly reports have been periodically prepared and submitted to the BoD,

- Weekly and monthly production performance reports are being prepared regularly,
- A Three Years Strategic plan has been prepared and approved by BoDs,
- Quarterly performance evaluation and discussions have been undertaken with branch managers.

## **5.2. Other Operational Activities**

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During the reporting period, the following operational activities have been undertaken:

- The new bordereaux format has been updated as per the new reinsurance treaty.
- First draft of Re-insurance manual has been prepared as per the guideline and the comment of NBE,
- Re-insurance treaty has been arranged and agreed with new underwriting capacity, and new re-insurance treaty cover for the upcoming budget year has been secured as per the direction set by BoDs.
- Named peril endorsement has been developed.
- New product, called Political Violence and Terrorism, has been developed and approved by NBE
- Claims labor bid process has been redesigned and communicated with the concerned work units.
- Work standard for claims and engineering division has been set so as to enhance customer satisfaction and promote good governance,
- Third party recovery process, which is believed to improve recovery efficiency, by tracing defaulters, has been updated.
- Draft document, which aimed at improving operational results by providing training & incentives for drivers of corporate clients, has been developed.
- Underwriting & claims training has been given to branch staffs.

- Preparation of manuals for corporate governance and outsourcing is being undertaken.
- ISUZU NPR as well as Locally Built Bus rate assessment and discount authorization has been undertaken.
- Bond Risk accumulation and follow up sheet application directive has been prepared
- Customs Bond and ERA Performance Bond Policy wording (unconditional banning) directives have been prepared.
- TP Premiums and applicability directive for dealers has been prepared.
- Djibouti plated vehicles cover special endorsement wording for own damage and carrier liability has been undertaken.
- Power and Trailer Special Endorsement and Carrier Liability Exclusion Endorsement have been made.
- Guideline for Political violence and Terrorism has been prepared, and training has also been provided.

### **5.3. Other Activities**

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- Facilitation of the Company's 4th annual general meeting.
- Meeting with sales agents was carried out for feedback on service quality.
- Customer service training was provided to staffs in our branches.
- Staff day has been celebrated for the first time.

## **6. LESSONS LEARNT**

### **6.1. Success and Opportunities**

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The year 2016/17 can be seen as a year of success for the company in many aspects. The company by far has grown by greater percent than the industry. The market share of the company has improved and surpassed its peers. Internally, the company is developing both in terms of human resource as well as number of branches. Furthermore, the company is diversifying its portfolio mix. The success factors and opportunities for the good performance of the company can be summarized as:

- Dedication of the Board of Directors, the top management and all staffs for the growth of the company,
- Unwavering support from shareholders,
- The gradual recovery of the national economy and restoration of peace and security from last year's setback,
- Opening of carefully selected new branches in and outside Addis Ababa.

### **6.2. Challenges and Shortcomings**

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All the year to date good performances of the company, however, was not attained without challenges. The major problems faced during the period are summarized as follows:

- The economic slowdown and drought which happened last year in some parts of the country impeded new and renewal business opportunities.
- Existence of only price based competition in the industry, especially in non-motor classes of business.
- Difficulty to get appropriate man power in the market.
- Delay of awarding huge government construction projects.

## **7. THE WAY FORWARD**

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It is well known that the national economy did not fully recover from last year's setback. The economy is still hit by foreign exchange shortage. The foreign exchange problem coupled with low level of investment adversely affected the insurance sector. Though the insurance industry has been jeopardized by such bottlenecks, Tsehay Insurance Company has managed to register an outstanding performance during the just ended fiscal year.

Generally, given the challenges in the sector and performance of other players, the Company's achievement is outstanding. Currently, the company is leading the industry in terms of growth. However, in order to keep the momentum of this growth and further enhance the role of the company in the industry, the support of the Board of Directors, the top management and shareholders is paramount. The company should diversify its portfolio and make an entry to new businesses. With regard to this the company needs to get involved in life insurance in the very near future.

In addition to this, the Company needs to emphasize on the proper implementation of the three years strategic plan. Along with this, periodic performance evaluation and support for branches should be strengthened. More specifically, the company has to focus on the following major areas:

- Undertaking periodic market assessment and designing new and tailored products that can fill the existing gaps,
- Designing and implementing different cost control mechanisms,
- Controlling claims leakage,
- Enhancement of customer services provision, and
- Human Resource development.