

**ASSESSMENT OF RISK MANAGEMENT IN INSURANCE COMPANIES(IN CASE OF
ETHIOPIAN INSURANCE CORPORATION IN WOLIKTE BRANCH)**



**COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT**

A RESEARCH PAPER SUBMITTED TO DEPARTMENT OF MANAGEMENT IN PARTIAL
FULLFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF ARTS
(BA) DEGREE IN MANAGEMENT

BY; YESHALEM YEBELTAL

ID No.BER/335/10

ADVISER: Mr. FUAD HUSSEN

DESMBER, 2020

WOLIKTE, ETHIOPIA

Declaration

I, undersigned declare that this senior essay is my original work and has not been presented for a degree in any other university and that all sources of information used for this senior essay have been duly acknowledged.

Name: _____

Signature: _____

Date of submission: _____

This senior essay is submitted for examination with my approval as a university advisor.

Advisor Name: Mr Fuad (BA)

Advisor's signature: _____

Date of submission: _____

Approval sheet

This is to certify that, the research prepared by YESHIALEM YIBELITAL entitled: “assessment of risk management in insurance company (in case of Ethiopian insurance corporation in wolikite branch).”and submitted in partial fulfillment of the requirements for bachelor of arts degree in Management complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

Approval of Examiners

| | | |
|--------------------|-------|-----------|
| Name of Examiner 1 | Date | Signature |
| _____ | _____ | _____ |
| Name of Examiner 2 | Date | Signature |
| _____ | _____ | _____ |

Acknowledgement

First of all, I would like to thank my almighty God for his presence with us in my ups and downs to conduct the research paper. Secondly, I would like to thank a huge vote to my advisor Mr. Fuad(BA) for his valuable polite suggestion and comments to prepare these research paper. Finally, I would also like to thank my families for their support of additional funds for fulfillment of the study.

Abstract

The study was conducted in Insurance companies in a case of Ethiopian Insurance Corporation of Wolkite branch. The objective of the study was assessing the risk management practice of the companies. For the study primary source of data was applied. By distributing questioners to employees of the company. For the conduction of this study census technique was applied. In the data presentation side of view, it used percentage and table for effectiveness of the study. Finally, the conclusion and recommendation part was concluded all part of the research in the one hand and also describe the problem of risk management practice in Ethiopian insurance corporation Wolkite branch Based on the findings the organization faces property risk And the researcher gives conclusion that Ethiopian Insurance corporation faces property risk and finally the researcher gives recommendations that as the company was faced with property and liability risk, to prevent those risks the company focus more on risk management areas by providing awareness to its customer about risk

Table Contents

| | |
|---|-----|
| Declaration | i |
| Approval sheet | ii |
| Acknowledgement | iii |
| <i>Abstract</i> | iv |
| List of table | vii |
| CHAPTER ONE | 1 |
| 1. INTRODUCTION | 1 |
| 1.1 Background of the study | 1 |
| 1.2. Statement of the problem | 1 |
| 1.3 Research Question | 2 |
| 1.4 Objective of the study | 2 |
| 1.4.1 General objective of the study. | 2 |
| 1.4.2 Specific objective of the study..... | 2 |
| 1.5 Scope of the study..... | 2 |
| 1.6 Significance of the study..... | 2 |
| 1.7 Limitation of the study (Optional) | 3 |
| 1.8 Organization of the Paper | 3 |
| CHAPTER TWO | 4 |
| LITRATURE REVIEW | 4 |
| 2.1 Meaning of risk | 4 |
| 2.1.1. Classification of risk | 5 |
| 2.1.2 Burden or risk on society | 5 |
| 2.1.3 Risk management..... | 6 |
| 2.1.4 Objective of risk management | 6 |
| 2.1.5 The risk management process | 6 |
| 2.1.6 Risk control technique | 7 |
| 2.1.7 Implementing and administrating the risk management program | 13 |
| CHAPTER THREE | 15 |
| 3. RESEARCH METHDOLOGY | 15 |
| 3.1 Study area description..... | 15 |
| 3.2 Research design | 15 |
| 3.3 Target Population..... | 15 |
| 3.4 Types of Data..... | 15 |

| | |
|--|----|
| 3.5 sample size and Sampling Technique | 15 |
| 3.6 Data Collection Techniques | 15 |
| 3.7 Methods of Data Analysis and Interpretation | 16 |
| CHAPTER FOUR..... | 17 |
| 4.DATA ANALYSIS AND INTERPRETATION | 17 |
| 4.1: Demographic characteristic of respondents | 17 |
| 4.2: Marital status and educational background of the respondents. | 18 |
| 4.3 Companies preparation for potential loss. | 18 |
| 4.4 Managing potential loss and types of risk they face | 19 |
| 4.5 Risky situation that affect the economy of company and special department that oversee the companies risk management activities..... | 20 |
| 1.6 Types of insurance policy they sell | 22 |
| 1.7 The loss they face before and types of loss they faces..... | 22 |
| 1.8 The way they reduce loss | 23 |
| 1.9 Successful managing of risk and capacity of managing risk | 23 |
| 1.10 Intentional exposition for risk..... | 24 |
| CHAPTER FIVE | 25 |
| 5. summary, conclusion and Recommendation | 25 |
| 5.1. Summary | 25 |
| 5.2. Conclusion | 26 |
| 5.3. Recommendation | 26 |
| Reference | 27 |
| APPENDIX..... | 28 |

List of table

page

| | |
|---|----|
| Table 1:Demographic characteristic of respondents | 17 |
| Table 2:Marital status and educational background of the respondents. | 18 |
| Table 3:Companies preparation for potential loss. | 18 |
| Table 4:Managing potential loss and types of risk they face | 19 |
| Table 5:Risky situation that affect the economy of company and special department that oversee the companies risk management activities..... | 20 |
| Table 6:Types of insurance policy they sell..... | 22 |
| Table 7:The loss they face before and types of loss they faces | 22 |
| Table 8:The way they reduce loss..... | 23 |
| Table 9:Successful managing of risk and capacity of managing risk | 23 |
| Table 10:Intentional exposition for risk..... | 24 |

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Risk management is consciously organized process of protecting organizational resources; say physical resource like cars, buildings, and other fixed assets from accidental risks. It is the process of either reducing; if possible eliminating either the chance or size of loss those risks likely happening. And also it is the process that identifies loss exposure faced by an organization and selects the most appropriate technique for treating such exposure (biritu ,2012).

Even today informal risk management is practiced by almost every one whether they are conscious of it or not. The practice continues to specific duties and functions vary widely among risk manager, largely because the significance of specific categories of risk varies substantially across organizations. For example, Insurance related to legal liabilities are likely to be of small relative importance for financial service organizations such as lending institutions (osborn,2012).

Risk which is uncertainty regarding loss passes problem to business and individuals in nearly every walk of life. Executives, employee's investors, students, shareholders, farmers and travelers all confront risk and deal with it in various ways. If a loss is certain to occur; it may be planned for and treated as a definite known expense but when there is uncertainty about the occurrence of loss that is risk became an important problem (Osborn ,2012).

The risk surrounding potential loss creates significance economic burden for business, government and individuals. Therefore, special department the so called risk management is very important to handle potential accidental exposure (peter, 1998).

1.2. Statement of the problem

Risk management is the process of identification, analysis, assessment, control, minimization or avoidance of unacceptable risk. It has a part to play in the decision making, whether with regard to business start-up, strategy exploiting opportunities, managing the various project in everyday business operation (Therse,2011).

There are different types of risks that Insurance Company frequently faces. Among these risks, property risk which is total damage or partial damage of owned property. Personal risk whose

occurrence result in either decrease the value of human beings or death of individuals. Liability risks which include unintentional damage made to other person and other person's and other types of risks they face (Therese, 2011) Similarly Ethiopian Insurance Company in Wolkite Branch to assess property risk which is total damage or partial damage of a property. They use risk reduction technique which means taking the steps required to minimize the potential that an accident will occur(Therese,2011).

1.3 Research Question

1. What kinds of risk mostly faced your company?
2. What is the reason of for that loose?
3. What measures your company take to prevent that loose?
4. What are the steps of that your company apply to avoid risk?

1.4 Objective of the study

1.4.1 General objective of the study.

The general objective of the study is assessment of risk management system of Ethiopian Insurance Corporation in Wolkite branch.

1.4.2 Specific objective of the study.

Under the above general objectives there are some specific objectives which help to achieve the general objective of the study. These are:

1. To assess the type of risk that the Insurance company faces.
2. To assess the reason for the loss they faced.
3. To assess the preventive method that the company used to reduce loose.
4. To know the steps they use to identify the risk.

1.5 Scope of the study.

The study focuses on the risk management system by Insurance companies in a case of Ethiopian Insurance Corporation in Wolkite branch. This technique is convenient in the situation when the selected sample is very small. The study is only focus on assessment of risk management in Ethiopian Insurance Corporation.

1.6 Significance of the study

Study on the assessment of risk management system has some advantages for Ethiopian Insurance Corporation in wolkitebranch. Some of them are:

It helps easily understanding of important risk handling techniques and also it can help the corporation to survival and continue its operation.

The study may serve as a secondary source for future generation researcher who wants to conduct research on relating topic and it may help the researcher to get BA degree in management as partial fulfilment irrespective of its huge value in providing the first experience in area of research.

1.7 Limitation of the study (Optional)

- The finding of the study was the following limitations, such as shortage of Reliable data, lack of available resources such as finance and materials.
- The unwillingness of officials of the insurance company to give the necessary secondary source related to the financial operation of the insurance company require for the preparation on this paper.
- Shortage of time to data collection, analyze, and interpretation as the need of the research.
- The researcher has no past experience to conduct the research.
- Shortage of funds to achieve all necessary materials and did all activities needed for the study.

1.8 Organization of the Paper

Chapter one of the study contains background of the study, statement of problem, objective of the study, significance of the study, scope and limitation of the study. Chapter two include literature review and chapter three contains methodology the researcher used and also chapter four includes presentation, interpretation, and analyzation and finally chapter five contains conclusion and recommendation of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Meaning of risk

Risk is condition in which there is possibility of adverse deviation from desired outcome that is expected or hoped for risk is uncertainty or loss. It is the Possibility or threat of damage, injury, liability, or other negative occurrence that is caused by external or internal vulnerability. That and that maybe neutralized through pre-emptive action. It is the possibility of suffering harm or loss (William ,1998).

Risk may be classified in many ways. The major categories are;

1. Financial and nonfinancial risk.

The term risk includes all situations in which there is an exposure to adversity. In some cases, this adversity involves financial loss, while in others it doesn't. There are some elements of risk in every aspect of human endeavour and many of these risks have no financial consequences.

2. Dynamic and static risk.

Dynamic risk is a risk that results from change in economy. On the other hand, static risk is risk that results from even if there were no changes in the economy.

3. Fundamental/particular risk.

Is risk that affects the entire economy or large number of persons. Particular risk is a risk that affects only individual societies in the environment. Examples of fundamental risk include high inflation, war and drought. An example of particular risk includes, burning of house, robbery of bank, and damage of car etc.

4. Objective/ subjective risk

Objective risk is defined as the relative variation of actual from expected loss. Subjective risk is defined as uncertainty based on person's mental condition or state of mind. Subjective risk may affect decisions when the decision maker is interpreting objective risk.

5. Pure risk

It is defined as a situation in which there is only the possibility of loss or no loss. Pure risk can be defined as situation in which either profit or loss is possible.

2.1.1. Classification of risk

The major type of pure risk that can be create great financial insecurity includes; personal risk, property risk, liability risk or risk occurred from others.

1, personal risk

Are risks that consist of the possibility of loss income of assets as a result of earning income.

There are three major personal risks; those are risk of pre mature death, risk of insufficient income and risk of pure health.

2, property risk

Anyone who owns property face property risk. Simply, because such professions can be stolen/ destroyed.

3, Liability risk

The basic thing in liability risk is that the intentional injury of other person or damage to their property through negligence or carelessness. However, liability may also result from intentional injury or damage. (vugen .2010).

2.1.2 Burden or risk on society

Risk results two major burdens on society these are:

1. The size of an emergency fund must be increased.
2. worry and fears are pressed.

2.1.3 Risk management

Risk management is defined as a systematic process of identification and evaluation of pure loss exposures faced by an organization or individuals and for the selection and implementation of the most appropriate techniques for treating such exposures. As a general rule the risk management is concerned only with pure risk management (osborn.2012).

2.1.4 Objective of risk management

Risk management has several important objectives that can be classified as in two categories.

1. Pre loss objective.

The firm or the organization has several risk management objectives prior to the occurrence of loss. The most important include, reduction of anxiety, meeting externally imposed obligations. The first objective of reduction of anxiety is more complicated certain loss exposure can cause greater worry and fear for the manager, key executives, and stock holders than other exposure. However, the risk management wants to minimize the anxiety and fear associated with all exposure.

2. Post Loss Objective

The most important post loss objectives include survival of the company to continue operation, stability earning, continued growth of the firm and goal of social responsibility.

2.1.5 The risk management process

In order to have effective risk management program, the risk management must take certain steps, these are the following;

Step1, identifying potential loss.

Step2, evaluating.

Step3, Implementing and administrating the program.

Step4, selecting the appropriate technique to treating loss.

1. Identifying potential losses

The first step in risk management process is to identifying all pure loss exposures. Risk identification is the process by which systematically and continuously identifies properties,

liabilities and personnel exposures as soon as or before it exist or emerge. Unless the risk manager identifies all the potential losses confronting the firm, he or she will not have any opportunity to determine the best way to handle the undiscovered risk.

2. Evaluating.

The purpose of evaluation is to compare the levels of risk and decide whether the level of each risk is acceptable or not. There may also be a number of risks that fall into the same level where each of them would not be treated equally.

3. Implementing. Is changing the selected risks in to practical way.

4. Selecting the appropriate technique to treating loss. It is the way they finance the risk faced.

2.1.6 Risk control technique

I. Avoidance

Avoidance means that certain loss exposure is never acquired or an existing loss exposure is abandoned One to control particular risk is to avoid the property, person, or activity giving rise to possible to loss by either refusing to assume it even banning an exposure to loss assume earlier. The first of these avoidance activities is proactive avoidance, while the second is abandonment the business does not want to concern about potential property loss to abiding or to fleet of loss. An existing loss exposure may also abandon. For example, pharmaceutical firm that produces drugs with dangerous side effects may stop producing that drug. avoidance through abandonment is to be distinguish from transfer of the property, person or activity to someone else, measure discuss later in this chapter for example house hold products firm that are entered the drug filed may sell is drug business to some other company. Avoidance is the fairly common approach to the handling of risk. By avoidance exposure the firm knows that it will not experience the potential loss or uncertainty that exposure may generate. On the other hand, it also losses the benefits that may have been derived from the loss exposure.

II. Loss prevention and reduction methods.

This is when risk managers use some systematic approach to the problem of risk identifications. Those are mentioned as follows: -

- **Insurance Policy check list:** - Provide a listing of all various policies or types of Insurance that may be needed by a business. Insurance policy list can be sourced from Insurance companies and other publishes.
- **Loss exposure check list:** - providing listing of common risk exposure of firm. An exposure check list is a very simple yet effective tool for risk identification. Loss exposure check list are available from various sources such as Insurance agency and risk management associations. These check list contains possible sources of loss to the business form distraction of physical and tangible assets.
- **Risk analysis questionnaire:** - Aim at identifying the risk by an organization. Serious of well struttred and well for mutate questions are put forth to respondent. This answer indicates risk areas and specific risk.
- **Flow charts:** - Is schematic representation of a sequential process. A flow depicting the operation of the firm can guide risk mange to risks manageress to risks associated with those operations.
- **The best method:** - no single method or procedures of risk identification is free from weakness or can be called fool proof. The strategy management must be to employee that method the best fits the situation at hand (Osborn, 2012). similarly, Ethiopian Insurance Corporation in Wolkite Branch uses the same way to control risk the company faces.

III.Evaluating potential loss – This is after identifying the various types of potential losses faces the company or firms. These exposures must be measured in order to determine their relative importance and to obtain information that will help the manger top decide up on the most desirable combination of risk management tools. Evaluating and measuring the impact of losses on the firm involves an estimation of the potential frequency and severity of loss. Loss severity refers to the probable size of loss that may occur. Both loss frequency and loss severity data are needed to evaluate the relative importance of an exposure to potential losses. Contrary to views of most persons, however the importance of exposures to loss depends mostly up on the potential loss severity not the potential frequency. In determine losses verity the risk it must be care full to include all types of losses that might occurs as result of a given event as well as their ultimate final impact up on the firm. The more important types are much more difficult to identify loss frequency and loss severity data do more than identify the important losses they are also extremely useful in determine the best way to handle an exposure to losses. Severity-

measurements of risks are essential for ranking on the bases of severity. The process of risk evaluation ranks risks as per the possibility of losses. The more severe the losses due to risks the higher the rank. As the relative severity of losses differs, not all losses warrant equal attention. Some are to be given priority over others. Other losses in the same category need not be prioritized as each of them will lead to the same consequence. Once the level of risk has been determined for each risk, this information can be entered onto a risk register showing the level of risks. The evaluation will decide the risk priority, showing which risk must be managed first in order to reduce the exposure of the organization to serious loss. Of course, small or insignificant risks might be treated immediately where it would be quick and / or low cost to do so. Once the priority is determined and risks are to be treated, those will then be included on a risk treatment schedule where they can be tracked until the risks are treated. Sequences for example, financial catastrophe that can lead to bankruptcy can be due to liability loss.

- **Important risks:** - include those exposures in which the possible losses would lead to bankruptcy but would require the individual or firm to borrow in order to operate.
- **Unimportant risk:** - include that exposure in which the possible losses could be met out of the existing assets or current income without imposing undue financial strain. To assign individual exposure to one of these two categories, one must determine the amount of finance that might result from a given exposure and also the ability of the firm to absorb such losses. The 3rd step in the risk management process is to select the most appropriate technique, or combination of techniques, of treating each loss exposure. Loss control measures assume that the firm will retain the property, presence or activity creating the risk but that the firm will conduct its operation in the safest possible manner. Avoidance is a useful, fairly common approach to the handling of risk, by avoidance exposure the firm knows that it will not experience the potential losses or uncertainties that exposure may generate. On the other hand, it also loses the benefits that may have been derived from that exposure.

Some characteristics of avoidance should be noted.

- Avoidance may be impossible: the more broadly the risk is defined the more likely this to be so.
- The potential benefit to be gained from employing certain persons, owning of a piece of property, or engaging in some activity may too far outweigh the potential losses and

uncertainties involved that will give little consideration to avoiding exposure. For example, most business would find it almost impossible to operate without owing or renting effect of losses. Consequent they consider avoidance to be practical approach.

- Avoidance a risk may create another risk for example; a firm may avoid the risk associated with air shipments by substituting rail and truck shipments. In the medical process, however, it has created new risk (peter.1998).

Loss Control

Loss control is another method for handling loss in a risk management program. Loss accounting and speed many control activities are designed to reduce both frequency and severity of losses. Loss program control measures attack risk by lowering the chance that a loss will occur or by reduce severity if it does occur. Loss control has the unique ability to prevent or reduces losses for both the individual firm and society while permitting the firm to commerce or continues the activity creating the risk.

Unlike the avoidance risk technique loss control deals with an exposure that the firm does not wish to abandon. The purpose of loss control activities is to change the characteristics of the exposure so that it is more acceptable to the firm the firm wish to keep the exposure but wants to reduce the frequency and severity of losses.

Losses prevention and reduction method

Loss prevention seeks to reduce or eliminate the chance of loss

Loss-prevention program is illustrated by the following example: -

- The chance of a fire loss can be reduced by fire resistive construction, building in an area where there are few external dangers and having many suppliers will not halt the firm's operations. If the risk identification has been poorly performed too much risk is passively retained. Related form of unplanned retention occurs when the exposure is recognized properly but has underestimated the magnitude of the potential loss. Liability exposures exemplify the type of potential loss that is often underestimated. Retention is active or planned when the risk when a company or firm considers other methods of handling the risk and consciously decide to transfer the

potential losses. Self-Insurance is a special case of active or planned reaction. It is distinguished from the other type of relation usually referred to as non-Insurance in that the organization has a large number of expose unit.

- When no other measure of treatment is available: insures may be unwilling to write certain type of converge, or the coverage may be too expensive. Noninsurance transfers may not be available. In additionally though loss control can reduce the frequency of loss, all can't be eliminated. In this cases and retention is residual method. If the exposure cannot be insured to transferred, a then it must be retained.
- When the worst possible loss is not serious. For example, physical damage losses to authority's wide distance and are not likely to be simultaneously damaged.
- When losses are highly predictable. Based on past experience, it can be an estimate a possible range of frequency and severity of actual losses. If most losses full with that range; they can be budgeted out of the firm's income. The following are the way how they finance the risk.

- **Self-Insurance.**

Self-insurance is a special forms of planned retention by which part or all of a given loss exposure is retained by the firm.

- A better name for self-insurance is self-funding which express more clearly the idea that losses are funded and aid by the firm. Risk retention, planned or unplanned, should not be confused with in the concept of self-Insurance. It implies an attempt by a business to combine a sufficient number of its own similar exposures to predict the loss accurately. Furthermore, the plan implies that bad equate financial arrangements have been made in advance to provide funds to any for losses should they occur. Self-Insurance Plans are distinguished from other Insurance operation by having the pooling of exposures and findings of the cost of losses take place with one business entity. It is widely used in worker's compensation Insurance. It is also used by employees to provide group health, dental, and prescription drug benefits to employees. Firms often self-insure their group health benefits because they gave money and control health costs.

- **Non Insurance Transfers**

Noninsurance transfers are methods other Insurance by which a pure risk and its potential financial consequences are transferred to another party. Neutralizations or heading and hold harmless agreements are examples of are non-Insurance transfer of risk.

1. Neutralization or Hedging

As generic terms, neutralization and hedging describe action where by a possible gain is balanced against a possible loss. Neutralization is a process of balancing a chance of loss against a chance of gain. For example; a person who has bet that a certain team wins the world cup may transfer the risk to the person who accepts the second bet. A commercial example of neutralization is rates. The nature of hedging is to take neither who take simultaneous position that offered each other so matter what the outcome is of some event based on chance, the hedger neither wins nor losses. Because there no chance of gain associated with pure Rusk, neutralization or hedging is not a tool of pure risk management.

2 Hold harmless agreement is contract entered is it prior to a loss, in which one party greens to assume a second party responsibility should a loss occur.

For example, contactors may require sub controls to provide a contractor with liability protection they are sued because of the subcontractor's activities. Likewise, venders request holds harmless agreement before selling a manufacture goods. Commercial Insurance is also used in risk management program. From the risk manger's viewpoint insurance represents contractual transfer. Risk Insurance is appropriate for exposures that have a low probability of loss but the severity of loss is high. If the risk mangier used Insurance, it treats certain loss exposure. Five key areas must be emphasized. They are as follows.

- Of the Insurance program.
- The risk that needs Insurance is selected: - since there may not be enough money in the selection of insurance coverage.
- Negation of terms.
- Dissemination of information concerning insurance coverage periodic review risk management budget to insure all possible losses, the need for Insurance can be divided in to several categories. Depending on importance. One useful approach is to classify the need for Insurance in to three categories.
- Essential
- Desirable and
- Available

- Essential Insurance: - includes that coverage required by law contract, such as worker compensations insurance. Essential insurance also includes that coverage's that will protect the firm against a catastrophic loss or a loss that threatens firm's survival; commercial general liability Insurance would fall in to that low physical damage losses to automobiles, worker compensations claims, and food spoilage. Loss control should be used here to reduce the frequency of losses. In addition, since loss occurs regularly and predicts table: - the retention technique can also be used. The third type of exposure can be met by insurance. This best suited for low frequency high severity loss; high severity means that a catastrophic potential is present, while a low probability of a loss indicate that the purchase of Insurance is economically feasible. Example of this type of exposure includes fire, explosion, and liability low, suites. The company or a firm could use a combination of relational and commercial Insurance to deal with this exposure. The fourth and most serious type of risk is one characterized by both high frequency and severity. This type of risk is best handling by avoidance (william.1998).

2.1.7 Implementing and administrating the risk management program

At this point, three of the four steps in the risk management process have been discussed. The fourth step is implementation and administrating of the risk management program. Typical activities of the risk manager include identify and evaluating loss exposure, establishing procedures for handling Insurance claims, designing and installing employee benefit plans participating in loss, control and safety programs and administering group Insurance and self-Insurance programs. Thus, risk managers are an important parts of the management team. Risk Management Policy Statement A risk management policy statement is necessarily in order to have an effective risk management program. This statement outlines the risk management objectives of the firm, as well as company policy with respect to treatment of loss exposures. It also educates top level executives in reared to risk management process, gives the greater authority in the firm, and provident provide standards for judging the risk manger's performance in addition, a risk management manual may be developed and used in the program. The manual describes in some details the risk management program of the firm and can be very useful tool or training new employees who will be participant in the program. Writing the manual also forces the risk managing company or firm state precisely his or her responsibilities, objectives, and available techniques(George,1999).

Cooperation with other department

The risk manager does not work alone. Other functional within the form are extremely important in identifying pure loss exposures method for treating these exposures methods for treating these exposures. These departments can cooperate in the risk management process in the following ways: -

- Accounting: - internal accounting control can reduce employees' fraud and theft of cash.
- Marketing: - accurate packaging can prevent liability problem and Suits distribution procedures can prevent accident.
- Production: - quality control can prevent the production of defective good and liability low suites. Effective safely programs in the plat can reduce injuries and accidents.
- Personnel: - this department may be responsible or employee benefit program, pension program and safety program. This list indicates how the risk management process involves the entire firm. In did, without the active cooperation of the other department, the risk management program will be a failure.
- Periodic review Evolution to be effective, the risk management must be periodically reviewed and evaluated to determine if the objectives are being attained. In particular, the risk management costs, safety programs, and loss prevent programs must be carefully monitored. Loss records must also be examined to detect any changes in frequency and severity. In handling a loss exposure must be examined. Finally, it must be determined if the firm's overall risk management policies are being carried at, and if the risk management party is receiving the total cooperation of the departments in carrying out the risk management function (Doherty.1999).

CHAPTER THREE

3. RESEARCH METHDOLOGY

3.1 Study area description

The study was conducted in South Nation Nationality and people Regional state in Wolkite town particularly in Ethiopian Insurance Corporation in Wolkite Branch. Wolkite town is located in hadya zone and 232km far to south west the capital city Addis Ababa. Ethiopian Insurance Corporation of Wolkite Branch is the oldest of all Insurance company in Wolkite town. It mainly deals with provision of different Insurance services for insured people and companies.

3.2 Research design

The research design that used for the study was descriptive type of research because it describes how the company manages the risk they face and evaluate the risk after they faced. The research method used was both quantitative and qualitative research and the time period used was cross sectional.

3.3 Target Population

The target population of the study would be employees of Ethiopian insurance corporation Wolkite branch. the total population of the insurance company would be 23 in number.

3.4 Types of Data

in this study, both primary and secondary source of data would be use to collect necessary information. the primary data include questionnaires. whereas secondary source of data includes, documents, different research work regarding the topic of the study, and the internet.

3.5 sample size and Sampling Technique

The target populations of this study was the employees of Ethiopian Insurance Corporation of Wolkite Branch and the researcher used census technique, because the populations of the company are 23.

3.6 Data Collection Techniques

To get data from primary source both open and close ended questions were prepared in the form of questionnaires to the employees of Ethiopian Insurance Corporation of Wolkite branch. The open-ended questions were helpful to get the needed data without limiting the employees answer

because they can express their answer depending on the questionnaire. The close-ended question makes uniformity of the response and it is easy to process the information the researcher get from the employees and as the number of employees are small the researcher was distributed the questionnaires to the whole employees.

3.7 Methods of Data Analysis and Interpretation

After the necessary data was collected the data was summarized, analysed, edited and classified in order to give meaningful results. The data analysis method was descriptive analysis because of its simplicity and clarity to draw inferences the data was presented on tabulation, graphs and percentage(solomon,2005).

CHAPTER FOUR

4.DATA ANALYSIS AND INTERPRETATION

This part deals with the analysis and interpretation of data collected from employees on assessment of risk management in a case of Ethiopian Insurance Corporation in wolkite branch. The findings are made based on the response in the questionnaires filled by employees of the insurance corporation. The questionnaires were distributed to employees of the insurance corporation. From 23 distributed questionnaires all the questionnaires are returned and analysed.

The researcher analysed and interpreted on the bases of 23 respondents.

4.1: Demographic characteristic of respondents

Table 1:Demographic characteristic of respondents

| No. | Items | Respondents | |
|-----|--------|-------------|------------|
| | | Number | Percentage |
| 1 | Sex | | |
| | Male | 18 | 78% |
| | Female | 5 | 22% |
| | Total | 23 | 100% |
| 2 | Age | | |
| | 21-30 | 18 | 78% |
| | 31-40 | 5 | 22% |
| | >41 | - | |
| | Total | 23 | 100% |

Source: own survey, 2020

As shown in the above 4.1 table item number 1 the employees of the company, 18(78%) comprises male and the remaining 5(22%) are females. So that most of the employees of the company are males. With regard to age of respondents 78% of them are found between 21-30 years and the remaining 22% are found between 31-40. This shows most of employees of the corporation are found between 21-30.

4.2: Marital status and educational background of the respondents.

Table 2: Marital status and educational background of the respondents.

| NO. | Items | Respondents | |
|-----|-------------------|-------------|------------|
| | | Number | Percentage |
| 3 | Marital status | | |
| | Married | 14 | 61% |
| | Un married | 9 | 39% |
| | Divorced | - | - |
| | Total | 23 | 100% |
| 4 | Educational level | | |
| | Certificate | | |
| | Diploma | 4 | 17% |
| | Degree | 18 | 78% |
| | Masters and above | 1 | 5% |
| | Total | 23 | 100% |

Source: own survey, 2020

As shown in the above table 4.2 item 3, 14(61%) of employees of the companies are married and the remaining 9(39%) are unmarried. Therefore, most of the employees of the corporations are married. With regard to educational level 4(17%) are diploma holders, 18(78%) are degree holders and 1(5%) are master's holders. So we can say most of the employees of the corporation are degree holders.

4.3 Companies preparation for potential loss.

Table 3: Companies preparation for potential loss.

| NO. | Items | Respondents | |
|-----|--|-------------|------------|
| | | Number | Percentage |
| 5 | As insurance company is there any Preparation in advance for potential | | |

| | | | |
|---|---|----|------|
| | loss? | 23 | 100% |
| | Strongly agree | - | |
| | Indifference | - | |
| | Strongly disagree | - | |
| | Disagree | | |
| | Total | 23 | 100% |
| 6 | In a case of Preparation for potential loss for which did your company give priority? | | |
| | Loss prevention | 13 | 56% |
| | Payment of loss | 5 | 22% |
| | Reduction of loss | 5 | 22% |
| | Total | 23 | 100% |

Source: own survey, 2020

As shown in above table 4.3 item 5 their preparation for preparation for loss, 23(100%) employees of the company strongly agree that the company prepare in advance for potential loss. Therefore, the Ethiopian Insurance Corporation prepare in advance for potential loss. In the same table item 6 With regard to types of loss they give priority, the company gives priority for loss prevention 13(56%), loss reduction 5(22%) and payment of loss 5(22%). Therefore, the company gives priority for loss prevention and this is better to prevent the company from loss they face.

4.4 Managing potential loss and types of risk they face

Table 4: Managing potential loss and types of risk they face

| No. | Items | Respondents | |
|-----|--|-------------|------------|
| | | Number | Percentage |
| 7 | In a case of managing potential loss are there any | | |

| | | | |
|---|------------------------------------|----|------|
| | steps that should be followed? | 23 | 100% |
| | Yes | - | - |
| | No | | |
| | Total | 23 | 100% |
| 8 | What kind of risk mostly occurred? | | |
| | Personal | - | - |
| | Property | 23 | 100% |
| | Liability | - | - |
| | Total | 23 | 100% |

Source: own survey, 2020

In above table 4.4 item 7 as the employees' response shows 23(100%) the Insurance Corporation takes steps in managing potential loss. In view of this for the open-ended question raised in the questionnaires they listed down the steps to identify potential loss. Among them

-Immediate notification about the occurrence of loss

-Means of loss happened

-Territory should be specified

-Police report about the loss and finally the implementation of the loss. Therefore, the company takes steps to identify and manage potential loss.

With regard to types of loss the company faces question number 8, 23(100%) or all the employees' response shows that they face property risks. Therefore, we can say the Ethiopian Insurance Corporation faces property risk.

4.5 Risky situation that affect the economy of company and special department that oversee the companies risk management activities.

Table 5: Risky situation that affect the economy of company and special department that oversee the companies risk management activities.

| N0. | Items | Respondents | |
|-----|--|-------------|------------|
| | | Number | Percentage |
| 9 | Do you believe some Risky situation affect the economy of your company? | | |
| | Yes | 23 | 100% |
| | No | - | - |
| | Total | 23 | 100% |
| 10 | Is there Special department charged with overseeing the companies risk management practices? | | |
| | Yes | - | |
| | No | 23 | 100% |
| | Total | 23 | 100% |

Source: own survey, 2020

As shown in the above table 4.5 all the employees of the companies 23(100%) suggested that the risk situation affect the economy of the company. In view of this for the open ended question raised in the questionnaire they listed down some factors that affect the companies' economy. Among them

-when total loss occurred on certain property; the company pays market value of property. In a case of this the capital of a company decreases.

-Affect the profit of the company.

With regard to the special department that oversees the companies risk management practice in item 10, all the employees of the Ethiopian Insurance Corporation agrees that there is no special department that oversees the companies risk management practice. In view of this for the open ended question item the company improves its risk management practice by:

-Focusing on branches

-Working with clients and legal institution closely

-Distinguishing or strict follow up on intentional damage of insured property.

1.6 Types of insurance policy they sell

Table 6:Types of insurance policy they sell

| No. | Items | Respondents | |
|-----|---|-------------|------------|
| | | Number | Percentage |
| 11 | What types of insurance policy do you have sells in this company? | - | - |
| | Personal | 5 | 22% |
| | Liability | 18 | 78% |
| | Property | | |
| | Total | 23 | 100% |

Source: own survey, 2020

As indicated in the table 4. 6, 18(78%) of the employees agrees that the insurance company sells property and the remaining 5(22%) agrees they sell liability insurance policy. Therefore, the Ethiopian Insurance Corporation sell property Insurance policy to the customer.

1.7 The loss they face before and types of loss they faces

Table 7:The loss they face before and types of loss they faces

| No. | Items | Respondents | |
|-----|--------------------------|-------------|------------|
| | | Number | Percentage |
| 12 | Have you faced any loss? | | |
| | Yes | 23 | 100% |
| | No | - | - |
| | Total | 23 | 100% |

| | | | |
|----|--------------------------------|----|------|
| 13 | What kind of loss do you face? | | |
| | Personal | - | - |
| | Liability | 3 | 13% |
| | Property | 20 | 87% |
| | Total | 23 | 100% |

Source: own survey, 2020

As shown in above table 4.7 item 12, 23(100%) of employees of the corporation response indicated that they face loss. So the company faced a loss. And the types of loss they faced in item 13, property 20(87%) and liability risks 3(13%) as response of employees shows. Therefore, majority of the employees or 87% agrees that they face property risk and this shows that the company mainly faces property risk.

1.8 The way they reduce loss

Table 8: The way they reduce loss

| No. | Items | Respondents | |
|-----|-------------------------|-------------|------------|
| | | Number | Percentage |
| 14 | How you reduce the loss | 19 | 83% |
| | Avoidance | 4 | 17% |
| | Insurance | - | - |
| | Retention | | |
| | Total | 23 | 100% |

Source: own survey, 2020.

As indicated in the above table4.8, 19(83%) shows the company follow the avoidance and 4(17%) indicates that they use insurance to reduce loss. This shows that the company follows avoidance method and risk reduction to reduce loss the company faces.

1.9 Successful managing of risk and capacity of managing risk

Table 9: Successful managing of risk and capacity of managing risk

| No. | Items | Respondents | |
|-----|-------|-------------|------------|
| | | Number | Percentage |

| | | | |
|----|--|--------------|-------------------|
| 15 | Do you think Ethiopian insurance corporation is Successful in managing of risk? Yes No | 23 - - | 100% - - |
| | Total | 23 | 100% |
| 16 | How you Evaluate Ethiopian insurance corporation in order to manage risk? High Medium Low | 14 5 4 | 61% 22% 17% |
| | Total | 23 | 100% |

Source: own survey, 2020.

As indicated in the table 4.9 all the employees of the corporation 23(100%) agrees in successful managing of the risk. Therefore, the Ethiopian Insurance Corporation is successful in managing of risk. With regard to their managing capacity in item 16, 14(61%) of the employees evaluate that the corporation is high, 5(22%) medium and 4(17%) low. Therefore, majority of the employees agree that the insurance corporation is high in managing risk as finding shows.

1.10 Intentional exposition for risk

Table 10: Intentional exposition for risk

| No. | Items | Respondents | |
|-----|---|--------------|----------------|
| | | Number | Percentage |
| 18 | Do you think that the customer of Ethiopian insurance corporation Knowingly exposed to risk? yes no | - 23 - | - 100% - |

| | | | |
|--|-------|----|------|
| | Total | 23 | 100% |
|--|-------|----|------|

Source: own survey, 2020.

As shown in the above table 4.10, 23(100%) all the employees of the company responded that the customers of the insurance corporation don't exposed to risk knowingly. Therefore, the customers of the Ethiopian Insurance Corporation don't expose to risk intentionally.

CHAPTER FIVE

5. summary, conclusion and Recommendation

5.1. Summary

The research paper emphasizes assessing the risk management practice in Insurance companies in a case of Ethiopian Insurance Corporation of wolkite branch. The researcher tried to investigate the identification, selection, implementation and evaluation of different risk handling techniques and major problem in managing risk

To successfully meet that objective the researcher was used both primary and second day sources to collect the data. The researcher uses total employees of the company in order to take research finding. From the analysis we can understand that the company faced property risk and they use risk reduction to avoid the risk they face.

5.2. Conclusion

Based on the data analysis and interpretation of the previous chapter, the following conclusions are made.

- The Ethiopian Insurance Corporation faces mainly property risk followed by liability risk.
- In relation with motor or property risk the main problem is a problem of license that the drivers take a whole license without much experience by giving much money this is the most serious problem for property risk.
- Ethiopian Insurance Corporation reduces the risk the company faces by using risk reduction technique.
- The company uses steps to identify and measure the potential loss the customer of the company faces.

5.3. Recommendation

The researcher was tried to make the following recommendation based on what has been concluded by data analysis and interpretation made in the previous chapter. Accordingly, from the personal opinion of the researcher the following recommendations are forwarded.

- Even though the Ethiopian insurance company of wolkite branch is successful in managing risk, as indicated collected data from employees mostly the company were faced with property and liability risk. To prevent those risks the company faces, it is better to do more on risk management areas.

- The type of the loss the Ethiopian Insurance Corporation faces is property risk and the reason of the loss is mostly the problem that is related with driving license. Therefore it is better to the corporation to deal with the property owners to reduce the risk they face.
- Most of the risk the Insurance corporation faces is related with property risk and if the Ethiopian Insurance corporation pays all the risk this reduce the economy of the company therefore it is better to the company to take retention method to cover small risks their customer faces.
- In order to improve risk management practice it is better to the company provide training to its customers and additional steps to measure the loss their customer faces.

Reference

Birituu. (2012). *directives on Insurance industry in Ethiopia*.ethiopia: berhane and selam printing press.

Cincinnati. (2011). *legal doctrine of insurance contract*.ethiopia: berhane and selam printing press.

Doherty. (1999). *corporate risk management*.newyork: hall prenticinc.

George. (1999). *principle of risk management and insurance*.america: institute of amrica.

Osborn. (2012). *Risk mnagement*.newyork: hall.

Peter. (1998). *principle of risk management*.newyork: McGraw-hill.

Rejida.(2000). *principle of risk management and Insurance*.welsey: Addison Welsey educational publishers Inc.

Solomon. (2005). *research method in business and social science*. Ethiopia: Wachemouniversty.

Therse, T. (2011).*Introduction to risk management and Insurance*. New york: Prentice Hall publishing company fourth edition.

vugen. (2010). *essential of risk management and Insurance*.newyork: printice hall third edition.

William. (1998). *principle of risk management and insurance*. America: American institute of property second edition.

**APPENDIX
WOLKITE UNIVERSTY**

COLLEAGE OF BUSINEES AND ECONOMICS

MANAGEMENT DEPARTMENT

Questionnaire prepared to employees of Ethiopian Insurance Corporation.

This questionnaire is prepared by 3rd year management program students who are currently working their senior essay on risk management practice in Ethiopian Insurance Corporation. It is prepared for academic purpose only, so please frankly fill in the space provided the appropriate response.

N.B I promised that the response that you are going to give does not affect you and your company.

Instruction; Please give the appropriate response

Mark ✓ on your response

No need of writing your name.

Part I, Personal information

1. Sex. Male female

Age 15 - 20 21-30 31-40 above 41

2. Marital status married unmarried divorced

3. Educational level

certificate diploma degree master and above

Part II, Main Body of Questioners

1. As Insurance Company is there in advance preparation for potential losses?

Strongly agree indifference strongly disagree

Disagree

2. In case of preparation for potential loss, for which did you your company give priority?

Loss prevention loss reduction Payment of loss

3. For your answer question number 2 please state why your companies do so?

4. In case of managing potential losses; are there any steps that should be followed starting from identifying to pay for losses inured in your company?

Yes No

5. If your answer question number 4 is yes, please specify those procedures-----

6 what kind of risk is mostly occurred?

Personal property liability

7. Depending on answer question number 6 what is the reason for the occurrence of that risk?
Please state some-----

8. Do you believe s some risky situations affect the economy of your company?

Yes No

9. If you say yes for question number 8 in what way these risky situations affect the success of your company? Please state some-----

10. Is there special department charged with overseeing the company's risk management activities?

Yes No

11. What should the company do to improve its risk management practice? -----

12. What type of Insurance policy do you have sold in this company?

Personal liability property

If any other please specify-----

13. Have you faced any loss?

Yes

No

14 what kind of lose do you face?

Personal liability property

if any other please specify-----

15. If you say yes for question number 13 how you reduce that loss?

Avoidance

Insurance

Retention

16. Which type of risk mostly faced you?

Personal Property Liability If any other please specify _____

17. Based on answer question on 15 is the reason for the occurrence of the loss?

.....

18. Do you think Ethiopian Insurance corporation is preferable than other company?

Yes No

19. If you say” yes” for question number 17 what is the reason for Ethiopian Insurance corporations

preferable?.....

20. Do you think Ethiopian Insurance Corporation is successful in managing risks?

Yes No

21, how you evaluate Ethiopian Insurance corporation capacity in order to manage risk?

High medium low

22. Do you think you are well prepared advance for potential loss?

Yes No

23. Do you think that the customer of Ethiopian Insurance Corporation knowingly exposed to risk?

Yes No